



February 21, 2003
The Taiyo Mutual Life Insurance Company

Disclosure of Embedded Value

In order to provide investors with an additional tool to understand the Company's economic value and business results, the Company has decided to disclose its embedded value, as discussed below. Although public life insurance companies in countries such as the United Kingdom and Canada have been disclosing embedded value for several years, international standards with respect to the calculation of embedded value are still evolving, and no such standards exist in Japan. As standards for the disclosure of embedded value continue to develop internationally and in Japan, the form and content of the Company's presentation of embedded value may change. Moreover, because of the technical complexity involved with embedded value calculations, and the fact that embedded value estimates will vary materially as key assumptions are changed, investors should read the following discussion in its entirety, use care in interpreting embedded value and seek advice of experts familiar with embedded value interpretation.

1. Embedded value

Embedded value is the sum of the adjusted book value and the existing business value of a life insurance company. Adjusted book value is a measure of the net assets of a life insurance company calculated based on the company's audited financial statements and additional company information with respect to the various components of the financial statements. Existing business value is derived by placing a value on the stream of future after-tax profits which are projected to be generated from all existing policies, and adjusting for the cost of capital necessary to meet the target solvency margin. To project future after-tax profits for a life insurance company, it is necessary to make assumptions with regard to lapse, surrender, mortality and morbidity rates, expenses, taxation and investment return, among others. In general, the company's own operating experience, adjusted as appropriate to reflect reasonable future expectations, is used to develop these assumptions which are described below. The stream of projected after-tax profits, adjusted to reflect the cost of capital, is discounted to a single value and is referred to as the existing business value.

2. Embedded value (EV)

(Unit: ¥100 million)

	As of March 31, 2001	As of March 31, 2002
Embedded value	3,083 ⁽³⁾	2,258 ⁽³⁾
Adjusted book value ⁽¹⁾	3,456	2,098
Existing business value ⁽²⁾	373	160
Value of one year sales ⁽⁴⁾	146	242

Notes:

- (1) Adjusted book value = total equity (excluding net unrealized gains (losses) on securities, fund (*kikin*) and expected disbursements from equity outside the company) + quasi-equity liabilities (i.e. reserve for price fluctuations, contingency reserve, unallotted portion of reserve for policyholder dividends and a portion of reserve for possible loan losses) adjusted for tax impact + net unrealized gains (losses) (after tax) on (i) available-for-sale securities (excluding yen denominated bonds), (ii) foreign exchange losses on foreign subsidiaries and (iii) off-balance sheet transactions (such as interest swaps) + net unrealized gains (losses) on real estate (after tax).
- (2) Existing business value = present value of future after-tax profit on existing business in force – present value of the cost of capital. “Cost of capital” is the spread between the after-tax investment yield and the discount rate applied to the amounts of capital and surplus that will be required to maintain the target solvency margin ratio.
- (3) These embedded values do not reflect changes that may have occurred in the Company’s operating experience or financial market conditions subsequent to the embedded value calculation dates.
- (4) Value of one year sales = present value, at the embedded value calculation date, of the projected after-tax profits of all policies sold in the most recent fiscal year – present value of the cost of capital. The value of one year sales is included in the total embedded value. For avoidance of doubt, new policies which have been acquired or will be acquired subsequent to the embedded value calculation date are not included in the value of one year sales.

3. Major assumptions for the calculation of embedded values

	As of March 31, 2001	As of March 31, 2002																		
Discount rate	6%	6%																		
Solvency margin ratio	600%	600%																		
Investment yield	New investment yield 2.69%	New investment yield 2.24%																		
	Yield of major assets (%)																			
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Surrender and lapse	Based on the results for the past three fiscal years	Based on the results for the past three fiscal years																		
Mortality and morbidity	Based on the results for the past three fiscal years	Based on the results for the past three fiscal years																		
Operating expenses	Based on the results for the most recent fiscal year	Based on the results for the most recent fiscal year																		
Tax rate	36.1%	36.1%																		

4. Sensitivity analysis with changes in assumptions

(Unit: ¥100 million)

