Investments

Investment Environment

The global economy generally recovered, albeit moderately, in fiscal 2010, particularly in emerging nations, despite downward factors such as the fiscal insecurity in Europe, rising resource and food prices, and the Great East Japan Earthquake. Although the Japanese economy avoided a recession, thanks to solid external demand in Asia and the supporting effect of monetary easing by the Bank of Japan, economic activities were significantly weakened by the effects of the Great East Japan Earthquake that struck in March 2011. The U.S. economy remained firm, primarily owning to the underlying support of various tax breaks by the government and large-scale monetary easing by the Federal Reserve Board (FRB), although employment conditions and the housing market were still in the process of recovering.

Given the economic conditions described above, the investment environment was as follows:

Domestic Interest Rates

The yield on ten year government bonds fell below 1.0% at one point, for the first time in seven years, as interest rates trended downwards on stepped up monetary easing by the Bank of Japan, in addition to concern that the economy may slow because of the fiscal insecurity in Europe and the termination of policy effects such as subsidies for eco-friendly vehicles. Although the yield turned up towards the end of the fiscal year based on expectations of an economic recovery following large-scale monetary easing in the United States, the rise was limited by concerns linked to growing tension in the Middle East and the Great East Japan Earthquake.

Yield on ten-year government bonds:
March 31, 2010 1.390%
March 31, 2011 1.250%

Domestic Stocks

The Nikkei 225 Stock Average topped 11,000 at one point, on expectations of improving corporate earnings due to higher external demand. However, it began to weaken in the early fall, with investors taking action to avoid risks associated with the fiscal insecurity in Europe and concern about the economic slowdown, and with concerns rising about a deterioration in corporate earnings because of the appreciating yen. Although the index began to rise towards the end of the fiscal year, reflecting hope for an economy recovery due to enhanced credit easing measures in Japan and the United States and the end of the yen's climb, it temporarily dropped to the 8,000 level, reflecting the future uncertainty caused by the Great East Japan Earthquake.

Nikkei 225 Stock Average:
March 31, 2010 11,089
March 31, 2011 9,755
TOPIX:
March 31, 2010 978
March 31, 2011 869

Foreign Currency

Reflecting the stronger risk aversion of investors following increasing insecurity about fiscal conditions in Europe and the adoption of large-scale monetary easing by the FRB, the yen remained strong against the dollar. The yen hit a new postwar high at the end of the fiscal year based on (1) speculation that Japanese companies and investors may bring their overseas assets back to Japan because of the effects of the Great East Japan Earthquake and (2) growing tension in the Middle East. However, it subsequently returned to the pre-earthquake level, primarily because of the effect of the coordinated intervention of the G7 nations in foreign exchange markets.

Although the yen also appreciated against the euro as against the dollar, upward pressure on the Japanese currency was attenuated towards the end of the fiscal year, as the disparity between future interest rates in Japan and overseas was recognized based on speculation about a rate hike by the European Central Bank (ECB).

Yen/U.S. dollar:
March 31, 2010 ¥93.04
March 31, 2011 ¥83.15
Yen/Euro:
March 31, 2010 ¥124.92
March 31, 2011 ¥117.57

Fundamental Investment Policy

Our fundamental investment policy is based on the Asset Liability Management (ALM) approach. The objective of the approach is to make stable long-term payment of annuities or claims and benefits, taking into consideration the characteristics of the liability. Specifically, our investment portfolio is built around a core of yen-denominated fixed income assets, consisting mainly of domestic bonds. On the other hand, we are striving to increase the profitability of our portfolio by incorporating stocks and foreign securities within an acceptable range of risk in securing financial soundness. Through a meticulous risk management system, Dai-ichi ensures the effectiveness of its risk monitoring and seeks to improve investment efficiency.

[ALM]
ALM is the abbreviation of Asset Liability Management. For the life insurance company, it is to grasp the risks arising from fluctuations in interest rates on liabilities (insurance policies) and manage the assets that are appropriate given the characteristics of those risks. Among other imperatives, it is important to maintain assets in accordance with the characteristics of the liabilities and prepare for the payment of insurance claims.

[Portfolio]
A portfolio is a set of assets that a particular company has.

Summary of Investment Results

Summary of General Account Assets

● Balance of Cash and Deposits Kept Low

While domestic interest rates remained low, Dai-ichi sought to achieve improved investment efficiency by keeping the balance of cash and deposits low.

● Domestic Bonds: Increase

The Company actively replaced low-yield bonds with longer duration high-yield bonds, mainly when interest rates were rising, and also increased investment in policy-reserve-matching bonds (mainly long-term and super-long-term bonds) to strengthen its ALM. The Company also made efforts to improve investment yields by carefully selecting and diversifying among various credit risk products, including corporate bonds and asset backed securities, in accordance with its internal guidelines on risk-adjusted credit-spread (Note 1).

● Domestic Stocks: Decrease

The Company carried out sales of part of this asset category for risk-control purposes during the period, and the balance decreased because the valuation of stocks remaining in the portfolio declined following the market deterioration. We took steps to improve the profitability of the portfolio by replacing stocks of certain companies and sectors with those offering more competitiveness and growth potential, based on in-house analyses.

● Foreign Bonds: Increase

The Company increased its investment in foreign currency-denominated bonds with currency hedges, aiming for an improved investment return in the fixed income asset category, resulting in an increase in the total balance of foreign bonds. Also, the Company made efforts to improve return on investments and to control risk by diversifying its portfolio by sector and currency.

