Financial Soundness

FINANCIAL SOUNDNESS

Fundamental Profit

(1) Fundamental Profit

		Years ended March 31, 2010	2011
		(millions of yen)	
Fundamental revenues		4,084,372	**4,086,378**
Premium and other income		2,837,251	**3,056,555**
Investment income		906,291	**700,598**
[Interest and dividends]		708,082	**698,159**
Other ordinary revenues		340,828	**329,224**
Fundamental expense		3,754,220	**3,810,457**
Benefits and claims		2,610,535	**2,625,013**
Provision for policy reserve and others		212,853	**233,881**
Investment expenses		61,755	**99,186**
Operating expenses		438,729	**424,686**
Other ordinary expenses		430,345	**427,688**
Fundamental profit	A	330,152	**275,921**
Capital gains		247,188	**222,087**
Gains on money held in trust		3,295	**–**
Gains on sale of securities		242,556	**212,245**
Derivative transaction gains		–	**9,842**
Gains on trading account securities		1,336	**–**
Capital losses		253,697	**329,996**
Losses on money held in trust		–	**1,051**
Losses on investments in trading securities		–	**–**
Losses on sale of securities		207,894	**120,905**
Losses on valuation of securities		10,502	**179,621**
Derivative transaction losses		16,772	**–**
Foreign exchange losses		18,528	**28,417**
Net capital gains	B	(6,509)	**(107,908)**
Fundamental profit plus net capital gains	A+B	323,642	**168,012**
Other one-time gains		–	**25,000**
Reversal of contingency reserve		–	**25,000**
Other one-time losses		130,022	**114,110**
Provision for contingency reserve		18,000	**–**
Provision for specific reserve for possible loan losses		12,916	**–**
Write-down of loans		573	**410**
Others		98,532	**113,699**
Other one-time profits	C	(130,022)	**(89,110)**
Net surplus from operations	A+B+C	193,620	**78,902**

For fiscal year 2010: ¥275.9 billion

(For fiscal year 2009: ¥330.1 billion)

(For fiscal year 2008: ¥360.8 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 2010 declined from the previous fiscal year, to ¥275.9 billion, primarily attributable to the accumulation of policy reserves to prepare for the payment of claims and benefits associated with the Great East Japan Earthquake, as well as falls in interest and dividend income.

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)

	FY2009	FY2010
Fundamental profit (i)	330.1	**275.9**
(Negative)/Positive spread	(82.8)	**(90.3)**
Effect of changes in policy reserves related to minimum guarantee	3.7	**(0.2)**
Insurance-related gains/losses	409.2	**366.5**
Mortality and morbidity gains	373.9	**348.0**
Capital gains/losses (ii)	(6.5)	**(107.9)**
Other one-time gains/losses (iii)	(130.0)	**(89.1)**
Net surplus from operations (iv) (= i + ii + iii)	193.6	**78.9**
Extraordinary gains/losses (v)	(116.1)	**28.2**
Provision for allowance for policyholder dividends (vi)	(92.5)	**–**
Provision for reserve for policyholder dividends (vii)	–	**(78.5)**
Corporate income taxes (viii)	(16.6)	**(11.7)**
Net income (ix) (= iv + v + vii + viii)	60.8	**16.9**

Notes:

1. The surplus of a life insurance company is unappropriated net surplus for the year (ix). 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.
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 2010: ¥90.3 billion

(Negative spread in fiscal 2009: ¥82.8 billion)

(Negative spread in fiscal 2008: ¥64.8 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 2010 amounted to ¥90.3 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, 2010	2011
Average assumed rate of (interest) return	2.89%	**2.81%**
Average actual rate of (investment) return	2.56%	**2.46%**
(Negative)/Positive spread	(0.33%)	**(0.35%)**
(Negative)/Positive spread amount (billions)	(¥82.8)	**(¥90.3)**

(4) Accumulation of Policy Reserves

Policy reserves are mandatory reserves the accumulation of which is required by law in preparation for the future payment of claims, annuities, and benefits. The accumulation level of policy reserves is determined by the accumulation method and actuarial assumptions. The Insurance Business Act that came into force in April 1996 introduced the standard policy reserve rules, in which the accumulation method and actuarial assumptions for policy reserves were set forth by the supervisory authorities.

Dai-ichi accumulates statutory reserves based on the criteria stipulated by the Insurance Business Act, etc. and adopts the most conservative method among those required by law. Effective FY2007, Dai-ichi also accumulates additional policy reserves for whole life insurance policies with a high assumed rate of return after the completion of premium payment to improve the future negative spread and thus its financial soundness.

The details of customers’ policies will not change with the accumulation of additional policy reserves by Dai-ichi.

Unrealized Gains (Losses) on General Account Assets

At the end of fiscal year 2010: ¥639.2 billion

(At the end of fiscal year 2009: ¥942.0 billion)

(At the end of fiscal year 2008: ¥319.2 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.

