

# UNOFFICIAL TRANSLATION

The formal press release document is in Japanese.

May 28, 2004

Sompo Japan Insurance Inc.

Sompo Japan Himawari Life Insurance Co., Ltd.

## Disclosure of Embedded Value for Sompo Japan Himawari Life as of the end of March 2004

Sompo Japan Insurance Inc. (President: Hiroshi Hirano) and Sompo Japan Himawari Life Insurance Co., Ltd. ("SJHL", President: Yasuyuki Tayama) hereby disclose the Embedded Value ("EV") for SJHL as of the end of March 2004 (FY2003) to promote further understanding of SJHL's present condition.

### 1. Summary of EV

EV is a total of the "company's book value" and the "present value of future profits arising from the existing business".

In general, life insurance contracts take time from the acquisition of new contracts to the realization of profit. Therefore, EV is considered as a measurement to reinforce financial information based on accounting rules (e.g. balance sheet) in Europe and Canada. It is used as a useful measurement to evaluate corporate values and business results of life insurance companies.

### 2. EV for the last 3 years

(Unit: billions of yen)

	FY2001	FY2002	FY2003
Adjusted Book Value	11.2	11.4	<b>11.7</b>
Existing Business Value	95.5	87.6	<b>124.7</b>
<b>Total EV as of the end of fiscal year</b>	<b>106.7</b>	<b>99.0</b>	<b>136.4</b>
New Business Value (*)	12.5	9.2	<b>13.5</b>

\*) "New Business Value" is the value regarding new contracts in EV.

### 3. Opinion of an independent firm

To assure the validity of the EV calculation, we engaged Milliman Japan, an independent actuarial firm with professional skill in this area. We requested them to review the validity of the calculation results. We have received the opinion as attached.

<Appendix>

1. Embedded Value as of the end of March 2004 (FY2003)
2. Opinion Regarding the Embedded Value Calculations of Sompo Japan Himawari Life

End



## 2. Major premises

Major premises used in calculation are as follows.

Description of major premises	As of the end of FY2002	As of the end of FY2003
Insured mortality & morbidity	Based on last 3 fiscal years results	Same ratio as last fiscal year
Insured mortality	Based on last 6 fiscal years results	Same ratio as last fiscal year
Policy lapse ratio	Based on last 3 fiscal years results	Same ratio as last fiscal year
Corporate expense	Based on last fiscal year result	Same ratio as last fiscal year
Average investment return	Investment return will fluctuate due to the increasing weight of new investments after the above financial statement day. 1.91% (FY2004 ) 1.77% (FY2005 ) 1.70% (FY2006 ) 1.59% (FY2007 ) 1.47% (FY2008 ) 1.26% (FY2013 ) 1.63% (FY2018 ) 1.79% (FY2023 )	Investment return will fluctuate due to the increasing weight of new investments after the above financial statement day. 1.80% (FY2004 ) 1.80% (FY2005 ) 1.81% (FY2006 ) 1.78% (FY2007 ) 1.74% (FY2008 ) 1.96% (FY2013 ) 2.56% (FY2018 ) 2.95% (FY2023 )
Effective tax rate	Based on latest effective tax rate : 36.21%	Same as the left
Solvency margin ratio	600% Solvency margin ratio to be maintained, set for calculating "Cost of capital"	Same as the left
Risk discount rate	7% Rate to discount future profits to the present value, set by adding our risk premium rate to the risk free rate	Same as the left

### 3. Effect of changes in original premises (Sensitivity analysis)

Effects to the EV by change in the premises are as follows.

(Unit: billions of yen)

Change in premises	Change in EV	EV after the change
Insured mortality & morbidity : original premise ratio * 1.1	<b>(11.9)</b>	<b>124.5</b>
Policy lapse rate : original premise ratio * 1.1	<b>(5.3)</b>	<b>131.2</b>
Corporate expense : original premise ratio * 1.1	<b>(2.9)</b>	<b>133.6</b>
Return for new investments : original premise rate + 0.25%	<b>6.2</b>	<b>142.6</b>
Return for new investments : original premise rate - 0.25%	<b>(6.2)</b>	<b>130.3</b>
Required Solvency margin ratio : original premise ratio - 200%	<b>1.2</b>	<b>137.6</b>
Required Solvency margin ratio : original premise ratio + 200%	<b>(2.1)</b>	<b>134.4</b>
Risk premium : original premise rate - 2.0% i.e. risk discount rate : 5%	<b>24.7</b>	<b>161.1</b>
Risk premium : original premise rate - 1.0% i.e. risk discount rate : 6%	<b>11.2</b>	<b>147.6</b>
Risk premium : original premise rate + 1.0% i.e. risk discount rate : 8%	<b>(9.5)</b>	<b>127.0</b>
Risk premium : original premise rate + 2.0% i.e. risk discount rate : 9%	<b>(17.5)</b>	<b>118.9</b>

### 4. Factors for the change in EV (from the end of FY2002 to the end of FY2003)

The factors for the change in EV from the end of FY2002 to the end of FY2003 are as follows.

