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## **Disclosure of European Embedded Value as of September 30, 2009**

T&D Holdings (“TDH”), Taiyo Life Insurance Company (“Taiyo”), Daido Life Insurance Company (“Daido”) and T&D Financial Life Insurance Company (“TDF”) (collectively, “T&D Life Group” or “the Group”) is disclosing the Group’s European Embedded Value (“EEV”) results as of September 30, 2009.

TDH has been disclosing year-end EEV as part of its year-end financial reporting. From this year, TDH has started to calculate and disclose EEV on a half yearly basis in order to enhance the quality of disclosures. Some aspects of calculation methods and disclosure items are different from those of EEV disclosure as of March 31, 2009<sup>1</sup> (for example, sensitivities are not calculated).

### **Contents**

- 1. Outline of EEV**
  - 2. EEV results of T&D Life Group**
  - 3. Movement Analysis**
  - 4. EEV by Company**
  - 5. EEV Methodology**
  - 6. Principal EEV Assumptions**
  - 7. Notes on the Use of the Information**
  - 8. Third Party Opinion**
- Glossary**

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<sup>1</sup> Refer to "Disclosure of European Embedded Value as of March 31, 2009" released on May 19, 2009

## 1. Outline of EEV

### (1) What is EEV?

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 embedded values. Further EEV Guidance was published by the CFO Forum in October 2005 which covered sensitivities and aspects of disclosure.

### (2) EEV Approach

The Group's EV disclosure is based on EEV Principles. One of the key features of the EEV Principles is the allowance for risk in the valuation, where the Group has adopted a market-consistent approach.

A market-consistent approach is one in which each cash flow is valued consistently with similar traded market instruments. This approach has been increasingly adopted among leading European insurers. Reflecting such trends, the CFO Forum published the European Insurance CFO Forum Market Consistent Embedded Value Principles<sup>2c</sup> ("MCEV Principles") in June 2008, which was revised in October 2009. MCEV Principles will become compulsory for the CFO Forum members from year-end 2011.

### (3) Covered Business

The covered business is the life insurance business of the Group written through its three life insurance subsidiaries, Taiyo, Daido and TDF. TDH holds 100% of the shares of the three life insurance subsidiaries.

## 2. EEV results of T&D Life Group

The embedded value on an EEV basis as of September 30, 2009 is ¥1,136.4 billion, an increase of ¥269.8 billion from the value as of March 31, 2009.

The adjusted net worth is ¥670.7 billion, an increase of ¥135.4 billion, which is related largely to an increase in the unrealized gains of securities. The value of in-force business is ¥465.6 billion, an increase of ¥134.4 billion, which has been caused largely by an increase in the level of long-term interest rates. The value of new business sold during the first half-year is ¥19.0 billion. This embedded value does not include the value of the Group's direct subsidiaries, except for the three life insurance subsidiaries of TDH.

	(Billions of yen)		
	September 30, 2009	March 31, 2009	Increase (Decrease)
Embedded value	1,136.4	866.5	269.8
Adjusted net worth	670.7	535.3	135.4
Value of in-force business	465.6	331.1	134.4

*Value of new business for the first half ended September 30, 2009: ¥19.0 billion. (Value of new business for the fiscal year ended March 31, 2009 : ¥28.5 billion.)*

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## (1) Adjusted Net Worth

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. The adjusted net worth has been derived as follows.

	(Billions of yen)		
	September 30, 2009	March 31, 2009	Increase (Decrease)
Adjusted net worth	670.7	535.3	135.4
Shareholders equity on the balance sheet <i>(Note1)</i>	411.9	410.0	1.9
Unrealized gains/losses on securities (after tax)	80.2	(34.3)	114.6
Unrealized gains/losses on loans (after tax)	28.0	17.2	10.7
Unrealized gains/losses on real estate (after tax)	1.6	0.7	0.9
General reserves for possible loan losses (after tax)	1.3	1.0	0.3
Internal reserves as quasi-equity liabilities (after tax) <i>(Note2)</i>	147.5	140.6	6.8

Notes:

1. Excluding unrealized gains/losses
2. Price fluctuation reserve, contingency reserve and unallocated amount in policyholders' dividend reserve

## (2) Value of in-force business

Value of in-force business represents the present value as of the valuation date (September 30, 2009) of future profits distributable to shareholders from the in-force business as of the valuation date and consists of the following components, as defined in section 5.

