

## **Disclosure of Group Surplus as of March 31, 2021**

Meiji Yasuda Life Insurance Company (“Meiji Yasuda Life”, President: Akio Negishi) is disclosing its “Group Surplus” results as of March 31, 2021.

We have discontinued disclosing European Embedded Value (“EEV”) and instead disclose Group Surplus as an indicator of enterprise value, based on the recent discussion regarding solvency regulations for Internationally Active Insurance Groups (“IAIGs”) and new economic value-based solvency regulations in Japan (Note).

Group Surplus is the value of net assets, calculated with the economic value of assets and liabilities, and is an indicator representing our enterprise value, taking the trend of Insurance Capital Standard (“ICS”) into consideration.

The Group Surplus as of March 31, 2021 was 7,370 billion yen, an increase of 1,320 billion yen or 21.8% compared to the previous year. Please refer to Appendix 1 for the status of Group Surplus and Appendix 2 for calculation methodology of Group Surplus.

(Note) Currently, the International Association of Insurance Supervisors (“IAIS”) is preparing to implement ICS as a solvency regulation for IAIGs by 2025. In Japan as well, a new regulation for domestic companies is supposed to be introduced at around the same time as implementation of ICS.

## Results of Group Surplus and Movement analysis

- The Group Surplus was ¥7,370 billion, increased 21.8% year-on-year.(Figure 1 )  
The Surplus of Meiji Yasuda Life increased of 24.3% year-on-year.  
The Surplus of StanCorp Financial Group (“StanCorp”) increased of 4.8% based on US dollar, while it decreased based on yen due to foreign exchange factor. (Table 1)
- Economic experience variances, such as rising stock prices and Japanese interest rates, and Value of new business are the main factor of increase.(Figure 2 )

Figure1 : Results of Group Surplus (Billions of yen)

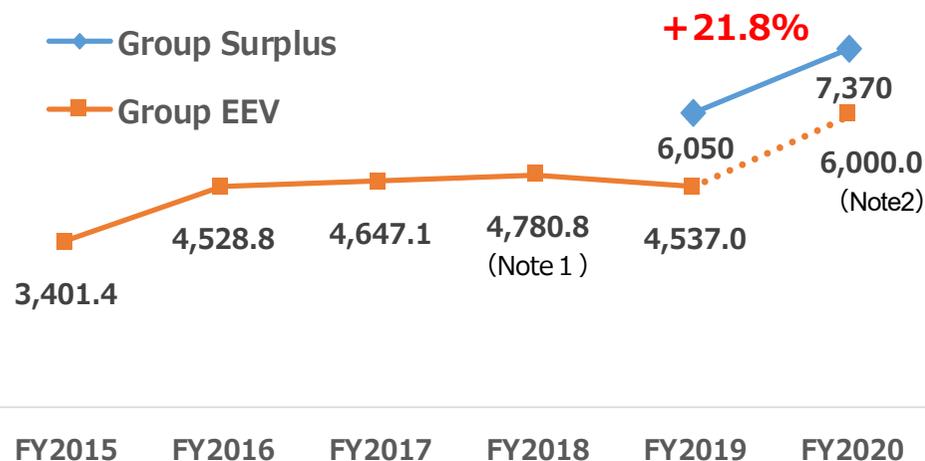


Figure2 : Movement analysis (Billions of yen)

