

### ERM Management

#### ERM

The Nippon Life Group formulates its management strategy based on Enterprise Risk Management (ERM). Under ERM, all risks associated with a company's operations are identified in a comprehensive and systematic manner in order to achieve corporate targets. These risks are managed and controlled by using

#### Formulation of Management Strategies Based on ERM

We define our risk preferences in terms of how much capital we want to hold to support the business and how we want to assume risks to increase returns.

Under our basic policy on risk, we have established our mid-term risk preferences based on the environment surrounding the life insurance industry, highlighted by the historically low interest rates and mid- and long-term demographic changes. In accordance with these risk preferences, we formulate specific strategies that form our management plan.

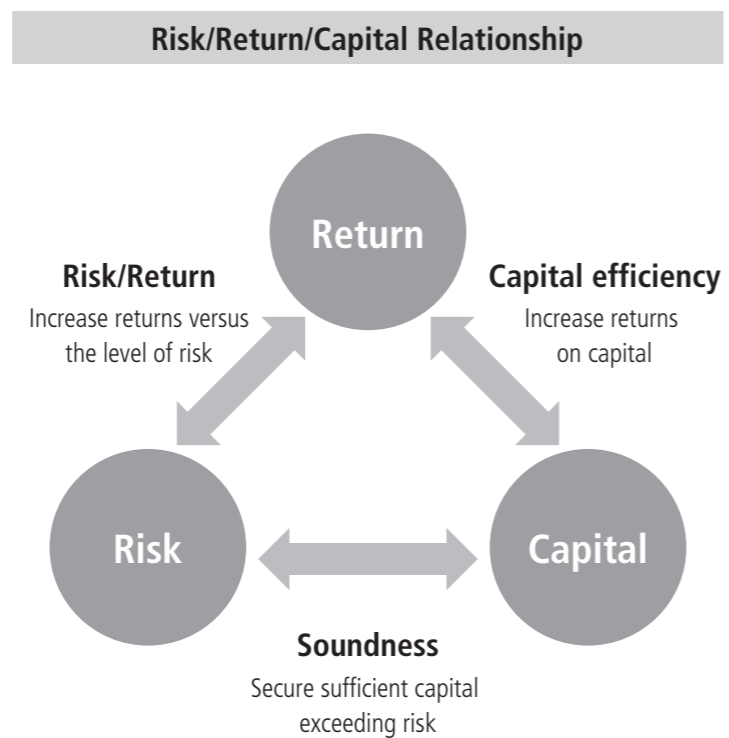
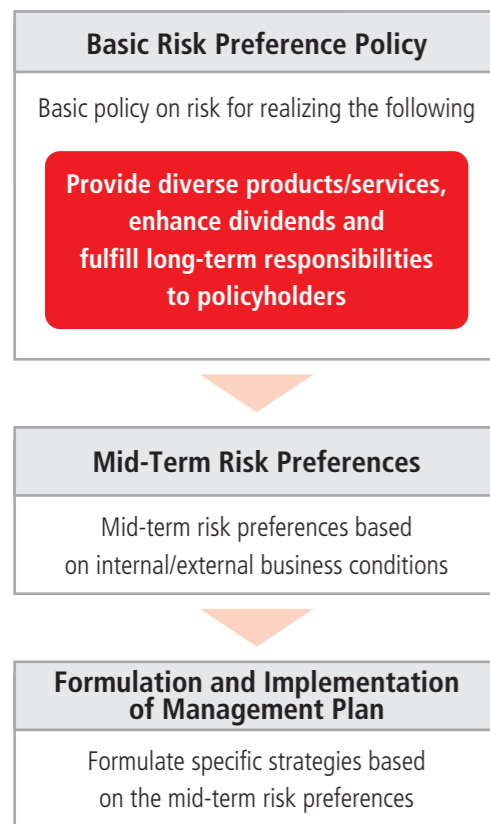
Specifically, our core mid-term risk preferences include:  
 1) Provision of insurance products matching the diverse needs of customers and securing profitability through appropriate pricing;  
 2) Improvement in investment yield over the mid- and long-term

an integrated and strategic approach. The ultimate objectives of ERM are to consistently increase earnings over the long term and ensure financial soundness (for more information about Integrated Risk Management, please refer to p. 111).

horizon while controlling investment risks; 3) Ensuring Group earnings through such means as business investment utilizing capital; and 4) Steady accumulation of capital, including external fundraising proceeds. By executing our plan based on these preferences, we aim to increase capital efficiency and ensure soundness.

With regard to capital efficiency and soundness, we take the economic value based approach into account to make comprehensive management judgements.