With respect to unrealized gains and losses as of March 31, 2011, unrealized gains on securities declined by ¥237.3 billion from the end of the previous fiscal year, to ¥614.1 billion, reflecting stock market weakness and the effect of the stronger yen, despite a fall in interest rates. Unrealized gains on real estate (land etc.) decreased by ¥70.3 billion, to ¥20.5 billion. As a result, total unrealized gains on all general account assets declined by ¥302.8 billion, to ¥639.2 billion.

Total Net Unrealized Gains (Losses) on General Account Assets

	As of March 31,	
	2010	**2011**
	(millions of yen)	
Securities	851,450	**614,120**
Domestic bonds	265,770	**383,862**
Domestic stocks	522,575	**305,672**
Foreign securities (Note 1)	59,843	**(80,496)**
Foreign bonds	79,056	**(65,501)**
Foreign stocks and other securities	(19,213)	**(14,995)**
Other securities	(966)	**(5,025)**
Others (Note 2)	4,227	**10,108**
Real estate (land and others) (Note 3)	90,879	**20,526**
Total (including others not listed above) (Note 4)	942,030	**639,200**

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 2010: ¥3,066.8 billion

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

(At the end of fiscal year 2008: ¥2,703.7 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 2010 declined from the end of the previous fiscal year, to ¥3,066.8 billion, principally because of a decrease in unrealized gains on securities associated with falling share prices and the appreciation of the yen.

Solvency Margin Ratio

At the end of fiscal year 2010: 983.9%

(At the end of fiscal year 2009: 953.5%)

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

[Solvency margin ratio under the new standards: 547.7%]

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 claims and other benefits and 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 2010 rose from the end of the previous fiscal year, to 983.9%, thanks to our efforts to reduce risks, among other factors. Some of the criteria for calculating the solvency margin ratio are due to be changed at the end of fiscal 2011 (a stricter calculation of solvency margin and the stricter and more refined measurement of risks). As a result of calculations under the new standards, the solvency margin ratio at the end of fiscal 2010 stood at 547.7%.

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 2010: ¥2,440.3 billion

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

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

Embedded value of Dai-ichi Life (non-consolidated): ¥2,479.6 billion

(At the end of fiscal year 2009: ¥2,868.0 billion)

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

For the details of embedded value, please refer to pages 141.

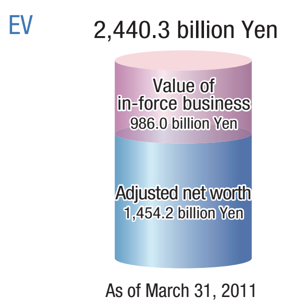
Embedded Value

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 in accordance with the European Embedded Value (EEV) Principles since the end of FY2007. EEV at the end of FY2010 decreased from the end of the previous fiscal year, to ¥2,440.3 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.



EEV of the Dai-ichi Life Group

	As of March 31,	
	2010	**2011**
	(billions of yen)	
EEV	2,836.3	**2,440.3**
Adjusted net worth	1,863.5	**1,454.2**
Value of in-force business	972.8	**986.0**
Value of new business	118.9	**158.1**

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 90.0% of the shares of DFL as of March 31, 2010 and as of March 31, 2011.
3. Dai-ichi Life's carrying amount of DFL's equity was ¥163.4 billion as of March 31, 2010 and as of March 31, 2011.

EEV of Dai-ich Life (non-consolidated)

	As of March 31,	
	2010	**2011**
	(billions of yen)	
EEV	2,868.0	**2,479.6**
Adjusted net worth	1,880.9	**1,518.7**
Value of in-force business	987.1	**960.9**
Value of new business	135.6	**158.5**

● **Adjusted net worth**

Adjusted net worth is accumulation of realized profits and is the sum of net assets on the balance sheet, certain quasi-equity 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 (FY2010).

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_036.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 2011		
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.

As of July 1, 2011, 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.

Dai-ichi's Capital Strategies

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 enhance capital by securing periodic profits and building up shareholders' equity and internal reserves, such as a contingency reserve and a reserve for price fluctuations.

The Company has also supplemented its core capital through subordinated debt that is permitted to be incorporated into an insurance company's capital. In October 2010, the Company revised the terms of its contracts to replace dated subordinated borrowings made in the past with perpetual subordinated borrowings that have stronger capital characteristics. In March 2011, the Company also issued U.S. dollar-denominated perpetual subordinated debt to further bolster its capital base.

In addition to these efforts, Dai-ichi has been accumulating additional policy reserves since fiscal 2007 to further enhance its financial soundness by improving the future negative spread. Meanwhile, the Company redeemed all foundation funds, a fund raising system permitted only for mutual companies, before demutualization in April 2010.

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

Breakdown of Capital