



2008 European Embedded Value Report

March 31, 2008

The T&D Life Group companies with life insurance operations (T&D Holdings, Taiyo Life, Daido Life and T&D Financial Life) have consistently disclosed the embedded value (EV) of these businesses. In an attempt to solve some of the problems inherent in the traditional EV (TEV) approach and thereby improve the transparency of EV disclosure, the Group began using the European Embedded Value (EEV) Principles to calculate EV from March 31, 2008.

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1. Introduction

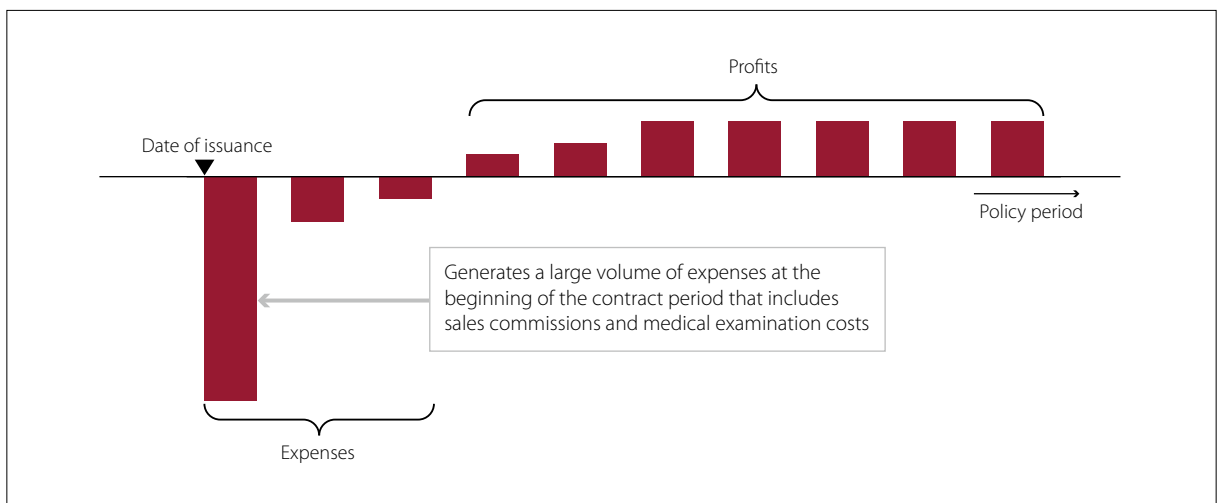
1.1 Positioning of EV

Embedded value (EV) is one indicator of the corporate value of a life insurer. The T&D Life Group uses EV as a way of measuring corporate value, with the goal being to achieve sustained growth in EV.

1.2 Significance of EV

Most life insurance policies have a long contractual term. The premiums are generally averaged and charged over the course of the policy period, but associated expenses such as sales commissions and medical examination costs tend to be concentrated at the beginning of the policy period. However, because current statutory accounting practices applicable to life insurance companies in Japan require the recognition of profits and expenses as they arise over time, there is a time lag between the sale of policies and recognition of profits. For example, even when new policy sales increase and a future increase in profit is projected to result from the rise in new policies, because the bulk of insurance underwriting expenses must be accounted for in the fiscal year when the new policies are sold, the short-term accounting effect of the new policy sales will be to worsen profitability. Similarly, if a company has poor sales of new policies, the short-term accounting effect may be to improve profitability. In these and other ways, the statutory accounting methods may in some cases not accurately reflect actual business results.

Profits and Expenses Associated with Insurance Policies



In contrast, EV represents the contribution of future profit from new business recognized at the time of sale as well as the market value of net assets considered to be the vested interests of shareholders. Therefore, it is believed that EV is useful to supplement Japanese statutory financial information.

The Group also uses EV as a management support tool. Applications include calculating and analyzing EV for individual products, sales channels, and sales offices to determine product and sales strategies and using changes in EV to calculate return on EV (ROEV) as an indicator of capital efficiency.

1.3 About EEV

1.3.1 EEV Principles and Guidance

Recently, the valuation and disclosure of EV calculated under the EEV Principles have been widely adopted among leading insurance companies in Europe.

The EEV Principles and Guidance were published in May 2004 by the CFO Forum, a group consisting of CFOs from leading European insurance companies. The aim of the EEV Principles and Guidance is to improve the consistency and transparency of the financial reporting of EV. Further EEV Guidance, which covers sensitivities and aspects of disclosure, was published in 2005.

Note: Please refer to the CFO Forum's website (<http://www.cfoforum.nl/default.html>) for details of the EEV Principles and Guidance.

1.3.2 Two EEV Approaches

Allowing for risk in calculating future shareholder profits is one of the key points of the EEV Principles. There are two possible broad approaches to allowing for risk:

- Top-down approach
- Bottom-up approach

The top-down approach involves setting the discount rate by assuming a uniform risk margin for the entire Group, based on values for beta and the weighted-average cost of capital (for raising capital either through equity or debt), as computed from actual stock market data on stock-price movements.

The bottom-up approach involves applying different discount rates to each category of assets based on specific risk characteristics for products or countries. One of the main variants is known as the market-consistent EV (MCEV) approach.

Under the MCEV approach, the future cash flows associated with assets or liabilities are valued consistently with similar market-traded financial instruments. This approach has been increasingly adopted by leading European insurers.

1.4 Disclaimer

Because EV considers only policies in force at the point of evaluation, it does not include the value of new business expected to be acquired after the point of evaluation. The calculation of EEV results involves certain assumptions regarding future projections that are subject to risks and uncertainties. It should be noted that actual future results might differ materially from the assumptions used in the EEV calculations. Moreover, although EEV is one indicator of the corporate value of a life insurance company/group, the actual market value may significantly diverge from the EEV, and investors are advised to be cautious.

1.5 Opinion of Actuarial Firm

To assure fairness, the T&D Life Group requested Tillinghast Insurance Consulting business of Towers Perrin, an outside specialist (actuarial firm) equipped with expert knowledge relating to actuarial calculations, including EV, to review the calculation methodology, the assumptions, the EEV results, the analysis of movement in EV, and sensitivities to changes in assumptions.