	As of March 31, 2002	
	EV	Increase/Decrease
Embedded value (base)	2,258	-
Discount rate: 6% 8%	2,244	14
Discount rate: 6% 4%	2,262	4
Solvency margin ratio: 600% 700%	1,978	280
Solvency margin ratio: 600% 500%	2,535	277
Investment yield: +0.25% ⁽¹⁾	2,905	647
Investment yield: -0.25% ⁽¹⁾	1,611	647
Surrender/lapse ratio. Base × 110%	2,268	10
Surrender/lapse ratio. Base × 90%	2,248	10

Notes:

(1) Interest on all investment assets, which include existing assets.

5. Factors for changes between March 31, 2001 and March 31, 2002

(Unit: ¥100 million)

Item	Increase/Decrease
Embedded value as of March 31, 2001	3,083
Expected interest from EV	185
Value of one year sales (fiscal 2001)	242
Change in asset value	1,148
Change in assumptions	86
Differences between actual and projected business performance	17
Embedded value as of March 31, 2002	2,258

Other matters to be noted:

The calculated figures for EV may change significantly according to a change in assumptions. In addition, in the domestic and foreign markets, there are serious uncertainties in the valuation of assets that form a major component of EV.

Millman and the Company have jointly derived the assumptions and method for calculating EV, and made the calculations. The Company has verified the work that was mostly carried out by Millman.

Millman did not conduct an audit of the data or the information provided by the Company. The accuracy of the calculated EV depends on the accuracy of data and information provided by the Company.

Assumptions are selected to reflect previous results and to make a reasonable estimate of the future value. However, the value that is realized may greatly differ from the assumptions used for the above calculation of the EV because of the nature of long-term actuarial forecasts. Therefore, an investor needs to consider the EV by carefully analyzing

the financial information and qualitative information of the Company and by considering the expected performance figures for the entire market, the posture regarding risk, the return and other matters.

6. Written opinion of the actuarial firm

The Company requested Millman Japan (the Japanese branch of Millman USA Inc.), a third-party actuarial firm, to determine the method of calculation and the assumptions, and to verify the calculated results.

7. Method for future disclosure

The Company will hereafter disclose EV after announcing financial results for every accounting term (ending March).

The information contained herein does not constitute an offer of securities for sale in the United States. Securities may not be offered or sold in the United States unless they are registered under applicable law or exempt from registration. No money, securities or other consideration is being solicited, and, if sent in response to the information contained herein, will not be accepted.

A Copy of the Opinion of the Actuarial Firm

Submitted to:

The Board of Directors

Taiyo Mutual Life Insurance Company

January 27, 2003

Stephen H. Conwill, FSA, MAAA
Managing Director & Senior Consultant

Toshiyuki Ikuma, FIAJ
Principal & Senior Consultant

Opinion Regarding the Embedded Value Calculations of Taiyo Life

This opinion is offered in connection with embedded value calculations of Taiyo Life as of March 31, 2001 and March 31, 2002. Any distribution of this document must be in its entirety.

Qualifications

Stephen H. Conwill, Managing Director of Milliman Japan (= Japan Branch of Milliman USA Inc. (= Milliman)), is a Fellow of the US Society of Actuaries, a Member of the American Academy of Actuaries, and a Member of the Institute of Actuaries of Japan ("IAJ"). Toshiyuki Ikuma, Principal of Milliman Japan, is a Fellow of Institute of Actuaries of Japan. Both are qualified as actuaries and are obligated to follow the Code of Conduct of the IAJ.

No standards have been drafted in Japan with respect to the development of embedded values, and professional practice standards worldwide with respect to the development of embedded values are still evolving. Nonetheless, a broad consensus regarding methods and choice of assumptions can be said to exist. Although we have not specifically adhered to the guidelines established in any particular jurisdiction, in coming to our opinion, we have reviewed guidelines in Canada and the UK that may be viewed as indicative of evolving standards for embedded values and related work, in particular the Canadian Institute of Actuaries' *Interim Draft Paper on the Considerations in the Determination of Embedded Value for Public Disclosure in Canada*, and the Association of British Insurers' paper on the Achieved Profits Method of Accounting. In developing our opinion, we have taken into

consideration these guidelines and generally accepted actuarial principles.

