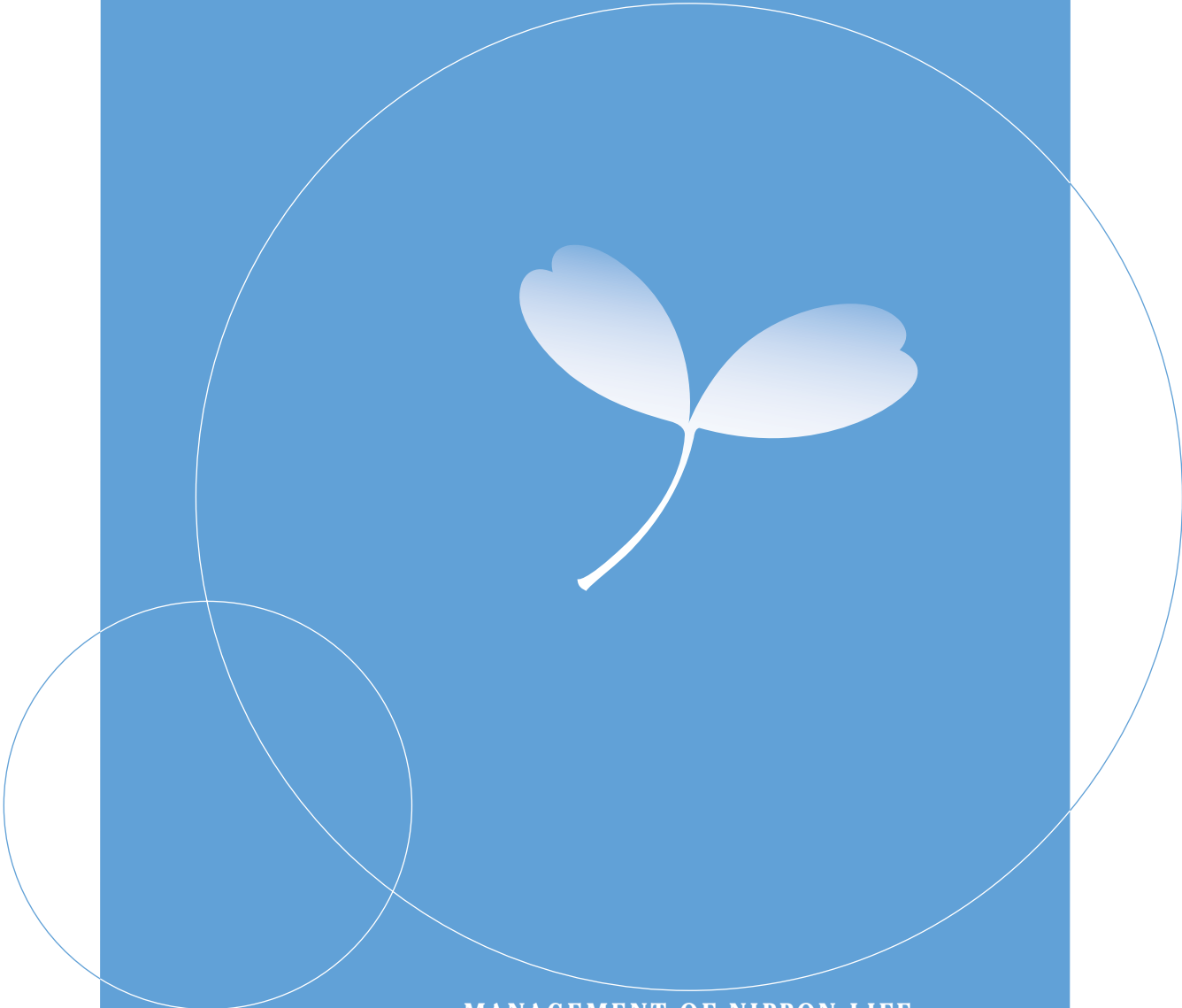


# CHAPTER

# 3



## **MANAGEMENT OF NIPPON LIFE**

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## Principles of a Mutual Company

Nippon Life was established as a mutual company under the Insurance Business Law of Japan. A mutual company is an incorporated association of insurance policyholders (excluding policyholders with nonparticipating insurance) defined as members. Nippon Life believes that a mutual company is the most appropriate kind of corporation for the life insurance business, for the following two reasons.

- 1) Nippon Life believes that policyholder interests should be at the forefront, and the framework for distributing surplus under a mutual company corresponds with this belief through the return of a major portion of retained earnings from business operations to policyholders, without the need to consider shareholder dividends.
- 2) To ensure that its promise to pay insurance benefits to policyholders is fulfilled, a life insurance company is obligated to maintain a sound financial position, and stably secure surplus over the long term. We believe that a mutual company format is the most appropriate in fulfilling these responsibilities and ensuring long-term stable management.

Nippon Life also strives to achieve flexibility in capital procurement and to practice corporate management open to external scrutiny from investors by procuring capital through the public securitization of foundation funds (kikin), and by holding regular financial results meetings as part of its concerted efforts to enhance disclosure.

## Role and Operation of the Meeting of Representatives

### ■ Meeting of Representatives

Established to replace the General Meeting of Members, the Meeting of Representatives is comprised of policyholders selected to act as representatives. The Meeting of Representatives is equivalent to the general shareholders' meeting of a stock corporation, and deliberates and passes resolutions such as amending the Articles of Incorporation, approving proposals for the disposal of retained earnings, and nominating directors and auditors.

### ■ Attendance System for Meeting of Representatives

Policyholders may attend the Meeting of Representatives by following the prescribed procedures. Information is available at our offices and on our website in May and June.



The 58th Meeting of Representatives

### ■ Questions at the 58th Meeting of Representatives, held on July 5, 2005, included:

- I have heard that financial institutions are devising strategies that target baby-boomer retirement allowances for management. What sort of approach is Nippon Life taking toward the baby-boomer generation?
- I think there are many baby-boomers among the employees of Nippon Life. What sort of measures is Nippon Life taking to prevent contract cancellations and to maintain strong operations upon the retirement of veteran employees with their years of experience?
- Could you please explain why Nippon Life decided not to disclose the total for bonus payments to directors and auditors in the meeting agenda?
- Could you tell us about efforts in response to the Law Concerning the Promotion of Measures to Aid the Nurturing of the Next Generation of Children?
- In addition to promoting the appeal of the essence of products in TV commercials as has been the practice, I think it would also be good to feature Nissay's sales methods and sales representatives. Please tell me what you think of this idea.
- I have heard of corporate governance systems that separate business execution and oversight, and that make use of outside directors and auditors. What is Nippon Life's stance on this sort of system?
- On several fronts society continues to concentrate things in urban areas, but I hope Nippon Life will continue to place the same amount of importance on regional business activities.
- Does the new President have any particular aspirations to express for policyholders?
- What policies does Nippon Life have for overseas business expansion, and what is the current status of overseas expansion?
- I hope Nippon Life will take good care of its customers in local overseas operations.
- I would like to see Nippon Life continue the social contribution activities that it has traditionally been involved with in different areas.
- What sort of energy-saving activities is Nippon Life undertaking at its offices?

Minutes and a summary of the Meeting of Representatives (Q&A summary) are available soon afterward at head offices, the Tokyo Headquarters and all branches, as well as on the Nippon Life website.

## Representatives and Their Election

### ■ Representatives

According to the Articles of Incorporation, each representative's term of office is generally four years, and can extend to eight years if selected for a second term. The number of representatives currently stands at 150 (the number shall be 160 as of April 1, 2007, and 180 as of April 1, 2009.)

Nippon Life aims to assure proportional representation of prefectures in choosing representatives. In addition, because representatives are requested to check management from a variety of perspectives, they are chosen from a wide range of backgrounds, occupations and ages. They participate in the Meeting of Representatives and deliberate with the Company through direct question and answer sessions.

