

# CHAPTER 1

## Business Performance In Fiscal Year Ended March 31, 2009

---

SOUNDNESS AND PROFITABILITY OF NIPPON LIFE .....	12
FISCAL YEAR ENDED MARCH 31, 2009 BUSINESS OVERVIEW .....	18

A life insurance policy is an agreement with a customer that spans many years from the time of enrollment in a policy until receipt of insurance claims or benefits. Nippon Life will take steps to strengthen its financial foundation so that it will be able to reliably pay insurance claims and benefits into the future, thus fulfilling its responsibility to policyholders.

## Fiscal Soundness and Profitability Benchmarks

- ① Foundation funds (*kikin*) and reserves
- ② Policy reserves
- ③ Unrealized gain on securities
- ④ Solvency margin ratio
- ⑤ Real net assets
- ⑥ Core operating profit

\*In order to properly understand what makes a life insurance company fiscally sound, Nippon Life believes it is necessary to comprehensively review the characteristics of a variety of indicators.

## Fiscal Soundness and Profitability Benchmarks (image)

Balance Sheet	
(Assets)	(Liabilities)
	Policy reserves and others
	Policy reserves (includes contingency reserve)
	Reserve for price fluctuations in security investments
	(Net assets)
	Foundation funds ( <i>kikin</i> )
	Reserve for redemption of foundation funds

## Major Components of Soundness and Profitability Benchmarks ①-⑤

(Applicable items are marked with “●”)

	Balance Sheet Accounting Items					Unrealized gain on securities
	Policy reserves	Contingency reserve	Reserve for price fluctuations of security investments	Foundation funds ( <i>kikin</i> )	Reserve for redemption of foundation funds	
① Foundation funds ( <i>kikin</i> ) and reserves (p. 13)		●	●	●	●	
② Policy reserves (p. 13)	●	●				
③ Unrealized gain on securities (p. 14)						●
Total solvency margin		●	●	●	●	●
④ Solvency margin ratio (p. 14) = total solvency margin / (total amount of risk × 1/2) × 100						
⑤ Real net assets (p. 15)		●	●	●	●	●

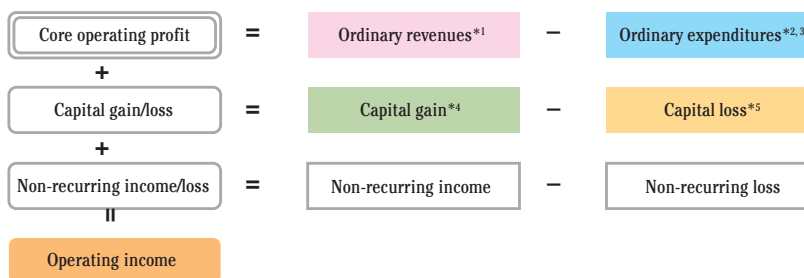
\*This table shows the main components of each benchmark.

\*Foundation funds (*kikin*) and reserves, real net assets and others are not shown directly on the Balance Sheets.

Statement of Income	
Total revenues	
Income from insurance and reinsurance premiums	
Investment income	
Interest, dividends and other income	
Gain on sales of securities	
Gain from separate accounts, net	
Other revenues	
Total expenditures	
Insurance claims and other payments	
Provision for policy reserves and others	
Investment expenses	
Loss on sales of securities	
Loss on valuation of securities	
Loss from separate accounts, net	
Operating expenses	
Other expenditures	
Operating income	
Extraordinary profits (losses)	
Surplus	

⑥ Core operating profit \*Please refer to p. 15 for more details regarding core operating profit.

\*Core operating profit is not shown directly on the statements of income.



\*1 Ordinary revenues = income from insurance and reinsurance premiums + investment income (excluding gain on sales of securities, etc.) + other revenues

\*2 Ordinary expenditures = insurance claims and other payments + provision for policy reserves + investment expenses (excluding loss on sales of securities, etc.) + other expenditures

\*3 Provision for policy reserves within ordinary expenditures excludes provisions (reversal) for contingency reserves.

\*4 Capital gain is gain on sales of securities within investment income.

\*5 Capital loss is loss on sales of securities and loss on valuation of securities within investment expenses.

The above illustrates the components of Nippon Life's fiscal soundness and profitability benchmarks and is not intended as a definitive explanation.

## ■ Accumulating Foundation Funds (*kikin*) and Reserves, Nippon Life's Strong Financial Platform

### Accumulating Foundation Funds (*kikin*) and Reserves

**¥2,653.8 billion as of March 31, 2009**  
(¥3,301.7 billion as of March 31, 2008)

Foundation funds (*kikin*) and reserves include foundation funds and the reserve for redemption of foundation funds under net assets in the balance sheets as well as contingency reserves and reserves for price fluctuations in security investments under liabilities in the balance sheets.

Nippon Life works to build up foundation funds (*kikin*) and reserves as equity. This equity is a financial resource for responding to risks that do not include income from stocks, which are easily affected by the economic environment. More specifically, even if management risks such as a dramatic decline in stock prices, continuing low interest rates or massive natural disasters occur, this financial platform enables Nippon Life to pay out insurance claims and benefits in accordance with the initial terms of the policies it writes.

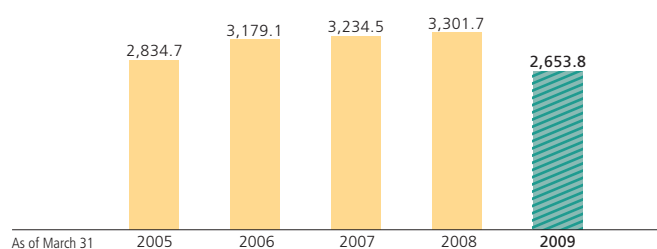
Amid a severe operating environment characterized by significant drops in stock prices both in Japan and overseas, Nippon Life was forced to report a substantial capital loss. However, Nippon Life drew upon ¥679.8 billion in contingency reserves and reserve for price fluctuations

in security investments within foundation funds (*kikin*) and reserves that had been accumulating continuously in preparation for such an event.

Even though foundation funds (*kikin*) and reserves were drawn on, the total remains high at ¥2,653.8 billion, ensuring Nippon Life's continued fiscal soundness.

### Trends in Foundation Funds (*kikin*) and Reserves

(Unit: Billions of Yen)



## ■ Sufficient Policy Reserves

### Policy Reserves

**¥40,880.1 billion as of March 31, 2009**  
(¥40,739.5 billion as of March 31, 2008)

Life insurance companies are obliged to accumulate policy reserves in order to prepare for payments of future insurance claims, annuities and other benefits. Policy reserves are composed of premium reserves and unearned premiums for covering costs in the event of the occurrence of normally foreseeable risk as well as contingency reserves to cover costs in the event of the occurrence of risk that exceeds such predictions. (See p. 143.)

In addition, with respect to the reserve funding method for premium reserves, Nippon Life utilizes the most conservative legal

method (the net level premium method) for computing policy reserves. (See p. 143.)

To ensure the greater financial soundness of individual annuities, which are expected to see continued negative spreads, we are further building up policy reserves over a five-year period that began in the fiscal year ended March 31, 2007 in order to ensure that we are fully prepared to meet future payment claims. (As of March 31, 2009, Nippon Life further accumulated a three-year cumulative total of approximately ¥750.0 billion.)