By promoting ERM, our goal is to facilitate the supply of a wide range of products and services and to deliver stable dividends to customers, while fulfilling our long-term responsibilities to policyholders.



### Strengthening Equity

#### Transition and Steady Growth of Equity

Equity is the sum of foundation funds (*kikin*) and reserves for redemption of foundation funds (*kikin*)\*<sup>1</sup> and reserve for financial base\*<sup>2</sup>, which are included in net assets on the balance sheets, and the contingency reserve and reserve for price fluctuations in investments in securities plus subordinated bonds, which are included in liabilities on the balance sheets.

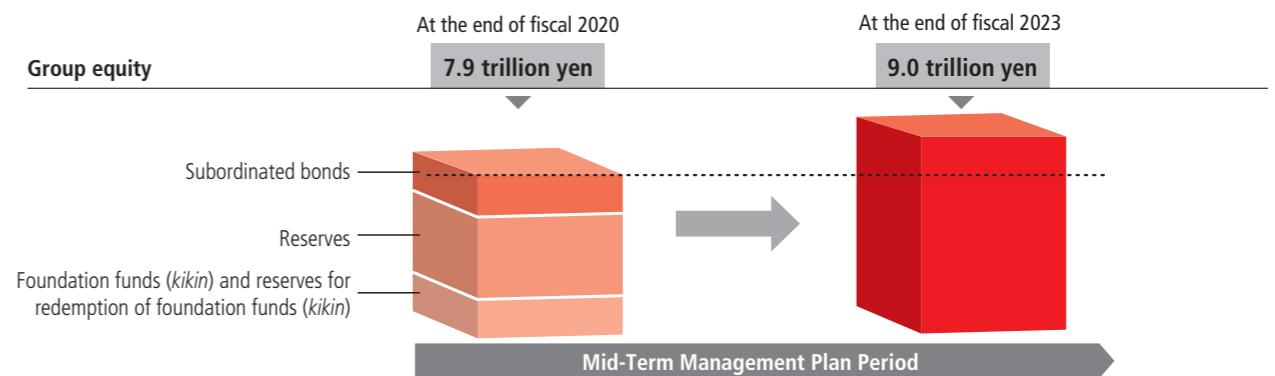
#### Objectives of Strengthening Equity

- Secure the world's top-class financial soundness
- Enhance policyholder interests through investments to achieve further growth
- Fulfill social roles as an institutional investor

To date, we have been working to enhance equity by accumulating reserves using annual earnings and steadily strengthening our foundation funds (*kikin*) and reserves for redemption of foundation funds (*kikin*) by the offering of foundation funds (*kikin*), which are the core capital of a mutual company. In addition, we have been diversifying our funding sources by financing through subordinated debts since fiscal 2012.

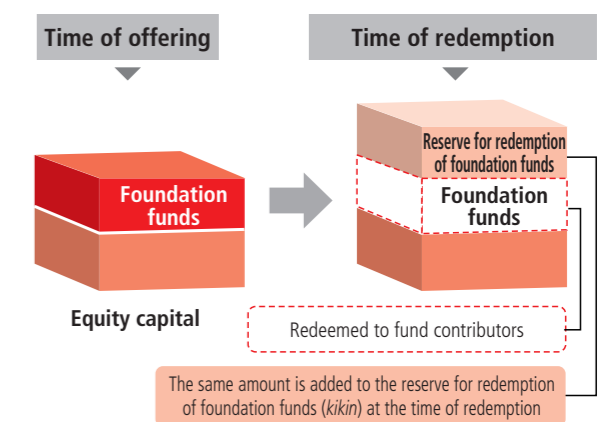
Under the Mid-Term Management Plan, Nippon Life is targeting Group equity of ¥9 trillion at the end of fiscal 2023. We plan to continue strengthening equity to reach this target.

\*1 Referred to as share capital, etc. at subsidiaries and affiliates within the scope of consolidation that are classified as joint-stock companies.  
 \*2 Voluntary reserve funds to provide for the expansion of various risks including increased payments due to large-scale disasters and infectious diseases, sudden market fluctuations and risks associated with new business investments.



#### Foundation Funds (Kikin)

Foundation funds (*kikin*) can be sold by mutual companies as a method of procuring funds permitted under the Insurance Business Act. They function in an analogous way to the equity capital of a joint-stock company. They take a form similar to a loan, with interest payments and redemption set at the time of offering, but repayment of principal and interest in the event of bankruptcy or other such event has a lower priority than repayment of obligations to other general creditors or payment of insurance proceeds to customers. Also, at the time of redemption, reserve for redemption of foundation funds (*kikin*) equal to the amount of the fund (*kikin*) to be redeemed is required to be set aside as retained earnings, thus ensuring that the same amount of equity capital is available.



