FY2009 2Q Conference Call for Domestic Institutional Investors and Analysts
Q&A (Executive Summary)

Date: November 16, 2009, 17:00–18:00
Respondents: Hiromichi Fujikata, Executive Vice President, Representative Director, Sony Financial Holdings Inc.
Mitsuhiro Koizumi, Director, Sony Life Insurance Co., Ltd.
Toshihiko Fukumoto, Executive Officer, Sony Assurance Inc.
Hidehiko Nakamura, Director, Chief Financial Officer, Sony Bank Inc.
Questioners: Four

Note: The original content has been revised appropriately and edited for ease of understanding.

The session began with "Guidance on the Value of Existing Business, a Component of Sony Life's Market Consistent Embedded Value (MCEV)."

Overview
We provide guidance on the value of existing business, a component of MCEV, by using the interest swap rates as of September 30, 2009, to make calculations on in-force business as of March 31, 2009. This is because we have received numerous inquiries regarding the interest rate sensitivity of Sony Life's MCEV as of March 31, 2009.

We use the interest swap rates as of September 30, 2009, to make calculations on in-force business as of March 31, 2009 (Note: *not* in-force business as of September 30, 2009). This calculation shows an increase of approximately ¥140 billion in the value of existing business, compared with the calculation based on interest swap rates as of March 31. Please note, however, that this calculation merely indicates the change in the sum of the present value of certainty-equivalent profit and the time value of options and guarantees.

The above calculation does not take into account frictional costs and non-hedgeable costs, which are other remaining components of the value of existing business.

We consider adjusted net worth, another remaining component of MCEV, to have increased approximately ¥20 billion between March 31, 2009, and September 30, 2009, due primarily to a recent rise in stock prices.

Note: The above calculation does not take into account changes in product mix of in-force business and in assumptions other than interest swap rates over lapse of time. The validity of this calculation has not been reviewed by outside specialists.

Q&A

Q1. With regard to the value of existing business, while interest swap rates have increased since September 30, 2009, the implied volatility ("IV") of interest swaptions has also increased. When viewing IV, I would like to confirm whether we should focus on ultralong-term interest swaption IV (rather than its short-term counterpart as we do in watching a change in interest rates). Also, as interest rates are increasing, is it possible that sensitivity to interest swaption IV itself is decreasing compared with as of March 31, 2009?

A1. (Sony Life)
We consider it possible for an increase in interest swaption IV to have a negative effect on MCEV. Moreover, we believe that fluctuations in ultralong-term IV have a greater impact. (Sensitivity to interest swaption IV could also fall as a result of an increase in interest rates.)

Q2. Considering that interest swaption IV increased from September 30, 2009, to the present (considering the effect of the decrease in MCEV), isn't the amount of increase in the value of existing business evaluated at interest rates as of September 30, 2009, equal to ¥140 billion, overstated comparing with those at the present?
A2. (Sony Life)
In general, one would think this should be the case, but I will refrain from commenting in any more detail.

Q3. Why does Sony Life's income statement show that the provision for reserve for policyholders' dividends has decreased from ¥1,688 million for the first half of the preceding fiscal year to ¥224 million? To what extent has this decrease been factored into your financial forecast for FY2009?
A3. (Sony Life)
The provision decreased because the provision reserved for the first half of FY2009 was based on the dividend rate for the previous fiscal year. No detailed breakdown of accounting line items is provided in our financial forecast for FY2009. For the second half, the estimated provision for reserve for policyholders' dividends references past dividend results. This is reflected in our financial forecast for the current fiscal year, which consequently incorporates a higher amount than for the first half.

Q4. What are your current thoughts regarding the need to increase Sony Life's capital and your capital policies?
A4. (Sony Life)
Based on our present level of business operations and in the current financial market environment, we see no need to increase our capital. Given the uncertainty surrounding regulatory changes such as the change in the method of calculating the solvency margin, and the requirement to use market-value accounting for liabilities, at the present we have no additional comments regarding capital policies.

Q5. Previously, I heard that as of March 31, 2009, Sony Life's required capital on an EU Solvency II basis was approximately ¥550 billion. Following your acquisition of ultralong-term bonds to lengthen the assets duration during the first half, what is your current required capital from an internal management standpoint?
A5. (Sony Life)
I cannot provide you with figures, as we have not specifically made this calculation at the present, but I believe our purchases of ultralong-term bonds have caused this figure to decrease.