This letter represents our professional viewpoint, but should not be construed as a formal audit opinion, as that term would be used in the context of regulatory financial reporting.

In opining on embedded values, we are not offering an opinion on the potential market value of Taiyo Life at the time of its listing or any time thereafter.

For many reasons, market value may deviate materially from a calculated embedded value. Any valuation is a matter of informed judgment, and each investor should develop their own view of market value based on a detailed analysis of financial and qualitative information available about Taiyo, combined with a consideration of alternative investments, overall expectations regarding performance of the financial markets, attitude towards risk and return, and a variety of other factors.

Background

The development of embedded values – assumptions, methods, and results -- was a collaborative effort of Milliman and Taiyo professionals. Work that was developed primarily by the Milliman team, including the specific figures opined on in this document, was reviewed by Taiyo Life professionals, in addition to undergoing Milliman's internal peer review process.

Reliances

In the course of this work, Milliman professionals depended on data and information provided by Taiyo. The data and information Milliman has relied on can be broadly categorized as follows:

1. Information in the financial statements of Taiyo Life, in particular, the value of balance sheet assets and the size of reported liabilities.
2. Data and information on in-force business at March 31, 2001, March 31, 2002, and other dates.
3. Policy data and information, including sum insured, gross premiums, reserves, and other values.
4. Data and information on historical and expected future gross premiums, investment income, benefit payments, cash values, operating expenses, other expenditures and

dividend scales.

5. Business plans and other data and information provided by the company.
6. Various experience data, for example lapse, mortality, and morbidity, prepared by Taiyo Life professionals.

We performed no formal audit of this data and information, and the validity of our opinion is dependent on the accuracy of the data and information provided.

Embedded Value Results on which we are Opining

The embedded value results, as of March 31, 2001 and March 31, 2002, that are the subject of this opinion, are summarized in the table below (¥ 1.0 billions):

Item	Mar. 31, 2001	Mar. 31, 2002
Adjusted Book Value	345.6	209.8
Existing Business Value, after tax and cost of capital	(37.3)	16.0
Total Embedded Value	308.3	225.8
Value One Year Sales	14.6	24.2

These embedded values do not reflect changes that may have occurred in experience or financial market conditions subsequent to the embedded value calculation date (March 31, 2001 or March 31, 2002), and we have not considered such changes in rendering our opinion.

Caveats with Respect to Embedded Values

While an embedded value can provide insight into the financial progress of a life insurance company, and, in conjunction with detailed supplemental analyses, may provide a benchmark as a starting point for the valuation of the company, no particular measure can be used as a sole means of valuation, and actual market value may differ materially from an embedded value.

Embedded values are dependent on a large number of assumptions with respect to future experience, such as investment earnings rates, policy lapse rates, policyholder mortality and morbidity, and corporate expense. Assumptions were chosen in an effort to reflect recent

experience and reasonable future expectations. However, due to the nature of long-term actuarial projections, future experience results will deviate, possibly materially, from those underlying the values shown above. Also, calculated embedded values will vary, possibly materially, as key experience assumptions are varied. Further, in the current environment in the Japanese and worldwide financial markets, material uncertainty exists with respect to asset valuations, a key component of embedded value. As such, embedded values should be used with caution, and only when supported by experts familiar with the appropriate use of such measures.

Opinion

Subject to the caveats outlined in the preceding sections, we confirm that Taiyo Life's embedded values, as of March 31, 2001 and March 31, 2002, were developed using methods and assumptions consistent with evolving international standards. Furthermore, the choice of assumptions is consistent with recent experience and a range of assumptions that would likely be chosen by professionals proficient in embedded value analysis. In addition, we believe that results are accurate, in the context of the normal variability that would be anticipated by analysts and other professionals expert in the use of embedded values for the evaluation of life insurance operations.