From this perspective, Nippon Life believes that the number of representatives is set at an appropriate level.

### ■ Election of Representatives

Representatives are chosen to represent the interests of all policyholders, with no ties to the interests of specific policyholders from among the approximately 10.72 million policyholders, based on the perspective of fairly reflecting the opinions of policyholders at the Meeting of Representatives. In this context, the Representative Nomination Committee recommends candidates, who are elected by all policyholders as a means to directly reflect their opinions of the candidates.

Representative candidates are also selected from among policyholders that participated in Nissay Konwakai, which are held at branches throughout Japan every year, and where management receives opinions and requests from policyholders. Though we do not adhere to a system in which policyholders interested in becoming representatives can be directly selected as representative candidates, Nippon Life will continue to promote this method of selecting representative candidates from among policyholders who participate in the Nissay Konwakai, and aims to diversify selection methods by exploring other ways of selecting representative candidates in the future.

### ● Representative Nomination Committee

The Representative Nomination Committee is composed of members chosen from among policyholders by the Meeting of Representatives. The Representative Nomination Committee decides on selection standards for candidates, and selects representative candidates from a broad base of policyholders. From this election (appointments on April 1, 2007), Nippon Life aims to increase the independence of the selection process by appointing an external person to the position of head of the secretariat of the Representative Nomination Committee. In addition, Nippon Life aims to revitalize deliberations, including increasing from two to three the number of meetings of the Nomination Committee for each election.

### ● Policyholder Voting

All policyholders cast votes for individual representative candidates selected by the Representative Nomination Committee. If the total number of no-confidence votes is less than 10% of the total number of policyholders, candidates are nominated as representatives.

## Board of Trustees

Nippon Life has a Board of Trustees that serves as a management advisory body to ensure the appropriateness of management. Trustees are elected at the Meeting of Representatives from among policyholders and academic experts. Trustees give opinions on advisory matters and important management issues, and deliberate on policyholder opinions of corporate management. The results of these opinions and deliberations are reported at the Meeting of Representatives.

### Selection Standards for Representative Candidates

1. Required Qualifications
  - (1) Is a policyholder of Nippon Life.
  - (2) Is not a representative of another life insurance company.
2. Eligibility Standards
  - (1) Have a strong interest in the life insurance business and the management of Nippon Life, and have adequate insight as a representative.
  - (2) Can be expected to actively participate as a representative in the Meeting of Representatives and other events.
  - (3) Be able to check and advise on operations and management as necessary, in addition to making fair decisions at the Meeting of Representatives to promote the interests of all policyholders.
3. Selection

Representative candidates are selected from a broad base of policyholders with an emphasis placed on ability to represent policyholders and to inspect management.

  - (1) We select representative candidates to achieve well-balanced policyholder representation in terms of geographic region, occupation, age and gender.
  - (2) We select representative candidates who are able to check on operations and advise management from a management perspective, consumer perspective and from a specialist's viewpoint.

### Qualifications for Selecting Representative Nomination Committee Members

- (1) Have a strong interest in and a deep understanding of the life insurance business and mutual company management, and adequate insight as a representative.
- (2) Able to fairly and impartially select representative candidates.
- (3) Able to participate in the Representative Nomination Committee.

### Time of Policyholder Voting

Voting for representative candidates is held once every two years from August to September. The next election by policyholders is scheduled for 2006. (Voting materials and the Nissay Information Pamphlet shall be sent to all Nippon Life policyholders.)

## Nissay Konwakai

The Nissay Konwakai are roundtable conferences for policyholders that we hold once a year throughout Japan, serving as opportunities for Nippon Life to explain its business activities and for policyholders to voice their opinions and requests on overall management as well as products and services. These have been held since 1975, making fiscal 2005 the 31st year in which Konwakai were held.

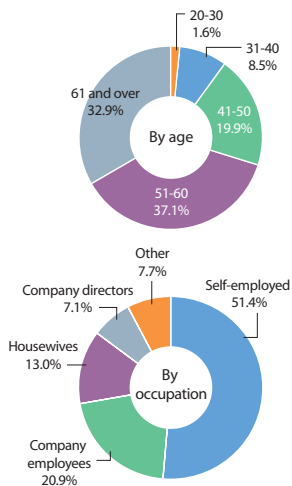
The main opinions and requests that we receive from participants are acted on and reported at the Meeting of Representatives and Board of Trustees, and we endeavor to examine and reflect these ideas in management. Participation includes several representatives and directors, and we continue to improve ties between the Nissay Konwakai and Meeting of Representatives.



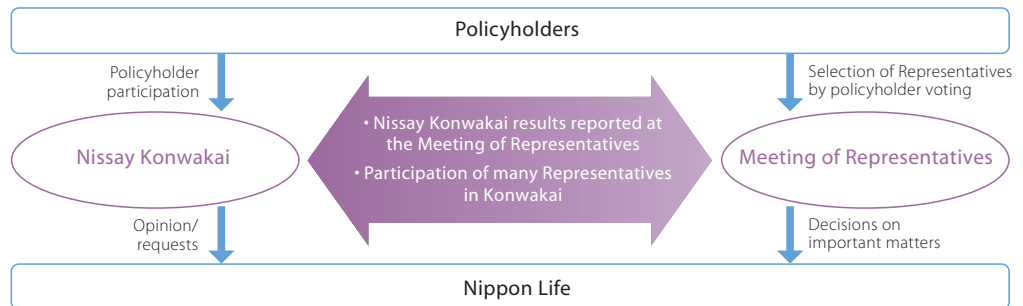
Nissay Konwakai Meeting

### Description of Participants

(2,431 policyholders) Fiscal 2005



### Position of Nissay Konwakai



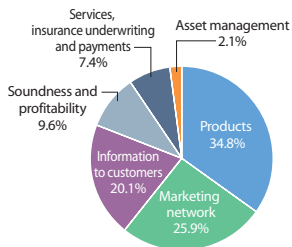
Information about when and where the Nissay Konwakai are held is available at our branches and sales offices, and is disclosed on our website. We promote broad participation in the Nissay Konwakai.

### ■ Status of the Nissay Konwakai Meeting in Fiscal 2005

In January and February 2006, we held the Nissay Konwakai in 110 locations around Japan for a total of 2,431 policyholders. We received a total of 4,525 opinions and requests. At the Nissay Konwakai, we showed easy-to-understand video presentations about our basic strategies, mutual company management and responses to customer opinions. Opinions and questions received at the Nissay Konwakai are thoroughly examined by the relevant departments and every effort is made to reflect them in management. The following are the main opinions and requests that we received during the fiscal year ended March 31, 2006, and our responses to them.

### Categories of Opinions and Requests

(3,108 cases) Fiscal 2005



In addition to the above, we received 1,417 comments by participants in the Nissay Konwakai.

## Main Opinions and Questions Received, and Our Responses to Them



*Is Nippon Life developing medical coverage products in which senior citizens and others with concerns about their health can enroll?*



Nippon Life offers products that meet the individual needs of each one of its customers, and is working to broaden its lineup to promote enrollment by an even greater variety of customers. We introduced *Iryo Meijin EX* medical life insurance for customers age 50 and over in September 2005, aiming to expand our products for middle-aged and senior citizens. This product has been well received, with sales of 64,000 policies in six months.

We have also set in place systems making it easier for customers who have been treated during past hospital stays, as well as other customers who have health concerns, to enroll in policies. Customers may choose to combine several options, including increased premium payments according to health conditions, reduced discounts on premiums and others. We aim to maintain a system that is equitable and available to a greater variety of customers (Some policy applications may be refused depending upon the applicant's health conditions.)

We will continue to compile and analyze a greater amount of medical data in order to set appropriate insurance premiums in line with underwriting risks, and work to aptly meet customers' insurance needs.



