

Sony Financial Holdings Inc.

2018

Annual Report

April 1, 2017 – March 31, 2018

Contents

History of the Sony Financial Group	2
A Message from the President	4
Vision and Strategies	6
Strength — Distinctive Business Portfolio	6
Growth — Steady Growth	8
Future — Seeking to Maximize Corporate Value	12
Sony Financial Group's Financial Highlights (SFH Consolidated and Primary Subsidiaries)	14
Sony Financial Group: Medium-term Business Plan	16
Review of Operations and Analysis of Operating Performance	31
Segment Performance Highlights	32
SFH (Consolidated)	33
Life Insurance Business	36
Non-life Insurance Business	44
Banking Business	50
Contributions to Sustainable Development	57
Corporate Governance	
Profiles of Directors and Audit & Supervisory Board Members	58
A Dialogue between Outside Directors: Corporate Governance at SFH	60
Basic Stance on Corporate Governance	64
Management System	65
Compliance	70
Risk Management	72
Dialogue with Shareholders and Other Investors	74
Corporate Social Responsibility (CSR)	
Sony Financial Group's CSR	75
Communication with Stakeholders	76
Environmental Protection Activities	81
Corporate Section	82
Corporate Profile	83
Profiles of Group Companies	84
Stock Information	85
Financial Section	87
SFH Consolidated Financial Statements	88
MCEV Results for Sony Life as of March 31, 2018	116
Glossary	121
SFH's Website Information	125



**Please visit SFH's website to view
the Financial Data Book.**

Detailed financial data for each operating company is presented in a separate publication called the Financial Data Book. The Financial Data Book is available only on SFH's website.

https://www.sonyfh.co.jp/en/financial_info/annualreport

Company Name Abbreviations

The following abbreviations for company names are used in this report.

Sony Financial Holdings Inc.	SFH, Sony Financial Holdings
Sony Life Insurance Co., Ltd.	Sony Life
AEGON Sony Life Insurance Co., Ltd.	AEGON Sony Life Insurance
SA Reinsurance Ltd.	SA Reinsurance
Sony Assurance Inc.	Sony Assurance
Sony Bank Inc.	Sony Bank
Sony Payment Services Inc.	Sony Payment Services
SmartLink Network Hong Kong Limited	SmartLink Network Hong Kong
Sony Lifecare Inc.	Sony Lifecare
Lifecare Design Inc.	Lifecare Design
Proud Life Inc.	Proud Life
Sony Financial Ventures Inc.	Sony Financial Ventures

Disclaimer

Statements made in this annual report concerning the current plans, expectations, strategies and beliefs of the Sony Financial Group. Any statements contained herein that are not historical facts are forward-looking statements or pro forma information. Forward-looking statements may include—but are not limited to—words such as “believe,” “anticipate,” “plan,” “strategy,” “expect,” “assume,” “forecast,” “predict,” “propose,” “intend” and “possibility,” which describe future operating activities, business performance, events or conditions. Forward-looking statements, whether spoken or written, may also be included in other materials released to the public. These forward-looking statements and pro forma information are based on assumptions, decisions and judgments made by the management of Sony Financial Group companies, and are based on information that is currently available to them. As such, they are subject to various risks and uncertainties, and actual business results may vary substantially from the forecasts expressed or implied in forward-looking statements. Consequently, investors are cautioned not to place undue reliance on forward-looking statements. Sony Financial Group companies are under no obligation to revise forward-looking statements or pro forma information in light of new information, future events or other findings. The information contained in this annual report does not constitute or form part of any offer for sale or subscription of or solicitation or invitation of any offer to buy or subscribe to any securities, nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever in Japan or abroad.

- “Lifeplanner” and “Karte” are registered trademarks of Sony Life.
- “SURE” and “ZiPPI” are registered trademarks of Sony Assurance.
- “MONEYKit” is a registered trademark of Sony Bank.
- “Sony Bank GATE” is a registered trademark of Sony Corporation.
- Company names and product names that appear in this report, other than those mentioned above, are trademarks or registered trademarks of the respective company.
- The Sony Financial Group refers to the financial group that comprises Sony Financial Holdings Inc., Sony Life Insurance Co., Ltd., Sony Assurance Inc., Sony Bank Inc., Sony Lifecare Inc., as well as their subsidiaries and affiliates.
- Unless otherwise indicated, figures less than the indicated unit in this material have been truncated, while ratios and percentage changes have been rounded off.
- Fiscal 2008–fiscal 2020 represent the fiscal years ended/ending March 31, 2009–2021.

About Sony Financial Holdings

Sony Financial Holdings Inc. is a financial holding company with three primary subsidiaries: Sony Life Insurance Co., Ltd., Sony Assurance Inc. and Sony Bank Inc.

Corporate Vision

The Sony Financial Group seeks to become the most highly trusted financial services group by customers. To this end, the Group will combine many different financial functions (savings, investment, borrowing and protection) to provide high-value-added financial products and high-quality financial services that meet every customer's financial needs.

Corporate Philosophy

Put the Customer First

We will provide financial products and services that satisfy customers by embracing their individual views, to ensure that we help them lead prosperous lives with financial security.

Give Back to Society

We believe that a special commitment to the public good is demanded of a financial services company. Conscious of this, we will realize our vision by upholding the highest level of ethics and a strong sense of purpose, and thereby give back to society. In addition, we will fulfill our responsibilities as a good corporate citizen and member of society.

Strive for Originality

We will constantly strive to come up with fresh ideas from basic principles as we pursue creativity and innovation, instead of merely following custom and convention.

Foster an Open Corporate Culture

We believe that every employee's contribution is important to develop our ideal of a financial services company. We will thus foster an open corporate culture where employees can freely express their individuality and demonstrate their abilities to the fullest.

History of the Sony Financial Group

Sony Financial Holdings was established in 2004 as a corporate spin-off from Sony Corporation. Also, SFH is the first holding company in Japan with both insurance and banking businesses under one umbrella.



1970s

1980s

1990s

2000s

▶ Sony Life

Aug. 1979 Sony Prudential Life Insurance Co., Ltd., is established (currently Sony Life)

> Apr. 1981

Sony Prudential Life Insurance commences operations with launch of Lifeplanner system

> Apr. 1991

Changes its name to Sony Life Insurance Co., Ltd.

> May 2001

Sony Life's Lifeplanner sales employees begin selling automobile insurance of Sony Assurance

> Jul. 1987

Sony Prudential Life Insurance agrees to terminate joint venture

▶ Sony Assurance

Jun. 1998 Sony Insurance Planning Co., Ltd., is established (currently Sony Assurance)

> Sep. 1999

Sony Insurance Planning changes its name to Sony Assurance Inc. Sony Assurance launches sales of automobile insurance (over the Internet in September and by telephone in October)

> Jun. 2002

Sony Assurance launches sales of "SURE" medical insurance with emphasis on cancer coverage

▶ Sony Bank

Apr. 2001 Sony Bank Inc. (Sony Bank) is established

> Jun. 2001

Sony Bank commences operations. Launches MONEYKit service site. Starts handling deposits, investment trusts and card loans

> Mar. 2002

Sony Bank begins handling mortgage loans

> Sep. 2001

Sony Bank begins handling foreign-currency deposits

> Sony Financial Holdings

Apr. 2004 Sony Financial Holdings Inc. is established as a financial holding company

> Oct. 2007

SFH is listed on the First Section of Tokyo Stock Exchange



> Apr. 2011

SFH conducts stock split and adopts share unit system

> Nov. 2013

SFH acquires Senior Enterprise Corporation (currently Lifecare Design Inc.) as a subsidiary and enters nursing care business

> Apr. 2014

Sony Lifecare Inc. is established as a holding company to oversee nursing care business

> Apr. 2016

Lifecare Design Inc. opens Sony Lifecare Group's first nursing care home

> Jul. 2017

Sony Lifecare Inc. acquires Yuuai Holdings Co., Ltd. as a subsidiary
(In Aug. 2017, Yuuai Holdings Group undertakes corporate consolidation and changes its name to Proud Life Inc.)

> Jul. 2018

SFH establishes Sony Financial Ventures Inc. as an investment subsidiary

2010s

> Dec. 2004

Sony Life's Lifeplanner sales employees begin to accept mortgage loan applications as agents of Sony Bank

> Aug. 2007

Sony Life establishes AEGON Sony Life Planning Co., Ltd. (currently AEGON Sony Life Insurance Co., Ltd.)

> Dec. 2007

Sony Life is approved to conduct banking agency business on behalf of Sony Bank

> Oct. 2009

Sony Life establishes SA Reinsurance Ltd. in British Bermuda as a reinsurance company specializing in variable annuities

> Dec. 2009

AEGON Sony Life Insurance commences operations. Sony Life's Lifeplanner sales employees begin selling individual variable annuities

> Jun. 2017

Sony Life establishes wholly owned subsidiary Sony Life Singapore Pte. Ltd. in Singapore
(In Aug. 2017, Sony Life establishes Sony Life Financial Advisers Pte. Ltd., a joint venture, with Starts Securities Co., Ltd.)

> Oct. 2004

Sony Assurance debuts fire insurance to customers taking out mortgage loans from Sony Bank

> Jan. 2009

Sony Assurance offers pet insurance through alliance with Anicom Insurance, Inc.

> Jan. 2017

Sony Assurance launches "ZiPPi" medical insurance covering actual inpatient expenses

> Jun. 2018

Sony Assurance begins selling overseas travel insurance

> Jun. 2010

Sony Bank opens its first over-the-counter branch—Housing Loan Plaza (currently CONSULTING PLAZA)

> Jan. 2016

Sony Bank launches Sony Bank WALLET, a cash card with Visa debit function

> Jul. 2011

Sony Bank acquires 57% equity interest in SmartLink Network, Inc. (currently Sony Payment Services Inc.)

> Aug. 2017

Sony Bank launches Sony Bank GATE, an investment-type crowd funding platform

A Message from the President



We will steadily leverage growth achieved through stronger existing businesses, while we make strategic moves from a long-term perspective to secure further growth by taking full advantage of changes that will occur 10 years into the future.

Let me express my deepest appreciation to all stakeholders for the continued support and interest you have extended to the Sony Financial Group.

In fiscal 2017, ended March 31, 2018, the business environment continued to present challenges, including long-term interest rates in Japan that remained low. However, the Sony Financial Group performed well, with efforts to improve profitability and enrich the customer service menu leading to steady growth in business volume for all three core business segments.

Given the low interest rate environment in Japan, Sony Life emphasized activities aimed at raising profitability on an economic value basis. The Company's approach included efforts to enrich the lineup of U.S. dollar-denominated insurance products and reinforce consulting sales and follow-up. Sony Assurance steadily increased policies for mainstay automobile insurance and implemented measures to boost service quality, such as the launch of SECOM Accident On-site Rush Service. Sony Bank built up the balance of mortgage loans and steadily expanded the number of Sony Bank WALLET cash cards with Visa debit function in 11 currencies.

A look at consolidated results of the Sony Financial Group for fiscal 2017 shows that ordinary revenues increased 8.8%, to ¥1,503.6 billion, ordinary profit increased 0.8%, to ¥66.8 billion, and profit attributable to owners of the parent was up 24.7%, to ¥51.8 billion. Consolidated adjusted ROE, a key performance indicator, reached 6.1%, up 2.2 points from a year earlier.

In light of such factors as changes in the business environment, the Group formulated a new three-year medium-term business plan, effective from fiscal 2018. The three years of the new medium-term business plan will be a time for strategic moves from a long-term perspective to secure further growth by taking full advantage of changes that will occur 10 years into the future. Also, in formulating the new medium-term business plan, the Group recognized two points—"customer-first" and "response to changes"—of major significance to the Group.

Over the next three years, the Group will emphasize "customer-first" business operation more strongly, and Sony Financial Holdings will reinforce governance structure over Group companies. In addition, the Group will create opportunities through its "response to changes" in the operating environment, namely, technological progress and a new social landscape, and lay a solid foundation for future growth.

These measures should drive growth for 10 years and even 20 years into the future, and during that time, we will strive to be a group that earns and keeps the trust of our customers.

With regard to dividends to shareholders for fiscal 2017, the payout was raised ¥5 per share over the fiscal 2016 level, to ¥60 per share. We aim for steady increases in dividends in line with earnings growth over the medium to long term. In determining dividends, we place more importance on economic value-based profit indicators that are more suitable for evaluating the growth of the life insurance business, in addition to statutory profit. The dividend forecast for fiscal 2018 is ¥62.50 per share, up ¥2.50 from fiscal 2017.

We will continue to seek the sustainable growth of the Sony Financial Group and raise corporate value, as we contribute to the development of society.

July 2018



Shigeru Ishii
President and Representative Director

1 STRENGTH

Business Portfolio

Distinctive Business Portfolio

The Sony Financial Group seeks to differentiate itself by creating new business models unlike those of industry peers and provides customers with reasonable, convenient and high-quality products and services. Going forward, the Group will strive to strengthen the presence of each company in its respective market.

Sony Life

- › Business expansion through tailor-made insurance design and sales approach and after-sales consultations based on life planning
- › ALM (Asset Liability Management) to match insurance liability characteristics to reduce interest rate risk pertaining to liabilities of insurance policies with long-term maturities
- › Financial soundness to meet future capital requirements



Strategic Highlights

- Strengthen provision of death protection
- Expansion into corporate market
- Expand Lifeplanner channel

Main Products

- Death-protection insurance
- Living benefit insurance, educational endowment insurance, medical insurance and others

Main Sales Channels

- Lifeplanner sales employee
- Partner (independent agency)

Life
Insurance
Business





Non-life Insurance Business

Sony Assurance

- Reasonable premiums matched to risk on individual basis
- Excellent accident response, with high-quality customer center and website services

Strategic Highlights

- Continue to grow in automobile insurance
- Expand business categories outside automobile insurance
- Improve customer services and operating efficiency, mainly through utilizing leading-edge technology and renovations to our core business systems

Main Products

- Automobile insurance
- Medical insurance (term-type insurance covering actual expenses, whole life insurance covering predetermined amounts)

Main Sales Channels

- Internet
- Telephone



Sony Bank

- Lineup of highly convenient, high-quality products leveraging advantages of the Internet
- Business operations with high customer satisfaction

Strategic Highlights

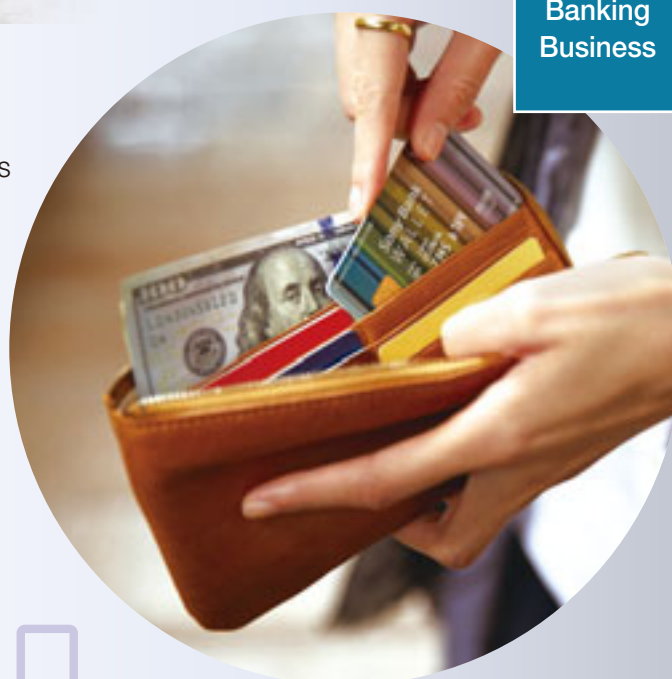
- Reinforce foreign currency deposits
- Provide products and services for asset management

Main Products

- Foreign currency deposits
- Mortgage loans
- Sony Bank WALLET cash card with Visa debit function in 11 currencies

Main Sales Channels

- Internet
- Banking agency



Banking Business

Consistently Strong GROWTH

Steady Growth

The Sony Financial Group has steadily expanded business volume by securing the loyalty of customers in each business that makes up its distinctive business portfolio. Going forward, the Group seeks to achieve medium- to long-term growth by providing high-quality products and services matched to the individual financial needs of each customer.

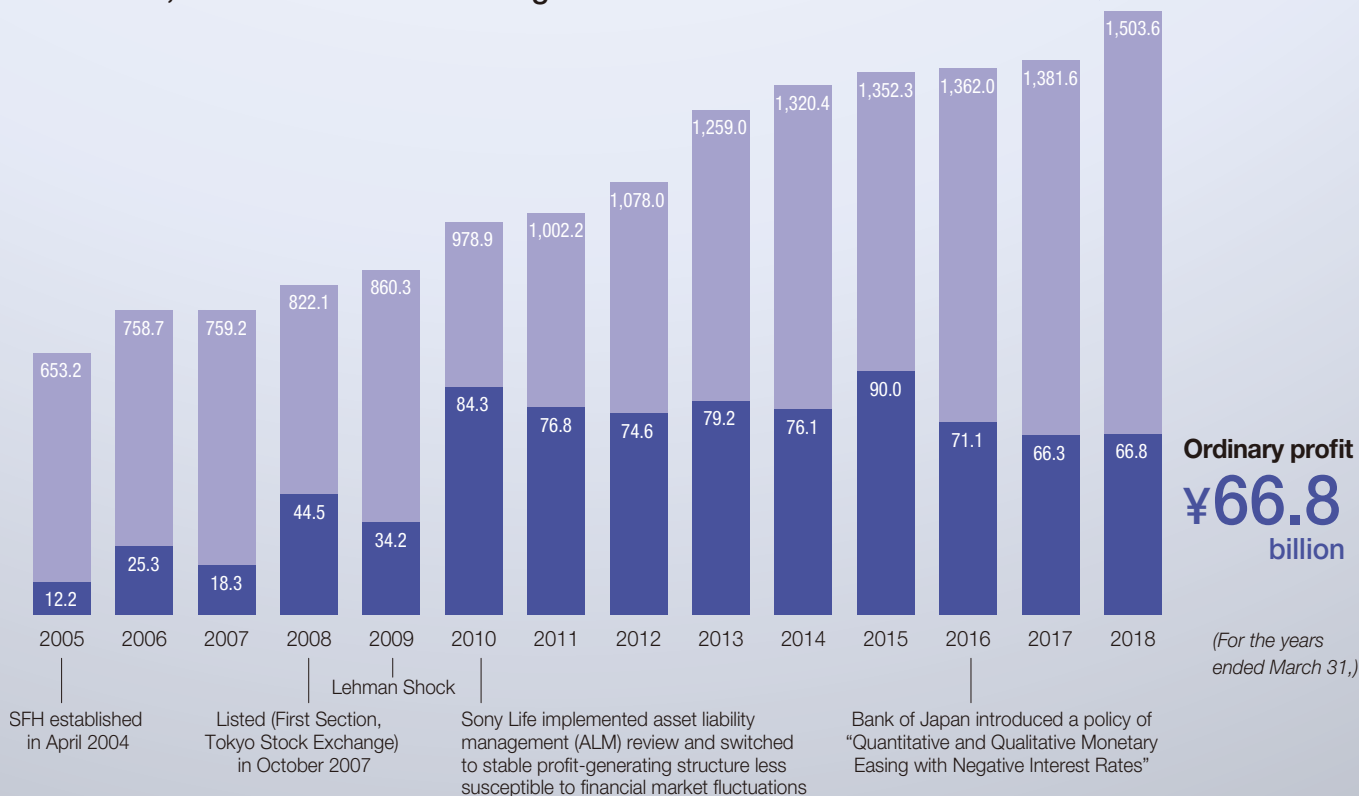
SFH (Consolidated)

Ordinary Revenues/Ordinary Profit

Gained customer loyalty through innovation in a market, which led to sustainable growth

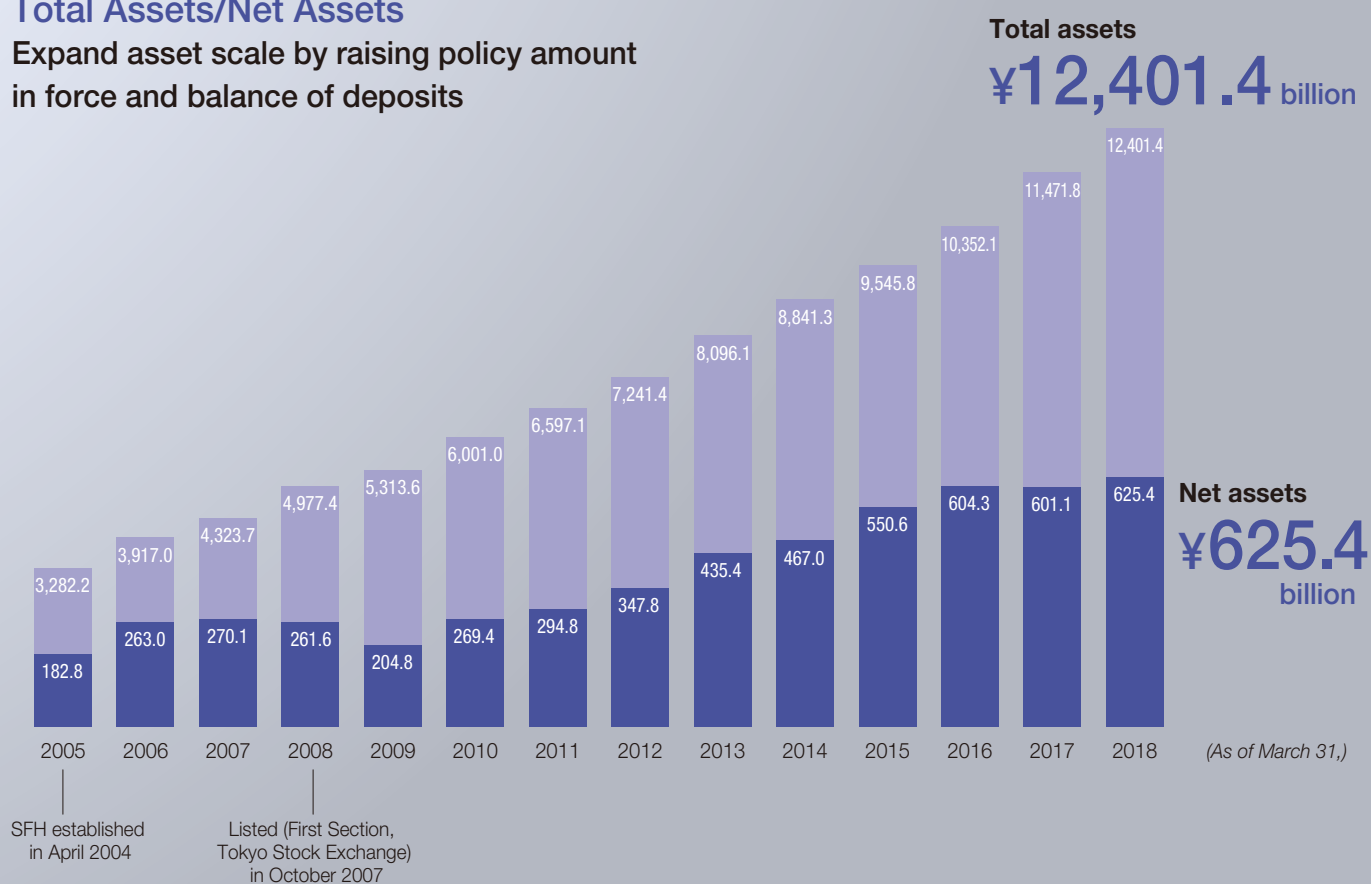
Ordinary revenues

¥1,503.6 billion



Total Assets/Net Assets

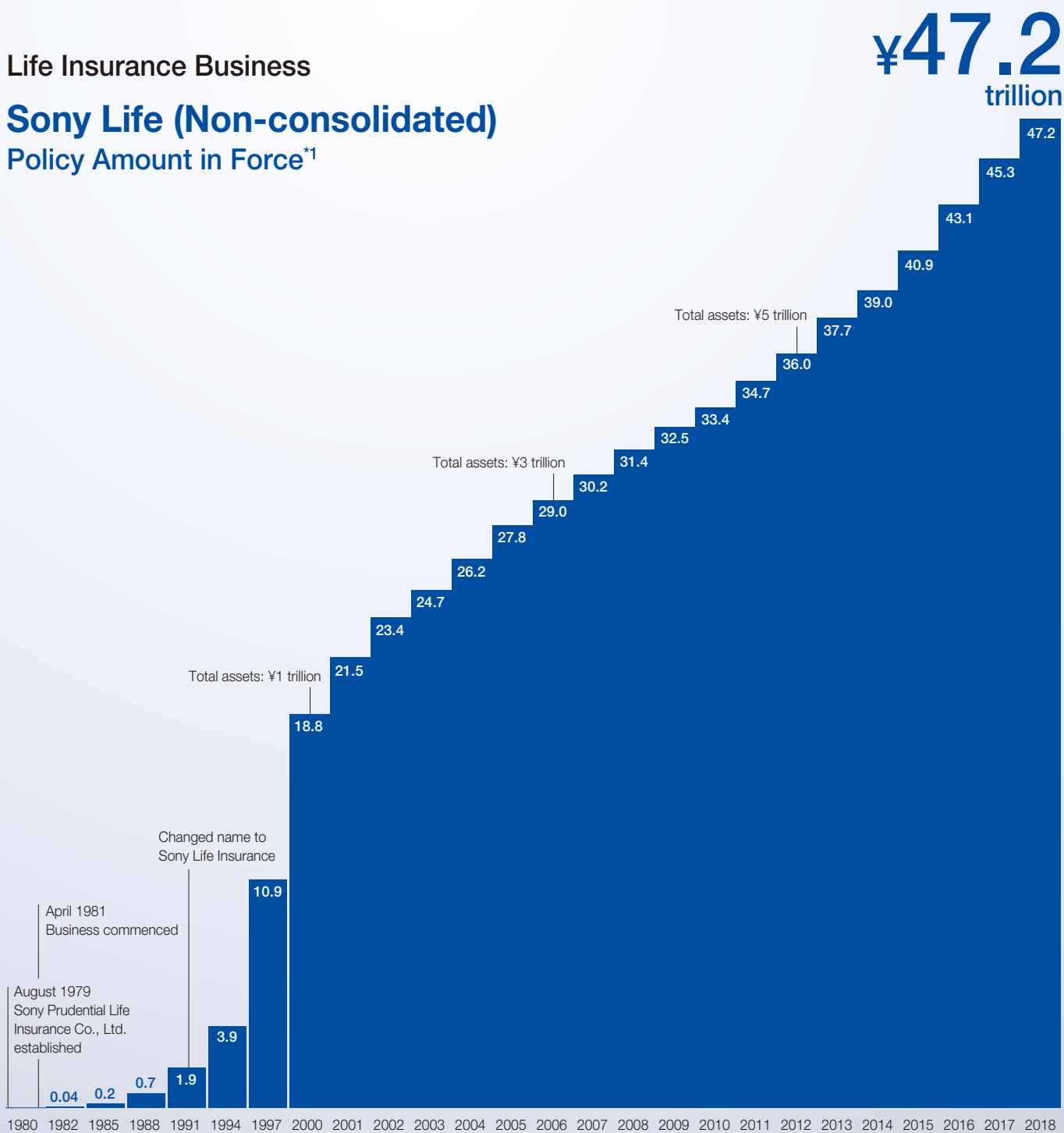
Expand asset scale by raising policy amount
in force and balance of deposits



Life Insurance Business

Sony Life (Non-consolidated)

Policy Amount in Force^{*1}



^{*1} Total amount of individual life insurance and individual annuities

(As of March 31,)

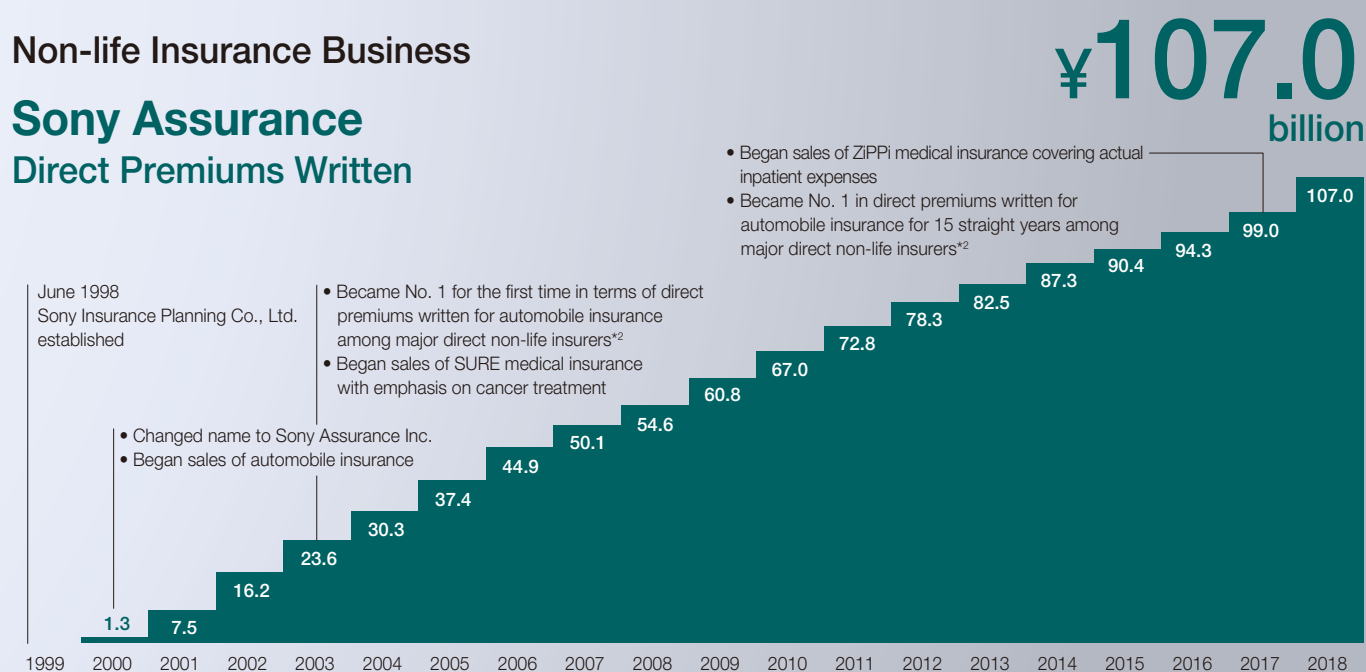
A consultation led by a Lifeplanner
sales employee



Consultations draw on Sony Life's very
own software "LiPSS" and create life-
planning tables designed to realize
customers' dreams and hopes.

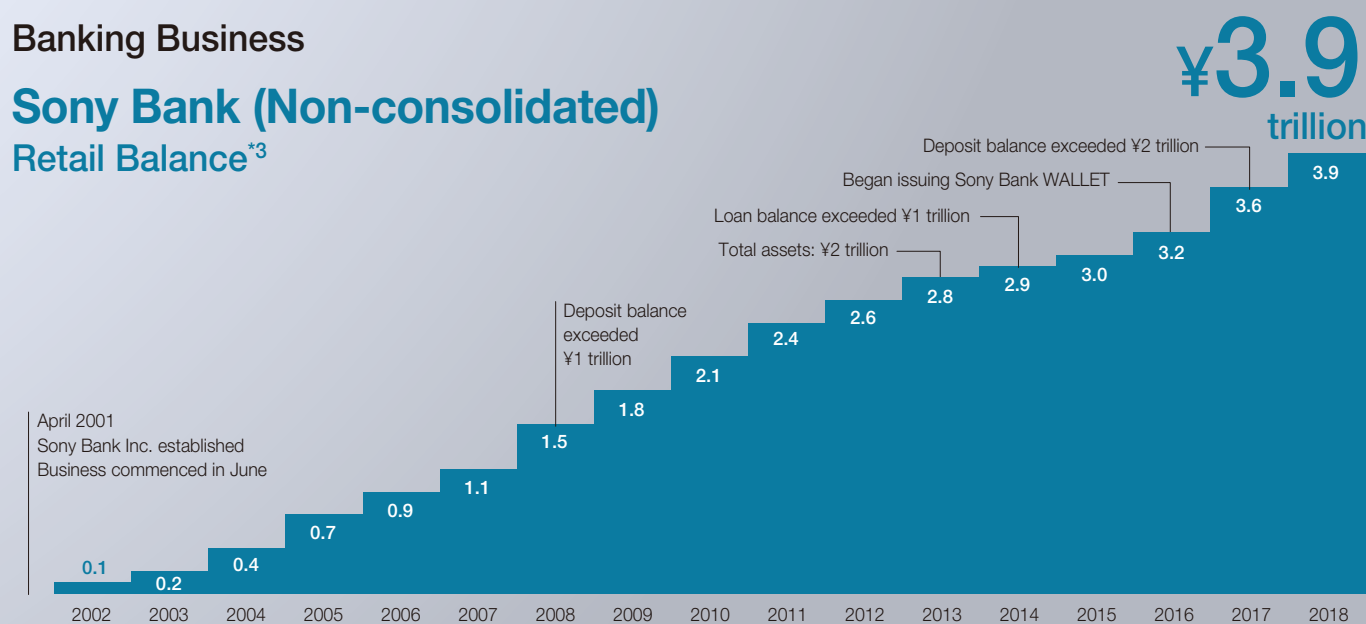
Non-life Insurance Business

Sony Assurance Direct Premiums Written



Banking Business

Sony Bank (Non-consolidated) Retail Balance*3



*3 Sum of deposits, investment trusts and personal loan balances, including securities brokerage and mediated discretionary investment contracts from fiscal 2017

(As of March 31,)

Various benefits and services are attached to Sony Bank WALLET, including cash back on domestic purchases, discounts, purchase protection insurance and compensation for unauthorized use.



Sony Assurance maintains No. 1 spot in direct insurance for 15 consecutive years (as of March 31, 2017)

Inspiring the FUTURE

Seeking to Maximize Corporate Value

The Sony Financial Group seeks to build closer ties to customers and, through the management strategies described below, the Group will strive to maximize corporate value from a medium- to long-term perspective.

— 1 —

Sustainable, stable growth at Group companies

We aim to achieve sustainable, stable growth by utilizing inherent company strengths and expanding business volume.

- ▶ Page 6: Vision and Strategies: Strength
- ▶ Page 8: Vision and Strategies: Growth

Sales tie-up through Sony Life's Lifeplanner sales employees

Lifeplanner sales employees handle products of Group companies, such as automobile insurance from Sony Assurance and mortgage loans from Sony Bank.

In fiscal 2017, the volume of automobile insurance sold along the Lifeplanner channel represented 4% of the number of new policies by Sony Assurance, while the volume of mortgage loans along this sales route represented 16% of the amount of new loans extended by Sony Bank.

— 2 —

Create synergies through cooperation among Group companies

We will raise the synergistic effect created as a corporate group and provide appealing, high-value-added products and services that conventional financial institutions have not been able to provide. So as to realize it, we place more importance on growth at each Group company and on efforts aimed at enhancing intra-company cooperation to facilitate access to products and services as well as sharing and mutual use of respective sales channels and infrastructure.





— 3 —

Entry into new business domains that transcend our existing framework

Focusing on business domains related to existing businesses, we will strive to steadily expand business volume by continuing to enrich our lineup of products and services to meet customer expectations.

The Sony Financial Group added the nursing care business to its corporate portfolio in November 2013 and is steadily pursuing new activities to fuel growth over the medium to long term. Also, advances in technology have created an excellent backdrop for launching innovative financial services, a trend that is gaining momentum. Under these circumstances, we established a subsidiary in July 2018 to invest in venture companies with strengths in such areas as Fintech.

► Page 30: Vision and Strategies Nursing Care Business

— 4 —

Emphasize customer-first business operations and reinforce Group governance

The Group has emphasized customer-first business operations in line with a corporate philosophy that dates back to the Group's earliest days. SFH and its three core subsidiaries—Sony Life, Sony Assurance and Sony Bank—have all disclosed a customer-first business operations policy and strive to maintain appropriate business operations. In addition, SFH continuously reinforces the governance structure for Group companies.

► Page 20: Vision and Strategies The Sony Financial Group

Sony Financial Group's Financial Highlights

(SFH Consolidated and Primary Subsidiaries)

	For the years ended March 31,	2009	2010
Sony Financial Holdings (Consolidated)	Ordinary revenues	¥ 860,323	¥ 978,991
	Ordinary profit	34,253	84,373
	Profit attributable to owners of the parent	30,722	48,126
	Comprehensive income	—	71,066
	As of March 31,		
	Total assets	5,313,677	6,001,088
	Net assets	204,897	269,439
	Consolidated capital adequacy ratio (Domestic standard) ^{(Note 1) (Note 2)}	13.32%	12.05%
	Consolidated solvency margin ratio ^(Note 1)	—	—
	For the years ended March 31,		
Sony Life (Non-consolidated)	Ordinary revenues	¥ 765,910	¥ 881,798
	Ordinary profit	32,409	80,099
	Net income	33,783	46,138
	As of March 31,		
	Total assets	3,810,929	4,286,540
	Net assets	140,730	191,312
	Non-consolidated solvency margin ratio ^(Note 1)	2,060.5%	2,637.3%
	For the years ended March 31,		
Sony Assurance	Ordinary revenues	¥ 61,882	¥ 68,174
	Ordinary profit	2,178	2,565
	Net income (loss)	(1,556)	1,604
	As of March 31,		
	Total assets	86,698	98,340
	Net assets	13,678	15,482
	Non-consolidated solvency margin ratio ^(Note 1)	993.0%	1,018.5%
	For the years ended March 31,		
Sony Bank (Non-consolidated)	Ordinary revenues	¥ 33,361	¥ 30,500
	Ordinary profit	414	2,930
	Net income (loss)	(710)	1,646
	As of March 31,		
	Total assets	1,411,956	1,612,186
	Net assets	46,264	58,989
	Non-consolidated capital adequacy ratio (Domestic standard) ^{(Note 1) (Note 2)}	13.37%	12.09%
	For the years ended March 31,		

Notes: 1. Calculated based on rules in force at the respective dates.

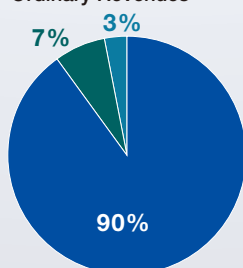
2. Capital adequacy ratio has been calculated by applying foundation internal ratings-based (FIRB) approach from March 31, 2017.

Composition by Business Segment

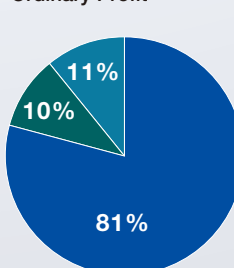
(For the year ended March 31, 2018)

- Life Insurance Business
- Non-life Insurance Business
- Banking Business

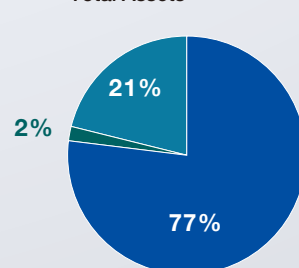
Ordinary Revenues



Ordinary Profit



Total Assets



Note: Ratios for each business segment are shown as a percentage of consolidated Sony Financial Holdings performance.

Millions of yen

2011	2012	2013	2014	2015	2016	2017	2018
¥1,002,201	¥1,078,070	¥1,259,041	¥1,320,456	¥1,352,325	¥ 1,362,044	¥ 1,381,667	¥ 1,503,630
76,860	74,625	79,252	76,136	90,062	71,103	66,326	66,843
41,716	32,812	45,064	40,504	54,419	43,355	41,621	51,895
31,963	60,376	96,225	44,794	90,707	71,105	21,433	52,207
6,597,140	7,241,414	8,096,164	8,841,382	9,545,868	10,352,114	11,471,845	12,401,446
294,877	347,800	435,444	467,050	550,672	604,377	601,139	625,406
10.96%	10.14%	9.88%	12.02%	11.91%	10.70%	14.39%	17.18%
—	1,380.3%	1,520.6%	1,563.8%	1,634.9%	1,637.1%	1,632.9%	1,748.7%
¥ 900,091	¥ 967,400	¥1,142,274	¥1,197,109	¥1,223,827	¥ 1,230,141	¥ 1,243,739	¥ 1,351,076
73,176	69,436	74,659	69,205	79,665	60,792	60,180	56,338
40,220	31,426	42,444	37,063	42,524	37,096	35,185	45,134
4,723,332	5,222,846	5,952,750	6,624,903	7,301,350	8,035,408	8,873,613	9,567,689
215,387	264,836	342,333	369,230	432,526	482,195	473,589	492,787
2,900.1%	1,980.4%	2,281.8%	2,358.7%	2,555.0%	2,722.8%	2,568.8%	2,624.3%
¥ 74,166	¥ 80,096	¥ 84,711	¥ 89,864	¥ 93,022	¥ 96,905	¥ 102,333	¥ 110,092
2,144	2,859	2,371	3,003	4,209	4,680	4,996	6,574
1,297	1,299	1,454	1,664	2,233	2,586	3,515	4,821
109,382	118,612	127,421	142,714	157,919	172,323	186,537	204,362
16,772	18,009	19,934	21,418	24,741	28,305	29,409	33,189
981.4%	557.8%	504.2%	527.6%	629.6%	693.5%	730.8%	782.1%
¥ 29,521	¥ 30,075	¥ 31,351	¥ 33,994	¥ 35,714	¥ 34,892	¥ 35,105	¥ 36,270
3,377	4,033	4,282	5,845	7,298	5,857	4,634	6,557
2,054	2,340	879	3,585	4,634	3,912	3,176	4,474
1,761,830	1,890,503	2,005,081	2,056,704	2,062,525	2,126,564	2,424,236	2,635,028
59,971	62,796	67,811	72,774	77,064	77,428	81,332	85,729
10.84%	11.58%	11.98%	11.72%	10.65%	9.89%	9.75%	10.45%

Credit Ratings (As of July 1, 2018)

Credit Rating Agencies	Sony Financial Holdings	Sony Life	Sony Bank
Rating and Investment Information (R&I)	Issuer rating AA-	Insurance claims paying ability AA	
Japan Credit Rating Agency (JCR)			Long-term issuer rating AA-
S&P Global Ratings (S&P)		Insurer financial strength rating A+	Counterparty credit rating Long-term A Short-term A-1

Sony Financial Group

Medium-term Business Plan

FY2018 —
FY2020

The operating environment surrounding the Group is expected to remain challenging. The situation is largely due to a shrinking market, reflecting a net decrease in the population and downward pressure on profitability, paralleling the low interest rate situation. Particularly the speed of technological innovation, including Fintech, is amazing, and the danger grows more likely every day that existing financial services will be made obsolete as companies from different sectors enter the finance industry. In addition, management at financial institutions has placed more importance on a customer-oriented approach to business operations.

In this operating environment, the Sony Financial Group will steadily strengthen existing businesses, while we make a new approach with a long-term perspective to secure further growth by taking full advantage of changes that will occur 10 years into the future. The Group's growth strategy focuses on two key points: **customer-first** and **response to changes**. With this in mind, the Group will support customers' financial activities overall, beyond the existing business value chain, to provide reliable services and access to the newest technologies.

Key Points in New Medium-term Business Plan

Customer-first — Further promote the customer-first business operation

Response to Changes — Establish a foundation that allows us to take full advantage of changes (technological advancements, social or regulatory changes, etc.) to secure further growth

TARGETS for FY2020

	FY2017 Actual	FY2020 Medium-term targets
Ordinary revenues	¥1.50 trillion	¥1.76 trillion
Ordinary profit	¥66.8 billion	¥77 billion
Profit attributable to owners of the parent	¥51.8 billion	¥50 billion
US-GAAP operating income*1	¥178.9 billion	¥180 billion
Consolidated adjusted ROE	6.1%*2	Approx. 7%

*1 The figures for fiscal 2017, ended March 31, 2018, are rounded to the nearest ¥100 million. The figures for fiscal 2020, ending March 31, 2021, include expected changes in actuarial assumptions that are not affected by financial markets, and do not include expected gains/losses on sale of securities according to the change of available-for-sale securities recognition, which are reported at fair value in the US GAAP from fiscal 2018, ended March 31, 2019 onward.

*2 Actual results for fiscal 2017 exclude the effect of a change to the insurance risk measurement method and other revisions at Sony Life.

► Page 21: Calculation of Consolidated Adjusted ROE

MANAGEMENT MESSAGES

Sony Financial Group

Page
18

Shigeru Ishii

*President, Representative Director
Sony Financial Holdings*



Sony Life

Page
22

Tomoo Hagimoto

*President, Representative Director
Sony Life*



Sony Assurance

Page
26

Atsuo Niwa

*President, Representative Director
Sony Assurance*



Sony Bank

Page
28

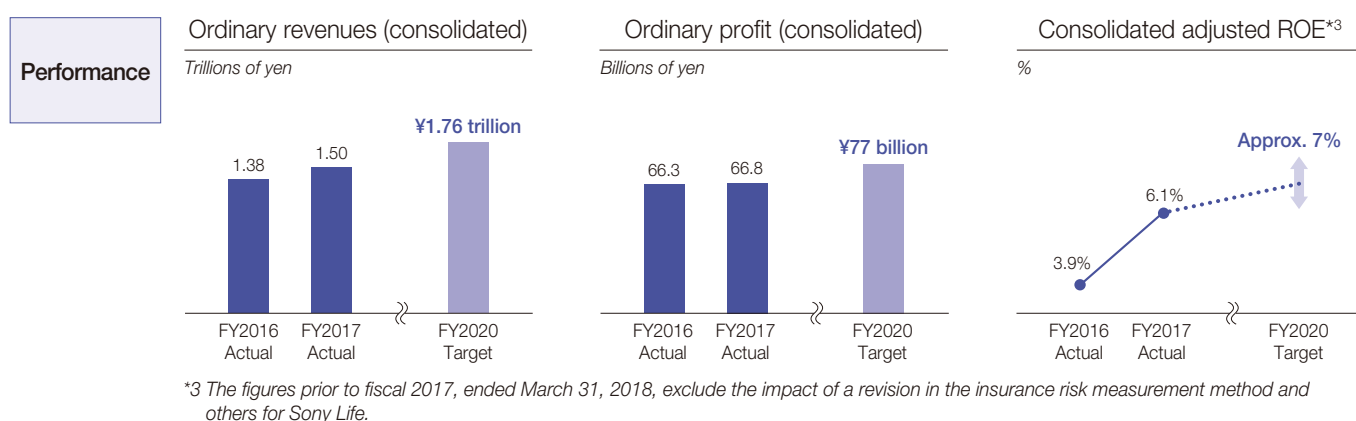
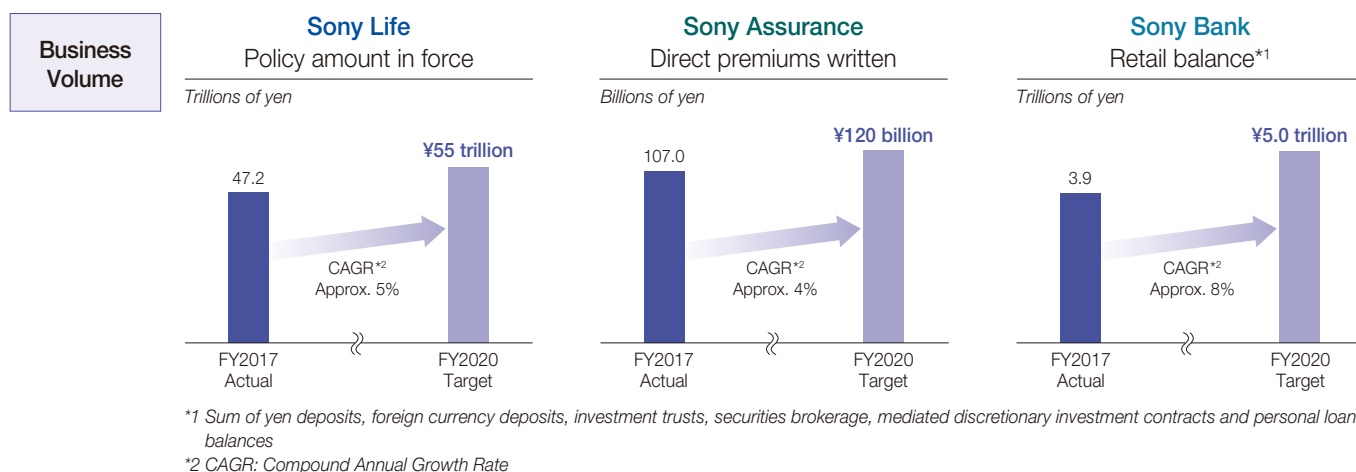
Yuichiro Sumimoto

*President, Representative Director
Sony Bank*



Sony Financial Group

Business Volume and Performance



The Group's three core subsidiaries are expected to continue to expand business volume through fiscal 2020, ending March 31, 2021. Consolidated ordinary revenues and ordinary profit in fiscal 2020 should both increase over those of fiscal 2017. In addition, our goal for consolidated adjusted ROE, of which Sony Life's core ROEV constitutes a major portion, is about 7% in fiscal 2020.