To see this company's opinions, please refer to our website: URL <http://www.td-holdings.co.jp/e/>

2. EEV of T&D Life Group

2.1 EEV Approach Employed

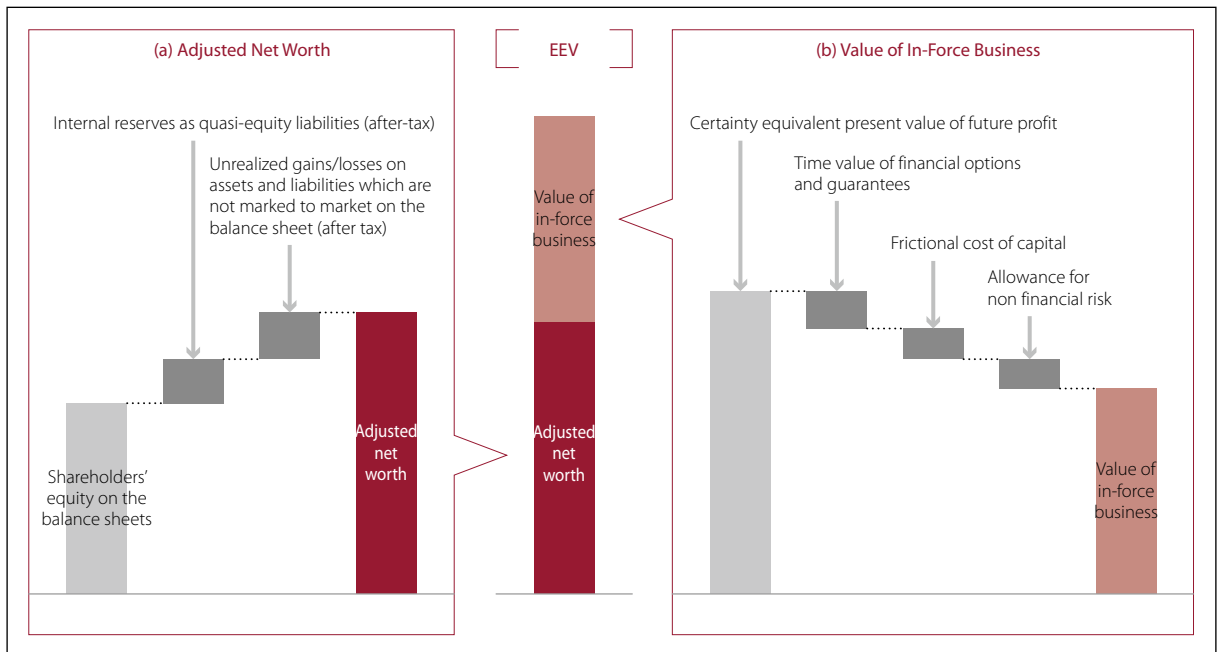
The T&D Life Group's EEV results have been calculated using the bottom-up MCEV approach.

2.2 Covered Businesses

The covered businesses are the life insurance businesses of the Group (through its three life insurance subsidiaries, Taiyo Life, Daido Life and T&D Financial Life). T&D Holdings holds 100% of the shares of the three life insurance subsidiaries.

2.3 EEV Components

EEV= (a) Adjusted Net Worth + (b) Value of In-Force Business



- (a) Adjusted net worth represents the market value of assets in excess of policyholder liabilities, represented by statutory reserves, and other liabilities. Adjusted net worth is the sum of the stated amount in the financial statements and appropriate adjustments for unrealized gains and losses and other items.
- (b) Value of in-force business represents the present value at the valuation date of future profits distributable to shareholders from the in-force business as of March 31, 2008.

2.4 Main Difference Between Traditional Embedded Value (TEV) and EEV as Used by T&D Life Group

2.4.1 TEV Increases If More High-Risk Assets Are Assumed to Be Held.

Under the TEV approach, future investment returns are projected based on investment return assumptions for each asset class and the asset mix assumption. If a higher proportion of high-risk assets is assumed to be held, projected investment returns increase, which may result in a higher TEV. In such a case, the use of a higher-risk discount rate is considered to be the solution under the TEV approach, but the basis of making such adjustments is not well defined.

In the case of MCEV, cash flows from all assets and liabilities are valued consistently with cash flows of traded instruments in the financial markets with similar characteristics. Returns on riskier assets are discounted with a market-consistent risk premium.

2.4.2 Subjectivity of Risk Discount Rate

The TEV approach applies a single-risk discount rate to the cash flows of the entire company to obtain a present value. The risk discount rate may be set taking into account in aggregate the various risks the company is exposed to, but deriving a single rate to be applied is subjective. It is common practice to show the sensitivity of the results to different risk discount rates so as to allow investors to make a judgment. Because the impact of the risk discount rate tends to be large, subjective elements in setting the risk discount rate can be an issue under a TEV approach.

Under an MCEV approach, both investment return assumptions and discount rates are set consistently with financial markets.

2.4.3 Recognition of Cost of Options and Guarantees

The TEV approach typically uses a single deterministic cash flow projection, and thus does not explicitly capture the cost of options and guarantees. For example, participating policies receive a share in profits when investment performance is good, while the company needs to bear the cost of minimum guarantees when investment performance is bad. Typically, the TEV approach does not capture explicitly the impact on value of this asymmetry of returns to shareholders.

The EEV Principles require stochastic calculations be performed to value explicitly the cost of such financial options and guarantees. Under an MCEV approach, such valuations are made on a market-consistent basis.

2.4.4 Cost of Capital

The TEV approach calculates each future year's cost of capital as the required capital multiplied by the difference between the risk discount rate and the investment yield (after tax), and subjectivities may be introduced through the risk discount rate and investment yield assumptions. Under MCEV, cost of capital is redefined as frictional cost of capital, which is the double taxation cost associated with maintaining required capital. Objectivity is improved, although there may still remain issues in respect of the definition of the amount of required capital.

3. EEV as of March 31, 2008

3.1 EEV as of March 31, 2008

The T&D Life Group's EEV as of March 31, 2008 is shown in Table 3.1.1.

Table 3.1.1 EEV as of March 31, 2008

As of March 31	(Billions of yen)		
	2008	2007	Increase (Decrease)
EEV	¥1,621.6	¥2,072.1	¥(450.4)
Adjusted net worth	1,057.1	1,344.8	(287.7)
Value of in-force business	564.4	727.2	(162.7)
Value of new business	62.0	84.8	(22.8)

As of March 31	(Billions of yen)								
	Taiyo Life			Daido Life			T&D Financial Life		
	2008	2007	Increase (Decrease)	2008	2007	Increase (Decrease)	2008	2007	Increase (Decrease)
EEV	¥574.9	¥738.6	¥(163.7)	¥990.7	¥1,263.0	¥(272.2)	¥56.0	¥70.4	¥(14.4)
Adjusted net worth	484.7	574.9	(90.2)	532.9	728.0	(195.1)	39.5	41.8	(2.3)
Value of in-force business ...	90.2	163.7	(73.5)	457.7	534.9	(77.1)	16.4	28.5	(12.1)
Value of new business	18.2	33.4	(15.1)	46.2	55.2	(9.0)	(2.4)	(3.8)	1.3

Note: Value of new business doesn't include values anticipated from future new business. For conversions, only net increase is included.

