Financial Soundness

Fundamental Profit

(1) Fundamental Profit

		Years ended March 31, 2009	2010
		(millions of yen)	
Fundamental revenues		4,388,574	4,084,372
Premium and other income		2,904,336	2,837,251
Investment income		753,027	906,291
[Interest and dividends]		741,330	708,082
Other ordinary revenues		731,210	340,828
[Transfer from policy reserves]		368,842	-
Fundamental expense		4,027,745	3,754,220
Benefits and claims		2,753,596	2,610,535
Provision for policy reserve and others		27,138	212,853
Investment expenses		368,876	61,755
Operating expenses		444,015	438,729
Other ordinary expenses		434,117	430,345
Fundamental profit	A	360,829	330,152
Capital gains		425,327	247,188
Gains on money held in trust		-	3,295
Gains on sale of securities		382,670	242,556
Derivative transaction gains		41,172	-
Gains on trading account securities		1,484	1,336
Capital losses		1,045,018	253,697
Losses on money held in trust		6,729	-
Losses on sale of securities		504,840	207,894
Losses on valuation of securities		441,948	10,502
Derivative transaction losses		-	16,772
Foreign exchange losses		91,499	18,528
Net capital gains	B	(619,690)	(6,509)
Fundamental profit plus net capital gains	A+B	(258,861)	323,642
Other one-time gains		478,018	-
Reversal of contingency reserve		478,018	-
Other one-time losses		110,011	130,022
Provision for contingency reserve		-	18,000
Provision for specific reserve for possible loan losses		-	12,916
Write-down of loans		905	573
Others		109,105	98,532
Other one-time profits	C	368,007	(130,022)
Net surplus from operations	A+B+C	109,146	193,620

For fiscal year 2009: ¥330.1 billion

(For fiscal year 2008: ¥360.8 billion)

(For fiscal year 2007: ¥454.9 billion)

Fundamental profit is one of the indicators that shows profit from the core insurance business during the term under review. It is net profit from our core business. Namely, we collect insurance premiums from policyholders and gain investment returns, to pay insurance claims and benefits in accordance with the content of insurance policies from those premiums and returns, while accumulating policy reserves for future payments and managing them.

Fundamental profit is an indicator used to measure ordinary profitability. Net surplus from operations is obtained by adding capital gains and losses which include 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 2009 fell from the previous fiscal year, to ¥330.1 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)

(billions of yen)

Category	FY2007	FY2008	**FY2009**
Fundamental profit (i)	454.9	360.8	**330.1**
(Negative)/Positive spread	1.1	(64.8)	**(82.8)**
Mortality and morbidity gains	387.3	382.2	**373.9**
Expense margins	66.5	43.4	**39.0**
Capital gains/losses (ii)	(82.2)	(619.6)	**(6.5)**
Other one-time gains/losses (iii)	(1,72.1)	368.0	**(130.0)**
Net surplus from operations (iv) (i + ii + iii)	200.5	109.1	**193.6**
Extraordinary gains/losses (v)	(28.7)	110.5	**(116.1)**
Reversal (provision) for reserve for price fluctuations	(14.0)	120.0	**(14.0)**
Provision for allowance for policyholder dividends (vi)	–	–	**(92.5)**
Corporate income taxes (vii)	(28.4)	(85.9)	**(13.2)**
Unappropriated net surplus for the year (viii) (iv + v + vii)	143.3	133.7	**64.1**
(Provision for reserve for policyholder dividends) (ix)	(89.2)	(64.9)	**(–)**

Notes:
1. The surplus of a life insurance company is unappropriated net surplus for the year (viii). Fundamental profit (i) and three profit sources, which constitute the fundamental profit, are parts of unappropriated net surplus. It is necessary to consider all items from fundamental profit to unappropriated net surplus for the year.
2. The allowance for policyholder dividends (vi) was provided as the source of policyholder dividends in fiscal 2009. Until fiscal 2008 policyholder dividends had been paid from unappropriated net surplus for the year (ix).
3. Negative spread is the difference between the assumed investment return from investments (assumed interest rate) and the actual investment return.
4. Mortality and morbidity gains are the difference between the assumed payments of insurance claims and benefits (assumed mortality and morbidity rate) and the actual payments.
5. Expense margins are the difference between the assumed operating expenses (assumed operating expense ratio) and actual operating expenses.