Shigeru Ishii

President, Representative Director
Sony Financial Holdings



Group Growth Strategy

The growth strategy of the Sony Financial Group builds on organic growth, through stronger existing business and new initiatives described in the new medium-term business plan that will lay the foundation for growth into the future.

Growth Through Stronger Existing Businesses

Life Insurance

Enhance consulting-based sales and follow-ups

▶ Page 22: Sony Life

Non-life Insurance

Maintain growth in auto-mobile insurance while diversifying portfolios for the non-life insurance category

▶ Page 26: Sony Assurance

Banking

Achieve growth in foreign currency deposits and mortgage loans through enhanced proposal capabilities and alliance network

▶ Page 28: Sony Bank

Nursing Care

Ensure steady post-startup progress

▶ Page 30: Nursing care business

New Initiatives for Further Growth

1. Utilize Fintech

To effectively provide higher quality financial services to customers, Group companies will actively incorporate new technologies, including machine learning and other AI technologies, into operations through alliances within the Group as well as with outside parties. This will help get us closer to customers.

2. Establish investment subsidiary

In July 2018, SFH established Sony Financial Ventures Inc., an investment subsidiary. Sony Financial Ventures invests in venture companies with strengths in the related businesses of Group companies, including Fintech and health care. By investing, we aim to reinforce existing Group businesses and facilitate the creation of new businesses, through tie-ups and joint activities between venture companies and Group companies, besides capturing financial returns.

3. Build physical and digital channels

The Sony Financial Group boasts the strengths of a real sales channel through Sony Life and a digital sales channel through Sony Assurance and Sony Bank. We will take advantage of both channels without losing the characteristics that distinguish each format through stronger connections within the Group as well as through M&A and alliances.

As a group, we will get closer to customers and enhance our function by analyzing data on customers' consumption and behavioral patterns. This will enable us to better match financial services to customers' needs and create a closer presence between customers and ourselves.

Further Strengthen Group Governance

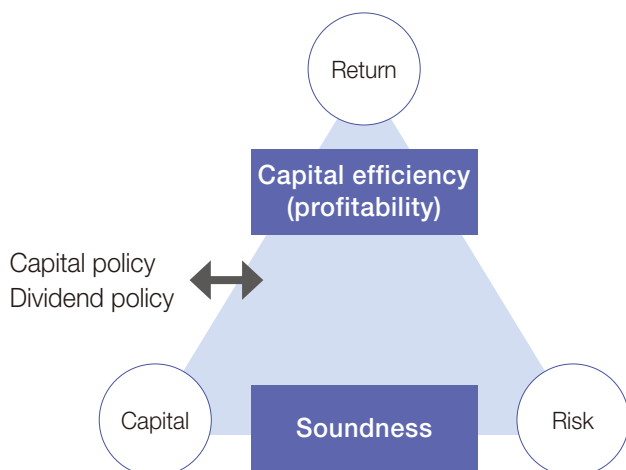
The Sony Financial Group's responses to the Corporate Governance Code have included the introduction of a restricted stock compensation system, the evaluation of the effectiveness of the Board of Directors through a third party and an

increase in the number of independent outside directors. The Group will continue to promote initiatives aimed at further strengthening the governance structure.

Promote Group ERM

A group-oriented ERM (Enterprise Risk Management) framework has been introduced into the Sony Financial Group. It aims to balance and optimize capital, risk and return by extending comprehensive risk management structures already in place at each company throughout the whole organization and to instill the idea of improved capital efficiency in management across the Group. This ERM framework will help the

Group achieve stable growth and maximize medium- to long-term corporate value. The Group is working to build a PDCA cycle through the formulation, implementation and monitoring of business plans based on risk appetite. Furthermore, we are trying to raise Group ERM even higher while keeping related regulatory trends in sight.



Capital efficiency (profitability) indicators

- Sony Life: Core ROEV
- Sony Assurance: Adjusted ROE
- Sony Bank: ROE

Soundness indicators

- Insurance business: Solvency margin ratio
- Banking business: Capital adequacy ratio
- Management on a regulatory basis and on the basis of economic value

Customer-first Business Operation Policy (Summary)

Based on its vision and philosophy, the Sony Financial Group pursues business operations from a customer-first perspective. SFH has clarified this initiative as its customer-first business operation policy, and Sony Life, Sony Assurance and Sony Bank will each go further to establish business operation policies fine-tuned to respective activities.

The policy that SFH has set as well as the policies in place at Group companies will be reviewed periodically, taking into account such factors as changes in the operating environment. In addition, SFH, as a financial holding company, will confirm that the content of the customer-first business operation policy is appropriate, and will monitor the activities at Group companies, based on their policies, to ensure proper business operations. SFH will offer whatever support and guidance is necessary, as required.

At the same time, Group companies will verify the status of their own initiatives on customer-first business operations and regularly report to the Board of Directors or other oversight structures and will also provide status updates on a regular basis.

Consolidated Adjusted ROE

Since each company of the Sony Financial Group differs by industry such as insurance and banking, each Group company calculates its "Adjusted ROE" based on adjusted profit and adjusted capital to realize its corporate value and capital efficiency. By fiscal 2020, as the medium-term target, Sony Life's

core ROEV should be 6% or more. For Sony Assurance, adjusted ROE should reach around 13% by that time, while Sony Bank should show ROE of 6.8%. On a consolidated basis, achievement of these medium-term targets will lead to a consolidated adjusted ROE of about 7%.

	FY2017 Actual	FY2020 Medium-term targets
Consolidated adjusted ROE*	6.1%	Approx. 7%
(Sony Life) Core ROEV*	5.9%	6% or more
(Sony Assurance) Adjusted ROE	16.1%	Approx. 13%
(Sony Bank) ROE	5.5%	6.8%

* The figures for fiscal 2017 exclude the impact of a revision in the insurance risk management method and others for Sony Life.

Calculation of Consolidated Adjusted ROE

Group companies' adjusted ROE and ROE as well as consolidated adjusted ROE are presented below.

Calculation of Sony Life's core ROEV:

$$\frac{\text{New business value} + \text{Expected existing business contribution}}{\text{MCEV* as of the beginning of the fiscal year less dividends paid plus MCEV* as of the end of the fiscal year, divided by two}}$$

Calculation of Sony Assurance's adjusted ROE:

$$\frac{\text{Net income (loss)} + \text{Provision amount for catastrophe reserve and its provision amount for reserve for price fluctuations, in each case after taxes}}{\text{The average amount of net assets plus the sum of catastrophe reserve and its reserve for price fluctuations during the fiscal year, in each case after taxes}}$$

Calculation of Sony Bank's ROE:

$$\frac{\text{Profit (loss) attributable to owners of the parent}}{\text{The average amount of net assets during the fiscal year}}$$

Calculation of Consolidated adjusted ROE for fiscal 2017:

Consolidated adjusted ROE = Consolidated adjusted profit ÷ consolidated adjusted capital

$$\begin{aligned} & \text{Sony Life: New business value} + \text{expected existing business contribution} \\ & + \text{Sony Assurance: Net income (loss)} + \text{provision amount for catastrophe reserve and} \\ & \text{its provision amount for reserve for price fluctuations, in each case after taxes} \\ & + \text{Sony Bank: Profit (loss) attributable to owners of the parent} \end{aligned}$$

$$\frac{\begin{aligned} & \text{Sony Life: MCEV* as of the beginning of the fiscal year less dividends paid plus MCEV* as of the end of the fiscal year, divided by two} \\ & + \text{Sony Assurance: The average amount of net assets plus the sum of catastrophe reserve and} \\ & \text{its reserve for price fluctuations during the fiscal year, in each case after taxes} \\ & + \text{Sony Bank: The average amount of net assets during the fiscal year} \end{aligned}}$$

*Sony Life discloses Market Consistent Embedded Value ("MCEV"). Sony Life's MCEV is calculated in compliance with the European Insurance CFO Forum Market Consistent Embedded Value Principles©** ("MCEV Principles"), the international standard in disclosing MCEV, published by the CFO Forum comprising CFOs from major insurance companies in Europe.

**Copyright© Stichting CFO Forum Foundation 2008

Activities for Growth in Fiscal 2018 and Beyond

Customer-first Response to Changes	Further strengthen our business foundation	<ul style="list-style-type: none"> • Pursue quality in the Lifeplanner channel • Achieve steady recovery in the independent agency channel
	Provide new value	<ul style="list-style-type: none"> • Expand coverage (new medical insurance) • Evolve customer-first service (Fintech)
	Steadily grow corporate value	<ul style="list-style-type: none"> • Realize growth in profit on the basis of economic value



Tomoo Hagimoto

*President, Representative Director
Sony Life*

Channel-specific Strategy: Lifeplanner Channel

Stringent recruitment and enhancing education and training

Sales through Sony Life's Lifeplanner channel represent about 80% of all new policies, and sales are growing steadily. At Sony Life, brisk recruitment is pushing the number of Lifeplanner sales employees higher every year. As of March 31, 2018, it had reached 5,142. Lifeplanner productivity continues at a high level.

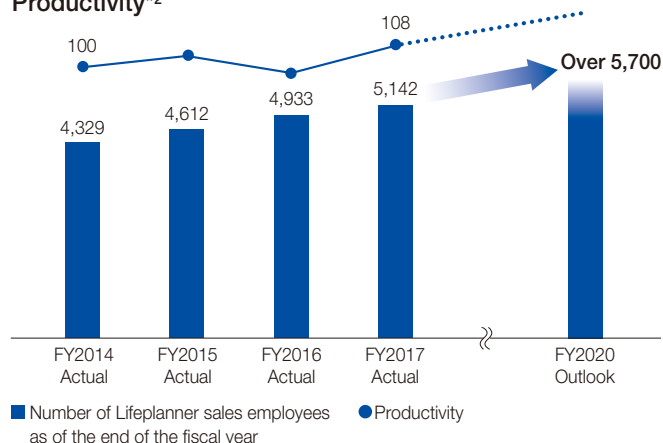
Going forward, we will apply stricter selection criteria in the recruitment process of Lifeplanner candidates, including an enhanced interview process. In addition, through regular communication with the head office and standard application of best practices, we will raise the level of education and training at branch offices and reinforce education and training, including initial training.

Through these measures, we will steadily expand the team lineup while improving the quality of Lifeplanner sales employees, and by March 31, 2021, the number of Lifeplanner sales employees should exceed 5,700.

Enhancing consulting sales and follow-up capabilities

Sony Life encourages the Lifeplanner channel to utilize LiPSS, a simulation tool for designing the coverage that customers need to achieve their life plans, as well as Karte, which collects, updates and keeps data obtained through communication with customers. These approaches underpin enhanced consulting sales and follow-up capabilities based on customer needs, as Lifeplanner sales employees are able to visualize the basis for recommendations to customers and provide protection along the lines of customer intentions. In addition, they can check on and optimize coverage through post-contract consulting and follow-up activities, which will drive the value provided by Lifeplanner sales employees even higher.

Number of Lifeplanner Sales Employees*1 and Productivity*2



*1 The figure includes the number of contracted Lifeplanner sales employees and those rehired on a fixed-term contract basis after retirement.

*2 Productivity is indexed to FY2014 = 100, calculated on the basis of new policy amount.

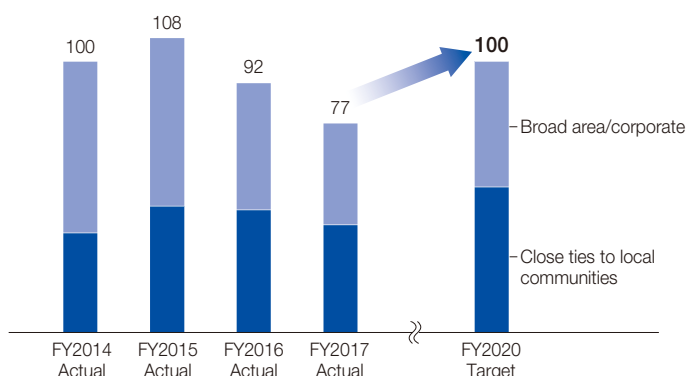
Channel-specific Strategy: Independent Agency Channel

Sales through Partners (independent agencies) at Sony Life account for about 20% of all new policies.

We will broaden the range of support matched to type of business—either independent agencies with close ties to the

local community or large, corporate independent agencies—as well as strengthen training of Supporters (independent agencies' sales staff), and we will promote measures aimed at achieving a recovery in new policy amount.

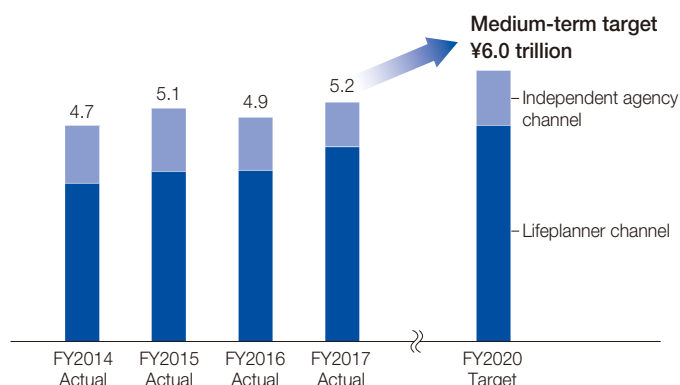
New Policy Amount Index*1 (Independent Agency Channel)



*1 New policy amount is indexed to FY2014 = 100

Sony Life's New Policy Amount*2

Trillions of yen



*2 Individual life insurance and annuities

Expanding Provided Value—Launch of New Medical Insurance and Evolution of Customer Services Through Fintech

At Sony Life, we provide protection to our customers with a focus on death protection products. Amid a persistently low-interest situation in Japan, we began selling a new U.S. dollar-denominated product in October 2017 that utilizes comparatively higher interest rates on U.S. dollar-denominated investments, compared with current low returns on yen-denominated investments, to give customers sufficient protection at reasonable costs. Also, in the medical insurance field, we launched two products in July 2018 with coverage better suited to the changing environment of on-site medical care to meet the medical protection needs of customers.

The two medical insurance products highlight, respectively, a focus on insurance premiums and a fondness for saving, and thereby address the needs of a wide range of customers.

In addition, from a medium-term perspective, we are working to strengthen proposal-making capabilities by applying advances in Fintech. We are keen to use AI to make objective proposals and to improve service quality on both sales and follow-up fronts by promoting the development of AI responses using the life plans, dreams, ideas and other customer data obtained through consulting activities.

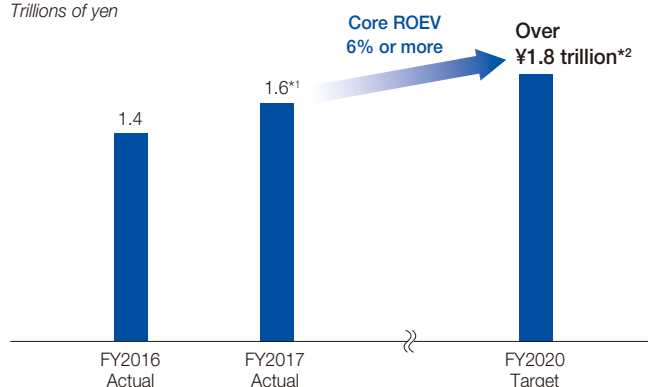
Achieving Profit Growth on an Economic Value Basis

At Sony Life, we emphasize medium-term profit growth on an economic value basis as an indicator of performance since it tracks more closely to the actual growth of the life insurance business. Our MCEV was ¥1,633.2 billion, as of March 31, 2018, and we expect to surpass ¥1,800 billion by March 31, 2021. We see new business value and expected existing business contributions as the foundation for growth in corporate value obtained through insurance underwriting. We define the ratio of the total sum of new business value and expected existing business contributions to MCEV, as a measure of capital efficiency (profitability), also called core ROEV. We anticipate a core ROEV of 6% or more in fiscal 2020.

Sony Life continues to commit to customer-first business operations and efforts to strengthen the compliance system while working to achieve medium-term profit growth on an economic value basis.

MCEV

Trillions of yen



*1 Following revisions, including insurance risk measurement method, effective from fiscal year ended March 31, 2018 onward

*2 Based on interest rate level at end of March 2018.

Fiscal 2020 Medium-term Targets

	FY2017 Actual	FY2020 Medium-term targets
Policy amount in force	¥47.2 trillion	¥55 trillion
Number of Lifeplanners ^{*1}	5,142	Over 5,700
MCEV ^{*2}	¥1.6 trillion	Over ¥1.8 trillion
Core ROEV ^{*3}	5.9%	6% or more
Ordinary profit (life insurance business)	¥54.1 billion	¥62 billion

^{*1} The figures include the number of contracted Lifeplanner sales employees and those rehired on a fixed-term contract basis after retirement.

^{*2} Medium-term targets for fiscal 2020 are based on interest rate levels as of March 31, 2018.

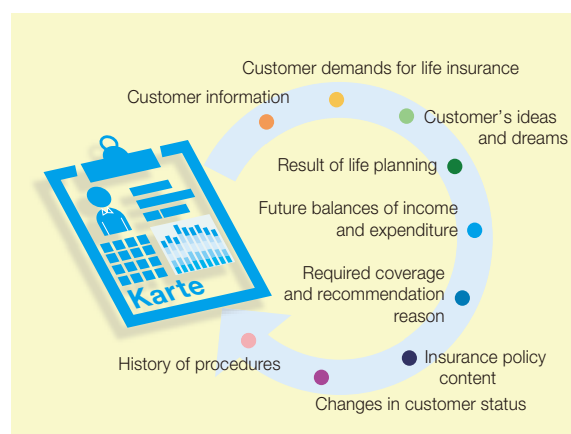
^{*3} Results for FY2017 exclude impact from revisions, such as change in insurance risk measurement method.

“Karte” for Higher Quality Consulting and Follow-up

Sony Life’s Karte is an electronic database of customer information and history collected during proposal- and contract-making and follow-up efforts.

Lifeplanner sales employees give shape to customers’ expectations for the distant future—discussed at the time a policy is drawn up—and accompany customers as they proceed with life.

Therefore, even after a policy is signed, whenever Lifeplanner sales employees meet with customers, they ask how customers are doing and inquire about their concerns. By consistently recording this information in Karte, they can pinpoint future balances of income and expenditure and offer suggestions, such as policy adjustments to match life events that could be several years into the future.



► Please refer to Review of Operations: Life Insurance Business on page 36.

Sony Assurance

Activities for Growth in Fiscal 2018 and Beyond

Customer-first	Response to Changes	Continue to grow and expand share of automobile insurance	<ul style="list-style-type: none"> Strengthen customer confidence in direct insurance by improving product capabilities and service quality and conducting effective marketing; establish “a trusted brand” Improve products, marketing and services using leading-edge technology
		Expand business categories outside automobile insurance	<ul style="list-style-type: none"> Aim to establish a foundation for stable long-term earnings and promote categorical expansion Medical insurance field: strengthen and expand products, respond to diverse needs New fire insurance field: use strength in direct business to expand into new domains
		Maximize customer value	<ul style="list-style-type: none"> Strengthen customer retention by improving the customer experience and offering high-quality services Increase ability to acquire new policies by improving product and service specs to raise perceived quality
		Reform operations and improve operating efficiency	<ul style="list-style-type: none"> Track medium- to long-term changes in operating environment and utilize leading-edge technology to raise operating efficiency and heighten cost competitiveness Reform operations and aim to improve ability to respond to customer needs through large-scale renovations to our core business systems

Sony Assurance recorded ordinary profit of ¥6.5 billion in fiscal 2017, the fifth consecutive year of record-breaking results, an upward trend maintained since fiscal 2013. This achievement reflects higher revenues, paralleling favorable sales of mainstay automobile insurance, as well as a lower loss ratio. Going forward, we will strive to make customers feel more at ease with direct insurance and build reliable brand power by reinforcing product appeal and service quality, and we will expand market share with an emphasis on active approaches of effective marketing and communication practices. In the area of progressive products, we will continue to pursue development of new PHYD-type* telematics insurance products using smartphones through alliances with Yahoo Japan Corporation (Yahoo! Japan) and the Sony Group.

At the same time, Sony Assurance is working to transition from a structure that relies heavily on automobile insurance to a structure featuring multiple products that will underpin stable revenues over the long term. In the medical insurance field, we currently sell a predetermined-amount medical insurance product specifically for cancer and another product for actual hospital inpatient expenses. Going forward, we will maintain our emphasis on enhanced product appeal to better meet the diversifying medical needs of our customers. In the new fire insurance field, we have expanded further into new areas of non-life insurance, where we can put the originality of our products and our strength in direct insurance. As part of this push, in June 2018, we launched sales of an Internet-only, risk-segmented overseas travel accident insurance product distinguished by attractive, economical premiums. We will use this product to capture new customers but will also seek to create a synergistic effect through cross-marketing products in existing categories to travel insurance customers.

Another objective is to improve products and services to

maximize value to customers and reduce operating costs by applying leading-edge technologies, such as Fintech, and doing large-scale renovation of core business systems.

Going forward, we will take a thorough approach in providing high-quality products and services from a customer-first perspective, and respond to anticipated changes in the operating environment and strive to maintain steady growth and high profitability.

*PHYD: Pay How You Drive

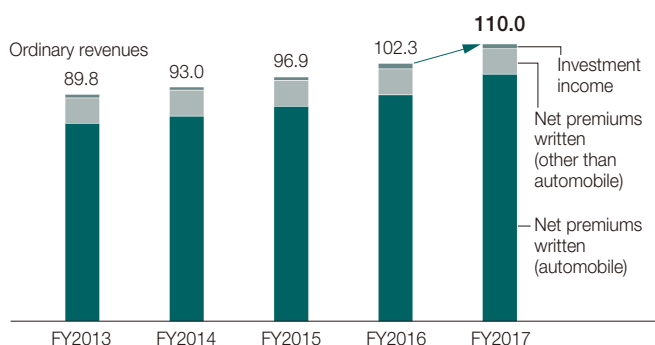


Atsuo Niwa

President, Representative Director
Sony Assurance

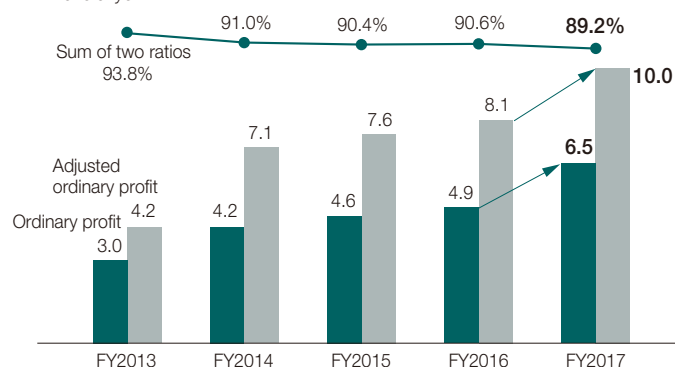
Trends of Ordinary Revenues

Billions of yen



Ordinary Profit and Sum of Two Ratios

Billions of yen



Note: Adjusted ordinary profit = Ordinary profit + Provision for catastrophe reserve

Sum of two ratios = E.I. loss ratio + Net expense ratio

E.I. loss ratio = (Net losses paid + Provision for reserve for outstanding losses and claims + Loss adjustment expenses) / Earned premiums

Net expense ratio = Expenses related to underwriting / Net premiums written

Fiscal 2020 Medium-Term Targets

	FY2017 Actual	FY2020 Medium-term targets
Direct premiums written	¥107.0 billion	¥120 billion
Sum of two ratios [E.I. loss ratio] [Net expense ratio]	89.2% [60.7%] [28.5%]	Sum of two ratios 89%
Ordinary profit	¥6.5 billion	¥7 billion
Adjusted ordinary profit*	¥10.0 billion	¥11 billion
Adjusted ROE	16.1%	Approx. 13%

* Adjusted ordinary profit = Ordinary profit + Provision for catastrophe reserve

► Please refer to Review of Operations: Non-life Insurance Business on page 44.

Activities for Growth in Fiscal 2018 and Beyond

Customer-first	Increase product strength and improve service	<ul style="list-style-type: none"> • Improve convenience of Sony Bank WALLET cash card with Visa debit function in 11 currencies, and expand tie-ups • Strengthen competitiveness of mortgage loans • Offer convenience through banking apps • Expand investment options through crowd funding
	Improve proposal-making capability	<ul style="list-style-type: none"> • Strengthen digital marketing • Implement digital consulting • Expand consulting, both over the Internet and face to face
Response to Changes	Conduct operational reform and utilize Fintech	<ul style="list-style-type: none"> • Begin using AI in provisional screening for mortgage loans • Promote alliances using open API • Improve operational efficiency through implementation of RPA

To fuel growth into the future, Sony Bank continues to focus on its foreign currency deposit and mortgage loan businesses. In the foreign currency deposits business, the balance at March 31, 2018, exceeded ¥400 billion, reflecting successful efforts to highlight the appeal of interest rates on U.S. dollar term deposits as well as the popularity of Sony Bank WALLET, for which the number of cards issued as of March 31, 2018, topped 370,000. At Sony Bank, we have forged alliances with

Sony Interactive Entertainment Inc., Takashimaya Co., Ltd. and others on Sony Bank WALLET, and we will seek additional alliances in pursuit of enhanced convenience for customers, including enhanced functions for the Sony Bank WALLET app. We will put greater effort into highlighting the convenience of Sony Bank WALLET, namely, the use of foreign currency deposits on overseas travel and overseas business trips, as well as the low service charge, on the way to our goal of a foreign currency deposit balance of ¥530 billion by March 31, 2021.

In the mortgage loan business, interest rates remain low, and increasingly fierce competition is making it difficult to capture customers. Sony Bank aims to make our fixed-rate products more competitive and introduce a new group credit life insurance. We will also start using AI in provisional screening for mortgage loans and achieve greater convenience for customers by honing our competitive edge. We will continue to expand our alliance channel with real estate companies and banking agencies in pursuit of a personal loan balance of ¥2.1 trillion by March 31, 2021, with the largest component of this balance being mortgage loans.

Also, to be chosen more frequently by customers, we have to fine-tune our proposal-making capabilities. We are working to draw on the advantages afforded by digital marketing to analyze customer characteristics and preferences and then recommend products matched to identified needs at just the right time. Going forward, we will emphasize the development of apps that facilitate life-planning simulations and investment product suggestions by smartphone as well as enhanced face-to-face proposals at CONSULTING PLAZA.

In addition to the above, we will constantly seek to raise operating efficiency, including concentrating resources into high-value-added business activities, as we work toward an ROE of 6.8% by March 31, 2021.

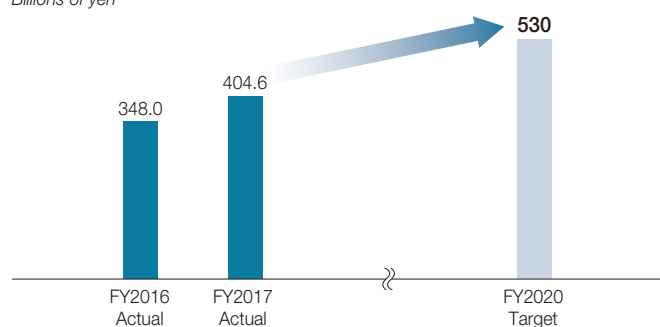


Yuichiro Sumimoto

*President, Representative Director
Sony Bank*

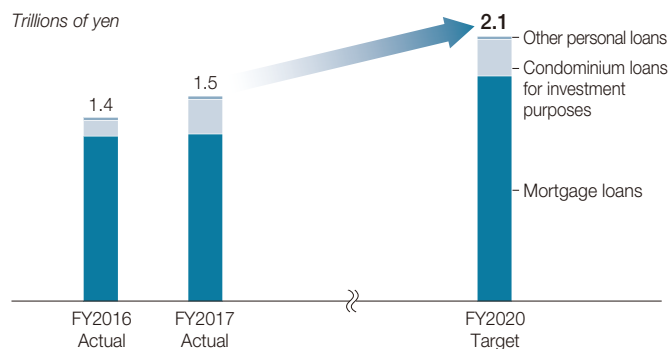
Trends in Foreign Currency Deposit Balance

Billions of yen



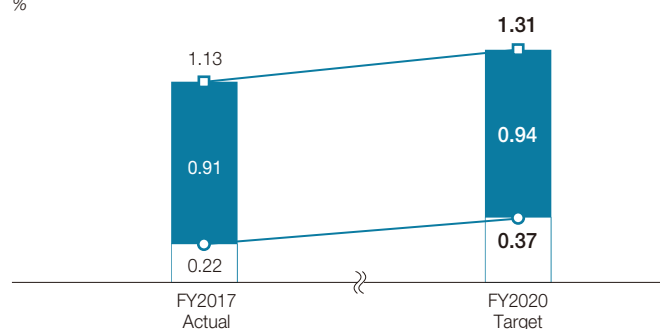
Trends in Personal Loan Balance

Trillions of yen



Interest Spread

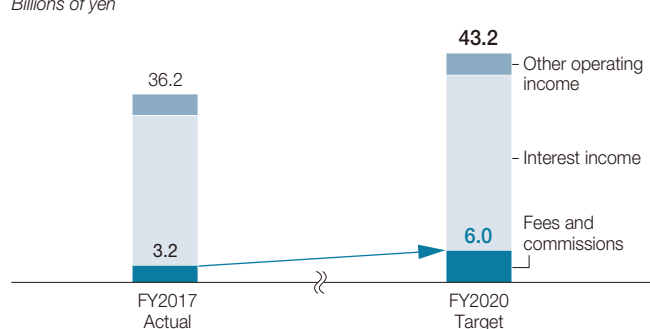
%



■ Interest spread □ Yield on investment ○ Yield on financing

Ordinary Revenues (Sony Bank non-consolidated)

Billions of yen



Fiscal 2020 Medium-term Targets

	FY2017 Actual	FY2020 Medium-term targets
Retail balance (non-consolidated)*	¥3.9 trillion	¥5.0 trillion
Gross operating profit	¥24.6 billion	¥33.5 billion
Ordinary profit	¥7.1 billion	¥9.7 billion
ROE	5.5%	6.8%
Reference: Sony Payment Services Inc. business results		
Sales	¥3.6 billion	¥5.1 billion
Ordinary profit	¥0.6 billion	¥1.2 billion

* Sum of yen deposits, foreign currency deposits, investment trusts, securities brokerage, mediated discretionary investment contracts and personal loan balances

► Please refer to Review of Operations: Banking Business on page 50.

Nursing Care Business

Initiatives for Nursing Care Business Growth

Sony Lifecare, a holding company overseeing activities in the nursing care business, seeks to realize a “Life Focus” concept—the pursuit of a fulfilling long life—and promotes expansion of business, particularly nursing care homes, under two brands. SONARE, handled by Lifecare Design, caters to upper middle-class seniors, and Hanakotoba, handled by Proud Life, aims at the largest market segment.

In SONARE operations, Sony Lifecare is focused on constructing nursing care homes in the Tokyo metropolitan area, where demand is expected to grow even higher, and is preparing for the planned opening of its third facility—SONARE Shakujii—in November 2018. The company will continue to emphasize initiatives that solidify SONARE as a high-quality brand with appealing originality. In Hanakotoba operations, Proud Life is making preparations to establish new facilities to complement its current network of 26 nursing care homes and thus expand its business base.

Future efforts will be directed toward delivering solutions to address the needs of a diversifying nursing care home

services market through a lineup of SONARE and Hanakotoba facilities. In addition, both Sony Lifecare and Proud Life will work to create a synergetic effect between respective brands and effectively utilize management resources within the group.



SONARE Shakujii, a nursing care home, scheduled to open in November 2018

Trends in Japan's Nursing Care Market

Status of Aging Population

The number of seniors aged 65 or older in Japan (“seniors”) reached 35.19 million as of November 1, 2017, and represented 27.8% of the total population. Both the number and percentage are record highs. In the most recent census, the ratio of seniors to total population was 1 to 3.6, up from 1 to 4.7 a decade previously, as of November 1, 2007, with one in three citizens likely to be in the senior category by 2036, along with the decline of the population.

Nursing care needs are also rising, reflecting the aging society. The status of nursing care benefits in fiscal 2016, ended March 31, 2017, broke previous records, in terms of people receiving benefits—5.61 million people—and in terms of the total cost of nursing care—¥10,180.4 billion. Of note, the total cost of nursing care, on a fiscal year basis, surpassed the ¥10 trillion mark for the first time.

Government working on system to ensure access to high-quality, efficient nursing care services

In April 2018, the government revised nursing care compensation, an official rate applied to nursing care services, with total compensation showing upward movement—0.54%—for the first time in six years.

The basic stance taken by the government in the recent revision highlights four themes: 1) promoting a community-based integrated care system; 2) realizing high-quality nursing care services that support the self-reliance of seniors and prevent existing health issues from becoming more serious; 3) ensuring the availability of diverse human resources and improving productivity; and 4) ensuring the stability and sustainability of the system by standardizing and prioritizing nursing care services.

Of these, promoting a community-based integrated care system—which the government has tapped as an approach allowing seniors to receive continuous and consistent nursing care services in a familiar location, to the extent possible—is intended to enhance assessment of activities that link nursing care to medical treatment. In addition, from the perspective of enabling seniors to be self-reliant and preventing serious health consequences, emphasis was placed on rehabilitation and systems to evaluate providers whose services maintain and improve the conditions of persons requiring care.

Sources: “Population Estimates,” Statistics Bureau, Ministry of Internal Affairs and Communications; “Population Projections for Japan,” National Institute of Population and Social Security Research; “Nursing Care Expenses,” All-Japan Federation of National Health Insurance Organizations; “Annual Report on the Aging Society: 2017,” Cabinet Office; Cabinet decision materials; various council meeting materials (Ministry of Health, Labour and Welfare); and other documents

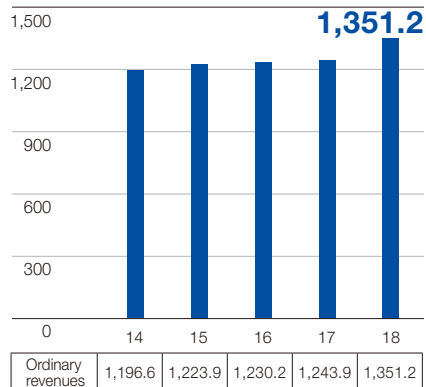
Review of Operations and Analysis of Operating Performance

Segment Performance Highlights

Life Insurance Business ▶ Details: P36

Ordinary Revenues

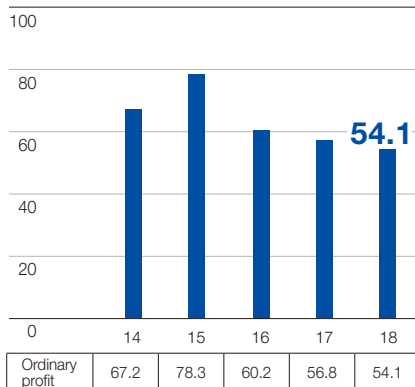
Billions of yen



For the years ended March 31,

Ordinary Profit

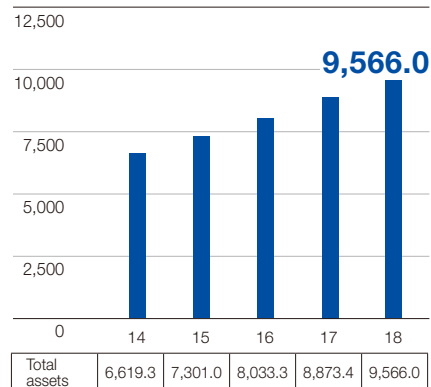
Billions of yen



For the years ended March 31,

Total Assets

Billions of yen

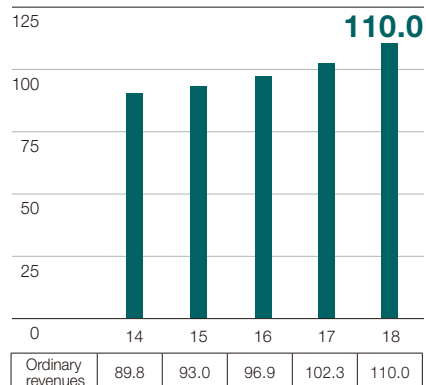


As of March 31,

Non-life Insurance Business ▶ Details: P44

Ordinary Revenues

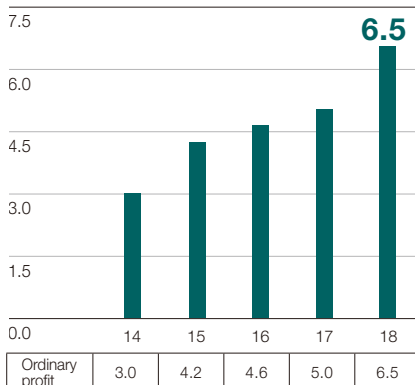
Billions of yen



For the years ended March 31,

Ordinary Profit

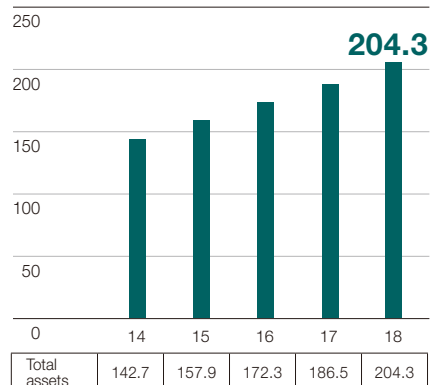
Billions of yen



For the years ended March 31,

Total Assets

Billions of yen

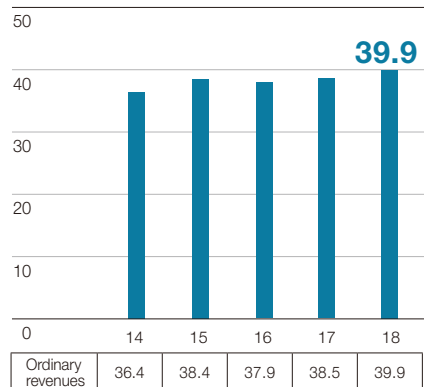


As of March 31,

Banking Business ▶ Details: P50

Ordinary Revenues

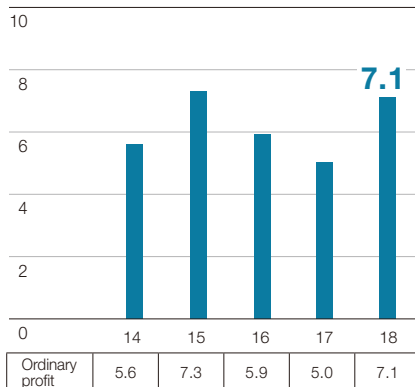
Billions of yen



For the years ended March 31,

Ordinary Profit

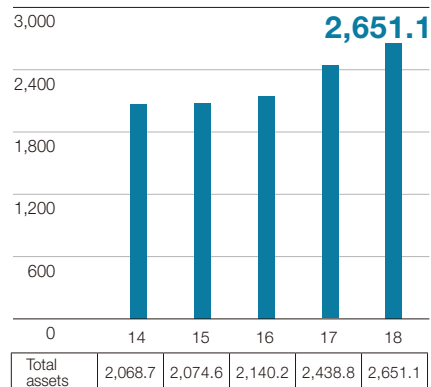
Billions of yen



For the years ended March 31,

Total Assets

Billions of yen



As of March 31,

Operating Results

During fiscal 2017, the Japanese economy continued to recover. Global demand for IT products drove external demand, while a stable recovery in the employment situation fueled internal demand. The current economic recovery, which began in December 2012, has now surpassed the Izanagi economic boom (1965–1970) to become Japan's second-largest postwar period of economic growth. However, early 2018 was marked by a growing sense of uncertainty regarding the overseas political and economic situations, and financial markets were characterized by instability, with the yen appreciating and stock prices falling.

In bond markets, yields on 10-year Japanese government bonds (JGBs) ranged between negative 0.02% and positive 0.09%. The domestic long-term interest rate was still low.

In foreign exchange markets, the yen traded near ¥112 to the U.S. dollar from April 2017 to early January 2018. From October, debates on tax reform in the United States prompted expectations of a rise in interest rates. And it caused the yen to depreciate to the ¥114 level against the U.S. dollar, though since mid-January 2018, the yen had appreciated into the ¥104 level against the U.S. dollar at one point in late March.

Amid these circumstances, the Sony Financial Group sought to become the financial services group most highly trusted by customers. To this end, we undertook a variety of measures to maintain a sound financial base, reinforce and expand our product and service offerings in order to deliver high-value-added products and high-quality services to each of our customers, and enhance our internal control system.

Ordinary revenues increased 8.8% year on year, to ¥1,503.6 billion, owing to increases in ordinary revenues from all the businesses: life insurance, non-life insurance and banking businesses. Ordinary profit increased 0.8% year on year, to ¥66.8 billion. By business segment, ordinary profit from the life insurance business decreased, ordinary profit from the non-life insurance and banking businesses rose. Profit attributable to owners of the parent was up 24.7% year on year, to ¥51.8 billion. This increase was due to a gain on disposal of fixed assets from a sale of the real estate held for investment of ¥13.2 billion in the life insurance business, which was recorded in extraordinary gains in fiscal 2017.

Segment results are amounts before consolidation adjustments and are described below.

Life Insurance Business Ordinary revenues grew 8.6% year on year, to ¥1,351.2 billion, due to higher income from insurance premiums, owing to a steady rise in the policy amount in force. Ordinary profit decreased 4.7% year on year, to ¥54.1 billion, due to a higher provision of policy reserve relating to the acquisition of new policies reflecting a revision in the standard yields used for calculating policy reserves and lower gains on sale of securities in the general account. On the other hand, gains/losses related to market fluctuations for variable life insurance* improved year on year, which partially offset the negative impact of the above-mentioned decreases in ordinary profit.

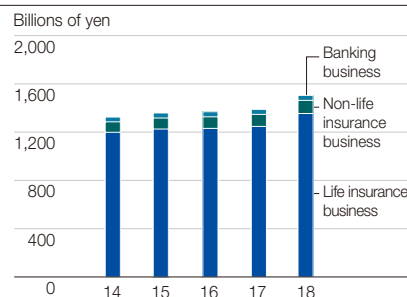
* The total of (a) the provision of policy reserves for minimum guarantees for variable life insurance according to market fluctuations and (b) net gains/losses on derivative transactions to hedge market risks for products

Non-life Insurance Business Ordinary revenues expanded 7.6% year on year, to ¥110.0 billion, owing to an increase in net premiums written for mainstay automobile insurance. Ordinary profit increased 31.5% year on year, to ¥6.5 billion, due to a decline in the loss ratio, driven mainly by a lower car accident ratio.

Banking Business Ordinary revenues rose 3.7% year on year, to ¥39.9 billion, due to increases in interest income on loans in line with a favorably growing balance of mortgage loans and on investment securities. Ordinary profit grew 41.4% year on year, to ¥7.1 billion, due to a decrease in operating expenses, especially in advertising expenses for the card loan business.

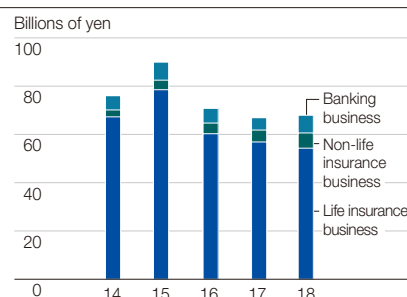
Ordinary Revenues

For the years ended March 31,



Ordinary Profit

For the years ended March 31,



Financial Position

As of March 31, 2018, total assets amounted to ¥12,401.4 billion, up 8.1% from March 31, 2017. Among major components of assets, securities—mostly Japanese government bonds—amounted to ¥9,581.2 billion, up 8.2%, and loans came to ¥1,785.8 billion, up 3.8%.

Total liabilities were ¥11,776.0 billion, up 8.3% from March 31, 2017. Major components of liabilities included policy reserves and others of ¥8,763.3 billion, up 8.0%, and deposits of ¥2,159.2 billion, up 4.3%.

Total net assets settled at ¥625.4 billion, up 4.0% from March 31, 2017. This included net unrealized gains on available-for-sale securities, net of taxes, which decreased ¥0.8 billion, to ¥133.9 billion.

Total Assets

As of March 31,

Billions of yen

16,000

12,000

8,000

4,000

0 14 15 16 17 18

Cash Flow Status

Net cash provided by operating activities in fiscal 2017 reached ¥819.7 billion, mainly on higher contributions from insurance premiums in the life insurance business. This was up ¥127.2 billion, or 18.4%, year on year, mainly because the increase in loans, including mortgage loans, in the banking business was smaller in fiscal 2017.

Net cash used in investing activities came to ¥680.8 billion, largely because cash used to acquire securities exceeded cash provided by proceeds from the sale and redemption of securities in the life insurance and banking businesses. This was up ¥56.0 billion, or 9.0%, year on year, largely reflecting a decrease in collateral for securities lending transactions in the life insurance business in fiscal 2017, compared with an increase in fiscal 2016.

Net cash used in financing activities amounted to ¥14.4 billion, despite proceeds from the issuance of corporate bonds, as this amount was overshadowed by payments for cash dividends. Net cash used in financing activities was down ¥19.5 billion, or 57.4%, year on year, owing to proceeds from the corporate bond issuance in fiscal 2017.

Due to the above factors, cash and cash equivalents at March 31, 2018, came to ¥393.1 billion, up ¥124.7 billion, or 46.5%, from March 31, 2017.

Fiscal 2018 Forecast

For fiscal 2018, ending March 31, 2019, all business segments are again expected to sustain growth, fueled by expanding business volume. Ordinary revenues and ordinary profit should maintain an upward path, driven mainly by the life insurance business.

In the life insurance business, the outlook for higher ordinary revenues in fiscal 2018 is based on expectations of a favorable shift in revenues, including insurance premiums, over those of fiscal 2017, while the outlook for higher ordinary profit is based on expectations of an increase in profit paralleling expansion in policies in force, an increase in gains on the sale of securities as well as an improvement in net gains/losses on derivative transactions to hedge market risk related to available-for-sale securities.

Profit attributable to owners of the parent should, like ordinary profit, rise, despite the possibility of reduced extraordinary profit.

