Fundamental Profit

(1) Fundamental Profit

		Years ended March 31, 2008	2009
		(millions of yen)	
Fundamental revenues		4,285,461	4,388,574
Premium and other income		3,098,525	2,904,336
Investment income		840,104	753,027
[Interest and dividends]		832,184	741,330
Other ordinary revenues		346,830	731,210
[Transfer from policy reserves]		19,250	368,842
Fundamental expense		3,830,477	4,027,745
Benefits and claims		2,648,008	2,753,596
Provision for policy reserve and others		13,911	27,138
Investment expenses		288,589	368,876
Operating expenses		443,461	444,015
Other ordinary expenses		436,507	434,117
Fundamental profit	A	454,983	360,829
Capital gains		186,264	425,327
Gains on money held in trust		-	-
Gains on investments in trading securities		-	-
Gains on sale of securities		150,181	382,670
Derivative transaction gains		36,082	41,172
Foreign exchange gains		-	-
Gains on trading account securities		-	1,484
Others		-	-
Capital losses		268,541	1,045,018
Losses on money held in trust		7,534	6,729
Losses on investments in trading securities		-	-
Losses on sale of securities		148,338	504,840
Losses on valuation of securities		31,904	441,948
Derivative transaction losses		-	-
Foreign exchange losses		80,577	91,499
Losses on trading account securities		187	-
Others		-	-
Net capital gains	B	(82,277)	(619,690)
Fundamental profit plus net capital gains	A+B	372,705	(258,861)
Other one-time gains		-	478,018
Reinsurance income		-	-
Reversal of contingency reserve		-	478,018
Others		-	-
Other one-time losses		172,124	110,011
Ceding reinsurance commissions		-	-
Provision for contingency reserve		29,000	-
Provision for specific reserve for possible loan losses		2,273	-
Provision for specific reserve for loans to refinancing countries		-	-
Write-down of loans		683	905
Others		140,167	109,105
Other one-time profits	C	(172,124)	368,007
Net surplus from operations	A+B+C	200,581	109,146

Fundamental Profit (For fiscal year 2008)	¥360.8 billion

Fundamental profit is one indicator that shows profit from the core insurance business during the term under review. Specifically, using insurance premiums collected from policyholders and investment returns, an insurance company secures funds to pay insurance claims and benefits in accordance with the content of insurance contracts, while it accumulates and manages policy reserves for future payments.

Fundamental profit is an indicator used to measure ordinary profitability. Net surplus from operations is obtained by adding capital gains and losses, including gains and losses on the sale of securities and extraordinary gains and losses such as the provision for contingency reserve to fundamental profit.

Fundamental profit for fiscal 2008 fell from the previous fiscal year, to ¥360.8 billion, given declines in interest and dividend income and the amount of policies in force.

The Company will continue its commitment to maintaining and bolstering fundamental profit by strengthening the competitiveness of its core business and investing aggressively in growth markets.

(2) Breakdown of Fundamental Profit (Three Profit Sources)

Fundamental profit is broken down into “negative/positive spread,” “mortality and morbidity gains” and “expense margins,” the so-called three profit sources.

(millions of yen)

Category	FY2007	FY2008	Change
Fundamental profit	454,983	**360,829**	(94,154)
(Negative)/Positive spread	1,131	**(64,862)**	(65,994)
Mortality and morbidity gains	387,323	**382,219**	(5,104)
Expense margins	66,527	**43,472**	(23,055)

(3) Negative Spread

When calculating the amounts of insurance premiums, an insurance company expects a certain level of return from its investments in advance, and discounts insurance premiums by the expected return. This discount rate is called the “assumed rate of return.” For this reason, an insurance company needs to secure the sum equivalent to amounts discounted each year (expected interest) from investment returns and other income.

If actual investment returns and other income are short of total expected interest, the difference is called a negative spread.

The negative spread for fiscal 2008 amounted to ¥64.8 billion, reflecting a lower rate of return of investment on fundamental profit.

Calculation Formula for Negative/Positive Spread Amount

Negative/positive spread amount = (Rate of return of investment on fundamental profit – Average assumed rate of return) × Policy reserves for general account

Note: Values in the above formula are all in the general account

Negative Spread Amount
(For fiscal year 2008)

¥64.8 billion

Negative/Positive Spread

	Years ended March 31, 2008	2009
Average assumed rate of return	3.13%	**2.96%**
Average actual rate of return	3.14%	**2.70%**
(Negative)/Positive spread	0.01%	**(0.26%)**
(Negative)/Positive spread amount (billions)	¥1.1	**(¥64.8)**

Unrealized Gains (Losses) on General Account Assets

Unrealized gains and losses represent differences between the market value of assets held and their book value, and are considered to be substantial capital because they constitute part of the solvency margin total used as a numerator when the solvency margin ratio is calculated. Unrealized gains also act as a buffer against the different types of risks to which Dai-ichi is exposed, and at the same time leave more room for risk taking in investments, and so make a substantial contribution to stronger profitability.

