

May 21, 2008

Tokio Marine & Nichido Financial Life Insurance Co., Ltd.

## **Disclosure of Embedded Value as of March 31, 2008**

Tokio Marine & Nichido Financial Life Insurance Co., Ltd. (President and CEO: Masaru Yamashita) hereby discloses its Embedded Value ("EV") as of March 31, 2008, one of the measures of the economic value of the life insurance business operated by the Millea Group in Japan, as shown in the attachment.

### **<Outline>**

EV as of March 31, 2008 was 94.3 billion yen, a decrease of 14.4 billion yen from the previous fiscal year, excluding the capital increase during the term of 10 billion yen.

As a result, ROE for the fiscal year ended March 31, 2008 (from April 1, 2007 to March 31, 2008, "FY2007") was -14.9%.

**Table 1**

(Billions of yen)

	<b>FY2005</b>	<b>FY2006</b>	<b>FY2007</b>
<b>Net asset value</b>	18.5	31.6	40.3
<b>Value of in-force business</b>	42.4	67.1	53.9
<b>EV as at the end of the fiscal year</b>	61.0	98.7	94.3
<b>Value of new business</b>	7.4	14.1	2.6

**Table 2**

(Billions of yen)

	<b>FY2005</b>	<b>FY2006</b>	<b>FY2007</b>
<b>Change in EV (excluding the capital increase during the term)</b>	15.4	17.8	-14.4
<b>Average EV</b>	43.2	79.8	96.5
<b>ROE<sup>Note</sup></b>	35.7%	22.3%	-14.9%

Note: ROE = Change in EV (excluding the capital increase during the term) / Average EV

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## Embedded Value as of March 31, 2008

### 1. Embedded Value

Embedded Value ("EV") is regarded as one of the measures used to assess the economic value of a life insurance business and its performance. In Japan, over ten insurers have disclosed their EV as of March 31, 2007. It is calculated as the sum of the "net asset value" and "value of in-force business".

“**Net asset value**” is calculated by adding "Contingency reserve" and "Reserve for price fluctuations" which are regarded as appropriate to be included in "net assets", to "net assets" in the balance sheets.

“**Value of in-force business**” is based on “net incomes” expected to be generated by the in-force business. The present value is calculated by discounting future distributable shareholder profits, fewer surpluses required to be retained in order to maintain a certain level of solvency margin, using a risk discount rate that takes a risk premium into consideration.

### 2. EV at the end of fiscal year

#### (1) EV as of March 31, 2008

The EV as of March 31, 2008 was 94.3 billion yen in total: net asset value of 40.3 billion yen and value of in-force business of 53.9 billion yen.

**Table 1** (Billions of yen)

	FY2005	FY2006	FY2007
<b>Net asset value</b>	18.5	31.6	40.3
<b>Value of In-force business</b>	42.4	67.1	53.9
<b>EV as at the end of fiscal year</b>	61.0	98.7	94.3
<b>Value of new business</b>	7.4	14.1	2.6

#### (2) Change in EV and ROE

The Millea Group adopts "change in EV" and "ROE", as measures used for assessing its performance in the life insurance business.

Excluding the capital increase during the term, the EV as of March 31, 2008 decreased by 14.4 billion yen from that of March 31, 2007 (the change in EV: -14.4 billion yen), while ROE was -14.9%.

**Table 2** (Billions of yen)

	FY2005	FY2006	FY2007
<b>Change in EV (excluding the capital increase during the term)</b>	15.4	17.8	-14.4
<b>Average EV</b>	43.2	79.8	96.5
<b>ROE*</b>	35.7%	22.3%	-14.9%

\*Note: ROE = Change in EV (excluding the capital increase during the term) / Average EV

The Change in EV as of March 31, 2008 (excluding the capital increase during the term) decreased by 32.2 billion yen, compared with that as of March 31, 2007. However, when "Variances between actual performance and assumptions on investment" and "Effect of changes in assumptions" are excluded, the change in EV as of March 31, 2008 was 6.9 billion yen, a decrease of 5.2 billion yen from the previous fiscal year of 12.2 billion yen.

Reference	(Billions of yen)		
	FY2005	FY2006	FY2007
<b>Change in EV*</b>	5.2	12.2	6.9

\*Note: Excluding the capital increase during the term, variances between experience and assumptions on investment and effect of changes in assumptions.  
For FY2005, effect of subordinated loan was also excluded.