## ■ Unrealized Gain on Securities

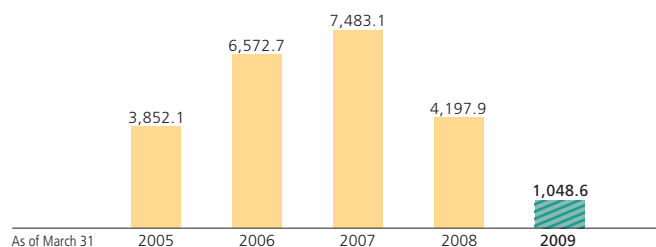
### Unrealized Gain on Securities

**¥1,048.6 billion** as of March 31, 2009  
(¥4,197.9 billion as of March 31, 2008)

Unrealized gain on securities indicate the positive difference that exists when the market value of securities exceeds book value. Unrealized gain on securities, although affected by economic conditions, is one of the indicators for preparing against risk. (See p. 122.)

### Unrealized Gain on Securities

(Unit: Billions of Yen)



## ■ High-Level Solvency Margin Ratio to Respond to Unforeseeable Risks

### Solvency Margin Ratio

**904.4%** as of March 31, 2009  
(1,156.8% as of March 31, 2008)

The solvency margin indicates the leeway to make payments. In addition to the foundation funds (*kikin*) and reserves, it includes unrealized gain/loss on securities, etc.

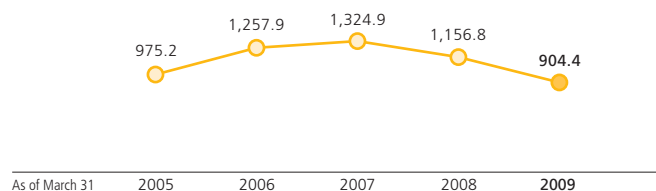
Policy reserves are able to respond to risks that are normally foreseeable. However, in cases where normally unforeseeable risks materialize, such as a major catastrophe or stock market collapse, the solvency margin ratio is one of the indicators for regulatory agencies to determine whether or not a company has the leeway to pay benefits.

The solvency margin ratio as of March 31, 2009 stood at 904.4%, ensuring a high level of preparedness to pay benefits with enough leeway to fully cover risk. (See p. 119.)

**The solvency margin ratio:** The solvency margin ratio is the total value of the solvency margin divided by the quantified amount of all risks exceeding those that can normally be forecast. When this ratio falls below 200%, the regulatory agency will issue an order to improve business. (See p. 188.)

### Trends in the Solvency Margin Ratio

(Unit: %)



### Solvency Margin Ratio

(Unit: Billions of Yen, %)

As of March 31, 2009		
Total solvency margin	(A)	¥4,800.9
Foundation funds ( <i>kikin</i> ) and reserves		2,653.8
Unrealized gain/loss on available-for-sale securities x 90%		389.7
Total amount of risk	(B)	1,061.6
Solvency margin ratio	$\frac{(A)}{1/2 \times (B)} \times 100$	904.4%

## ■ High Level of Real Net Assets

### Real Net Assets

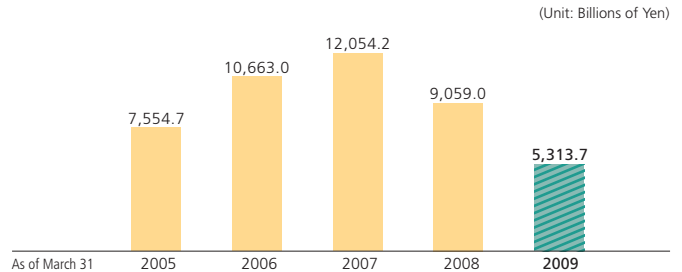
¥5,313.7 billion as of March 31, 2009  
(¥9,059.0 billion as of March 31, 2008)

Real net assets are calculated by subtracting liabilities, other than contingency reserves and other items, from total assets at market value.

Real net assets as of March 31, 2009 stood at ¥5,313.7 billion and the ratio of real net assets (the ratio to general account assets) was 12.0%, ensuring that an ongoing high level is continuously maintained.

**Real net assets:** Approximating an insurance company's liquidation value, if this figure is negative, it is judged that liabilities exceed assets and the regulatory agency may issue an order to suspend business.

#### Trends in Real Net Assets



## ■ Stable Earnings Capacity

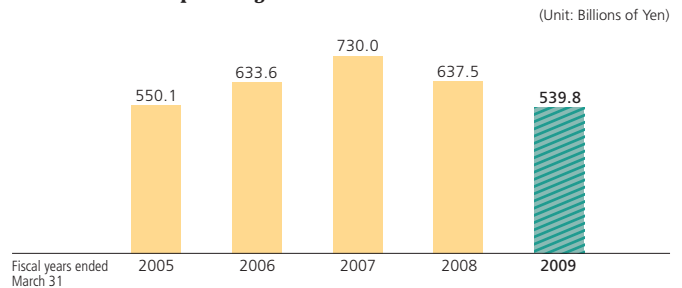
### Core Operating Profit

¥539.8 billion for the fiscal year ended March 31, 2009  
(¥637.5 billion for the fiscal year ended March 31, 2008)

Core operating profit mainly consists of income related to insurance (the net of income from premiums less payments for insurance claims and business costs) and investment operations, including interest and dividend income. It is the fundamental index that reflects an insurance company's earnings position on a flow basis. In the fiscal year ended March 31, 2009, core operating profit stood at ¥539.8 billion. (See p. 129.)

This figure is the amount remaining after covering negative spread for the fiscal year under review, ensuring that a high level is continuously maintained.

#### Trends in Core Operating Profit



### Negative Spread

Amid continuing ultra-low interest rate conditions, a deficit is created by the negative difference between the assumed return on insurance premium

### Nippon Life's Response to Negative Spread

At the closing of accounts for the fiscal year ended March 31, 2009, Nippon Life ensured a core operating profit of ¥539.8 billion for covering approx. ¥40.0 billion in negative spread.

To provide reserves for future wildly fluctuating negative spreads due to various factors, including changes in the operating environment, Nippon Life has taken the following steps:

investments and actual investment return for some policyholders. This is called negative spread.

- To cover individual annuities that are a principal cause of a negative spread, from the fiscal year ended March 31, 2007, Nippon Life has accumulated and added to the policy reserves in order to amortize the negative spread in advance.
- Even assuming that severe conditions such as current low interest rates will continue, Nippon Life has accumulated foundation funds (*kikin*) and reserves to cover numerous risks, beginning with negative spread.