EEV as of March 31, 2008 was ¥1,621.6 billion, a reduction of ¥450.4 billion from ¥2,072.1 billion as of March 31, 2007.

The adjusted net worth was ¥1,057.1 billion, a reduction of ¥287.7 billion, which was caused largely by a reduction in unrealized gains of securities mainly due to a fall in equity market prices.

Value of in-force business was ¥564.4 billion, a reduction of ¥162.7 billion, which was caused largely by a decline in risk-free rates.

Value of new business was ¥62.0 billion, a reduction of ¥22.8 billion mainly due to a decline in new policy amount and the effect of premium revisions.

Table 3.1.2 Breakdown of the Group's EEV as of March 31, 2008

As of March 31	(Billions of yen)		
	2008	2007	Increase (Decrease)
EEV	¥1,621.6	¥2,072.1	¥(450.4)
Adjusted net worth	1,057.1	1,344.8	(287.7)
Shareholders' equity on the balance sheet ^(Note 1)	456.2	437.2	19.0
Unrealized gains/losses on securities (after tax)	289.5	687.8	(398.2)
Unrealized gains/losses on loans (after tax)	49.0	24.3	24.6
Unrealized gains/losses on land (after tax)	21.5	(5.6)	27.2
General reserves for possible loan losses (after tax)	1.1	1.0	0.1
Internal reserves as quasi-equity liabilities (after tax) ^(Note 2)	240.1	201.4	38.6
Unrealized gains/losses on subordinated debts (after tax)	(0.5)	(1.3)	0.7
Value of in-force business	564.4	727.2	(162.7)
Certainty equivalent present value of future profit	768.2	918.1	(149.9)
Time value of financial options and guarantees	(129.0)	(117.0)	(12.0)
Frictional cost of capital	(33.0)	(29.7)	(3.3)
Allowance for non-financial risk	(41.5)	(44.1)	2.5
Value of new business ^(Note 3)	62.0	84.8	(22.8)
Adjusted net worth	(54.1)	(60.9)	6.7
Value of in-force business	116.2	145.7	(29.5)
Certainty equivalent present value of future profit	126.1	160.4	(34.2)
Time value of financial options and guarantees	(3.2)	(6.6)	3.3
Frictional cost of capital	(0.1)	(0.3)	0.1
Allowance for non-financial risk	(6.4)	(7.6)	1.1

As of March 31	(Billions of yen)								
	Taiyo Life			Daido Life			T&D Financial Life		
	2008	2007	Increase (Decrease)	2008	2007	Increase (Decrease)	2008	2007	Increase (Decrease)
EEV	¥574.9	¥738.6	¥(163.7)	¥990.7	¥1,263.0	¥(272.2)	¥56.0	¥70.4	¥(14.4)
Adjusted net worth	484.7	574.9	(90.2)	532.9	728.0	(195.1)	39.5	41.8	(2.3)
Shareholders' equity on the balance sheet ^(Note 1)	166.3	160.8	5.4	261.8	241.2	20.5	28.1	35.0	(6.9)
Unrealized gains/losses on securities (after tax)	171.9	320.0	(148.0)	116.6	368.3	(251.7)	1.0	(0.5)	1.5
Unrealized gains/losses on loans (after tax)	27.4	15.6	11.8	20.9	8.2	12.7	0.5	0.5	0.0
Unrealized gains/losses on land (after tax)	(0.9)	(16.6)	15.6	22.5	10.9	11.5	—	—	—
General reserves for possible loan losses (after tax)	1.0	0.9	0.1	0.1	0.1	(0.0)	0.0	0.0	0.0
Internal reserves as quasi-equity liabilities (after tax) ^(Note 2)	119.4	95.5	23.9	110.8	99.1	11.6	9.8	6.7	3.0
Unrealized gains/losses on subordinated debts (after tax)	(0.5)	(1.3)	0.7	—	—	—	—	—	—
Value of in-force business	90.2	163.7	(73.5)	457.7	534.9	(77.1)	16.4	28.5	(12.1)
Certainty equivalent present value of future profit	144.1	218.0	(73.8)	599.2	660.9	(61.7)	24.8	39.1	(14.3)
Time value of financial options and guarantees	(24.6)	(22.4)	(2.2)	(97.1)	(85.8)	(11.2)	(7.3)	(8.7)	1.4
Frictional cost of capital	(16.7)	(18.0)	1.3	(15.3)	(10.4)	(4.9)	(0.9)	(1.2)	0.2
Allowance for non-financial risk	(12.4)	(13.7)	1.3	(28.9)	(29.7)	0.7	(0.1)	(0.5)	0.4
Value of new business ^(Note 3)	18.2	33.4	(15.1)	46.2	55.2	(9.0)	(2.4)	(3.8)	1.3
Adjusted net worth	(16.6)	(19.3)	2.7	(31.3)	(31.4)	0.0	(6.1)	(10.0)	3.9
Value of in-force business	34.9	52.8	(17.8)	77.6	86.7	(9.1)	3.6	6.2	(2.5)
Certainty equivalent present value of future profit	37.5	56.4	(18.8)	83.4	94.2	(10.7)	5.1	9.7	(4.6)
Time value of financial options and guarantees	(0.6)	(0.8)	0.2	(1.4)	(2.9)	1.4	(1.2)	(2.8)	1.6
Frictional cost of capital	(0.1)	(0.1)	(0.0)	0.1	0.2	(0.1)	(0.1)	(0.4)	0.3
Allowance for non-financial risk	(1.8)	(2.6)	0.8	(4.5)	(4.8)	0.3	(0.0)	(0.1)	0.0