### 3. Major Assumptions

The major assumptions used in the calculations of value of in-force business at March 31, 2008 were as follows:

Assumption	Basis of Assumptions
<b>Mortality rate</b>	Based on past claim payment performance by insurance type, policy year, etc.
<b>Surrender rate</b>	Based on past surrender performance by insurance type, payment method, and policy year.
<b>Expense</b>	Based on past actual expenses, expressed as unit costs per in force policy.
<b>Investment earnings ratio for separate accounts</b>	Based on earnings ratio of portfolio (stock fund, bond fund, and money fund) by insurance policy type.
<b>Effective tax rate</b>	Based on actual experience (36.2%).
<b>Solvency Margin Ratio</b>	Assumed to maintain a solvency margin ratio of 600%
<b>Risk discount rate</b>	Set by adding a risk premium of 6% to the risk free interest rate (the 20-year JGB yield). FY2006: Risk free interest rate (2.10%) + 6%      8% FY2007: Risk free interest rate (2.10%) + 6%      8%

#### <Investment earnings ratio for separate accounts>

Investment earnings ratio for separate accounts is set by insurance policy type, 4% of stock fund, 1.28% of bond fund and 0.1% of money fund.

#### <Risk discount rate>

The risk discount rate has been set by adding a risk premium of 6% to the risk free interest rate (the 20-year JGB yield). The risk premium has not been changed between FY2006 and FY2007.

The Millea Group set a risk premium of 6.0% as the required level for its domestic life insurance business.

#### 4. Effects of Changes in Assumptions (Sensitivities)

The table below shows the change in EV at March 31, 2008 arising from changes to assumptions:

**Table 3** (Billions of yen)

Change in Assumptions	Amount of Increase (Decrease)	EV Amount
Set 1.1 times the insurable mortality rate	-0.7	93.5
Set 1.1 times the surrender rate	-0.2	94.0
Set 1.1 times the expense	-0.7	93.5
If the balance of actual cash value of separate accounts is instantly reduced by 10%	-17.5	76.7
Solvency margin ratio 500%	0.8	95.1
Solvency margin ratio 700%	-1.0	93.2
Reduce risk premium by 2.0% (with 6% discount rate)	4.6	98.9
Reduce risk premium by 1.0% (with 7% discount rate)	2.2	96.5
Raise risk premium by 1.0% (with 9% discount rate)	-2.1	92.1
Raise risk premium by 2.0% (with 10% discount rate)	-4.0	90.2

#### <Increase or reduction in risk premium >

Any increase or reduction in discount rate is in tandem with the fluctuations in market interest rates and increases or reductions in the risk premium rate. However, in this case, the market interest rate is fixed and the effect is calculated based on the fluctuation of risk premium.

#### 5. Factors for the Change in EV

**Table 4** (Billions of yen)

	FY2006	FY2007	Year-on-year change
Capital increase during the term	20.0	10.0	-10.0
Value of new business	14.1	2.6	-11.4
Release of the discounted value of in-force business	5.1	6.6	1.6
Variances between actual performance and assumptions on investment	3.4	-21.5	-24.9
Variances between actual performance and assumptions on others	-0.2	-1.4	-1.2
Effect of reinsurance pertaining to deferment policies	-6.8	-0.8	5.8
Effect of changes in assumptions	2.2	0.1	-2.0
<b>Total</b>	<b>37.8</b>	<b>-4.4</b>	<b>-42.2</b>
<b>(Excluding capital increase during the term)</b>	<b>17.8</b>	<b>-14.4</b>	<b>-32.2</b>

The change in EV, excluding capital increase during the term, consists of two major components, the value of new business and others.

**(1) Value of new business**

The value of new business written for FY2007 was 2.6 billion yen, a decrease of 11.4 billion yen from the previous fiscal year. It results from a decrease in new business volume for FY2007.

**(2) Changes other than Value of new business**

Actual performance on investment was 21.5 billion yen lower than the assumptions, which was due to the decrease in M&E to be earned in the future in proportion to the total amount of net assets of the separate account, resulting from the fact that the actual performance of the separate account fell short of the assumptions.

Effect of reinsurance pertaining to deferment policies for FY2007 was -0.8 billion yen, which was due to the impact by reinsurance for those policies issued before the previous fiscal year.

Release of the discounted value of in-force business for FY2007 was 6.6 billion yen, an increase of 1.6 billion yen from the previous fiscal year, along with an increase in the value of in-force business.

