



May 30, 2003
Taiyo Life Insurance Company
(Code No.: 8796)

Disclosure of Embedded Value as of March 31, 2003

Taiyo Life Insurance Company (President: Masahiro Yoshiike) has disclosed its embedded value as of March 31, 2003, as discussed below.

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)⁽¹⁾

(Unit: ¥100 million)

	As of March 31, 2002	As of March 31, 2003	Increase/Decrease
Embedded value	2,258 ⁽⁵⁾	1,824 ⁽⁵⁾	434
Adjusted book value ⁽²⁾	2,098	1,399	699
Existing business value ⁽³⁾	160	425	265
Value of one year sales ⁽⁴⁾	242	284	42

Notes:

- (1) Embedded value depends on many assumptions including investment income, surrender and lapse ratio, mortality and morbidity ratio, operating expenses rate, and so on.

- (2) 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).
- (3) 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.
- (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.
- (5) 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.

3. Major assumptions for the calculation of embedded values

	As of March 31, 2002	As of March 31, 2003	
Discount rate	6%	6%	
Solvency margin ratio	600%	600%	
Investment yield	New investment yield 2.24%	New investment yield 2.09%	
	Yield of major assets (%)		
	Category	Yield	Distribution
	Bonds (J)	1.31	37.9
	Loans	1.85	32.2
	Deposits	0.03	3.0
	Stocks (J)	6.76	9.0
	Others	3.03	17.9
	Yield of major assets (%)		
	Category	Yield	Distribution
	Bonds (J)	0.80	32.5
	Loans	1.35	33.0
	Deposits	0.03	2.0
	Stock (J)	6.74	8.5
	Others	3.39	24.0
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, 2003	
	EV	Increase/Decrease
Embedded value (base)	1,824	-
Discount rate: 6% 8%	1,698	126
Discount rate: 6% 4%	1,991	167
Solvency margin ratio: 600% 700%	1,564	260
Solvency margin ratio: 600% 500%	2,081	257
Investment yield: +0.25%	Total Assets	2,436
	New Investment Assets	2,114
Investment yield: - 0.25%	Total Assets	1,212
	New Investment Assets	1,534
Surrender/lapse ratio ⁽¹⁾ : Base × 110%	1,840	16
Surrender/lapse ratio ⁽¹⁾ : Base × 90%	1,809	15

Notes:

(1) The ratio of the surrender and lapse of individual insurance and annuities.

5. Factors for changes between March 31, 2002 and March 31, 2003

(Unit: ¥100 million)

Item	Increase/Decrease
Embedded value as of March 31, 2002	2,258
Expected interest from EV as of March 31, 2002	135
Value of one year sales (fiscal 2002)	284
Change in asset value	439
Differences between actual and projected business performance (Influence by the decrease of the reserve for price fluctuations)	587 (393)
Change in assumptions	173
Embedded value as of March 31, 2003	1,824

6. Other matters to be noted

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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.

Milliman Japan (the Japan branch of Milliman USA, Inc. hereinafter, "Milliman") and the Company have jointly derived the assumptions and method for calculating EV and jointly made the calculations. The Company verified the work that was mostly carried out by Milliman.

Milliman 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.

EV is one indicator of future financial performance of a life insurance company and when examined together with a detailed supplementary analysis can provide an indication of an insurance company's value. However, the actual stock market value of a company may be markedly different than its EV.

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 EV because of the nature of long-term actuarial forecasts. Therefore, an investor needs to consider 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.

In regard to the charts appearing in "2. Embedded value", "4. Sensitivity analysis with changes in assumptions" and "5. Factors for changes between March 31, 2002 and March 31, 2003" and in conformance with the notes thereto, Milliman has confirmed that the assumptions used in the calculation of EV are consistent with emerging international standards, are reasonable from the perspective of an EV calculation specialist and that the calculation results are accurate within a reasonable standard of error.

7. Written opinion of the actuarial firm

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

A Copy of the Opinion of the Actuarial Firm

Submitted to:

The Board of Directors

Taiyo Life Insurance Company

May 30, 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, 2003. 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.

Professional Background

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 market value of Taiyo Life.

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, 2003, 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, 2003, that are the subject of this opinion, are summarized in the table below (Yen 1.0 billions):

Item	Mar. 31, 2003
Adjusted Book Value	139.9
Existing Business Value, after tax and cost of capital	42.5
Total Embedded Value	182.4
Value One Year Sales	28.4

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, 2003), and we have not considered such changes in rendering our opinion.

The methodology used in developing the embedded value as of March 31, 2003, is consistent with the methodology used in developing the embedded values as of the prior year end. Assumptions used in the prior year end embedded value calculations have been reviewed, and where appropriate, updated to reflect recent experience.

Analysts making use of these figures should have a thorough understanding of methods and assumptions. Assumptions, including projected yields, mortality, morbidity, lapse, and expense, as well as discount rates used in developing the values, are updated periodically. In order to understand EV trends, analysts should understand these assumptions, and the

impact of changing assumptions from year to year.

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, 2003, 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.