Notes: 1. Excluding unrealized gains/losses

2. Price fluctuation reserve, contingency reserve and unallocated amount in policyholders' dividend reserve

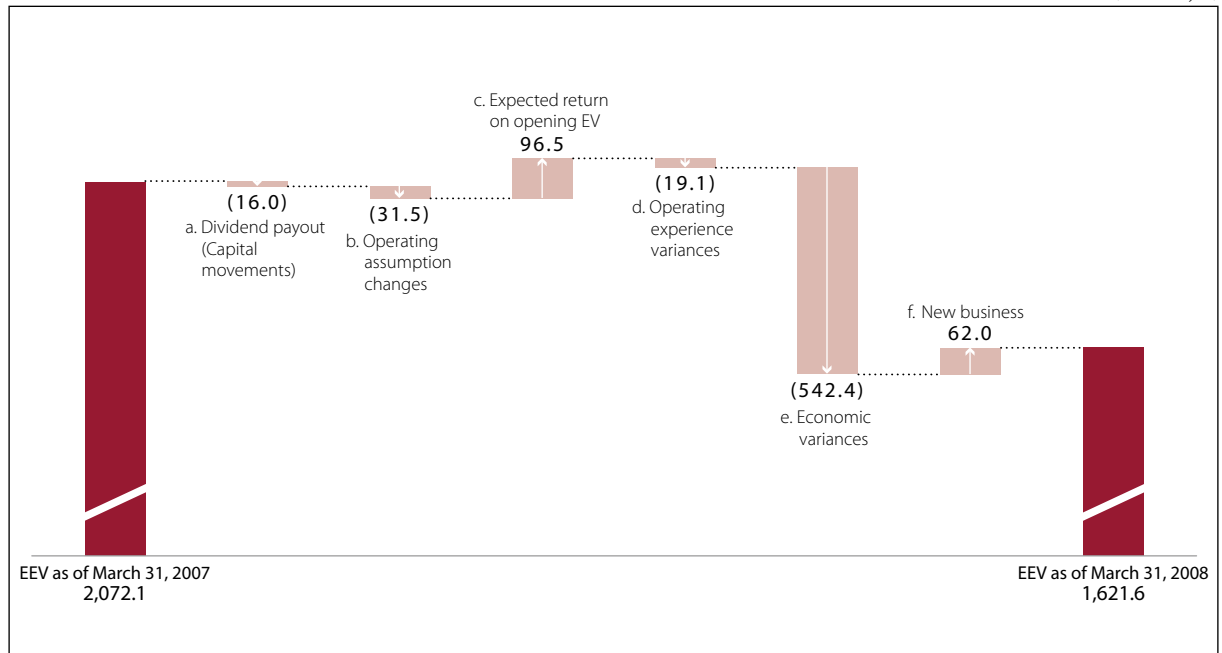
3. Value of new business doesn't include values anticipated from future new business. For conversions, only net increase is included

3.2 Movement Analysis

Table 3.2.1 shows a breakdown of the changes in EEV from March 31, 2007.

Table 3.2.1 Movement Analysis in EEV from March 31, 2007 (T&D Life Group)

(Billions of yen)



	(Billions of yen)		
	EEV	Adjusted net worth	Value of in-force business
EEV as of March 31, 2007	¥2,072.1	¥1,344.8	¥ 727.2
a. Dividend payout (Capital movements)	(16.0)	(16.0)	—
b. Operating assumption changes	(31.5)	—	(31.5)
c. Expected return on opening EV	96.5	15.8	80.6
d. Operating experience variances	(19.1)	(13.9)	(5.1)
e. Economic variances	(542.4)	(319.0)	(223.3)
f. New business	62.0	(54.1)	116.2
Change in EEV	(450.4)	(287.7)	(162.7)
EEV as of March 31, 2008	1,621.6	1,057.1	564.4

Note: The amount of expected transfer from in-force business to adjusted net worth was ¥99.5 billion.

a. Dividend Payout (Capital movements)

This consists of the total shareholders' dividend paid by Taiyo Life, Daido Life and T&D Financial Life to T&D Holdings during fiscal 2007, which also corresponds to the shareholders' dividend paid by T&D Holdings during fiscal 2007. There are no capital movements related to the Group's life business during fiscal 2007. Thus, the dividend payout of ¥16 billion reduced EEV from the previous fiscal year-end.

b. Operating assumption changes

The impact of operating assumption changes are calculated as at the beginning of the period. For details of the assumptions, please see section 3.6.2 "Other Assumptions" on page 14. These changes reduced EEV by ¥31.5 billion.

c. Expected return on opening EV

This item consists of the expected change in the opening embedded value over the year (excluding the impact of new business). The expected return on the value of in-force business is the expected increase in the value of in-force business as of March 31, 2007 over the one-year period, including changes in cost of financial options and guarantees, frictional cost and allowance for non-financial risk. The expected return on adjusted net worth is the expected return on the adjusted net worth as of March 31, 2007 over the one-year period. These calculations are based on real world investment return assumptions (Please see section 3.2.5 "Setting the Expected Return on Assets for Management Analysis" on page 10) over the period. Note that the projected MCEV in this calculation is based on risk-neutral assumptions, and the risk premiums allowed for are for the one-year period only. This resulted in an increase in EEV of ¥96.5 billion.

d. Operating experience variances

This is the impact on the embedded value of differences between the actual experience and operating assumptions during the period. This reduced EEV by ¥19.1 billion.

e. Economic variances

This is the impact of differences between the actual investment returns in the period and the expected investment returns, including the impact on the value of future profits from the change to the end-of-period future economic assumptions. See Section 3.6.1 "Economic Assumptions" on page 13 for details of economic assumptions. Economic variances reduced EEV by ¥542.4 billion.

f. New business

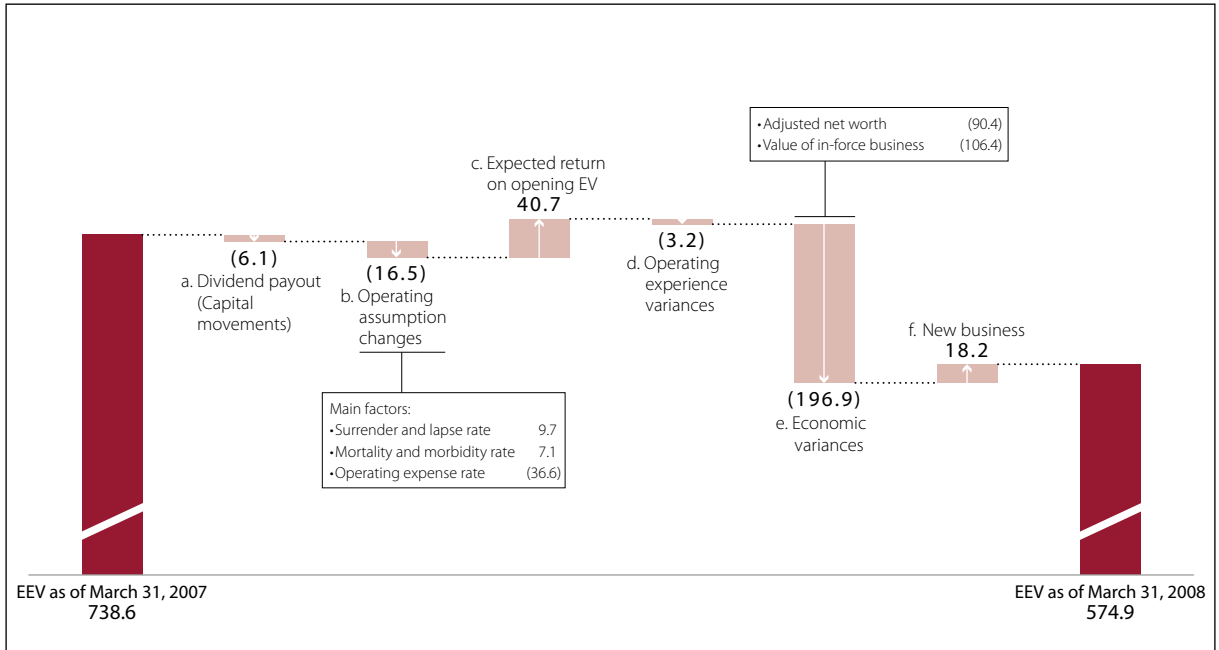
This is the value of new business issued during fiscal 2007. The value is as of March 31, 2008. For details of the approach, please see section 4.3 "Value of New Business" on page 15. New business increased EEV by ¥62.0 billion.