	(Billions of yen)		
	September 30, 2009	March 31, 2009	Increase (Decrease)
Value of in-force business	465.6	331.1	134.4
Certainty equivalent present value of future profit	656.3	512.7	143.6
Time value of financial options and guarantees	(118.8)	(124.0)	5.2
Frictional cost of capital	(32.5)	(32.1)	(0.3)
Allowance for non financial risk	(39.4)	(25.3)	(14.1)

The certainty equivalent present value of future profit is the present value of future profit calculated deterministically by assuming the investment yield is equal to the risk-free rate and using the risk-free rate as the discount rate. This value includes the intrinsic cost of the financial options and guarantees present in the Group's products.

The time value of financial options and guarantees is calculated stochastically using a set of market-consistent risk neutral economic scenarios.

The frictional cost of capital represents the double taxation and investment management cost associated with maintaining the level of capital which the Group considers as required in continuing the life insurance business.

The allowance for non financial risk is an estimate of the impact of non financial risks which are not adequately allowed for directly in the models, as described further below.

Further explanation of the above components is provided in Section 5 of this document.

### (3) Value of new business

Value of new business is the value as at the valuation date of the new business issued for the first half ended September 30, 2009. It has been calculated applying the same economic and operating assumptions used to calculate the embedded value as of September 30, 2009. It does not include values anticipated from future new business. For conversions, only net increases in value by conversions have been included in the value of new business. The table below shows the value of new business and the new business margin, calculated as the ratio of the value of new business to the present value of new business premiums.

	(Billions of yen)
	September 30, 2009
Value of new business	19.0
Present value of new business premiums	570.3
Value of new business/present value of new business premiums	3.3%

### (4) Reconciliation between Consolidated GAAP accounts and Adjusted Net Worth

A reconciliation between the adjusted net worth of ¥670.7 billion as of September 30, 2009 and the Group consolidated net assets of ¥433.5 billion is shown below.

	(Billions of yen)		
	September 30, 2009	March 31, 2009	Increase (Decrease)
Adjusted net worth	670.7	535.3	135.4
- Items classified as liabilities in the accounts (after tax) (Note1)	148.9	141.7	7.2
- Difference in unrealized capital gains/losses (after tax) (Note2)	108.8	117.4	(8.5)
+ Net assets not allocated to life insurance business	20.5	20.1	0.3
Net assets shown on consolidated balance sheet	433.5	296.3	137.1

Notes:

1. Price fluctuation reserve, contingency reserve, unallocated amount in policyholders' dividend reserve and general reserve for possible loan losses.

2. This is the difference between the unrealized capital gains/losses included in the adjusted net worth of ¥109.9 billion as of September 30, 2009 (¥16.3 billion as of March 31, 2009) and the unrealized capital gains/losses shown on the consolidated balance sheet of ¥1.0 billion as of September 30, 2009 (¥133.8 billion as of March 31, 2009).

### 3. Movement Analysis

The table below shows an analysis of the increase (decrease) in the embedded value during the 6 month period ended September 30, 2009. All components are shown on a post-tax basis.

(Billions of yen)

	Embedded value	Value of in-force	
		Adjusted net worth	
EEV as of March 31, 2009	866.5	535.3	331.1
(1) Capital movements	(12.9)	(12.9)	-
(2) New business value for the first half ended September 30, 2009	19.0	(32.1)	51.1
(3) Expected existing business contribution	32.4	3.5	28.8
(4) Expected transfer from value of in-force business to adjusted net worth	-	44.6	(44.6)
(5) Operating experience variances for the first half ended September 30, 2009	(5.9)	1.9	(7.8)
(6) Operating assumption changes	-	-	-
(7) Economic variances and assumption changes	237.3	130.3	106.9
Change in EEV for the first half ended September 30, 2009 (total of (1) to (7))	269.8	135.4	134.4
EEV as of September 30, 2009	1,136.4	670.7	465.6

#### (1) Capital movements

This amount consists of the sum of shareholders dividend paid to TDH by its life subsidiaries (which corresponds to the shareholders dividend paid to the shareholders by T&D Holdings.) and the interest paid for loans that TDH borrowed with regard to the life insurance business.

#### (2) New business value for the first half ended September 30, 2009

This is the value of new business issued during the first half of the financial year 2009 as of September 30, 2009.

#### (3) Expected existing business contribution

Expected existing business contribution arises from adjusted net worth and value of in-force business.