For the years ended March 31,	Billions of yen		
	2018 Actual	2019 Forecast	Change
Ordinary revenues	¥1,503.6	¥1,578.0	+4.9%
Of which, life insurance business	1,351.2	1,416.1	+4.8%
Of which, non-life insurance business	110.0	112.3	+2.0%
Of which, banking business	39.9	42.8	+7.2%
Ordinary profit	66.8	83.0	+24.2%
Of which, life insurance business	54.1	70.9	+30.9%
Of which, non-life insurance business	6.5	6.5	(1.1%)
Of which, banking business	7.1	7.0	(2.0%)
Profit attributable to owners of the parent	51.8	55.0	+6.0%

Risk-monitored Loans

As of March 31, Category	Millions of yen	
	2017	2018
Bankrupt loans	¥ 176	¥ 91
Non-accrual delinquent loans	1,580	1,075
Restructured loans	1,227	842
Total	¥2,984	¥2,009

Consolidated Solvency Margin Ratio

As of March 31,	Millions of yen	
	2017	2018
(A) Total consolidated solvency margin	¥1,308,134	¥1,381,575
Common stock, etc.	443,155	470,030
Reserve for price fluctuations	46,182	48,135
Contingency reserve	82,564	90,025
Catastrophe reserve	17,542	20,970
General reserve for possible loan losses	490	416
Net unrealized gains on available-for-sale securities and net deferred gains or losses on hedging instruments, net of taxes (before tax deductions) x 90% (100% if losses)	164,792	163,989
Net unrealized gains on real estate x 85% (100% if losses)	30,847	30,023
Total amount of unrecognized net actuarial gain (loss) and unrecognized prior service cost (before subtracting tax effects)	(3,874)	(2,724)
Amount excluded from deferred tax assets	—	—
Unallotted portion of reserve for policyholders' dividends	442	377
Deferred tax assets (after deducting amount excluded)	83,929	90,359
Subordinated debt and surplus components of premium reserve	453,092	482,261
Total solvency margin of small-amount short-term insurers	—	—
Deductible items	11,031	12,290
(B) Total consolidated risk $\sqrt{(\sqrt{R_1^2+R_5^2}+R_8+R_9)^2+(R_2+R_3+R_7)^2+R_4+R_6}$	160,221	158,006
Insurance risk (R ₁)	24,169	24,337
Ordinary insurance risk (R ₅)	11,370	12,395
Major catastrophe risk (R ₆)	1,033	1,036
Third-sector insurance risk (R ₈)	8,541	8,587
Insurance risk of small-amount short-term insurers (R ₉)	—	—
Assumed interest rate risk (R ₂)	31,462	32,566
Minimum guarantee risk (R ₇)	18,140	20,137
Asset management risk (R ₃)	99,441	93,730
Business management risk (R ₄)	6,030	6,199
Consolidated solvency margin ratio (A)/{(1/2)x(B)} x 100	1,632.9%	1,748.7%

Notes: 1. Figures are calculated in accordance with Article 210, Paragraph 11-3 and Paragraph 11-4 of the Ordinance of Enforcement of the Insurance Business Act of Japan, and FSA Notification No. 23 (2011).

2. Minimum guarantee risk is calculated based on the standardized method.

Life Insurance Business

Review of Operations

Business Environment

Japan's life insurance market is the third largest in the world on an insurance premium income basis, with a global share of about 12%. Although the domestic life insurance market has been contracting since the late 1990s, industrywide policy amount in force for individual life insurance stood at ¥852 trillion* as of March 31, 2018, indicating that the life insurance market remains significantly large. A steadily falling birthrate and aging population have precipitated a shift in protection needs, from death-protection insurance to individual annuities and third-sector insurance, such as medical and nursing care insurance. Nevertheless, at ¥732 trillion* as of March 31, 2018, death-protection insurance policies accounted for more than 80% of individual life insurance policy amount in force.

In fiscal 2017, despite a significant rise in the domestic stock market fueled by enhanced business results from Japanese companies, long-term interest rates hovered low, nearly on a par with fiscal 2016.

In April 2017, the standard yield used for calculating policy reserves dropped, reflecting the low interest rate situation, and a series of premium increases was implemented on some products, such as whole life insurance and educational endowment insurance, which are susceptible to changes in the investment environment. In addition, in April 2018, the Standard Mortality Table was revised for the first time in 11 years, and life insurance companies are revising insurance premiums, particularly term life insurance, while taking into account the competitive environment.

In other developments, the finance industry is required to make business operations more customer oriented. This extends to companies that engage in the life insurance business, as well, and it is vital that we adhere to "Principles for Customer-oriented Business Conduct," the guideline shown by FSA, and work harder to provide better insurance products and services.

Also, against the backdrop of progress in information and communications technology, the finance industry is accelerating efforts to draw on the power of Fintech. In the insurance industry, an off-shoot of Fintech has emerged—InsurTech—

that supports the health of policyholders with smartphones, wearable devices, artificial intelligence and other technology innovations, and also streamlines office work related to insurance administration in line with workstyle reform.

*Source: "Summary of Life Insurance Business," The Life Insurance Association of Japan's website

Sony Life's Activities

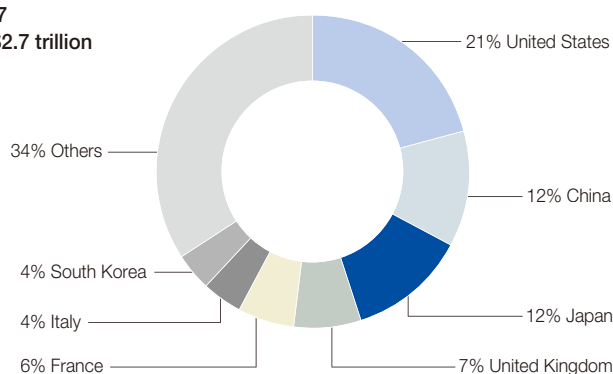
Sony Life has expanded sales of insurance products centering on death protection, despite a shrinking death-protection insurance market. This is primarily a reflection of successful measures to strengthen consulting-based sales through Lifeplanner sales employees and Partners (independent agencies). In fiscal 2017, given the low interest rate environment in Japan, the company took steps to enrich its menu of highly appealing U.S. dollar-denominated insurance products and maintain its ability to provide necessary protection, and rolled out sales of these products. In regard to asset management, Sony Life pursued asset management opportunities corresponding to liability characteristics. Toward this end, the company continued to invest in ultralong-term government bonds and, seeking to diversify its investment portfolio in the low interest rate environment, also invested in ultralong-term Japanese corporate bonds, including Fiscal Investment and Loan Program (FILP) agency bonds. In addition, Sony Life invested in foreign bonds corresponding to the sales volume of U.S. dollar-denominated insurance.

Sony Life has always endeavored to provide products and services from a customer perspective, guided by a basic mission that states, "We will work for our customers' financial security and stability by offering optimal life insurance products and high-quality services." Reflecting and pursuing this commitment, the company drafted and announced its "Customer-first Business Operation Policy" in June 2017. Putting this policy into practice, Sony Life will ensure thorough economic value-based revenue and risk management, expand business volume through new policy capture and strive to enhance corporate value.

Life Insurance Premium Volume Share by Country

2017

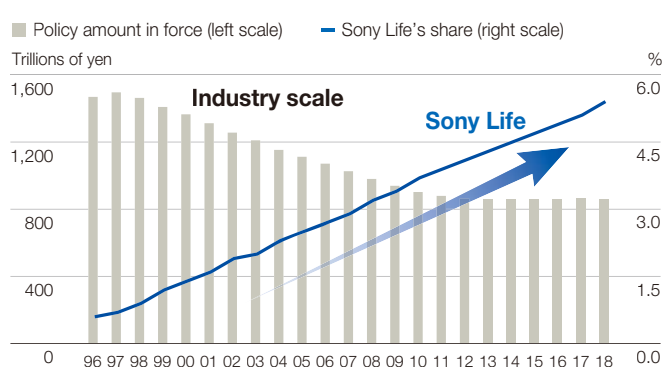
US\$2.7 trillion



Source: Swiss Re Institute, sigma No 3/2018

Industrywide Policy Amount in Force and Sony Life's Market Share**

As of March 31,



**The above graph indicates individual life insurance.

Source: "Insurance," by Hoken Kenkyujo (Insurance Research Institute), and data officially disclosed by individual life insurers



Industry Position

New Policy Amount

Rank	Company name	Billions of yen, %	
		Results	Share
1	A	5,464.1	9.5
2	B	5,214.3	9.1
3	Sony Life	4,912.1	8.6
4	C	4,033.7	7.0
5	D	3,937.5	6.9
6	E	3,530.1	6.2
7	F	2,972.2	5.2
8	G	2,831.3	4.9
9	H	2,629.2	4.6
10	I	2,261.7	3.9

Policy Amount in Force

Rank	Company name	Billions of yen, %	
		Results	Share
1	B	138,147.7	16.2
2	J	102,446.7	12.0
3	K	71,751.2	8.4
4	L	64,557.6	7.6
5	A	52,359.7	6.1
6	Sony Life	45,892.4	5.4
7	C	37,800.2	4.4
8	F	36,408.7	4.3
9	E	33,985.9	4.0
10	G	29,665.8	3.5

Note: Individual life insurance (as of March 31, 2018)

The above table is prepared by Sony Life Insurance from data officially disclosed by individual life insurers.

Recent Topics

June and August 2017:

Established Singapore Subsidiary and Joint Venture

Sony Life established Sony Life Singapore Pte. Ltd. in June 2017 and its subsidiary Sony Life Financial Advisers Pte. Ltd. with Starts Securities Co., Ltd. in August. Both parties will develop the financial advisory business in Singapore.

October 2017:

Launched Two U.S. Dollar-denominated Products

Sony Life debuted two U.S. dollar-denominated products to capture higher interest rates than those denominated in yen. These products carry exchange rate risk, but customers who accept the risk will be taking an efficient route toward building protection. "U.S. Dollar-denominated Single Premium Whole Life Insurance (Non-notification Type)" can also be used to handle succession of assets. "U.S. Dollar-denominated Living Benefit Whole Life Insurance (Living Standard Type)" provides coverage for death and major disability as well as the three major diseases* and coverage for specified disabilities and conditions requiring long-term care.

* Cancer (excluding intraepithelial carcinoma), acute myocardial infarction and stroke

July 2018:

Sales Start for "Medical Benefit" and "Medical Benefit Return"

Given changes in the medical industry's environment, Sony Life launched two new medical insurance products that better meet customers' medical protection needs. "Medical Benefit (comprehensive medical insurance (no surrender value) 18, non-participating)" expands basic protection, such as hospitalization and surgery, and clarifies terms of payment in addition to extensive protection against three diseases*. "Medical Benefit Return (comprehensive medical insurance with special provision for health refund benefit (no surrender value) 18, non-participating)" provides the same coverage but also is a response to customers who like to build their savings, as it pays out a health refund benefit equivalent to insurance premiums paid if there is no hospitalization or other claims, up to the age specified. By enriching the product lineup, Sony Life will continue to meet the needs of a wide range of customers.

* Cancer (including intraepithelial carcinoma), cardiovascular disease and cerebrovascular disease

Analysis of Operating Performance

SFH's life insurance business consists of Sony Life, a wholly owned subsidiary of SFH, and AEGON Sony Life Insurance and SA Reinsurance—both equity-method affiliates 50% owned by Sony Life.

Sony Life accounts for most of SFH's life insurance business. Below is an analysis of the non-consolidated operating performance of Sony Life.

New Policy Amount

New policy amount is the total policy amount of new insurance policies.

	Billions of yen		
For the years ended March 31,	2017	2018	Change
New policy amount	¥4,957.5	¥5,287.9	+6.7%
Individual life insurance	4,765.2	4,912.1	+3.1%
Individual annuities	192.2	375.8	+95.5%
Annualized premiums from new policies	78.1	73.0	(6.5%)
Medical protection, living benefit protection and other products	15.7	12.9	(17.4%)
Number of new policies (1,000 policies)	513	540	+5.2%

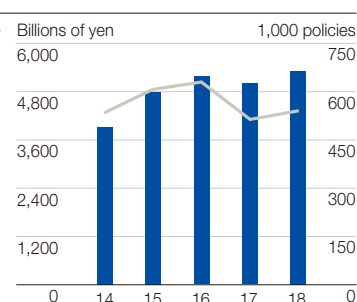
Main Points The new policy amount increased, buoyed by favorable sales of family income insurance and U.S. dollar-denominated insurance. Annualized premiums from new policies declined, despite brisk sales of U.S. dollar-denominated insurance, variable life insurance and individual annuities, owing to a drop in sales of such products as term life insurance and living benefit protection.

New Policy Amount and Number of New Policies

(Individual life insurance + Individual annuities)

For the years ended March 31,

■ New policy amount (left scale)
— Number of new policies (right scale)



Policy Amount in Force

Policy amount in force refers to the total amount of coverage that Sony Life provides to individual policyholders.

	Billions of yen		
As of March 31,	2017	2018	Change
Policy amount in force	¥45,334.1	¥47,253.4	+4.2%
Individual life insurance	44,313.3	45,892.4	+3.6%
Individual annuities	1,020.8	1,360.9	+33.3%
Annualized premiums from insurance in force	820.8	848.8	+3.4%
Medical protection, living benefit protection and other products	187.4	191.8	+2.4%
Number of policies in force (1,000 policies)	7,308	7,569	+3.6%

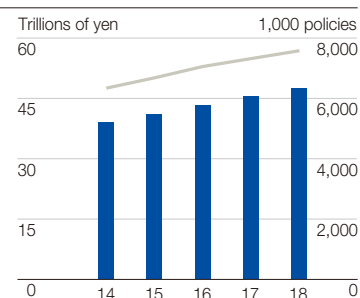
Main Points Sony Life's policy amount in force for individual life insurance and individual annuities has grown steadily since the company commenced operations.

Policy Amount in Force and Number of Policies in Force

(Individual life insurance + Individual annuities)

As of March 31,

■ Policy amount in force (left scale)
— Number of policies in force (right scale)



Sales of Products (Percentage Composition)

For the years ended March 31,	2017	2018	Change
Whole life insurance	17.0%	17.5%	+0.5pt
Term life insurance	70.3%	63.9%	(6.4pt)
Endowment and educational endowment insurance, and individual annuities	6.9%	9.5%	+2.6pt
Variable life insurance	5.3%	8.7%	+3.4pt
Medical and other types of insurance	0.5%	0.4%	(0.1pt)

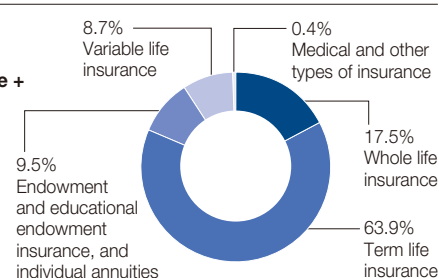
Main Points Death-protection insurance products* accounted for about 90% of the new policy amount in fiscal 2017.

*Here, the new policy amount for death-protection insurance products represents the total new policy amount after deducting new policy amounts for endowment insurance, educational endowment insurance, individual annuities and medical insurance.

New Policy Amount by Type of Product

(Individual life insurance + Individual annuities)

For the year ended March 31, 2018



Lapse and Surrender Rate

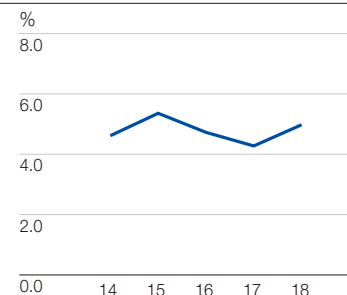
The lapse and surrender rate shows the ratio derived by dividing the amount of lapses and surrenders, not adjusted for policy amount decreases, increases and reinstatements, by the policy amount in force at the beginning of the fiscal year.

For the years ended March 31,	2017	2018	Change
Lapse and surrender rate	4.27%	4.97%	+0.70pt

Main Points The lapse and surrender rate rose, mainly because of premium revisions on family income insurance and other products introduced in February 2018, as some customers cancelled existing policies and took out new policies.

Lapse and Surrender Rate
(Individual life insurance +
Individual annuities;
Policy amount basis)

For the years ended March 31,



Income from Insurance Premiums and Insurance Claims and Other Payments

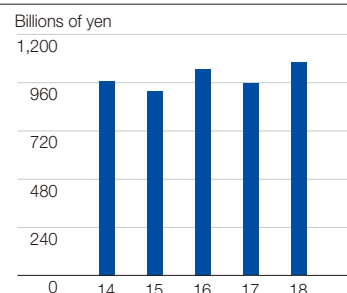
Income from insurance premiums is revenue received mainly from insurance premiums paid by policyholders and is a major component of revenue for life insurance companies. Insurance claims and other payments are payouts based on insurance policies, including insurance claims, insurance benefits, annuity payments and surrender payments.

For the years ended March 31,	Billions of yen		
	2017	2018	Change
Income from insurance premiums	¥956.7	¥1,059.2	+10.7%
Insurance claims and other payments	372.4	436.5	+17.2%
Of which, insurance claims	84.1	92.3	+9.7%
Of which, insurance benefits	98.2	119.2	+21.4%
Of which, annuity payments	12.0	12.5	+4.5%
Of which, surrender payments	168.4	199.2	+18.3%

Main Points Income from insurance premiums increased, reflecting a favorable trend in policy amount in force as well as steady sales of U.S. dollar-denominated single premium whole life insurance since the product's debut in October 2017.

Income from Insurance Premiums

For the years ended March 31,



Asset Management (General Account)

Sony Life's investment policy is to identify the characteristics of insurance liabilities, based on the asset-liability management (ALM) approach, and prioritize investment in assets suited to such characteristics. Specifically, to deal with long-term liabilities—that is, life insurance policies—the company properly controls the inherent risk in insurance liabilities associated with fluctuating interest rates by investing mainly in Japanese government bonds (JGBs) with ultralong-term maturities. At the same time, the company limits investment into risk assets, such as stocks.

As of March 31,	Billions of yen			
	2017		2018	
	Amount	Composition	Amount	Composition
Japanese government and corporate bonds	¥6,828.7	86.6%	¥7,281.1	86.3%
Japanese stocks	37.6	0.5%	38.4	0.5%
Foreign bonds	274.3	3.5%	366.5	4.3%
Foreign stocks and other securities	31.5	0.4%	30.3	0.4%
Money held in trust	273.8	3.5%	270.5	3.2%
Policy loans	180.3	2.3%	189.4	2.2%
Real estate	117.5	1.5%	92.3	1.1%
Cash and deposits, call loans	40.8	0.5%	40.8	0.5%
Other	99.1	1.3%	129.1	1.5%
Total	¥7,884.0	100.0%	¥8,438.8	100.0%

Main Points In fiscal 2017, Sony Life continued to invest primarily in ultralong-term bonds. The ratio of Japanese government and corporate bonds stood at 89.5% as of March 31, 2018, in real terms, reflecting the inclusion of bonds invested in money held in trust. Going forward, Sony Life will continue to properly control the interest rate risk associated with insurance liabilities by investing most of the new funds generated by income from insurance premiums and other sources in ultralong-term bonds. Sony Life also promotes diversification of investment assets, such as an increase in investments in ultralong-term corporate bonds including Fiscal Investment and Loan Program (FILP) agency bonds, as well as an increase in investment in U.S. Treasury bonds following an increase in U.S. dollar-denominated insurance policies.

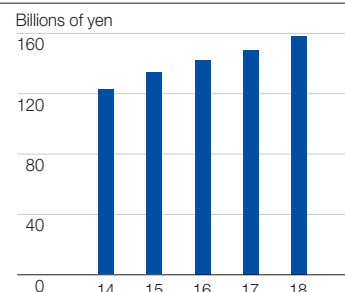
Interest Income and Dividends

Interest income and dividends is primarily composed of investment income. It includes interest income from deposits, interest income and dividends from securities, interest income from loans and income from real estate for rent.

	Billions of yen		
For the years ended March 31,	2017	2018	Change
Interest income from deposits	¥ 0.0	¥ 0.0	+681.5%
Interest income and dividends from securities	130.7	140.4	+7.4%
Of which, Japanese government and corporate bonds	121.1	125.2	+3.4%
Of which, Japanese stocks	0.5	0.5	+7.4%
Of which, foreign securities	8.8	13.9	+57.3%
Interest income from loans	6.3	6.6	+3.7%
Income from real estate for rent	10.8	10.2	(5.4%)
Total, including others	¥148.2	¥157.7	+6.4%

Interest Income and Dividends

For the years ended March 31,



Main Points Interest income and dividends rose, paralleling an increase in assets for investment due to expanding business volume.

Unrealized Gains and Losses on Securities

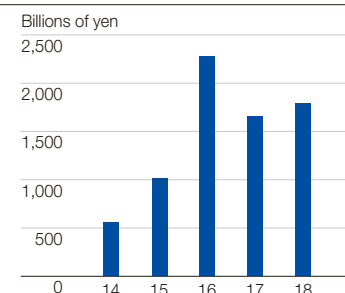
Unrealized gains and losses on securities* refers to the differences between the carrying amounts of securities and their fair values. When the fair value of an asset is higher than its carrying amount, the sale of the asset at fair value would result in a gain on the sale. Consequently, unrealized gains can function as a provision for various risks. A portion of unrealized gains and losses on securities is included in the numerator (total solvency margin) used in calculating the solvency margin ratio (please see page 43).

*Unrealized gains or losses on securities lists the total of unrealized gains or losses on held-to-maturity securities, policy-reserve-matching bonds and available-for-sale securities, with fair values for securities other than securities held for trading. The total amount of securities includes securities included in money held in trust.

	Billions of yen		
As of March 31,	2017	2018	Change
Unrealized gains on securities in the general account	¥1,644.9	¥1,786.7	+141.7
Unrealized gains on held-to-maturity securities	1,445.5	1,582.6	+137.0
Unrealized gains on policy-reserve-matching bonds	25.9	34.8	+8.9
Net unrealized gains on available-for-sale securities	173.3	169.1	(4.2)
Of which, unrealized gains on Japanese government and corporate bonds	160.7	155.0	(5.6)
Of which, unrealized gains on Japanese stocks	13.3	16.9	+3.5
Of which, unrealized gains on foreign securities	(0.8)	(2.9)	(2.0)

Unrealized Gains on Securities

As of March 31,



Main Points With no major shifts in domestic interest rates, unrealized gains on securities in the general account remained stable.

(Reference: On March 31, 2018, SFH assumed unrealized gains on Japanese stocks to be zero when the Nikkei Stock Average was ¥7,513 and the TOPIX index was 601 points.)

Ordinary Revenues, Ordinary Profit and Net Income

	Billions of yen		
For the years ended March 31,	2017	2018	Change
Ordinary revenues	¥1,243.7	¥1,351.0	+8.6%
Ordinary profit	60.1	56.3	(6.4%)
Net income	35.1	45.1	+28.3%

Main Points

Ordinary revenues increased, owing to higher income, from insurance premiums, reflecting a steady rise in policy amount in force.

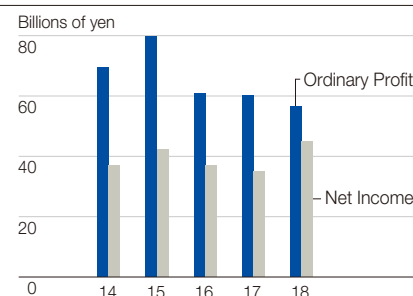
Ordinary profit decreased, owing to a higher provision of policy reserves paralleling acquisition of new policies due to revision in the standard yields and a drop in gains on the sale of securities in the general account. Note that gains/losses* associated with market fluctuations on variable life insurance improved year on year, partially offsetting the negative impact of the above-mentioned drop in ordinary profit.

* The total of (a) the provision of policy reserves for minimum guarantees for variable life insurance according to market fluctuations and (b) net gains/losses on derivative transactions to hedge market risks for products

Net income increased, reflecting the recognition of gain on disposal of fixed assets from the sale of real estate held for investment purposes under extraordinary gains.

Ordinary Profit and Net Income

For the years ended March 31,



Core Profit

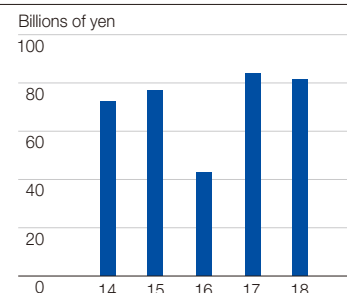
Core profit is an indicator of the profit-earning capacity of the primary insurance business over a one-year period. Primary insurance business refers to the management of insurance premiums received from policyholders, along with investment income to pay insurance claims, benefits and annuities, as well as to making and then investing policy reserve provisions for future payments. Ordinary profit in the statements of income is calculated by adding the total amount of core profit, capital gains and losses including gains and losses on the sale of securities, and one-time gains and losses.

Note: Sony Life, like most life insurers organized as stock companies, primarily sells non-participating life insurance. These products provide policyholders with insurance coverage without dividend payment and are thus based on discounted premiums. By contrast, life insurers organized as mutual companies typically offer participating policies. The funds used for policyholder dividends in these products are included in core profit as surplus. Mutual companies consequently tend to show relatively higher core profit than stock companies of similar scale.

	Billions of yen		
For the years ended March 31,	2017	2018	Change
Core profit	¥83.8	¥81.3	(2.9%)

Core Profit

For the years ended March 31,



Main Points Core profit decreased, despite higher profit from accumulated policies in force and a rise in the positive spread, mainly because of an increase in the provision of policy reserves relating to the acquisition of new policies due to a revision in the standard yield.

Breakdown of Ordinary Profit (Core Profit)

	Millions of yen	
For the years ended March 31,	2017	2018
Core profit (A)	¥ 83,831	¥ 81,384
Capital gains	16,114	9,894
Income from money held in trust, net	—	—
Income from trading securities, net	134	—
Gains on sale of securities	1,308	0
Gains on derivatives, net	—	—
Foreign exchange gains, net	14,670	—
Other capital gains	—	9,894
Capital losses	32,276	27,357
Losses on money held in trust, net	—	—
Losses on trading securities, net	—	8
Losses on sale of securities	—	0
Devaluation losses on securities	—	—
Losses on derivatives, net	30,050	11,403
Foreign exchange losses, net	—	15,280
Other capital losses	2,226	664
Net capital gains (losses) (B)	(16,162)	(17,463)
Core profit plus net capital gains (losses) (A) + (B)	67,669	63,920
Other one-time gains	1	—
Gains from reinsurance	—	—
Reversal of contingency reserve	—	—
Reversal of specific reserve for possible loan losses	1	—
Others	—	—
Other one-time losses	7,490	7,582
Losses from reinsurance	—	—
Provision for contingency reserve	7,296	7,451
Provision for specific reserve for possible loan losses	—	23
Provision for reserve for loan losses from borrowers in specific foreign countries	—	—
Write-off of loans	—	—
Others	193	107
Net other one-time gains (losses) (C)	(7,488)	(7,582)
Ordinary profit (A) + (B) + (C)	¥ 60,180	¥ 56,338

Notes: 1. Core profit for fiscal 2017 (A) includes income gains of ¥4,490 million in income from money held in trust along with interest income and dividends of ¥11 million in income from trading securities, net. Other capital gains consist of reversal of policy reserves and others of ¥9,894 million for currency market fluctuations of products denominated in foreign currencies, while other capital losses consists of impairment losses of ¥664 million from investment partnerships. "Others" of other one-time losses consists of provision of additional policy reserve of ¥107 million.

2. Core profit for fiscal 2016 (A) includes income gains of ¥4,493 million in income from money held in trust along with interest income and dividends of ¥17 million in income from trading securities, net. Other capital losses consists of provision of policy reserves and others of ¥1,560 million for currency market fluctuations of products denominated in foreign currencies and impairment losses of ¥665 million from investment partnerships. "Others" of other one-time losses consists of provision of additional policy reserve of ¥193 million.

Positive Spread

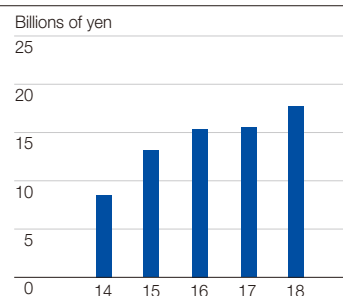
Life insurers use a portion of the premiums received from policyholders to accumulate policy reserves for the payment of future claims. These policy reserves assume an annual return based on a fixed interest rate. This interest rate is known as the assumed interest rate. A positive spread occurs when the actual investment yield is higher than the average assumed interest rate and vice versa for a negative spread.

	Billions of yen		
For the years ended March 31,	2017	2018	Change
Positive spread	¥15.4	¥17.7	+14.9%
Average assumed interest rate	2.00%	1.97%	(0.03pt)
Investment yield (general account)	1.81%	1.63%	(0.18pt)
Investment yield for core profit	2.24%	2.22%	(0.02pt)

Main Points Positive spread increased, owing to a drop in the average assumed interest rate resulting from the acquisition of new policies.

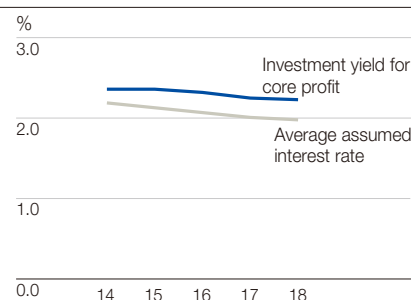
Positive Spread

For the years ended March 31,



Average Assumed Interest Rate, Investment Yield for Core Profit

For the years ended March 31,



Formula for Calculating Positive Spread

$$\frac{(\text{Investment yield for core profit}^1 - \text{Average assumed interest rate}^2) \times \text{General account policy reserves}^3}{2} = \text{Positive spread}$$

1. Investment yield for core profit is the yield on general account policy reserves after subtracting the interest portion of provision for reserve for policyholders' dividends from the general account investment returns included in core profit.
2. Average assumed interest rate is the assumed yield on general account policy reserves.
3. General account policy reserves are calculated based on the following formula for policy reserves in the general account, excluding contingency reserve:
(Policy reserves at beginning of period + policy reserves at end of period – assumed interest) x 1/2

Non-performing Assets

Risk-monitored Loans

	Billions of yen	
As of March 31,	2017	2018
Category		
Bankrupt loans	¥—	¥—
Non-accrual delinquent loans	—	—
Past-due loans (3 months or more)	—	—
Restructured loans	—	—
Total	¥—	¥—

Loans by Borrower Category

	Billions of yen	
As of March 31,	2017	2018
Category		
Bankrupt and quasi-bankrupt loans	¥ —	¥ —
Doubtful loans	—	—
Sub-standard loans	—	—
Normal loans	431.3	428.3
Total	¥431.3	¥428.3

Main Points Sony Life's asset assessment is shown in the above table. The company does not have any risk-monitored loans (loans for which repayment conditions are not ordinary). Moreover, all figures are classified as normal loans listed in the loans by borrower category.

As of March 31, 2018, Sony Life's receivables comprised mainly securities lent and loans*. Securities lent amounted to ¥235.8 billion, with the securities loaned for secured transactions recorded as securities lending transactions with cash collateral. The loan balance* was ¥189.4 billion, consisting largely of policy loans, which are limited to recoverable surrender values.

*Life insurers earn interest income by lending a portion of their assets under asset management. Loans are categorized as either policy loans provided as a service to customers or as commercial loans. The loan balance comprises the sum of these two categories.

Non-consolidated Solvency Margin Ratio

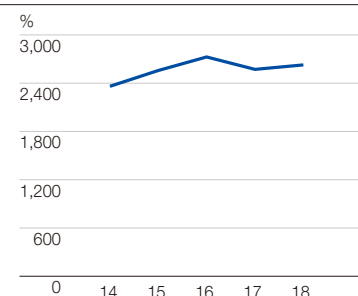
The solvency margin ratio is an indicator of payment ability. Life insurers accumulate policy reserves to prepare for the payment of future claims, allowing them to adequately respond to risks within a normally anticipated range. However, unpredictable events can occur as a result of changes in the environment, including major disasters and stock market crashes. The solvency margin ratio is one measure used by regulatory authorities to monitor whether an insurer has the ability to pay in response to the risk of such unpredictable events.

As of March 31,	2017	2018	Change
Non-consolidated solvency margin ratio	2,568.8%	2,624.3%	+55.5pt

Main Points Sony Life's non-consolidated solvency margin ratio has remained at a high level.

Non-consolidated Solvency Margin Ratio (Current standards)

As of March 31,



As of March 31,	2017	2018
(A) Total solvency margin	¥1,176,229	¥1,233,854
Common stock, etc.	324,181	344,039
Reserve for price fluctuations	46,005	47,929
Contingency reserve	82,463	89,915
General reserve for possible loan losses	0	0
[Net unrealized gains on available-for-sale securities (before tax deductions) and net deferred gains or losses on hedging instruments (before tax deductions)] x 90% (100% if losses)	159,672	156,011
Net unrealized gains on real estate x 85% (100% if losses)	30,847	29,830
Amount excluded from deferred tax assets	—	—
Unallotted portion of reserve for policyholders' dividends	442	377
Deferred tax assets	82,980	88,661
Excess amount of policy reserves based on Zillmer method	495,984	525,389
Subordinated debt	—	—
The portion of the excess amount of policy reserves based on Zillmer method and subordinated debt that is not included in the margin	(42,891)	(43,128)
Deductible items	(3,457)	(5,171)
(B) Total risk $\sqrt{(R_1+R_8)^2+(R_2+R_3+R_7)^2}+R_4$	91,576	94,030
Insurance risk (R ₁)	24,169	24,337
Third-sector insurance risk (R ₈)	8,541	8,587
Assumed interest rate risk (R ₂)	31,356	32,452
Minimum guarantee risk (R ₇)	18,140	20,137
Asset management risk (R ₃)	33,554	32,953
Business management risk (R ₄)	2,315	2,369
(C) Solvency margin ratio $[(A)/\{(1/2) \times (B)\}] \times 100$	2,568.8%	2,624.3%

Notes: 1. The above figures are calculated based on provisions in Articles 86 and 87 of the Ordinance for Enforcement of the Insurance Business Act of Japan and the Ministry of Finance Public Notice No. 50 (1996).

2. Minimum guarantee risk is calculated based on the standardized method.

AEGON Sony Life Insurance: Over-the-counter (OTC) Sales of Individual Annuity Products at Banks

Sony Life began sales of individual variable annuity products in December 2009 through AEGON Sony Life Insurance, a 50–50 joint venture established with the AEGON Group (headquartered in the Netherlands), to meet annuity needs associated with Japan's aging population and low birthrate. AEGON Sony Life Insurance sells individual annuity products which respond to customers' needs to help save for retirement through Sony Life's Lifeplanner channel and partner agencies, involving 32 financial institutions*. *As of March 31, 2018

For the years ended March 31,	2017	2018	Change	As of March 31,	2017	2018	Change
Number of new policies (1,000 policies)	14	10	(25.2%)	Number of policies in force (1,000 policies)	85	92	+7.7%
New policy amount (billions of yen)	¥70.8	¥50.2	(29.1%)	Policy amount in force (billions of yen)	¥501.7	¥520.6	+3.8%

Main Points The new policy amount decreased year on year.

Non-life Insurance Business

Review of Operations

Business Environment

Automobile insurance, positioned as Sony Assurance's core product category, accounts for the largest portion of Japan's non-life insurance industry and provides around half of the industry's insurance premium revenues. About 10%* of insurance premium revenues in the domestic automobile insurance market is generated from policies sold by direct non-life insurance companies (direct insurers), including Sony Assurance, and the remaining 90%* is from policies sold mostly by the major non-life insurance companies through nationwide agencies.

Amid flat growth in automobile ownership, a consequence of such factors as declining birthrate and aging population, there have been fewer accidents in recent years, which has brought the loss ratio down. As a result, non-life insurance companies have seen a recovery in profitability, prompting a drop in insurance premiums. However, this trend has sparked heated competition in the market. Meanwhile, the environment surrounding automobile insurance is changing. Advances in IT have spurred research on telematics in automobile insurance and the introduction of policies based on this technology. In addition, efforts to make self-driving cars a reality in the future are unfolding in both the public and private sectors, along with discussions on associated legislation. These developments are expected to create a new market landscape, heralded by the debut of riders on automobile insurance to deal with accidents caused by self-driving cars, and should present non-life insurance companies with new business opportunities.

Direct non-life insurance companies, including Sony Assurance, have steadily increased insurance premium revenues, underpinned by strong customer support for insurance premium structures that are comparatively lower than those of major non-life insurers selling through nationwide agencies, which has translated into higher market shares for direct insurers year after year. Customers' preference for low prices will likely continue, presenting further potential for direct insurers

to expand the market share.

* The figures are based on a survey conducted by Sony Assurance from data officially disclosed by individual non-life insurers.

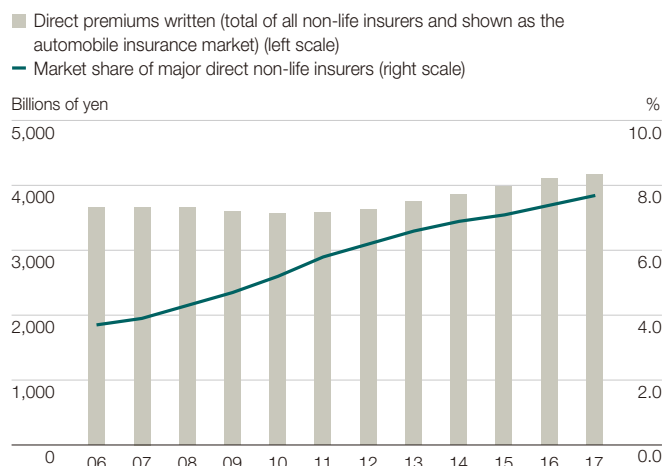
Sony Assurance's Activities

Sony Assurance is a direct insurer providing automobile insurance, medical insurance and other insurance products and services directly to customers through its website and customer call centers. Since capturing the No. 1 position** for direct premiums written in fiscal 2002, the company has maintained this ranking in the direct automobile insurance market. To achieve sustainable growth, the company has made enhancing customer experience (CX) a top management priority. With this in mind, the company strives to enhance CX in providing services to customers through all points of contact while also continuing to devote efforts toward the development of new products and services. In automobile insurance, notable activities included an increased limit on the personal compensation rider that generously reimburses the cost of compensation for damages in random accidents of everyday life, such as bicycle accidents, as well as the introduction of "ASV (Advanced Safety Vehicle) discounts" on insurance premiums for automobiles equipped with an automatic braking system***. On the service front, Sony Assurance began offering "SECOM Accident On-site Rush Service," which speeds emergency response personnel of SECOM Co., Ltd. to the scene of an accident 24/7 anytime, to reinforce accident resolution services. In addition, the company teamed up with Yahoo! JAPAN to develop new telematics insurance products and services.

In medical insurance, Sony Assurance increased the number of medical institutions for "Advanced Medical Treatment Insurance—Direct Insurance Claims Payment Service to Medical Facilities" and also worked to improve service quality, including extended insurance claims office hours on Saturday, Sunday and holidays.

Automobile Insurance Market and Market Share of Major Direct Non-life Insurers

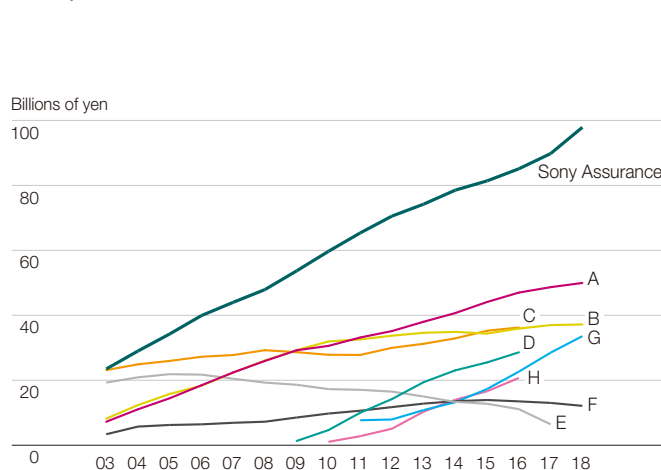
For the years ended March 31,



Note: The graph was prepared by Sony Assurance from data officially disclosed by individual non-life insurers.

Direct Premiums Written (Automobile Insurance) by Major Direct Non-life Insurers

For the years ended March 31,



Note: The graph was prepared by Sony Assurance from data officially disclosed by individual non-life insurers. Amounts for fiscal 2017 are based on published data available up to June 29, 2018.



Photo taken on June 20, 2018

Also, to enhance CX, the company made it possible to complete more administrative procedures through its website, enhanced the convenience of its smartphone site and improved the response quality of customer call center operations. The goal was to provide customers with pleasant and valuable services.

***Based on automobile insurance premium revenues of non-life insurers selling automobile insurance primarily via direct sales channels since March 31, 2003 (according to research by Sony Assurance).*

****The increased limit on the personal compensation rider applies to policies effective from April 2017, and the introduction of ASV discounts applies to policies effective from April 2018.*

Recent Topics

April 2017:

Launched “SECOM Accident On-site Rush Service”

In April 2017, Sony Assurance began providing a service at no cost to customers to extend support immediately after an accident, a time when customers feel very uneasy. In this service, SECOM emergency personnel rush to the scene of an accident 24/7 anytime, and explain how to respond when an accident occurs, listen to issues of concern, contact the police and call for an ambulance or tow truck.



The service was expanded in November 2017, with SECOM emergency personnel on-site to confirm the situation surrounding the accident, listen to comments from the opposite party involved in an accident and take photos of the accident scene and the cars involved. Sony Assurance will continue to enhance customers' confidence in direct insurance through higher quality services.

May 2018:

Added Medical Institutions for “Advanced Medical Treatment Insurance—Direct Insurance Claims Payment Service to Medical Facilities”

Proton beam therapy and heavy particle radio therapy are particularly costly types of advanced medical treatment, whose entire technical fee is self-paid by the patient. Sony Assurance provides a service that pays the insured amount directly to the medical facilities where such treatment is done. By adding more

medical facilities to the list of hospitals and other medical institutions that support this service, the company has enabled policyholders to utilize the service at all 18 facilities, as of May 2018, where advanced medical treatment, namely, proton beam therapy and heavy particle radio therapy, are available.

June 2018:

Started Selling Overseas Travel Insurance

In June 2018, Sony Assurance began selling Internet-only, risk-segmented overseas travel insurance. By offering Internet-only products, the company eliminates administrative costs on various policy-processing steps, which translates into economical premiums for customers. Also, by segmenting risks by age as well as travel destination, the company has discounted premiums to low-risk customers*. This product enables customers to save even more on their premiums through customized coverage and a repeater discount.

Sony Assurance also leverages the advantages of the Internet to enable customers to complete the majority of policy procedures online in 24 hours. These include customizing coverage categories and policy amounts, getting quotes and making applications, and changing policy content after application.

Sony Assurance provides various services to support policyholders. In the event of an accident or trouble, policyholders can access support in Japanese 24/7 by phone or online. In addition, Sony Assurance offers no-charge calls from 42 countries around the world to reduce the cost burden on customers.

** Age difference can mean that some customers of Sony Assurance's overseas travel insurance are low risk, while other factors are the same.*

Analysis of Operating Performance

SFH's non-life insurance business consists of Sony Assurance, a wholly owned subsidiary of SFH.

Below is an analysis of the operating performance of Sony Assurance, which operates SFH's non-life insurance business.

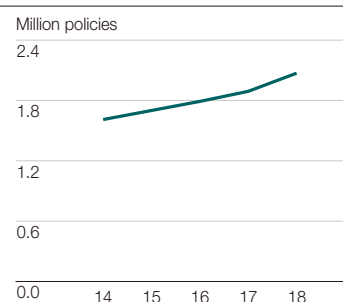
Policies in Force

As of March 31,	2017	2018	Change
Number of policies in force (Automobile insurance + Medical insurance)	1.89	2.07	+9.7%

Main Points The number of policies in force increased for mainstay automobile insurance.

Number of Policies in Force (Automobile insurance + Medical insurance)

As of March 31,



Net Premiums Written

Net premiums written correspond to net sales at most non-life insurance companies and comprise the premiums received from policyholders (direct premiums written), plus or minus reinsurance premiums (adding direct reinsurance premiums received and subtracting direct reinsurance premiums paid).

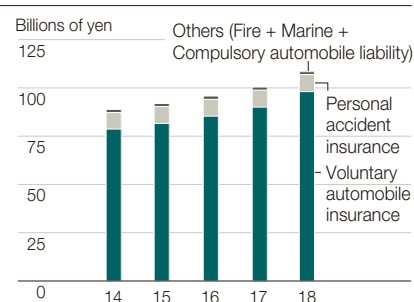
For the years ended March 31,	2017	2018	Change
Net premiums written	¥100.2	¥108.2	+8.0%
Voluntary automobile insurance	89.7	97.8	+9.1%
Personal accident insurance*	9.0	8.8	(1.7%)
Others (Fire + Marine + Compulsory automobile liability)	1.4	1.4	+0.3%

*Including medical insurance

Main Points Net premiums written increased in mainstay automobile insurance.

Net Premiums Written

For the years ended March 31,



Net Loss Ratio

The net loss ratio describes the ratio of the total amount of insurance-claim payments (net losses paid) and damage-survey expenses (loss adjustment expenses) to net premiums written.

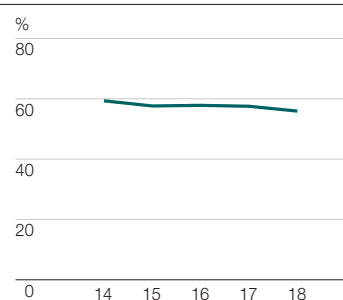
For the years ended March 31,	2017	2018	Change
Net loss ratio	57.5%	55.9%	(1.6pt)
Net loss ratio for automobile insurance	59.5%	57.4%	(2.1pt)
Net loss ratio for personal accident insurance*	32.0%	33.7%	+1.7pt

*Including medical insurance

Main Points The net loss ratio dropped, reflecting higher net premiums written and a lower accident ratio on mainstay automobile insurance.

Net Loss Ratio

For the years ended March 31,



Net Expense Ratio

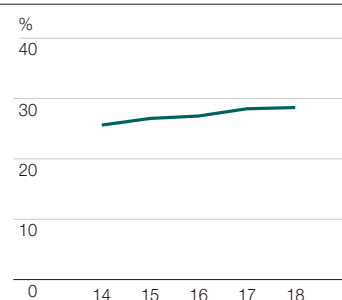
The net expense ratio is the ratio of the total expenses for marketing and maintaining insurance to net premiums written. These expenses include company operating costs and new product development costs.

For the years ended March 31,	2017	2018	Change
Net expense ratio	28.3%	28.5%	+0.2pt
Combined ratio (Net loss ratio + net expense ratio)	85.8%	84.4%	(1.4pt)

Main Points The net expense ratio was basically flat, owing to an increase in operating expenses, including advertising expenses.

Net Expense Ratio

For the years ended March 31,



Underwriting Profit

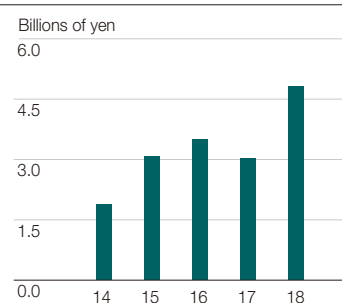
Underwriting profit indicates profit generated from underwriting insurance. Underwriting profit is calculated by subtracting from underwriting income (net premiums written, etc.) any underwriting expenses (net losses paid and loss adjustment expenses, etc.) and operating, general and administrative expenses associated with underwriting, then adding or subtracting other income and expenses (corporate taxes associated with compulsory automobile liability insurance, etc.).

For the years ended March 31,	2017	2018	Change
Underwriting profit	¥3.0	¥4.8	+58.4%

Main Points Underwriting profit climbed, reflecting higher net premiums written.

Underwriting Profit

For the years ended March 31,



Ordinary Revenues, Ordinary Profit and Net Income

For the years ended March 31,	2017	2018	Change
Ordinary revenues	¥102.3	¥110.0	+7.6%
Ordinary profit	4.9	6.5	+31.6%
Net income	3.5	4.8	+37.2%

Main Points

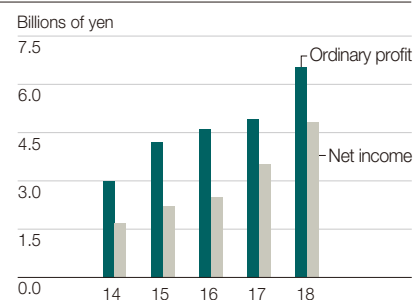
Ordinary revenues rose, owing to an increase in net premiums written for mainstay automobile insurance.

Ordinary profit increased, owing to a drop in the loss ratio, which is largely due to a lower accident ratio for automobile insurance.

Net income rose, reflecting higher ordinary profit.