*Is Nippon Life developing products that reward policyholders who make efforts to maintain their health (such as not smoking) with lower premiums, special payments for good health or other merits? I'd like to see such products.*



In addition to providing sound coverage to help customers prepare for diseases, injuries and death, we believe it is also very important to expand merits for customers who are making efforts to maintain their health.

Since 1996, Nippon Life has been paying additional dividends called "health dividends" to customers who are making effort to maintain good health. This initiative is part of efforts to enhance dividend payments to both new and existing policyholders. Health dividend payouts were increased for the last two consecutive fiscal years.

We are also offering a number of services through the Nissay Insurance Accounts to support policyholders in their efforts to maintain health, including free consultation regarding health and nursing, discounts on health check-ups and fitness club memberships, information services regarding health and nursing care and other services. In addition, we will begin publishing and distributing SALUTE, a seasonal journal of health information, to customers from fiscal 2006.

Nippon Life will continue to enhance the appeal of products, dividends and services that reward customers who are striving to maintain their health with a variety of merits.

### Other Opinions and Questions

#### Products:

- "I would like Nippon Life to work to create product pamphlets, policies and terms and conditions that are easy to understand."

#### Marketing Network:

- "I was very happy to have a visit from my sales representative soon after I went into the hospital. I hope this sort of considerate service is taught to other sales representatives."
- "I would like to ask that sales representatives be thorough and concise in carrying on quality service when they are assigned to take over another representative's client. I'd also like to see efforts to improve the business manners and consulting abilities of sales representatives."
- "I would like to see a greater number of Life Plaza service counters in convenient locations."

#### Providing Information to Customers:

- "With the growing proliferation of the Internet, will Nippon Life offer better services over the Internet?"

#### Soundness and Profitability:

- "It is important to aim to be the world's leading company in terms of stability and providing peace of mind. I hope Nippon Life will continue working to enhance its financial soundness."

#### Administration, Services, Underwriting and Payments:

- "What sort of measures are being taken to avoid problems with non-payment of insurance benefits?"
- "Would Nippon Life pay claims and benefits to policyholders infected by a rampantly spreading disease such as avian influenza?"
- "I would like to see procedures for enrolling in policies, payment of benefits and other procedures made faster and more simple."

#### Other (about Nissay Konwakai, etc.):

- "I have gained greater understanding of the Company's business management by participating in Nissay Konwakai. I would like to see customer opinions comprehensively reflected in business practices, and not only through Nissay Konwakai."
- "I know Nippon Life developed some new products for sale at financial institutions in response to deregulation in December 2005. What is the Company's strategy for the future in this area?"
- "What sort of response is Nippon Life preparing for mass retirements among the baby-boomer generation?"
- "What sort of strategy does Nippon Life have for growth in nations outside of Japan?"

Please visit the Nippon Life website for more details on Nippon Life's responses to these and other questions.

# CONSTRUCTING AN INTERNAL CONTROLS SYSTEM

Nippon Life is constructing an internal controls system with the aim of increasing corporate value through the assurance of appropriate business operations.

Specifically, we are strengthening management oversight functions on the organizational level, including improving mutual company management and establishing a Board of Trustees. In addition, we are focusing on promoting compliance and implementing thorough risk management in order to assure appropriateness of business operations.

**Internal controls**  
 "Internal controls" indicates systems and management processes built inside of a company to ensure that its operations are conducted appropriately and efficiently

## Overview of Primary Initiatives

|                          |                       |   |
|--------------------------|-----------------------|---|
| Internal controls system | Business organization | <ul style="list-style-type: none"> <li>Constructing a check-and-balance system through the Meeting of Representatives, external directors, and Board of Trustees</li> <li>Increasing management efficiency</li> <li>Strengthening auditing functions</li> </ul> |
|                          | Compliance            | <ul style="list-style-type: none"> <li>Constructing a compliance system</li> <li>Managing the compliance program</li> <li>Teaching and entrenching compliance principles</li> </ul>   |
|                          | Risk Management       | <ul style="list-style-type: none"> <li>Building risk management systems in each division according to risk characteristics</li> <li>Building a comprehensive risk management system for the entire Nippon Life Group</li> </ul>                                 |

# PROMOTING COMPLIANCE

## Promoting Compliance

Compliance at Nippon Life goes beyond the narrow sense of the word, and extends to complying with all rules, earning the trust of customers and society, and taking up our work sincerely. All directors and employees bear the responsibility of compliance and, considering compliance to be a fundamental operating premise, strive to promote compliance primarily in the following areas.

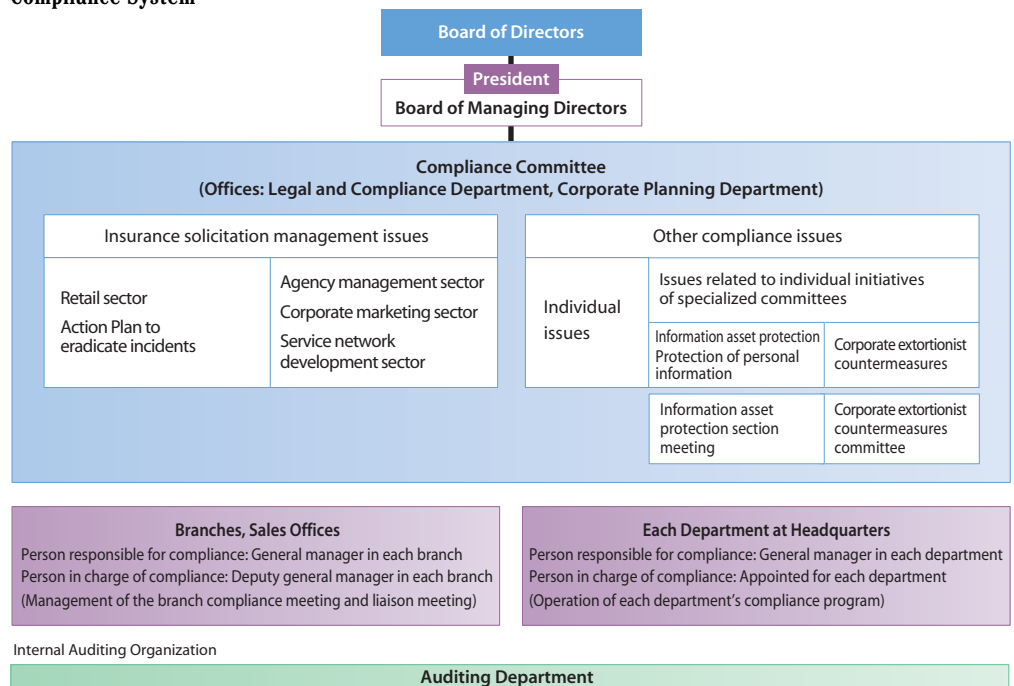
- 1) Construction of a compliance system
- 2) Compliance program management
- 3) Teaching and entrenching compliance principles

**Compliance Committee**  
 Controls and manages the compliance system comprehensively by deliberating on measures related to insurance solicitation management and other compliance-related issues, and by monitoring organizational status.

**Information Asset Protection Section Meeting**  
 Handles numerous issues related to protection of information assets, centered on protection of customer data.

**Corporate Extortionist Countermeasures Committee**  
 Investigates countermeasures to eliminate antisocial activities, including corporate extortion; Confirms incidents that arise and communicates with related divisions.

## Compliance System



## ■ Constructing a Compliance System

Nippon Life established a Compliance Committee as an advisory body to the Board of Managing Directors. The Compliance Committee comprehensively controls and manages the compliance system, including insurance solicitation management, by deliberating on measures related to compliance issues, and by monitoring organizational efforts.

Under the Compliance Committee, department managers and general managers at each branch are responsible for compliance of each organization. Each department at headquarters also appoints managers and deputy general managers at each branch as people in charge of compliance. Through these, Nippon Life has established a system for thorough compliance inside of operational management. People responsible for compliance actively manage the formulation and implementation of compliance programs at each department and branch, and people in charge of compliance work in a role to promote concrete initiatives together with the people responsible for compliance.