* Expected transfer from in-force business to adjusted net worth

This item represents the after-tax surplus expected to emerge during the period from the business that was in-force at the beginning of the period. The effect is a shift of value from the value of in force to the adjusted net worth. This does not affect the total value.

Table 3.2.2 Movement Analysis in EEV from March 31, 2007 (Taiyo Life)

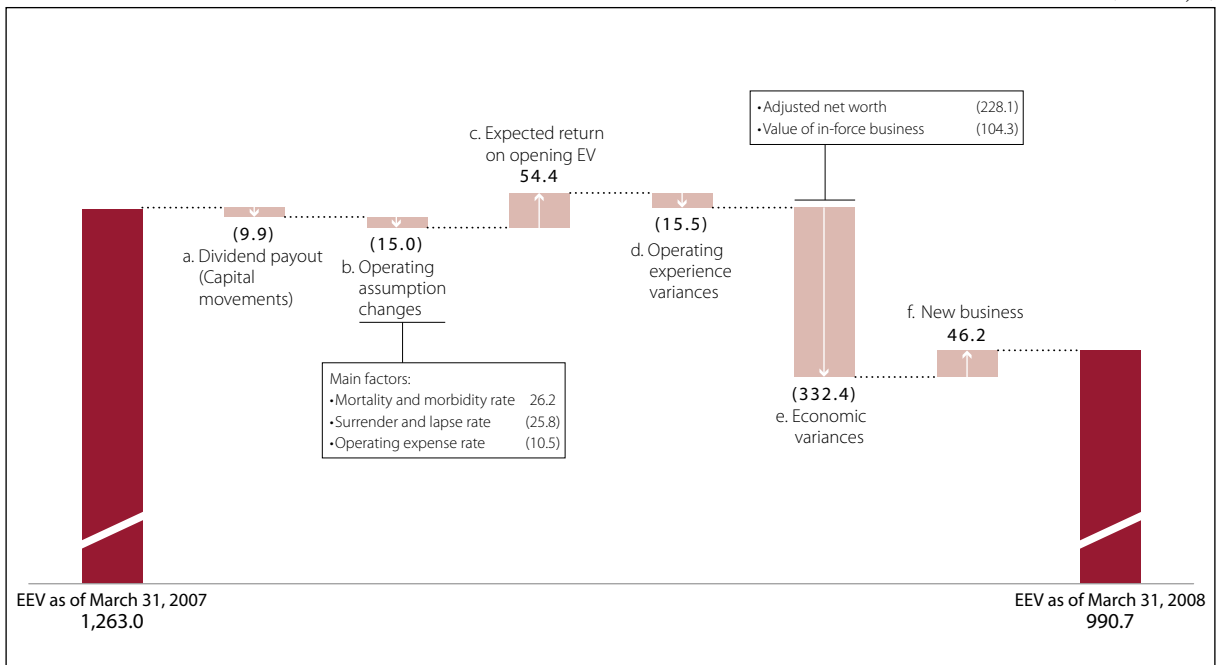
(Billions of yen)



Note: The amount of expected transfer from in-force business to adjusted net worth was ¥21.2 billion.

Table 3.2.3 Movement Analysis in EEV from March 31, 2007 (Daido Life)

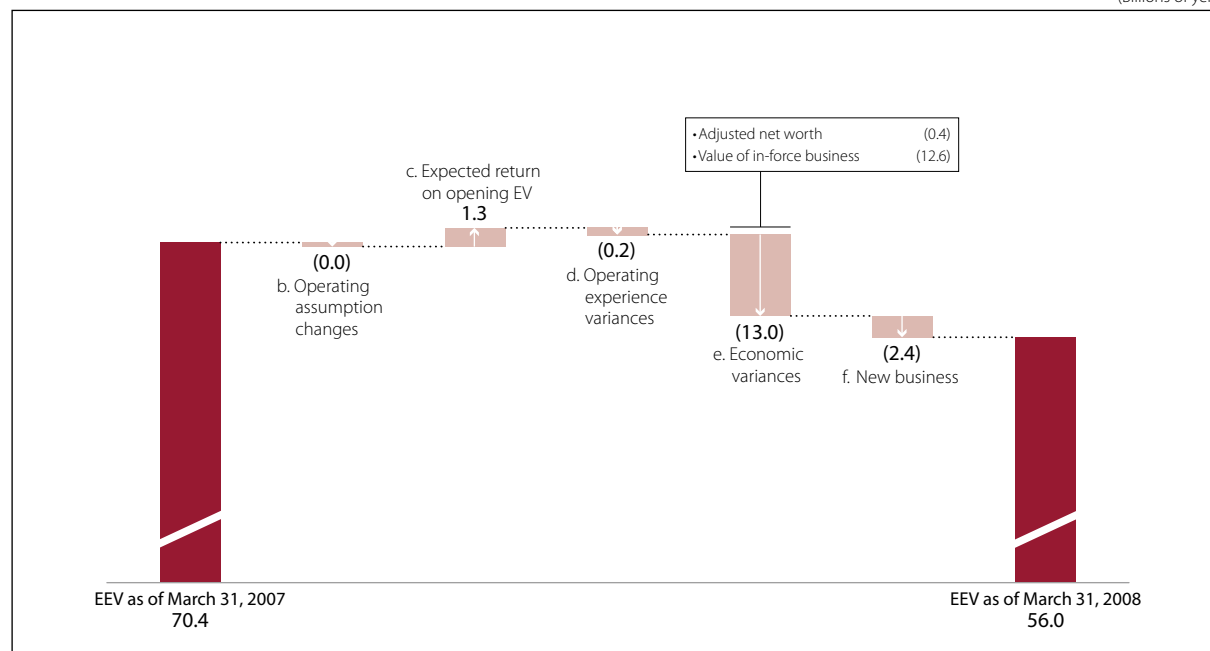
(Billions of yen)



Note: The amount of expected transfer from in-force business to adjusted net worth was ¥73.3 billion.