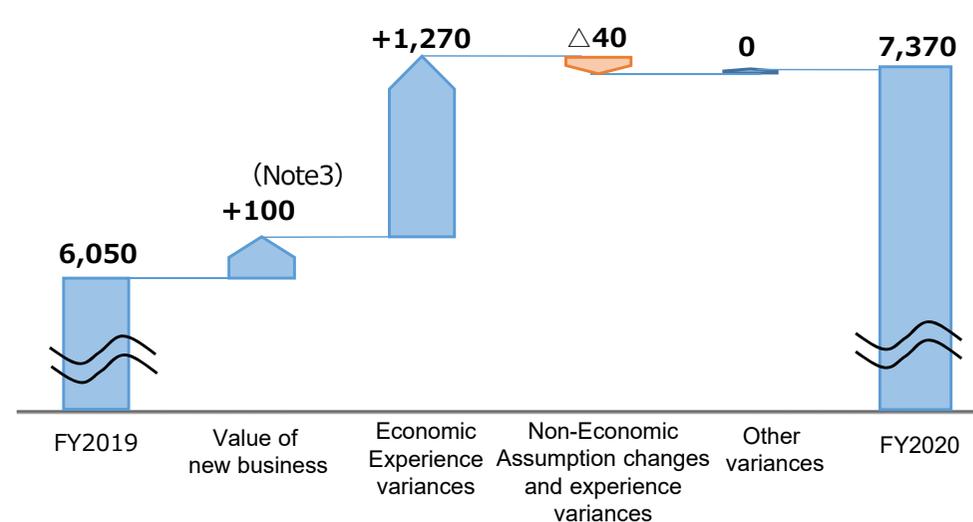


Table 1 : Surplus of each company (Billions of yen)

	FY2019	FY2020	Difference	Change
Group Surplus	6,050	7,370	+1,320	+21.8%
Meiji Yasuda Life	5,450	6,770	+1,320	+24.3%
StanCorp(Note4)	560 (5,110)	554 (5,355)	△6 (+245)	△1.0% (+4.8%)

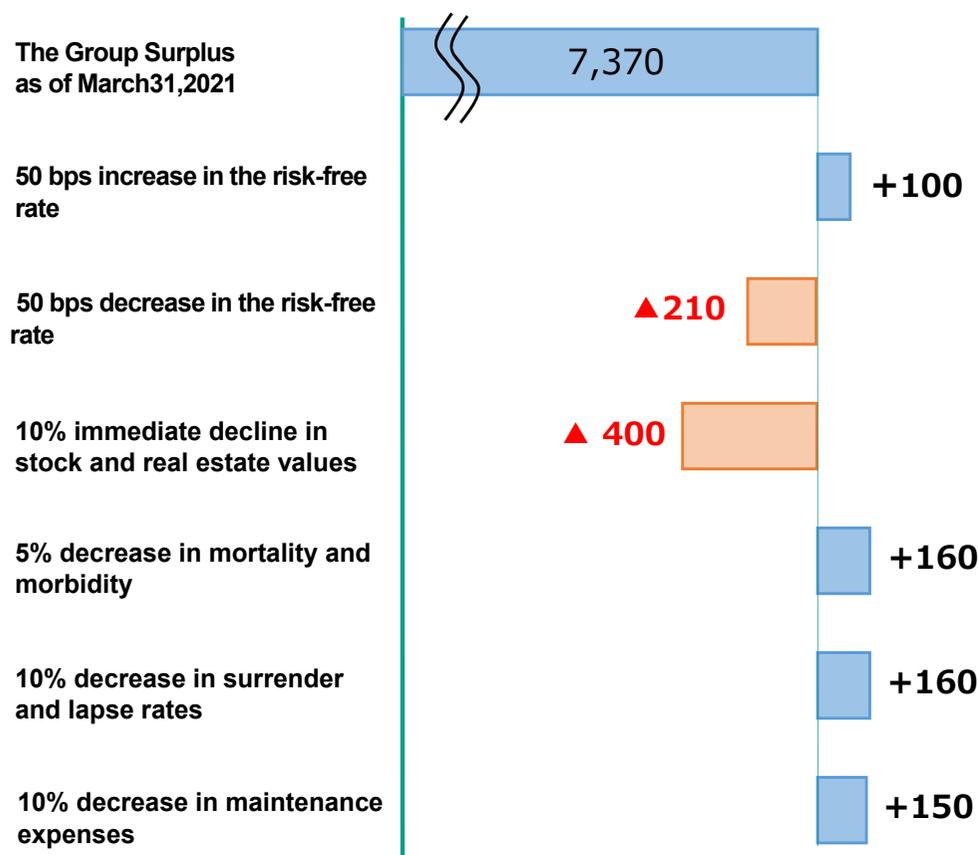
- (Note 1) In the first half of the fiscal year ended March 31, 2020, the Company switched its extrapolation method to a method that uses ultimate interest rates. (The graph also presents the Group EEV as of March 31, 2019 being reevaluated in a same method.)  
 (Note 2) The results of EEV as of March 31, 2021 have not been reviewed by a third party.  
 (Note 3) Due to the special circumstances of COVID-19, some operating expenses are excluded from the value of new business and deducted directly from net assets.  
 (Note 4) In parentheses, US dollar-based amounts are shown in millions of USD.