### ● Calculation of Negative Spread

In the life insurance industry, negative spreads are calculated according to the following formula:

$$\text{Negative spread} = \left[ \text{investment return on core operating profit} - \text{average assumed interest rate} \right] \times \text{general account policy reserves}$$

[Approx. ¥40.0 billion]      [2.84%]                          [2.94%]                          [¥37,555.3 billion]

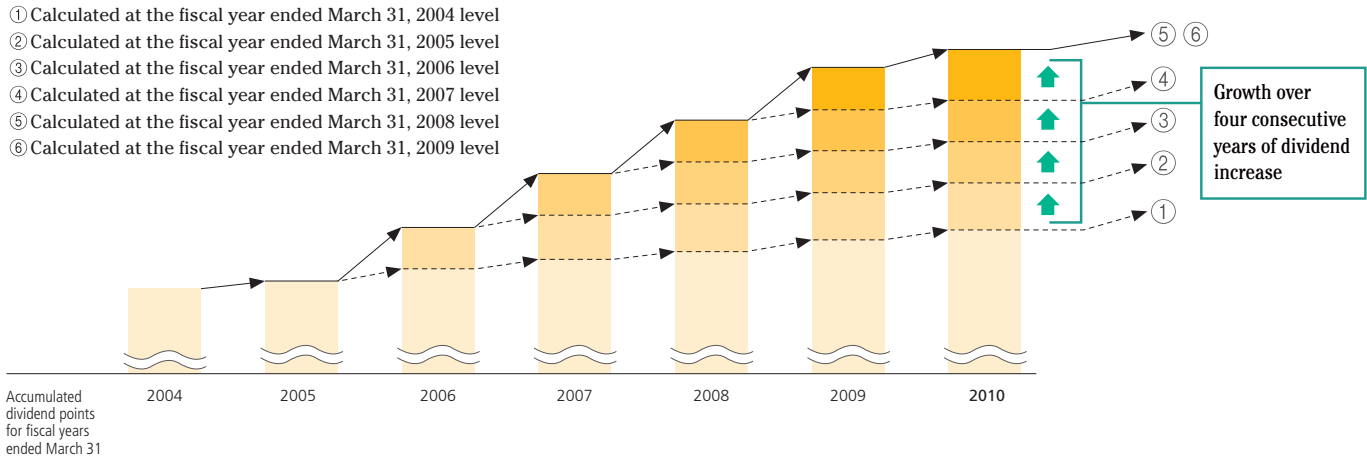
- The investment return on core operating profit is the return on general account policy reserves after deducting the provision for accumulated interest on policyholder dividends from general account investment revenues included in core operating profit.
- The average assumed interest rate is the return of assumed interest on general account policy reserves.
- The general account policy reserves are calculated as follows for policy reserves in the general account, excluding the contingency reserves:  
(Policy reserves at beginning of period + Policy reserves at end of period - Assumed interest) × 1/2

## ■ Making Continuous Efforts to Provide Stable Dividends to Policyholders

Nippon Life, as a mutual company, has set the steady enhancement of stable dividend payouts in the medium to long term as one of its business goals, and has raised asset dividends for individual insurance and individual annuities over the last four consecutive years, beginning in the fiscal year ended March 31, 2005.

Despite the difficult conditions on balance of revenues and expenditures, in the fiscal year ended March 31, 2009, Nippon Life maintained the same level of dividend payouts for individual insurance and individual annuities as in the previous fiscal year, based on a policy of continuing to pay out dividends on a stable basis.

### Trends in Dividend Increase for the EX Series (Policies from April 2, 1999)



### Policyholder Dividends in Mutual Companies

Life insurance premiums are generally calculated based upon expected rates, including rates of interest and mortality. However, because life insurance contracts are long-term agreements, actual conditions may differ from expectations due to changes in the economic environment, increasing management efficiency or other factors. In the event that a surplus is generated by the difference between expectations and actual conditions, the increase is deemed to be cash to be distributed to policyholders based on policy terms as policyholder dividends.

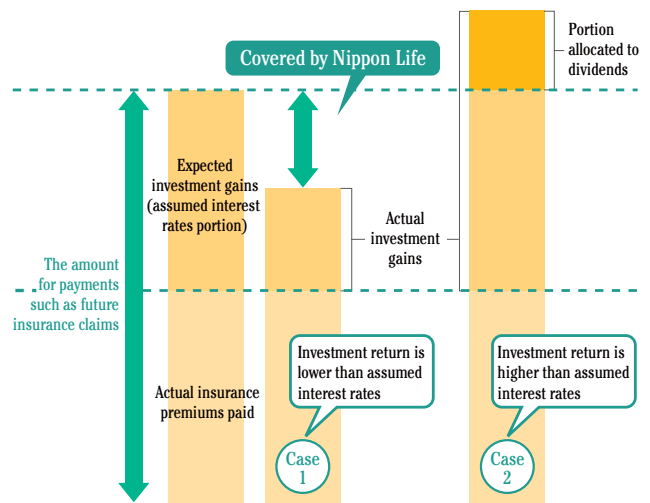
In fact, policyholder dividends could be classified, by nature, as the post-settlement of insurance premiums that were originally calculated based upon assumed rates.

Life insurance contracts can be broadly classified into two categories, namely “participating insurance,” where dividend payments are distributed, and “nonparticipating insurance,” where no dividend payments are distributed.

Nippon Life employs a mutual company format in which all policyholders (excluding non-participating insurance policyholders) are counted as members of the Company. In addition to the accumulation of foundation funds (*kikin*) and reserves, the majority of the surplus is returned to participating insurance policyholders as policyholder dividends.

### Dividend Framework

The chart below shows the framework for dividends based on assumed rates. Insurance premiums are calculated while discounting investment gains based on assumed rates. Even if actual investment profits are lower than expected, as in Case 1 below, Nippon Life guarantees this discount on insurance premiums to stay the same.



Please see Policy Details Reminder on page 58, which is sent out each year to every customer.

## ■ Excellent Ratings from Ratings Companies (as of July 1, 2009)

### Ratings

**AA** R&I

(Insurance Claims Paying Ability)

**AA-** S&P

(Insurer Financial Strength Rating)

**A+** Fitch Ratings

(Insurer Financial Strength Rating)

Issued by third-party ratings agencies, ratings are an evaluation of an insurance company's ability to pay insurance claims. (Ratings are not a guarantee that claims and other payments will be made.)

#### R&I's Definition of "AA" Rating

<http://www.r-i.co.jp> (Japanese only)

A very high degree of capacity for the payment of insurance claims and excellence in several key factors of evaluation.

#### S&P's Definition of "AA" Rating

<http://www.standardandpoors.co.jp> (Japanese only)

An extremely strong capacity to fulfill insurance policy obligations; only slightly different from its top ("AAA") rating.

#### Fitch Rating's Definition of "A" Rating

<http://www.fitchratings.co.jp> (Japanese only)

Insurer is viewed as possessing a high capacity to meet payment obligations. A low likelihood of payment interruption or discontinuation and a high capacity for meeting policyholder and other policy obligations without delay. However, insurance companies in this category are more susceptible to changes in business and economic environments than those with high ratings.

Plus (+) or minus (-) signs following the above ratings show relative standing within the major rating categories.

#### Ranking Standard

AAA
AA
A
BBB
BB
B
⋮

The higher the rank the higher the capacity to meet payment obligations.

\*The above-mentioned ratings are based on information and data up to the time of each rating and are subject to change in the future.

\*Nippon Life received the above-mentioned ratings from R&I, S&P and Fitch Ratings after officially requesting them and providing detailed information for more accurate evaluation.

## ■ Aiming to Maximize Policyholder Value

Nippon Life works to maximize policyholder value, from now and into the future, by returning annual dividends to policyholders and by accumulating foundation funds (*kikin*) and reserves, which can serve as the foun-

ation for future dividends. The equity replacement ratio and dividend payout ratio are disclosed as indicators that show how far Nippon Life has progressed in achieving this aim.