## ■ Management of Compliance Programs

The Board of Directors formulates compliance programs every year as concrete frameworks for the promotion of compliance. Based on these programs, the Compliance Committee analyzes problems and forms solutions related to insurance solicitation management issues and other compliance issues.

Organizations at branches formulate “branch compliance programs” aimed at eradicating improper activities, and decide upon items that call for daily action at each branch during the year. Branch compliance meetings and liaison meetings are held monthly to examine compliance issues and countermeasures aimed at solving those issues.

Each department at headquarters also formulates its own compliance programs in response to the various issues arising in its diverse operations, and works to implement these programs in daily operations.

Management of compliance programs at branches and at head offices is monitored by the Legal and Compliance Department, and by internal audits that confirm the content of branch programs, as well as the mid-year and year-end progress in implementing those programs and training programs.

## ■ Promoting and Inculcating Compliance Principles

Nippon Life drew up a Code of Conduct in 1998 that identifies the principles and standards by which all directors and employees must abide during the execution of daily business endeavors. We have also created a code of conduct and compliance manual that explains the Code of Conduct and the operations of each division from a compliance perspective.

The Code of Conduct is contained in a small booklet titled “An Employee Booklet” that all directors and employees are required to carry. The code of conduct and compliance manual are posted on Nippon Life’s intranet, and can easily be referred to at any time.

Education programs for sales representatives are conducted regularly through internal satellite broadcasts (customer satisfaction courses) with the aim of instilling a thorough awareness of compliance and business rules. Quizzes (about compliance matters) are given regarding content of the broadcast compliance programs to assure that employees have understood the material. (See p.40).

Non-sales personnel undergo group training according to job categories, and receive training based upon compliance programs for each department in order to enhance their knowledge of compliance as it relates to their work.



**An Employee Booklet**  
All directors and employees are given copies of An Employee Booklet, which they are required to carry with them. They can easily refer to the booklet anytime they are in doubt about decisions in carrying out their daily work, including whether or not their actions are in line with the Code of Conduct, benefit the customer, are proper from a legal and common sense perspective, or infringe upon human rights.



## Risk Management System

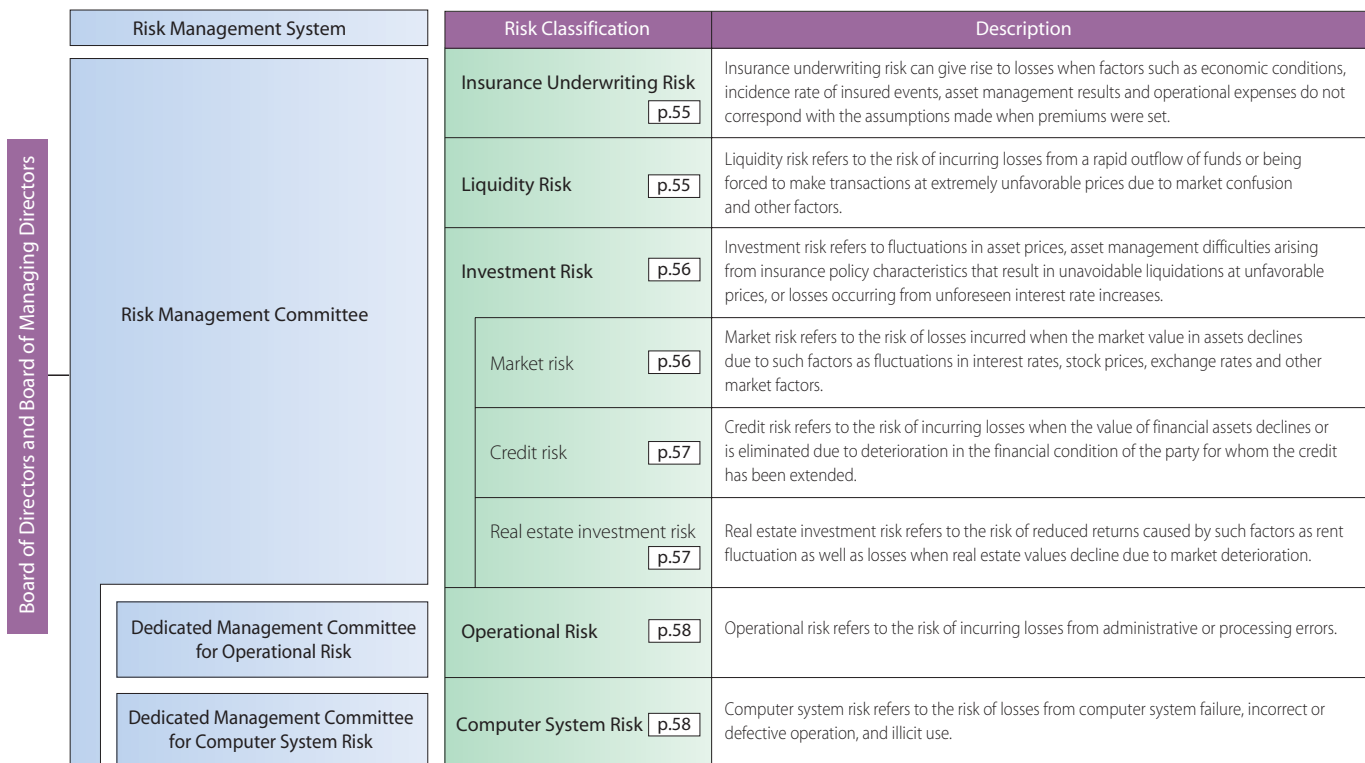
Underwriting the long-term collective risk of our customers is the essence of the insurance business, and correct identification and appropriate management of each aspect of risk are of utmost importance to Nissay's management. Moreover, operating in an environment of abrupt fluctuations in share prices and interest rates, with rapid progress in medical technology, the importance of risk management grows increasingly pronounced for life insurance companies.

For this reason, Nippon Life is building a comprehensive risk management system certain to meet our obligations to customers over the long-term.

Our approach to risk management involves a variety of initiatives to create and enhance risk management systems, rules and regulations, based on a clear understanding of the areas and types of risk to which life insurance companies are exposed. We manage risks in an integrated fashion, in terms of their overall impact on operations.

In addition, we have built a system of mutual checks and balances involving the establishment of risk management units, independent of profit centers, along with secondary checks and balances, including examinations of the effectiveness of risk management conducted by the Auditing Department.

### Risk Management System



## Integrated Risk Management

Nippon Life takes an integrated management approach to the various risks facing the entire Company. In addition to allocating funds as a buffer against all manner of risks, we closely monitor the magnitude of risk and report such conditions regularly to the Risk Management Committee.



## Managing Insurance Underwriting Risk

Insurance underwriting risk can give rise to losses when factors such as economic conditions, incidence of insured events, asset management results and operational expenses, do not match the predictions made when premiums were set.

A life insurance company must fulfill its responsibility to bear the risk it assumes on behalf of customers for long periods extending over many decades. This requires the setting of reasonable premium rates that enable stable payment of claims, and an appropriate level of policy selection in order to control risk while upholding our coverage responsibilities. In addition, we employ an asset liability management (ALM) system, conduct appropriate benefit settlement assessments and adhere to rigorous cost management principles with the aim of responding flexibly to changes in the business environment and other conditions.

### ■ Dealing with Risks in Setting Premiums (See p.23)

Nippon Life sets insurance premiums after expert staff, who hold qualifications as doctors or actuaries, have analyzed reliable statistical data for setting frequency ratios of the incidence of insured events.

We also conduct numerous simulations to discover whether or not we will be able to meet future coverage obligations at the established level of premiums.