(Unit: billions of yen)

1) EV at the end of FY2002	<b>99.0</b>
2) New business value	<b>13.5</b>
3) Release of the discounted value from the last fiscal year	<b>6.9</b>
4) Effect of change in interest rate	<b>19.0</b>
5) Effect of change in risk discount rate	<b>0.0</b>
6) Others	<b>(1.9)</b>
7) EV as of the end of FY2003 ( = 1) + 2) + 3) + 4) + 5) + 6) )	<b>136.4</b>

### 5. Attachment of the opinion by an actuarial firm

To assure the validity of the EV calculation, we engaged Milliman Japan, an independent actuarial firm with professional skill in this area. We requested them to review the calculation method, premises and validity of the calculations results. We have received the opinion as attached.

#### Instruction)

Because many premises including future prospects with risk and uncertainty are used in calculating EV, actual future results may differ significantly from the premises used in EV calculation. Also, since the actual market capital is determined by investors' judgment on various information, EV may differ from it materially. Therefore, EV is not the only measurement to evaluate corporate value of a life insurance company, and sufficient consideration needs to be made in using it.

Submitted to:  
The Board of Directors  
Sompo Japan Himawari Life Insurance Co.,Ltd.

May 24, 2004

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

Soichiro Kamano, FIAJ  
Senior Consultant

Opinion Regarding the Embedded Value Calculations of Sompo Japan Himawari Life

This opinion is offered in connection with embedded value calculations of Sompo Japan Himawari Life Insurance Co.,Ltd. (“Sompo Japan Himawari”) as of March 31, 2004. Any distribution of this document must be in its entirety.

Qualifications

Stephen H. Conwill, Managing Director of Milliman Japan (= Japan Branch of Milliman 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”), and Soichiro Kamano, Principal of Milliman Japan, is a Fellow of the IAJ. 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 Sampo Japan Himawari Life or its parent Sampo Japan.

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, 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

Sampo Japan Himawari professionals developed a financial model that can be used to project future cash flows and reported profits for Sampo Japan Himawari, given a set of experience assumptions. This model was used by Sampo Japan Himawari, along with balance sheet information and future experience assumptions, to calculate embedded values of Sampo Japan Himawari Life at March 31, 2004.

Sampo Japan Himawari asked Milliman to review methods and assumptions for consistency with Sampo Japan Himawari experience and evolving international standards. In addition, Milliman was asked to review Sampo Japan Himawari's model and results to form a broad conclusion regarding the accuracy of the technical calculations. Our review did not include a detailed audit of models.

Specifically, Milliman undertook the following:

- (1) Review of Sampo Japan Himawari adjusted book value for material consistency with (a) figures shown in reported financials and (b) the methodology used to project future profits in developing existing business value.
- (2) Review of the general consistency of embedded value assumptions with recent and expected future experience

- (3) Review of model fit, in particular, the accuracy with which balance sheet and recent income statement items are reproduced by the model.
- (4) Review of the consistency of embedded value methods with evolving global standards.

### Reliances

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

1. Information in the financial statements of Sompo Japan Himawari, 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, 2004, and other dates.
3. Data and information on historical and expected future gross premiums, investment income, benefit payments, cash values, operating expenses, other expenditures.
4. Information on business plans, in particular, the Sompo Japan Himawari's expectation for future investment allocations, and the company's projections of future yields based on in-force assets and expected future investment policy.
5. Various experience studies, for example lapse, mortality, and morbidity, prepared by Sompo Japan Himawari professionals.
6. Various operational information, in particular, aggregate and unit expense analysis provided by the company.

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, 2004, that are the subject of this opinion, are summarized in the table below:

Item	Amount(¥ 100 millions)
Adjusted Book Value	117
Existing Business Value, after tax and cost of capital	1,247
Total Embedded Value	1,364

This embedded value does not reflect changes that may have occurred in experience or financial market conditions subsequent to March 31, 2004, and we have not considered such changes in rendering our opinion.

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

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. In choosing assumptions, Sonpo Japan Himawari has taken care to reflect available experience studies and a plausible view of future expectations. When developing embedded values in Japan and other jurisdiction, it is common to update many assumptions annually or more frequently as ongoing experience emerges. Some assumptions might be updated only after a perceived material change in experience has been observed. In developing embedded value at March 31, 2004, although aggregate measures of experience suggest some degree of improvement in lapse, mortality, and morbidity experience from the prior year, Himawari has chosen not to update these assumptions. If experience in these areas is indeed improving, current embedded values may be somewhat understated. The company anticipates a detailed review of these items over the coming year.

Regardless of the frequency with which assumptions are revised, due to the nature of long-term actuarial projections, future experience results will deviate, possibly materially, from those underlying the values shown above. 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.

It is important to appreciate that embedded values are developed using a single, deterministic set of assumptions. We have not undertaken dynamic risk analysis or applied other techniques currently being developed in the professional community that can enhance insight into risk-adjusted valuation. 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 Sompo Japan Himawari's embedded value, as of March 31, 2004, was developed using methods and assumptions consistent with evolving international standards. Furthermore, the company's choice of assumptions is consistent with available experience studies, and is likely to fall within a range of assumptions that would be viewed as acceptable by professionals proficient in embedded value analysis. In addition, based on our review of model fit and other high level checks, we are comfortable with the accuracy of results, 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.