Table 3.2.4 Movement Analysis in EEV from March 31, 2007 (T&D Financial Life)

(Billions of yen)



Note: The amount of expected transfer from in-force business to adjusted net worth was ¥4.9 billion.

Table 3.2.5 Setting the Expected Return on Assets for Movement Analysis

	Expected Return for EEV Movement Analysis (As of March 31, 2008)	(Reference) Basis of Assumptions for TEV (As of March 31, 2007)
Cash and deposits, call loans	Risk-free rate [SWAP1Y: 0.781%]	Based on year-end interest rates [1 Month LIBOR: 0.665%]
Domestic bonds	Risk-free rate (SWAP1Y) + spread based on maturity date and ratings	Based on year-end interest rates + spread based on maturity date and ratings
Loans	Same as Domestic bonds above	Same as Domestic bonds above
Domestic stocks	SWAP1Y [0.781%] + risk premium [5.0%] = 5.781%	JGB10Y [1.66%] + risk premium [5.0%] = 6.66%
Foreign stocks	Same as Domestic stocks above [5.781%]	Same as Domestic stocks [6.66%]
Foreign bonds	All maturity dates: SWAP1Y [0.781%], assuming risk premium is zero	Based on Citigroup BIG index as of March 31, 2007 (excluding hedge costs)
Private equities	Domestic stocks [5.781%] + risk premium [3.0%] = 8.781%	Domestic stocks [6.66%] + risk premium [3.0%] = 9.66%
Hedge funds	SWAP1Y [0.781%] + risk premium [4.0%] = 4.781%	US dollar short-term interest rate [5.25%] + risk premium [4.0%] = 9.25%
Real estate	SWAP1Y [0.781%] + risk premium [3.0%] = 3.781%	JGB10Y [1.66%] + risk premium [3.0%] = 4.66%
Loans to policyholders	SWAP1Y [0.781%] + risk premium [(0.196%)] = 0.585% (Same as JGB1Y)	Average year-end yield

3.3 Sensitivities

The impact of changes in assumptions (sensitivities) on the EEV results are summarized in Table 3.3 below. For each sensitivity, only one specific assumption is changed and other assumptions remain unchanged from the base. It should be noted that the effect of the change of more than one assumption at a time is likely to be different from the sum of two sensitivities with only one assumption change. Under different sensitivity scenarios, the basis for policy reserves (excluding reserves for separate accounts) is unchanged, in line with the Japanese statutory reserving rules. The sensitivity results on the value of new business exclude the impact on the adjusted net worth.

Sensitivity 1: 0.5% increase in risk-free rate (for all future years)

- Fixed interest assets (bonds, loans, etc.) are revalued according to the change in the interest rate. The value of in-force business is re-calculated according to the change of investment yield and risk discount rate. Policyholder behavior also changes corresponding to these changes. EEV Guidance requires disclosure of the sensitivity of a 1% increase in risk-free rate, but a sensitivity of 0.5% is shown instead considering the low level of interest rates in the Japanese market.

Sensitivity 2: 0.5% decrease in risk-free rate (for all future years)

- Same as sensitivity 1. However, if the risk-free rate becomes negative after the deduction of 0.5%, 0% is applied instead.

Sensitivity 3: 10% decrease in equity and real estate value as at the valuation date

- Market values of equities and real estate at the valuation date are changed. The impact on the value of new business is not considered.

Sensitivity 4: 10% decrease in surrender and lapse rate

- Base surrender and lapse rates are multiplied by 0.9.

Sensitivity 5: 10% decrease in operating expense rate

- Base operating expense rates are multiplied by 0.9.

Sensitivity 6: 5% decrease in claim incidence rates for the life business

- Base claim incidence rates (mortality and morbidity) are multiplied by 0.95. The possibility of premium rate cuts and any other managerial actions associated with such changes in the claim level are not reflected.

Sensitivity 7: 5% decrease in mortality rate for the annuity business

- Base mortality rates are multiplied by 0.95. The possibility of premium rate increases and any other managerial actions associated with such changes in the claim level are not reflected.

Sensitivity 8: Change the required capital to the statutory minimum (200% of solvency margin ratio)

Sensitivity 9: Change the required capital to 1,000% of solvency margin ratio

Sensitivity 10: 25% increase in volatility

- Base implied volatilities of swaptions and Nikkei 225 options are multiplied by 1.25. The volatility assumptions affect cost of financial options and guarantees.

Table 3.3.1 Sensitivities

	(Billions of yen)	
	Change in EEV	Change in Value of New Business
Base Scenario (EEV as of March 31, 2008)	¥1,621.6	¥ 62.0
Sensitivity 1: 0.5% increase in risk-free rate	164.0	13.1
Sensitivity 2: 0.5% decrease in risk-free rate	(203.6)	(15.8)
Sensitivity 3: 10% decrease in equity and real estate value	(157.0)	—
Sensitivity 4: 10% decrease in surrender and lapse rate ...	59.4	9.1
Sensitivity 5: 10% decrease in operating expenses	41.8	3.0
Sensitivity 6: 5% decrease in claim incidence rates for the life business	76.7	5.7
Sensitivity 7: 5% decrease in mortality for the annuity business	(2.8)	0.0
Sensitivity 8: 200% solvency margin ratio	33.0	0.1
Sensitivity 9: 1,000% solvency margin ratio	(59.6)	(2.8)
Sensitivity 10: 25% increase in implied volatility	(50.6)	(0.6)

	(Billions of yen)					
	Taiyo Life		Daido Life		T&D Financial Life	
	Change in EEV	Change in Value of New Business	Change in EEV	Change in Value of New Business	Change in EEV	Change in EEV
Base Scenario (EEV as of March 31, 2008)	¥574.9	¥18.2	¥ 990.7	¥ 46.2	¥ 56.0	¥(2.4)
Sensitivity 1: 0.5% increase in risk-free rate	45.4	3.3	110.6	9.3	8.0	0.4
Sensitivity 2: 0.5% decrease in risk-free rate	(58.3)	(3.9)	(134.5)	(11.3)	(10.6)	(0.5)
Sensitivity 3: 10% decrease in equity and real estate value	(65.4)	—	(83.5)	—	(8.0)	—
Sensitivity 4: 10% decrease in surrender and lapse rate ...	11.4	2.4	47.8	6.7	0.2	(0.0)
Sensitivity 5: 10% decrease in operating expenses	21.5	1.2	18.4	1.6	1.8	0.1
Sensitivity 6: 5% decrease in claim incidence rates for the life business	15.6	1.0	58.7	4.7	2.3	—
Sensitivity 7: 5% decrease in mortality for the annuity business	(0.0)	0.0	(2.4)	0.0	(0.3)	0.0
Sensitivity 8: 200% solvency margin ratio	16.7	0.1	15.3	(0.1)	0.9	0.1
Sensitivity 9: 1,000% solvency margin ratio	(23.9)	(0.6)	(34.5)	(2.0)	(1.1)	(0.1)
Sensitivity 10: 25% increase in implied volatility	(10.0)	(0.1)	(40.9)	(0.4)	0.3	(0.0)

3.4 New Business Margin (Ratio of the Value of New Business to the Present Value of New Business Premiums)

As of March 31	(Billions of yen)		
	2008	2007	Increase (Decrease)
Present value of new business premiums	¥1,137.4	¥1,258.2	¥(120.8)
Value of new business	62.0	84.8	(22.8)
Value of new business/present value of new business premiums	5.5%	6.7%	(1.3 points)

3.5 Reconciliation Between Consolidated GAAP Accounts and Adjusted Net Worth

A reconciliation between the adjusted net worth of ¥1,057.1 billion and the group consolidated net assets of ¥677.2 billion is shown below.