### ■ Responding to Risk Related to Policy Selection and Benefit Settlement Examinations

When Nippon Life considers underwriting a new policy, staff with medical qualifications conduct a medical examination and assessment, while other expert staff perform a more intensive assessment from the perspective of moral risk. Depending on the results of this process, we may choose to impose special conditions such as increased premiums, allowing us to offer a wide variety of fairly-priced insurance products to as many customers as possible.

We are also diligent about managing risks related to paying out claims and benefits. We are stepping up our use of professionals with medical qualifications in assessment of payments. When a policy gives grounds for concern about potential improprieties, these staff professionals undertake further rigorous assessments, and confirmation is handled by outside organizations.

## Liquidity Risk Management

Liquidity risk, which consists of cash flow risk and market liquidity risk, refers to the risk of incurring losses from a rapid outflow of funds due to an unexpected event such as a major natural catastrophe, or being forced to make transactions at extremely unfavorable prices due to market confusion.

### ■ Dealing with Cash Flow Risk

Nippon Life deals with cash flow risk via asset management plans and daily cash flow management, which ensure that highly liquid assets exceed a given threshold. In the event that cash flows were actually to deteriorate, we would take countermeasures such as establishing maximum holding ceilings for less liquid assets.

### ■ Dealing with Market Liquidity Risk

Nippon Life deals with market liquidity risks by establishing appropriate transaction limits, then reviewing them as necessary in the context of changes in market environment.

#### Actuary

A professional occupation that involves securing revenues by the application of mathematical methods, including probability theory and statistics.

#### Policy Selection

Life insurance is a system of mutual dependence involving customers paying premiums, which are calculated on the basis of the probability of an insured event occurring, for protection and benefits. An examination is carried out at the time the policy is to be issued to confirm if medical and other risks are homogenous across the insured. This is known as policy selection.

#### Moral Risk

As a system in which payments from many policyholders are used to provide insurance against the unexpected, life insurance is inherently subject to the danger that some parties might make small premium payments and then attempt to illegitimately gain a large payout, an act that denies the very essence of the system. This is what is generally referred to as moral risk.

#### Cash Flow Risk

This refers to the risk that an unexpected funds outflow could cause cash flow to deteriorate to the extent that we would be forced to dispose of assets at extremely low prices.

#### Market Liquidity Risk

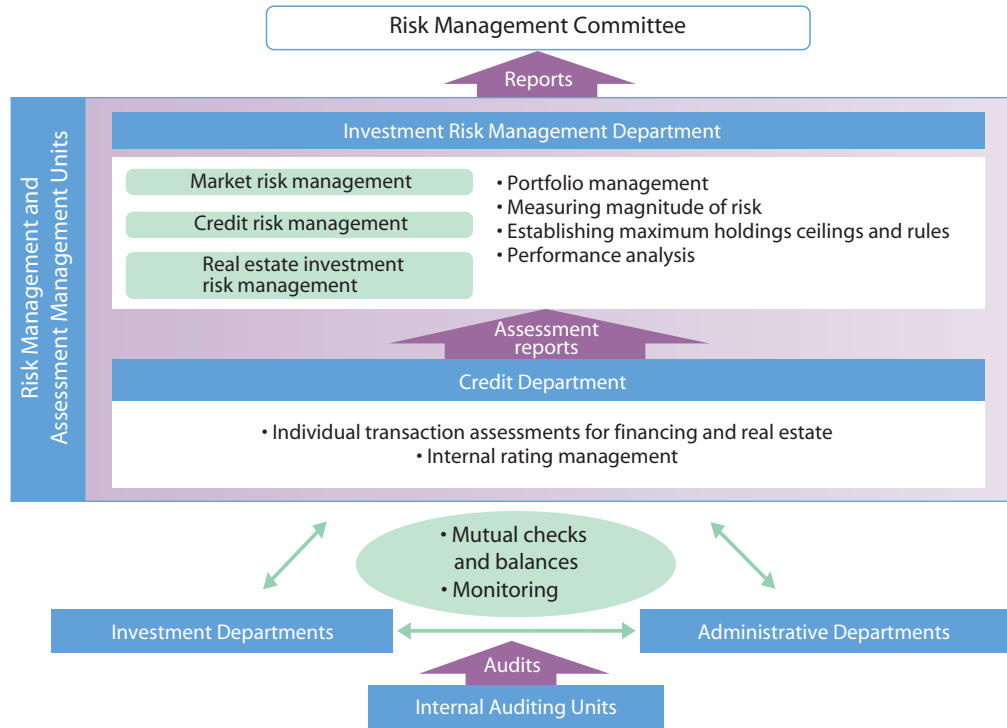
This refers to the risk of losses when confusion in the markets prevents transactions from taking place, or forces transactions to be made under conditions substantially less favorable than normal.

## Investment Risk Management

Investment risk, which can be categorized into market risk, credit risk and real estate investment risk, refers to a variety of risks associated with investment and finance activities.

The long-term nature of life insurance policies requires a long-term approach to managing risks associated with investment. Nippon Life has therefore established an Investment Risk Management Department as part of a rigorous system for managing risks and seeking to limit losses to acceptable levels while also pursuing stable returns.

### System of Managing Investment Risk



### Market Risk Management

**Portfolio**  
Holdings of various investment assets under management, including stocks, bonds and loans.

Market risk refers to the risk of losses incurred when the market value of invested assets declines due to such factors as fluctuations in interest rates, stock prices or exchange rates. In addition to stemming the occurrence of large-scale losses on individual investment and finance transactions, it is important to keep risks to the overall portfolio within pre-established boundaries.

#### Establishing Maximum Holdings Ceilings and Loss-Cut Rules

**Loss-Cut Rules**  
A measure for limiting losses to a predetermined level by disposing of an asset when losses on it exceed a specified level.

To prevent the occurrence of large-scale losses on individual investment and finance transactions, Nippon Life establishes maximum holdings ceilings and loss-cut rules based on the nature of the assets, reporting the state of compliance regularly to the Risk Management Committee. Nippon Life is also developing systems to contain risk within acceptable limits when rules are in conflict.

#### Measuring and Managing Market Value-at-Risk

**Market Value-at-Risk**  
The assumed maximum amount of potential risk due to changes in the external environment, calculated from historical data.

To control the market risk of our overall portfolio, we use statistical analysis to reasonably calculate market value-at-risk for our entire portfolio and conduct appropriate asset allocation within the level of allowed risk.

## ■ Credit Risk

Credit risk refers to the risk of incurring losses when the value of assets, primarily loans and bonds, declines or is entirely eliminated due to deterioration of the financial condition of the party to whom credit has been extended. We believe that in managing credit risk it is important to examine each transaction rigorously, set terms appropriate to the level of credit risk involved, and conduct thorough analysis to accurately evaluate every facet of overall portfolio risk.

### ● Credit Risk Management in Individual Transactions

We have built systems for rigorous examinations, involving a Credit Department independent of the departments handling the investment and finance activities. We are working to construct systems to support credit risk management, including loan interest rate guidelines to ensure the returns we obtain are commensurate with the risk, a system of internal ratings for classifying the creditworthiness of borrowers, and credit ceilings to ensure that credit risk is not excessively concentrated in a particular company or group.

### ● Managing Credit Risk in a Portfolio as a Whole

The Company calculates the magnitude of credit risk as credit value at risk, using Monte Carlo simulations. We incorporate the results into our management strategy for the credit portfolio to maintain the magnitude of risk within acceptable limits.

## ■ Managing Real Estate Investment Risk

Real estate investment risk refers to the risk of reduced returns caused by such factors as rent fluctuation as well as losses when real estate values decline due to market deterioration. Our approach to managing real estate investment risk involves rigorous examination of each investment by a Credit Department independent of the departments actually handling the investment. We also adhere to a system involving warning levels for investment return and price levels. This enables us to appropriately focus management efforts on properties whose profitability is suffering.