Ordinary Profit and Net Income

For the years ended March 31,

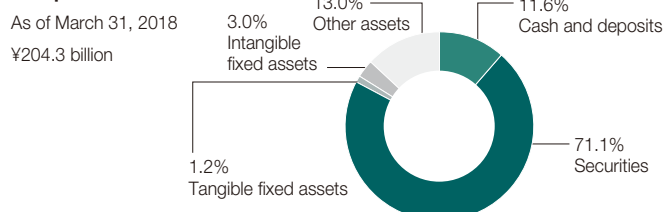


Total Asset Composition and Investment Policy

Sony Assurance's basic investment policy is to invest primarily in yen-denominated bonds to ensure stable investment returns over the medium to long term, taking into account the market environment, asset management risk and other factors.

	Billions of yen		
As of March 31,	2017	2018	Change
Total assets	¥186.5	¥204.3	+9.6%
Cash and deposits	8.9	23.7	+165.6%
Securities	137.5	145.3	+5.7%
Tangible fixed assets	3.3	2.4	(29.2%)
Intangible fixed assets	6.5	6.1	(5.1%)
Other assets	30.1	26.6	(11.5%)

Composition of Total Assets



Non-performing Assets

Sony Assurance's self-assessment indicates its assets are sound, as shown below.

Risk-monitored Loans

	Billions of yen	
As of March 31,	2017	2018
Category		
Bankrupt loans	¥—	¥—
Non-accrual delinquent loans	—	—
Past-due loans (3 months or more)	—	—
Restructured loans	—	—
Total	¥—	¥—

Loans by Borrower Category

	Billions of yen	
As of March 31,	2017	2018
Category		
Bankrupt and quasi-bankrupt loans	¥—	¥—
Doubtful loans	—	—
Sub-standard loans	—	—
Normal loans	—	—
Total	¥—	¥—

Non-consolidated Solvency Margin Ratio

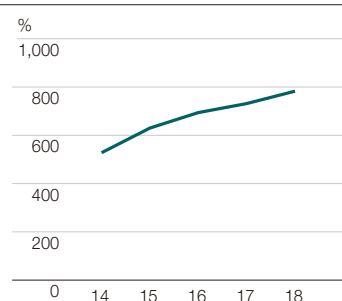
The non-consolidated solvency margin ratio is an important indicator of non-life insurers' ability to pay claims.

As of March 31,	2017	2018	Change
Non-consolidated solvency margin ratio	730.8%	782.1%	+51.3pt

Main Points Sony Assurance's non-consolidated solvency margin ratio remained at a sound level.

Non-consolidated Solvency Margin Ratio (Current standards)

As of March 31,



As of March 31,	Millions of yen	
	2017	2018
(A) Total non-consolidated solvency margin	¥46,724	¥54,244
Capital or treasury	26,439	28,849
Reserve for price fluctuations	177	206
Contingency reserve	101	109
Catastrophe reserve	17,542	20,970
General reserve for possible loan losses	—	—
Net unrealized gains on available-for-sale securities and net deferred gains or losses on hedging instruments (before tax deductions)	1,514	2,409
Net unrealized gains on real estate	—	—
Excess refund reserve	—	—
Subordinated debt	—	—
The portion of the excess refund reserve and subordinated debt that is not included in the margin	—	—
Deductible items	—	—
Others	948	1,698
(B) Total non-consolidated risk $\sqrt{(R_1+R_2)^2+(R_3+R_4)^2+R_5+R_6}$	12,786	13,871
Ordinary insurance risk (R ₁)	11,370	12,395
Third-sector insurance risk (R ₂)	—	—
Assumed interest rate risk (R ₃)	105	114
Asset management risk (R ₄)	1,431	1,712
Business management risk (R ₅)	278	305
Major catastrophe risk (R ₆)	1,033	1,036
(C) Non-consolidated solvency margin ratio $[(A)/\{(B) \times (1/2)\}] \times 100$	730.8%	782.1%

Note: The above figures are calculated based on provisions in Articles 86 (non-consolidated solvency margin) and 87 (non-consolidated risk) of the Ordinance for Enforcement of the Insurance Business Act of Japan and the Ministry of Finance Public Notice No. 50 (1996).

Banking Business

Review of Operations

Business Environment

In Japan, personal financial assets have climbed to approximately ¥1,880 trillion*, the second highest in the world. Cash and deposits account for more than half of this amount, a high level even in comparison with those of other developed countries. A new social landscape has emerged, paralleling the falling birthrate and aging population, changing customer lifestyles and bringing advances in technology, namely, progress in digitization and an expanding e-commerce footprint. Against this backdrop, financial institutions are required to deliver an extremely diverse array of personal financial asset investment services, payment services and other services that reflect these trends. The realm of financial services is also being redefined by new technologies, such as artificial intelligence and blockchain, and many financial institutions are pursuing research into these technologies.

In this environment, Internet banks have achieved steady growth on the back of cost-competitiveness and convenient services. Even so, the deposit balance at Internet banks remains quite small—about 2%** of personal financial assets—but as smartphones and tablets continue to be pervasive in society, Internet banks will have considerable room to expand business volume. That said, in fiscal 2017, interest rates entered trended upward in the United States while long-term interest rates in Japan hovered low under the Bank of Japan's policy on quantitative and qualitative monetary easing with short- and long-term interest rate control. As a result, interest rate competition on asset investment and mortgage loans among banks is likely to continue.

*Source: "Flow of Funds Accounts," issued by the Bank of Japan

**Sources: Prepared based on the Bank of Japan's Deposits and Loans Market and data officially disclosed by various financial institutions. Excludes data for shinkin (credit union) banks, credit associations, labor credit associations, agricultural cooperatives and certain other organizations.

Sony Bank's Activities

Sony Bank has placed emphasis on its mortgage loan and foreign currency businesses on the strength of its reputation for high customer satisfaction.

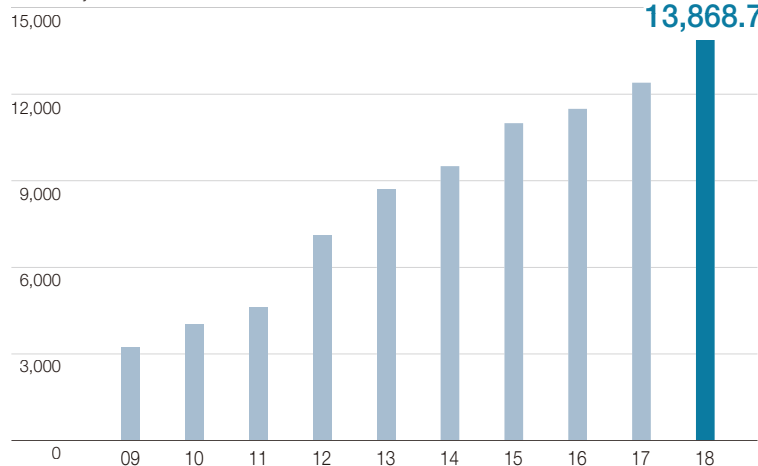
In the domestic mortgage loan market in fiscal 2017, construction costs climbed higher, fueled by increasing labor costs and rising prices on construction materials, with city home prices remaining high. However, new housing starts charted a downward path, largely due to a shrinking number of households and more homes being built to last longer. Mortgage loan interest rates continued to hover low, intensifying competition among financial institutions to attract demand for mortgage loans. Under these business conditions, Sony Bank's mortgage loan balance grew but only moderately. Going forward, the company will strive to ensure profitability while steadily building its mortgage loan balance through efforts to improve product features and reinforce sales channels.

In the foreign currency business, Sony Bank has expanded its transaction volume by offering reasonable rates and highly convenient services centered on foreign currency deposits. The company's foreign currency deposit balance represented about 7% of total individual foreign currency deposits at domestic banks, as of March 31, 2018, right behind those of the major banks. In addition, "Sony Bank WALLET," a cash card with a VISA debit function in 11 currencies, has been used in 120 countries around the world, substantiating a very positive customer response to the product. Going forward, the company will strive to differentiate its foreign currency services and develop its customer base.

Deposit Balance of Japan's Six Internet Banks

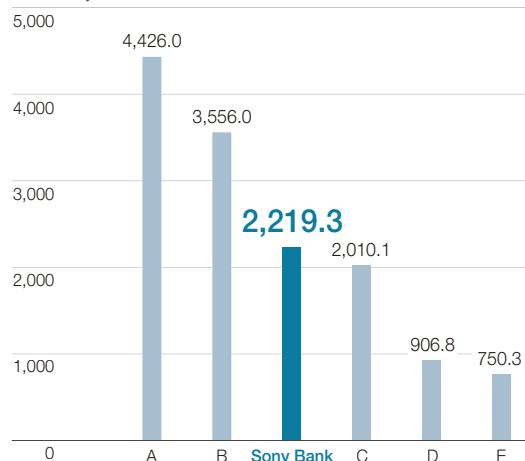
As of March 31,

Billions of yen



Deposit Balance of Japan's Six Internet Banks

Billions of yen



Source: Data compiled by Sony Bank based on publicly disclosed materials



Recent Topics

August 2017:

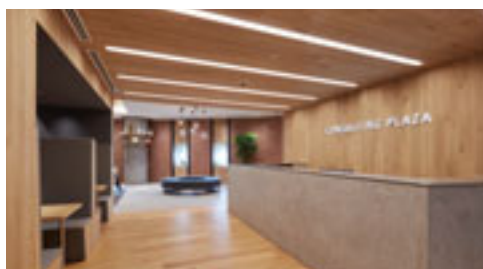
Started Operating “Sony Bank GATE,” Investment-type Crowd Funding Platform

Sony Bank is the first bank in Japan to offer an investment-type crowd funding platform, “Sony Bank GATE,” which connects companies pursuing new businesses with individuals who identify with those companies’ goals and want to support efforts to succeed. With a view to connecting this type of financing to new business creation and other activities, Sony Bank will provide investment-type crowd funding that supports business operators as a new asset investment option for individual customers.

September 2017:

Opened CONSULTING PLAZA

Sony Bank relocated its Housing Loan Plaza, which had extended advice to customers on mortgage loans, enhanced the function of the plaza format and opened the venue as CONSULTING PLAZA. The company will respond to customer needs for advice by enriching the selection of face-to-face consulting services and enhancing access to information related to asset investment and asset formation. The new plaza will also reinforce Sony Bank’s ability to present financial solutions.



October 2017:

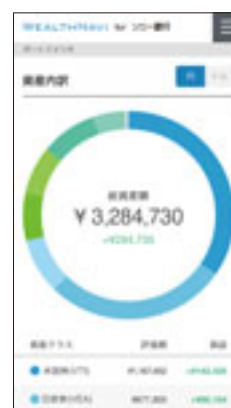
Began Issuing Takashimaya Platinum Debit Card

In an alliance with Takashimaya Co., Ltd., and Takashimaya Credit Co., Ltd., Sony Bank began issuing the “Takashimaya Platinum Debit Card,” integrating Takashimaya’s courtesy services with the “Sony Bank WALLET” cash card featuring VISA debit function in 11 currencies. Strategic alliances such as this will help build a larger customer base.

December 2017:

Began Offering “WealthNavi for Sony Bank” Automated Asset Investment Service

Sony Bank teamed up with WealthNavi Inc. and began providing “WealthNavi for Sony Bank,” an automated asset investment service customized for Sony Bank customers with the WealthNavi robo-advisor developed by WealthNavi Inc. With this service, customers are able to invest in overseas exchange traded funds (ETFs), placing even small amounts in internationally diversified investments in a totally automated process. Going forward, Sony Bank will provide customers with new options for asset investment.



Analysis of Operating Performance

SFH's banking business consists of Sony Bank, a wholly owned subsidiary of SFH; Sony Payment Services, a 57%-owned subsidiary of Sony Bank; and SmartLink Network Hong Kong, a wholly owned subsidiary of Sony Payment Services.

Consolidated

Ordinary Revenues, Ordinary Profit and Profit Attributable to Owners of the Parent

	Billions of yen		
For the years ended March 31,	2017	2018	Change
Ordinary revenues	¥38.5	¥39.9	+3.7%
Ordinary profit	5.0	7.1	+42.2%
Profit attributable to owners of the parent	3.3	4.7	+42.8%

Main Points

Ordinary revenues rose, owing to higher interest income on loans as Sony Bank built a larger mortgage loan balance and obtained higher interest income on securities.

Ordinary profit increased, mainly due to a reduction in general and administrative expenses, particularly advertising expenses related to card loans.

Profit attributable to owners of the parent increased, due to the rise in ordinary profit.

Non-consolidated

Sony Bank accounts for nearly all of SFH's banking business. Below is an analysis of the operating performance of Sony Bank (non-consolidated).

Gross Operating Profit

Gross operating profit represents the total income from the four components of income from banking services: net interest income, net fees and commissions, net trading income and net other operating income. It is equivalent to the gross profit (sales minus costs) of companies which operate businesses other than financing and an indicator of the amount of profit a bank generates from its main services.

Net interest income refers to the spread between investment returns such as interest received on loans and securities, and funding costs including interest paid on deposits. Sony Bank uses the deposits received from customers primarily to provide mortgage loans and invest in securities.

Net fees and commissions refers to the spread between the fees and commissions received from mortgage loans, the securities trading of customers, domestic and foreign exchanges and other operations, and the fees and commissions paid for ATM usage, domestic and foreign exchanges and other operations.

Net other operating income refers to income from operations not included in net interest income or net fees and commissions. This includes gains and losses on foreign exchange trading; gains and losses on trading of bonds, including government bonds; and gains and losses on derivatives, such as swaps held as hedges for securities and other investments.

	Billions of yen		
For the years ended March 31,	2017	2018	Change
Gross operating profit	¥21.1	¥21.4	+1.4%
Net interest income	17.9	20.6	+15.2%
Net fees and commissions	(1.5)	(2.9)	—
Net other operating income	4.7	3.7	(22.4%)

Main Points

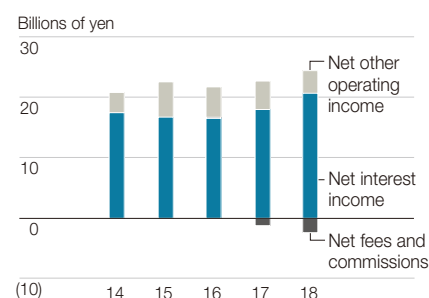
Net interest income increased, due to increases in interest income on loans and interest income and dividends on securities.

Net fees and commissions decreased, mainly due to lower fees and commissions on mortgage loans and higher fees paid for loan guarantees, reflecting the growing loan balance.

Net other operating income decreased, largely because of a drop in gains on foreign exchange transactions.

Gross Operating Profit

For the years ended March 31,



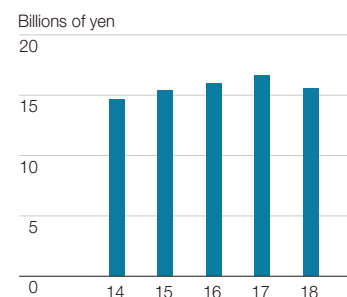
General and Administrative Expenses

	Billions of yen		
For the years ended March 31,	2017	2018	Change
General and administrative expenses	¥16.5	¥15.5	(6.1%)

Main Points General and administrative expenses declined, mainly because of a drop in advertising expenses related to card loans.

General and Administrative Expenses

For the years ended March 31,



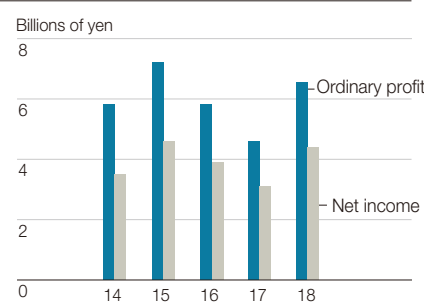
Ordinary Revenues, Ordinary Profit and Net Income

	Billions of yen		
For the years ended March 31,	2017	2018	Change
Ordinary revenues	¥35.1	¥36.2	+3.3%
Ordinary profit	4.6	6.5	+41.5%
Net income	3.1	4.4	+40.9%

Main Points Sony Bank's ordinary revenues, ordinary profit and net income increased for the same reasons as its consolidated results.

Ordinary Profit and Net Income

For the years ended March 31,



Number of Accounts

	Million accounts		
As of March 31,	2017	2018	Change
Number of accounts	1.24	1.35	+8.8%

Main Points The number of accounts increased, reflecting the growing popularity of Sony Bank WALLET.

Customer Assets (Total of Deposits and Investment Trusts)

	Billions of yen		
As of March 31,	2017	2018	Change
Customer assets (Total of deposits and investment trusts)	¥2,227.1	¥2,343.0	+5.2%

	Billions of yen		
As of March 31,	2017	2018	Change
Deposit balance	¥2,112.9	¥2,219.3	+5.0%
Yen deposits	1,764.9	1,814.7	+2.8%
Foreign currency deposits	348.0	404.6	+16.3%
Investment trust balance	114.1	123.7	+8.5%

Main Points

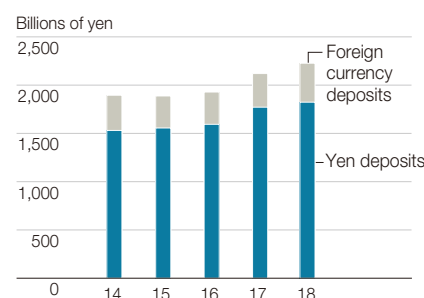
Yen deposits rose on balances, mainly through the acquisition of new funds, paralleling an increase in the number of accounts.

Foreign currency deposits grew especially in term deposits, reflecting a promotional campaign highlighting exchange rate costs and also favorable interest rates on U.S. dollar term deposits.

Investment trusts on balances increased, reflecting the impact of higher reference prices.

Deposit Balance

As of March 31,



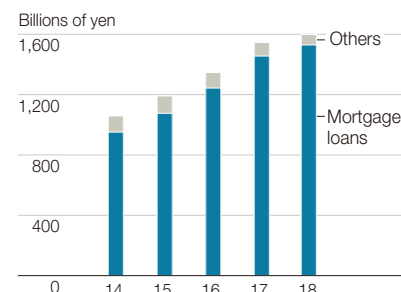
Loans

As of March 31,	Billions of yen		
	2017	2018	Change
Loans	¥1,539.6	¥1,596.3	+3.7%
Mortgage loans	1,452.4	1,525.5	+5.0%
Others	87.1	70.7	(18.8%)

Main Points The balance of loans expanded through a steady buildup overall, despite a drop in refinancing demand for mortgage loans. "Others" includes corporate loans, card loans and special-purpose loans.

Loans

As of March 31,



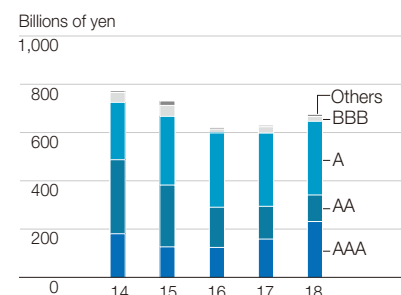
Securities

Sony Bank's securities investments consist of constant investments in highly rated bonds.

As of March 31,	Billions of yen		
	2017	2018	Change
Balance of securities	¥631.2	¥674.2	+6.8%
Japanese government bonds	103.0	96.8	(6.0%)
Japanese local government bonds	34.8	36.0	+3.3%
Japanese corporate bonds	63.6	65.3	+2.8%
Japanese stocks	2.0	2.0	—
Foreign securities	423.2	468.9	+10.8%
Other securities	4.4	5.0	+13.0%

Balance of Securities (By ratings)

As of March 31,



Main Points With respect to the ratings of the securities* held by Sony Bank, securities rated AA or above accounted for 50.8% of the total. The ¥2.0 billion in Japanese stocks represents the company's investment stake in Sony Payment Services.

*Sony Bank uses the Basel III standardized method and classifies its securities based on ratings by five rating agencies: Moody's Investors Service, S&P Global Ratings, Rating and Investment Information, Inc., Japan Credit Rating Agency, Ltd. and Fitch Ratings.

Total Asset Composition

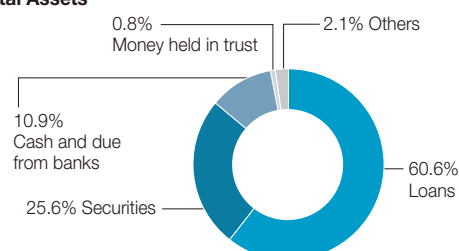
As of March 31,	Billions of yen		
	2017	2018	Change
Total assets	¥2,424.2	¥2,635.0	+8.7%
Loans	1,539.6	1,596.3	+3.7%
Securities	631.2	674.2	+6.8%
Cash and due from banks	177.4	287.3	+61.9%
Money held in trust	23.0	21.0	(8.7%)

Main Points Sony Bank's total assets increased, due to increases in loans and securities.

Composition of Total Assets

As of March 31, 2018

¥2,635.0 billion



Non-consolidated Capital Adequacy Ratio

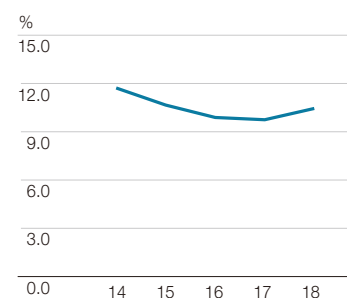
The capital adequacy ratio is an important indicator of a bank's financial soundness. As of March 31, 2017, Sony Bank uses foundation internal ratings-based (FIRB) approach to calculate this ratio.

As of March 31,	2017	2018	Change
Non-consolidated capital adequacy ratio (Domestic standard)	9.75%	10.45%	+0.70pt

Main Points Sony Bank continuously maintains a sound financial position.

Non-consolidated Capital Adequacy Ratio (Domestic standard)

As of March 31,



Sony Bank's Non-consolidated Capital Adequacy Ratio (Domestic standard)

As of March 31,	Millions of yen			
	2017		2018	
	Amounts excluded under transitional arrangements		Amounts excluded under transitional arrangements	
Core capital: instruments and reserves				
Directly issued qualifying common share capital or preferred share capital with a compulsory conversion clause plus related capital surplus and retained earnings	¥ 76,303		¥ 78,540	
Of which, capital and capital surplus	52,000		52,000	
Of which, retained earnings	25,893		28,778	
Of which, cash dividends to be paid (-)	1,590		(2,238)	
Total reserves included in core capital: instruments and reserves	—		—	
Of which, general reserve for loan losses including core capital	—		—	
Eligible capital instruments included in core capital: instruments and reserves	12,745		9,682	
Core capital: instruments and reserves (A)	89,048		88,222	
Core capital: regulatory adjustments				
Total amount of intangible assets (excluding those relating to mortgage servicing rights)	1,315	¥876	2,113	¥528
Of which, other intangible assets other than goodwill and mortgage servicing rights	1,315	876	2,113	528
Shortfall of eligible reserves to expected losses	1,253	—	1,013	—
Core capital: regulatory adjustments (B)	2,569		3,127	
Capital				
Capital ((A)-(B)) (C)	86,479		85,095	
Risk-weighted assets				
Total amount of credit risk-weighted assets	509,456		522,316	
Of which, total amount included in risk-weighted assets subject to transitional arrangements	(16,092)		(9,804)	
Of which, intangible assets (excluding goodwill and mortgage servicing rights)	876		528	
Of which, exposure to other financial institutions	(16,969)		(10,333)	
Total amount of operational risk equivalent / 8%	38,807		39,244	
Adjustment to credit risk-weighted assets	338,517		252,127	
Total amount of risk-weighted assets (D)	886,781		813,688	
Capital adequacy ratio				
Capital adequacy ratio ((C) / (D)) (%)	9.75		10.45	

Note: The non-consolidated capital adequacy ratio was calculated using the standard set forth in Notification No. 19 (2006), issued by FSA regarding the method for determining capital adequacy of a bank in light of the assets held by the bank, in accordance with Article 14-2 of the Banking Act of Japan. But for credit risk-weighted assets based on domestic standard, the company applies the FIRB approach.

Non-performing Assets

Sony Bank strives for small-loan diversification in its lending to individuals, screens potential borrowers based on prescribed credit screening standards and manages loans after they have been granted. In lending to corporate customers, Sony Bank sets maximum loan limits according to customer credit and adheres to standards that prevent excessive lending to particular borrowers. The screening division also works independently of the business promotion divisions, and the company ensures that financing proceeds only following due diligence via relevant deliberative entities. Thus, the company has established a meticulous loan management and screening system.

Risk-monitored Loans

	Billions of yen	
As of March 31,	2017	2018
Category		
Bankrupt loans	¥0.1	¥0.0
Non-accrual delinquent loans	1.5	1.0
Past-due loans (3 months or more)	—	—
Restructured loans	1.2	0.8
Total	¥2.9	¥1.9

Problem Loans Based on the Financial Reconstruction Act

	Billions of yen	
As of March 31,	2017	2018
Category		
Bankrupt and quasi-bankrupt loans	¥ 0.7	¥ 0.4
Doubtful loans	1.0	0.6
Sub-standard loans	1.2	0.8
Normal loans	1,544.5	1,604.3
Total	¥1,547.5	¥1,606.3

Main Points Sony Bank has consistently maintained low levels of non-performing loans.

Non-performing Loan Ratio*

(Loans disclosed under the Financial Reconstruction Act)

As of March 31,	2017	2018	Change
Non-performing loan ratio	0.19%	0.12%	(0.06pt)

*Non-performing loans (loans based on the Financial Reconstruction Act) / Total loan exposure

Contributions to Sustainable Development

Corporate Governance | CSR

Contributions to Sustainable Development Corporate Governance

Profiles of Directors and Audit & Supervisory Board Members

(As of July 10, 2018)

Directors

President, Representative Director

a. Shigeru Ishii

Director, Sony Life Insurance Co., Ltd.
Director, Sony Assurance Inc.
Director, Sony Bank Inc.
President, Representative Director,
Sony Financial Ventures Inc.

Managing Director

b. Hiroaki Kiyomiya

Director, EVP ^(Note 3),
Sony Life Insurance Co., Ltd.

Directors

c. Yutaka Ito

Director, Sony Life Insurance Co., Ltd.
Director, Sony Assurance Inc.
Director, Sony Lifecare Inc.
Director, Sony Financial Ventures Inc.

d. Tomoo Hagimoto

President, Representative Director,
Sony Life Insurance Co., Ltd.

e. Atsuo Niwa

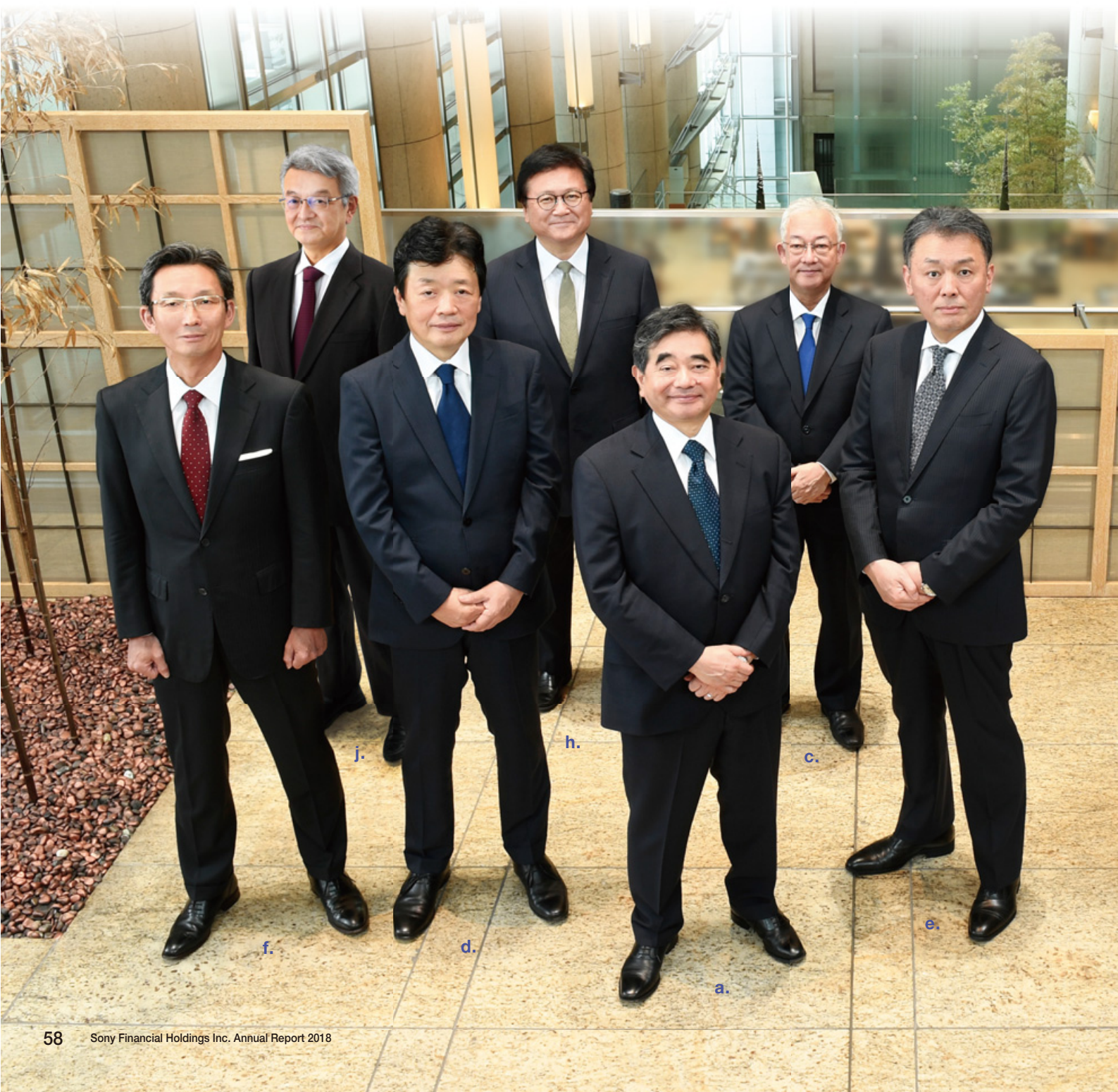
President, Representative Director,
Sony Assurance Inc.

f. Yuichiro Sumimoto

Director, Representative Director,
Sony Bank Inc.

g. Shiro Kambe

EVP ^(Note 3), Corporate Executive Officer,
Sony Corporation



Notes: 1. Main concurrent positions are shown under the name of each individual.
 2. Outside Directors Isao Yamamoto, Shiro Kuniya and Takatoshi Ito and Outside Audit & Supervisory Board Members Yasuyuki Hayase and Yoshimichi Makiyama are deemed Independent officers based on Tokyo Stock Exchange, Inc. regulations.
 3. EVP stands for Executive Vice President.

Directors (Outside)

h. Isao Yamamoto (Note 2)

President,
 Enterprising Investment, Inc.
 Director, BILCOM, Inc.

i. Shiro Kuniya (Note 2)

Managing Partner,
 Oh-Ebashi LPC & Partners
 Director, NEXON Co., Ltd.
 Director, Ebara Corporation
 Director,
 Takeda Pharmaceutical Company Limited

j. Takatoshi Ito (Note 2)

Professor,
 School of International and
 Public Affairs, Columbia University
 Senior Professor,
 National Graduate Institute for
 Policy Studies
 Director, Chi-X Japan Limited

Audit & Supervisory Board Members

Standing Audit & Supervisory Board Member (Outside)

k. Yasuyuki Hayase (Note 2)

Audit & Supervisory Board Member,
 Sony Life Insurance Co., Ltd.
 Audit & Supervisory Board Member,
 Sony Assurance Inc.
 Audit & Supervisory Board Member,
 Sony Bank Inc.

Audit & Supervisory Board Member

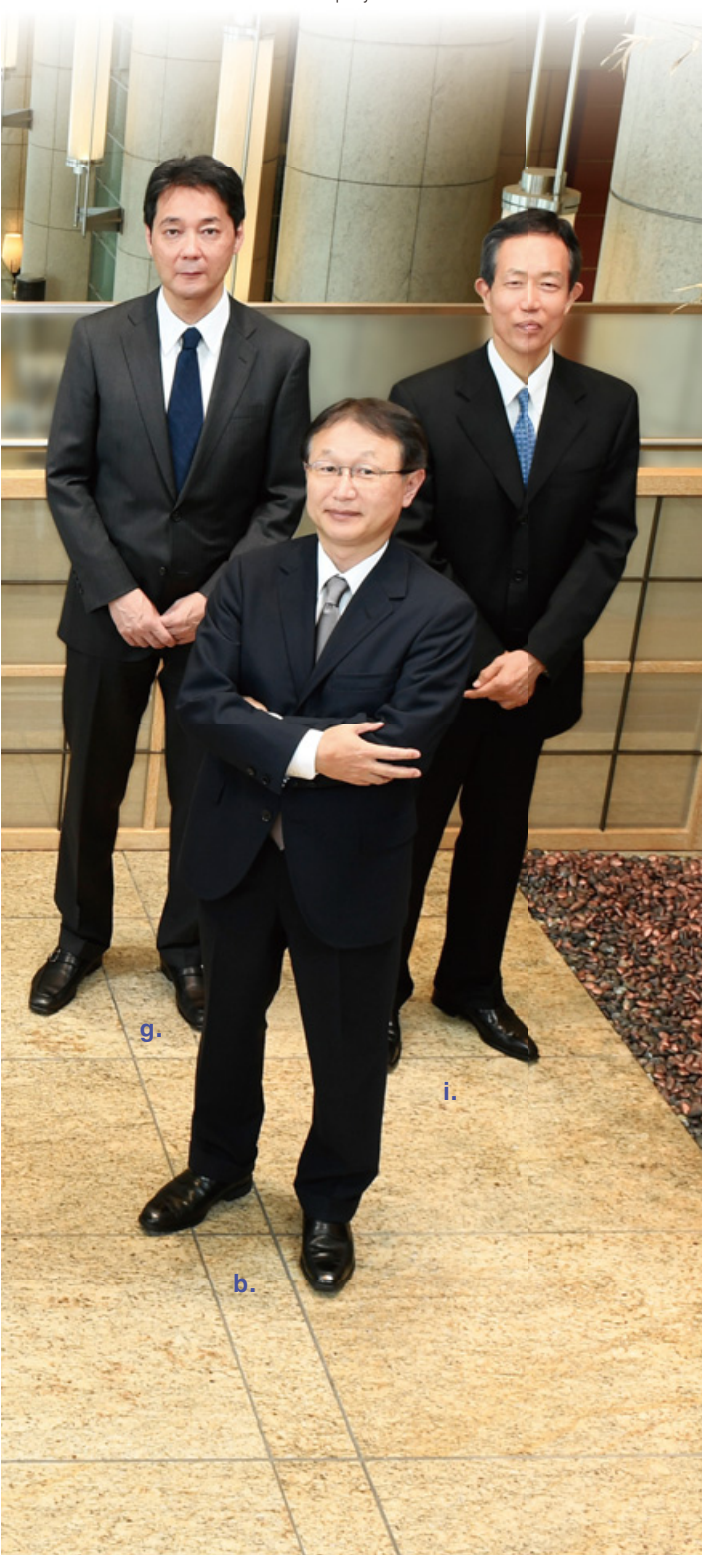
m. Hirotoshi Korenaga

Corporate Executive,
 Senior General Manager,
 Global Accounting Division,
 Sony Corporate Services (Japan)
 Corporation

Audit & Supervisory Board Member (Outside)

l. Yoshimichi Makiyama (Note 2)

Partner, Ripple Partners (law office)



A Dialogue between Outside Directors: Corporate Governance at SFH

In an era of transformation, we redefine perceptions of value in financial services through “customer-first” and “response to changes.”



Outside directors Isao Yamamoto and Shiro Kuniya exchanged opinions on corporate governance at Sony Financial Holdings Inc. and on measures taken by the Company to achieve sustainable growth. (The discussion took place in May 2018.)

Board of Directors' Meetings

Board of Directors emphasizing open discussion on era of change

Kuniya: A board of directors is expected to be receptive to reasonable opinions, derived through dynamic discussion, and to apply those opinions to the implementation of whatever measures are deemed necessary for success. At the Board of Directors' meeting, discussions that transcend the position, or management viewpoint, of each Group company have taken place by Board members—the presidents of Sony Life, Sony Assurance and Sony Bank, executive directors of SFH and outside directors—you and me.

Yamamoto: An awareness of the PDCA cycle is firmly entrenched in the minds of all members of the SFH Board, having discussions unfold with a forward-looking perspective. A prime example would be figuring out what kind of check system to establish if a certain plan is put into action. The materials distributed at meetings are ample, and any questions raised will receive honest responses. I believe the Board maintains the appropriate level of transparency.

Kuniya: The Group inherited the corporate DNA of a manufacturer—Sony. As a brand, Sony has grown by delivering new value to people. I believe this “Sony spirit,” if you will, infuses SFH as well.

Yamamoto: I agree. When decisions are to be made, the SFH Board keeps in mind the mission—to earn and maintain the trust of customers as a financial institution. The Board places importance on a corporate attitude that emphasizes the pursuit of something new and engages in comprehensive discussions with the appropriate decision-making procedures to formulate various measures. Fintech, for instance, has been a topic of tremendous discussion, underpinned by seminar content and expert advice.

Kuniya: The Board is also shifting toward a process of implementing various measures based on a deeper understanding of the issues, such as introducing new technology, launching new businesses and making inroads overseas, through repeated and robust dialogue. The environment is undergoing a big transformation, and it is important to keep trying and consider which measures will be effective at any given time.



Nomination Advisory Committee, Compensation Advisory Committee

Securing human resources and maintaining an appropriate compensation system are keys to sustainable growth

Yamamoto: Points that always get discussed in the Nomination Advisory Committee deal with the formation—that is, the lineup—of directors who will best serve SFH for the Group's continued growth in the future and the content of plans to develop the next generation of management. As chairperson of the Nomination Advisory Committee, I have to take a medium- to long-term perspective to properly evaluate suggestions offered to the Committee. Toward this end, I try to make decisions at committee discussions that are consistent with medium-term targets, and I actively take part in meetings separate from the Board of Directors where medium-term business plans are drafted.

Kuniya: In deliberating plans for developing the next generation of management, we can give candid opinions because we are external to the Company and apply insights from our involvement in other companies and knowledge of applicable situations overseas. The ideal scenario would be to create a talent pool with a number of individuals at the top—future presidents of Group companies—as well as second and third layers of management candidates. But not all positions will be filled internally, so we have to anticipate the need to attract the right people externally through headhunting. When SFH was established, a dynamic structure was ensured by utilizing human resources in the Sony Group and different industries. But in the last few years, the dynamic has changed, and SFH is perhaps lagging behind its overseas peers. Going forward, SFH should make more of an effort to reinforce diversity in management composition, including the selection of non-Japanese directors.

Yamamoto: On June 22, 2018, SFH plans* to welcome Takatoshi Ito, an international economist, to the Board as an outside director. Early on, the Group recognized the need for broad-based knowledge and a network of experts in fields different from those of existing directors to raise the corporate value of the Group, and management was already contemplating an increase in the number of outside directors. Against that backdrop, Mr. Ito was short-listed, interviewed by the Nomination Advisory Committee and now he is being put forward as an outside director.

Kuniya: Outside directors are expected to contribute somehow by drawing on personal expertise and experience. Mr. Ito is an economist, his outlook is microeconomic as well as macroeconomic and he will be expected to add to the conversation from a viewpoint that is both long-term and international, looking five, 10 and 20 years ahead.

Kuniya: From my position as chairperson of the Compensation Advisory Committee, I believe it is essential that SFH improve its incentive compensation system to attract skilled human resources. People with expertise or qualifications in a particular field, in many cases, receive compensation corresponding to their capabilities. Such individuals cross the country in search of jobs, inevitably moving from job to job and industry to industry.

The current compensation system of SFH is, in my opinion, an obstacle to attracting and keeping individuals with expertise.

Yamamoto: Last year, SFH expanded the scope of eligibility for stock options. But the ratio of incentives to overall compensation is still low at SFH. The wisdom of using stock-based compensation to attract human resources will probably become a topic of much discussion.

Kuniya: Human resourcing and compensation are very closely connected, and SFH will need to improve its compensation system rather drastically in the medium to long term to keep human resources. For now, the Company should consider a gradual approach to changes.

Aside from the compensation issue, SFH must also recognize the impact of globalization on work styles. In recent years, perceptions toward work have changed in Japan. Increasing globalization and new approaches to workstyles have led people to assume that whatever job they take will allow them to demonstrate individuality and pursue a desired lifestyle. To attract people who can change the Company, the Company must present work-style options that these people find appealing.

New Medium-term Business Plan

Take full advantage of changes to solidify underlying base and become financial services group closely connected to every customer

Yamamoto: The new medium-term business plan was formulated at a meeting set up for that purpose under a process whereby members of the meeting imagined society 10 years from now, with major changes in the business environment and technological innovations anticipated, then incorporated these factors into strategies to be accomplished over three years.

Kuniya: The new medium-term business plan hinges on two points: “customer-first” and “response to changes.” For the Sony Financial Group to continue to grow as the financial services group that customers look to first, SFH has to promote even more the concept of customer-first business operations and reinforce governance structure over Group companies.

Yamamoto: Then there is response to changes, specifically, how to deal with a changing business environment, including a shrinking population with a falling birthrate and aging population and technological innovations, namely self-driving cars and Fintech. With regard to Fintech, many venture companies present excellent technologies. What sort of relationships will Sony Life, Sony Assurance and Sony Bank build with these venture companies? And what function will Sony Financial Ventures play after its establishment in July? These two points will have far-reaching implications. Our changing times are fueling the transformation in customer-first business operations through joint activities among companies in the Sony Financial Group, with the Sony Group and through open innovation with Fintech ventures. This is a vital cornerstone for growth in the future.

Kuniya: But in pursuing joint activities with the Sony Group,



SFH must ensure its independence from the perspective of protecting the interests of minority shareholders who are not Sony Corporation. It will also become more important to emphasize cooperative efforts related mainly to Fintech, particularly the use of blockchains from the Sony Group, while retaining independence. The integration of new technologies and financial services, and the acceleration of personnel exchanges under the Sony brand, will lead to the development of new products and services.

Yamamoto: In the meantime, the emphasis is on initiating a major shift beyond the traditional business formats of a financial institution and a manufacturer through the use of IoT and Fintech. The ability to handle big data, namely, details on the lifestyles and investment environments of each customer, will prompt a huge change in the personalization of products and services. Insurance and investment offerings have been, respectively, all the same. In the future, it will be possible to personalize products and services in each segment to meet the lifestyle needs of each customer. These are exciting, interesting times. The big changes taking place will provide the Sony Financial Group with a fabulous opportunity to create new products and services.

Kuniya: The Sony Group’s mission—*Kando*, to move customers emotionally—has fueled business expansion. It would be a natural progression, then, for the Sony Financial Group, as a member of the Sony Group, to play a part in making its own customers happy. Take, for example, Sony Life’s Lifeplanner sales employees, who quite literally make it their business to know the lives of their customers and stay close to them through all stages of life. I think this underpins sustainable growth for the Sony Financial Group and certainly translates into higher corporate value for SFH.

Yamamoto: Fiscal 2018, ending March 31, 2019, is the first year of the new medium-term business plan. We outside directors will have to be mindful of what we should do—and what we can do—for customers. We will contribute to the next stage of growth for the Sony Financial Group by solidifying the defense and offense sides of business.

**The proposal to appoint Takatoshi Ito to the position of outside director was approved by shareholders at the Ordinary General Meeting of Shareholders on June 22, 2018.*

▶ Page 18: Vision and Strategies Sony Financial Group

Profiles of Outside Directors and Outside Audit & Supervisory Board Members

		Biography	Reasons for Appointment
Outside Directors	Isao Yamamoto	 <p>1981 Joined Nomura Research Institute, Ltd. 1991 Head of Strategic Advisory Group, Nomura Research Institute, Ltd. 1996 Director, Investment Banking Division, Merrill Lynch Japan Securities Co., Ltd. 1999 Managing Director, Investment Banking Division, Merrill Lynch Japan Securities Co., Ltd. 2002 Co-head of Investment Banking Division, Managing Director, Merrill Lynch Japan Securities Co., Ltd. 2003 President & CEO, The Institute for Securities Investments & Governance 2006 Director, Japan CableCast Inc. Statutory Auditor, MASSTONE, Inc. (currently: MINKABU, Inc.) 2007 Director, MASSTONE, Inc. (currently: MINKABU, Inc.) 2009 President, Enterprising Investment, Inc. (current position) 2011 Director, SFH (current position) 2012 Director, BILCOM, Inc. (current position)</p>	Mr. Yamamoto has many years of experience as a securities analyst and an advisor on corporate finance and M&As, and has no conflict of special interests with SFH.
	Shiro Kuniya	 <p>1982 Registered as attorney Joined Oh-Ebashi Law Offices (currently: Oh-Ebashi LPC & Partners) 1997 Audit & Supervisory Board Member, Sunstar Inc. 2002 Managing Partner, Oh-Ebashi LPC & Partners (current position) 2006 Audit & Supervisory Board Member, Nidec Corporation 2012 Director, NEXON Co., Ltd. (current position) Director, Ebara Corporation (current position) 2013 Director, SFH (current position) Corporate Auditor, Takeda Pharmaceutical Company Limited 2016 Director, Takeda Pharmaceutical Company Limited (current position)</p>	Mr. Kuniya has specialized knowledge and experience as an attorney and has no conflict of special interests with SFH.
	Takatoshi Ito	 <p>1979 Assistant Professor, Economics Department, University of Minnesota 1986 Associate Professor, Economics Department, University of Minnesota 1988 Associate Professor, Institute of Economic Research, Hitotsubashi University 1991 Professor, Institute of Economic Research, Hitotsubashi University 1994 Senior Advisor, Research Department, International Monetary Fund 1997 Professor, Institute of Economic Research, Hitotsubashi University 1999 Deputy Vice Minister for International Affairs, Ministry of Finance 2001 Professor, Institute of Economic Research, Hitotsubashi University 2002 Professor, Research Center for Advanced Science and Technology, the University of Tokyo 2004 Professor, Economics Department, the University of Tokyo 2012 Dean, Graduate School of Public Policy, the University of Tokyo 2014 Project Professor, Graduate School of Public Policy, the University of Tokyo Professor, National Graduate Institute for Policy Studies 2015 Professor, School of International and Public Affairs, Columbia University (current position) 2016 Senior Professor, National Graduate Institute for Policy Studies (current position) 2017 Director, Chi-X Japan Limited (current position) 2018 Director, SFH (current position)</p>	Mr. Ito possesses extensive knowledge and experience as an expert on subjects including macroeconomics, financial policy, international finance and Japanese economic theory, and has no conflict of special interests with SFH.
Outside Audit & Supervisory Board Members	Yasuyuki Hayase	 <p>1980 Joined Mitsui Bank Corporation (currently: Sumitomo Mitsui Banking Corporation) 1999 Group Leader, Credit Planning Department, Mitsui Bank Corporation 2001 Deputy General Manager, Head Office Business Department 1, Sumitomo Mitsui Banking Corporation 2002 Deputy General Manager, Head Office Business Department 3, Sumitomo Mitsui Banking Corporation 2003 General Manager, Kumamoto Corporate Business Office, Sumitomo Mitsui Banking Corporation 2005 General Manager, Mitadori Corporate Business Office, Sumitomo Mitsui Banking Corporation 2007 General Manager, Credit & Investment Planning Department, Sumitomo Mitsui Banking Corporation 2010 Corporate Auditor, Sumitomo Mitsui Banking Corporation 2012 President & CEO, Sakura Card Co., LTD. 2015 Standing Audit & Supervisory Board Member, SFH (current position) Audit & Supervisory Board Member, Sony Life Insurance Co., Ltd. (current position) Audit & Supervisory Board Member, Sony Assurance Inc. (current position) Audit & Supervisory Board Member, Sony Bank Inc. (current position)</p>	Mr. Hayase has many years of experience at a financial institution, and as a corporate auditor there.
	Yoshimichi Makiyama	 <p>1990 Registered as attorney, Japan Joined Showa Law Office (currently: Jones Day Law Office) 1995 Joined Mitsui, Yasuda, Wani & Maeda (law office) 1999 Registered as attorney, New York, U.S.A. 2000 Joined Microsoft Asia Limited (Law & Corporate Affairs) 2004 Registered as patent attorney, Japan 2006 Joined TMI Associates (law office) 2013 Partner, Kitamura & Makiyama (law office) 2015 Audit & Supervisory Board Member, SFH (current position) 2018 Partner, Ripple Partners (law office) (current position)</p>	Mr. Makiyama qualified as an attorney and patent attorney in Japan and as an attorney in the state of New York, with expertise in many areas including information security and compliance, and has a breadth of professional experience both at home and abroad.