As of March 31	(Billions of yen)		
	2008	2007	Increase (Decrease)
Adjusted net worth	¥1,057.1	¥1,344.8	¥(287.7)
– Items classified as liabilities in the accounts (after tax) ^(Note 1)	241.3	202.5	38.7
– Difference in unrealized capital gains/losses (after tax) ^(Note 2)	160.1	72.7	87.4
+ Net assets not allocated to life insurance business	21.4	20.5	0.9
Net assets shown on consolidated balance sheet	677.2	1,090.2	(413.0)

Notes: 1. Price fluctuation reserve, contingency reserve and unallocated amount in policyholders' dividend reserve.

2. This is the difference between the unrealized capital gains/losses included in the adjusted net worth of ¥359.5 billion as of March 31, 2008 (¥705.1 billion as of March 31, 2007) and the unrealized capital gains/losses shown on the consolidated balance sheet of ¥199.4 billion as of March 31, 2008 (¥632.4 billion as of March 31, 2007).

3.6 Principal EEV Assumptions

3.6.1 Economic Assumptions

In the certainty equivalent calculation, the discount rates and investment yields are the risk-free rates at the valuation date. These risk-free rates have been determined based on swap rates (mid price). The table below shows, for selected terms, the swap rates as of March 31, 2008, which are used for the calculation.

Table 3.6.1.1 Swap Rates

	(%)									
	1 year	2 years	3 years	4 years	5 years	10 years	15 years	20 years	25 years	30 years
As of March 31, 2008	0.915	0.898	0.939	0.988	1.043	1.462	1.804	2.041	2.184	2.264
As of March 31, 2007	0.781	0.946	1.087	1.221	1.343	1.810	2.118	2.315	2.406	2.476

For the stochastic calculations, to derive the time value of financial options and guarantees, the asset portfolio of each company is modeled into three asset classes, cash, equities and bonds, and different volatilities are assumed for each asset class.

The economic scenarios using stochastic calculations have been calibrated to reproduce the market prices of swaptions and equity options. The table below shows a sample of the implied market volatilities for swaptions and equity options as of March 31, 2008.

Table 3.6.1.2 Implied Market Volatility of Swaptions

Option Term/Swap Term		(%)			
		5 years	10 years	15 years	20 years
5 years	As of March 31, 2008	26.1	20.0	17.4	16.1
	As of March 31, 2007	22.0	17.4	16.6	15.8
10 years.....	As of March 31, 2008	18.5	15.6	14.5	14.1
	As of March 31, 2007	17.3	15.7	14.9	14.5

Table 3.6.1.3 Implied Market Volatility of Nikkei 225 Options

Strike Price/Term		(%)		
		3 years	4 years	5 years
90%	As of March 31, 2008	25.1	24.9	24.8
	As of March 31, 2007	18.3	18.8	19.2
100%	As of March 31, 2008	24.0	24.0	24.0
	As of March 31, 2007	17.9	18.5	19.0
110%	As of March 31, 2008	23.2	23.3	23.5
	As of March 31, 2007	17.8	18.4	18.8

The expense inflation assumption was taken to be zero.

3.6.2 Other Assumptions

All cash flows (premium, commission, non-commission expense, death benefit, cash surrender value, tax, etc.) are projected applying the best estimate assumptions up to the termination of the policies, by product, referring to recent experience, trends and the Group's future views. Here, in terms of recent experience, the latest three years' mortality and morbidity, and lapse and surrender experiences, the last year's expense and corporate tax experiences were particularly referred to.

Expenses

- Expense assumptions have been set based on the expenses incurred by each of the life insurance companies. Some adjustments were made including the elimination of one-off expenses which are not expected to be regularly repeated in the future. The amount of one-off expenses eliminated is ¥6.9 billion (pre-tax), which mainly relates to one-off remuneration and systems costs related to policy administration.
- The Group has an asset management company, T&D Asset Management Co., Ltd., which manages assets of the life insurance companies. The look-through basis has not been applied to the profits arising at T&D Asset Management relating to managing the assets of the life insurance companies. Therefore, the EEV results do not include the capitalized value of these profits.

Dynamic Assumptions

- Interest-sensitive dynamic lapse assumptions are applied to conventional products. For variable business, dynamic lapse assumptions are related to the ratio of the actual fund value to the level of minimum guarantees.
- Dynamic policyholders' dividend assumptions have been made based on each life company's policyholders' dividend policy. Daido Life and Taiyo Life set their dividend policies in April 2002 and in April 2003, respectively, when they demutualized. T&D Financial Life, previously Tokyo Mutual which was rehabilitated and acquired by Taiyo Life and Daido Life jointly in October 2001 (now held directly by T&D Holdings), has a policyholders' special dividend rule as part of its rehabilitation schedule.

4. Components of EEV

4.1 Adjusted Net Worth

Adjusted net worth is calculated by adjusting the total net worth on the company's balance sheet for the following:

- Differences in market value and book value of assets have been reflected (adjusted for tax).
- For retirement benefits, figures from the primary statements, which are calculated on the Japanese ACR 13 basis, have been used without adjustment.
- Certain liabilities that are effectively part of net worth (contingency reserve, price fluctuation reserve, unallocated portion in the policyholders' dividend reserve, and general reserve for possible loan losses) have been added.

4.2 Value of In-Force Business

The value of in-force business is calculated as follows:

- Certainty equivalent present value of future profit
less Time value of financial options and guarantees
less Frictional cost of capital
less Allowance for non-financial risk

The value of new business is calculated in the same way, but allow for the cash flows arising between the point of sale and March 31, 2008.

4.3 Value of New Business

The value of new business is the value of new policies issued during the 12-month period to March 31, 2008. It is calculated in a similar manner to the value of in-force business. The value has been calculated as of March 31, 2008, and the same assumptions as those applied for the valuation of in-force business are used. The value of new business includes the impact of all cash flows arising from the point of sale to March 31, 2008.