#### Subordinated Bonds

Subordinated bonds are unsecured debt whose owners can only be repaid in the event that the issuer goes bankrupt after payments to ordinary debt holders, insurance payments to customers and other obligations.

These characteristics make this type of debt similar to equity. As a result, life insurers are allowed to incorporate subordinated debt to some degree in the calculation of their solvency margins.

### Fiscal 2022 Policyholder Dividends Based on Results for Fiscal 2021

Nippon Life aims to maximize profits for policyholders over the long term, and strives to make secure payments of policy claims and benefits along with stable annual policyholder dividends each year.

For the settlement of fiscal year ended March 31, 2022, we increased risk profit dividends with a primary focus on the death

benefit-related products of Mirai no Katachi, based on continual improvements in the national mortality rate. Despite improvement in the yield on the investment balance, the interest margin dividend was left unchanged because the investment environment is expected to remain challenging due to prolonged low interest rates and other factors.

#### Policyholder Dividend Payout Ratio (Fiscal Year Ended March 31, 2022)

The policyholder dividend payout ratio equals the reserve for policyholder dividends (including the equalized reserve for dividends to policyholders) divided by adjusted net surplus (in the case of a reversal, the reversal amount is deductible).

Adjusted net surplus equals net surplus plus any excess of reserves such as contingency reserves, and is surplus which can be practically appropriated after considering laws and regulations, etc.

● Fiscal year ended March 31, 2022

$$\frac{\text{Reserve for policyholder dividends, etc.}}{\text{Adjusted net surplus}} = 54\%$$

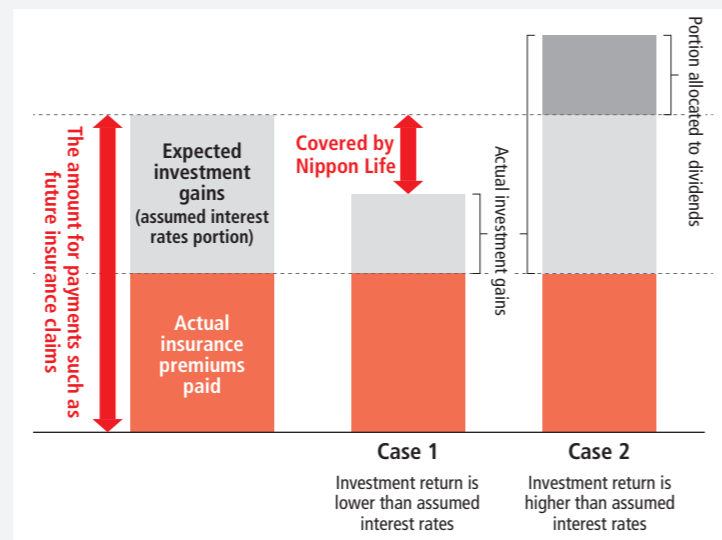
#### Policyholder Dividends in Mutual Companies

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, conditions such as actual investment yields and death rates may differ from expectations due to changes in the economic environment, increasing management efficiency, or other factors. 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. In the event that a surplus is generated by the difference between expected rates and actual conditions in participating insurance, the increase is deemed to be distributable to policyholders (excluding non-participating insurance 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 expected rates.

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 equity, the majority of the surplus is returned to policyholders as participating policyholder dividends.

#### Dividend Framework

The chart on the right 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, Nippon Life guarantees this discount on insurance premiums to stay the same.



Please see the Policy Details Reminder (p. 50), which is sent out each year to every customer, for individual customer dividends.

## Life Insurance Framework

### Life Insurance is "Mutual Aid"

Life insurance is a framework of "mutual aid" in which a large number of people pitch in money little by little, and create a large, common reserve of assets. In the event that something happens to one of their companions, a lump sum from that amount is paid out, and everyone helps each other economically. In other words, mutual aid, in which one person does something for ten thousand people and ten thousand people do something for one person, is the philosophy of life insurance.

There are many kinds of risks in modern life. We never know when something such as illness, injury, or death will happen or to whom. When such risks materialize, significant amounts of money may be required, including for hospital or treatment fees, family living expenses or expenses for child development.

Life insurance amasses a large amount of money to address the various unpredictable risks of life that could become a reality.

Life insurance can also be used as a means of preparing money needed in the future for one's family or themselves.

In this way, life insurance is a framework based on the philosophy of mutual aid, and the life insurance business is a highly public business that supports lifestyles.

#### Life Insurance Framework