## ■ Stress Tests

In addition to the risk management systems above, we also conduct stress tests with a view to understanding the portfolio's characteristics in case of exceptional and sudden market shifts. We formulate a variety of severe market scenarios and conduct simulations and analyses to identify losses that cannot be ascertained through statistical calculations of value-at-risk. These tests help to assure portfolio soundness.

#### Loan Interest Guidelines

Loan interest levels are set on the basis of such factors as the potential loss that Nippon Life could incur in the event of a borrower bankruptcy.

#### Internal Rating System

This system classifies the creditworthiness of a borrower based upon objective statistical analysis of its financial data and other attributes. This system is used in conjunction with our self-assessment system.

#### Credit Limit System

This system is used to prevent excessive concentration of credit risk on a particular borrower.

#### Monte Carlo Simulation

This is a comprehensive calculation method used to estimate the magnitude of portfolio losses by running simulations based on random numbers, yielding a calculation of value-at-risk.

#### Credit Value at Risk

Calculated from historical data, this is the maximum loss amount that the portfolio could incur due to the deterioration of the financial position of a borrower and other factors.

## Operational Risk

Operational risk refers to the risk of incurring losses as a result of administrative errors or incidents, or improper actions by directors or employees. Erroneous procedures and other such mistakes not only inconvenience customers, they can also be a violation of our social responsibilities.

At Nippon Life, we are focused on integrated operational risk management, and we are gathering and analyzing opinions from customers and information about instances of administrative errors. Through these efforts, we work to prevent problems from occurring and, in the event that such problems do occur, to promptly discover the cause and prevent similar errors from happening again.

Our intent is to establish a system involving comprehensive administrative guidelines and multilayered inspections and guidance carried out by the headquarters' auditing groups and branches. Through these, we are working to ensure that administrative processes are accurate, and to reduce operational risk.

## Computer System Risk

Computer system risk refers to the risk of losses from computer system failure, incorrect or defective operation, and illicit use.

To deal with the risk of computer systems going down, we have prepared for area-wide disasters by establishing our main computer center in Kansai (western Japan) and a backup center in Kanto (eastern Japan). In addition, we have developed a system with contingency plans to enable quick response to emergencies.

We also have implemented a wide variety of security measures to deal with potential defects, faulty computer system operation, illicit use and data leaks.

We are committed to reducing risks Company-wide through strict compliance with our own safety standards for the planning, development and appropriate operation of computer systems.

### Special Handling after Natural Disasters

When natural disasters occur and the Natural Disaster Act is applied, in principle Nippon Life extends the deadline by which insurance premiums must be paid and implements other special handling conditions for policyholders in affected areas. In such cases, Nippon Life gives notice through its branch offices in areas where this applies. To ensure that administrative procedures run smoothly, customers are kindly requested to always keep a record of their certificate numbers and call center numbers safely on separate sheets of paper.

### Nippon Life Natural Disaster Countermeasures

Nippon Life is working to build a structure that provides customers with uninterrupted service even after large-scale natural disasters. We have established system infrastructures in both Tokyo and Osaka that are mutually capable of replacing one another. In addition, we have conducted regular disaster-response training, and have developed countermeasures concerning hardware and software failures.

# EFFORTS IN SYSTEM DEVELOPMENT

## Environmental Changes Surrounding IT and the Effort for System Development

In the life insurance industry, Nippon Life has traditionally been in the forefront of developing and adopting information technology.

### The Unique IT-System Demands of the Life Insurance Industry

- The need to process vast amounts of medical and statistical data in product development, policy underwriting and benefit assessments
- The need to calculate precise insurance premiums using extensive consulting tools during the sales process
- The need to maintain and manage the enormous number of complicated and diversified long-term policies
- The need to compete in various fields with advanced financial techniques in the asset management business

As an industry pioneer in regard to system development, we have introduced the latest technologies, including offering a variety of services to customers over the Internet.

With the rapid IT expansion of recent years, increasing network speeds and more advanced capabilities of computers, IT has become part of today's social infrastructure. With broadband and further advances, IT is coming to play an even greater part in people's lives.

In this rapidly changing environment, Nippon Life recognizes that IT systems are indispensable business tools providing a foundation for the Company's efforts to improve and expand customer service, as well as boost efficiency. We are pressing ahead with diversified system development, confident that effectively using IT and maintaining stable system operations will lead to greater trust with customers.

## Investment in IT

With an eye on the latest technology trends, Nippon Life invested approximately ¥36.0 billion in IT during the fiscal year ended March 31, 2006, aiming to improve customer service and strengthen its business foundation.

With the goal of improving payment and underwriting services, we are reconstructing our underwriting and benefit assessment systems, while strengthening our information security systems, starting with encryption of customer information.

While continually investing to upgrade the backbone of our administrative and IT systems, we are also introducing lighter weight basic systems and server-based systems, and shifting to low-cost infrastructure with the aim of reducing system-maintenance costs and boosting efficiency.

Nippon Life is also working to expand shared use of its system with other companies through the endeavors of Nissay Information Technology Co., Ltd.

### Milestones in Nissay System Development

- |  |   |
|--|---|
| <b>1988</b> Introduced integrated in-house computer network system to 2,000 sales offices throughout Japan   | <b>2000</b> Test start of New TS system (life and non-life insurance total service)   |
| <b>1995</b> Introduced satellite communication network to 2,000 sales offices throughout Japan   | <b>2001</b> Constructed an intranet system<br>Constructed a call center system  |
| <b>1997</b> Created Nissay website ( <a href="http://www.nissay.co.jp">http://www.nissay.co.jp</a> ) and introduced online services  | <b>2002</b> Established a new real estate system<br>Established a new securities management system (NIT X-NET)  |
| <b>1999</b> Introduced the Nx-2000 System that uses a client server system infrastructure<br>Provided approximately 60,000 sales representatives with mobile terminals for consulting ( <i>FPer</i> )<br>Started the Nissay Insurance Accounts service<br>Established a strategic IT subsidiary, Nissay Information Technology Co., Ltd. | <b>2004</b> Created a Web version of the agency system<br><b>2005</b> Updated a client server system of 1,800 sales offices throughout Japan to a Web-based network (e-system)<br>Provided approximately 50,000 sales representatives with <i>Duo</i> mobile terminals for consulting |

## Nippon Life's Social and Public Activities

Based on a spirit of providing mutual assistance, the insurance business has a strong public nature. Since its establishment, Nippon Life has been guided by that nature and commits the same vigor to its social and public activities that it exerts in the relentless development of progressively better products and services.

Starting with the founding of the Nippon Life Saiseikai Foundation in 1924, five foundations have been established through which specialized public-spirited initiatives have been continuously implemented in the areas of environmental protection, youth and culture, senior citizens, and health care and medicine.

In addition, we are vigorously promoting regional contribution initiatives, in which employees and executives throughout Japan voluntarily participate in promoting local culture and making a better living environment.

With its strong determination to be a good corporate citizen that lives in harmony with society, Nippon Life will continue these initiatives wholeheartedly.

## Environmental Protection

### ■ Green Initiatives

In order to replenish the earth's forests, which serve as the source of paper that Nippon Life uses, the Friends of Nissay Forests Association has been working with the Nissay Green Foundation on forestry projects since 1992. In the fourteen years to 2005, Nissay forests were planted at 167 locations in 42 cities and prefectures, covering a total of approximately 376 hectares. More than 1,130,000 trees have been planted.

In 2003 we launched the Nissay Planting and Nurturing Forests for Future Generations campaign. This goes beyond planting trees and involves cutting undergrowth and clearing vines so that the trees grow into full forests. While broadening the scope of these planting and nurturing activities to include local residents and children, we are promoting the nurturing of forests as local community assets and the passing on of our irreplaceable environment to the next generation.