Unrealized gains for Dai-ichi as of March 31, 2009 on securities fell ¥1,492.7 billion from the end of the previous fiscal year, to ¥156.5 billion, reflecting poor stock market conditions against the backdrop of financial uncertainty and the appreciation of the yen. Unrealized gains on real estate (land, etc.) decreased ¥42.2 billion, to ¥161.2 billion. As a result, total unrealized gains on overall general account assets declined ¥1,534.8 billion, to ¥319.2 billion.

Total Net Unrealized Gains (Losses) on General Account Assets

	As of March 31,	
	2008	**2009**
	(millions of yen)	
Securities	1,649,343	**156,580**
Domestic bonds	377,464	**403,874**
Domestic stocks	1,287,706	**(96,794)**
Foreign securities	(5,643)	**(137,022)**
Foreign bonds	(6,148)	**(51,194)**
Foreign stocks and other securities	504	**(85,828)**
Other securities	(10,183)	**(13,476)**
Real estate	203,408	**161,203**
Total (including others not listed above)	1,854,059	**319,242**

Note:
1. Foreign exchange valuation gains (losses) only are taken into account for foreign securities without fair value.
2. Difference between the book value before revaluation and fair value is reported as unrealized gains (losses) of real estate.

Unrealized Gains on General Account Assets (At the end of fiscal year 2008)	**¥319.2 billion**

Adjusted Net Assets

Adjusted net assets are derived by subtracting non-capital real liabilities from real assets at fair market value. In other words, they refer to real net worth after market price-based valuation, and serve as one of the indicators used by the supervising administrative agency to ascertain the financial health of insurance companies.

Real assets represent assets reported in the balance sheet plus unrealized gains/losses and other off-balance-sheet assets. Real liabilities are calculated by deducting various reserves and allowances from on-balance-sheet liabilities.

Adjusted net assets as at the end of fiscal year 2008 declined from the previous fiscal year, to ¥2,703.7 billion, as a result of (1) a fall in unrealized gains on securities in association with declining stock prices and the appreciation of the yen and (2) reversals of the contingency reserve and the reserve for price fluctuations.

Adjusted Net Assets (At the end of fiscal year 2008)	**¥2,703.7 billion**

Solvency Margin Ratio

The solvency margin ratio is one of the indicators used by the supervising administrative agency to ascertain the extent to which an insurance company can meet payments in the event risks exceed a level greater than normally anticipated.

Specifically, to the extent diverse risks, such as those involved in the payment for insurance claims and other benefits, as well as investment risks, exceed a level greater than normally anticipated, the ratio expresses by index the extent to which the total amount arising from such risks (risk total) can be covered by the total of capital and other internal reserves as well as by unrealized gains from securities and other assets (solvency margin total). The solvency margin ratio is obtained by dividing the solvency margin total by the risk total, and a ratio exceeding 200% is one indication of an insurance company's meeting the standard for general financial stability.

The solvency margin ratio as at the end of fiscal year 2008 declined from the end of previous fiscal year, to 768.1%, as a result of (1) a fall in unrealized gains on securities in association with declining stock prices and the appreciation of the yen and (2) reversals of the contingency reserve and the reserve for price fluctuations.

Dai-ichi views the solvency margin ratio as one of the most important indicators for giving customers a sense of security in Dai-ichi. The Company continues its efforts to maintain more than enough ability to meet payments of insurance claims.

Solvency Margin Ratio (At the end of fiscal year 2008)	**768.1%**

Dai-ichi's Capital Policy

(1) Dai-ichi's Capital Policy

Dai-ichi thoroughly understands that building a strong capital base is important for it to remain a company trusted by customers. To this end, Dai-ichi has made efforts to secure periodic profits and increase retained earnings, including reserve for price fluctuations and contingency reserve, in addition to its initiatives to complement its core capital through raising additional foundation funds, which is equivalent to paid-in capital for a joint-stock company, and subordinated debt, supplementary capital that is allowed to be incorporated into an insurance company's capital.

As a result, Dai-ichi's capital at the end of fiscal year 2007 had exceeded ¥2 trillion based on its standards. However, given the deterioration in the market environment, it declined to ¥1,652.4 billion at the end of fiscal 2008. To bolster and reinforce our capital base, we have been taking initiatives such as raising syndicated subordinated loans (¥183 billion) in March 2009, along with a number of other risk reduction measures.

In light of the plan for the demutualization and public listing, we will (1) control our exposure to risk assets, (2) review our business structure, (3) invest capital in growth markets, and (4) leverage mezzanine financing such as hybrid securities, while maintaining a capital base adequate to deal with risks and monitoring capital efficiency.

Capital

	As of March 31,		
Category	2007	2008	**2009**
		(billions of yen)	
Items reported in net assets (capital) section of the balance sheets	569.2	598.6	**661.3**
Total foundation funds	420.0	420.0	**420.0**
Items reported in liabilities section of the balance sheets	1,378.8	1,414.2	**991.0**
Contingency reserve	958.1	987.1	**509.0**
Reserve for price fluctuations	207.4	221.4	**101.4**
Total	1,948.1	2,012.8	**1,652.4**

Note: Total foundation funds include accumulated redeemed foundation funds.