Basic Stance on Corporate Governance

Basic Policy on Corporate Governance

SFH strives to meet the expectations and earn the trust of stakeholders, realize sustainable corporate growth and increase corporate value over the medium to long term by making effective use of the Group's various management resources and by realizing its corporate vision and philosophy. Furthermore, as a financial holding company, SFH is aware of the highly public nature of its financial business. Accordingly, SFH has in place a governance structure that emphasizes ensuring soundness and appropriateness of the Group's management. SFH is a listed subsidiary of Sony Corporation. As such, SFH maintains managerial independence from its parent company and strives to ensure a highly transparent management.

- ▶ “Corporate Vision,” “Corporate Philosophy” on the profile page.
- ▶ “Basic Policy on Corporate Governance” and “Corporate Governance Report” on SFH's website, <https://www.sonyfh.co.jp/en/company/governance.html>

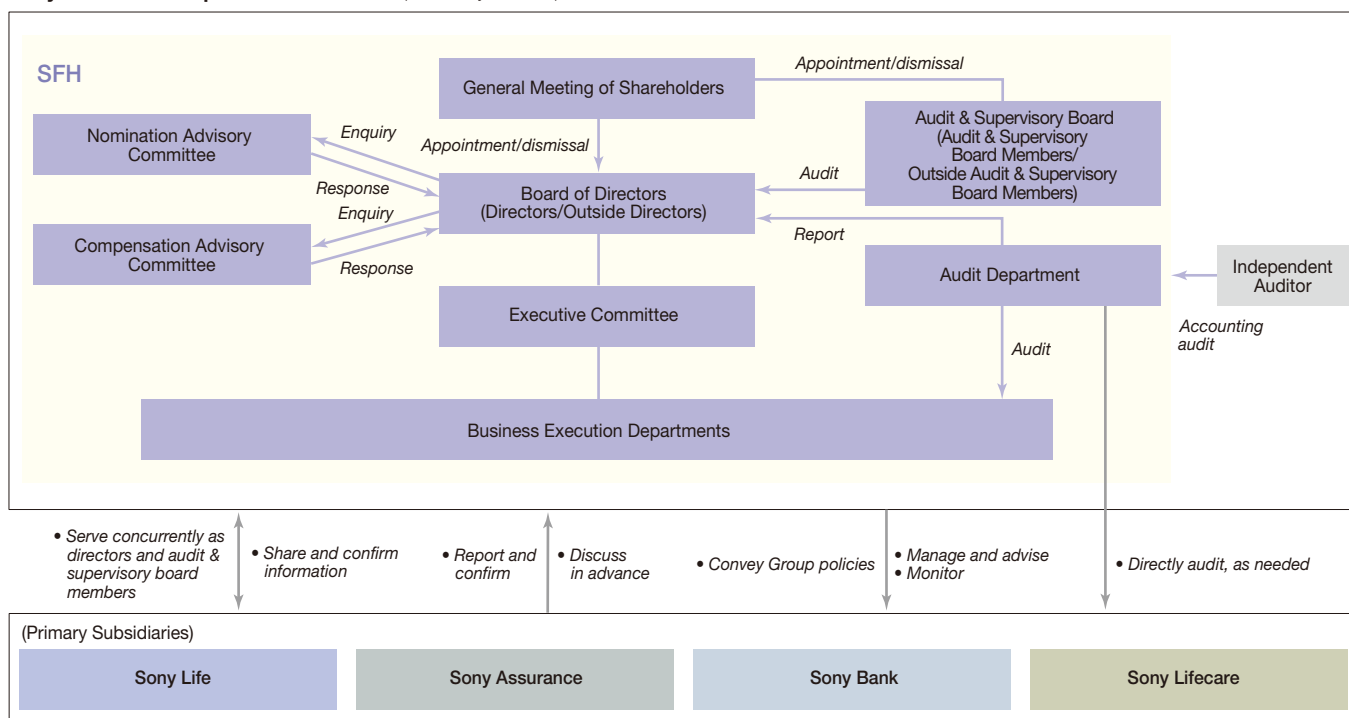
Establishing an Internal Control System

SFH formulated the Basic Policy on Establishing an Internal Control System in compliance with the Companies Act of Japan and associated enforcement regulations to ensure the appropriateness of the Group's business activities. SFH implemented and maintains an internal control system in line with this policy.

SFH introduced its Internal Control and Financial Reporting System in accordance with the Financial Instruments and Exchange Act of Japan, with the aim of strengthening internal controls governing financial reporting. As a listed company, SFH put in place and maintains the necessary organizational system and operational rules for disclosing proper financial information.

- ▶ “Corporate Governance” on SFH's website, <https://www.sonyfh.co.jp/en/company/governance.html>

Sony Financial Group's Internal Control (As of July 1, 2018)



Management System

Outline of SFH's Corporate Governance Structure (As of July 1, 2018)

Type of structure	Company with a Board of Directors and an Audit & Supervisory Board
Number of directors	10 (including 3 outside directors)
Number of audit & supervisory board members	3 (including 2 outside audit & supervisory board members)
Director's term of office	1 year
Number of independent officers	5
Outside directors' involvement in determination of compensation	Involved
Results-linked compensation system	Adopted
Number of meetings of the Board of Directors held during fiscal 2017	16
Advisory bodies for the Board of Directors	Nomination Advisory Committee; Compensation Advisory Committee

► "Management System" on SFH's website, <https://www.sonyfh.co.jp/en/company/management.html>

Board of Directors (As of July 1, 2018)

SFH, as a pure holding company, maintains a Board of Directors not only to manage SFH itself, but also to promote integrated Group management and to ensure the Group's corporate governance. SFH's Board of Directors is made up of 10 members, of which three are representative directors from SFH's subsidiaries who serve as non-executive directors of SFH and contribute to efficient business operations of the Group as a whole.

Additionally, to obtain general management advice applicable to the Group, SFH has appointed directors from outside the Group, one of whom serves concurrently as a Corporate Executive Officer of Sony, the parent company. To obtain knowledge outside the Company and enhance the efficiency of the Group's corporate governance, since June 2018, the Company has increased the number of outside directors by one and appointed a total of three outside directors, who are designated independent directors, as required by the Tokyo Stock Exchange, to protect ordinary shareholders.

Regarding the boards of directors of Group subsidiaries, SFH's representative director and two of its executive directors serve concurrently as directors of subsidiaries with the aim of increasing the effectiveness of Group strategies and ensuring the sound business management of each company.

Attendance of Outside Directors and Outside Audit & Supervisory Board Members in Meetings of the Board of Directors and the Audit & Supervisory Board for Fiscal 2017

	Name	Board of Directors' meeting	Audit & Supervisory Board's meeting
Outside directors	Isao Yamamoto	Attended all 16 meetings	—
	Shiro Kuniya	Attended 14 of 16 meetings	—
Outside audit & supervisory board members	Yasuyuki Hayase	Attended all 16 meetings	Attended all 12 meetings
	Yoshimichi Makiyama	Attended 14 of 16 meetings	Attended all 12 meetings

Audit & Supervisory Board Member Audits, Internal Audits and Accounting Audits (As of July 1, 2018)

Audit & Supervisory Board Member Audits

SFH's Audit & Supervisory Board has three members, two of whom are outside audit & supervisory board members and deemed as independent audit & supervisory board members based on Tokyo Stock Exchange regulations.

Audit & supervisory board members audit the execution of duties by directors based on the audit policy, audit plan and other matters stipulated by the Audit & Supervisory Board. Audit & supervisory board members attend important meetings, including Board of Directors' meetings and examine SFH's operations and financial condition. At the same time, audit & supervisory board members maintain close contact such as through receiving reports from independent auditors, internal audit department and other relevant persons.

Internal Audits

SFH performs internal audits through its internal audit department. The internal audit department takes an independent and objective standpoint in performing internal audits to check and evaluate the appropriateness of work processes and responses to risks. The internal audit department also monitors the results of both internal and external audits of Group companies and provides advice and proposals when necessary. The internal audit department regularly reports the results of its monitoring activities to the director in charge and the Board of Directors. When necessary, the internal audit department may audit subsidiaries directly or jointly within the scope of governing laws and regulations. In addition, the internal audit department works closely with audit & supervisory board members, as well as external auditors, such as independent auditors, as necessary.

Accounting Audits

The accounting firm and back-up team members of the certified public accountants (CPAs) who acted as the independent auditors of SFH are as follows:

Accounting firm	PricewaterhouseCoopers Aarata LLC
Breakdown: CPAs and the back-up team members*	8 CPAs, 4 others

*For fiscal 2017

Management System

Nomination Advisory Committee and Compensation Advisory Committee (As of July 1, 2018)

SFH has established two committees as advisory bodies for the Board of Directors to ensure the transparency and objectivity of the decision-making process.

The Nomination Advisory Committee deliberates on the appointment and dismissal of SFH's directors, audit & supervisory board members and Group companies' presidents, as well as on the succession planning of SFH and its Group companies' presidents. It reports the results of its deliberations to the Board of Directors.

The Compensation Advisory Committee deliberates the policy and total amount of compensation for SFH's directors and Group companies' representative directors who are to be proposed at a General Meeting of Shareholders. The committee also deliberates the amount of compensation for individual directors and Group companies' representative directors, within the limits set by a resolution at a General Meeting of Shareholders. It reports the results of its deliberations to the Board of Directors.

More than half of the members of each committee are outside directors, an arrangement intended to reflect opinions from objective and multifaceted perspectives in deliberations. A member of the Compensation Advisory Committee shall not participate in the resolution for determining his/her compensation.

Advisory bodies	Members	
Nomination Advisory Committee	Outside Director	Isao Yamamoto (Chairperson)
	Outside Director	Shiro Kuniya
	President, Representative Director	Shigeru Ishii
	Director	Shiro Kambe
Compensation Advisory Committee	Outside Director	Shiro Kuniya (Chairperson)
	Outside Director	Isao Yamamoto
	President, Representative Director	Shigeru Ishii

▶ Page 60: A Dialogue between Outside Directors

Independence Standard of Outside Directors and Outside Audit & Supervisory Board Members

SFH has formulated the Basic Policy on the Selection of Director and Audit & Supervisory Board Member Candidates* and set the independence standard of outside directors and outside audit & supervisory board members.

The standard provides that a candidate is deemed independent if he/she: (1) satisfies the independence requirements of the Companies Act of Japan and the standards for independent directors provided by the Tokyo Stock Exchange; (2) has had no conflict of special interest with SFH and its Group companies in the past three years prior to his/her taking office and currently has no such conflict; (3) has not been an executive or employee of SFH's parent company or a subsidiary of SFH's parent company in the past three years prior to his/her taking office and is not currently an executive or employee of these companies; and (4) is not a spouse of or related within two degrees of kinship to a person who does not satisfy either of items (2) and (3) above.

By appointing highly independent outside directors and outside audit & supervisory board members, SFH strives to ensure the transparency of corporate management and enhance their supervisory function.

* Visit SFH's website for details of the Basic Policy on the Selection of Director and Audit & Supervisory Board Member Candidates

Evaluation of Effectiveness of the Board of Directors

According to SFH's Basic Policy on Corporate Governance, the Board of Directors conducts self-evaluations, evaluating the effectiveness of its own decision-making and oversight, as well as its operation of meetings at least once a year.

Evaluation Process

For fiscal 2017, as in fiscal 2016, an independent third-party evaluation company assessed the effectiveness of the Board of Directors with a questionnaire given to all directors and audit & supervisory board members.

Principal content of the questionnaire

- Composition and operation of the Board of Directors
- Management and business strategies
- Corporate ethics and risk management
- Evaluation and compensation of management
- Matters related to organizational restructuring and business reorganization
- Dialogue with shareholders, etc.
- Self-evaluations

Along with the above, diverse items were evaluated with a point-based assessment, and all of the questions were answered in the questionnaire section for reasons and comments. In addition, an evaluation was conducted regarding responses to items that were raised as issues in the previous year's evaluation of effectiveness.

Summary of the Results of Evaluation

The results of the assessment by the third-party evaluation company were as follows:

- As in fiscal 2016, on the whole, a high level of effectiveness has been achieved.
- There is a free and active atmosphere in which all members proactively contribute to the meetings. There is also appropriate decision-making and supervision under the leadership of the chairman.
- Information on the main risks to the Group and information on its situation are appropriately provided and necessary discussions are held.

- The size of the Board of Directors is appropriate for the business size and field of the Group.
- The member composition of the Compensation Advisory Committee and that of the Nomination Advisory Committee are appropriate.
- The frequency and time allocation for the Board of Directors' meetings are appropriate, and the minutes reflect the contents of discussions and the results of deliberations without excess or deficiency.

While various improvements have been made on issues raised in the previous year's evaluation of effectiveness (continued discussion of medium- to long-term Groupwide issues and business strategies and opportunities for study or training related to the Group's management and businesses), the following opinions were received:

- Discussions on the Group's growth strategies need to be continued, considering the Group's overall optimization and lessons learned from the past.
- More opportunities for study or training related to the Group's management and businesses are needed.
- For further reinforcement of customer-first business operations, the compliance and risk management system as well as monitoring need to be enhanced.
- Although incentive compensation plans for management have been expanded with a new restricted stock compensation plan, a desire for continuous consideration of expanding the scope of coverage, changing its proportions and other issues were expressed.

Issues to Address and Responses to Make Based on the Results of Evaluation

From the results of this evaluation, SFH's Board of Directors judges itself to be wholly effective at this time. That said, the Board will strive to further enhance its effectiveness by continuously discussing the Group's growth strategies, improving understanding of the Group's management and business, and enhancing systems such as compliance and monitoring.

Management System

Compensation for SFH's Directors and Audit & Supervisory Board Members

SFH sets the Policy for Determining the Compensation of Directors and the Policy for Determining the Compensation of Audit & Supervisory Board Members. SFH has created the Compensation Advisory Committee Regulations and established the Compensation Advisory Committee (please see page 66) as its deliberative body. Compensation of individual directors is determined by the resolution of the Board

of Directors, based on a report from the Compensation Advisory Committee. Directors with no executive duties, except outside directors, are paid no compensation. Compensation of individual audit & supervisory board members is determined, within the limit set by a General Meeting of Shareholders, through discussions by audit & supervisory board members.

1. Executive Directors

Basic policy	<ul style="list-style-type: none"> A balance between a fixed portion, a results-linked portion and a medium- to long-term incentive portion shall be considered. The objective of this is to secure talented executives for business execution and ensure that compensation serves as an effective incentive for improving the business performance and corporate value of the entire Group.
Compensation	<ul style="list-style-type: none"> Compensation comprises a fixed portion depending on the position, a results-linked portion depending on the entire Group's performance and individual responsibilities, and a medium- to long-term incentive portion in the form of stock-based compensation. The results-linked portion could range from 0% to 200% of the standard amount subject to achievement of management targets of the Group and fulfillment of responsibilities. The medium- to long-term incentive portion is based on restricted stock compensation and stock-type compensation stock options. The stock-type compensation stock options, in principle, account for 20% of total annual compensation.
Level	<ul style="list-style-type: none"> A suitable level of compensation shall be paid in order to secure talented individuals. The level of compensation is determined in consideration of the results of third-party surveys on the compensation levels of corporate managers and other relevant information.

2. Outside Directors

Basic policy	<ul style="list-style-type: none"> The main responsibility of outside directors is to enhance the transparency and objectivity of corporate management through the oversight and supervision of executive directors' execution of duties. Consequently, compensation shall be fixed with the objective of securing talented individuals and ensuring that the supervisory and oversight function is working effectively.
Compensation	<ul style="list-style-type: none"> A fixed amount is paid according to the role.
Level	<ul style="list-style-type: none"> A suitable level of compensation shall be paid in order to secure talented individuals. The level of compensation is determined in consideration of the results of third-party surveys on the compensation levels of corporate managers and other relevant information.

3. Audit & Supervisory Board Members

Basic policy	<ul style="list-style-type: none"> The main responsibility of audit & supervisory board members is to ensure the transparency and objectivity of corporate management by conducting operational and accounting audits. Consequently, compensation shall be fixed with the objective of securing talented individuals and ensuring that the audit function is working effectively.
Compensation	<ul style="list-style-type: none"> A fixed amount is paid according to the respective role of standing audit & supervisory board members and non-standing audit & supervisory board members.
Level	<ul style="list-style-type: none"> A suitable level of compensation shall be paid in order to secure talented individuals. The level of compensation is determined through discussion by audit & supervisory board members, in consideration of the results of third-party surveys on the compensation levels of audit & supervisory board member and other relevant information.

● Compensation for SFH's Directors and Audit & Supervisory Board Members for Fiscal 2017

Details of compensation for SFH's directors and audit & supervisory board members for fiscal 2017 are as follows:

	Number of payees	Total amount of compensation for directors and audit & supervisory board members (Millions of yen)	Total amount by compensation category		
			Basic compensation	Stock option	Restricted stock compensation
Directors (internal)	5	211	166	40	5
Directors (outside)	2	20	20	—	—
Audit & Supervisory Board Members (internal)	—	—	—	—	—
Audit & Supervisory Board Members (outside)	2	31	31	—	—
Total	9	262	217	40	5

Notes: 1. Compensation refers to compensation, bonuses and other financial benefits received from the Company in consideration of execution of duties.

2. Compensation categories refer to basic compensation, stock options, restricted stock compensation, bonuses and retirement benefits and others. SFH did not pay bonuses as compensation for directors and audit & supervisory board members prior to and including fiscal 2017.

Relationship with Parent Company, Sony Corporation

(As of July 1, 2018)

As is described in the Basic Policy on Corporate Governance (please see page 64), SFH is a listed subsidiary of Sony Corporation. Accordingly, SFH maintains managerial independence from its parent company and strives to ensure highly transparent management.

Capital Relationship

SFH is a financial holding company, established in April 2004 as a corporate spin-off from Sony Corporation. In October 2007, SFH's shares were listed on the First Section of the Tokyo Stock Exchange with the initial public offering conducted in Japan and overseas. Sony Corporation later made additional purchases of SFH shares, bringing its shareholding to 63% as of March 31, 2018. As a result, regardless of the intentions and interests of other shareholders, Sony Corporation may have an impact on all matters requiring shareholder approval such as the appointment and dismissal of SFH directors and audit & supervisory board members, mergers and other organizational restructuring, material asset and business transfers, amendments to the Articles of Incorporation and the payment of dividends.

Personnel Relationship

To obtain general management advice concerning the Sony Financial Group and to strengthen the audit function, SFH appoints directors and audit & supervisory board members from outside the Sony Financial Group. However, one SFH director and one audit & supervisory board member serve concurrently as Corporate Executive Officer or Senior General Manager of the Sony Group. Moreover, Sony Corporation has seconded seven employees to SFH. Because the appointment of concurrent directors and audit & supervisory board members comes at the request of the Sony Financial Group, SFH believes that concurrent directors and audit & supervisory board members are positioned to make independent management decisions. From the standpoint of further enhancing independence from the parent company, SFH has appointed three outside directors who have no special relationship with the Sony Group and have designated them as independent directors based on rules set forth by the Tokyo Stock Exchange.

Ensuring Independence in Business Activities

Because the Sony Financial Group's business operations have a tenuous connection with the Sony Group's business domains except for Financial Services*, and because the Sony Financial Group operates its business primarily in accordance with the Insurance Business Act and the Banking Act of Japan, under the supervision of the Financial Services Agency (FSA) of Japan, SFH believes that the Sony Financial Group conducts its business with a certain degree of independence from the Sony Group.

In addition, Sony Corporation, which has obtained approval from FSA to remain a major SFH shareholder, recognizes and respects SFH's corporate philosophy.

Using the "Sony" Trade Name and Trademark

SFH and Group companies have entered into royalty agreements with Sony Corporation for the use of the "Sony" trade name and trademark. However, these agreements can be rescinded by Sony Corporation under certain conditions, such as its share of voting rights in SFH falling below a majority, or SFH's percentage ownership of the voting rights of Sony Financial Group companies dropping. Furthermore, Sony Financial Group companies pay royalty fees to Sony Corporation based on these agreements. The amount paid in fiscal 2017 was ¥2,460 million and the amount of these royalty fees has no material impact on the management base of the Sony Financial Group.

The Sony Financial Group believes that the use of the "Sony" trade name and trademark confers certain advantages, including stronger brand recognition, enhanced trustworthiness and higher employee motivation and awareness.

Transactions with Sony Corporation

SFH is a listed subsidiary of Sony Corporation. For this reason, SFH has set out a Policy Concerning Measures to Protect Minority Shareholders in Transactions with the Controlling Shareholder to protect the interests of minority shareholders.

Policy Concerning Measures to Protect Minority Shareholders in Transactions with Sony Corporation (Controlling Shareholder)

The Sony Financial Group's policy is to develop business while maintaining cooperative ties with the Sony Group. However, the Sony Financial Group believes that it has secured a certain degree of independence from the Sony Group, because it conducts independent business activities in line with its own management policies and strategies, and operates in different business fields than the Sony Group.

When entering into transactions with Sony Corporation (the controlling shareholder), the Sony Financial Group adequately confirms the necessity for such transactions and ensures that the conditions of such transactions do not differ markedly from the terms of ordinary transactions with third parties.

Status of Implementation

With regard to transactions with Sony Corporation, SFH confirms the necessity for such transactions and ensures that conditions do not differ markedly from the terms of ordinary transactions with third parties.

Note: SFH prepares and discloses Information Pertaining to Controlling Shareholders in accordance with the regulations of the Tokyo Stock Exchange. The document can be viewed on the Tokyo Stock Exchange's or SFH's website.

Compliance

Basic Stance on Compliance

SFH's broad definition of compliance is that it enforces compliance with the laws, regulations and social norms and manages business operations transparently and properly based on a strong sense of ethics. SFH considers compliance one of its top management priorities and, accordingly, it has systems in place to ensure that all executives and employees are fully aware of their duties and responsibilities.

While Group companies are responsible for establishing systems to enhance the effectiveness of compliance according to their specific industry and scale of business operations, SFH, as a financial holding company, undertakes the ongoing monitoring and promotion of the Group companies' compliance by providing advice, as needed, from the viewpoint of Group management.

► "Compliance" on SFH's website, <https://www.sonyfh.co.jp/en/company/compliance.html>

Compliance Activities at SFH

SFH considers the Sony Financial Group Code of Conduct the fundamental internal code that all executives and employees must observe. In addition, SFH's Board of Directors formulated a Compliance Manual* and a Compliance Program**. SFH strives to monitor adherence to stated practices and their implementation at all times, while putting in place and developing the SFH compliance system and working proactively to ensure its effective operation.

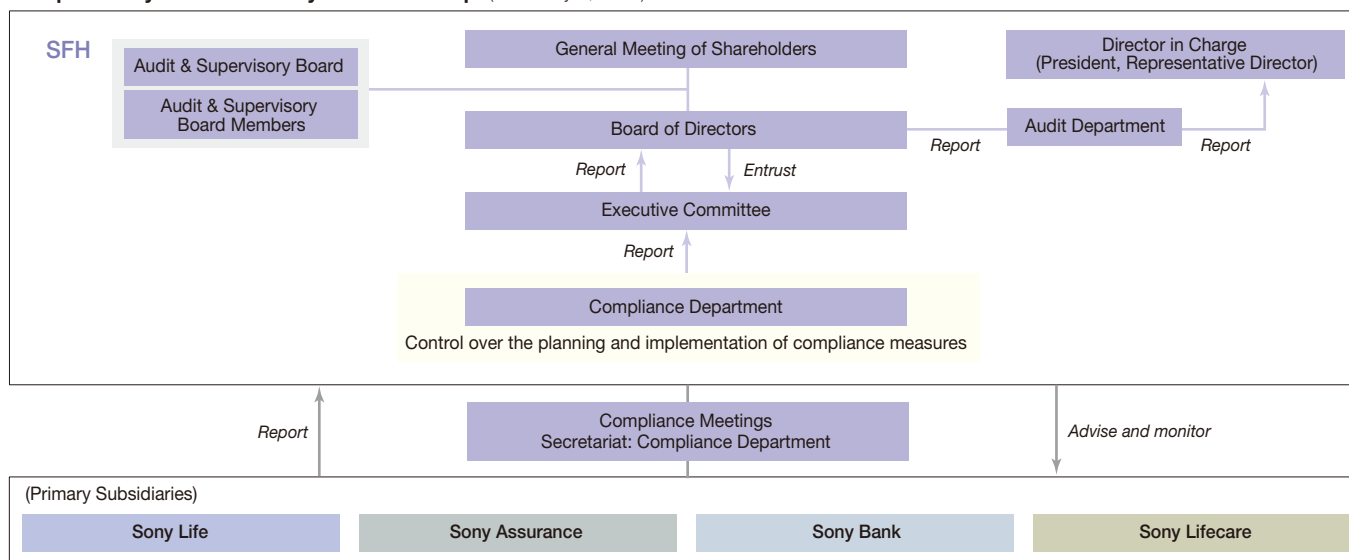
SFH also provides appropriate guidance and support in order to put in place and develop compliance systems and

operate them effectively at Group companies.

**The Compliance Manual outlines SFH's compliance system, as well as the Group's corporate philosophy, which executives and employees must understand, and laws and regulations, which they must comply with. The manual also establishes measures for handling behavior that conflicts with laws and regulations or behavior that raises compliance issues, and for confirming compliance status.*

***The Compliance Program is drafted annually, in principle, and defines a specific action plan for confirming compliance status, conducting training and for other related items.*

Compliance System of the Sony Financial Group (As of July 1, 2018)



Compliance Meetings

SFH holds regular compliance meetings with Group companies to conduct preliminary consultations and exchange information about the status of compliance dissemination and other issues. Members of the meeting include SFH and Sony Financial Group company executives, general managers and other staff in charge of compliance, depending on the agenda. The results of these important discussions are reported to the Board of Directors and at other important meetings.

Internal Hotline System

If executives and employees of SFH and its Group companies, as well as temporary employees and the employees of business partners, believe that business policies, operating activities or other activities of the companies breach (or could breach) respective laws and regulations, they can report their concerns by choosing and notifying the appropriate hotline desk at SFH or at any Sony Financial Group company or the Sony Group hotline desk. A total of approximately 40 reports were received by the hotline desk at SFH and Group companies in fiscal 2017, the majority of them related to the workplace environment, the organization's management and the course of business operations. SFH implements appropriate measures to protect those who contact these desks, while strictly managing and responding to the information provided.

Prevention of Insider Trading

SFH has established a Basic Group Policy on the Prevention of Insider Trading, whereby a structure for the prevention of insider trading has been developed at SFH and Group companies.

SFH monitors whether such a framework is adequately in place and working effectively in the prevention of insider trading at Group companies, and takes actions as necessary.

Privacy Policy

SFH has formulated a Privacy Policy governing the handling of personal information. It sets out SFH's policies on the acquisition and use of personal information for specific purposes. SFH has also established Rules Concerning Protection of Personal Information, which set out specific security control protocols. SFH monitors the effectiveness of Sony Financial Group companies' security control protocols.

SFH and its Group companies formulate and revise the Privacy Policy, and set up an organization to protect personal information, to which they appoint persons responsible. SFH and its Group companies also prepare a set of rules and a manual, as well as training programs on the handling of personal information and information security. These initiatives allow SFH and Group companies to maintain entrusted personal information so that it is accurate and up-to-date, and to protect personal information through steps to prevent use for other purposes, unauthorized access, leakage, falsification, loss, destruction and other incidents.

► **"Privacy Policy" on SFH's website**
https://www.sonyfh.co.jp/en/notice/privacy_policy/

Basic Group Policy on Eradicating Anti-social Forces

SFH has formulated a "Basic Group Policy on Eradicating Anti-social Forces," whereby SFH and Group companies have in place the structures necessary to eliminate anti-social forces. Efforts include setting up an organizational unit responsible for dealing with anti-social forces, appointing a person responsible for refusing unreasonable demands and gathering information on anti-social forces in collaboration with external specialized agencies. The Group works uniformly in its effort to eradicate anti-social forces.

► **"Basic Group Policy on Eradicating Anti-social Forces" on SFH's website**
<https://www.sonyfh.co.jp/en/company/compliance.html>

Conflicts of Interest Policy (Summary)

SFH formulated the Conflicts of Interest Policy* to ensure that customers' interests are not harmed by Group companies. The director in charge of the Compliance Department, as the manager responsible for managing conflicts of interest, shall require Group companies to take the following actions when he/she deems them necessary based on reports from Group companies, customer complaints or other sources.

- 1) Sever the flow of information between divisions that have potential conflicts of interest
- 2) Suspend the transaction concerned, or change the terms and conditions or method of the transaction
- 3) Disclose the fact or the possibilities of a conflict of interest to customers
- 4) Take other actions deemed necessary

SFH shall retain records that specify transactions to be managed and that are associated with actions taken to properly protect customers, for five years.

► **"Conflicts of Interest Policy" on SFH's website**
https://www.sonyfh.co.jp/en/company/data/conflicts_of_interest_policy.pdf

Risk Management

One of SFH's roles as a financial holding company is to further enhance and integrate Groupwide risk management by centralizing the Group's management resources. SFH has formulated the Basic Policy on Group Risk Management and develops a risk management structure by aligning it with Groupwide strategic objectives and management policies. In addition, SFH seeks to enhance the corporate value of the Group by tailoring operating subsidiaries' risk management to the types of risks inherent in their respective lines of business.

► "Risk Management" on SFH's website, https://www.sonyfh.co.jp/en/company/risk_management.html

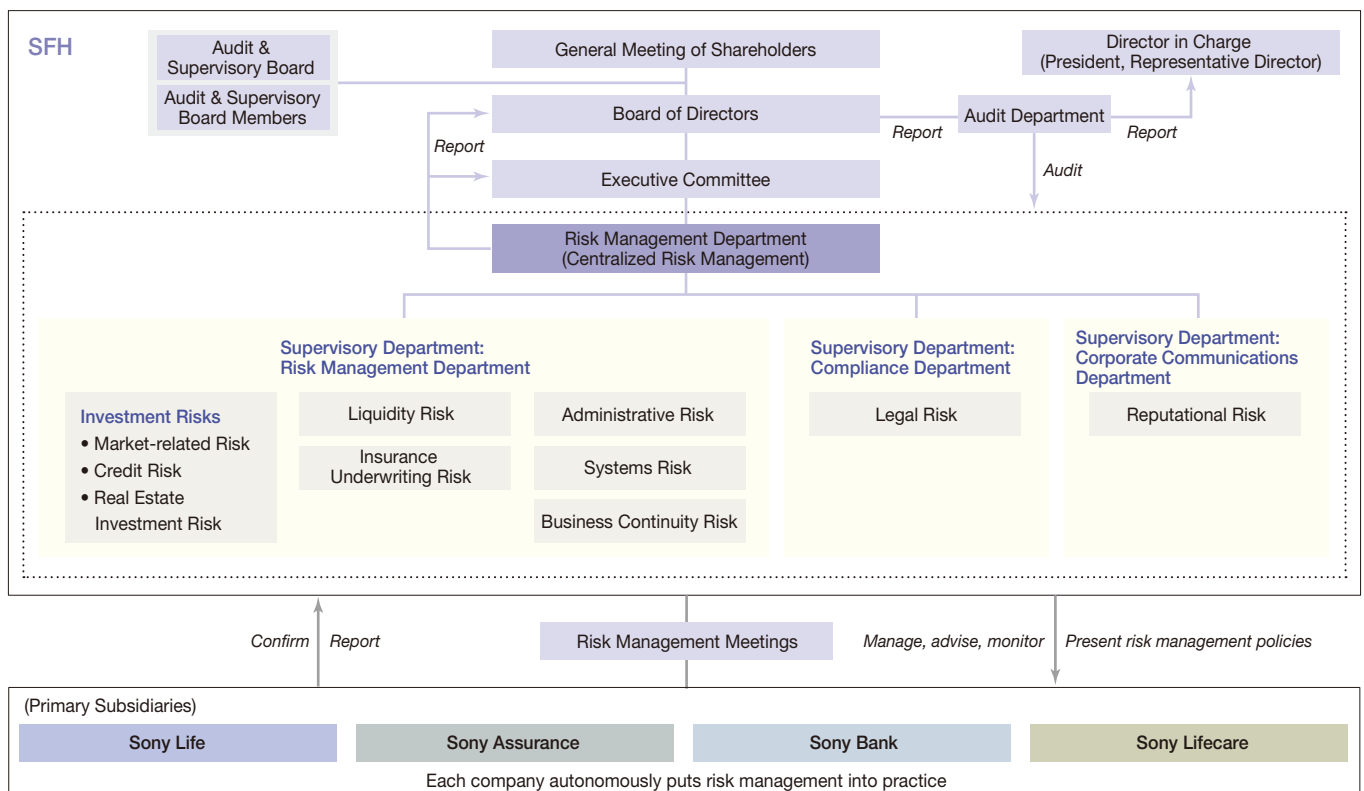
Approach to Risk Management by SFH and Group Companies

SFH has formulated the Fundamental Principles for Risk Management and communicates them to directors, employees, and throughout the Sony Financial Group. It also identifies the scope and types of risks of the Group companies, and establishes structures designed to manage such risks effectively. SFH's department in charge of risk management controls risks through monitoring and holding Risk Management Meetings with the subsidiaries' risk management divi-

sions. It also reports its findings on the state of risk management regularly to SFH's Board of Directors and Executive Committee.

The Group companies optimize types and definitions of their risks according to scale, characteristics and business model. They have established risk management frameworks, with the aim of autonomously assessing, monitoring, and managing these risks.

Risk Management Structure of the Sony Financial Group (As of July 1, 2018)



Types and Definitions of Risks

Type	Definition
Market-related Risk	Risks associated with losses due to changes in the value of assets and liabilities, including off-balance-sheet items, as a result of unfavorable fluctuations in interest rates, the value of securities held, exchange rates and other factors.
Credit Risk	Risks associated with losses due to declines or loss in the value of assets, including off-balance-sheet items, resulting from deterioration in the financial position of retail and corporate customers and other contracts entered into.
Real Estate Investment Risk	Risks associated with losses due to declines in the market value of owned real estate or in the profitability of real estate holdings on account of unfavorable trends in prices and rents, respectively.
Liquidity Risk	<p>Risks associated with losses are as follows:</p> <ul style="list-style-type: none"> • Cash Flow Risk Risks associated with losses due to our inability to make cash payments because of failure to maintain sufficient cash reserves at settlement, as well as risks associated with losses if SFH and Group companies are forced to raise funds under unfavorable conditions in order to fulfill cash payment obligations. • Market Liquidity Risk Risks associated with losses due to the Group's inability to conduct market transactions, in particular from an inability to unwind the Group's market position at a given time, as well as risks associated with losses if the Group is forced to complete transactions under unfavorable market conditions, in each case due to market turmoil or other factors.
Insurance Underwriting Risk	Risks affecting the Group due to significant differences between the assumptions SFH and Group companies use to establish appropriate insurance premium levels, including assumptions regarding the expected frequency and scale of insured events and future economic conditions.
Administrative Risk	Material and immaterial risks affecting the Group due to errors, misconduct, malfunction and other factors related to problems with the Group's internal administrative processes.
Systems Risk	Material and immaterial risks affecting the Group due to IT-system malfunction or breakdown, and improper use or leakage of confidential information stemming from IT-system problems.
Legal Risk	Risks affecting the Group due to violations of applicable laws, rules and regulations occurring during the course of business operations, as well as the risk of loss due to litigation or infringements of rights.
Reputational Risk	Material and immaterial risks associated with losses resulting from harm to the Group's reputation in the market and among customers as a result of unethical behavior, unfair business practices, improper disclosure or other factors.
Business Continuity Risk	The risk that SFH and Group companies will be unable to continue operations as a result of a deterioration in financial position, liquidity problems, system failures, scandals, disaster, accidents or other crises.

Note: As the operating and business environment changes, the Group companies' risk management departments review the risk types and definitions, amending them as appropriate for new conditions.

Contingency Management System

SFH has established a contingency plan as part of the Group's comprehensive policy on business continuity for times when ordinary business operations of SFH or Group companies are at risk due to accidents, system failures or other factors. Group companies have developed regulations, manuals and other guidelines reflecting their respective business volume and nature of business activities. SFH has a system in place whereby Group companies report to SFH when they are unable to continue ordinary business operations. If SFH determines that a reported situation is difficult to

address under the risk management system set forth in the Fundamental Principles for Risk Management, among other guidelines, SFH shall establish a contingency response headquarters led by the President and Representative Director of SFH and execute business continuity measures aimed at the full restoration of all operations.

Introducing the Group's ERM Framework

The Sony Financial Group introduced its ERM framework in fiscal 2016.

► Page 18: Vision and Strategies Sony Financial Group

Dialogue with Shareholders and Other Investors

For constructive dialogue with shareholders and other investors, SFH has formulated the Investor Relations (IR) Policy, established the department in charge of IR activities and assigned a corporate executive to oversee IR activities. The department in charge of IR strives to provide information related to the assessment of corporate value in a timely, accurate and fair manner to shareholders and other investors, as well as to facilitate sufficient dialogue with them, while sharing information appropriately with SFH's business execution departments and Group companies.

SFH conducts presentations and individual meetings in a variety of formats, and engages in dialogue, centered on the President and senior management. In addition, SFH strives toward enhanced disclosure of information via various IR tools (e.g., website information and annual reports).

Feedback and requests obtained through dialogue with shareholders and other investors are regularly reported to senior management to reflect on and improve their operations.

► “IR Policy” on SFH’s website, https://www.sonyfh.co.jp/en/financial_info/ir_policy.html

Investor Relations (IR) Initiatives in Fiscal 2017

SFH held its corporate strategy meeting for institutional investors and analysts with participation from top management at the Company and Group companies. In addition, top management at SFH made visits not only within Japan but also to the United Kingdom, the United States, Hong Kong and Singapore to have meetings individually with institutional investors and analysts. In November 2017, SFH held small meetings for domestic institutional investors with outside directors on the theme of corporate governance.

Also of note, the Company’s IR website earned high marks in several ranking surveys.



Corporate strategy meeting for domestic institutional investors and analysts (May 2018)

Record of IR Activities

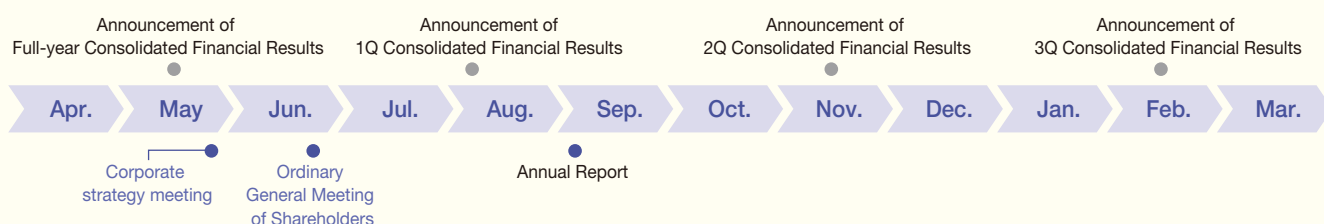
Earnings briefings (teleconferences with domestic institutional investors and analysts)	4 times
Corporate strategy meeting	1 time
Individual meetings with institutional investors and analysts	Approx. 190
Overseas IR meetings (UK, USA, Hong Kong, Singapore)	Total 4 times
Briefings for individual investors	9 times
Business briefings (small meetings for domestic institutional investors and analysts)	2 times

Facilitating the Exercise of Voting Rights

SFH undertakes the following activities as part of its efforts in creating an environment that activates the general meeting of shareholders and facilitates the exercise of voting rights.

- SFH sends out the Notice of Convocation for the general meeting of shareholders as early as possible.
- SFH sets the meeting date to avoid dates on which other companies' annual general meetings of shareholders are concentrated.
- SFH uses an electronic voting platform.
- SFH provides a partial translation of the Notice of Convocation in English.
- SFH utilizes its website to disclose the Notice of Convocation for the general meeting of shareholders and the final shareholder voting results.

Annual IR Schedule



Sony Financial Group's CSR

The Sony Financial Group believes that contributing to sustainable social development by engaging in sound, responsible operations that leverage its characteristics constitutes the core of its corporate activities. With the highest level of ethics and a strong sense of purpose, we strive to continuously improve corporate value and seek to be the most trusted financial services group by providing financial services that reflect customers' real needs.

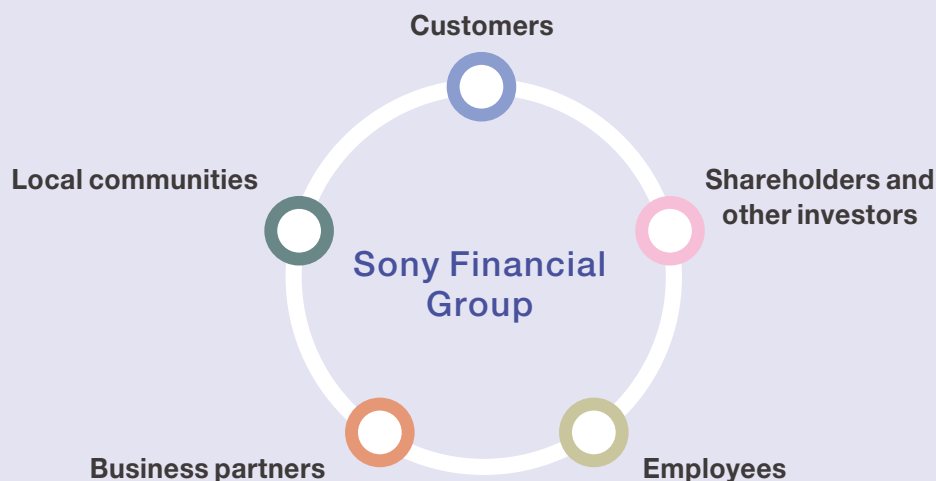
The Sony Financial Group has formulated the following Basic CSR Policy, and each company in the Group proactively conducts various CSR initiatives through its business activities. The various departments in SFH exchange information with Group companies to monitor their CSR initiatives.

Basic CSR Policy

The Sony Financial Group believes that a special commitment to the public good is demanded of a financial services company, and seeks to achieve its corporate vision and thus give back to society by upholding the highest level of ethics and a strong sense of purpose.

1. We recognize that a corporation's fundamental responsibility to society is contributing to economic growth through sound business activities, and we will fulfill this responsibility by providing high-value-added products and high-quality services.
2. We will esteem our relationships with customers, shareholders, employees, business partners, local communities and all other stakeholders in the Sony Financial Group, and we will make management decisions while considering the impact on each stakeholder group.
3. In carrying out business operations, we will strictly comply with laws, regulations, company rules, policies and other requirements.
4. We will respect the human rights of all and ensure sound employment and labor practices.
5. In all aspects of our business activities we will act in consideration of protecting the environment to help bring about a sustainable society.
6. We will disclose information in an appropriate and timely manner to obtain the trust and support of the Sony Financial Group's stakeholders.

Sony Financial Group's Stakeholders



Stewardship Code

As an institutional investor, Sony Life has announced its adoption of Japan's Stewardship Code—a set of principles guiding the responsibilities of institutional investors.

Note: Please refer to the following website for information about Sony Life's basic stance and exercise of voting rights with respect to Japan's Stewardship Code (Japanese only):
<https://www.sonylife.co.jp/company/management/jsc/>

Communication with Stakeholders

○ With Our Customers—Approaches Utilizing Customer Feedback—

Sony Financial Group companies have in place a framework under which feedback received from each company's customers on a daily basis is compiled and analyzed by divisions in charge of promoting customer satisfaction and raising quality. This feedback is reported to management and used to make recommendations on operational improvements and product and service enhancements. As a result of this approach, the Sony Financial Group's three businesses—life insurance, non-life insurance and banking—have received high appraisals in customer satisfaction surveys conducted by outside institutions and the media. In addition, Sony Financial Group companies have worked to raise the quality of products and services to further satisfy customers.

● Sony Life

Sony Life conducts annual customer awareness surveys by post, and in fiscal 2017 received valuable feedback from 6,551 policyholders. Also, the company has been conducting customer satisfaction surveys for Lifeplanner channel policyholders on the services provided by Lifeplanner sales employees in charge, thereby striving to further raise the quality of service.

Sony Life analyzes feedback from customers, identifying and studying issues that it shares with various internal departments in an effort to improve service.

Launch of Proxy Acquisition of Medical Certificates Service

When making insurance claims and applying for benefits, customers normally have to obtain a medical certificate at a medical institution. However, there have been cases of customers, due to problems such as physical disabilities, being unable to visit medical institutions to obtain a medical certificate and thus having to wait a long time to make an insurance claim or apply for benefits. In response, Sony Life launched a service for customers certified as having care needs or physical disabilities to obtain the necessary medical certificate to make an insurance claim and apply for benefits. The service can help reduce such customers' burden of insurance claim procedures.

Launch of Direct Benefit Claims Payment Service to Medical Facilities Providing Advanced Medical Care

Fees for professional advanced medical treatments are not covered by public health insurance, and patients bear the full costs. Therefore, in a routine claim procedure, a customer has to pay high-priced professional fees prior to receiving reimbursement under our insurance. To alleviate the temporary financial burden of such customers, Sony Life launched a direct benefit payment service for advanced medical treatments, particularly heavy particle radio and proton beam therapy, which have high professional fees, to make direct payments to medical facilities providing such treatment.

● Sony Assurance

Leveraging its unique advantage as an insurer that communicates directly with customers, Sony Assurance listens closely to its customers and strives to improve services as required and provides updates on specific improvement measures via its website. In addition, customer feedback is centrally managed, compiled and analyzed on a monthly basis by the Customer Response Service Department. Feedback is reported

to management every quarter, and in particularly important cases, detailed reports are made on the causes of incidents and countermeasures are recommended as necessary. The feedback is also passed on to relevant departments, along with instructions on improvements and other matters. Based on this feedback, the company encourages daily efforts to enhance services and provide services of higher quality in meeting the needs of its customers. This commitment has earned Sony Assurance a solid reputation in customer satisfaction surveys conducted by third parties.

Launch of SECOM Accident On-site Rush Service

In response to customers who want insurance to provide immediate support following an accident, Sony Assurance launched "SECOM Accident On-site Rush Service" in collaboration with SECOM CO., LTD., to all customers for free. The service enables SECOM's emergency response personnel to rush to an accident site 24/7, to support customers needing help, contact the police and arrange for ambulances and tow trucks. Through this service, Sony Assurance believes it can more than ever before reduce customers' uneasiness after an accident.

▶ Page 44: Review of Operations and Analysis of Operating Performance Non-life Insurance Business

● Sony Bank

To heed feedback from customers and provide even better products and services, Sony Bank has been promoting VOC (Voice of Customer) activities with the aim of reflecting opinions and requests from customers in measures centered on the customer office. Specific feedback and related details are available on the Voice of Customer webpage of Sony Bank's website.

New Approach for LGBT* on Mortgage Loans

Same-sex partners still face many financial challenges in areas such as taxation and inheritance. Sony Bank has responded so that same-sex partners can use a mortgage pair loan** and provision of collateral*** from April 2018. Respecting diversity, Sony Bank will continue to respond to the diverse funding needs of customers.

* LGBT is an acronym for lesbian, gay, bisexual and transgender.

** A pair loan is a form of mortgage loan in which multiple borrowers (obligors) enter loan contracts for the same property.

*** Provision of collateral is a practice in which a co-owner of property provides equity as collateral.

○ With Business Partners

The Sony Financial Group seeks to promote fair and equitable transactions with institutions that provide financial products and services and with suppliers and vendors of goods and services, along with insurance agencies, and maintain healthy relationships with all of its business partners and thereby contribute to the sustainable development of society.