# The status of Group Surplus

## Sensitivity analysis

- The Group Surplus will fluctuate due to changes in assumptions both investment environment such as risk free rate and non-economic assumptions such as mortality and morbidity. Figure 3 shows the sensitivity when the assumptions are changed.

**Figure3 : Group Surplus sensitivity (Billions of yen)**



### <Reference> Investment environment in FY 2020

- The investment environment in FY 2020 is as follows.

	End of FY 2020	Difference From FY 2019
10-year JGB rate	0.120%	+0.115%
20-year JGB rate	0.494%	+0.168%
30-year JGB rate	0.669%	+0.236%
Nikkei 225	29,178.80yen	10,261.79yen
TOPIX	1,954.00 point	+550.96point
10-year US Treasury rate	1.740%	+1.071%
Dollar / Yen Exchange rate	110.71yen	+1.88yen

## Calculation methodology of Group Surplus

### 1. Definition of Group Surplus

Group Surplus is an indicator of enterprise value, currently under discussion in Insurance Capital Standard (ICS) and Japanese economic value-based solvency regulations. Meiji Yasuda's Group Surplus is defined as the total of the Surplus of Meiji Yasuda Life Insurance Company and its subsidiaries and affiliated companies, including StanCorp, Pacific Guardian Life Insurance Company, Meiji Yasuda General Insurance Co., Ltd.. The definition of Surplus of each company is as follows.

#### ▪ Meiji Yasuda Life

The covered business is all life insurance business of Meiji Yasuda Life, effective at the end of the period.

The Surplus of Meiji Yasuda Life is defined as "Economic value of in-force business" plus "Unrealized gains or losses on assets" plus "Statutory Net Asset and others". Please refer to "2. Methodology and assumptions for Meiji Yasuda Life" for more details.

#### ▪ StanCorp (wholly-owned subsidiary)

The Surplus of StanCorp's life insurance business and asset management business is calculated using a top-down approach and is included in the Group Surplus. StanCorp's Surplus is calculated as of December 31, 2020, which is the calculation date for consolidated financial statements. Please refer to "3. Methodology and assumptions for StanCorp" for more details.

#### ▪ Pacific Guardian Life Insurance Company (wholly-owned subsidiary)

The balance sheet value of Pacific Guardian Life Insurance Company has been included in the Group Surplus as a proxy for its market value, as its contribution to the total Group Surplus is limited.

#### ▪ Meiji Yasuda General Insurance Co., Ltd.

Real net asset value of Meiji Yasuda General Insurance Co., Ltd. has been included in the Group Surplus as a proxy for its market value, as its contribution to the total Group Surplus is limited.

#### ▪ Other subsidiaries and affiliated companies

The balance sheet values of other subsidiaries and affiliated companies have been included in the Surplus as a proxy for their market values, as their contribution to the total Surplus is limited.

## 2. Methodology and assumptions for Meiji Yasuda Life

### 2 – 1 . Methodology

The Surplus of Meiji Yasuda Life is defined as "Economic value of in-force business" plus "Unrealized gains or losses on assets" plus "Statutory Net Assets and others". The detailed calculation methodology is as follows.

#### ( 1 ) Economic value of in-force business

Economic value of in-force business is calculated as the present value of future profits by deducting the time value of financial options and guarantees and the risk adjustment amount.

##### ( a ) Present value of future profits

Present value of future profits is calculated without considering factors that have asymmetric impacts on future profits with respect to changes in economic assumptions. For this reason, the present value of future profits includes the intrinsic value of financial options and guarantees, such as policyholders' dividends, but does not include the time value of financial options and guarantees, which is calculated separately. The discount rate is evaluated by adding the spread adjustment to the risk-free rate, taking the current discussion in Insurance Capital Standard (ICS) and Japanese economic value-based solvency regulations into consideration.