This amount is the sum of the following expected items, calculated on the opening assumptions:

- (a) After-tax investment earnings on Adjusted Net Worth at the sum of risk free rate and risk premium of each asset. EEV as of September 30, 2009 is calculated on a risk neutral basis, and the risk premiums allowed are restricted to this half year period only.
- (b) Increase of the certainty equivalent value of in-force business as of March 31, 2009 during first half ended September 30, 2009 calculated at the half year risk free rate
- (c) The amount projected to be released in the first half ended September 30, 2009 in respect of :
  - a. Time value of financial options and guarantees
  - b. Frictional cost of capital
  - c. Allowance for non-financial risk

For expected return for each asset including risk premium, see Section 6. (3)

#### (4) Expected transfer from value of 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 movement of value from the value of in-force business to the adjusted net worth. This does not affect the total embedded value.

#### (5) Operating experience variances for the first half ended September 30, 2009

This is the impact on the embedded value of differences between the actual experience and the operating assumptions during the period. (See section 6. (2))

#### (6) Operating assumption changes

The impact of changes in the operating assumptions which has been calculated as at the beginning of the period. The item has been shown with “-“ as the operating assumptions for EEV disclosure as of September 30, 2009 are the same as those of March 31, 2009.

#### (7) Economic variances and assumption changes

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 6. (1) for details of economic assumptions.

### 4. EEV by Company

#### (1) Taiyo Life

	(Billions of yen)		
	September 30, 2009	March 31, 2009	Increase (Decrease)
Embedded value	422.3	295.8	126.4
Adjusted net worth	336.4	270.0	66.4
Value of in-force business	85.8	25.8	60.0

Value of new business for the first half ended September 30, 2009: ¥12.5 billion. (Value of new business for the fiscal year ended March 31, 2009 : ¥20.5 billion.)

#### (2) Daido Life

	(Billions of yen)		
	September 30, 2009	March 31, 2009	Increase (Decrease)
Embedded value	740.9	607.4	133.4
Adjusted net worth	372.1	304.3	67.8
Value of in-force business	368.7	303.1	65.5

Value of new business for the first half ended September 30, 2009: ¥11.0 billion. (Value of new business for the fiscal year ended March 31, 2009 : ¥18.9 billion.)

#### (3) T&D Financial Life

	(Billions of yen)		
	September 30, 2009	March 31, 2009	Increase (Decrease)
Embedded value	76.3	65.7	10.6
Adjusted net worth	65.3	63.5	1.8
Value of in-force business	11.0	2.2	8.7

Value of new business for the first half of ended September 30, 2009 : ¥(4.5) billion. (Value of new business for the fiscal year ended March 31, 2009 : ¥(10.9) billion.)

#### (4) Movement analysis

(Billions of yen)

	Taiyo	Daido	TDF	TDH	Total
EEV as of March 31, 2009 <i>(Note1)</i>	295.8	607.4	65.7	(102.5)	866.5
(1) Capital movements <i>(Note2)</i>	(6.1)	(6.1)	-	(0.6)	(12.9)
(2) New business value for the first half ended September 30, 2009	12.5	11.0	(4.5)	-	19.0
(3) Expected existing business contribution	15.2	16.4	0.7	-	32.4
(4) Expected transfer from value of in-force business to adjusted net worth <i>(Note3)</i>	-	-	-	-	-
(5) Operating experience variances for the first half ended September 30, 2009	0.8	(6.7)	-	-	(5.9)
(6) Assumption changes	-	-	-	-	-
(7) Economic variances and assumption changes	104.1	118.7	14.4	-	237.3
Change in EEV for the first half ended September 30, 2009 (total of (1) to (7))	126.4	133.4	10.6	(0.6)	269.8
EEV as of September 30, 2009	422.3	740.9	76.3	(103.1)	1,136.4

Notes:

1. TDH's "EEV as of March 31, 2009" represents TDH's capital increase with regard to life insurance business (¥57.4 billion) less the capital that TDH injected to subsidiaries (¥160.0 billion).

2. TDH's "Capital Movements" represents the interest for the loans TDH borrowed with regard to life insurance business.

3. "Expected transfer from in-force business to adjusted net worth" does not affect the embedded values, and the item has been shown with "-". The amounts of expected transfer (from in-force business to adjusted net worth) are Taiyo ¥10.5 billion, Daido ¥33.1 billion and TDF ¥1.0 billion.

## 5 . EEV Methodology

### (1) Basis of Preparation

The methodology and assumptions adopted by the Group to calculate the EEV results are in accordance with the EEV Principles & Guidance issued by the European CFO Forum in May 2004, with the exception that the look-through basis has not been applied to profits arising in T&D Asset Management ("TDAM").