Fair Trade

The Sony Financial Group has established the Conflicts of Interest Policy, the Basic Policy on Eradicating Anti-social Forces and the Policy for Preventing Corruption. As stated in our code of conduct, we comply with all applicable laws and regulations and conduct business activities ethically and in good faith. We engage in fair trade practices with all business partners on this basis.

Cooperation with the Sony Group

The Sony Financial Group ensures a certain degree of independence from the Sony Group and maintains a fair, equitable and healthy relationship. Through this group-group connection, the Sony Financial Group will draw on the advanced technological expertise of the Sony Group and promote cooperation to provide high-quality services to its customers.

Partners (Independent Agencies)

Sony Life's Partners (Sony Life refers to independent agencies as "Partners" not only because they are partners from a business standpoint but also because they are the lifelong partners of customers) constitute a critically important sales channel alongside Lifeplanner sales employees. Sony Life provides various systematic training programs for Partners and training related to products, along with expertise on sales tailored to customer needs based on sales processes developed by the Company over the years.

To provide high-quality services closely tied to regional communities, Sony Life's Partners around the country faithfully fulfill their responsibilities as Partners to customers.

○ With Local Communities—Social Contribution Activities—

Sony Life Volunteer Club

Social contribution is a well-established part of the corporate culture at Sony Life, where many employees discover the value of volunteer activities and contribute to society under the slogan "One Love One Trust." For example, the Sony Life Volunteer Club was established by Sony Life employees in the wake of the Great Hanshin–Awaji Earthquake, and the Reconstruction Support Council was set up right after the Great East Japan Earthquake. In both groups, activities are undertaken by individuals, using donations from employees, and it is the members themselves who come up with and carry out a wide range of initiatives.

Selection of Major Activities (By Sony Life Volunteer Club)

- Continuing support for the elderly victims of the Great Hanshin–Awaji Earthquake
- Support for the Special Olympics Nippon Foundation* event
- Hosting youth education events at care houses
- Support for the Relay for Life** event
- Activities to support reconstruction after the Great East Japan Earthquake
- Support activities for areas affected by the Kumamoto earthquakes and heavy rainfall in northern Kyushu

*"Special Olympics Nippon" is a public-interest incorporated foundation that provides opportunities for daily sports training to intellectually challenged people throughout the year while promoting their participation in athletic competitions that allow them to demonstrate their achievements.

**"Relay for Life" is a worldwide charity event in which persons battling cancer, their families and those who have lost loved ones to the disease walk around a track for 24 hours to help promote the eradication of cancer.

Communication with Stakeholders

Life-planning Course

Since fiscal 2006, Sony Life has conducted life-planning courses, a hands-on learning program for students nationwide. Courses are conducted by Lifeplanner sales employees. The program is designed to foster students' appreciation for the importance of leading a well-planned life, and working hard toward goals.

This program was launched following feedback from senior high school teachers indicating that "by utilizing life planning, we want to create opportunities for students to set future goals." It is an experiential, classroom-based program in which students, with their whole lives ahead of them, visualize their personal dreams and aspirations. Lifeplanner sales employees serve as lecturers, providing advice on the funds necessary to achieve these and other goals, and offering support to enable students to see if their life plans are achievable from an economic standpoint.

Feedback from the students has been positive, with comments such as "With effort and ingenuity, I felt confident about realizing my dream," "It was a good opportunity to think about my future lifestyle and career" and "I felt grateful that my parents are making ends meet to cover my living and educational expenses."

By providing opportunities to think about life and money, Sony Life hopes many members of the next generation are able to make their own choices in their paths of life.



Life-planning Course given by Sony Life

Life-planning Course		
FY2017	Number of schools	158
Cumulative total	Number of schools	1,222 (cumulative)
(As of July 1, 2018)	Number of participating students	129,423

Shimajiro Hospital Visit Project "Issho ni Waraou ★ Caravan"

As a joint project with Benesse Corporation's preschooler education and life support brand, Sony Life launched a project titled "Issho ni Waraou (Let's Smile Together) ★ Caravan" in April 2017, where the brand's popular character Shimajiro visits children's hospitals to encourage them.

In addition, Sony Life has produced "Kosodate Guide" (a child-care guidebook) with Kodomo Challenge that provides useful information for parents of children from infancy to preschool. Through various joint initiatives, Sony Life aims to encourage children's growth and dreams.

Matching Gift System

Sony Bank has introduced a "matching gift system" whereby a donation is made to volunteer groups according to the number of hours an employee spends volunteering on days off from work. In addition, Sony Bank has joined a volunteer center in Chiyoda Ward, Tokyo, to support the volunteer activities of its employees.

Sony Financial Group's Donations and Grants for Fiscal 2017

Main Recipients of Donations and Other Assistance	Amount
NPO Sorabear Foundation	¥11,651,454
The Eye Mate, Inc. and its supporting groups	6,793,302
Special Olympics Nippon Foundation	5,500,000
Purchase of green power and J-Credits in fiscal 2017	3,344,565
Forest Conservation Project in Sumatra, Indonesia	1,432,480
The Tokyo Philharmonic Orchestra Public Interest Incorporated Foundation	1,000,000
Sony Education Foundation	1,000,000
Project Hand in Hand Japan	1,000,000
Others (incorporated associations, incorporated foundations, academic societies and others)	2,635,250
Total	¥34,357,051

With Our Employees—Approaches for the Success of All Employees—

Promotion of Diversity

The Sony Financial Group places significant emphasis on a spirit of diversity, to better address various changes in the environment surrounding customers and their diverse value perceptions and to generate new value from different viewpoints. As the number of employees increases, so does diversity within the Group from a human resources perspective, with a greater number of women, foreign nationals and the mentally and physically challenged within the Group as well as more employees who are dealing with a range of situations, including childcare and nursing care. Various approaches are being applied to address these issues.

Work-life Balance

The Sony Financial Group promotes initiatives to help balance careers with private lives. Since its establishment, Sony Life has had a system in place that goes beyond what is required by law to enable employees who are raising children to continue working. The company was recognized by the Ministry of Health, Labour and Welfare as a company actively supporting efforts to raise the next generation of children. Moreover, Sony Assurance became the first direct non-life insurer to receive this certification*. Sony Bank has implemented an action plan to support employees balancing work and childcare and is providing a guidebook to publicize the social security system, etc., that is available for childbirth and childcare. Going forward, by continuing to help employees balance child-raising responsibilities with work, Group companies will remain focused on proactively creating a work environment that is conducive to healthy childbirth and parenting.

*Sony Assurance is the first direct non-life insurer to receive the certification based on a survey by Sony Assurance conducted on August 29, 2012. Only those companies that have received the Kurumin logo certification and have consented to be listed on the Ministry of Health, Labour and Welfare's website were surveyed. A direct non-life insurer refers to a Japanese non-life insurer that sells insurance products and provides services directly to customers without relying primarily on an insurance agency.

Initiatives for Fiscal 2020

Each Group company is working to achieve the following targets by March 31, 2021.

Sony Life	Average monthly overtime per employee
	20 hours or less
Sony Assurance	Percentage of male employees taking childcare leave
	13% or higher
Sony Bank	Percentage of employees taking vacation leave
	75% or higher
Sony Assurance	Average monthly overtime per manager/supervisor
	30 hours or less

Return-to-work Seminar for Women on Maternity Leave

Sony Life holds a return-to-work seminar to support women in their careers and their lives as mothers. Nearly all women taking maternity leave successfully return to work after childbirth. In the seminar, the department in charge explains to employees the process leading up to their return to work and the system to support working and parenting. The seminar is also an opportunity for women to interact with others who have already gone through the process, helping to eliminate the apprehension that some women on maternity leave may have, thereby leading to a successful return to work.



Return-to-work seminar

Promotion of Women's Empowerment

For future growth, the Sony Financial Group regards its female employees as valuable human resources. When Sony Life was established, a female sales force was the mainstream in Japan's life insurance industry. Nevertheless, Sony Life took the strategically bold step of deploying male Lifeplanner sales employees at the core of its sales operations. As a result, it achieved growth through the sale of policies tailored to customer needs based on the sophisticated knowledge and consulting capabilities of its life insurance/financial professionals. However, to propose a wide range of solutions to the diversification of customers' lifestyles as times change and in search of excellent talent with a variety of careers, Sony Life has promoted the employment of female Lifeplanner sales personnel, offering them various kinds of support to expand their areas of activity. For example, Sony Life has promoted a cooperative study program for female Lifeplanner sales employees and implemented programs that enable women to maintain their jobs while also focusing on childcare and nursing care. Thus, Sony Life has concentrated on creating an employee-friendly working environment.

Initiatives for Fiscal 2020

Each Group company is working to achieve the following targets for female managers by March 31, 2021.

Sony Life	Percentage of females in management positions*1
	20% or higher
Sony Assurance	Percentage of females in management positions*2
	15% or higher
Sony Bank	Percentage of females in management positions*3
	15% or higher

*1 Head office manager, assistant manager

*2 Assistant manager or higher

*3 Senior manager or higher

Communication with Stakeholders

Employee Education

In addition to training at each Group company, training is jointly conducted at the Group level to encourage everyone to acquire a wider understanding of the Group's business pursuits overall. These programs include life-planning courses, explanations of each company's business activities and workplace tours. Orientation for new graduates and training for employees in their second year are also conducted together as a Group.

Sample Programs and Initiatives for the Development of Employees

Self-development Program	Group training sessions and opportunities to take correspondence courses for employees working independently to develop their skills.
Management Skill-development Program	Conducted jointly by Sony Financial Group companies as a part of efforts to improve the managerial capabilities of management-level employees.
In-house Inter-departmental Training Program	Work experience in different departments for a certain period of time allowing for better understanding of different operations or to achieve career plan objectives.
Training of Global Human Resources	With an eye on overseas business expansion in the future, the Sony Financial Group is conducting initiatives, such as overseas actuary training.

Education and Training of Lifeplanner Sales Employees

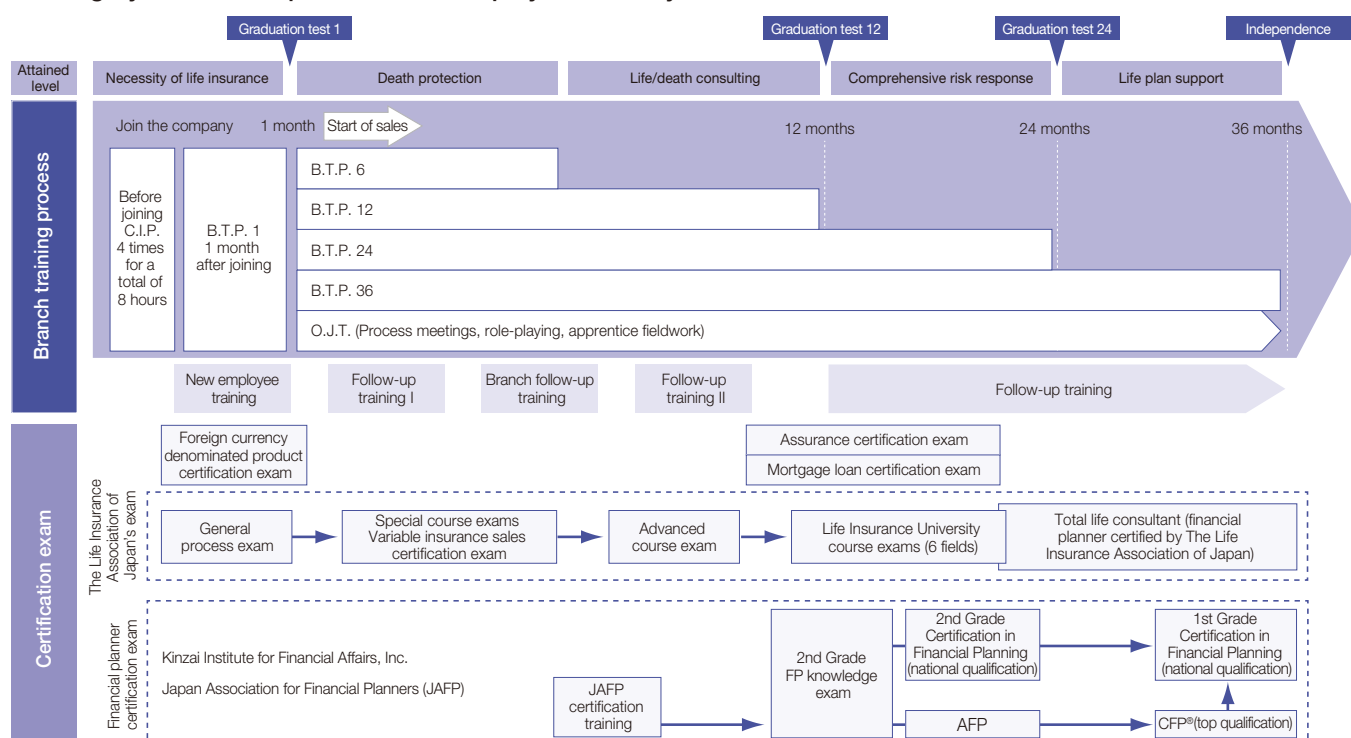
After joining the Company, Lifeplanner sales employees at Sony Life take a three-year B.T.P. (basic training program) to develop the mental attitude, knowledge, skills and conduct required of a Lifeplanner sales employee.

Through B.T.P., Lifeplanner sales employees are educated and trained to communicate to customers the necessity and importance of life insurance, listen to customers talk about cherished ideals, concerns and needs, propose reasonable life insurance that can safely protect them at any time and support customers through all stages of life with high-quality services even after a contract has been made.

Levels of knowledge and skills learned in training are confirmed by graduation tests conducted every training period. The passing of the graduation test is also a prerequisite for taking other tests such as an assurance sales employee qualification examination for handling automobile insurance at Sony Assurance and a banking agency business qualification examination for handling mortgage loans, etc., at Sony Bank, providing sales employees with a definitive base as Lifeplanner sales employees on which they are able to advance their career and grow.

In addition, through OJT activities such as process meetings, role-playing and apprentice fieldwork with office managers on a regular basis, Lifeplanner sales employees can connect what they learned in training with practical use. As Lifeplanner sales employees, they are trained to provide a higher quality of service to their customers.

Training System for Lifeplanner Sales Employees at Sony Life (as of July 1, 2018)



Environmental Protection Activities

The Sony Financial Group recognizes that humankind faces a critical challenge in protecting the global environment. The major subsidiaries have each established environmental policies, and through everyday business activities, they carry out initiatives that give due consideration to environmental protection.

Use of Green Power

Sony Life became the first Japanese life insurance company to introduce a Green Power Certification System, which enables companies to use green power in their business activities and thus reduce CO₂ emissions. Sony Assurance and Sony Bank adopt the J-Credit Scheme* to help reduce CO₂ emissions. Sony Bank offsets 100% of CO₂ emissions caused by its power usage (excluding the portion of power usage in outsourced operations) as a "Carbon Offset Bank."



In this way, each Group company contributes to the wider use of natural sources of power such as solar and wind power, geothermal power, and biomass. In fiscal 2017, the entire Group purchased green power certificates and J-Credits equivalent to 1,560 MWh.

**The J-Credit Scheme is a system whereby the government certifies credits for the reduction or absorption of greenhouse gas emissions such as CO₂ through measures including the introduction of energy-saving equipment or forest management.*

Acquisition of ISO 14001 Certification

Sony Life, Sony Assurance and Sony Bank* have acquired ISO 14001 certification, the international standard for environmental management systems. All three companies promote energy-saving and natural resource-saving activities such as targets for reduced energy and photocopier paper usage, and green procurement to raise the percentage of eco-products used in office supplies.

**ISO 14001 certification covers the head offices of Sony Life and Sony Assurance, along with Sony Bank's head office and CONSULTING PLAZA. The Sony Financial Group conducts regular internal environmental audits of ISO 14001-certified offices, and the audit results are reported to top management.*

Donating to the Sorabear Foundation

Automobile insurance, one of Sony Assurance's mainstay products, supports the automotive lifestyles of its customers. While automobiles add affluence and convenience to our lives, exhaust gases emitted while driving are a cause of global warming. For this reason, Sony Assurance considers promoting initiatives to prevent global warming, even a little, is its social responsibility. Teaming up with the Sorabear Foundation, a non-profit organization that promotes the spread of renewable energies and environmental education, Sony Assurance has carried out a program to install solar power generators at kindergartens since 2009.

Since 2010, Sony Life has also participated in the activities of the Sorabear Foundation, making donations equivalent to some printing expenses, etc., which has been reduced with the introduction of the CD-ROM version (since 2010) and the website version (since 2017) of "guidebook/policy conditions of insurance contracts."

Donations to the Sorabear Foundation from Sony Assurance and Sony Life are used to provide Sorabear with power generation equipment—solar power generators—for kindergartens and nursery schools around the country. In fiscal 2017, Sony Assurance made a donation to a nursery school in Yamaguchi prefecture and to a kindergarten in Kyoto prefecture, while Sony Life donated to a kindergarten in Fukui prefecture. In the program, Sony Assurance has donated a total of 22 solar power generators, and Sony Life a total of eight solar power generators (as of July 1, 2018).



Ceremony for the donation of Sorabear power generation equipment to the Incorporated School of Kusaka Gakuen, Saienji Kindergarten, in Yamaguchi, in June 2017.

Reducing CO₂ Emissions by Switching to Paperless Contract Procedures and Electronic Issuance of Documents

The Sony Financial Group has been striving to conserve paper resources and cut down on CO₂ emissions related to postal mailings by shifting to paperless documentation for certain contract procedures and transactions.

Sony Life has adopted paperless application procedures (for conservation) after the initial contract has been made, such as applications for new contracts, changes in payment methods, changes in contract contents, etc. As a result, Sony Life has reduced the use of copier paper.

Sony Assurance has made it possible to apply for automobile insurance policies and medical policies online, thereby avoiding the need for printing and mailing of insurance application forms and other documents. Also of note, Sony Assurance takes an environmentally conscious approach to resources, exemplified by a paperless insurance certificate discount of ¥500 on automobile insurance premiums when customers who buy a policy online opt not to have certificates of insurance and other documents printed and mailed.

As an Internet bank, Sony Bank aims to use as little paper as possible when dealing with customers with such things as transaction slips, passbooks and explanations of products. Sony Bank has promoted a switch to electronic delivery of investment trust transaction documents that have previously been written.

Corporate Section

Corporate Profile

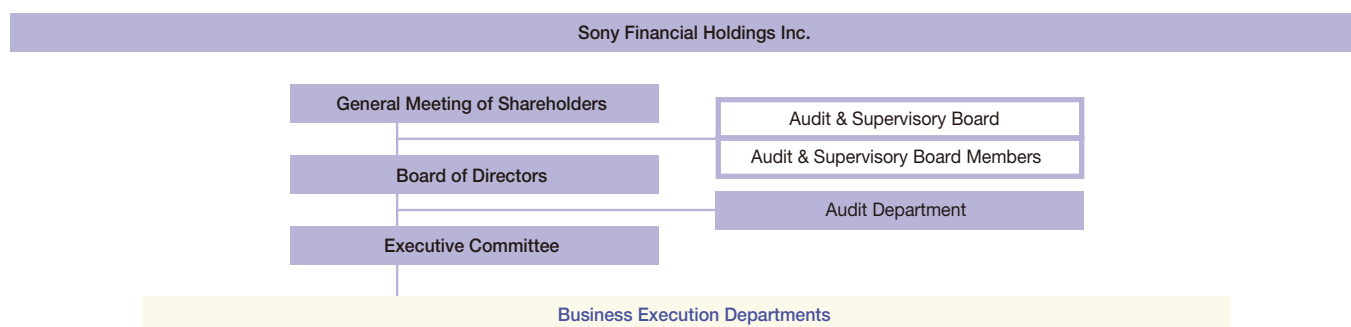
(As of March 31, 2018)

Name	Sony Financial Holdings Inc.
Established	April 1, 2004
Head office	1-9-2, Otemachi, Chiyoda-ku, Tokyo, Japan
Business	Management control of subsidiaries (life insurance companies, a non-life insurance company, a bank, and others) specified by the Insurance Business Act of Japan and the Banking Act of Japan and all duties incidental to that role.
Number of employees	SFH: 78 (Consolidated: 10,719, Life insurance business: 8,246, Non-life insurance business: 1,234, Banking business: 591, Others: 587, Parent: 61)
Common stock	¥19,927 million

Notes: 1. The number of employees of SFH includes 11 belonging to the life insurance business, 1 belonging to the non-life insurance business, 5 belonging to the banking business, and 61 belonging to the parent.
2. The number of employees stated in "Others" is the number of employees belonging to the nursing care business at subsidiaries.

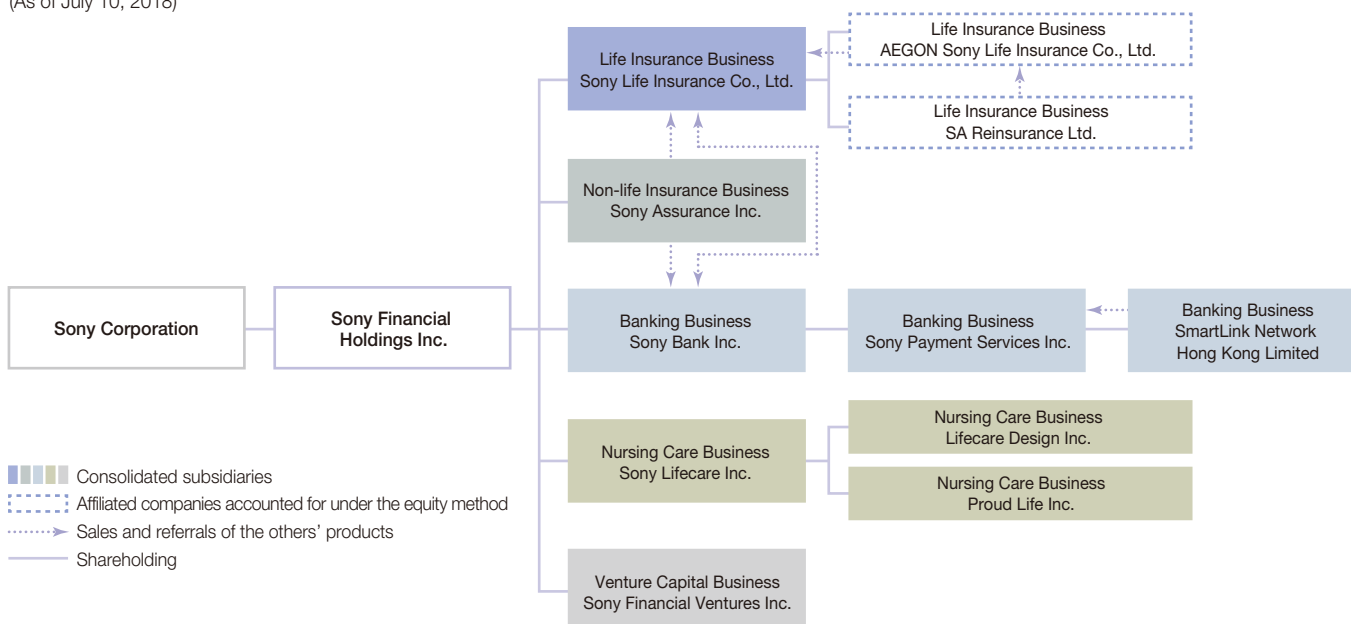
Organizational Chart

(As of July 1, 2018)



Sony Financial Group Organizational Chart of Business Operations

(As of July 10, 2018)



Profiles of Group Companies

(As of July 10, 2018)

Life Insurance Business

Name	Established	Head office	Business	Common stock	Share ownership
Sony Life Insurance Co., Ltd.	August 10, 1979	1-9-2, Otemachi, Chiyoda-ku, Tokyo, Japan	Life insurance business	¥70,000 million	Sony Financial Holdings Inc. 100%
— AEGON Sony Life Insurance Co., Ltd.	August 29, 2007	5-52-2, Jingumae, Shibuya-ku, Tokyo, Japan	Life insurance business	¥18,450 million	Sony Life Insurance Co., Ltd. 50% AEGON International B.V. 50%
— SA Reinsurance Ltd.	October 29, 2009	British Bermuda	Reinsurance business	¥15,900 million	Sony Life Insurance Co., Ltd. 50% AEGON International B.V. 50%

Non-life Insurance Business

Name	Established	Head office	Business	Common stock	Share ownership
Sony Assurance Inc.	June 10, 1998	5-37-1, Kamata, Ota-ku, Tokyo, Japan	Non-life insurance business	¥20,000 million	Sony Financial Holdings Inc. 100%

Banking Business

Name	Established	Head office	Business	Common stock	Share ownership
Sony Bank Inc.	April 2, 2001	2-1-6, Uchisaiwaicho, Chiyoda-ku, Tokyo, Japan	Banking business	¥31,000 million	Sony Financial Holdings Inc. 100%
— Sony Payment Services Inc.	September 1, 2006	1-3-13, Takanawa, Minato-ku, Tokyo, Japan	Credit card settlement services	¥488 million	Sony Bank Inc. 57%, 4 other companies
— SmartLink Network Hong Kong Limited	February 27, 2013	Hong Kong, China	Credit card settlement services	¥13 million	Sony Payment Services Inc. 100%

Other (Nursing Care Business)

Name	Established	Head office	Business	Common stock	Share ownership
Sony Lifecare Inc.	April 1, 2014	3-11-2, Shibuya, Shibuya-ku, Tokyo, Japan	Management control of companies handling the nursing care business, and other duties incidental to that role	¥2,625 million	Sony Financial Holdings Inc. 100%
— Lifecare Design Inc.	October 5, 1999	3-11-2, Shibuya, Shibuya-ku, Tokyo, Japan	Planning, development and operation of nursing care homes	¥1,495 million	Sony Lifecare Inc. 100%
— Proud Life Inc.	July 3, 2006	2-8-4, Kitasaiwai, Nishi-ku, Yokohama, Kanagawa Prefecture, Japan	Management, operation and planning of nursing care homes such as "Hanakotoba"	¥3 million	Sony Lifecare Inc. 100%

Other (Venture Capital Business)

Name	Established	Head office	Business	Common stock	Share ownership
Sony Financial Ventures Inc.	July 10, 2018	1-9-2, Otemachi, Chiyoda-ku, Tokyo, Japan	Venture capital business	¥10 million	Sony Financial Holdings Inc. 100%

Stock Information

Information on Common Stock, Shares Outstanding

(As of March 31, 2018)

Date	Increase in Issued Shares	Total Number of Shares Issued	Increase in Common Stock (Millions of yen)	Common Stock (Millions of yen)	Increase in Capital Surplus (Millions of yen)	Capital Surplus (Millions of yen)
August 7, 2017 ^(Note)	27,513	435,027,513	27	19,927	27	195,304

Note: Issued new shares as restricted stock compensation (third-party allocation). The issue price per share was ¥2,020 and the amount added to common stock was ¥1,010.

Stock Exchange Listing

(As of July 1, 2018)

The First Section of the Tokyo Stock Exchange (Securities code: 8729)

Major Shareholders

(As of March 31, 2018)

Name	Number of Shares Held	Percentage of Ownership (excluding treasury stocks)
Sony Corporation	274,050,000	63.00
The Master Trust Bank of Japan, Ltd. (Trust Account)	14,265,800	3.27
Japan Trustee Services Bank, Ltd. (Trust Account)	13,662,400	3.14
STATE STREET BANK AND TRUST COMPANY	13,272,066	3.05
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	3,414,600	0.78
NOMURA PB NOMINEES LIMITED OMNIBUS-MARGIN (CASHPB)	3,394,680	0.78
GOLDMAN, SACHS & CO. REG	3,129,914	0.71
Japan Trustee Services Bank, Ltd. (Trust Account 5)	3,096,700	0.71
JP MORGAN CHASE BANK 380055	3,001,173	0.68
STATE STREET BANK WEST CLIENT – TREATY 505234	2,885,906	0.66

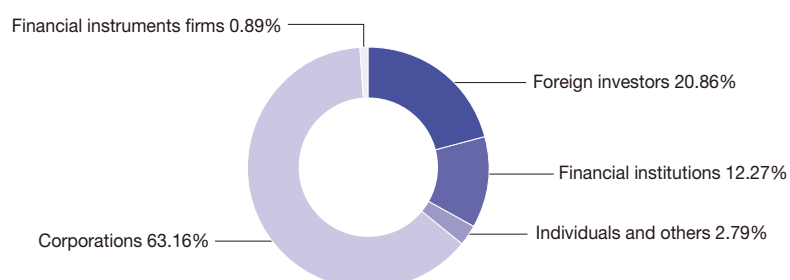
Distribution of Share Ownership

(As of March 31, 2018)

By shareholder type

Total number of shares issued

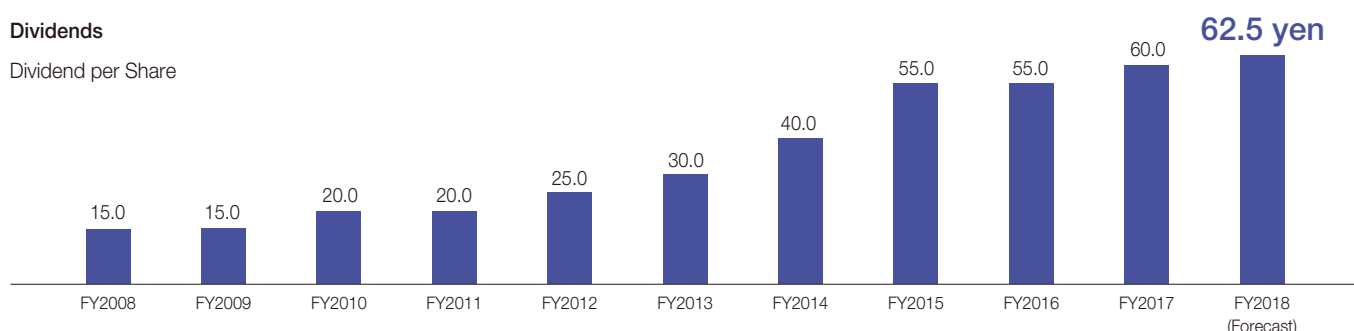
435,027,513



Dividend Policy

Dividends

Dividend per Share



Note: Although a stock split was conducted during fiscal 2011, the dividend per share figures are calculated assuming that the stock split was conducted at the beginning of fiscal 2008.

Basic Policy on Returning Profits to Shareholders

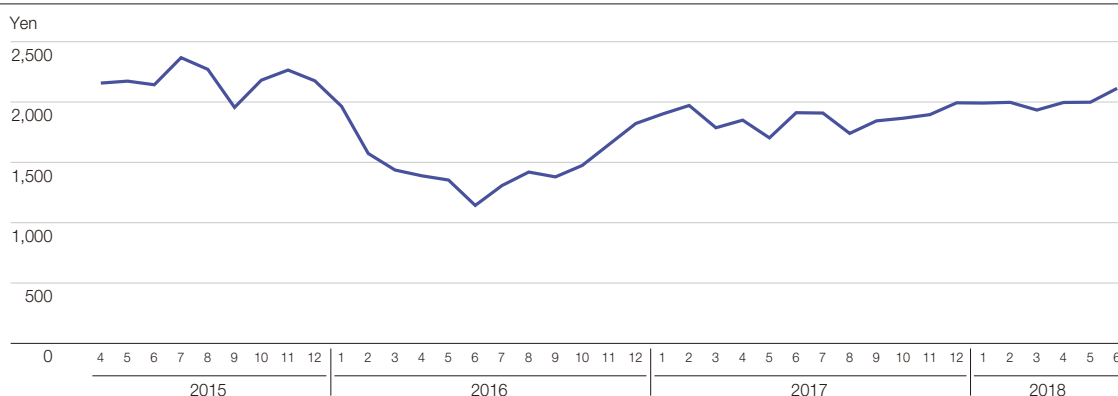
SFH aims for steady increases in dividends in line with earnings growth over the medium to long term, while securing sufficient internal reserves to ensure the financial soundness of Group companies and to invest in growth fields. Management will examine earnings growth over the medium to long term by placing more importance on economic value-based profit indicators that are more suitable for evaluating the growth of the life insurance business, in addition to statutory profit. Furthermore, management will determine specific dividend amounts for each year by taking into account a comprehensive range of factors surrounding the Sony Financial Group.

Dividends for fiscal 2017 were ¥60 per share, an increase of ¥5. This was approved by resolution of the General Meeting of Shareholders on June 22, 2018.

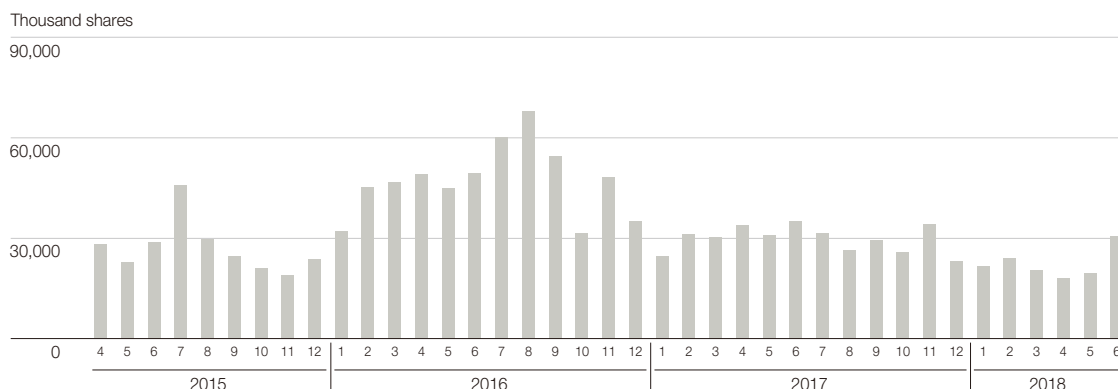
For fiscal 2018, after considering the business environment, the expansion of the Group's business volume and the level of economic value-based profit growth, SFH forecasts dividends of ¥62.5 per share, an increase of ¥2.5 from the dividends of ¥60 per share for fiscal 2017.

SFH pays dividends once a year as a year-end dividend. The Articles of Incorporation of SFH stipulate that it may also issue an interim dividend. As for who makes decisions about the payment of dividends, the General Meeting of Shareholders decides the year-end dividend, while the Board of Directors decides the interim dividend.

Share Price



Trading Volume



Financial Section

SFH Consolidated Financial Statements	Consolidated Balance Sheets	88
	Consolidated Statements of Income and Consolidated Statements of Comprehensive Income	90
	Consolidated Statements of Changes in Net Assets	93
	Consolidated Statements of Cash Flows	95
	Notes to the Consolidated Financial Statements (For the year ended March 31, 2018)	96
MCEV Results for Sony Life as of March 31, 2018		116

SFH Consolidated Financial Statements

Consolidated Balance Sheets

Sony Financial Holdings Inc.

As of March 31, 2017 and 2018

	Millions of yen	
	2017	2018
Assets		
Cash and due from banks	¥ 206,481	¥ 327,633
Call loans and bills bought	61,900	65,500
Monetary claims purchased	573	5,378
Money held in trust	296,877	291,582
Securities	8,857,436	9,581,206
Loans	1,720,004	1,785,877
Tangible fixed assets	123,614	106,051
Land	83,007	63,106
Buildings	34,964	32,468
Leased assets	715	6,074
Construction in progress	132	5
Other tangible fixed assets	4,794	4,397
Intangible fixed assets	30,776	35,684
Software	30,146	35,059
Goodwill	49	583
Leased assets	—	0
Other intangible fixed assets	579	40
Due from agencies	0	—
Due from reinsurers	1,438	934
Foreign exchanges	7,268	9,346
Other assets	148,650	168,736
Net defined benefit asset	2,752	3,426
Deferred tax assets	15,313	21,242
Reserve for possible loan losses	(1,243)	(1,152)
Total Assets	¥11,471,845	¥12,401,446

	Millions of yen	
	2017	2018
Liabilities		
Policy reserves and others	¥8,113,153	¥8,763,349
Reserve for outstanding claims	71,306	74,712
Policy reserves	8,036,118	8,683,153
Reserve for policyholders' dividends	5,729	5,484
Due to agencies	2,616	1,873
Due to reinsurers	3,737	5,563
Deposits	2,071,091	2,159,246
Call money and bills sold	70,000	96,000
Borrowed money	90,000	173,944
Foreign exchanges	108	228
Bonds payable	10,000	20,000
Other liabilities	427,866	470,501
Reserve for employees' bonuses	3,694	3,906
Net defined benefit liability	31,399	33,179
Reserve for directors' retirement benefits	366	—
Reserve under the special laws	46,182	48,135
Reserve for price fluctuations	46,182	48,135
Deferred tax liabilities	—	0
Deferred tax liabilities on land revaluation	488	109
Total Liabilities	10,870,705	11,776,039
Net Assets		
Shareholders' equity		
Common stock	19,900	19,927
Capital surplus	195,277	191,157
Retained earnings	255,062	283,911
Treasury stock	(81)	(55)
Total shareholders' equity	470,157	494,941
Accumulated other comprehensive income		
Net unrealized gains (losses) on available-for-sale securities, net of taxes	134,849	133,991
Net deferred gains (losses) on hedging instruments, net of taxes	(1,154)	(902)
Land revaluation, net of taxes	(1,465)	(2,439)
Remeasurements of defined benefit plans, net of taxes	(2,756)	(1,929)
Total accumulated other comprehensive income	129,472	128,719
Subscription rights to shares	49	97
Non-controlling interests	1,460	1,648
Total Net Assets	601,139	625,406
Total Liabilities and Net Assets	¥11,471,845	¥12,401,446

See accompanying "Notes to the Consolidated Financial Statements."

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Sony Financial Holdings Inc.

For the years ended March 31, 2017 and 2018

(1) Consolidated Statements of Income

	Millions of yen	
	2017	2018
Ordinary Revenues	¥1,381,667	¥1,503,630
Ordinary Revenues from the Life Insurance Business	1,240,764	1,347,762
Income from insurance premiums	955,252	1,057,411
Insurance premiums	952,547	1,054,867
Ceded reinsurance commissions	2,704	2,544
Investment income	244,839	242,703
Interest income and dividends	147,785	157,276
Income from money held in trust, net	4,493	4,490
Gains on trading securities, net	152	2
Gains on sale of securities	1,308	0
Gains on redemption of securities	—	1
Foreign exchange gains, net	14,670	—
Other investment income	5	1
Gains on separate accounts, net	76,423	80,931
Other ordinary income	40,672	47,646
Ordinary Revenues from the Non-life Insurance Business	102,337	110,091
Underwriting income	100,329	108,316
Net premiums written	100,274	108,253
Interest and dividends on deposits of premiums	55	62
Investment income	1,957	1,731
Interest income and dividends	1,327	1,324
Gains on sale of securities	685	470
Gains on redemption of securities	0	—
Transfer to interest and dividends on deposits of premiums	(55)	(62)
Other ordinary income	49	43
Ordinary Revenues from the Banking Business	38,318	39,712
Interest income	26,534	28,344
Interest income on loans	16,065	17,064
Interest income and dividends on securities	10,394	11,204
Interest income on call loans and bills bought	—	2
Interest income on deposits with banks	63	63
Interest income on interest rate swaps	8	—
Other interest income	1	9
Fees and commissions	6,673	6,751
Other operating income	4,871	3,823
Gains on foreign exchange transactions, net	4,431	3,456
Others	439	366
Other ordinary income	238	794
Other	247	6,064
Other ordinary income	247	6,064

(Continued on next page)

	Millions of yen	
	2017	2018
Ordinary Expenses	¥1,315,341	¥1,436,787
Ordinary Expenses from the Life Insurance Business	1,186,465	1,296,417
Insurance claims and other payments	372,407	436,538
Insurance claims	84,178	92,342
Annuity payments	12,019	12,566
Insurance benefits	98,252	119,294
Surrender payments	168,409	199,263
Other payments	3,122	3,314
Reinsurance premiums	6,423	9,756
Provision for policy reserves and others	596,742	638,343
Provision for reserve for outstanding claims	3,330	2,211
Provision for policy reserves	593,411	636,131
Interest portion of reserve for policyholders' dividends	0	0
Investment expenses	35,937	32,889
Interest expenses	44	151
Losses on sale of securities	—	0
Losses on redemption of securities	53	2
Losses on derivatives, net	30,050	11,403
Foreign exchange losses, net	—	15,280
Provision for reserve for possible loan losses	—	23
Depreciation of real estate for rent and others	1,779	1,680
Other investment expenses	4,008	4,346
Operating expenses	136,645	139,420
Other ordinary expenses	44,733	49,226
Ordinary Expenses from the Non-life Insurance Business	96,639	102,798
Underwriting expenses	70,094	73,943
Net losses paid	50,181	52,482
Loss adjustment expenses	7,458	8,067
Net commission and brokerage fees	1,187	1,295
Provision for reserve for outstanding losses and claims	798	1,194
Provision for underwriting reserves	10,469	10,903
Investment expenses	3	2
Losses on sale of securities	0	—
Other investment expenses	3	2
Operating, general and administrative expenses	26,520	28,848
Other ordinary expenses	19	4

(Continued on next page)

Consolidated Statements of Income (Continued)

	Millions of yen	
	2017	2018
Ordinary Expenses from the Banking Business	¥31,274	¥30,428
Interest expenses	8,554	7,656
Interest expenses on deposits	5,104	5,320
Interest expenses on call money and bills sold	(17)	(73)
Interest on borrowed money	19	0
Interest expenses on bonds	74	40
Interest expenses on interest rate swaps	3,372	2,360
Other interest expenses	0	8
Fees and commissions	3,648	4,676
Other operating expenses	86	105
General and administrative expenses	18,843	17,733
Other ordinary expenses	142	257
Other	962	7,141
Other ordinary expenses	962	7,141
Ordinary Profit	66,326	66,843
Extraordinary Gains	—	13,258
Gains on disposal of fixed assets	—	13,258
Extraordinary Losses	2,032	2,180
Losses on disposal of fixed assets	134	187
Impairment losses	118	2
Provision for reserve under the special laws	1,772	1,953
Provision for reserve for price fluctuations	1,772	1,953
Others	7	36
Provision for Reserve for Policyholders' Dividends	4,153	3,271
Income Before Income Taxes	60,140	74,650
Income Taxes-Current	23,129	29,008
Income Taxes-Deferred	(4,724)	(6,344)
Total Income Taxes	18,405	22,664
Profit	41,734	51,985
Profit Attributable to Non-controlling Interests	113	90
Profit Attributable to Owners of the Parent	¥41,621	¥51,895

See accompanying "Notes to the Consolidated Financial Statements."

(2) Consolidated Statements of Comprehensive Income

	Millions of yen	
	2017	2018
Profit	¥ 41,734	¥51,985
Other Comprehensive Income		
Net unrealized gains (losses) on available-for-sale securities, net of taxes	(22,515)	(857)
Net deferred gains (losses) on hedging instruments, net of taxes	1,192	251
Remeasurements of defined benefit plans, net of taxes	1,021	827
Total other comprehensive income	(20,301)	221
Comprehensive Income	¥ 21,433	¥52,207
Details:		
Comprehensive income attributable to owners of the parent	¥ 21,301	¥52,116
Comprehensive income attributable to non-controlling interests	¥ 131	¥ 91

Consolidated Statements of Changes in Net Assets

Sony Financial Holdings Inc.

For the years ended March 31, 2017 and 2018

	Millions of yen				
	2017				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	¥19,900	¥195,277	¥238,079	¥ (0)	¥453,256
Cumulative effects of changes in accounting policies	—	—	105	—	105
Restated balance at the beginning of the period	19,900	195,277	238,185	(0)	453,362
Changes during the period					
Dividends from surplus	—	—	(23,924)	—	(23,924)
Profit attributable to owners of the parent	—	—	41,621	—	41,621
Purchase of treasury stock	—	—	—	(81)	(81)
Adjustments due to change of scope of consolidation	—	—	(818)	—	(818)
Net changes of items other than shareholders' equity	—	—	—	—	—
Total changes during the period	—	—	16,877	(81)	16,795
Balance at the end of the period	¥19,900	¥195,277	¥255,062	¥(81)	¥470,157

	Millions of yen							
	2017							
	Accumulated other comprehensive income							
	Net unrealized gains (losses) on available-for-sale securities, net of taxes	Net deferred gains (losses) on hedging instruments, net of taxes	Land revaluation, net of taxes	Remeasurements of defined benefit plans, net of taxes	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at the beginning of the period	¥157,364	¥(2,347)	¥(1,465)	¥(3,760)	¥149,791	¥—	¥1,329	¥604,377
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	105
Restated balance at the beginning of the period	157,364	(2,347)	(1,465)	(3,760)	149,791	—	1,329	604,482
Changes during the period								
Dividends from surplus	—	—	—	—	—	—	—	(23,924)
Profit attributable to owners of the parent	—	—	—	—	—	—	—	41,621
Purchase of treasury stock	—	—	—	—	—	—	—	(81)
Adjustments due to change of scope of consolidation	—	—	—	—	—	—	—	(818)
Net changes of items other than shareholders' equity	(22,515)	1,192	—	1,003	(20,319)	49	131	(20,138)
Total changes during the period	(22,515)	1,192	—	1,003	(20,319)	49	131	(3,343)
Balance at the end of the period	¥134,849	¥(1,154)	¥(1,465)	¥(2,756)	¥129,472	¥49	¥1,460	¥601,139

(Continued on next page)

Consolidated Statements of Changes in Net Assets (Continued)

Millions of yen

	2018				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	¥19,900	¥195,277	¥255,062	¥(81)	¥470,157
Changes during the period					
Issuance of new shares	27	27	—	—	55
Dividends from surplus	—	—	(23,922)	—	(23,922)
Profit attributable to owners of the parent	—	—	51,895	—	51,895
Disposal of treasury shares	—	(5)	—	26	21
Transfer of loss on disposal of treasury shares	—	5	(5)	—	—
Reversal of land revaluation	—	—	973	—	973
Adjustments due to change of scope of consolidation	—	—	(92)	—	(92)
Change in ownership interest of parent due to transactions with non-controlling interests	—	(4,147)	—	—	(4,147)
Net changes of items other than shareholders' equity	—	—	—	—	—
Total changes during the period	27	(4,119)	28,849	26	24,784
Balance at the end of the period	¥19,927	¥191,157	¥283,911	¥(55)	¥494,941

Millions of yen

	2018							
	Accumulated other comprehensive income							
	Net unrealized gains (losses) on available-for-sale securities, net of taxes	Net deferred gains (losses) on hedging instruments, net of taxes	Land revaluation, net of taxes	Remeasurements of defined benefit plans, net of taxes	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at the beginning of the period	¥134,849	¥(1,154)	¥(1,465)	¥(2,756)	¥129,472	¥49	¥1,460	¥601,139
Changes during the period								
Issuance of new shares	—	—	—	—	—	—	—	55
Dividends from surplus	—	—	—	—	—	—	—	(23,922)
Profit attributable to owners of the parent	—	—	—	—	—	—	—	51,895
Disposal of treasury shares	—	—	—	—	—	—	—	21
Transfer of loss on disposal of treasury shares	—	—	—	—	—	—	—	—
Reversal of land revaluation	—	—	—	—	—	—	—	973
Adjustments due to change of scope of consolidation	—	—	—	—	—	—	—	(92)
Change in ownership interest of parent due to transactions with non-controlling interests	—	—	—	—	—	—	—	(4,147)
Net changes of items other than shareholders' equity	(857)	251	(973)	827	(752)	48	187	(516)
Total changes during the period	(857)	251	(973)	827	(752)	48	187	24,267
Balance at the end of the period	¥133,991	¥ (902)	¥(2,439)	¥(1,929)	¥128,719	¥97	¥1,648	¥625,406

See accompanying "Notes to the Consolidated Financial Statements."

Consolidated Statements of Cash Flows

Sony Financial Holdings Inc.