##### ( b ) Time value of financial options and guarantees

A variety of financial options and guarantees embedded in insurance contracts may have asymmetric impacts on future profits depending on underlying economic assumptions. The value of financial options and guarantees is calculated using a stochastic approach based on economic assumptions consistent with the market value of traded options.

The time value of financial options and guarantees is calculated as the difference between the deterministic present value of future profits and the average of the present value of future profits calculated using the stochastic approach.

Meiji Yasuda Life considered the options and guarantees of "Policyholder dividends", "Variable product minimum guarantees", "Interest-rate-sensitive-product minimum guaranteed crediting rates" and "Policyholder behavior" in calculating the time value of financial options and guarantees.

##### ( c ) Risk Adjustment

Risk adjustment covers inherent uncertainties in the cash flows related to insurance obligations. Based on the status of consideration of Insurance Capital Standard (ICS) and Japanese economic value-based solvency regulations, the 85th percentile is used to compute the risk adjustment amount.

#### ( 2 ) Unrealized gains or losses on assets

Regardless of the valuation method on the statutory balance sheet, assets are marked to market when possible and the unrealized gains or losses of the assets are calculated. Held-to-maturity debt securities, policy-reserve-matching bonds, loans, real estates and other assets are marked to market and unrealized gains or losses are recognized.

( 3 ) Statutory Net Assets and others

"Statutory Net Assets and others" is defined as net assets on the statutory balance sheet, plus internal reserves in liabilities including price fluctuation reserve and contingency reserve, plus externally procured funds such as subordinated debt, minus expected amount of Surplus that will be disbursed outside the company.

## 2 – 2. Assumptions

### (1) Economic assumptions

#### (a) Risk-free rate

The Japanese government bond, US treasury and Australian government bond yields at the valuation date are used as the reference rate.

#### (b) Discount rate

It is set for each segment corresponding to the cash flow period.

	Setting of discount rate
First segment (0~30year)	The spread adjustment is added to the spot rate (risk-free rate, calculated using the government bond) of government bond in the same currency of the liabilities. The spread adjustment is set based on the discussion of Insurance Capital Standard that the International Association of Insurance Supervisors is considering.
Second segment (30~60year)	Ultimate Forward Rate (UFR) is assumed to be 3.8%. Starting at the end of year 30, the Smith-Wilson method is used to extrapolate so that the forward rate after 31st year will converge to the Ultimate Forward Rate in 30 years. The spread adjustment is added to the extrapolated result.
Third segment (60year~)	The spread adjustment is added to Ultimate Forward Rate to determine the forward rate.

The spot rates used are as follows.

Term	JPY		USD		AUD	
	March 31, 2020	March 31, 2021	March 31, 2020	March 31, 2021	March 31, 2020	March 31, 2021
1 year	△0.146%	△0.111%	0.251%	0.091%	0.180%	0.067%
2 year	△0.135%	△0.124%	0.248%	0.156%	0.250%	0.085%
3 year	△0.111%	△0.125%	0.312%	0.359%	0.236%	0.115%
5 year	△0.093%	△0.090%	0.423%	0.941%	0.338%	0.892%
10 year	0.005%	0.120%	0.750%	1.769%	0.774%	1.841%
20 year	0.330%	0.506%	1.178%	2.356%	1.626%	2.726%
30 year	0.441%	0.696%	1.408%	2.520%	1.911%	2.962%

### (2) Non-economic assumptions

Premiums, operating expenses, insurance benefits and claims, surrender benefits, tax, and other cash flows are projected based on best estimate assumptions set for each product type, considering past and recent experience and expected future experience.

#### (a) Operating expenses

Operating expense assumptions are derived from Meiji Yasuda Life's experience, and assumed future expense improvement is not reflected. The future inflation rate is assumed to be zero.

A look-through adjustment for subsidiaries and affiliated companies is applied in all respects material to the total Group Surplus.

( b ) Policyholders' dividends

Policyholders' dividend rates are set based on current dividend policy, and the projected dividend rate is dynamically linked to each market-consistent risk neutral scenario.

### **3. Methodology and assumptions for StanCorp**

#### **3 – 1. Methodology**

Surplus of StanCorp is defined as " Value of inforce business " plus " Adjusted Net Worth ". The detailed calculation methodology is as follows.