**The Friends of Nissay Forests Association**  
This is a voluntary organization composed mainly of Nippon Life directors and employees. It raises funds within the company for planting and nurturing Nissay forests and provides information on environmental protection, among other activities.



Nissay Onogami-no-mori (Gunma Prefecture):  
Tree-Planting Activities (Fiscal 2005)



Nissay Kume-no-mori (Okayama Prefecture):  
Forest-Nurturing Activities (Fiscal 2005)

### Nissay Forests Environmental Contribution (Fiscal 2005)

(As evaluated by the Forestry Agency)

| Effect                       |   | Evaluation  | Economic Value<br>(Thousands of Yen) |
|------------------------------|---|---|--------------------------------------|
| Prevention of Global Warming | CO <sub>2</sub> absorption, stabilization | 1,623 tons per year, equivalent to annual emissions of about 5,000 people                   | ¥20,620                              |
| Nurturing of Water Resources | Water reservoir                           | 118,955 cubic meters per year, equivalent to the annual consumption of about 108,000 people | ¥ 6,370                              |
|                              | Flood prevention                          | 5.0457 cubic meters per second  | ¥19,010                              |
|                              | Water purification                        | 118,955 cubic meters per year, equivalent to the annual consumption of about 108,000 people | ¥ 8,180                              |
| Preservation of Mountains    | Landslide prevention                      | 2,154 cubic meters per year   | ¥12,250                              |
| Total                        |   |   | ¥66,430                              |



Nissay Fuji-no-mori

## ■ Support for Environment-Related Research

The Nissay Life Foundation was quick to turn its attention to environmental problems, which are now extremely important social problems, and has supported research on the harmonization of human activity and environmental protection in cooperation with college researchers and organizations such as NPOs since 1979. Furthermore, the Foundation is striving to promote understanding of these problems and their solutions by supporting the publication of research results and holding workshops where the research results are reported.



Environmental Issue Research Grant Workshop

## Reducing the Environmental Burden

Since 1991, Nippon Life has promoted the “Nissay Save & Recycle Campaign” as part of its efforts to reduce environmental burden. From the perspective of developing and furthering responses to environmental problems, we established an environmental charter in 2001, received ISO 14001 certification for our Osaka head office and Tokyo

headquarters, and are reinforcing our environmental measures. These include systematic and continual reductions in our consumption of energy and resources such as paper, electricity and water, separation of garbage, green purchasing and raising our employees’ awareness of environmental issues.

### Environmental Charter

#### I. Basic Ideal

As a citizen of the earth, we recognize that protecting the environment is the most important issue for all people and corporations, and strive to take the environment into account in all of our business activities, with the goal of passing on our irreplaceable environment to the next generation.

#### II. Action Guidelines

##### 1. Environmental protection through the life insurance business

We strive to contribute to environmental protection while developing the life insurance business.

##### 2. Efficient use of energy and resources

In order to reduce the environmental burden resulting from business activities, we are contributing to the creation of a recycling society by implementing green purchasing while promoting energy and resource conservation, as well as resource recycling.

##### 3. Pollution prevention and compliance with environmental laws

We are working to prevent pollution and comply with environmental agreements and policies we have agreed to, in addition to environmental laws and regulations.

##### 4. Promotion of environmental education and social contributions

We are contributing to society and promoting environmental protection through programs such as reforestation. Simultaneously, we are working to raise awareness of our directors and employees through environmental education.

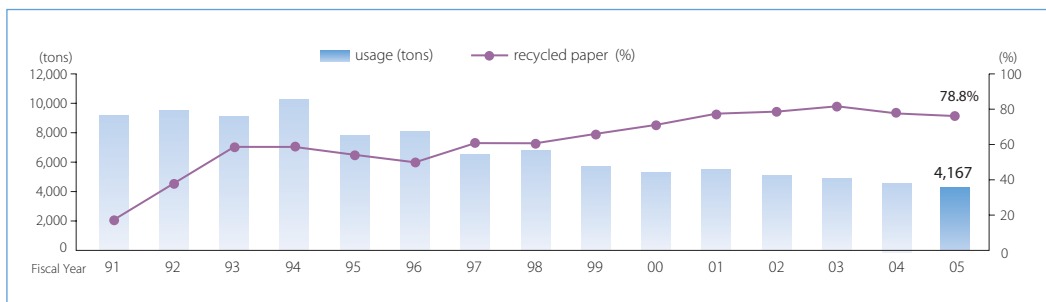
##### 5. Continuous improvement of environmental efforts

We strive to continuously improve our efforts by setting environmental goals and targets, implementing them, and periodically reviewing them.

This Environmental Charter is well known within the Company and is also published outside the Company.

Formulated May 7, 2001  
Nippon Life Insurance Company  
Kunie Okamoto, President

## Amount of Paper Used and Percentage of Recycled Paper Used



Recycling Station (Tokyo Headquarters)



JQA EM2002  
Head Office and Tokyo Headquarters

In addition, we promote the construction of buildings that take the environment into account, and this effort has centered on the approximately 420 buildings we hold as investments. In February 2003, the Nissay Shin-Osaka Building received the Environment and Energy Conservation

Construction Award (Director’s Award) from the Institute for Building Environment and Energy Conservation, and in March was given the Society Award from the Society of Heating, Air-Conditioning and Sanitary Engineers of Japan.



## Cultural Activities (For Young People)

### ■ Nissay Masterpiece Theater



Nissay Theater

The Nissay Theater was created in 1963 to aid in the development of a fulfilling and enriching society through the promotion and expansion of the performing arts, and has been staging excellent theatrical performances ever since. This vision is supported by the Nissay Masterpiece Theatre, created in 1964, which offers free musical performances for entire schools with the hope of fostering an abundant aesthetic sense and new sensitivity in children, the torchbearers of the next generation. The Nissay Culture Foundation, with our support, sponsors the performances. The shows are created and performed by the Shiki Theatre Company in 11 cities throughout the country, and as of March 31, 2006 they have given dreams and inspiration to over 6.44 million children.



Nissay Masterpiece Theater:  
The Dream of John Manjiro  
(Shiki Theater Company)

#### Nissay Masterpiece Theater Recent Shows

| Year | Season Number | Show Name                    | Number of Children | Planned Performances  |
|------|---------------|------------------------------|--------------------|---|
| 2006 | 43            | The Dream of John Manjiro    | 202,000 (forecast) | Sapporo, Sendai, Tokyo, Yokohama, Nagoya, Kyoto, Osaka, Kobe, |
| 2005 | 42            | The Witch that Gave up Magic | 204,043            | Hiroshima, Fukuoka, Kitakyushu (11 cities)                    |
| 2004 | 41            | The Adventures of Momojiro   | 200,062            |   |

### ■ Supporting the Healthy Development of Children and Teenagers



Support for Healthy Nurturing of Children  
(Tomiuwa "Society of Picture Book Enthusiasts")

To promote the passing on of local traditions, friendship building, and the experience of nature and life, the Nippon Life Foundation has since 1979 helped support governor-recommended private organizations that conduct local childrearing activities and child-focused activities in cooperation with local residents possessing the know-how and materials to conduct such activities. As of 2005, the Foundation has contributed to 9,568 organizations.

#### Examples of Organizations Supported in Fiscal 2006

| Organization Name                                       | Activities   | Type of Support  |
|---|--|--|
| Nippon Active Life (NALC) (Otsu City, Shiga Prefecture) | Supports nature adventures and educational activities for groups comprising senior citizens, local children and their parents  | Microscopes<br>A set of equipment for observing biotopes<br>A set of wooden construction tools |
| Nippon Sango-sho Skore (Naha City, Okinawa Prefecture)  | Runs programs for children who are frequently truant from school or who are socially withdrawn to work cooperatively on nature projects. The programs develop the children physically and mentally, helping them take steps towards self-reliance. | Set of tools for construction of a work studio   |

## Senior Citizens Activities

### ■ Nissay Eden-no-Sono



Matsudo Nissay Eden-no-Sono

Nissay Eden-no-Sono, operated by Nissay Seirei Health and Welfare Foundation, is a comprehensive health and welfare facility for senior citizens, which includes such provisions as a retirement home (fee-based), an illness prevention center, a comprehensive welfare center for senior citizens and a home nursing service center. The first one was opened in Nara in 1992, and the second one in Matsudo in 1997. Both facilities have been recognized as exemplifying the Ministry of Health, Labour and Welfare's policy of "Promoting health and longevity in 21st century hometowns."