For the years ended March 31, 2017 and 2018

	Millions of yen	
	2017	2018
Cash flows from operating activities		
Income before income taxes	¥ 60,140	¥ 74,650
Depreciation of real estate for rent and others	1,779	1,680
Depreciation and amortization	10,944	11,828
Impairment losses	118	2
Amortization of goodwill	22	32
Increase (decrease) in reserve for outstanding claims	4,128	3,405
Increase (decrease) in policy reserve	603,880	647,035
Interest portion of reserve for policyholders' dividends	0	0
Provision for (reversal of) reserve for policyholders' dividends	4,153	3,271
Increase (decrease) in reserve for possible loan losses	(65)	(140)
Increase (decrease) in net defined benefit liability	3,020	2,363
Increase (decrease) in reserve for directors' retirement benefits	14	(176)
Increase (decrease) in reserve for price fluctuations	1,772	1,953
Interest income and dividends	(175,647)	(186,943)
(Gains) losses on securities	(77,393)	(80,057)
Interest expenses	8,636	8,327
Losses (gains) on derivatives	30,050	11,403
Exchange (gains) losses	(10,843)	23,489
(Gains) losses on disposal of tangible fixed assets	107	(13,283)
Equity in (gains) losses of affiliates	3,551	2,338
Net (increase) decrease in loans	(195,446)	(56,745)
Net increase (decrease) in deposits	156,005	87,987
Net increase (decrease) in borrowed money (excluding subordinated borrowings)	50,000	80,000
Net increase (decrease) in call money and bills sold	70,000	26,000
Net (increase) decrease in call loans and bills bought	311	(4,805)
Net (increase) decrease in foreign exchange (assets)	(6,129)	(2,077)
Net increase (decrease) in foreign exchange (liabilities)	21	119
Others, net	(1,710)	15,506
Subtotal	541,424	657,168
Interest and dividends received	188,230	197,007
Interest paid	(8,730)	(8,484)
Policyholders' dividends paid	(3,430)	(3,517)
Income taxes paid	(25,047)	(22,451)
Net cash provided by (used in) operating activities	692,445	819,721
Cash flows from investing activities		
Net (increase) decrease in deposits	—	5
Investments in money held in trust	(76)	(101)
Proceeds from money held in trust	5,160	6,532
Purchases of securities	(1,171,569)	(1,104,737)
Proceeds from sale and redemption of securities	375,241	427,925
Investments in loans	(57,798)	(60,315)
Collections of loans	27,949	28,761
Net gains (losses) from the settlement of derivative financial instruments	(35,401)	(22,997)
Net increase (decrease) in collateral for securities lending transactions	247,803	(6,719)
Others, net	—	32,553
Total of net cash provided by (used in) investment transactions	(608,689)	(699,092)
Total of net cash provided by (used in) operating activities and investment transactions	83,755	120,629
Purchases of tangible fixed assets	(3,977)	(2,049)
Proceeds from sales of tangible fixed assets	—	36,700
Purchases of intangible fixed assets	(9,024)	(12,481)
Purchase of securities of non-consolidated subsidiaries	—	(339)
Purchase of securities of affiliates	(3,045)	(3,450)
Others, net	(12)	(132)
Net cash provided by (used in) investing activities	(624,749)	(680,845)
Cash flows from financing activities		
Proceeds from debt borrowing	—	5,266
Repayments of debt	—	(5,133)
Cash dividends paid	(23,925)	(23,921)
Proceeds from issuance of bonds	—	19,938
Payments for redemption of bonds	(10,000)	(10,000)
Purchase of treasury stock	(81)	—
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(171)
Others, net	(51)	(474)
Net cash provided by (used in) financing activities	(34,057)	(14,496)
Effect of exchange rate changes on cash and cash equivalents	(1)	(2)
Net increase (decrease) in cash and cash equivalents	33,636	124,377
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	1,124	373
Cash and cash equivalents at the beginning of the period	233,620	268,381
Cash and cash equivalents at the end of the period	¥ 268,381	¥ 393,133

See accompanying "Notes to the Consolidated Financial Statements."

Note: The above Consolidated Statements of Cash Flows have been prepared based on Article 210-10 of Ordinance for Enforcement of the Insurance Business Act of Japan.

Notes to the Consolidated Financial Statements

(For the year ended March 31, 2018)

1 Basis of Presenting Consolidated Financial Statements

Sony Financial Holdings Inc. ("SFH") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in Japanese yen in accordance with the provisions set forth in the Companies Act of Japan, the Insurance Business Act of Japan and the Banking Act of Japan and in conformity with generally accepted accounting principles and practices in Japan, which differ in certain respects from the application and disclosure requirements of generally accepted accounting principles and practices under the International Financial Reporting Standards.

2 Principles of Consolidation

(1) Scope of consolidation

Consolidated subsidiaries: 8 companies

Company names

Sony Life Insurance Co., Ltd.
Sony Assurance Inc.
Sony Bank Inc.
Sony Payment Services Inc.
SmartLink Network Hong Kong Limited
Sony Lifecare Inc.
Lifecare Design Inc.
Proud Life Inc.

Non-consolidated subsidiaries:

Main companies

There are no main non-consolidated subsidiaries. Non-consolidated subsidiaries are excluded from the scope of consolidation for the current year because they are immaterial in light of the total assets, ordinary revenues, profit or loss (amounts equivalent to the Group's interests in these companies), retained earnings (amounts equivalent to the Group's interests in these companies) and accumulated other comprehensive income (amounts equivalent to the Group's interests in these companies) and their exclusion from the scope of consolidation does not hinder a rational judgment of the Sony Financial Group's financial position and results of operations.

Change in the scope of consolidation:

Proud Life Inc., a nursing care provider, has been included in the scope of consolidation from the year ended March 31, 2018, due to its increased importance. Business results of the company are included in "Other" in the consolidated statements of income.

(2) Application of the equity method

Affiliates accounted for by the equity method: 2 companies

Company names

AEGON Sony Life Insurance Co., Ltd.
SA Reinsurance Ltd.

Non-consolidated subsidiaries and affiliates that are not accounted for by the equity method:

Main companies

There are no main non-consolidated subsidiaries or affiliates. Non-consolidated subsidiaries and affiliates are not accounted for by the equity method because they are immaterial in light of the profit or loss (amounts equivalent to the Group's interests in these companies) and retained earnings (amounts equivalent to the Group's interests in these companies) and their exclusion does not hinder a rational judgment of the Sony Financial Group's financial position and results of operations.

(3) Fiscal year-end of consolidated subsidiaries

Fiscal year-end of all consolidated subsidiaries is March 31, the same date as the consolidated financial statements of SFH.

(4) Amortization of goodwill

Goodwill is equally amortized using the straight-line method over a period of up to 20 years.

3 Note on Going Concerns

There is no related information to be reported.

4 Summary of Significant Accounting Policies

(1) Securities

Securities, including monetary claims purchased which are equivalent to securities, and securities managed as assets of money held in trust, are stated in the following manner: Securities held for trading purposes (“trading securities”) are stated at fair value with unrealized gains and losses charged to income. The cost of such securities sold is determined by the moving-average method. Held-to-maturity securities and policy-reserve-matching bonds held in accordance with the “Temporary Treatment of Accounting and Auditing concerning Policy-Reserve-Matching Bonds in the Insurance Industry” (The Japanese Institute of Certified Public Accounts Industry Audit Committee Report No. 21, issued on November 16, 2000; hereinafter “the Industry Audit Committee Report No. 21”) are stated at amortized cost (straight-line method) using the moving-average method. Available-for-sale securities whose fair values are readily determinable are stated at fair value in the consolidated balance sheets based on market prices prevailing at each balance sheet date, with unrealized gains (losses), net of taxes, included in net assets and acquisition costs calculated using the moving-average method. Available-for-sale securities whose fair values are deemed extremely difficult to determine are stated at acquisition cost based on the moving-average method.

The overview of risk management policies of policy-reserve-matching bonds is as follows:

Among the bonds corresponding to sub-segments (according to insurance class, years to maturity, etc.) for individual life insurance and individual annuity sold by domestic life insurance subsidiaries, SFH records those held with the purpose of controlling the duration of insurance liabilities as policy-reserve-matching bonds, in accordance with the Industry Audit Committee Report No. 21.

(2) Derivative financial instruments

Derivative financial instruments are stated at fair value, with changes in fair value included in income for the period in which they arise, except for derivatives that are designated by SFH and its consolidated subsidiaries (the “Companies”) as “hedging instruments.”

(3) Tangible fixed assets (excluding leased assets)

All tangible fixed assets, including real estate for lease, are initially recorded at cost. Subsequent expenses related to asset improvements are capitalized or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Companies and the cost of the item can be measured reliably.

All other repairs and maintenance charges are charged to income when incurred.

Depreciation is computed by the straight-line method over the estimated useful lives of the assets as follows:

- Buildings: 3 to 50 years
- Other tangible fixed assets: 2 to 20 years

(4) Intangible fixed assets (excluding leased assets)

Intangible fixed assets are amortized using the straight-line method. Software for internal use is amortized using the straight-line method generally over 5 years, its estimated useful life.

(5) Leased assets

All leased assets with respect to non-ownership-transfer finance leases are amortized by the straight-line method over the lease term, without any residual value.

(6) Reserve for possible loan losses

The reserve for possible loan losses is provided as follows for losses from bad debts mainly in accordance with self-assessment guidelines and write-off and reserve guidelines. With respect to receivables such as loans to borrowers subject to bankruptcy, court-guided rehabilitation or similar legal or formal proceedings (the “Bankrupt Borrowers”), loans to borrowers that are substantially in the same condition as the Bankrupt Borrowers (the “Substantially Bankrupt Borrowers”) and money on deposits whose market value declined significantly, the Companies provide a reserve in the amount expected to be uncollectible after deducting amounts expected to be collectible from collateral, guarantees and other means. For loans to borrowers that are not yet bankrupt but are highly likely to be bankrupt in the future (the “potentially bankrupt borrowers”), the Companies provide a reserve in the amount deemed necessary by comprehensively considering the borrowers’ solvency of the remaining amount after deducting amounts expected to be collectible from collateral, guarantees and other means. For other loans, the Companies provide a reserve in the amount calculated by multiplying the loans by a historical loan loss ratio determined over certain periods. All loans are subject to asset assessment by the related operational departments in accordance with self-assessment guidelines, and the assessment results are reviewed by the departments responsible for asset inspection that are independent from the operational departments. The amount of reserve is provided based upon the above results.

(7) Reserve for employees’ bonuses

The reserve for employees’ bonuses is provided for the estimated amount of bonuses the Companies are required to pay for services provided during the current fiscal year.

(8) Reserve for price fluctuations

Pursuant to requirements under Article 115 of the Insurance Business Act of Japan, the reserve for price fluctuations is provided for price fluctuations primarily related to stocks, bonds and foreign currency-denominated assets that are exposed to losses due to market price fluctuations. This reserve is only used to reduce losses arising from price fluctuations on those assets.

(9) Accounting for retirement benefits

1) Method of attributing projected retirement benefits

In the calculation of retirement benefit obligations, the Companies mainly apply the benefit formula basis in attributing projected retirement benefits to the periods until the end of the current fiscal year.

2) Amortization method of prior service cost and net actuarial gain or loss

Unrecognized prior service cost is amortized mainly using the straight-line method within the employees' average remaining service period at incurrence. Unrecognized net actuarial gain or loss is amortized using the straight-line method over 7 to 17 years within the employees' average remaining service period, commencing from the fiscal year immediately following incurrence.

3) Adoption of a simplified method at small enterprises, etc.

For calculating net retirement benefit liabilities and retirement benefit expenses, the parent company and some consolidated subsidiaries apply a simplified method that treats amounts required for voluntary resignation at fiscal year-end as retirement benefit obligations.

(10) Translation of foreign assets or liabilities

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the foreign exchange rates in effect at each balance sheet date, whereas components of net assets denominated in foreign currencies are translated at historical rates. The current year's profit and loss accounts are translated into yen using the average exchange rate for the fiscal year.

(11) Hedge accounting

The banking subsidiary applies either deferred hedge accounting or fair value hedge accounting to its transactions for hedging interest rate risks on financial assets and liabilities. With regard to hedging that offsets fluctuating interest rates on fixed-rate loans, the subsidiary identifies the hedged items that are grouped on the basis of a certain period of their remaining maturity and designates interest rate swaps as a hedging instrument, in accordance with "Accounting and Auditing Treatments on Application of Accounting Standard for Financial Instruments in the Banking Industry" (Industry Audit Committee of the Japanese Institute of Certified Public Accountants (the "Industry Audit Committee") Statement No. 24, February 13, 2002).

With regard to hedging that fixes the cash flow of a forecasted transaction of a short-term fixed-rate deposit, the subsidiary identifies the hedged items that are grouped on the basis of a certain period of their interest rate revision and designates interest rate swaps as a hedging instrument, in accordance with the Industry Audit Committee, Statement No. 24. With regard to hedging that offsets fluctuations in the fair value of fixed-rate bonds that are classified as available-for-sale securities, the subsidiary identifies the hedged items individually and designates interest rate swaps and others as a hedging instrument. The above-mentioned hedging instruments are designated with almost identical significant terms and conditions for both the hedging items and the hedged instruments. Accordingly, such hedges are considered highly effective, allowing the banking subsidiary to ensure hedging effectiveness.

(12) Cash and cash equivalents in the Consolidated Statements of Cash Flows

Cash equivalents consist of highly liquid investments without significant market risks, such as demand deposits and short-term investments with an original maturity of 3 months or less.

(13) Accounting for consumption taxes

National and local consumption taxes (the "consumption taxes") received and paid by the Companies, excluding loss adjustment expenses and operating, general and administrative expenses of SFH's non-life insurance subsidiary, are not included in income and expenses. Under the Consumption Tax Act of Japan, the consumption taxes paid on property and equipment are not deductible from the consumption taxes received; they are recorded as "other assets" and amortized on a straight-line basis over 5 years. Other non-deductible consumption taxes are charged to income as incurred.

(14) Policy reserves

Pursuant to Article 116 of the Insurance Business Act of Japan, SFH's life insurance subsidiary maintains a policy reserve for the fulfillment of future obligations under life insurance contracts. The policy reserve is established by the net level premium reserve method, which assumes a constant or level amount of net insurance premiums over the term of the relevant policy when calculating the amount of the reserve required to fund all future policy claims. The net insurance premium is a portion of the premium covering insurance underwriting risk, which is estimated based on factors such as mortality rates, investment yield, surrender rates and other factors. The net level premium reserve for individual insurance contracts underwritten from FY1996 is calculated using mortality and interest rates set by the Financial Services Agency of Japan as standard policy reserve. Additionally, the net level premium reserve for individual insurance contracts underwritten before FY1996 is calculated using mortality and interest rates approved by the supervisor of insurance business in Japan.

5 Changes in Presentation

(Consolidated Statements of Cash Flows)

1. "Losses (gains) on derivatives," which was included in "Others, net" under the subtotal of cash flows from operating activities for the year ended March 31, 2017, has been separately stated from the year ended March 31, 2018, as its monetary materiality increased. To reflect such changes in presentation, the consolidated financial statements for the year ended March 31, 2017 have been reclassified.

As a result, ¥28,339 million of "Others, net" under the subtotal of cash flows from operating activities for the year ended March 31, 2017 has been reclassified as ¥30,050 million of "Losses (gains) on derivatives" and negative ¥1,710 million of "Others, net."

2. "Net gains (losses) from the settlement of derivative financial instruments," which was included in "Others" under the total of net cash used in investment transactions of cash flows from investing activities for the year ended March 31, 2017, has been separately stated from the year ended March 31, 2018, as its monetary materiality increased. To reflect such changes in presentation, the consolidated financial statements for the year ended March 31, 2017 have been reclassified.

As a result, negative ¥35,401 million of "Others" under the total of net cash used in investment transactions of cash flows from investing activities for the year ended March 31, 2017 has been reclassified as negative ¥35,401 million of "Net gains (losses) from the settlement of derivative financial instruments."

6 Notes to the Consolidated Balance Sheets

1. Securities with a book value of ¥426,523 million and loans of ¥306,589 million were pledged as collateral for the ¥303,889 million of collateral for securities lending transactions, ¥96,000 million of call money and bills sold, the ¥170,000 million of borrowed money and payables under repurchase agreements of ¥31,696 million at March 31, 2018. In addition to the assets described above, securities with a book value of ¥12,229 million, cash collateral paid for financial instruments of ¥18,559 million and initial margins of futures markets of ¥18,324 million were pledged as collateral for cash settlements, variation margins of futures markets and certain other purposes at March 31, 2018.
2. The consolidated balance sheet amount of securities loaned for consumption under the loan agreement was ¥235,886 million.
3. Securities include shares in non-consolidated subsidiaries and affiliates worth ¥12,630 million. Among these, investments in jointly controlled companies are ¥12,245 million.
4. The balance of loans includes ¥91 million in loans to bankrupt borrowers (before deductions for reserve for possible loan losses) and ¥1,075 million in non-accrual delinquent loans (before deductions for reserve for possible loan losses). Loans to bankrupt borrowers include loans that have been in arrears on principal or interest payments for a considerably long period of time or loans (before deductions for reserve for possible loan losses) on which principal or interest payments are considered unlikely to occur in the future for other reasons and on which interest income is not recognized. These loans are with reasons defined under Article 96-1-3, i through v of the Order for Enforcement of the Corporation Tax Act (Enforcement Order 97 of 1965) or 96-1-4 of the same guidelines. Non-accrual delinquent loans are loans on which accrued interest income is not recognized, excluding loans to bankrupt borrowers and loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties.
5. The balance of loans does not include past due loans (3 months or more). Past due loans (3 months or more) are loans on which principal or interest payments are delayed for 3 months or more from the date following the due date, excluding loans to bankrupt borrowers and non-accrual delinquent loans.
6. The balance of loans includes ¥842 million in restructured loans (before deductions for reserve for possible loan losses). Restructured loans are loans on which terms and conditions have been amended in favor of the borrowers (e.g., reduction of the original interest rate, deferral of interest payments, extension of principal repayments or debt waiver) in order to support the borrowers' recovery from financial difficulties, excluding loans to bankrupt borrowers, non-accrual delinquent loans and past due loans (3 months or more).
7. The total amount of loans to bankrupt borrowers, non-accrual delinquent loans and restructured loans was ¥2,009 million (before deductions for reserve for possible loan losses).
8. In terms of loan participation, the participating principals that were accounted for as loans to the original obligor in accordance with "Accounting and Presentation of Loan Participation" (Accounting Standards Committee of the Japanese Institute of Certified Public Accountants, Statement No. 3, November 28, 2014) include the consolidated balance sheet amount of ¥7,278 million.

9. Accumulated depreciation of tangible fixed assets as of March 31, 2018 was ¥36,648 million.
10. The balance sheet includes ¥1,128,817 million in assets and liabilities in equal amounts related to separate accounts as stipulated in Article 118 of the Insurance Business Act of Japan as of March 31, 2018, at SFH's life insurance subsidiary.
11. Changes in the reserve for policyholders' dividends at SFH's life insurance subsidiary for the fiscal year ended March 31, 2018 are as follows:
- | | |
|--|----------------|
| Balance at the beginning of the period | ¥5,729 million |
| Policyholders' dividends during the period | ¥3,517 million |
| Increase in interest | ¥0 million |
| Provision for reserve for policyholders' dividends | ¥3,271 million |
| Balance at the end of the period | ¥5,484 million |
12. On March 31, 2002, SFH's life insurance subsidiary revalued its land for operating purposes, as permitted by the Act on Revaluation of Land (Act No. 34, enacted March 31, 1998—the "Law"). The tax effect of the revaluation difference is accounted for differently, depending on whether there are gains or losses; when there is a loss, a valuation allowance is fully provided for the tax effect of the loss, and when there is a gain, the tax effect is recorded in "deferred tax liabilities on land revaluation." After excluding these amounts, the net revaluation difference is reported as "land revaluation" in net assets.
- The revaluation method stipulated by Article 3-3 of the Law was based on the land appraisal in conformity with Article 2-5 of the Order for Enforcement Related to the Law (Cabinet Order No. 119, effective from March 31, 1998).
13. Contracts for commitments to provide credit lines and overdrafts of the life insurance subsidiary and the banking subsidiary are agreements to lend to customers, up to a prescribed amount, as long as there is no violation of the conditions stipulated in the contracts. The amount of unused commitments at March 31, 2018 was ¥31,245 million, and the amount of unused commitments whose original contract terms are within 1 year at March 31, 2018 was ¥29,700 million.
14. Expected future losses of the life insurance subsidiary under the life insurance policyholder protection structure stipulated under Article 259 of the Insurance Business Act of Japan amounted to ¥10,480 million. Such losses are recognized as expenses during the fiscal year in which they are contributed.
15. Net assets per share were ¥1,433.73.
16. Financial instruments:

(1) Description of financial instruments

1) Policy on financial instruments

The Companies conduct the life insurance, non-life insurance and banking businesses, etc., in accordance with the provisions of the Insurance Business Act of Japan, the Banking Act of Japan and other relevant provisions. With regard to financial assets (except for assets in separate accounts as stipulated in Item 1, Article 118 of the Insurance Business Act of Japan in the life insurance business), to ensure steady investment income the Companies hold various investment assets, including Japanese government and corporate bonds, foreign government and corporate bonds, Japanese stocks and loans. Deposits from individual customers in the banking business account for nearly all of the Companies' financial liabilities. Although the Companies hold financial assets as well as financial liabilities, which are subject to the risk of interest rate and exchange rate fluctuations, they strive to protect themselves from the negative effects of these fluctuations by maintaining an appropriate balance between assets and liabilities by conducting asset-liability management (ALM) in each of the businesses. Furthermore, derivative transactions are used to control risks in the life insurance business and banking business.

2) Financial instruments and related risks

Securities, loans, deposits and derivative transactions constitute the majority of the companies' financial instruments. They are subject to market risk, which is the risk of incurring losses when their values change due to fluctuations in interest rates, foreign exchange rates, stock prices, etc., as well as credit risk, which is the risk of incurring losses when the value of assets declines or disappears due to a deterioration in financial or other conditions of an entity to which credit is provided. In addition, they are subject to market liquidity risk, which is the risk of loss due to an inability to conduct market transactions, as well as the risk of loss if the companies are forced to complete transactions under unfavorable market conditions, in each case due to market turmoil or other factors.

Most of the securities holdings are in domestic government bonds, foreign government bonds and corporate bonds. Other holdings include domestic stocks, foreign securities and investments in partnerships.

The majority of loans are policy loans in the life insurance business, and individual mortgage loans in the banking business.

However, policy loans are limited to the amount of surrender payments, and mortgage loans are backed by real estate. Consequently, loan-related risks are relatively low.

Deposits are mainly those from individual customers, some of which are denominated in foreign currencies.

The life insurance business uses several derivative transactions such as interest rate swaps, forward foreign exchange transactions and stock index futures trading mainly to hedge the market risk for financial assets and liabilities and, as a matter of policy, does not use derivative transactions for speculative purposes. Hedge accounting is not applied to derivative transactions used in the life insurance business.

The banking business uses several derivative transactions primarily as one aspect of ALM, and it uses interest rate swaps, etc., to hedge the market risk for financial assets and liabilities. In this category, hedge accounting is applied. Interest rate swaps are used to hedge against the interest rate risk of fixed-rate loans and deposits. In hedge accounting, hedge effectiveness is assessed based on the requirements stipulated in the "Accounting Standards for Financial Instruments" and other standards.

3) Risk management of financial instruments

SFH formulates fundamental principles for risk management and manages risks specific to its subsidiaries' scale, business content and other attributes. Our Risk Management Guidelines establish specific conditions for managing Group risks, while each of the subsidiaries manages risks on its own. SFH's Corporate Control Department submits periodic reports to SFH's Board of Directors and Executive Committee on subsidiaries' risk management conditions recognized through monitoring or by holding Risk Management Meetings.

(i) Credit risk

The Companies use the following methods to manage the credit risk of principal subsidiaries:

- (a) At the life insurance subsidiary, the risk management division manages issuer credit risk on securities and counterparty risks by specifying details such as risk management methods and procedures in regulations. The risk management division periodically reports such information to the Board of Directors and the Executive Committee.
- (b) The non-life insurance subsidiary ascertains issuer credit information and market values on securities in line with various regulations for asset management risk. The risk management division reports on the situation regularly to the Board of Directors and the Executive Committee.
- (c) The banking subsidiary has formulated and conformed to various regulations for managing credit risks, and controls credit risk depending on the nature of each type of financial asset. In respect of individual loans, the subsidiary has developed a framework for managing individual credit, including credit screenings, management of credit information, setting of collateral and the handling of problem assets on a case-by-case basis.

In respect of corporate loans or bonds payable, the subsidiary has developed a framework for managing corporate credit and market credit, including credit screenings, credit limit control, the management of credit information, credit ratings, the setting of guarantees or collateral and handling of problem assets on a case-by-case basis.

The subsidiary manages market credit risk, such as securities issuer credit risk and, on derivative transactions, counterparty risk, by periodically assessing market value information.

The aforementioned credit risk management is carried out by the risk management division and the screening division. These divisions periodically report risk management conditions to management via the Board of Directors and the Executive Committee. In addition, the internal audit division conducts regular audits.

(ii) Market risk

The Companies use the following methods to manage the market risk of principal subsidiaries:

- (a) The life insurance subsidiary manages various market-related risks in the following manner:

- **Interest rate risk** Interest rate risk is managed by the risk management division based on the regulations for interest rate risk management that specify details such as risk management methods and procedures. Based on ALM policies that are determined through such methods as deliberation by the Executive Committee, the subsidiary determines and confirms actual risk conditions with the Board of Directors. The division maintains an overall grasp on the interest rates and durations of financial instruments, and monitors them based on the analysis of the quantity of risk using value at risk ("VaR"), and it periodically reports such information to the Board of Directors and the Executive Committee.

- **Exchange rate risk** Exchange rate risk is managed by the risk management division based on the regulations for exchange rate risk management that specify details such as risk management methods and procedures. The division periodically reports such information to the Board of Directors and the Executive Committee.

- **Equity market price fluctuation risk** Equity market price fluctuation risk is managed by the risk management division based on the regulations for equity market price fluctuation risk management that specify details such as risk management methods and procedures. The division periodically reports such information to the Board of Directors and the Executive Committee.

- **Derivative transactions** Derivative transactions are managed by the risk management division based on the regulations for derivative transactions that specify details such as risk management methods and procedures. The division periodically reports such information to the Board of Directors and the Executive Committee.

- (b) The non-life insurance subsidiary manages various market-related risks in the following manner:
- **Interest rate risk** Regulations on asset management risk specify the details such as risk management methods and procedures based on risk management policies determined by the Board of Directors. The risk management division monitors individual risks and reports on the situation regularly to the Board of Directors and the Executive Committee.
 - **Price fluctuation risk** Equity securities are held for strategic investments for the purpose of enhancing business partnerships. In accordance with regulations on asset management risk, the risk management division monitors the market environment and financial conditions, and reports on the situation regularly to the Board of Directors and the Executive Committee.
- (c) The banking subsidiary manages various market-related risks in the following manner. The risk management division handles each of these risks and periodically reports risk management conditions to the Board of Directors and the Executive Committee. In addition, the internal audit division conducts regular audits.
- **Interest rate and exchange rate risk** By formulating and conforming with market risk management regulations, the subsidiary manages the risk of loss from changes in the value of assets and liabilities (including off-balance-sheet items) as well as from changes in income from assets and liabilities, owing to fluctuations in various market risk factors, such as interest rates, exchange rates and stock prices. Market risk management regulations specify details such as risk management methods and procedures. Based on ALM and risk management policies that are determined through such methods as deliberation by the Board of Directors, an ALM committee and a risk management committee meet—typically once each month—to understand and confirm actual conditions and deliberate future responses and risk conditions. On a daily basis, the risk management division maintains an overall understanding of interest and exchange rates on financial assets and liabilities, as well as their durations, conducts monitoring that includes VaR and interest rate sensitivity analysis and ensures regulatory conformance. In relation to ALM, the subsidiary also conducts interest rate swaps, currency swaps, foreign exchange and other derivative transactions to hedge against interest and exchange rate fluctuation risks.
 - **Market price fluctuation risk** The subsidiary manages the holding of investment products, including securities, in accordance with market risk management regulations as well as market credit risk. The investment division purchases securities externally, and risks associated with changes in the market price of such securities are managed through prior screening by the screening division, the setting and control of investment limits by the risk management division, and continuous monitoring by each responsible division.
 - **Derivative transactions** Derivative transactions are executed in accordance with regulations on market risk. The subsidiary also separates and conducts internal checks of individual departments' execution of transactions, evaluation of hedge effectiveness and operations management.
 - **Quantitative information on market risk** The principal financial instruments affected by the major risk parameters of interest rate risk and exchange rate fluctuation risk are loans, securities, deposits in the banking business and derivative transactions.

The impact of such risks on these financial assets and liabilities was calculated using the historical simulation method to determine gains or losses over a given period of 20 business days, assuming the fluctuation of interest and exchange rates within a rational forecast band determined over an observation period of 250 business days. The Companies then employed quantitative analysis to manage interest rate and exchange rate fluctuation risks. The resulting risk amount with a 99% confidence interval was ¥927 million as of March 31, 2018 (¥1,621 million as of March 31, 2017).

This amount of impact is based on the assumption that risk parameters other than interest rates and exchange rates are fixed. In the event that fluctuations exceed the rational forecast band for interest and exchange rates, the risk impact may exceed the amount calculated. The aforementioned market risk management is carried out primarily by the risk management division. The division periodically reports risk management conditions to the Board of Directors and the Executive Committee. In addition, the internal audit division conducts regular audits.

(iii) Liquidity risk

The Companies use the following methods to manage the liquidity risk of principal subsidiaries.

- (a) At the life insurance subsidiary, in line with liquidity risk management regulations, the accounting division prepares and updates cash flow plans in a timely manner based on the reports from departments and manages cash flows, and the risk management division manages the liquidity risk. The accounting division and risk management division periodically or as needed report such information to the Board of Directors and the Executive Committee.
- (b) The non-life insurance subsidiary establishes regulations related to liquidity risk. Its cash flow management division prepares and updates cash flow plans. The risk management division manages liquidity risk by monitoring the situations and reports on the situations regularly to the Board of Directors and the Executive Committee.
- (c) The banking subsidiary has formulated and conformed with regulations for managing liquidity risk and manages a variety of liquidity risks. Concerning the management of cash flow risks, cash flows are classified into phases based on the degree of pressure, and methods for risk management and reporting are set out for each phase, while guidelines are formulated and reviewed as necessary. To manage market liquidity risk, the subsidiary works to understand market liquidity conditions that pertain to the types of products it handles. The subsidiary formulates and revises guidelines on a product-by-product basis, as necessary. The aforementioned liquidity risk management is carried out by the risk management division. The division periodically reports risk management conditions to the Board of Directors and the Executive Committee. In addition, the internal audit division conducts regular audits.

4) Supplementary explanation of the fair value of financial instruments

Market prices of financial instruments are considered to indicate their fair values, unless market prices are not available. In this case, rational methods are used to measure their fair values. Although these measurements use assumptions that are believed to be reasonable under the circumstances, the resulting values may differ if measured using different assumptions.

(2) Fair value information on financial instruments

Below is fair value information on financial instruments as of March 31, 2018, excluding securities whose fair values are not readily determinable (see Note 2).

Millions of yen			
As of March 31,	2018		
	Consolidated balance sheet amount	Fair value	Difference
1) Cash and due from banks	¥ 327,633	¥ 327,633	¥ —
2) Call loans and bills bought	65,500	65,500	—
3) Money held in trust			
Other money held in trust	291,582	291,582	—
4) Securities			
Trading securities	1,048,062	1,048,062	—
Held-to-maturity securities	6,547,276	8,146,787	1,599,510
Policy-reserve-matching bonds	401,958	436,842	34,884
Available-for-sale securities	1,558,456	1,558,456	—
5) Loans	1,785,877		
Reserve for possible loan losses (*1)	(809)		
Loans (after deduction for reserve for possible loan losses)	1,785,067	1,971,747	186,679
Total Financial Assets	¥12,025,535	¥13,846,610	¥1,821,074
1) Deposits	¥ 2,159,246	¥ 2,160,277	¥ 1,030
2) Call money and bills sold	96,000	96,000	—
3) Borrowed money	173,944	173,603	(340)
4) Bonds payable	20,000	20,010	10
5) Collateral for securities lending transactions	303,889	303,889	—
Total Financial Liabilities	¥ 2,753,079	¥ 2,753,780	¥ 700
Derivative financial instruments (*2)			
Hedge accounting not applied	¥ 10,387	¥ 10,387	¥ —
Hedge accounting applied	[12,857]	[12,857]	—
Total Derivative Financial Instruments	¥ [2,470]	¥ [2,470]	¥ —

(*1) Excludes general and specific reserves for possible loan losses.

(*2) Figures are totals resulting from derivative transactions, which are accounted for as other assets and liabilities on the consolidated balance sheets. If the total is a debt amount, the above figure is shown in [].

(Note 1) Calculation of the fair value of financial instruments

Financial Assets

1) Cash and due from banks and 2) Call loans and bills bought

The fair value is regarded as the carrying amount, as they are approximately equal.

3) Money held in trust

In individual money held in trust mainly for investment purposes, the fair value of bonds is the market price on financial instrument exchanges or the price indicated by a financial institution. Please see "18. Fair value information on money held in trust," which indicates fair values by purpose.

4) Securities

The fair value of stocks is the market price on stock markets or financial instrument exchanges. The fair value of bonds and investment funds is the market price or the price indicated by a financial institution. Please see "17. Fair value information on securities," which indicates fair values by purpose.

5) Loans

(i) Loans in the banking business

The fair value of these loans is calculated by type, by estimating their future cash flows and then applying a prescribed discount rate. The discount rate is determined by adding to the LIBOR-based yield curve a premium corresponding to the allowance rate of general provision for loan losses.

(ii) Policy loans in the life insurance business

The fair value of policyholder loans is valued by discounting future cash flows to their current value.

(iii) General loans in the life insurance business

The fair value of general loans is regarded as the carrying amount, as they are approximately equal.

Financial Liabilities

1) Deposits

The fair value of deposits is calculated by type, by estimating their future cash flows and then applying a prescribed discount rate. The discount rate is determined by adding to the LIBOR-based yield curve a premium corresponding to the banking subsidiary's cumulative default rate by rating.

2) Call money and bills sold

The fair value is regarded as the carrying amount, as they are approximately equal.

3) Borrowed money

The present value of borrowed money is calculated by discounting the future cash flows of the principal and interest with the LIBOR-based yield curve.

4) Bonds payable

The fair value of bonds payable is the market price or the price indicated by a financial institution.

5) Collateral for securities lending transactions

The fair value is regarded as the carrying amount, as they are approximately equal.

Derivative Transactions

Please see "19. Derivative financial instruments," which indicates measurement of fair value.

(Note 2) Securities whose fair values are deemed extremely difficult to determine are as follows. They are not included in "4) Securities" of Financial Assets in (Note 1) above.

	Millions of yen
	2018
As of March 31,	Consolidated balance sheet amount
1) Unlisted stocks in non-consolidated subsidiaries and affiliates (*1)	¥12,630
2) Unlisted stocks other than those in 1) above (*1)	169
3) Investment in partnership (*2)	12,653
Total	¥25,453

(*1) Unlisted stocks have no market prices and their fair values are not readily determinable.

(*2) Assets included in "investment in partnership" are stocks in unlisted companies.

Note: Unlisted stocks and investment in partnership are considered impaired if their actual value decreases materially below the acquisition cost and such decline is considered non-recoverable. Their actual value is recognized as the consolidated balance sheet amount and the write-down is accounted for as a devaluation loss (hereinafter, "impairment") for the fiscal year.

Impairment losses on unlisted stocks and investment in partnership were recognized as ¥19 million and ¥664 million for the year ended March 31, 2018, respectively.

Impairment losses are principally recorded when their actual value as of the end of the fiscal year has declined by 50% or more from the acquisition cost.

(Note 3) Future redemption schedule of monetary claims and securities with maturities

	Millions of yen			
	2018			
As of March 31,	1 year or less	More than 1 year to 5 years	More than 5 years to 10 years	Over 10 years
Cash and due from banks	¥327,633	¥ —	¥ —	¥ —
Call loans and bills bought	65,500	—	—	—
Securities				
Held-to-maturity securities	3,236	27,887	330,510	6,414,090
Japanese government and corporate bonds	3,236	27,687	330,510	5,886,640
Japanese government and local government bonds	2,224	25,798	328,610	5,548,530
Japanese corporate bonds	1,012	1,889	1,900	338,110
Others	—	200	—	527,449
Policy-reserve-matching bonds	—	—	3,220	394,683
Japanese government and corporate bonds	—	—	3,220	366,530
Japanese government and local government bonds	—	—	—	265,130
Japanese corporate bonds	—	—	3,220	101,400
Others	—	—	—	28,153
Available-for-sale securities	124,871	405,464	307,135	556,077
Japanese government and corporate bonds	36,905	155,718	274,185	388,350
Japanese government and local government bonds	28,895	80,175	271,000	388,350
Japanese corporate bonds	8,009	75,542	3,185	—
Others	87,966	249,745	32,950	167,727
Loans (*)	12,387	46,021	62,679	1,455,540
Total	¥533,629	¥479,373	¥703,545	¥8,820,391

(*) This figure excludes ¥189,460 million with no fixed redemption such as policyholder loans, and ¥18,895 million in overdrafts.

(Note 4) The future return schedule of deposits and other liabilities with interest

	2018					
	1 year or less	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	More than 4 years to 5 years	More than 5 years
As of March 31,						
Deposits (*)	¥2,042,073	¥44,265	¥23,553	¥ 9,119	¥11,295	¥28,939
Call money and bills sold	96,000	—	—	—	—	—
Borrowed money	462	20,122	50,122	100,122	3,112	—
Bonds payable	—	—	—	—	10,000	10,000
Collateral for securities lending transactions	303,889	—	—	—	—	—
Total	¥2,442,425	¥64,388	¥73,676	¥109,242	¥24,407	¥38,939

(*) Demand deposits are included in "1 year or less."

17. Fair value information on securities as of March 31, 2018:

*In addition to "Securities" on the consolidated balance sheets, the figures in the following tables include beneficiary certificates of investment trust in "Monetary claims purchased."

(1) Trading securities

	2018
As of March 31,	
Valuation gains charged to income	¥36,944

(2) Held-to-maturity securities

	2018		
	Consolidated balance sheet amount	Fair value	Difference
As of March 31,			
Fair values exceeding the consolidated balance sheet amount			
Japanese government and corporate bonds	¥5,723,643	¥7,377,238	¥1,653,595
Japanese government and local government bonds	5,570,041	7,206,713	1,636,672
Japanese corporate bonds	153,601	170,524	16,923
Others	63,558	67,533	3,975
Subtotal	5,787,201	7,444,772	1,657,570
Fair values not exceeding the consolidated balance sheet amount			
Japanese government and corporate bonds	517,815	479,378	(38,436)
Japanese government and local government bonds	325,625	304,563	(21,061)
Japanese corporate bonds	192,189	174,814	(17,375)
Others	242,259	222,636	(19,623)
Subtotal	760,074	702,014	(58,060)
Total	¥6,547,276	¥8,146,787	¥1,599,510

(3) Policy-reserve-matching bonds

	2018		
	Consolidated balance sheet amount	Fair value	Difference
As of March 31,			
Fair values exceeding the consolidated balance sheet amount			
Japanese government and corporate bonds	¥340,492	¥376,212	¥35,720
Japanese government and local government bonds	270,889	297,041	26,152
Japanese corporate bonds	69,602	79,171	9,568
Others	6,286	6,506	219
Subtotal	346,779	382,719	35,939
Fair values not exceeding the consolidated balance sheet amount			
Japanese government and corporate bonds	47,203	46,279	(924)
Japanese government and local government bonds	5,309	5,240	(68)
Japanese corporate bonds	41,894	41,039	(855)
Others	7,975	7,843	(131)
Subtotal	55,179	54,123	(1,055)
Total	¥401,958	¥436,842	¥34,884

(4) Available-for-sale securities

Millions of yen

	2018		
	Consolidated balance sheet amount	Acquisition cost	Difference
As of March 31,			
Consolidated balance sheet amount exceeding the acquisition cost			
Japanese government and corporate bonds	¥ 930,432	¥ 806,099	¥124,332
Japanese government and local government bonds	857,801	734,672	123,129
Japanese corporate bonds	72,630	71,427	1,203
Equity securities	33,416	13,796	19,619
Others	296,084	290,380	5,703
Subtotal	1,259,933	1,110,277	149,656
Consolidated balance sheet amount not exceeding the acquisition cost			
Japanese government and corporate bonds	61,926	62,232	(306)
Japanese government and local government bonds	46,059	46,351	(292)
Japanese corporate bonds	15,866	15,880	(13)
Equity securities	275	301	(25)
Others	241,698	246,264	(4,565)
Subtotal	303,900	308,798	(4,897)
Total	¥1,563,834	¥1,419,076	¥144,758

Note: As the unlisted stocks of ¥169 million (consolidated balance sheet amount) and investment in partnership of ¥12,653 million (consolidated balance sheet amount) have no market prices and their fair values are not readily determinable, they are not included in the table above.

(5) Held-to-maturity securities sold during the period

There is no related information to be reported.

(6) Policy-reserve-matching bonds sold during the period

There is no related information to be reported.

(7) Available-for-sale securities sold during the period

Millions of yen

	2018		
	Sales	Total gains on sales	Total losses on sales
For the year ended March 31,			
Japanese government and corporate bonds	¥15,993	¥ 89	¥—
Japanese government and local government bonds	10,213	61	—
Japanese corporate bonds	5,779	27	—
Equity securities	573	455	—
Others	37,797	241	12
Total	¥54,364	¥785	¥12

(8) Impairment of available-for-sale securities

Available-for-sale securities with fair value are considered impaired if the fair value decreases materially below the acquisition cost and such decline is considered non-recoverable. The fair value is recognized as the consolidated balance sheet amount and the write-down is accounted for as a devaluation loss for the fiscal year.

No impairment loss was recognized for the year ended March 31, 2018.

"Material decline" is indicated when the fair value declines by 30% or more from the acquisition cost.

18. Fair value information on money held in trust as of March 31, 2018:

(1) Money held in trust for trading

There is no related information to be reported.

(2) Money held in trust for held-to-maturity and policy-reserve-matching

There is no related information to be reported.

(3) Other money held in trust (other than for trading, held-to-maturity or policy-reserve-matching)

		2018				Millions of yen
As of March 31,		Consolidated balance sheet amount	Acquisition cost	Difference	Items whose consolidated balance sheet amount exceeds acquisition cost	Items whose consolidated balance sheet amount does not exceed acquisition cost
Other money held in trust		¥291,582	¥253,030	¥38,552	¥38,552	¥—

Notes: 1. The amount of jointly invested monetary trusts that is included in the table above as of March 31, 2018 is ¥40 million.

2. "Items whose consolidated balance sheet amount exceeds acquisition cost" and "Items whose consolidated balance sheet amount does not exceed acquisition cost" are the breakdown of the difference.

(4) Impairment of other money held in trust

Securities with fair values that are included in other money held in trust are considered impaired if their fair value decreases materially below the acquisition cost and such decline is considered non-recoverable.

No impairment loss was recognized for the year ended March 31, 2018.

"Material decline" is indicated when the fair value declines by 30% or more from the acquisition cost.

19. Derivative financial instruments:**(1) Hedge accounting not applied**

Below is a summary of contractual or notional amounts, current market or fair values, valuation gains or losses, and the method of calculating the fair values of derivatives, classified by transaction, to which hedge accounting is not applied. Notional amounts do not indicate exposure to credit loss.

1) Interest rate derivatives

		2018				Millions of yen
As of March 31,		Notional amount total	Notional amount over 1 year	Fair value	Valuation gains (losses)	
Over-the-counter transactions	Interest rate swaps					
	Fixed-rate receivable/Floating-rate payable	¥13,461	¥13,461	¥(66)	¥(66)	
	Floating-rate receivable/Fixed-rate payable	13,461	13,461	66	66	
Total		—	—	¥ —	¥ —	

Notes: 1. The above transactions are valued at market, and the valuation gains or losses are recorded in the consolidated statements of income.

2. Fair values are calculated using the discounted cash flow and the price indicated by a financial institution.

2) Currency derivatives

2) Currency derivatives			Millions of yen			
			2018			
As of March 31,			Notional amount total	Notional amount over 1 year	Fair value	Valuation gains (losses)
Over-the-counter transactions	Forward foreign exchanges	Sold	¥220,252	¥—	¥5,927	¥5,927
		Bought	153,241	—	495	495
	Foreign exchange margin transactions	Sold	62,635	—	2,480	2,480
		Bought	21,987	—	1,020	1,020
	Currency options	Sold	156	—	(1)	0
		Bought	206	—	1	0
	Currency forward contracts	Bought	14,216	—	(325)	(325)
Total			—	—	¥9,600	¥9,600

Notes: 1. The above transactions are valued at market, and the valuation gains or losses are recorded in the consolidated statements of income.

2. Fair value is measured using the discounted cash flow and option pricing models.

3) Stock derivatives

		2018				Millions of yen
As of March 31,		Notional amount total	Notional amount over 1 year	Fair value	Valuation gains (losses)	
Listed	Stock index futures	Sold	¥106,875	¥—	¥786	¥786
Total			—	—	¥786	¥786

Notes: 1. The above transactions are valued at market, and the valuation gains or losses are recorded in the consolidated statements of income.

2. Fair value is the closing price on the Exchange at the end of the fiscal year.

(2) Hedge accounting is applied

The following provides a summary of contractual or notional amounts, current market or fair values, valuation gains or losses, and the method of calculating the fair values of derivatives, classified by transactions, to which hedge accounting is applied. Notional amounts do not indicate exposure to credit loss.

1) Interest rate derivatives

			Millions of yen		
As of March 31,			2018		
Hedge accounting	Hedging instrument	Hedged item	Notional amount total	Notional amount over 1 year	Fair value
Deferred hedge accounting	Interest rate swaps				
	Floating-rate receivable/ Fixed-rate payable	Deposits	¥103,000	¥103,000	¥ 130
Fair value hedge accounting	Interest rate swaps				
	Floating-rate receivable/ Fixed-rate payable	Available-for-sale securities (bonds)	268,367	241,415	(12,300)
Total			—	—	¥(12,169)

Notes: 1. Deferred hedge accounting is applied in accordance with the Industry Audit Committee No. 24, along with fair value hedge accounting.
2. Fair value is calculated using the discounted cash flow and other methods.

2) Currency derivatives

			Millions of yen		
As of March 31,			2018		
Hedge accounting	Hedging instrument	Hedged item	Notional amount total	Notional amount over 1 year	Fair value
Fair value hedge accounting	Currency swaps	Available-for-sale securities (bonds)	¥19,200	¥14,000	¥(687)
Total			—	—	¥(687)

Notes: 1. Fair value hedge accounting is applied.
2. Fair value is calculated using the discounted cash flow and other methods.

20. Information about retirement benefit obligations as of March 31, 2018:

(1) Overview of retirement benefit plans

The life insurance subsidiary provides a lump-sum retirement benefit plan to sales staff and a defined benefit corporate pension plan and defined contribution pension plan to internal office staff. The non-life insurance subsidiary provides a lump-sum retirement benefit plan and a defined contribution pension plan. SFH and its banking subsidiary mainly provide a lump-sum retirement benefit plan. SFH and some consolidated subsidiaries calculate retirement benefit obligations based on the simplified method.