As of March 31, 2009

**Equity Replacement Ratio = 61%** (70% as of March 31, 2008)

$$\frac{\text{Foundation Funds (kikin) and Reserves}}{\text{Optimum Equity}} = \frac{\text{¥2,653.8 billion}}{\text{¥4,400.0 billion}}$$

The equity replacement ratio is the ratio of foundation funds (*kikin*) and reserves to the required level of optimum quality (¥4,400.0 billion as of March 31, 2009) based on a rigorous evaluation of business risk. This ratio reached 61% on March 31, 2009. From this point forward, Nippon Life will continue to work to maintain a balance between this and improved dividend payouts to policyholders with the goal of raising the equity replacement ratio.

**Optimum Equity:** The total amount of risk calculated based on Nippon Life's policies in force and asset portfolio. This calculation takes into account the risk of losses on stocks, assuming stock prices will see further sharp declines from the moment they begin to drop and until unrealized gains on stocks become zero, as well as the present assessed value of the future negative spread based on the assumption that large-scale natural disasters will cause the amount of such payments as claims to increase and that tough conditions with low interest rates will prevail.

Fiscal year ended March 31, 2009

**Dividend Payout Ratio = 100%** (66% for the fiscal year ended March 31, 2008)

$$\frac{\text{Reserve for Policyholder Dividends}}{\text{Available Financial Resources}} = \frac{\text{¥130.6 billion}}{\text{¥130.6 billion}}$$

The dividend payout ratio is the ratio of the reserve for policyholder dividends to available financial resources. Despite short-term increases and decreases, our goals are to achieve a dividend payout ratio of more than 50% each year and raise it constantly over the medium to long term. Dividend payout ratios rose to 100% due to no increase in foundation funds (*kikin*) and reserves in the fiscal year ended March 31, 2009.

**Available Financial Resources:** Reserve for policyholder dividends + additions to foundation funds (*kikin*) and reserves

## Business Environment

As has been seen since the 1990s, the life insurance industry is facing the ongoing negative spread and the spate of insurance company failures following the collapse of the economic bubble, the entry into the market of foreign affiliated and non-life insurance companies and product and channel diversification that collectively triggered the financial big bang, and a series of payment problems that eroded trust throughout the industry. These issues constitute a surging wave of change that we are confronting.

Amid the ongoing global economic recession that has occurred in the wake of the financial crisis that began in the United States, the operating environment for the insurance industry in the fiscal year ended March 31, 2009 has become extremely severe in Japan. Contributing to the harsh conditions have been a plunge in stock prices and rapidly appreciating yen, which have impacted the financial strength of all life insurance companies and led to one life insurance company going bankrupt and another withdrawing from the variable annuities market.

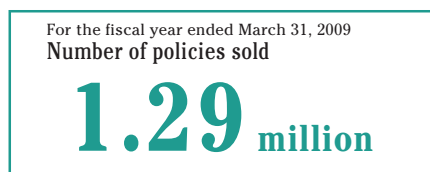
Based on a the philosophy of “putting policyholders first,” Nippon Life has been striving to improve customer services and bolster its financial platform. Against this backdrop, Nippon Life made efforts to improve performance in the challenging individual market by introducing new products during the fiscal year under review. In addition, the equity that had been continuously accumulated became a pillar of Nippon Life response to the recent financial crisis.

Under conditions that have been referred to as a financial and economic crisis, Nippon Life will unite to undertake the following initiatives in order to establish an unshakable position as a company that our customers continue to trust and choose. This is in recognition of the evaluations Nippon Life has been steadily receiving from its customers regarding its solidity and soundness.

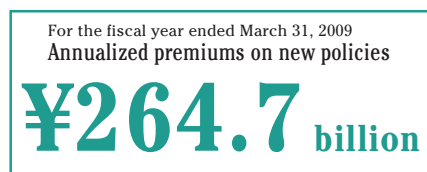
\*Nippon Life accumulates foundation funds (*kikin*) and reserves as equity. These include the foundation funds, which represent the capital of a joint-stock company, as well as a contingency reserve and a reserve for price fluctuations established to deal with risk.

## Individual Market Sales

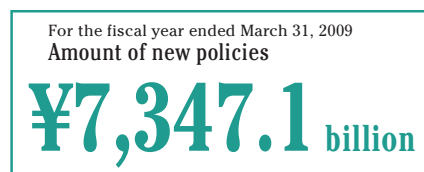
### ● New policies



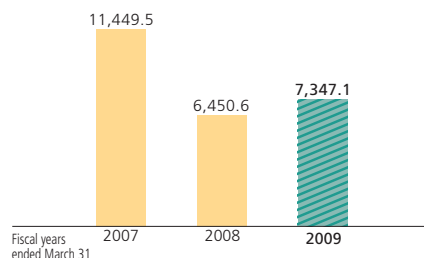
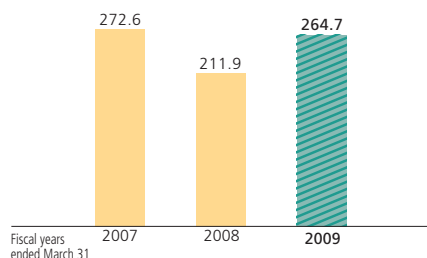
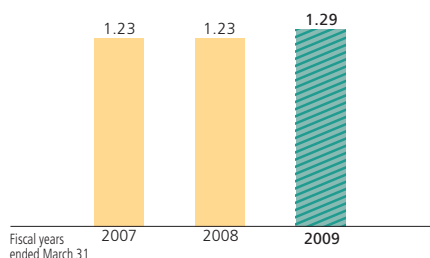
(Unit: Millions of policies)



(Unit: Billions of Yen)



(Unit: Billions of Yen)



Notes: 1. Number of policies sold represents the total of new policies and policies after conversions.

2. Annualized premiums, the amount for an entire year, are calculated using coefficients based on the premium payment method. (The premium divided by the coverage period is used for single payments.)

3. Amount of new policies and annualized premiums on new policies includes net increase due to conversions.

4. Amount of new policies represent the total sum of: individual insurance coverage amount and individual annuity resources amount (in the case of policies prior to the start of annuity payments, amount of future annuity payments is translated to value at the start of annuity payments).



## ● Policies in Force

As of March 31, 2009  
Number of Policies in Force

**14.87 million**

(Unit: Millions of policies)

As of March 31, 2009  
Annualized Premiums for Policies in Force

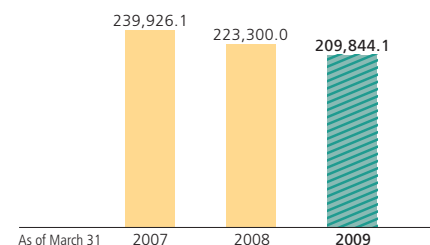
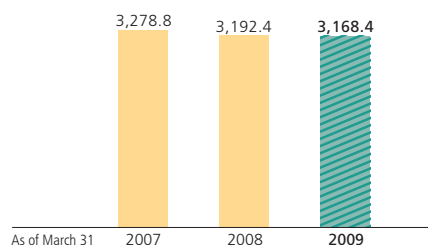
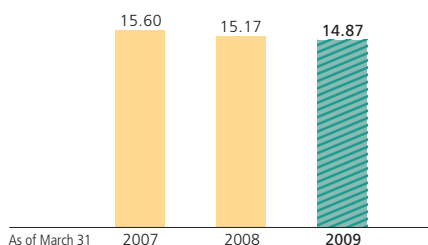
**¥3,168.4 billion**

(Unit: Billions of yen)

As of March 31, 2009  
Amount of Policies in Force

**¥209,844.1 billion**

(Unit: Billions of yen)



Notes: 1. Annualized premiums, the amount for an entire year, are calculated using coefficients based on the premium payment method. (The premium divided by the coverage period is used for single payments.)