Future renewals of the new business policies are included in the value of new business. The value of new business includes the net increase in value arising from conversions. The value arising from the sale of future new business policies is not included.

4.4 Certainty Equivalent Present Value of Future Profit

The certainty equivalent value is the value of the future cash flows, calculated on a deterministic basis, and assuming all assets earn the risk-free rate and all cash flows are discounted at the risk-free rate. The certainty equivalent approach ensures that future investment risk premiums (i.e. excess investment yield over the risk-free rate, expected from risk assets such as equities and corporate bonds) are not capitalized in the embedded value and value of new business.

It reflects the intrinsic value of financial options and guarantees (e.g., policyholder dividends), but the time value of financial options and guarantees is not reflected and is calculated separately.

4.5 Time Value of Financial Options and Guarantees

The time value of financial options and guarantees is calculated as the difference between the average of the values calculated under a set of market-consistent risk neutral stochastic economic scenarios and the value based on a mean scenario (i.e. the certainty equivalent value).

The economic scenarios were calibrated to reproduce the market prices of similar traded options. This approach is usually used in the market to value derivatives.

The elements described below have been taken into account in calculating the time value of financial options and guarantees. Some management actions such as changes in asset allocation have not been reflected in the valuation.

- Participating Policies

When investment performance and other experience is good, policyholders' dividends are paid out and shareholders may not receive 100% of the profit. On the other hand, when losses arise, shareholders need to bear the cost of guarantees attached to participating policies.

Policyholders' dividends have been assumed as certain percentages of the profit of the corresponding segment in accordance with each life insurance company's dividend policy, and future dividend rates therefore vary according to the projected circumstances.

- Selective Surrenders

Policyholders have a variety of options against the company. In this valuation, the risk of selective lapses in the event that interest rates rise has been allowed for.

- Minimum Guarantees on Variable Annuities

When investment performance is good, policyholders will be entitled to the full amount of the account. On the other hand, when investment performance is poor, shareholders need to bear the cost of guarantees attached to variable annuity policies. These features have been allowed for in the valuation.

4.6 Required Capital

The EEV Principles define the minimum required capital as equal to the statutory minimum capital requirement, and also allows companies to use other levels of required capital, such as their own required risk assessment, so long as the minimum requirement is satisfied.

The Group assumed a level of required capital corresponding to a 600% solvency margin ratio. In Japan, the statutory minimum is a 200% solvency margin ratio, and the Group's assumption satisfies the EEV Principles. A breakdown of the adjusted net worth can be given as the required capital, on which the cost of capital is based, of ¥259.7 billion, and free surplus of ¥797.4 billion.

It should be noted that the Japanese solvency regulations allows for implicit items, such as subordinated debt and policy reserves in excess of surrender values. The calculations reflect such implicit items.

Recently, actual solvency margin ratios of domestic life insurers tend to be significantly greater than the Group's assumption of 600%. If the level of required capital were to be set to a solvency margin ratio of 1,000%, the required capital would become ¥880.0 billion and the cost of capital ¥92.6 billion. The definition of required capital may be reviewed in the future considering international and Japanese developments in this area, including development of international accounting standards and the trend towards the introduction of economic-value-based solvency margin standards.

4.7 Frictional Cost of Capital

This item is the cost of having to retain the level of required capital, and within MCEV it is referred to as “frictional cost.”

Within this item, tax on investment returns on required capital has been allowed for. Investment expenses incurred in respect of the assets backing the required capital (another frictional cost) are reflected in the unit cost assumptions.

4.8 Non-Financial Risk

EEV Principles define the EV to be the present value of distributable profits attributable to shareholders arising from assets allocated to the covered business, calculated taking into account all the risks of the covered business, including non-financial risks.

According to corporate finance theory, an investor can diversify away the uncertainty around the return on most non-financial risks. So, an allowance for non-financial risk is generally made through the appropriate choice of best-estimate experience assumptions relating to risks such as mortality. Provided the best-estimate assumptions are set to provide the mean expected financial outcome to shareholders, no further allowance for non-market risk is required. This is true for the majority of T&D Holdings’ non-financial risks.

Some non-financial risks are correlated with market risk (e.g., policyholder behavior linked to changes in investment markets). These have been allowed for directly in the cost of financial options and guarantees.

There are some non-financial risks where the existing best-estimate experience assumptions do not allow for the impact on embedded value of the full range of potential outcomes. These are typically operational risks and are allowed for in the EEV through the allowance for non-financial risk.

The Group estimated these costs per year based on a simple model, and projected forwards to make an explicit allowance.

5. Glossary

Best-Estimate Assumptions:	<ul style="list-style-type: none">• Projection assumptions which represent the most likely outcome of the future and which are set based on past, current and expected future experience.
Deterministic Approach:	<ul style="list-style-type: none">• An approach under which a single future scenario is applied in developing a cash flow projection.
Dynamic Assumptions:	<ul style="list-style-type: none">• Projection assumptions which change according to economic and other parameters following certain formulas. Examples include policyholders' dividend assumptions linked to investment return and lapse rate linked to the difference between risk-free rate and the guaranteed rate.
Free Surplus:	<ul style="list-style-type: none">• Part of capital and surplus allocated to the covered business but not required to be maintained.
Implied Volatility	<ul style="list-style-type: none">• This refers to the estimated rate of change in the future. Option contracts are future agreements and therefore use the estimated rate of change, which reflects future projections by market observers of factors such as popularity and degree of expectation.• Implied volatility is based on historical rates of change (i.e., the actual rate of past market change) but also factors in projected market trends and demand-supply relationships.
Look-Through Basis:	<ul style="list-style-type: none">• An approach which includes in the EEV results the value of profits and losses arising in service companies within a group from providing services to the life insurance company.
Risk Neutral Scenarios:	<ul style="list-style-type: none">• Investment return scenarios used to value assets and liabilities applying a Monte Carlo simulation approach on a market-consistent basis. Risk-neutral scenarios are generated applying an arbitrage-free stochastic model based on financial market data.
Stochastic Approach:	<ul style="list-style-type: none">• An approach to project a range of possible future outcomes applying probability distribution models. In the calculation of the cost of options and guarantees, a set of scenarios is generated based on a probability model and each scenario is applied to project future cash flows.
Swap Rates:	<ul style="list-style-type: none">• The rates at which cash flows based on fixed interest rates and those based on floating rates are exchanged in the market. Typically, swap rates represent fixed interest rates which can be exchanged against standard floating rates, such as LIBOR (London Inter-Bank Offered Rate).

T&D Holdings, Inc.



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