(2) Defined benefit plans

1) Reconciliation of beginning and ending balances of retirement benefit obligations (excluding those listed in 9))

		Millions of yen
For the year ended March 31,		2018
Balance at the beginning of the period of retirement benefit obligations		¥42,567
Service cost		4,768
Interest cost		102
Net actuarial gain arising during the period		321
Retirement benefits paid		(2,604)
Prior service cost arising during the period		67
Balance at the end of the period of retirement benefit obligations		¥45,222

2) Reconciliation of beginning and ending balances of plan assets (excluding those listed in 9))

		Millions of yen
For the year ended March 31,		2018
Balance at the beginning of the period of plan assets		¥14,032
Expected return on plan assets		143
Net actuarial gain arising during the period		562
Employer contribution		1,122
Retirement benefits paid		(258)
Balance at the end of the period of plan assets		¥15,601

3) Reconciliation of the ending balances of retirement benefit obligations and plan assets, and net defined benefit liability and net defined benefit asset recorded on the consolidated balance sheets

	Millions of yen
As of March 31,	2018
Funded retirement benefit obligations	¥11,938
Plan assets	(15,601)
	(3,663)
Unfunded retirement benefit obligations	33,416
Net liabilities and assets recorded on the consolidated balance sheets	29,753
Net defined benefit liability	33,179
Net defined benefit asset	(3,426)
Net liabilities and assets recorded on the consolidated balance sheets	¥29,753

4) Components and amounts of retirement benefit expenses

	Millions of yen
For the year ended March 31,	2018
Service cost	¥4,768
Interest cost	102
Expected return on plan assets	(143)
Amortization of net actuarial gain	909
Amortization of prior service cost	67
Others	62
Retirement benefit expenses related to defined benefit plans	¥5,765

Note: SFH includes retirement benefit expenses in "Others" based on the simplified method.

5) Remeasurements of defined benefit plans (before tax deductions)

	Millions of yen
For the year ended March 31,	2018
Net actuarial gain	¥1,150
Total	¥1,150

6) Accumulated remeasurements of defined benefit plans (before tax deductions)

	Millions of yen
As of March 31,	2018
Unrecognized net actuarial gain	¥(2,724)
Total	¥(2,724)

7) Plan assets

(i) Main components of plan assets

The percentage share of components by main asset class out of total plan assets is as follows:

	%
As of March 31,	2018
Bonds	68
Equity securities	28
Others	4
Total	100

(ii) Method of setting the long-term rate of expected return on plan assets

The long-term rate of expected return on plan assets is determined by taking into account the current and expected allocation of plan assets and the current long-term return rate and the long-term return rate that is expected in the future based on the various assets that comprise the plan assets.

8) Basis for calculating actuarial gain or loss

Main basis for calculating actuarial gain or loss as of March 31, 2018

Discount rate	0.2%–0.7%
Long-term rate of expected return on plan assets	1.0%–2.4%

9) Reconciliation of beginning and ending balances of net defined benefit liability of the plan based on the simplified method

	Millions of yen
For the year ended March 31,	2018
Balance at the beginning of the period of net defined benefit liability	¥111
Retirement benefit expenses	12
Retirement benefits paid	(3)
Contribution to the plan	(4)
Others	16
Balance at the end of the period of net defined benefit liability	¥132

(3) Defined contribution plans

The amount of contribution required for defined contribution plans by the Companies was ¥332 million.

21. Information on stock options, etc., as of March 31, 2018:

(1) Expenses and line items associated with stock options, etc.

Operating expenses, etc. ¥94 million

(2) Description and volume of stock options as well as their changes

1) Description of stock options

	The first series of stock acquisition rights of SFH
Category and number of eligible recipients	4 executive directors of SFH
Number of stock options granted by type of share ^(Note)	Common stock 52,900 shares
Grant date	August 8, 2016
Vesting conditions	Options rights are to be vested upon grant. However, if the recipient loses the position of executive director of the Company prior to the Ordinary General Meeting of Shareholders in 2017, he/she can exercise the number of stock options calculated by multiplying the number of stock options granted, by the number of months he/she serves as executive director from July 2016 up to the month of losing his/her position, and dividing the value by 12. The rest of the stock options granted shall no longer be exercisable on or after the date of the recipient losing his/her position, and is cancelled.
Eligible period of service	From June 24, 2016 to the date of the Ordinary General Meeting of Shareholders in 2017
Exercise period	From August 9, 2016 to August 8, 2046 However, eligible recipients of stock acquisition rights may exercise all (but not part) of the stock acquisition rights held by him/her only during the period from the day immediately following the date on which such holder loses any and all of his/her office(s) as executive director of SFH up to ten days (in the event that the tenth day is a holiday, the following business day) thereafter.
	The second series of stock acquisition rights of SFH
Category and number of eligible recipients	3 executive directors of SFH 7 executive directors of SFH subsidiaries
Number of stock options granted by type of share ^(Note)	Common stock 41,700 shares
Grant date	August 7, 2017
Vesting conditions	Options rights are to be vested upon grant. However, if the recipient loses the position of executive director of the Company and its subsidiaries prior to the Ordinary General Meeting of Shareholders in 2018, he/she can exercise the number of stock options calculated by multiplying the number of stock options granted, by the number of months he/she serves as executive director from July 2017 up to the month of losing his/her position, and dividing the value by 12. The rest of the stock options granted shall no longer be exercisable on or after the date of the recipient losing his/her position, and is cancelled.
Eligible period of service	From June 21, 2017 to the date of the Ordinary General Meeting of Shareholders in 2018
Exercise period	From August 8, 2017 to August 7, 2047 However, eligible recipients of stock acquisition rights may exercise all (but not part) of the stock acquisition rights held by him/her only during the period from the day immediately following the date on which such holder loses any and all of his/her office(s) as executive director of SFH and its subsidiaries up to ten days (in the event that the tenth day is a holiday, the following business day) thereafter.

Note: Stock options have been converted and stated as number of shares.

2) Volume of stock options and their changes

Stock options that existed in the year ended March 31, 2018, are presented as follows, and have been converted and stated as number of shares.

(i) Number of stock options

	The first series of stock acquisition rights of SFH	The second series of stock acquisition rights of SFH
Before vesting (shares)		
At the end of the previous year	—	—
Granted	—	41,700
Lapsed	—	—
Vested	—	41,700
Number of unvested stock options	—	—
After vesting (shares)		
At the end of the previous year	52,900	—
Vested	—	41,700
Exercised	17,200	—
Lapsed	—	—
Number of unexercised stock options	35,700	41,700

(ii) Unit price information

	The first series of stock acquisition rights of SFH	The second series of stock acquisition rights of SFH
Exercise price	¥1	¥1
Average share price at the time of exercise	¥1,779	—
Fairly assessed value on the grant date	¥1,236	¥1,695

(3) Method for estimating the fair value of stock options

The method for estimating the fair value of stock options that were granted in the year ended March 31, 2018 is as follows:

1) Assessment method used

Black-Scholes model

2) Main basic values and their estimation method

	The second series of stock acquisition rights of SFH
Volatility of share price (*1)	33.735%
Expected remaining period (*2)	5.4 years
Expected dividend (*3)	¥55/share
Risk-free rate (*4)	(0.057%)

(*1) Calculated based on the past share prices during the period corresponding to the expected remaining period of 5.4 years in (*2).

(*2) Calculated by weighting and averaging the expected period of service by the amount to be granted.

(*3) Based on the actual dividends for the fiscal year ended March 31, 2017.

(*4) Calculated using the average compound yield of long-term JGB with the remaining period approximate to the expected remaining period of 5.4 years in (*2).

(4) Method for estimating the number of stock options vested

As it is difficult, as a general rule, to reasonably estimate the number of stock options to lapse in the future, SFH adopts a method that only reflects the actual number lapsed.

(5) Description of restricted stock compensation

	The first series of restricted stock compensation of SFH
Categories and numbers of eligible recipients	3 executive directors of SFH 4 executive officers of SFH 7 executive directors of SFH subsidiaries 30 executive officers of SFH subsidiaries
Number of shares granted	27,513 shares of common stock
Grant date	August 7, 2017
Transfer restriction period	From August 7, 2017 to August 7, 2020
Cancellation conditions	On the condition that the recipient has maintained his/her position of executive director, etc., of SFH continuously during the transfer restriction period, the transfer restriction shall be cancelled at the expiration of the transfer restriction period. If the recipient loses his/her position of executive director, etc., prior to the expiration of the transfer restriction period for reasons that the Board of Directors of SFH deems justifiable, he/she can cancel the transfer restriction for the number of allocated stock calculated by multiplying the number of allocated stock by the number of months he/she serves as executive director, etc., from the month of the appointment of his/her respective position up to the month of losing his/her position, and dividing the value by 12. SFH shall acquire the allocated stock not subject to the cancellation of the transfer restriction free of charge immediately after the cancellation.
Fairly assessed value on the grant date	¥2,020

22. Information on tax effect accounting as of March 31, 2018:

(1) Breakdown of major factors giving rise to deferred tax assets and deferred tax liabilities

	Millions of yen
As of March 31,	2018
Deferred tax assets	
Policy reserves and others	¥38,672
Reserve for price fluctuations	13,478
Net defined benefit liability	8,367
Write-down of securities	1,270
Tax loss carried forward	1,556
Depreciation and amortization	4,667
Net deferred losses on hedging instruments	479
Others	8,364
Subtotal of deferred tax assets	76,855
Valuation allowance	(4,115)
Total deferred tax assets	72,740
Deferred tax liabilities	
Net unrealized gains on available-for-sale securities	(50,868)
Others	(628)
Total deferred tax liabilities	(51,497)
Net deferred tax assets (liabilities)	¥21,242

Note: Net deferred tax assets for the year ended March 31, 2018 are included in the following items of the consolidated balance sheets.

	Millions of yen
As of March 31,	2018
Assets - Deferred tax assets	¥21,242
Liabilities - Deferred tax liabilities	0

(2) Breakdown of major items giving rise to a significant difference between the statutory effective tax rate and the effective income tax rate after application of tax effect accounting

	%
As of March 31,	2018
Statutory effective tax rate	30.9
(Adjustments)	
Difference in tax rate of subsidiaries	(2.4)
Increase (decrease) in valuation allowance	0.5
Others	1.4
Effective income tax rate after application of tax effect accounting	30.4

23. Asset retirement obligations:

Asset retirement obligations recorded on the consolidated balance sheets

(1) Overview of asset retirement obligations

The reserve for asset retirement obligations is provided for the obligation to restore sites to their original states under the lease agreement of commercial properties, as well as the estimated amount of asbestos removal cost associated with investment and rental property in accordance with Ordinance on Prevention of Health Impairment due to Asbestos and others.

(2) Basis of measurement for asset retirement obligations

The amount of asset retirement obligations is calculated by estimating the usable period to be 15 to 50 years from acquisition and then applying a 0.1% to 2.3% discount rate.

(3) Changes in the balance of asset retirement obligations

	Millions of yen
For the year ended March 31,	2018
Balance at the beginning of the period	¥2,214
Increase due to purchase of tangible fixed assets	280
Decrease due to sales of tangible fixed assets	(356)
Changes resulting from the passage of time	19
Decrease due to performance of asset retirement obligations	(27)
Balance at the end of the period	¥2,131

24. Fair value information on investment and rental property:

Some consolidated subsidiaries own rental office buildings in Tokyo and other areas. Income related to investment and rental property and gains on disposal of fixed assets amounted to ¥5,705 million and ¥13,258 million, respectively, for the year ended March 31, 2018. Below is the consolidated balance sheet amount, net of changes during the period, and the fair value at the end of the current period.

	Millions of yen
For the year ended March 31,	2018
Consolidated balance sheet amount	
Balance at the beginning of the period	¥104,731
Changes during the period	(18,354)
Balance at the end of the period	86,376
Fair value at the end of the period	¥154,911

Notes: 1. The consolidated balance sheet amount is the acquisition cost less accumulated depreciation and impairment losses.

2. The main components of the increases during the period were transfer from the office used by some consolidated subsidiaries to the rental office (¥6,539 million) and new consolidation (¥308 million), while the decrease was mainly due to sale of real estate held (¥23,691 million).

3. The fair value at the end of the period is determined by a licensed third-party real estate appraisal agent.

25. Subsequent events are as follows:

(Establishment of a subsidiary)

May 14, 2018 – The Board of Directors passed a comprehensive resolution to establish a subsidiary through a company split (simple incorporation-type company split).

(1) Objective

SFH will establish an investment subsidiary to invest in venture companies with strengths in Fintech and other fields in the interest of obtaining a financial return and promoting collaboration and cooperation between venture companies and individual companies in the Sony Financial Group. As a result, SFH aims to enhance the Sony Financial Group's existing businesses and create new businesses.

(2) Overview of the subsidiary

Name: Sony Financial Ventures Inc.
Head office: Chiyoda-ku, Tokyo
Business: Venture capital operations and any other operations ancillary to or related to venture capital operations
Common stock: ¥10 million
Issued shares: 10,000 shares
Established: July 10, 2018
Shareholder composition: Sony Financial Holdings Inc. 100%

7 Notes to the Consolidated Statements of Income

Profit attributable to owners of the parent per share is calculated based on the weighted-average number of shares of common stock outstanding during the period. For the year ended March 31, 2018, net income per share was ¥119.30.

The basis for this calculation for the year ended March 31, 2018 is profit attributable to owners of the parent of ¥51,895 million, the entire amount of which is applicable to common stock. The weighted-average number of shares outstanding for the year ended March 31, 2018 was 434,979 thousand shares.

Diluted net income per share attributable to owners of the parent was ¥119.29. There was no adjustment to profit attributable to owners of the parent for a basis for calculation, and common stock reflecting the dilutive shares increased by 60 thousand shares.

8 Notes to the Consolidated Statements of Comprehensive Income

Reclassification adjustments and income tax benefit (expense) on components of other comprehensive income for the year ended March 31, 2018 are as follows:

	Millions of yen
For the year ended March 31,	2018
Net unrealized gains (losses) on available-for-sale securities, net of taxes:	
Gains (losses) arising during the period	¥ 838
Reclassification adjustments	(2,092)
Pre-tax amount	(1,254)
Income tax benefit (expense)	396
Net unrealized gains (losses) on available-for-sale securities, net of taxes	(857)
Net deferred gains (losses) on hedging instruments, net of taxes:	
Gains (losses) arising during the period	1,025
Reclassification adjustments	(662)
Pre-tax amount	363
Income tax benefit (expense)	(111)
Net deferred gains (losses) on hedging instruments, net of taxes	251
Land revaluation, net of taxes:	
Gains (losses) arising during the period	(378)
Reclassification adjustments	—
Pre-tax amount	(378)
Income tax benefit (expense)	378
Land revaluation, net of taxes	—
Remeasurements of defined benefit plans, net of taxes:	
Gains (losses) arising during the period	240
Reclassification adjustments	909
Pre-tax amount	1,150
Income tax benefit (expense)	(322)
Remeasurements of defined benefit plans, net of taxes	827
Total other comprehensive income	¥ 221

9 Notes to the Consolidated Statements of Changes in Net Assets

1. Types and numbers of shares issued are as follows:

	Thousands of shares			
	2018			
	Number of shares as of April 1, 2017	Number of shares increased during the period	Number of shares decreased during the period	Number of shares as of March 31, 2018
For the year ended March 31,				
Issued shares				
Common stock	435,000	27	—	435,027
Total	435,000	27	—	435,027
Treasury stock				
Common stock	52	—	17	35
Total	52	—	17	35

Notes: 1. The increase of 27 thousand shares in common stock (of shares outstanding) was due to allocation of restricted stock by resolution of the Board of Directors.

2. The decrease of 17 thousand shares in common stock (of treasury stock) was due to exercise of subscription rights to shares (stock option).

2. Information on stock acquisition rights is as follows:

	Detail of stock acquisition rights	Balance at the end of the period (Millions of yen)
SFH	Stock acquisition rights as stock options	97

3. Information on dividends is as follows:

(1) Dividends paid

Resolution	Type of shares	Aggregate amount of dividends	Cash dividends per share	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 21, 2017	Common stock	¥23,922 million	¥55	March 31, 2017	June 22, 2017

(2) Dividends to be paid in the next fiscal year

Resolution	Type of shares	Aggregate amount of dividends	Source of dividends	Cash dividends per share	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 22, 2018	Common stock	¥26,099 million	Retained earnings	¥60	March 31, 2018	June 25, 2018

10 Notes to the Consolidated Statements of Cash Flows

1. The reconciliation of cash and cash equivalents in the statement of cash flows to cash and due from banks as stated in the consolidated balance sheet as of March 31, 2018 is as follows:

	Millions of yen
For the year ended March 31,	2018
Cash and due from banks	¥327,633
Call loans of life insurance subsidiary	65,500
Cash and cash equivalents	¥393,133

2. Cash flows from investing activities include cash flows from lending operations of the insurance business.

MCEV Results for Sony Life as of March 31, 2018

1 MCEV Results

Sony Life's MCEV as of March 31, 2018 increased ¥192.1 billion, due to the revision of the methodologies for the quantification of insurance risk*, the addition of new business and other factors.

	Billions of yen		
As of March 31,	2017	2018	Change
MCEV	¥1,441.1	¥1,633.2	¥192.1
Adjusted net worth	1,657.7	1,786.1	128.4
Value of existing business	(216.7)	(152.9)	63.7

* Sony Life revised the methodologies for the quantification of insurance risks to better reflect Sony Life's risk profile as of March 31, 2018. Along with this revision, Sony Life also revised the cost of capital rate from 2.5% to 3.0%.

2 Adjusted Net Worth

The adjusted net worth as of March 31, 2018 increased ¥128.4 billion, primarily because of the increase in unrealized gain on held-to-maturity securities caused by a decrease in interest rates. The breakdown of adjusted net worth is shown in the table below.

	Billions of yen		
As of March 31,	2017	2018	Change
Adjusted net worth	¥1,657.7	¥1,786.1	¥128.4
Total net assets	473.6	492.8	19.2
Reserve for price fluctuations	46.0	47.9	1.9
Contingency reserve	82.5	89.9	7.5
Reserve for possible loan losses	0.0	0.0	(0.0)
Reinsurance debit for coinsurance-type reinsurance	1.2	2.1	0.9
Unrealized gains or losses on held-to-maturity securities	1,445.6	1,582.6	137.1
Unrealized gains or losses on policy-reserve-matching bonds	26.0	34.9	8.9
Unrealized gains or losses on land and buildings	71.0	69.7	(1.3)
Unfunded pension liabilities	(3.6)	(2.4)	1.1
Intangible fixed assets	(19.4)	(23.2)	(3.9)
Tax effect equivalent of above nine items	(461.8)	(504.4)	(42.6)
Valuation gain or loss on subsidiaries and affiliated companies	(3.4)	(3.7)	(0.4)

	Billions of yen		
As of March 31,	2017	2018	Change
Adjusted net worth	¥1,657.7	¥1,786.1	¥128.4
Free surplus	496.1	926.1	430.0
Required capital	1,161.7	860.0	(301.6)

Sony Life sets its required capital as the larger of the amount of Japanese regulatory minimum capital requirements at the solvency margin ratio of 200% or the amount of capital to cover risks based on an internal model based on economic value. The required capital as of March 31, 2018 decreased due to the revision of the methodologies for the quantification of insurance risks.

3 Value of Existing Business

The value of existing business as of March 31, 2018 increased ¥63.7 billion, primarily due to a revision of the methodologies used for the quantification of insurance risks and the addition of new business, which increased value, offset by the effect of a decrease in interest rates, which lowered the value of existing business. The breakdown of the value of existing business is shown in the table below.

	Billions of yen		
As of March 31,	2017	2018	Change
Value of existing business	¥(216.7)	¥(152.9)	¥ 63.7
Present value of certainty-equivalent profit	350.0	316.7	(33.3)
Time value of options and guarantees	(145.2)	(136.0)	9.1
Frictional costs	(35.6)	(22.7)	12.9
Cost of non-hedgeable risks	(385.9)	(310.9)	75.0

4 New Business Value

The new business value in the year ended March 31, 2018 increased ¥41.3 billion, primarily because of the increase in the overall level of interest rates throughout the year compared with the previous fiscal year. The breakdown of new business value is as follows:

	Billions of yen		
For the year ended March 31,	2017	2018	Change
Value of new business	¥ 29.1	¥ 70.4	¥41.3
Present value of certainty-equivalent profit	68.3	106.3	37.9
Time value of options and guarantees	(9.1)	(6.9)	2.3
Frictional costs	(0.1)	(0.2)	(0.1)
Cost of non-hedgeable risks	(29.8)	(26.8)	3.1
Other profits or losses	(0.2)	(2.0)	(1.9)

5 New Business Margin

The new business margin described below is the ratio of the value of new business to the present value of premium income. The present value of premium income is calculated applying the same assumptions as those for the calculation of new business value, and is based on premiums before the deduction of reinsurance premiums. The business margin in the year ended March 31, 2018 increased due to a change in the product mix and the increase in the overall level of interest rates throughout the year compared with the previous fiscal year.

	Billions of yen		
For the year ended March 31,	2017	2018	Change
Value of new business	¥ 29.1	¥ 70.4	¥ 41.3
Present value of premium income	1,297.4	1,213.8	(83.5)
New business margin	2.2%	5.8%	3.6pt

6 Reconciliation Analysis from MCEV at the End of the Prior Year

The table below shows the reconciliation analysis of MCEV as of March 31, 2018, from MCEV as of March 31, 2017.

	Billions of yen			
	Free surplus	Required capital	Value of existing business	MCEV
Opening MCEV (MCEV as of March 31, 2017)	¥ 496.1	¥1,161.7	¥(216.7)	¥1,441.1
Opening adjustments	(23.1)	—	—	(23.1)
Adjusted opening MCEV	¥ 473.0	¥1,161.7	¥(216.7)	¥1,418.0
New business value	(3.2)	1.1	72.5	70.4
Expected existing business contribution (risk-free rate)	(1.4)	(2.8)	20.5	16.4
Expected existing business contribution (in excess of risk-free rate)	0.6	1.2	5.1	6.8
Transfers from value of existing business and required capital to free surplus	(8.8)	(61.6)	70.3	—
Of which, on new business	(66.1)	—	66.1	—
Experience variances	119.5	(114.3)	4.0	9.2
Assumption changes	9.1	(9.1)	36.2	36.2
Other operating variance	373.3	(373.3)	80.4	80.4
Operating MCEV earnings	489.2	(558.8)	289.0	219.4
Economic variances	(36.1)	257.1	(225.3)	(4.2)
Other non-operating variance	—	—	—	—
Total MCEV earnings	(453.1)	(301.6)	63.7	215.2
Closing adjustments	—	—	—	—
Closing MCEV (MCEV as of March 31, 2018)	¥ 926.1	¥ 860.0	¥(152.9)	¥1,633.2

Notes: 1. Expected yield used for the fiscal year ended March 31, 2018 was negative 0.147%.

2. Assumption changes primarily indicate the impact of changes in assumptions based on experience data for mortality and morbidity rates, lapse and surrender rates, and operating expense rates. For the year ended March 31, 2018, the value of existing business increased primarily because of an improvement in mortality and morbidity.

3. Other operating variance represents the impact of improvements and corrections of the model used in calculating MCEV.

Sony Life revised the methodologies for the qualification of insurance risk to better reflect Sony Life's risk profile. This revision increased the value of existing business ¥149.6 billion and decreased the required capital ¥413.6 billion. At the same time, Sony Life also revised the cost of capital rate from 2.5% to 3.0%, and this revision decreased the value of existing business ¥53.0 billion and increased the required capital ¥51.8 billion.

In addition, Sony Life revised the shock factors on interest rates for ultra-long term durations where there is no market data, specifically, after the 40th year for the Japanese yen rates and after the 30th year for the U.S. dollar rates that are used for the calculation of non-hedgeable interest rate risks. This revision was made in consideration of the discussion on Insurance Capital Standard (ICS) being developed by the International Association of Insurance Supervisors (IAIS) for the international capital standard. This revision is reflected in this line, which decreased the required capital by ¥58.4 billion.

Sony Life revised pricing for some of its products in February 2018 and April 2018. Renewal premium in the projection reflects those pricing revisions.

7 Sensitivity Analysis

The impact of changing the underlying assumptions on MCEV is as follows:

Sensitivities of MCEV

		Billions of yen		
Assumption	Change in assumption	MCEV	Change in amount	Rate of change
Base	No change	¥1,633.2	¥ —	—
Interest rates	50bp decrease	1,552.6	(80.6)	(5%)
	50bp increase	1,679.2	46.0	3%
	Swap rates	1,656.3	23.1	1%
Stock / Real estate market value	10% decrease	1,610.7	(22.5)	(1%)
Stock / Real estate implied volatility	25% increase	1,604.2	(28.9)	(2%)
Interest swaption implied volatility	25% increase	1,614.5	(18.7)	(1%)
Maintenance expenses	10% decrease	1,659.7	26.5	2%
Lapse and surrender rates	x 0.9	1,617.9	(15.3)	(1%)
Mortality rates	Death protection products x 0.95	1,699.3	66.1	4%
	Third-sector and annuity products x 0.95	1,620.8	(12.3)	(1%)
Morbidity rates	x 0.95	1,698.6	65.5	4%
Required capital	Regulatory minimum	1,652.1	18.9	1%
Foreign exchange rates	10% appreciation of JPY	1,613.5	(19.7)	(1%)

The breakdown of the changes in MCEV into the adjusted net worth and the value of existing business are shown in the table below. Of items not specified in this table, only the value of existing business has been changed while adjusted net worth remains the same.

		Billions of yen		
Assumption	Change in assumption	MCEV	Adjusted net worth	Value of existing business
Interest rates	50bp decrease	¥(80.6)	¥ 830.8	¥(911.4)
	50bp increase	46.0	(718.2)	764.2
Stock / Real estate market value	10% decrease	(22.5)	(8.4)	(14.0)
Foreign exchange rates	10% appreciation of JPY	(19.7)	0.1	(19.8)

8 Main Assumptions

Sony Life has used the JGB yields and U.S. Treasury yields as of the end of March 2018 as reference rates for the certainty-equivalent projections.

Sony Life has not added a liquidity premium on the risk-free rate as there are no products that are considered to have reasonably predictable and illiquid cash flows and would therefore be appropriate to apply a liquidity premium.

Regarding the extrapolation for ultra-long term risk-free rates where there is no market data, an ultimate forward rate was applied. More specifically, the ultimate forward rate was set at 3.5% and the last liquid point was set at 40 years (30 years for USD) and, based on Smith-Wilson methodology, forward rates on or after 41 years (31 years for USD) were extrapolated to converge to the ultimate forward rate over 20 years (30 years for USD). These parameters were set primarily in reference to the discussion on ICS. The reasons for setting the last liquid point at 40 years (30 years for USD) are as follows:

- Government bonds with 40-year maturity (30-year maturity for USD) have high liquidity and observable market data.
- Consistency in valuation between assets and liabilities as Sony Life holds a large amount of government bonds with 30- to 40-year maturity (30-year maturity for USD).

The risk-free rates used in calculation for key terms (on a par-rate basis) are as follows:

As of the end of March, Term (in years)	Japanese yen		U.S. dollar	
	2017	2018	2017	2018
1	(0.25%)	(0.13%)	1.02%	2.09%
5	(0.12%)	(0.11%)	1.92%	2.56%
10	0.07%	0.04%	2.39%	2.74%
20	0.64%	0.53%	2.75%	2.85%
30	0.84%	0.74%	3.01%	2.97%
40	0.96%	0.89%	3.04%	3.02%
50	1.25%	1.19%	3.07%	3.05%
60	1.45%	1.40%	3.09%	3.08%
70	1.57%	1.53%	3.11%	3.09%
80	1.65%	1.61%	3.12%	3.10%

(Data: Ministry of Finance Japan for JGB [extrapolated] and Bloomberg for U.S. Treasury [extrapolated])

Assumptions including mortality and morbidity rates, lapse and surrender rates, and operating expense rates were developed based on best estimates by product as of the end of March 2018. Best-estimate assumptions are developed to reflect past and current experiences as well as expected experiences in the future. Expected future changes in assumptions should be reflected only when they are supported by sufficient reasons. Except for a deteriorating trend in morbidity rates, no other expected future changes are assumed in the best-estimate assumptions applied.

9 Opinion of Outside Specialist

Sony Life requested Milliman, Inc., an external actuarial consulting firm with expert knowledge in the area of MCEV valuations, to review the methodology, assumptions and calculations, and obtained an opinion from this firm. Please refer to Sony Life's press release "Disclosure of Market Consistent Embedded Value as of March 31, 2018" (https://www.sonyfh.co.jp/index_en.html) for details.

10 Risk Amount Based on Economic Value (After Tax)

Sony Life has been disclosing the risk amount based on economic value since the end of March 2012 in an effort to provide a clearer picture of its financial soundness based on economic value. The risk amount based on economic value* refers to the total amount of Sony Life's risks, comprehensively examined by a market consistent approach, including insurance risk, market-related risk and others. Sony Life's risk amount based on economic value decreased ¥250.8 billion from March 31, 2017, to ¥729.7 billion, due mainly to the revision of the methodologies for the qualification of insurance risk. The breakdown of the risk amount is as follows:

As of March 31,	Billions of yen	
	2017	2018
Insurance risk (Note 1)	¥ 937.5	¥ 497.5
Market-related risk	405.1	380.6
Of which, interest rate risk (Note 2)	308.9	275.3
Operational risk	28.1	31.0
Counterparty risk	1.9	2.6
Variance effect	(392.0)	(182.0)
Risk amount based on economic value	¥ 980.6	¥ 729.7

Notes: 1. Insurance risk as of March 31, 2017 excludes the variance effect within Life module and Health module.

2. Interest rate risk excludes the variance effect within market-related risk.

Sony Life is making every effort to ensure its financial soundness by maintaining the risk amount based on economic value at an appropriate level relative to MCEV, which is capital based on economic value.

*The risk amount based on economic value is calibrated at VaR (99.5%) over one year and based on the internal model.

For further details, please refer to MCEV Results for Sony Life in the Financial Data Book.
https://www.sonyfh.co.jp/en/financial_info/annualreport/

Financial Data Book Contents



Please visit SFH's website to view the Financial Data Book.

Detailed financial data for each operating company is presented in a separate publication called the Financial Data Book.

https://www.sonyfh.co.jp/en/financial_info/annualreport

SFH Financial Data (Consolidated)

Principal Indicators of Operating Performance
Consolidated Balance Sheets
Consolidated Statements of Income and
Consolidated Statements of Comprehensive Income
Consolidated Statements of Changes in Net Assets
Consolidated Statements of Cash Flows

Sony Life Financial Data (Non-consolidated)

Balance Sheets
Statements of Income
Statements of Changes in Net Assets
Statements of Cash Flows
1. Loans by Borrower Category
2. Risk-monitored Loans
3. Accounting Indicators
4. Reconciliation to Core Profit and
Non-consolidated Ordinary Profit
5. Fair Value Information on Securities (General Account)
6. Fair Value Information on Securities (Company Total)

Sony Life Performance Indicators (Non-consolidated)

1. Key Performance Indicators for Past Five Years
2. Key Performance Indicators
3. Indicators for Insurance Policies
4. Indicators Related to Asset Management
(General Account)
5. Status of Insurance Claims Paying Ability
6. Balance of Separate Account Assets
7. Investment Progress of Separate Account Assets in
Individual Variable Life Insurance and Individual Variable
Annuities
8. Status of Individual Variable Life Insurance and Individual
Variable Annuities
9. Number of Agencies
10. Number of Employees and Recruits
11. Average Salary

Sony Assurance Financial Data

Balance Sheets
Statements of Income
Statements of Changes in Net Assets
Statements of Cash Flows
1. Loans by Borrower Category
2. Risk-monitored Loans
3. Assets and Liabilities
4. Profit and Loss
5. Fair Value Information, etc.

Sony Assurance Performance Indicators

1. Principal Indicators of Operating Performance
2. Underwriting Performance
3. Asset Management
4. Non-consolidated Solvency Margin Ratio

Sony Bank Financial Data (Consolidated)

Consolidated Balance Sheets
Consolidated Statements of Income
Consolidated Statements of Comprehensive Income
Consolidated Statements of Changes in Net Assets
Consolidated Statements of Cash Flows

Sony Bank Financial Data (Non-consolidated)

Balance Sheets
Statements of Income
Statements of Changes in Net Assets
1. Loans by Borrower Category
2. Risk-monitored Loans
3. Profit and Loss
4. Fair Value Information

Sony Bank Performance Indicators (Non-consolidated)

1. Key Performance Indicators
2. Status of Operations (Deposits)
3. Status of Operations (Loans)
4. Status of Operations (Securities)

MCEV Results for Sony Life

1. MCEV Results
2. Assumptions
3. Calculation Method of MCEV
4. Overview of MCEV
5. Glossary of MCEV-related Terminology

Glossary (in Alphabetical Order)

A

ALM (asset liability management)

Life Non-life Banking

A method for maximizing and stabilizing net asset value, which is calculated by deducting the value of liabilities from the value of assets, through the comprehensive grasp and management of assets and liabilities in consideration of their special characteristics.

Annualized insurance premiums **Life**

An indicator of the approximate annual premium income from existing policies, which is used as a performance indicator. Annualized insurance premiums are calculated by adjusting differences in the payment methods since insurance premiums can be paid monthly, annually or in a lump sum, and by assuming that average payments will be made over the term of the policy.

Assumed interest rate **Life Non-life**

Insurance companies anticipate a certain return on invested assets in advance and discount insurance premiums only by this amount. This discount rate is called the assumed interest rate.

Assumed mortality rate **Life**

The mortality rate is the percentage of people who die in a single year for a given large population. The assumed mortality rate is the mortality rate used when calculating the amount of insurance premiums needed to cover future benefit payments, and represents a projection of the number of deaths by gender and age based on past statistics.

Assumed rate of expense

Life Non-life

In operating their businesses, insurance companies forecast their expenses, then incorporate this amount in their insurance premiums. This expense rate is called the assumed rate of expense.

C

Capital adequacy ratio **Banking**

The ratio of capital to total assets. An indicator of whether a bank has enough capital, including common stock, versus credit risk assets (of total assets, those which could become non-performing). If a bank is unable to recover a large amount of loans, it can draw on capital and write off these loans. A sharp decrease in capital creates difficulties in bank management.

Capital adequacy ratio regulations ensure that banks are soundly managed by keeping the capital adequacy ratio above a certain level. This ratio is therefore an important indicator to show financial soundness. For banks possessing business bases overseas, the internationally standardized regulations to preserve financial soundness are a capital adequacy ratio of over 8%, and for banks not possessing business bases overseas, in Japan a capital adequacy ratio of 4% is required.

Catastrophe reserve **Non-life**

A type of policy reserve, under which, pursuant to the provisions of the Insurance Business Act of Japan, non-life insurance companies are required to accumulate each fiscal year as an amount calculated based on premium income to cover losses due to catastrophic events. In consideration of the special need for the non-life insurance business to cover a wide range of risks, the catastrophe reserve acts as a provision against the risk of large insurance claims resulting from earthquakes, typhoons and other catastrophic events. It is structured to be accumulated over the course of multiple fiscal years, and reversed during the fiscal year in which a disaster occurs.

Combined ratio **Non-life**

The sum of a net loss ratio and net expense ratio. Indicates an insurance company's profitability in the primary business operations.

Compulsory automobile liability insurance **Non-life**

Compulsory automobile liability insurance is legally required for all vehicles and provides protection for victims of traffic accidents resulting in injury or death. Compulsory automobile liability mutual aid is similar. With compulsory automobile liability insurance (mutual aid), indemnity payments per person per accident are capped at ¥30 million for death, ¥40 million for serious residual disability and ¥1.2 million for injury. Benefits are not paid for vehicle or property damage.

Contingency reserve **Life Non-life**

Reserve to prepare for possible contingencies, including insurance risk and assumed interest rate risk.

Core profit **Life**

An indicator of profits (losses) in the primary insurance business over a one-year period. It is derived by subtracting from ordinary profit any profits earned from operations other than the primary insurance business. Profit categories subtracted from ordinary profit include gains and losses on the sale of securities and one-time gains and losses, such as profits from the sale of assets owned by the insurance company.

D

Direct premiums written **Non-life**

Premiums received from policyholders, calculated by subtracting direct surrender payments and other direct payments from direct premiums.

Duration **Life**

A sensitivity index indicating the extent to which the present value of future cash flow (interest income, repayment of principal, receipt of premiums, payment of insurance benefits and dividends, etc.) from eligible assets (managed assets) and liabilities (policy liabilities) will be affected by interest rate fluctuations. While a variety of types and methods for calculating duration exists, a method expressing the weighted average maturity of the cash flow in question is relatively widely used.

E

Earned/incurred (E.I.) loss ratio

Non-life

An indicator that represents the loss ratio incurred during the current period that takes into account the provision and reversal of reserve for outstanding losses and ordinary underwriting reserves calculated using the following formula: Earned/incurred (E.I.) loss ratio = (Net losses paid + Provision for reserve for outstanding losses + Loss adjustment expenses) / Earned premiums (excluding earthquake insurance and compulsory automobile liability insurance).

Endowment insurance **Life**

Endowment insurance entitles a beneficiary to receive death or serious disability benefits upon the death or serious disability of the insured within an insurance period specified when the policy is purchased, or to receive maturity benefits upon policy maturity.

ERM (enterprise risk management)

Life Non-life Banking

An approach to accomplishing corporate strategic goals and sustainable growth in corporate value by conducting integrated recognition and control of all risks a company faces and seeking to optimize the risk from a company-wide perspective.

ESR (economic solvency ratio) **Life**

ESR is one of the financial soundness indicators, which measures whether an organization possesses sufficient capital in relation to its risks.

Sony Life computes its ESR by dividing MCEV by the risk amount based on economic value. For details on MCEV and the risk amount based on economic value, please see "MCEV Results for Sony Life" in the Financial Data Book.

EV (embedded value) **Life**

An indicator of the corporate value of a life insurance company. Sony Life discloses MCEV (market consistent embedded value) in conformity with the MCEV Principles. For details on MCEV, please see "MCEV Results for Sony Life" in the Financial Data Book.

Expense ratio **Life Non-life**

The ratio of expenses to insurance premiums. Used as an indicator of business efficiency at insurance companies. Expenses are used for soliciting, maintaining and managing insurance as well as for payment of insurance claims.

F

Foreign currency-denominated insurance **Life**

Insurance product in which insurance premiums are invested in foreign currency. Sony Life sells U.S. dollar-denominated insurance, in which policyholders pay the Japanese yen equivalent of the U.S. dollar-denominated insurance premiums and select the Japanese yen or U.S. dollar when they receive insurance claims.

Foundation internal ratings-based approach **Banking**

The amount of credit risk assets is calculated mainly by the standard approach or internal rating based approach for computing the capital adequacy ratio. The standard approach calculates the amount of credit risk assets by using the risk weight set by authorities. On the other hand, the internal rating based approach calculates the amount of credit risk assets by using the default rate, etc. as estimated internally by financial institutions that practice advanced risk management. This approach includes a fundamental internal rating based approach that partly uses the values set by authorities for loss rates at the time of default, and an advanced internal rating based approach that uses the values estimated internally by financial institutions in every situation.

G

General accounts **Life**

Accounts for managing financial assets not included in separate accounts. This account guarantees policyholders a certain assumed interest rate, while the life insurance company bears the asset management risk.

Gross operating profit **Banking**

The total income from the four components of banking services income: net interest income, net fees and commissions, net trading income and net other operating income. Equivalent to gross profit (sales minus purchases) and an indicator of the amount of profits a bank generates from its main services.

I

Individual annuities **Life**

Policyholders are eligible for receiving annuity payments from funds accumulated by paid insurance premiums at a certain age prescribed in the policy. There are a variety of types depending on the period for receiving the annuity, structure of the annuity, method for paying premiums and death protection prior to receiving the annuity.

Individual variable annuities **Life**

Individual annuity product in which assets are invested mainly in stocks and bonds, and annuity and surrender payments increase or decrease depending on investment returns. The individual policyholder bears the asset management risk.

Insurance premiums **Life Non-life**

Money paid by policyholders to an insurance company based on the insurance policy. Even after submitting an insurance policy application, no protection or compensation is provided unless premiums are paid.

Investment crowd funding **Banking**

Investment crowd funding is an arrangement that uses the Internet to link venture companies' fund-raising needs for their projects with investors' money management needs. Unlike donation-type and purchase-type crowd funding, which do not involve monetary return, investors can receive dividends. Meanwhile, investment crowd funding has the feature of investment products associated with risks, whereby dividends may not be paid or the investment value may fall below the amount invested due to the performance of venture companies, etc.

L

Lapse and surrender rate

Life Non-life

Surrender refers to the cancellation of an insurance policy at some point in the future. Upon surrender, the policy is terminated, and from that point protection or coverage is lost. On the other hand, a lapse is when a policyholder fails to pay premiums within the payment grace period, causing the policy to lapse, from which point the policy will no longer provide protection.

The lapse and surrender rate is the ratio of lapses and surrenders to policies in force at the beginning of the fiscal year. It is calculated by adding the total of lapses and surrenders for the year in question, and then dividing by the amount of policies in force at the beginning of the fiscal year.

Living benefit insurance **Life**

This insurance provides a lump-sum benefit payment when the insured is diagnosed with a disease such as one of the three major diseases (cancer, heart attack or stroke).

Loss adjustment expenses **Non-life**

Expenses incurred by an insurance company in examining an insured event. These include personnel and non-personnel expenses.

Loss ratio *Non-life*

The ratio of insurance claims paid to premium income. Used in analyzing the business of an insurance company and in calculating insurance premium rates. The net loss ratio is the ratio derived by adding loss adjustment expenses to net losses paid, then dividing by net premiums written.

N**Net fees and commissions** *Banking*

Fees and commissions charged for providing services. These refer to income generated by providing services, such as bank transfer fees and investment trust sales commissions, less the costs associated with providing these services.

Net interest income *Banking*

Net interest income accounts for the largest percentage of the four income components of gross operating profit. Banks generally use the deposits received from individuals and the funds raised in interbank markets to provide loans to individuals and companies and to invest in securities. Net interest income is the difference between the total interest received from loans and other items (interest income) and the total interest paid for deposits and other items (interest expenses). Net interest income is affected by changes in interest rates (e.g., if deposit interest rates rise while loan interest rates stay at the same levels, net interest income will decrease), and by deposit and loan balances.

Net other operating income *Banking*

Net other operating income is derived from services other than the primary banking services income categories of net interest income, net fees and commissions, and net trading income. One example is buying and selling in dollars and other foreign currencies. In this case, after purchasing foreign currency at a certain price, any gain from a subsequent sale at a price higher than the purchase price would be recorded in other operating income, and any loss from a subsequent sale at a price lower than the purchase price would be recorded in other operating expenses.

Net premiums written *Non-life*

Premiums received directly from policyholders (direct premiums written), adjusting for reinsurance premiums (subtracting reinsurance premiums paid and adding direct reinsurance premiums received).

Non-performing assets*Life Non-life Banking*

Non-performing assets are claims against parties in bankruptcy, claims against parties in effective bankruptcy due to poor business or other reasons, and claims against parties at risk of bankruptcy. Non-performing assets also include loans for which principal or interest payments are past due by three months or more, and loans for which repayment on initial terms is impossible and interest has been reduced or exempted and the repayment of principal has been extended.

O**Over-the-counter (OTC) sales of insurance products at banks***Life Non-life Banking*

A bank serves as an insurance agency to solicit insurance.

P**Policy amount in force** *Life*

Total amount of protection provided by life insurance companies to individual policyholders. This is different from the total amount of premiums paid by policyholders (premium income).

Policy reserves**(Underwriting reserves)** *Life Non-life*

Reserves that insurance companies accumulate in advance, funded by premiums, investment income, and other sources, to prepare for future liabilities resulting from insurance policies, including payments of claims, annuities and benefits.

Policy reserves and others**(Underwriting reserves)** *Life Non-life*

Reserves recorded in the liabilities section of the balance sheets for which insurance companies are required in the Insurance Business Act of Japan to accumulate to prepare for the payment of future claims and other items to fulfill their obligations for paying claims and other actions based on insurance policies. Policy reserves and others include "reserve for outstanding claims" and "policy reserves."

Policyholder loans *Life*

As one of the asset management operations of life insurance companies, loans provided up to a certain level of the surrender payment on life insurance policies. In general, policyholders retain insurance protection and rights to receive dividends during the period of the policyholder loan. However, policyholder loans may not be available depending on the type of insurance.

Policyholders' dividend reserve *Life*

A reserve accumulated to fund dividend payments to policyholders pursuant to the provisions of the Insurance Business Act of Japan.

Positive spread *Life*

The amount by which the actual investment income is higher than the expected investment income from the assumed interest rate.

R**Reference loss cost rates** *Non-life*

Non-life insurance premium rates comprise net insurance premium rates used for paying insurance claims and loading insurance premium rates used for operating insurance businesses. Net insurance premium rates calculated by the General Insurance Rating Organization of Japan are called reference loss cost rates. Member insurers of the organization can use the rates as the basis for calculating their own insurance premium rates.

Reinsurance *Life Non-life*

The insurance agreement that insurance companies conclude with domestic and overseas reinsurance companies for some of the insurance policies they underwrite in order to diversify risks on insurance policies.

Reserve for outstanding claims (Reserve for outstanding losses)*Life Non-life*

Reserve for the estimated amount of unfixed insurance payments and unpaid insurance claims at the end of the fiscal year, among payment obligations for insurance claims, surrender value and other benefits.

Reserve for price fluctuations*Life Non-life*

This reserve is set aside to prepare for losses caused by price fluctuations in stocks, bonds and other assets held by an insurance company.

Riders [Life](#) [Non-life](#)

Riders can enlarge the scope of protection in the primary policy by adding provisions to the primary coverage. Riders do not constitute a policy by themselves. Multiple riders can be added to the primary policy. Riders are canceled when the primary policy is canceled due to maturity, surrender or other reasons.

ROEV (return on embedded value)

[Life](#)

ROEV is an indicator that refers to the growth potential of corporate value. The amount of increase of EV (embedded value), an indicator of a life insurance company's corporate value, is deemed to be profit that takes into account the unique aspects of life insurance accounting.

Core ROEV is the growth rate of EV that excludes any fluctuation effects of the investment yield and discounted rate.

S

Separate accounts [Life](#)

Separate accounts are used for variable life insurance, variable annuities and other insurance products to invest assets separately from the other financial assets owned by an insurance company in order to pay investment returns directly to policyholders.

Solvency margin [Life](#) [Non-life](#)

The solvency margin indicates payment ability. Insurance companies accumulate policy reserves to prepare for the payment of future claims, allowing them to adequately respond to risks within a normally anticipated range. However, unforeseen events can occur due to changes in the environment such as major disasters and substantial declines in stock prices. The solvency margin ratio is one measure used by regulatory authorities to determine how much an insurance company is able to pay in response to the risk of such unpredictable events.

Standard Mortality Table [Life](#)

The Institute of Actuaries of Japan prepares a table that compiles data including mortality rates and average life expectancies by gender and age. Of these data, mortality rates are verified by the Commissioner of Financial Services Agency of Japan, and then used as the assumed mortality rates in calculating standard policy reserves required under the Insurance Business Act of Japan.

Standard yield [Life](#) [Non-life](#)

The standard yield is the calculating rate insurance companies are required to use when accumulating policy reserves for future insurance payments.

Surrender payments [Life](#)

Money refunded to the policyholder in the event that the insurance policy is surrendered or cancelled. Surrender payment amounts vary depending on several factors, including the type of insurance, insurance period and years elapsed.

T

Term insurance [Life](#)

Term insurance entitles a beneficiary to receive benefits in the event of death or serious disability of the insured within an insurance period specified when the policy is purchased.

U

Underwriting profit [Non-life](#)

Underwriting profit is calculated by subtracting any underwriting expenses (net losses paid and loss adjustment expenses, etc.) and operating, general and administrative expenses associated with underwriting from underwriting income (net premiums written, etc.), then adding or subtracting other income and expenses (income taxes associated with compulsory automobile liability insurance, etc.).

V

Variable life insurance [Life](#)

Insurance product in which assets are invested mainly in stocks and bonds, and claims and surrender payments increase or decrease depending on investment returns. The individual policyholder bears the asset management risk. The minimum insurance payment is guaranteed, regardless of investment performance.

W

Whole life insurance [Life](#)

Insurance that pays benefits in the event the insured dies or is disabled. Unlike term life insurance, protection continues for an entire life.

SFH's Website Information

SFH uses its website to provide timely disclosure and promote a better understanding of the Sony Financial Group.

https://www.sonyfh.co.jp/index_en.html

The SFH website is accessible via smartphone.



Financial Data Book



The Financial Data Book is available only on SFH's website.

Press releases are sorted into SFH and four business segments. Headings make it easy to determine the content of each press release.

Click here for Corporate Governance.