2. Amount of policies in force represents the total sum of: individual insurance coverage amount, individual annuity resources amount (in the case of policies prior to the start of annuity payments, amount of future annuity payments is translated to value at the start of annuity payments) and policy reserves total amount (in the case of policies after the start of annuity payments, amount of reserves accumulated for future payments of annuities and others).

Insurance business performance showed growth in each area. The number of new policies sold in the individual market in the fiscal year ended March 31, 2009 was 1.29 million (up 5.4% year on year). Annualized premiums on new policies were ¥264.7 billion (up 24.9%) and the amount of new policies calculated as the total of items such as death protection was ¥7,347.1 billion (up 13.9%).

Included within this is a significant increase in the performance of bank counter sales that has contributed to annualized premiums on new policies. This is the result of such factors as increasing evaluations of fixed amount annuities—a core product of Nippon Life—during a period of falling stock prices, and a rise in the number of financial institutions handling Nippon Life products. Regarding the amount of new policies, Nippon Life introduced its new mainstay product, *Mirai Support*, in October 2008, and this product has been a performance driver from the second half of the fiscal year ended March 31, 2009 onward.

Moreover, the number of sales representatives\* as of March 31, 2009 increased by 930 year on year to 48,925. This includes a rise in the number of key sales representatives, those with superior sales and service capabilities, by 321 to 9,078.

However, considering that the number of customers amounted to 10,010,000 (down 230,000 year on year) as of March 31, 2009—which represents an ongoing decrease—Nippon Life has been unable to regain its superiority within the industry in terms of new policy performance. All Nippon Life executives and employees are fully aware of these issues, and the entire Company is uniting to overcome current difficulties.

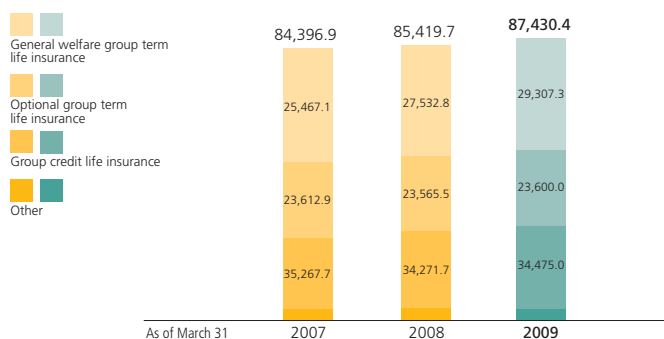
\*The number of registered sales representatives does not include sales management or part-time sales staff.

As of March 31, 2009

Amount of Group Insurance Policies in Force

¥87,430.4 billion

(Unit: Billions of Yen)

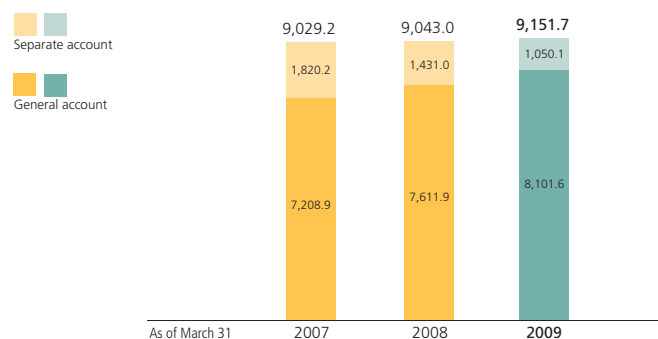


As of March 31, 2009

Amount of Group Annuities in Force (Policy Reserves Amount\*)

¥9,151.7 billion

(Unit: Billions of Yen)



\*Policy reserves amount are reserves for future insurance claims, annuity and benefit payments, accumulated through insurance premiums and investment returns.

In corporate market sales, despite severe economic conditions, group insurance policies in force increased 2.4% year on year to ¥87,430.4 billion, while group annuities in force rose 1.2% to ¥9,151.7 billion.

Moreover, facing the elimination of the approved retirement annuity system on March 31, 2012, throughout Nippon Life we have been providing consulting to our customers on the changeover to a system of defined benefit pension plans and defined contribution pension plans.

As of March 31, 2009, Nippon Life had already finished reviewing approximately 11,000, or 70%, of the approximately 15,000 approved retirement annuity system agreements that it was responsible for.

\*The amount of new group insurance policies (the increase in claims and the net increase in claims from midterm enrollment and withdrawals) for the fiscal year ended March 31, 2009 was down 3.8% to ¥5,681.1 billion. The decrease in the amount of policies in force improved 24.9% to ¥3,670.4 billion.

### Asset Management Field

In the asset management field, interest, dividends and other income slipped 7.0% year on year to ¥1,148.4 billion, primarily due to a decrease in stock dividends caused by the stagnant performance of the entire corporate sector, which has been negatively affected by the global financial crisis. After posting a loss on valuation of securities in response to a general nosedive in stock prices and the rapid appreciation of the yen in the last half of the reporting period, Nippon Life recorded capital loss\* totaling ¥744.0 billion. As a result, proceeds from investments in the general account edged down 66.6% year on year to ¥354.4 billion.

\*Capital gain/loss includes gain/loss on the sales of securities and loss on valuation of securities.

### Main Asset Management-Related Revenues and Expenditures

Fiscal years ended March 31	(Unit: Billions of Yen, %)			
	2009	Rate of increase	2008	2007
Investment income	¥1,247.0	(7.8)%	¥1,352.6	¥1,409.7
Interest, dividends and other income	1,148.4	(7.0)	1,234.5	1,156.3
Gain on sales of securities	88.6	(17.2)	106.9	101.7
Gain from separate accounts, net	—	—	—	81.5
Investment expenses	1,245.9	124.2	555.8	296.3
Loss on sales of securities	119.5	28.1	93.2	102.3
Loss on valuation of securities	527.9	—	39.2	11.8
Loss from separate accounts, net	353.3	32.8	265.9	—
Net proceeds from investments	1.1	(99.9)	796.7	1,113.3
Proceeds from investments in the general account	354.4	(66.6)	1,062.7	1,031.8

Note: Aggregate investment income and investment expenses in the separate account are included in either gain or loss from separate accounts, net.

## Revenues and Expenditures and Financial Condition

Turning to revenues and expenditures, core operating profit, which reflects an insurance company's earnings power, declined 15.3% year on year to ¥539.8 billion. This decline was mainly attributable to a decrease in both policies in force and interest, dividends and other income. In particular, a persistent decline in policies in force is a significant factor that will place downward pressure on Nippon Life's future revenues and income. Accordingly, one of Nippon Life's priority management issues is to strengthen earnings power through the improvement of insurance business performance.

At the same time, in order to counter the large capital loss attributable to a plunge in stock prices and the yen's rapid appreciation, Nippon Life reversed a total of ¥679.8 billion from a contingency reserve and a reserve for price fluctuations in security investments under equity, which have been accumulated in preparation for various risks.

