Investment Environment

During fiscal 2011, the Japanese economy temporarily weakened as a result of decreased production and exports due to supply constraints such as the disruption of supply chains after the Great East Japan Earthquake, and a decline in corporate and consumer confidence, reflecting the uncertain economic outlook due to the historic high levels of the yen and the electric power shortage. However, the economy recovered after the turn of the year, thanks to the recovery in capital investment backed by the demand for restoration and recovery from the earthquake disaster and energy-saving investments, as well as the improvement in personal consumption driven by subsidy to eco-friendly cars and other stimulus measures.

Meanwhile, growth in the U.S. economy was moderate, affected by a drop in corporate and consumer confidence due to the European sovereign debt crisis and rising resource prices, despite an increase in capital investment driven by the effect of tax cuts and the expansion of personal consumption associated with improved employment conditions.

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

Domestic Interest Rates

Ten-year government bond yields fell below 1.0% after the summer, affected by the slowdown in overseas economies and the worldwide risk aversion associated with concerns about the slowdown in overseas economies and the sovereign debt problems in Europe and the United States. Thereafter, the yield remained low, influenced by the sustained and strengthened monetary easing measures by the Bank of Japan and strong demand for government bonds.

Yield on ten-year government bonds:

March 31, 2011	1.250%
March 31, 2012	0.985%

Domestic Stocks

The Nikkei 225 Stock Average temporarily fell to the 8,100 level, its lowest since 2009, as the market reacted to the appreciation of the yen to historical levels, concerns about the slowdown of overseas economies, and the flooding in Thailand as factors depressing the business performance of Japanese companies. However, the index began to rise towards the end of the fiscal year, rebounding to the 10,000 level along with more monetary easing measures in Japan and the United States and progress on the European sovereign debt crisis, such as measures to avoid a disorderly default in Greece.

Nikkei 225 Stock Average:

March 31, 2011	9,755
March 31, 2012	10,083

TOPIX:

March 31, 2011	869
March 31, 2012	854

Foreign Currency

The yen became stronger against the U.S. dollar and temporarily set a new postwar high, reflecting fears of a worldwide economic slowdown and expectations of a third round of quantitative easing by the Federal Reserve Board. However, the appreciation of the yen eased at the end of the fiscal year, attributable to the effects of the large-scale yen-selling intervention and the additional monetary easing measures by the Bank of Japan.

The yen also temporarily became stronger against the euro, to almost ¥97/EUR, due to fears that the European sovereign debt crisis might spread across the euro zone and that Greece might not be able to avoid a disorderly default. After that, however, movements to weaken the euro declined, as a disorderly default in Greece was avoided thanks to an agreement on comprehensive measures to solve the European sovereign debt crisis and the decision on a second bailout for Greece.

Yen/U.S. dollar:

March 31, 2011	¥83.15
March 31, 2012	¥82.19

Yen/Euro:

March 31, 2011	¥117.57
March 31, 2012	¥109.80

Fundamental Investment Policy

Our fundamental investment policy is based on the Asset Liability Management (ALM) approach. The objective of this approach is to secure the payment of annuities and claims, etc. into the future, taking the characteristics of the liability of life insurance policies into consideration. Specifically, we set yen-denominated fixed income assets, consisting mainly of domestic bonds, as the core of our asset portfolio. 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 to ensure 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 future 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 improve investment efficiency by keeping the balance of cash and deposits low.

● Domestic Bonds: Increase

The Company actively prolonged the duration of bonds, mainly when interest rates were rising, and also increased its investment in policy-reserve-matching bonds (mainly super-long-term bonds) to strengthen its ALM. It also replaced foreign currency-denominated bonds with currency hedges with domestic bonds to improve the investment efficiency of fixed-income assets. The Company also made efforts to improve investment yields by carefully selecting and diversifying among various credit risk products, including corporate bonds and securitized products, in accordance with its internal guidelines on risk-adjusted credit-spread (Note 1).

● Domestic Stocks: Decrease

The Company took steps to improve the profitability of the portfolio by replacing the stocks of certain companies and sectors with those higher competitiveness and more growth potential, based on corporate research by in-house analysts. Also, as a result of controlling risks based on stock market trends, the balance of domestic stocks in the portfolio declined.

● Foreign Bonds: Decrease

The Company decreased its investment in foreign currency-denominated bonds with currency hedges, aiming for an improved investment return in the fixed income asset category, and controlled the risks of foreign currency-denominated bonds without currency hedges in response to market trends, resulting in a decline 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: Increase

The balance of foreign stocks in the Company's portfolio increased as a result of making TAL its wholly owned subsidiary. The Company also accelerated the diversification of geographic allocation and investment styles for foreign stocks, utilizing in-house management (Note 2) as well as multi-manager investment (Note 3), employing outside managers.

● Loans: Decrease

The total balance of loans decreased due to contractual maturities and other factors. The Company also provided loans to maintain excess returns by setting adequate risk-adjusted spreads, while paying attention to the credit spread trends in the bond market.

● Real Estate: Decrease

The balance of real estate declined, mainly associated with falling land prices, although the Company sought to improve profitability, which included renegotiating the rents and improving the vacancy rates of its existing 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)

	FY2009	FY2010	**FY2011**
Rate of return of investment on fundamental profit	2.56%	2.46%	**2.38%**
Investment yield	2.17%	1.78%	**1.99%**

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 Company manages assets, acquiring stocks and bonds and setting up deposits by itself, without assigning the management to outside investment managers.
3. Multi-manager investment
More than one manager manages assets that are allocated from one fund.

Breakdown of Assets in General Account