##### **( 1 ) Value of inforce business**

The Value of inforce business is calculated as the present value of future profits net of deductions for the time value of financial options and guarantees, as well as the cost of holding required capital.

##### **( a ) Present value of future profits**

The present value of future profits is the after-tax statutory profits of covered business based on projected cash flows calculated on a deterministic basis, and discounted at an appropriate risk discount rate. Future renewals of group insurance business are also included. Investment cash flows are calculated based on economic assumptions, on asset data and on the expected reinvestment strategy as of December 31, 2020.

Please refer to " 3 – 2 . Assumptions ( 1 ) Economic assumptions " for details of the risk discount rate.

##### **( b ) Time value of financial options and guarantees**

When calculating Surplus using a top-down approach, the time value of options and guarantees is often calculated using real-world scenarios. However, for StanCorp, the time value of financial options and guarantees has been calculated using risk-neutral scenarios. The time value of financial options and guarantees is calculated as the difference between the deterministic present value of future profits and the average of the present value of future after-tax profits calculated using stochastic methods. The options and guarantees of "Minimum guaranteed crediting rates" and "Policyholder behavior" were considered in calculating the time value of financial options and guarantees.

##### **( c ) Cost of holding required capital**

The cost of holding required capital is a spread between the after-tax net investment yield and the risk discount rate for holding the required capital.

StanCorp defines required capital as the level required to maintain 325% of NAIC's Company Action Level RBC for most of its businesses. The statutory minimum is the level required to maintain 100% of NAIC's Company Action Level RBC, which is the level of capital below which an insurer must submit a capital improvement plan to the regulator.

## ( 2 ) Adjusted Net Worth

The starting point for the Adjusted Net Worth is the statutory capital and Surplus of the life insurance business and the US-GAAP equity of asset management businesses, excluding those in the life insurance entities, and the holding company (net of investment in subsidiaries).

Liabilities that are appropriate to be added back into the adjusted net worth have been included. The asset valuation reserve is a required liability in the statutory balance sheet of U.S. life insurance companies. However, the asset valuation reserve is regarded as allocated Surplus and is included in Adjusted Net Worth.

Additional adjustments for the life insurance business include addition of assets which have a certain economic value but which are not recorded on the statutory balance sheet (furniture and equipment, etc.) and adjustments for deferred tax assets on the statutory balance sheet, pension obligations, off balance sheet items and tax advantaged investments. For the asset management businesses, excluding those in the life insurance entities, and the holding company, additional adjustments include deduction of assets on the US-GAAP balance sheet without economic value (intangible assets), deferred tax assets related to the intangible assets, and assets that have their economic value reflected in the Value of inforce business.

### 3 – 2. Assumptions

#### ( 1 ) Economic assumptions

##### ( a ) Risk-free rate

The risk-free rate used in the calculation of the present value of future profits is based on the USD swap yield curve.

##### ( b ) Risk discount rate

The risk discount rate is set using a weighted average cost of capital approach (WACC) taking into account the cost of equity and cost of debt. The cost of equity excludes any additional risk margin for unhedged interest rate risk as this is included by using market consistent stochastic interest rate scenarios for calculating time value of financial options and guarantees. The risk discount forward rate as of December 31, 2020 ranges from 4.94% to 6.54% (annual effective), which consists of a risk-free forward rate curve and a risk margin ranging from 4.73% to 4.75%, decreased from a range of 4.71% to 4.72% as of December 31, 2019.

#### ( 2 ) Non-economic assumptions

Premium, operating expense, benefits and claims, cash surrender value, tax, and other cash flows are projected applying the best estimate assumptions, by product which reflect past, current and expected future experience. Dynamic assumptions are used for calculating the time value of options and guarantees for the individual and group annuity business.

The future inflation rate for maintenance expenses is assumed to be 2.0% p.a., based on the Federal Reserve Board's long term inflation targets and inflation rates implied from inflation linked bonds.

#### ( 3 ) Exchange rate

The Surplus of StanCorp is calculated in its local currency and converted into JPY using the following rate:

	<b>December 31, 2019</b>	<b>December 31, 2020</b>
USD 1.00	JPY 109.56	JPY 103.50