Amid these movements, operating income, which is the core operating profit less capital gain/loss and non-recurring income/loss, sank 61.8% year on year to ¥119.2 billion. The surplus in the current year—the said operating income after extraordinary profits and losses and income taxes—decreased 34.3% to ¥181.5 billion.

On the financial side, Nippon Life solicited an additional ¥50.0 billion in foundation funds (*kikin*) in September 2008 as planned. However, due to the partial reversal of certain reserves, foundation funds (*kikin*) and reserves declined ¥647.8 billion year on year to ¥2,653.8 billion.

Despite stagnant revenues and profits for the fiscal year under review, Nippon Life sustained the dividend level at the same level as the previous fiscal year for individual insurance and individual annuities, adhering to the policy of continuing stable dividend payouts. Nippon Life had kept raising the dividend level for four consecutive fiscal years since that ended March 31, 2005. Nippon Life also sustained the dividend level in group insurance. As for group annuities, Nippon Life will pay out dividends for certain flagship products for the fiscal year under review, although the payout ratio decreases in line with deterioration in asset management conditions.

### Operating Income

(Unit: Billions of Yen, %)				
Fiscal years ended March 31	2009	Rate of increase	2008	2007
Core operating profit	¥ 539.8	(15.3)%	¥ 637.5	¥ 730.0
Capital gain/loss	(744.0)	—	(121.0)	(118.9)
Non-recurring income/loss	323.3	—	(204.7)	(280.4)
Operating income	¥ 119.2	(61.8)%	¥ 311.7	¥ 330.6

- Notes: 1. Core operating profit + capital gain/loss + non-recurring income/loss = operating income  
 2. Capital gain/loss includes profit/loss on sales of securities and loss on valuation of securities.  
 3. Non-recurring income/loss includes provision for additional policy reserves and reversal of contingency reserves and others.

### Equity Replacement Ratio

(Unit: Billions of Yen, %)				
Fiscal years ended March 31	2009	Amount of increase	2008	2007
Foundation funds ( <i>kikin</i> ) and reserves	¥2,653.8	¥(647.8)	¥3,301.7	¥3,234.5
Net assets	1,118.0	50.4	1,067.6	1,065.9
Liabilities	1,535.8	(698.2)	2,234.1	2,168.5
Contingency reserve	864.4	(564.6)	1,429.0	1,429.0
Reserve for price fluctuations in security investments	¥ 372.0	¥(115.2)	¥ 487.2	¥ 467.2
Equity replacement ratio	61%	—	70%	67%

- Notes: 1. Net assets are shown as the amount after the appropriation of retained earnings after deducting valuations, conversions and others from total net assets on the balance sheets.  
 2. The equity replacement ratio is the amount of foundation funds (*kikin*) and reserves divided by the requirement level (¥4.4 trillion as of March 31, 2009, ¥4.7 trillion as of March 31, 2008 and ¥4.8 trillion as of March 31, 2007) based on strict risk evaluation.

### Dividend Payout Ratio

(Unit: Billions of Yen, %)				
Fiscal years ended March 31	2009	Amount of increase	2008	2007
Reserve for policyholder dividends <sup>1</sup>	¥130.6	¥ (95.6)	¥226.2	¥239.6
Increased amount of foundation funds ( <i>kikin</i> ) and reserves	—	(117.1)	117.1	105.3
Total <sup>2</sup>	¥130.6	¥(212.8)	¥343.4	¥345.0
Dividend payout ratio	1/2	100%	66%	69%

- Notes: 1. The reserve for policyholder dividends shows the amount after the appropriation of surplus.  
 2. Increased amount of foundation funds (*kikin*) and reserves is the amount after deducting the amount of increase or decrease due to the solicitation and repayment of foundation funds (*kikin*) from the increase in foundation funds (*kikin*) and reserves (long-dash indicates a negative amount).

## ■ Main Balance Sheet Items (Non-Consolidated Basis)

				(Unit: Billions of Yen)				
As of March 31	2009	2008	2007	As of March 31	2009	2008	2007	
<b>ASSETS</b>				<b>LIABILITIES</b>				
Cash and deposits	¥ 558.3	¥ 500.6	¥ 806.1	<b>Policy reserves and others</b>	¥42,317.6	¥42,209.8	¥41,887.2	
Call loans	203.8	196.1	259.2	Reserve for outstanding claims	222.0	236.9	244.9	
Monetary receivables purchased	1,160.3	1,379.3	1,334.6	Policy reserve	40,880.1	40,739.5	40,382.5	
Proprietary trading securities	—	—	2.0	Reserve for dividends to policyholders	1,215.3	1,233.2	1,259.8	
Assets held in trust	114.6	170.5	195.5	<b>Reinsurance payables</b>	0.3	0.3	0.2	
Investments in securities	31,334.8	34,003.7	37,330.2	<b>Other liabilities</b>	1,080.9	1,190.4	1,523.8	
Domestic bonds	17,354.6	16,761.3	16,959.0	Accrued bonuses for directors and corporate auditors	0.0	0.0	0.1	
Domestic stocks	5,855.1	8,762.3	12,025.6	Accrued severance indemnities	438.9	433.7	427.2	
Foreign securities	7,688.0	7,994.2	7,783.6	Accrued retirement benefits for directors and corporate auditors	5.9	5.8	5.6	
<b>Loans receivable</b>	<b>9,133.4</b>	<b>9,553.3</b>	<b>9,726.7</b>	Accrued loss from supporting closely related companies	0.4	0.5	0.5	
Policy loans	1,087.4	1,139.2	1,209.4	Reserve for price fluctuations in security investments	372.0	487.2	467.2	
Industrial and consumer loans	8,045.9	8,414.1	8,517.2	Deferred tax liabilities	—	138.2	1,510.3	
<b>Tangible fixed assets</b>	<b>1,672.0</b>	<b>1,675.2</b>	<b>1,663.6</b>	Deferred tax liabilities for revaluation reserve	176.0	177.2	179.5	
Intangible fixed assets	169.7	153.5	142.5	Acceptances and guarantees	13.6	7.9	8.1	
Reinsurance receivables	0.2	0.6	0.3	<b>Total liabilities</b>	<b>¥44,406.0</b>	<b>¥44,651.5</b>	<b>¥46,010.2</b>	
Other assets	558.8	529.1	404.8	<b>NET ASSETS</b>				
Deferred tax assets	926.8	—	—	Foundation funds	1	¥ 200.0	¥ 200.0	¥ 250.0
Customers' liabilities for acceptances and guarantees	13.6	7.9	8.1	Reserve for redemption of foundation funds	2	750.0	700.0	650.0
Allowance for doubtful accounts	(21.1)	(34.9)	(32.1)	Reserve for revaluation	3	0.6	0.6	0.6
[Total general account assets]	[44,454.3]	[46,275.0]	[49,562.6]	Surplus	4	300.5	395.7	408.1
[Total separate account assets]	[1,371.5]	[1,860.2]	[2,279.2]	Legal reserve for deficiency		9.8	9.0	8.1
<b>Total assets</b>	<b>¥ 45,825.8</b>	<b>¥ 48,135.2</b>	<b>¥ 51,841.9</b>	Voluntary surpluses reserve		290.6	386.7	400.0
				Unappropriated surplus		185.0	281.3	292.6
				<b>Total equity</b>	[1+2+3+4]	<b>1,251.1</b>	<b>1,296.3</b>	<b>1,308.7</b>
				Net unrealized gain on available-for-sale securities, net of tax	5	259.6	2,276.1	4,607.7
				Deferred gain on derivatives under hedge accounting	6	0.0	0.1	0.0
				Land revaluation difference	7	(91.0)	(88.9)	(84.9)
				<b>Total valuations, conversions and others</b>	[5+6+7]	<b>168.6</b>	<b>2,187.3</b>	<b>4,522.8</b>
				<b>Total net assets</b>		<b>1,419.8</b>	<b>3,483.7</b>	<b>5,831.6</b>
				<b>Total liabilities and net assets</b>		<b>¥45,825.8</b>	<b>¥48,135.2</b>	<b>¥51,841.9</b>

Note: [Total separate account assets] consist of the assets in the separate account for individual variable insurance, separate account for individual variable annuities, separate account for group annuities and separate account for defined contribution pensions.