(3) Negative Spread

For fiscal year 2009: **¥82.8 billion**

(Negative spread in fiscal 2008: ¥64.8 billion)

(Positive spread in fiscal 2007: ¥1.1 billion)

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

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

The negative spread for fiscal 2009 amounted to ¥82.8 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 investment return on fundamental profit – Average assumed rate of investment return) × Policy reserves for general account

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

Negative/Positive Spread

	Years ended March 31,	
	2009	**2010**
Average assumed rate of (interest) return	2.96%	**2.89%**
Average actual rate of (investment) return	2.70%	**2.56%**
(Negative)/Positive spread	(0.26%)	**(0.33%)**
(Negative)/Positive spread amount (billions)	(¥64.8)	**(¥82.8)**

Unrealized Gains (Losses) on General Account Assets

At the end of fiscal year 2009: **¥942.0 billion**

(At the end of fiscal year 2008: ¥319.2 billion)

(At the end of fiscal year 2007: ¥1,854.0 billion)

Unrealized Gains and Losses

Unrealized gains and losses represent differences between the market value of assets (securities, real estate, etc.) 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, 2010 on securities rose ¥694.8 billion from the end of the previous fiscal year, to ¥851.4 billion, reflecting stable stock markets under a recovery trend in the investment environment. Unrealized gains on real estate (land etc.) fell ¥70.3 billion, to ¥90.8 billion. As a result, total unrealized gains on overall general account assets increased ¥622.7 billion, to ¥942.0 billion.

Total Net Unrealized Gains (Losses) on General Account Assets

	As of March 31,	
	2009	2010
	(billions of yen)	
Securities	156.5	**851.4**
Domestic bonds	403.8	**265.7**
Domestic stocks	(96.7)	**522.5**
Foreign securities (Note 1)	(137.0)	**59.8**
Foreign bonds	(51.1)	**79.0**
Foreign stocks and other securities	(85.8)	**(19.2)**
Other securities	(13.4)	**(0.9)**
Others (Note 2)	0	**4.2**
Real estate (land and others) (Note 3)	161.2	**90.8**
Total (including others not listed above) (Note 4)	319.2	**942.0**

Notes:
1. Foreign exchange valuation gains (losses) only are taken into account for foreign securities whose fair values are considered very difficult to estimate.
2. “Others” includes assets that are considered appropriate to be treated as securities, as defined in the Financial Instruments and Exchange Law.
3. Difference between the book value before revaluation and fair value is reported as unrealized gains (losses) of land.
4. Unrealized gains (losses) on loans and buildings are not recorded.

Adjusted Net Assets

At the end of fiscal year 2009: ¥3,321.6 billion

(At the end of fiscal year 2008: ¥2,703.7 billion)

(At the end of fiscal year 2007: ¥4,662.1 billion)

If adjusted net assets fall into negative territory, the Company could be told to suspend operations by the supervisory authorities.

Adjusted Net Assets

Adjusted net assets are derived by subtracting non-capital adjusted liabilities from adjusted 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 soundness of insurance companies.

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

Adjusted net assets as at the end of fiscal 2009 rose from the previous fiscal year, to ¥3,321.6 billion, principally because of an increase in unrealized gains on securities.

Solvency Margin Ratio

At the end of fiscal year 2009: 953.5%

(At the end of fiscal year 2008: 768.1%)

(At the end of fiscal year 2007: 1,010.6%)

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, the ratio is the index that shows how diverse risks are covered by the total of capital and other internal reserves, as well as by unrealized gains from securities and other assets (solvency margin total), when exposed to risks greater than normally anticipated. The diverse risks may include those involved in the payment for insurance claims and other benefits, investment risks. 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 2009 increased from the end of the previous fiscal year, to 953.5%, primarily reflecting a rise in unrealized gains on securities.

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 enough ability to meet payments of insurance claims.

Embedded Value

Embedded value of Dai-ichi Life Group

At the end of fiscal year 2009: ¥2,836.3 billion

(At the end of fiscal year 2008: ¥1,758.4 billion)

(At the end of fiscal year 2007: ¥3,648.8 billion)

Embedded value of Dai-ichi Life (non-consolidated): ¥2,868.0 billion

(At the end of fiscal year 2008: ¥1,795.9 billion)

(At the end of fiscal year 2007: ¥3,654.4 billion)

For the details of embedded value, please refer to pages 125 and 126.

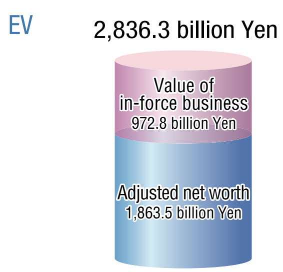
Embedded Value

The Dai-ichi Life Group discloses its embedded value (EV) as an indicator of its corporate value in the market, aiming to improve its EV.