## 6. Review by Independent Actuarial Firm

To assure the validity and appropriateness of the EV evaluation, Tokio Marine & Nichido Financial Life engaged Tillinghast, an independent actuarial firm, to review its EV and obtained the opinion as shown below.

### TILLINGHAST OPINION ON EMBEDDED VALUE OF TOKIO MARINE & NICHIDO FINANCIAL LIFE ("TMNFL") AS AT 31 MARCH 2008

Tillinghast insurance consulting business of Towers Perrin ("Tillinghast") has reviewed the methodology and assumptions adopted, and the resulting embedded value of TMNFL as at 31 March 2008, as calculated by TMNFL.

Tillinghast has concluded that

- the methodology used is consistent with recent industry practice as regards traditional actuarial embedded value calculations (based on discounted values of projected deterministic after-tax profit flows)
- the economic assumptions are internally consistent and have been set with regard to current economic conditions;
- the risk discount rate and assumptions on required capital have been set in line with recent industry practice as regards traditional actuarial embedded value calculations;
- the operating assumptions have been set with appropriate regard to past, current and future expected experience of TMNFL, taking into account the nature of TMNFL's business; and
- Tillinghast is satisfied that the disclosed results have been prepared, in all material respects, in accordance with the methodology and assumptions set out in this disclosure document. To come to this conclusion, Tillinghast has performed checks on the results of the calculations, without, however, undertaking detailed checks of all the models, processes and calculations involved.

This review was carried out for the benefit of TMNFL. In performing its review, Tillinghast relied extensively on a substantial body of information supplied by TMNFL and did not carry out an independent review of this information.

Financial projections used as a basis for the embedded value were developed based on a number of assumptions as to the current and future operating environment of TMNFL. It should be recognised that actual results can vary from those projected, even though the assumptions are considered by TMNFL to be appropriate.

Allowance for risk has been made through the use of a single discount rate and an explicit assumption for the level and cost of holding solvency capital. While this is in line with recent industry practice as regards traditional actuarial embedded value calculations, this may not correspond to a capital markets valuation of such risk (so called "market consistent valuation").

The values shown are not intended to represent an opinion of market value and should not be interpreted in that manner.

This opinion is made solely to TMNFL in accordance with the terms of Tillinghast's engagement letter. To the fullest extent permitted by applicable law, Tillinghast does not accept or assume any responsibility, duty of care or liability to anyone other than TMNFL for or in connection with its review work, the opinions it has formed, or for any statement set forth in this opinion.

## **7. Instruction**

As the EV is calculated based on the assumptions including future prospects with risk and uncertainty, actual future results can differ largely from the assumptions used in EV calculation.

Also, since the actual market capital is determined by investors' judgment based on a number of information, EV can significantly differ from it. Therefore, sufficient consideration needs to be made in using EV.

## **Terminology**

- Net asset value

“Net asset value” is calculated by adding "contingency reserve" and "reserve for price fluctuations" which are regarded as appropriate to be included in net assets, to net assets in the balance sheets.

As "Contingency reserve" and "reserve for price fluctuations" are prepared to ensure the soundness of the Company's assets in case of unforeseeable circumstances. Considering that these reserves are not for the payment of specific benefits and the time of payment is undetermined, these are regarded as appropriate to be added to net assets.

- Value of In-force business

Value of in-force business is calculated by subtracting the following capital cost from the expected present value of the current net incomes generated from the in-force business.

To calculate the future net incomes, assumptions such as future mortality rate, surrender rate, expenses and investment earnings ratio for separate accounts need to be set. As these assumptions, however, can differ from the actual future results, the present value are calculated by applying a risk discount rate to the projected future net incomes.

The minimum amounts of capital required to sustain its business (to maintain a certain level of solvency margin ratio) is calculated. This capital is repeatedly used for the investment until it is no longer necessary. For the investment/return of this capital, the present value is calculated by discounting the capital using a risk discount rate, in order to recognize "opportunity cost (capital cost)."

Therefore, the value of in-force business is the present value of future distributable shareholder profits less the amounts to be re-invested from the current net incomes.

- Value of new business

Value of new business is the present value of profits to be generated by new business for the fiscal year. It is the sum of profit/loss from the new business expenses (part of the above-mentioned net asset value) and the present value of profit/loss to be generated in the next fiscal year and later (part of the above-mentioned value of in-force business).