\*Please see page 102 for Non-Consolidated Balance Sheets .

**(A) Investments in Securities**

From the standpoint of paying out dividends to policyholders through the medium- and long-term improvement of revenues and profits, Nippon Life particularly holds domestic bonds, including national government bonds, local government bonds and corporate bonds, all of which present potential for yen-denominated stable return. Also, within the range of allowable risks, Nippon Life invests in domestic stocks, foreign securities and other securities. As of March 31, 2009, total investments in securities amounted to ¥31,334.8 billion.

The number of Japanese corporations whose securities are held in the general account of Nippon Life totaled 2,702 as of March 31, 2009.

**(B) Loans Receivable**

Loans receivable are classified into two major categories. One is policy loans, which comprise policyholder loans and premium loans. The other is industrial and consumer loans, which include international and domestic corporate loans and housing loans. The balance of loans receivable stood at ¥9,133.4 billion as of March 31, 2009.

The number of domestic corporate borrowers to which Nippon Life has extended loans totaled 2,401 as of March 31, 2009. Of these borrowers, 1,410 fall under the category of leading medium-sized, medium-sized and small-sized corporations, accounting for 58.7% of total loans in the general account extended by Nippon Life to domestic corporations. (See p. 160.)

**(C) Tangible Fixed Assets**

Tangible fixed assets include land, buildings, lease assets, construction in progress and movables. As of March 31, 2009, the balance amounted to ¥1,672.0 billion.

The number of buildings held for leasing in Japan by Nippon Life and accounted for in the general account totaled 398 as of March 31, 2009. (See p. 163.)

**(D) Deferred Tax Assets and Liabilities**

In conjunction with the application of tax-effect accounting, these indicate the difference between deferred tax assets (temporary differences and tax losses carried forward expected to be recovered in the future accounting periods) and deferred tax liabilities (temporary differences expected to be assessed in the future accounting periods).

When deferred tax assets exceed deferred tax liabilities, the balance is recorded under assets as deferred tax assets. Conversely, when deferred tax liabilities exceed deferred tax assets, the balance is recorded under liabilities as deferred tax liabilities. As of March 31, 2009, Nippon Life posted ¥926.8 billion in deferred tax assets.

**(E) Total Assets**

Total assets as of March 31, 2009 declined 4.8% year on year to ¥45,825.8 billion, with total general and separate account assets totaling ¥44,454.3 billion and ¥1,371.5 billion, respectively.

**(F) Reserve for Price Fluctuations in Security Investments**

In accordance with the Insurance Business Law, this reserve is provided to cover losses that may be incurred from future decreases in the values of assets, such as stocks, whose value is likely to fluctuate. Factoring in the reversal of ¥115.2 billion, the balance as of March 31, 2009 stood at ¥372.0 billion.

**(G) Foundation Funds (*Kikin*)/ Reserve for Redemption of Foundation Funds**

In accordance with the Insurance Business Law, foundation funds (*kikin*) serve as the financial base for mutual companies while providing a means of financing granted only for mutual companies and corresponding to the capital of joint stock companies. Meanwhile, the said law stipulates that a mutual company shall provide a reserve for redemption of foundation funds in the same amount as the foundation funds (*kikin*) to be redeemed. During the fiscal year under review, Nippon Life redeemed ¥50.0 billion in foundation funds (*kikin*) that it had solicited and newly solicited ¥50.0 billion. As a result, foundation funds (*kikin*) and reserve for redemption of foundation funds amounted to ¥200.0 billion and ¥750.0 billion, respectively.

## ■ Main Items in Statements of Income (Non-Consolidated Basis)

(Unit: Billions of Yen)

Fiscal years ended March 31	2009	2008	2007	
<b>① Total revenues</b>	<b>¥6,605.0</b>	<b>¥6,509.4</b>	<b>¥6,514.0</b>	
Income from insurance and reinsurance premiums	5,036.7	4,890.0	4,854.3	(A)
Investment income	1,247.0	1,352.6	1,409.7	(B)
Interest, dividends and other income	1,148.4	1,234.5	1,156.3	
Gain on sales of securities	88.6	106.9	101.7	
Gain from separate accounts, net	—	—	81.5	
Other revenues	321.2	266.7	250.0	
<b>② Total expenditures</b>	<b>6,485.5</b>	<b>6,197.7</b>	<b>6,183.4</b>	
Insurance claims and other payments	4,036.8	4,212.9	3,831.1	(C)
Provision for policy reserves	173.7	392.2	1,019.1	(D)
Provision for policy reserves	140.5	357.0	964.3	
Investment expenses	1,245.9	555.8	296.3	(E)
Loss on sales of securities	119.5	93.2	102.3	
Loss on valuation of securities	527.9	39.2	11.8	
Loss from separate accounts, net	353.3	265.9	—	
Operating expenses	563.2	552.8	547.5	(F)
Other expenditures	466.0	483.8	489.3	
<b>③ Operating income (= ①-②)</b>	<b>119.2</b>	<b>311.7</b>	<b>330.6</b>	(G)
<b>④ Extraordinary profits</b>	<b>126.0</b>	<b>1.2</b>	<b>46.1</b>	
Gain on disposal of fixed assets	1.0	1.2	38.3	
Reversal of price fluctuations in security investments	115.2	—	—	
Reversal of allowance for doubtful accounts	9.7	—	7.7	
<b>⑤ Extraordinary losses</b>	<b>11.4</b>	<b>32.9</b>	<b>52.4</b>	
Loss on disposal of fixed assets	3.7	7.2	19.8	
Impairment loss	5.9	4.6	5.3	
Provision for reserve for price fluctuations in security investments	—	20.0	26.0	
<b>⑥ Extraordinary profits (losses) (= ④-⑤)</b>	<b>114.6</b>	<b>(31.7)</b>	<b>(6.2)</b>	
<b>⑦ Surplus before income taxes (= ③+⑥)</b>	<b>233.8</b>	<b>280.0</b>	<b>324.3</b>	
Income taxes, current	(1.3)	103.3	141.2	
Income taxes, deferred	53.6	(99.7)	(117.1)	
<b>⑧ Income tax—total</b>	<b>52.3</b>	<b>3.5</b>	<b>24.0</b>	
<b>⑨ Surplus (= ⑦-⑧)</b>	<b>181.5</b>	<b>276.4</b>	<b>300.2</b>	(H)

Note: Aggregate investment income and investment expenses in the separate account are shown in either gain or loss from separate accounts, net.