● Foreign Stocks: Decrease

The balance of foreign stocks in the Company's portfolio declined, primarily due to the appreciation of the yen, although stock prices rose with the global stock market recovery. The Company accelerated the diversification of geographic allocation and styles of foreign stock investment, utilizing in-house management (Note 2) as well as multi-manager investment (Note 3) in which outside managers were also used.

● **Loans: Decrease**

The Company sought to maintain excess returns by setting adequate risk-adjusted spreads, while paying attention to the credit spread changes in the bond market. However, the total balance of loans decreased, mainly owning to the effect of repayments.

● **Real Estate: Flat**

The Company sought to improve profitability, which include renegotiating the rents and improving the vacancy rates of its real estate portfolio. The Company also took steps to increase the value of existing real estate by refurbishment and housing rehabilitation.

Asset investment yield (general account)

	FY2008	FY2009	**FY2010**
Rate of return of investment on fundamental profit	2.70%	2.56%	**2.46%**
Investment yield	0.22%	2.17%	**1.78%**

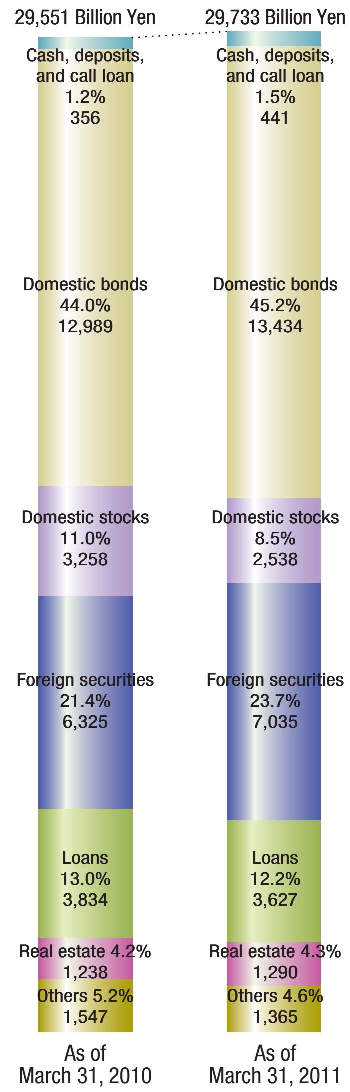
Rate of return of investment on fundamental profit = (Return of investment in fundamental profit – Interest on policyholder dividends) / Policy reserves

Investment yield = Net investment income / Average daily balance of general account assets

Notes:
1. Credit spread
   Yield in excess of the yield of government bonds
2. In-house management
   The investor manages assets, acquiring stocks and bonds and setting up deposits by itself, without assigning the management to outside management institutions.
3. Multi-manager investment
   More than one manager manages assets that are allocated from one fund.

Breakdown of Assets in General Account

(Billions of yen)



Promotion of ALM

Dai-ichi recognizes that, particularly at life insurance companies, it has become increasingly important to ensure the proper management of profit, risk, and capital through ALM, a system to control investment assets and liabilities (insurance policies) appropriately by being fully aware of the characteristics of liabilities.

Dai-ichi has adopted a number of management initiatives to ensure sound management. It has established the ALM Committee and built a system in which it examines (1) the integrated management of assets and liabilities and (2) the sophistication of its management system.

The Company has also introduced internal management accounting for each product group, the liabilities of which have different characteristics. We are also developing an administrative structure for each product group based on differences in market characteristics and profitability. Specifically, we identify and manage each risk associated with insurance underwriting, investment and liquidity for each major accounting unit, based on the product characteristics. We set an appropriate assumed interest rate in consideration of investment environment and other factors, draw up an investment policy taking into account the characteristics of liabilities, verify the appropriateness of the policy through the department in charge of risk management, and check the investment results. In addition, Dai-ichi will check the risks involved in insurance underwriting and investment at the time of the development and sale of new products.

The Company also promotes ALM based on the economic value. In the valuation based on the economic value, liabilities are calculated by (1) discounting future cash flows to be generated from policies in force, using the current interest rate, and (2) adding a risk margin (a consideration required for risks relating to policy obligations).

Investment Risk Management

Objective of Investment Risk Management

The objective of risk management at Dai-ichi is to maintain the soundness of its assets while paying close attention to the balance between risks and returns from a mid- to long-term perspective.

Investment Risk Management Structures

At Dai-ichi, the Risk Management Department carries out integrated risk management in which it oversees risks for the entire portfolio, including market, credit, and real estate investment risks, and strengthens its check function from the perspective of financial soundness.

Investment Risk Management Initiatives

● Market Risk Management

The balance of assets, including securities and derivatives, which involve market risks, and their transactions, as well as their unrealized gains/losses are managed on a daily basis and reported to management. The Company has a framework in place to control risks by setting risk limits in relation to holdings, etc. In addition, various methods, including value-at-risk (VaR) analysis, a principal market risk measurement method, are used to grasp market risk volumes in numerical terms, thus ensuring more effective market risk management.

● Credit Risk Management

Measures for credit risk management include rigorous preliminary reviews and post-transaction follow-ups on individual transactions. From the perspective of portfolio management, the Company analyzes and manages the makeup of transactions classified according to internal credit ratings, degree of concentration of credit granting by industry, and other factors. The Company has also developed a framework to prevent a concentration of credit extension, for example by setting credit limits for large-lot borrowers. Besides these measures, portfolio credit risks are determined in numerical terms for management through the periodic measurement of credit risk volumes using methods including VaR analysis.