The EEV results presented in this document only relate to the covered business. No figures are included for TDH or the other businesses of TDH, such as asset management.

### (2) Covered Business

The covered business represents all of the life insurance business of the Group, through TDH's three wholly owned life insurance subsidiaries, Taiyo, Daido and TDF.

### (3) Embedded value

The embedded value provides an estimate of the value of the shareholders' interest in the covered business, excluding any value that may be generated from future new business. This value comprises the sum of the adjusted net worth and the value of in-force business. The adjusted net worth is the net assets attributable to shareholders, and is represented by the sum of required

capital and free surplus. The value of in-force business is the present value of the projected stream of future distributable profits available to shareholders from the existing business at the valuation date, on a best estimate basis allowing for risk, adjusted for the cost of holding required capital.

#### **(4) Value of new business**

The value of new business is the value of new policies issued during the 6 month period from April 1 to September 30, 2009. Value of future new business is not included. The value has been calculated as of September 30, 2009, and the same operating and economic 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 September 30, 2009. Acquisition expenses are based on the latest experience.

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.

#### **(5) Allowance for Risk**

The allowance for risk in the valuation is a key feature of the EEV Principles. The EEV Principles and Guidance set out three main areas available to allow for risk:

- The risk discount rate.
- The allowance for the cost of financial options and guarantees.
- The cost of holding both prudential reserves and any additional required capital.

The Group decided to use a market-consistent approach to allow for risk in all three areas.

Under this approach the embedded value is calculated in a manner such that the valuation is consistent with the valuation by the capital markets of cash flows with similar risk profiles in a deep and liquid market, based on financial theories.

Under the market-consistent approach:

- Assets and liabilities other than policy reserves are valued at market value;
- Investment return assumptions and risk discount rates are set consistently with the market. By so doing, those assumptions can be set more objectively;
- Time value of financial options and guarantees associated with the life insurance business is valued explicitly and consistently with market prices of equivalent traded options.

A market-consistent value has been calculated for each product line by valuing the cash flows in line with the prices of similar cash flows traded on the open market.

In principle, in a market-consistent valuation, each cash flow is valued using the discount rate consistent with that applied to such a cash flow in the capital markets. For example, an equity cash flow is valued using an equity risk discount rate, and a bond cash flow is valued using a bond risk discount rate. If a higher return is assumed for equities, the equity cash flow is discounted at this higher rate.

In practice, for liabilities where the payouts are either independent or move linearly with market movements, a short-cut method has been applied known as the “certainty equivalent” approach whereby it is assumed all assets earn the risk-free rate and all cash flows are discounted using the risk-free rate. This gives the same result as applying the method in the previous paragraph.

A market-consistent cost of financial options and guarantees and a market-consistent cost of holding required capital have also been calculated.

Further details of the methodology are described in the sub-sections below.

## **(6) 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.

## **(7) 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.

## **(8) 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 flow 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.

## **(9) 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 (ie. 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 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 surrenders 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.

## **(10) Frictional cost of capital**

This item is the cost of having to retain the level of required capital, and within a market-consistent approach it is referred to as “frictional cost”. Frictional cost is the sum of the tax on investment earnings on required capital and the cost for managing the assets corresponding to the required capital.

The EEV Principles define the minimum required capital to be 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, as 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. The Group considers that 600% is the level required to remain competitive in the market. A breakdown of the adjusted net worth can be given as the required capital, on which the cost of capital is based, of ¥260.9 billion, and free surplus of ¥409.8 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.

MCEV Principles require that the level of required capital is based on an internal risk assessment and/or the level required for the target credit ratings, as well as statutory requirements. Taking into account this, 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.

## **(11) Allowance for 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.

Generally, risks such as mortality are allowed for through the appropriate choice of best estimate assumptions. Risks such as selective surrenders due to interest rate rises are allowed for as 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 forward to make an explicit allowance.

## 6 . Main EEV assumptions

### (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 Japanese yen swap rates (mid price). The table below shows, for selected terms, the swap rates as of September 30, 2009, which are used for the calculation.

Swap Rates as of September 30, 2009

1 year	2 year	3 year	4 year	5 year	10 year
0.536%	0.583%	0.650%	0.740%	0.843%	1.420%
[0.750%]	[0.770%]	[0.840%]	[0.908%]	[0.970%]	[1.314%]
15 year	20 year	25 year	30 year	40 year	50 year
1.786%	2.004%	2.094%	2.127%	2.180%	2.240%
[1.595%]	[1.791%]	[1.863%]	[1.879%]	[1.889%]	[1.917%]

Note: Figures in brackets are those as of March 31, 2009.