\*Please see page 104 for Non-Consolidated Statements of Income.

**(A) Income from Insurance and Reinsurance Premiums**

Comprising insurance and reinsurance premiums paid by policyholders, income from insurance and reinsurance premiums for the fiscal year ended March 31, 2009 increased 3.0% year on year to ¥5,036.7 billion.

**(B) Investment Income**

This includes interest, dividends and other income as well as gain on sales of securities. For the fiscal year ended March 31, 2009, investment income totaled ¥1,247.0 billion.

**(C) Insurance Claims and Other Payments**

These consist of payments related to insurance policies, including death and other claims, annuity payments, health and other benefits and surrender benefits. For the fiscal year ended March 31, 2009, Insurance claims and other payments declined 4.2% year on year to ¥4,036.8 billion.

**(D) Provision for Policy Reserves and Others**

In an accounting procedure unique to life insurance companies, at the end of every fiscal year (March 31), Nippon Life reverses all policy reserves and reserve for outstanding claims as of the end of the prior fiscal year and provides all policy reserves and reserve for outstanding claims as necessary as of the beginning of the fiscal year under review. This reserve funding scheme is called the laundering method. The reversal of and provision for such reserves are offset and presented in the statements of income, and the difference between the reversal of and provision for such reserves is accounted for as provision for policy reserves and provision for reserve for outstanding claims when the amounts of provision exceed the amounts of reversal, and as the reversal of policy reserves and the reversal of reserve for outstanding claims when the amounts of reversal exceed the amount of provision. For the fiscal year ended March 31, 2009, provision for policy reserves and others totaled ¥173.7 billion.

**(E) Investment Expenses**

These are expenses required for obtaining investment income, including loss on sales of securities and loss on valuation of securities. For the fiscal year ended March 31, 2009, investment expenses amounted to ¥1,245.9 billion.

**(F) Operating Expenses**

Operating expenses comprise the various necessary expenses incurred in Nippon Life's business and are equivalent to the selling and administrative expenses of a nonfinancial company. For the fiscal year ended March 31, 2009, operating expenses totaled ¥563.2 billion.

**(G) Operating Income**

Nippon Life posted ¥119.2 billion in operating income for the fiscal year ended March 31, 2009.

**(H) Surplus**

This item represents operating income after accounting for extraordinary profits and losses, income taxes and other items. The surplus in the fiscal year ended March 31, 2009 totaled ¥181.5 billion.



## Management Issues and Specific Initiatives

The current financial crisis has impacted the real economy significantly and the future outlook remains uncertain. Nippon Life recognizes such an operating environment as an opportunity for further reinforcing its

### [Strengthening Our Response to Turbulent Environments and Risks]

Amid the current financial and economic instability, financial institutions are increasingly facing various management issues of importance. One of these issues is to secure financial soundness and a strong equity base.

As of March 31, 2008, Nippon Life's foundation funds (*kikin*) and reserves stood at around ¥3.3 trillion. However, as of March 31, 2009, this figure was approximately ¥2.7 trillion, a significant year-on-year decline that reflects the reversal of certain reserves aimed at covering substantial capital losses.

Risks are rapidly increasing for the life insurance businesses, including violent market fluctuations and possible pandemics. Under these

### [Meeting Changes in the Life Insurance Market through Products and Sales Channels]

In the overall life insurance market, the death protection insurance market remains at a certain scale, despite a gradual contraction attributable to a decrease in population and an aging society along with a declining birthrate. On the other hand, the medical and retirement coverage insurance markets are expected to slowly expand. With life insurance growing in importance as a complement to the social insurance system, Nippon Life believes that the overall life insurance market has significant potential for further growth.

With the aim of effectively accommodating wide-ranging customer needs, Nippon Life embraces the principle of providing personal face-to-face consulting services. Based on this principle, Nippon Life has expanded and reinforced its core of sales representatives as well as its new sales channels, including agencies, bank counters and the Nissay Life Plaza customer service counters. We will continue to accelerate these activities.

### [Developing Infrastructure and System for Enhancing Customer Satisfaction]

Nippon Life has been working as one to promote the Customer Service Innovation Project since August 2006 in response to the issues of insufficient payment of insurance claims and benefits. Through this project, Nippon Life has focused on the development of a New Integrated System as part of the next-generation infrastructure that will support the improvement of various customer services and, accordingly, made large-scale capital investments and selectively allocated necessary human resources. The development of the New Integrated System is expected to extend through to the fiscal year ending March 31, 2012. In addition to the construction of the customer database required to achieve comprehensive customer service, Nippon Life is advancing initiatives aimed at improving products, administrative operations and services in a systematic and gradual manner. The new flagship insurance series, *Mirai Support*, is the first product based on the outcome of these initiatives. Looking ahead, Nippon Life will introduce a series of unique service

### [Strengthening Core Operations through Overseas Expansion and Alliances]

Nippon Life is accelerating overseas business expansion and expanding alliances to strengthen its core operations. These activities have allowed Nippon Life to broaden its business foundation for asset management and to capture various new business opportunities.

management structure. Accordingly, Nippon Life is working diligently to reestablish its advantages in every facet of its business operations.

circumstances, Nippon Life is strictly adhering to its principle of fulfilling responsibilities to its customers, thereby quickly recovering and further strengthening its equity base.

In the asset management field, respecting the long-term nature of insurance policies, Nippon Life will continue to stringently select investment assets from the principles of long-term performance and stability. Furthermore, Nippon Life will keep strengthening risk management under severe investment conditions. In this way, we will strive to stabilize and enhance our profitability as well as through the diversification of investment assets and the replacement of investment products.

In addition, reflecting on the issue of insufficient payment in the recent past, Nippon Life has comprehensively reviewed its products and services from a customer standpoint and consequently striven to improve them. Specifically, Nippon Life launched the *Mirai Support* series of new flagship insurance products based on the concept of simple, easy-to-understand insurance with enhanced coverage. Moreover, Nippon Life is expanding its Policy Details Confirmation Activities, in which Nippon Life sales representatives visit each and every policyholder nationwide while reinforcing sales capabilities at worksites.

These activities have been well received by our customers, resulting in an increase in the number of new policies and improved customer satisfaction.

The current financial crisis has significantly impacted the entire life insurance industry. Nevertheless, we at Nippon Life will continue our endeavors, to enhance customer satisfaction, by closely adhering to the aforementioned principles.

schemes that enable it to offer after-sales services in a timely fashion to accommodate needs specific to each stage of the lives of its customers and their family members.

Also, in tackling the issues of insufficient payment of insurance claims and benefits, Nippon Life has fully mobilized and made policy assessments and additional payments. Through these efforts, the entire Company has further instilled the importance of administrative operations and customer services. With the aim of further clarifying these values and accelerating the improvement of customer services, Nippon Life established a Customer Service Headquarters in March 2009.

Through the development of such infrastructure and systems, Nippon Life will work to enhance customer satisfaction while improving productivity in both sales and administrative operations. In step with these initiatives, we will continue to reinforce compliance and reflect customer feedback, including complaints in our management.

We will keep adhering to the policy of steadily expanding business overseas for enhanced profitability. Specifically, by forming more alliances with highly capable business partners worldwide, we will aggressively acquire sophisticated know-how and bolster our human resources.