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. Most expenses, such as sales commissions, are incurred in the initial period of each policy. On the other hand, life insurance policy periods are very long (20 years, 30 years, etc.), and revenues are generated over long periods. Since the EV principles allow life insurers to recognize discounted future profits from already-acquired policies in force at the time of sale, it is considered to complement financial data based on statutory accounting practices.

EV is widely used in overseas markets, especially in Europe, as a criterion for the valuation of the stock prices of life insurance companies. To facilitate investor understanding of Dai-ichi Life, the Dai-ichi Life Group has been disclosing EV (EEV) in accordance with the European Embedded Value (EEV) Principles since the end of FY2007. EV at the end of FY2009 increased from the end of the previous fiscal year, to ¥2,836.3 billion.

EV is the sum of adjusted net worth, which is calculated primarily from the balance sheet, and the value of in-force business, which is calculated based on in-force policies.



As of March 31, 2010

EEV of the Dai-ichi Life Group

	As of March 31, 2009	As of March 31, 2010
	(billions of yen)	
EEV	1,758.4	**2,836.3**
Adjusted net worth	1,296.6	**1,863.5**
Value of in-force business	461.8	**972.8**
Value of new business	83.5	**118.9**

Notes:

1. The Group EEV is calculated as follows: Dai-ichi Life's EEV plus DFL's EEV attributable to Dai-ichi Life's equity stake in DFL less Dai-ichi Life's carrying amount of equity of DFL.
2. Dai-ichi Life held 93.9% and 90.0% of the shares of DFL as of March 31, 2009 and as of March 31, 2010, respectively.
3. Dai-ichi Life's carrying amount of DFL's equity was ¥151.9 billion as of March 31, 2009 and ¥163.4 billion as of March 31, 2010.

EEV of Dai-ich Life (non-consolidated)

	As of March 31, 2009	As of March 31, 2010
	(billions of yen)	
EEV	1,795.9	**2,868.0**
Adjusted net worth	1,345.8	**1,880.9**
Value of in-force business	450.0	**987.1**
Value of new business	102.1	**135.6**

● **Adjusted net worth**

Adjusted net worth is accumulation of realized profits and is the sum of net assets on the balance sheet, certain reserves in liabilities, and unrealized gains and losses on assets not required to be marked to market under the Japanese GAAP among other factors.

● **Value of in-force business**

The value of in-force business is the present value as of the closing date of future after-tax profits occurring from already-acquired policies in force in each fiscal year (Future profits on not-yet acquired policies are not included.)

● **Value of new business**

The value of new business is the value at the time of sale, after all acquisition-related costs, of new policies (including net increase by conversion) obtained during the reporting period (FY2009)

The Dai-ichi Life Group requested a third party (actuarial firm) with expertise in actuarial calculation to review the assumptions and calculation method and obtained a written opinion. For information on the written opinion, please refer to the news release posted on the Company's website (http://www.dai-ichi-life.co.jp/english/investor/ir/financial/results/2010/pdf/index_009.pdf).

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

As of July 2010		
Rating and Investment Information	**A+**	Rating on Insurance Claims Paying Ability
Japan Credit Rating Agency	**A+**	Rating on Ability to Pay Insurance Claims
Standard & Poor's	**A**	Insurer Financial Strength Rating
Fitch Ratings	**A-**	Insurer Financial Strength Rating

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 policies 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 2010, Rating and Investment Information rated Dai-ichi at A+ , and Japan Credit Rating Agency gave Dai-ichi a high rating of A+, Standard & Poor's gave Dai-ichi rating of A, and Fitch Ratings rated Dai-ichi at A-.

Enhancing Financial Soundness

Dai-ichi's Capital Policy

Dai-ichi understands that building a strong capital base is important if it is to retain the trust of its customers. To this end, Dai-ichi has sought to secure periodic profits and increase its reserve for price fluctuations, contingency reserve, and internal reserves in net assets. The Company has also complemented its core capital through subordinated debt, supplementary capital that is allowed to be incorporated into an insurance company's capital.

Based on regulatory trends, Dai-ichi will continue to maintain a capital base adequate to deal with risks. Specifically, we will increase internal reserves and will mitigate risks primarily by controlling risk assets, while looking at raising supplementary capital.

Foundation Funds

Foundation funds are a fund raising system permitted only for mutual companies under the Insurance Business Act, and correspond to the capital stock of joint-stock companies. With demutualization, Dai-ichi redeemed all foundation funds, and as a result, none remained as of March 31, 2010. At the time of redemption (repayment), insurance companies are 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. Accumulated redeemed foundation funds of ¥420.0 billion were posted in net assets as of March 31, 2010. With demutualization in April 2010, the accumulated redeemed foundation funds were transferred to capital stock and legal capital surplus.