Source: Bloomberg

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 have been calibrated to reproduce the market prices as of September 30, 2009 of swaptions and equity options. The table below shows a sample of the implied market volatilities for swaptions and equity options as of September 30, 2009.

Implied Market Volatility of Swaptions as of September 30, 2009

Option Term / Swap Term	5 years	10 years	15 years	20 years
5 years	26.3%	24.5%	23.4%	23.6%
	[29.7%]	[25.2%]	[23.0%]	[22.6%]
10 years	21.5%	21.2%	21.5%	22.0%
	[22.0%]	[20.0%]	[20.2%]	[20.9%]

Note: Figures in brackets are those as of March 31, 2009.

Source: Bloomberg

Implied Market Volatility of Nikkei 225 Option as of September 30, 2009

Strike Price / Term	3 years	4 years	5 years
90%	27.4%	27.2%	27.1%
	[35.6%]	[35.1%]	[34.8%]
100%	25.8%	25.8%	25.8%
	[34.3%]	[34.1%]	[33.9%]
110%	24.5%	24.6%	24.7%
	[33.2%]	[33.2%]	[33.2%]

Note: Figures in brackets are those as of March 31, 2009.

Source: Investment Banks

The expense inflation assumption was taken to be zero.

### (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 past experience, trends and the Group's future views. EEV Principles require to review the best estimate assumptions at least once a year. Since this disclosure is for the half year results, it uses the same assumptions as those used for the EEV as of March 31, 2009 unless stated otherwise. There are no significant changes observed which would cause a modification in the operating assumptions for interim reporting.

### (3) Expected returns used for “Expected existing business contribution”

Each asset’s annualized expected return (risk free rate + risk premium) as at March 31, 2009 used for the calculation of “Expected existing business contribution” in Section 3 (Movement Analysis) is as follows:

	Expected return
Cash and deposit, call loan	0.786% : 6 month LIBOR
Domestic bond , loan	6 month LIBOR + credit spread by term and ratings
Domestic & foreign equities	5.286% : 6 month LIBOR + risk premium [4.5%]
Foreign bond	0.786% : 6 month LIBOR
Private equity	8.286% : expected return of domestic equities + risk premium [3.0%]
Hedge fund	4.286% : 6 month LIBOR + risk premium [3.5%]
Real estate	3.786% : 6 month LIBOR + risk premium [3.0%]

## 7. Notes on the Use of the Information

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 stock life insurance company/group, the actual market value may significantly diverge from the EEV, and investors are advised to be cautious.

## 8. Third Party Opinion

The Group engaged Towers Perrin to review its EEV methodology and assumptions and obtained the following opinion.

Towers Perrin has reviewed the methodology and assumptions used to determine the embedded value results as of September 30, 2009 for the T&D Life Group.

Towers Perrin has concluded that the methodology and assumptions used comply with the EEV Principles. In particular:

- The methodology makes allowance for the aggregate risks in the covered business through T&D’s market-consistent methodology as described in section 5 of this document;
- The operating assumptions have been set with appropriate regard to past, current and expected future experience;
- The economic assumptions used are internally consistent and consistent with observable market data; and
- For participating business, the assumed policyholders’ dividend rates, and the allocation of profit between policyholders and shareholders, are consistent with the projection assumptions, established company practice and local market practice.

The methodology and assumptions also comply with the EEV Guidance as regards interim reporting, with the disclosed exceptions of the exclusion from the life EEV results of the value of profits arising in T&D’s asset management subsidiary relating to managing assets of the life insurance companies.

In arriving at these conclusions, Towers Perrin has relied on data and information provided by T&D Life Group. This opinion is made solely to T&D Life Group in accordance with the terms of Towers Perrin’s engagement letter. To the fullest extent permitted by applicable law, Towers Perrin does not accept or assume any responsibility, duty of care or liability to anyone other than T&D Life Group for or in connection with its review work, the opinions it has formed, or for any statement set forth in this opinion.

## Glossary

### **Allowance for Non Financial Risk:**

An allowance for insurance and operational risks which are not covered by the best estimate assumptions. The EEV Principles require all risks inherent in the covered business to be taken into account, and it is widely seen among European insurers that an explicit allowance for non financial risk is made.