### ■ Supporting the Aging Society



Aging Society Support Symposium

The Nippon Life Foundation supports organizations and individuals that conduct practical research or cutting-edge work related to the creation of systems to promote the participation of senior citizens in society, the construction of cities and regional benefit plans for the aging society, along with the prevention of senility in senior citizens and their care. Furthermore, the Foundation holds symposiums and workshops every year in order to spread information of achievements in these areas.

## Health Care and Medical Fields

Since it was founded in 1924, the Nippon Life Saiseikai Foundation has been working to aid society in the field of social welfare, offering free or low-cost medical examinations at retirement homes and children's homes in 50 locations.

Founded in Osaka city in 1931, the Nissay Hospital provides high-quality medical care as a general hospital with 17 departments and 350 beds. Recognized by the Japan Council for Quality Health Care, the Nissay Hospital also trains medical staff as a clinical research hospital certified by the Ministry of Health, Labour and Welfare.



Nissay Hospital

## Regional Contributions and Volunteer Activities

Nippon Life conducts regional contribution activities such as sports, education, interaction with welfare facilities, and cleanup activities at branches and other operating sites throughout Japan.

### Local Community Contribution Activities in Fiscal 2005

| Department   |  | Type of Support  |
|--|--|--|
| Hiroshima Branch<br>Shiga Branch<br>Matsumoto Branch<br>Takamatsu Branch | Local community interaction through sports   | Ping-pong classes and exhibition matches held in cooperation with our ping-pong club for women. Participants totaled 380, mainly elementary and junior-high school students, as well as local community members. |
| Takamatsu Branch   | Financial education for young people         | Financial education at local junior-high and high schools 230 students attended seminars on the mechanisms and role of insurance.  |
| Nara Branch  | Local cleanup activities                     | Local cleanup campaign "Cleanup Nara" with 162 participants  |
| Niigata Branch   | Interaction with welfare facility            | Invited people with disabilities to the branch to safely view fireworks  |
| Tokyo Headquarters, other  | Outings for people with serious disabilities | In collaboration with other companies in Chiyoda-ku, assisted in outings for residents of Chiyoda-ku who have serious disabilities   |
| Kochi Branch, other  | Support for orphans                          | Our employees from 17 branches took part in the Ashinaga P-Walk (a walk-a-thon to assist orphans)  |



Local community interaction through sports



Financial education for young people



Interaction with welfare facility

To promote independent volunteer initiatives by employees, we provide timely information about volunteering opportunities, and hold in-house seminars to equip employees with practical knowledge and basic techniques for volunteer activities.

### Volunteer Seminars in Fiscal 2005

| Location                           | Theme  | Contents of activities   |
|------------------------------------|--|--|
| Head Office,<br>Tokyo Headquarters | International contribution: Support for children in poverty-stricken areas | Employees from throughout Japan collected used children's picture books from their homes, which were then translated by 90 volunteers. 102 picture books were donated to regions of Asia where there are no libraries. |



Volunteer seminars  
(Creation of translated picture books)

### We are working together with five foundations in joint social contribution activities

(as of March 2006)

| Name of foundation                              | Date established | Location | Main activities  | Address   |
|---|------------------|----------|--|---|
| Nippon Life Saiseikai Foundation                | July 1924        | Osaka    | Social welfare work, management of Nissay Hospital and training of nurses  | <a href="http://www.nissay-hp.or.jp/index.html">http://www.nissay-hp.or.jp/index.html</a> |
| Nissay Culture Foundation                       | November 1973    | Tokyo    | Hosting theatrical performances for children and general audiences, management and operation of the Nissay Theater                     | <a href="http://www.nissaytheatre.or.jp">http://www.nissaytheatre.or.jp</a>               |
| Nissay Life Foundation (Nippon Life Foundation) | July 1979        | Osaka    | Support for businesses and research that contribute to the building of a truly prosperous society filled with humanity and culture     | <a href="http://www.nihonseimeizaidan.or.jp">http://www.nihonseimeizaidan.or.jp</a>       |
| Nissay Seirei Health & Welfare Foundation       | July 1989        | Osaka    | Surveys, research and services related to the aging of the population, and support for the education of qualified nursing care workers | <a href="http://www.nissay-seirei.org">http://www.nissay-seirei.org</a>                   |
| Nissay Green Foundation                         | July 1993        | Tokyo    | Protection of forests through tree-planting and nurturing activities in Japan and abroad   | <a href="http://www.mmjp.or.jp/nissay-green">http://www.mmjp.or.jp/nissay-green</a>       |

# IMPROVING DISCLOSURE

Nippon Life is working to enhance its varied disclosure initiatives in order to better help customers gain a clear and timely understanding of its business information.

## Disclosure Materials Available at Service Counters and by Post

So that a broad range of customers may view them, Nissay disclosure reports are available at the service counters of branches, sales divisions and representative offices nationwide. In addition, Nippon Life sends various disclosure materials by post in response to customer needs.

With an increasingly diverse range of products and services, we aim to create easy-to-understand disclosure materials, and are working to improve content by receiving opinions through Customer Monitor Meetings and other avenues. (See p.9).

### Disclosure Materials Produced in Fiscal 2005



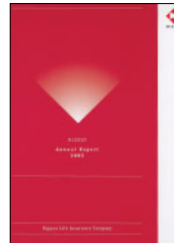
*Nissay Disclosure Disclosure report produced in accordance with Article 111 of the Insurance Business Law. Available at all service counters throughout Japan (in Japanese)*



*NISSAY NOW Nissay disclosure, digest version (in Japanese)*



*Nissay Disclosure Disclosure report for semiannual version (in Japanese)*



*Annual Report (in English)*



*NISSAY 2005 Business information pamphlet for all policyholders (in Japanese)*



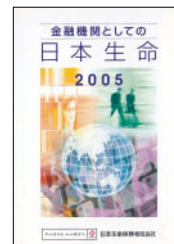
*Variable Amount Insurance (Separate Account) Result Notification Result report for variable amount insurance policyholders\*1 (in Japanese)*



*Variable Annuities (Separate Account) Result Notification Result report for variable annuities policyholders\*2 (in Japanese)*



*Result Report for Group Annuities Result report material for policyholders of group annuities (employees' pension fund insurance, new insured pension plans, etc)\*3 (in Japanese)*



*Nippon Life, a Financial Organization Material related to asset management business and results for corporate customers (in Japanese)*

\*1 Information on variable amount insurance investments can be obtained at the headquarters and branch service counters.

\*2 For the latest performance summary of variable annuities separate account, please see the Nissay investment annuity page of the Nissay website.

\*3 A quarterly disclosure magazine is issued to all separate account policyholders. Furthermore, information on annuity investments is provided in a timely manner on the Nissay website.



*Nissay Website, Disclosure Materials*

### Information Provided on the Website

Nippon Life utilizes its website to issue timely information. In addition to press releases, minutes and outlines of resolutions presented at the Meeting of Representatives, customers can view and download other information, such as our Nissay Disclosure (written in Japanese) and Annual Report (written in English) over the Internet.

### Financial Results Meetings

We hold financial results meetings for analysts and institutional investors twice a year. During these meetings, we also report management policies, as well as the medium- and long-term strategies of each division, in order to promote greater understanding of our operations.