

# Stable Payout of Dividends

## 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. Specifically, we have either maintained or raised dividends for individual insurance and individual annuities in each of the eight consecutive years from the fiscal year ended March 31, 2004 to the fiscal year ended March 31, 2011, amid challenging conditions such as the financial crisis.

In regards to the dividend for the fiscal year ended March 31, 2012, we have decided to revise certain yields on which the dividends for individual insurance and individual annuities are based, given the uncertain investment outlook such as persistently low interest rates. By further increasing our equity and taking other steps, we aim to pay out dividends on a stable basis.

### 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 in participating insurance, the increase is deemed to be cash to be distributed to policyholders based on policy terms as policyholder dividends.

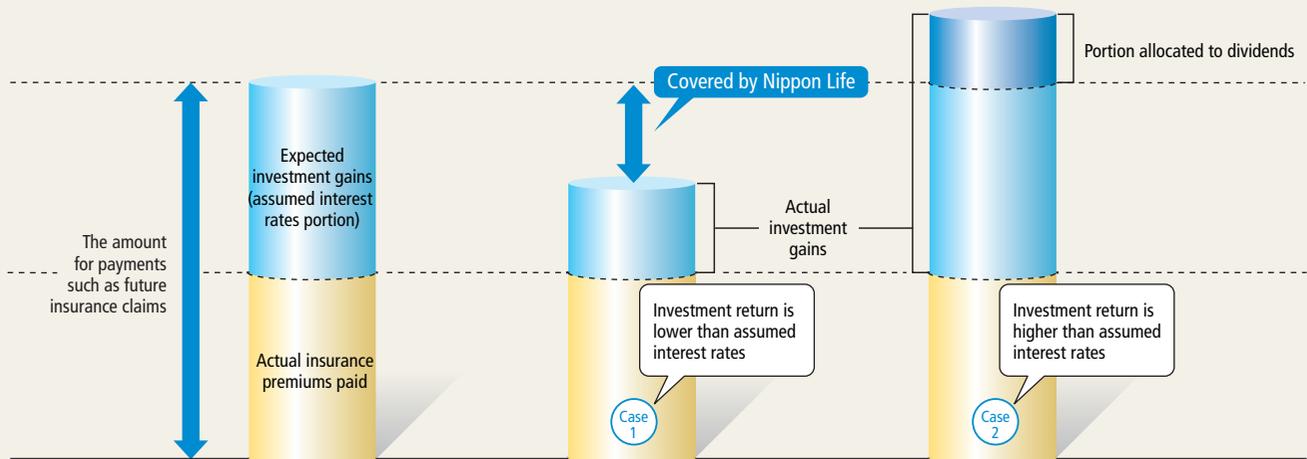
In fact, policyholder dividends could be classified, by nature, as the post-settlement of insurance premiums that were originally calculated based upon assumed rates.

Life insurance contracts can be broadly classified into two categories, namely "participating insurance," where dividend payments are distributed, and "non-participating 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 Transaction Information Notice on page 74, which is sent out each year to every customer.

## Aiming to Maximize Policyholder Interests

Life insurance policies are long-term contracts extending from the initial enrollment to the receipt of claims and benefits or other events. Nippon Life is dedicated to fulfilling its responsibility to provide coverage to policyholders in the future by paying claims and benefits. We take steps to increase policyholder dividends, including continuous efforts to strengthen foundation funds (*kikin*) and reserves (collectively, equity), which is the foundation for future dividends.

Increasing dividends and strengthening equity are medium- and long-term goals of Nippon Life. We conduct business operations while maintaining the proper balance between these two items. With respect

to these goals, we announce our equity replacement ratio and dividend payout ratio. These two figures show policyholders the progress we have made toward achieving our goals of increasing dividends and strengthening equity. In addition, these figures allow policyholders to confirm that we are not placing too much emphasis on dividends or equity.

Nippon Life pays dividends to policyholders in each year while increasing foundation funds (*kikin*) and reserves, which is the foundation for future dividends. By using this approach, we are determined to maximize total policyholder interests today and in the future.

As of March 31, 2012

**Equity Replacement Ratio = 63%**

$$\frac{\text{Foundation Funds (Kikin) and Reserves}}{\text{Optimum Equity}} = \frac{\text{¥2,824.1 billion}}{\text{¥4,500.0 billion}}$$

The equity replacement ratio is the ratio of foundation funds (*kikin*) and reserves to optimum equity. Using the broad interpretation of equity, Nippon Life is increasing its foundation funds (*kikin*) and reserves, which totaled ¥2,824.1 billion on March 31, 2012. This equity gives Nippon Life the sound base of operations needed to pay claims and benefits as stipulated in policies even under unusually difficult operating conditions. Examples of risks include a sharp drop in stock prices,

very low interest rates for many years or a major natural disaster.

For optimum equity, our medium- and long-term goal as of March 31, 2012 is ¥4,500.0 billion based on a rigorous evaluation of business risks. Reaching this goal will give Nippon Life one of the highest equity ratios among the world's life insurance companies. The equity replacement ratio, which was 63% on March 31, 2012, shows our progress toward achieving the optimum equity goal. We plan to continue to increase the equity replacement ratio while maintaining the proper balance with measures to increase dividends to policyholders.

**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, 2012

**Dividend Payout Ratio = 96%**

$$\frac{\text{Reserve for Policyholder Dividends}}{\text{Available Financial Resources}} = \frac{\text{¥167.3 billion}}{\text{¥174.0 billion}}$$

The dividend payout ratio is the ratio of the reserve for policyholder dividends to available financial resources, which is the sum of the reserve for policyholder dividends and the addition to foundation funds

(*kikin*) and reserves. In each fiscal year, we maintain the proper balance between the reserve for policyholder dividends and foundation funds (*kikin*) and reserves.

To achieve this balance, we take steps to make suitable dividend payments to policyholders each year while increasing foundation funds (*kikin*) and reserves, which is the foundation for future dividends. We use this approach to maximize total policyholder interests over the present and future. Our medium- and long-term goal is to maintain a high level of dividend payments, although there are short-term fluctuations in the dividend payout ratio. In the fiscal year ended March 31, 2012, the dividend payout ratio was 96% because we did not increase foundation funds (*kikin*) and reserves.