Capital (At the end of fiscal year 2008)	**¥1,652.4 billion**

(2) Foundation Funds

Foundation funds are a fund raising system permitted only for mutual companies under the Insurance Business Law, and correspond to the capital stock of joint-stock companies. Insurance companies pay interest and redeem (repay) principal in accordance with an agreement entered into with a fund contributor. At the time of redemption (repayment), however, insurance companies will be required to provide for an account called "accumulated redeemed foundation funds" as an internal reserve, the amount of which should be the same as the amount of redemption.

Foundation funds (including a reserve for the redemption of foundation funds) amounted to ¥420.0 billion in total as of March 31, 2009.

In light of the demutualization scheduled to be undertaken in April 2010, the Company will redeem all foundation funds by the date of the demutualization in accordance with the Insurance Business Law.

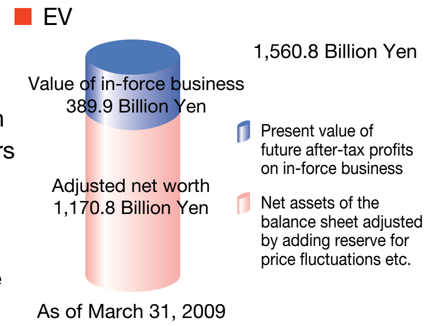
Embedded Value

Embedded Value (EV) is the sum of "adjusted net worth" (Note 1), which is calculated based on the balance sheet, and "value of in-force business" (Note 2), which is calculated based on in-force business. EV is an indicator that represents the corporate value of a life insurance company.

Under current statutory accounting practices applicable to life insurance companies in Japan, there is a time lag between the sale of policies and recognition of profits. The use of EV allows the contribution of future profit from new business to be recognized at the time of sale. It therefore serves as a valuable supplement to statutory financial information.

EV as of March 31, 2009 fell from the end of the previous fiscal year, to ¥1,560.8 billion as a result of a decline in unrealized gains on securities in association with falling stock prices, among other factors (for details, please refer to page 98).

Dai-ichi requested Towers Perrin, an independent actuarial firm with actuarial expertise, to review assumptions and calculation methods. The opinion obtained is posted on the Company's website (http://www.dai-ichi-life.co.jp/).



Embedded Value (At the end of fiscal year 2008)	**¥1,560.8 billion**

Note:
1. Adjusted net worth = Total net assets (excluding foundation funds, valuation and translation adjustments, and expected disbursements from capital outside the company) + certain reserves in liabilities (reserve for price fluctuations, contingency reserve, and unallotted portion of reserve for policyholder dividends) (after-tax) + general reserve for possible loan losses (after-tax) + net unrealized gains (losses) on securities (after-tax, including derivative transactions) + net unrealized gains (losses) on real estate (after-tax) + net unrealized gains (losses) on loans (after-tax) – unfunded benefit obligations for employees' retirement benefits (after-tax).
2. Value of in-force business = Present value of future after-tax profits on in-force business – present value of cost of capital
   Cost of capital is the spread the investment yield and the discount rate applied to the amounts of capital and surplus that will be required to maintain the assumed solvency margin ratio. Although Dai-ichi Life is currently a mutual company, it recognizes the cost of capital in a manner similar to that of stock companies, based on the determination of the plan on demutualization.

The calculation of EV involves certain assumptions regarding future projections that are subject to risks and uncertainties. Actual future results might materially differ from the assumptions used in the EV calculations. Moreover, changes of assumptions might cause significant changes in future results. We therefore ask that full care is exercised when using or analyzing EV figures.

Ratings

Ratings are given and published by independent third-party agencies primarily as their opinions about the financial soundness of businesses. Ratings are usually expressed in symbols for ease of understanding. There are two types of ratings: those published by rating agencies at the request of the subject company and those published by rating agencies as their independent opinions irrespective of whether they are requested or not.

Ratings for life insurance companies usually represent the degree of certainty with which insurance claims, annuities, etc. are paid in accordance with the contracts involved.

Dai-ichi views credit ratings as one of the factors for objectively determining the soundness of a company's finances and other results of management.

It obtains ratings for the capability to pay insurance claims from Rating and Investment Information, Inc. and Japan Credit Rating Agency, Ltd. and those for the insurer's financial strength from Standard & Poor's and Fitch Ratings.

At the end of June 2009, Rating and Investment Information rated Dai-ichi at A+ (single A plus), and Japan Credit Rating Agency gave Dai-ichi a high rating of AA- (double A minus), Standard & Poor's gave Dai-ichi rating of A (single A), and Fitch Ratings rated Dai-ichi at A- (single A minus).

We will strive to maintain and improve ratings by securing and improving the capital base adequate to deal with existing risks.

Ratings

As of July 2009

Rating and Investment Information	**A+**	Rating on Insurance Claims Paying Ability
Japan Credit Rating Agency	**AA-**	Rating on Ability to Pay Insurance Claims
Standard & Poor's	**A**	Insurer Financial Strength Rating
Fitch Ratings	**A-**	Insurer Financial Strength Rating