### **Best Estimate Assumptions:**

Projection assumptions which represent the most likely outcome of the future and which are set based on past, current and expected future experience.

### **Certainty Equivalent Value:**

The present value of future projected cash flow over the life time of the policies assuming the investment returns are risk free and discounted at the risk-free rate.

### **Cost of Financial Options and Guarantees:**

Cost of financial options and guarantees consists of intrinsic value and time value.

The intrinsic value quantifies the amount by which the financial options and guarantees are in-the-money. In the market consistent approach, this corresponds to the impact on value of the financial options and guarantees in the certainty equivalent scenario.

The time value is calculated as the difference between the present value of the financial options and guarantees on the certainty equivalent scenario and the average of the values calculated with a set of risk neutral scenarios under the market consistent approach. The average of the values calculated with a set of risk neutral scenarios represents the total value of the financial options and guarantees, and by deducting the intrinsic value, the time value is derived.

The financial options and guarantees to be valued on the EEV basis needs to include all important financial options and guarantees inherent in the life insurance business, in accordance with the EEV Principles.

### **Deterministic Approach:**

An approach under which a single future scenario is applied in developing a cash flow projection.

### **Dynamic Assumptions:**

Projection assumptions which change according to economic and other parameters following certain formulae. Examples include policyholders dividend assumptions linked to investment return and lapse rate linked to the difference between risk-free rate and the guaranteed rate.

### **European Embedded Value (EEV):**

An embedded value calculated and disclosed in accordance with the EEV Principles and Guidance published 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 EV methodology and disclosure.

EEV publications started in Europe with 2004 reporting, and now over 30 European insurers, including both CFO Forum members and non-members, publish EEV results.

### **Free Surplus:**

Part of capital and surplus allocated to the covered business but not required to be maintained.

**Frictional Cost of Capital:**

The cost to maintain a certain level of capital in excess of policy reserves required to continue the life insurance business.

EEV Principles require the level of required capital to be at least the statutory minimum, and allow companies to use other levels such as the internally required level provided that this minimum is met.

Embedded value assesses the value of life insurance business for shareholders. In addition to the operational costs of the insurer, shareholders may be subject to other costs of ownership of the business. Such costs to shareholders are referred to as frictional costs in the market consistent approach.

In the Group's calculations, the tax on investment returns and investment management cost on required capital has been allowed for.

**Look Through Basis:**

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.

**MCEV Principles**

The European Insurance CFO Forum Market Consistent Embedded Value Principles( Copyright © Stichting CFO Forum Foundation 2008 ) See [http://www.cfoforum.nl/embedded\\_value.html](http://www.cfoforum.nl/embedded_value.html)

Principles published by CFO Forum in June 2008 to ensure the valuation to be on a market consistent basis and to improve comparability between companies. It consists of 17 Principles, 145 Guidance, and the bases of the conclusions.

MCEV Principles announced on June 2008 included the following key changes from the EEV Principles:

- The allowance for risk should be calibrated to the market price for risk
- Required Capital should include the amounts to meet internal objectives, which could be based on an internal risk assessment or target credit rating
- Swap rates should be used as reference rates for discounting future cash flows without optionality.
- The time value of financial options and guarantees should be valued on a market-consistent basis
- The cost for the non hedgeable risk that is not reflected by certainty equivalent present value or time value of options and guarantees should be explicitly determined.
- The disclosure requirements are significantly extended, including a standard template to be used for the movement analysis disclosure.

Following the recent worldwide turmoil in financial markets, the CFO Forum announced that it will re-examine certain elements of the MCEV Principles, in particular with regard to implied volatilities, cost of non-hedgeable risk, the use of swap rates as a proxy for risk free rates and the effect of liquidity premia in the light of the recent financial turmoil in the credit and capital markets. Also, the mandatory date of MCEV Principles reporting for CFO Forum companies was deferred from year end 2009 to year end 2011.

In October 2009 the CFO Forum announced the amendment of its MCEV Principles, in which the reference rate should reflect a liquidity premium, where appropriate, for non-liquid liabilities. The CFO Forum is performing further work to develop more detailed application guidance to increase consistency going forward.

**Present Value of New Business Premiums:**

The present value of premiums projected to be paid in the future from the new business issued in a single year, discounted at the risk-free rate.

**Risk Neutral Scenarios:**

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 markets data.

**Stochastic Approach:**

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 are generated based on a probability model and each scenario is applied to project future cash flows.

**Swap Rates:**

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).

**For inquiries regarding the above, please contact:**

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