Q6. I have a question about your capital policies. The adoption of standard method of EU Solvency II to calculate the solvency capital requirement (SCR), resulted in a negative free surplus of ¥173.8 billion as of March 31, 2009. I understand that the rise in interest rates caused your value of existing business to increase approximately ¥140 billion between March 31, 2009, and September 30, 2009, but would it be safe to assume that a substantial amount of that negative figure was erased through decreases in the fair value of your liabilities? Also,

your negative SCR value may not have been erased entirely, and by definition for the computation of SCR your default risk is set on a par with companies rated triple B. How is this consistent with your current Aa3 rating from Moody's and your A+ rating from S&P? Have rating companies shown any changes in their rating valuation methods by taking the value of liability on an economic value basis into account?

A6. (Sony Life)

We believe that the recent increase in the value of existing business erased a substantial portion of our negative free surplus. However, I cannot comment further on this, as we have not disclosed whether the current figure is still negative or whether it has moved to the positive side. Also, in terms of consistency between ratings and SCR figures, our understanding is that there are still some uncertainties about EU Solvency II itself. Also, at the present there is no debate among rating agencies about reviewing their rating evaluation methods based on interest rate risk and the valuation of liabilities on a fair-value basis.

Q7. Looking at a quarter-on-quarter comparison (every three months) of Sony Life's annualized premiums from new policies, during the second quarter of FY2009 your annual rate of increase on these premiums for third-sector products was double that of the first quarter of FY2009. Also, in the first quarter of FY2009, these premiums were down year on year for first-sector products but up year on year in the second quarter of FY2009. Do these fluctuations represent certain changes in the insurance solicitation environment? Also, do you expect these trends to remain constant from the third quarter of FY2009?

A7. (Sony Life)

In general, we recognize our performance during the second quarter of FY2009 as being sounder than it was in the first quarter. In the field of death protection, our performance was down year on year in the first quarter of FY2009, but this situation was rectified in the second quarter. Favorable sales of cancer hospitalization insurance, which went on sale in April 2009, was one reason for our solid performance in third-sector products.

Regarding the performance from the third quarter of FY2009 and beyond, as long as there are no major upsets in the business environment we expect the recovery trend that began in the second quarter of FY2009 to continue (owing also to the effects of our customary insurance sales contest that begins at year-end and our November 2009 new product launch (on family income insurance, a discount rider for nonsmokers and others in excellent health)).

Q8. Please elaborate on your general account provision of policy reserves for minimum guarantee on variable annuities.

A8. (Sony Life)

Compared with the same period of the preceding year, in the first half of FY2008 we added ¥4.0 billion to this reserve in relation to the minimum guarantee on valuable annuities. In the first half of FY2009, we reversed ¥0.5 billion out of this reserve, reflecting a ¥4.6 billion year-on-year increase in core profit. (This is shown in *Sony Life's Supplementary Data for the Six Months Ended September 30, 2009 at Press Conferenc*e: http://www.sonyfh.co.jp/en/financial_info_e/er_e/091116_04.pdf).

Q9. I understand that Sony Life's solvency margin ratio (SMR) may decrease as a result of the revised draft on SMR calculation standards announced by the Financial Services Agency on August 28, 2009. At this stage, approximately how much do you expect the ratio to fall? If the SMR does decrease, are you considering measures to raise it, or will you take no action?

A9. (Sony Life)

Because the revised draft on SMR standards will affect our calculation method of solvency margin, which limits excess portion of the policy reserve to the core margin, we expect our SMR to decrease. However, we are in the process of calculating the specific figures, so I will refrain from commenting.

The new standards will affect the SMR of every insurance company differently, depending on their circumstances, and in general we believe ratios will fall substantially. However, we believe that Sony Life will maintain an SMR that reflects ongoing soundness, so we are not considering specific measures at the present stage.

Q10. I would like to inquire why Sony Bank has not revised its financial forecast for the full fiscal year. Uncertainties about the financial market environment during the second half affect the life and non-life insurance businesses as well as the banking business, so why has the bank left its full-year forecast unchanged despite its strong performance in the first half? Is some factor specific to Sony Bank in play? Is the bank experiencing an increase in defaults on mortgage loans or being affected by more relaxed lending policies by the Financial Services Agency in Japan?

A10. (Sony Bank)

Looking at net interest income—our core component of income—for the first half of FY2009, the difference between yields on the financing side (deposits) and on the investment side (loans)—in other words, the interest spread—was slightly worse in the second quarter of FY2009 than in the first quarter. Because we are not optimistic about conditions surrounding this interest spread, we left our full-year forecast unchanged.

Q11. What is your recent status on mortgage loan defaults? How have you been affected by the relaxation in lending policies? Will you make any changes to your mortgage loan credit requirements in the second half, compared with the first half? Do you expect your mortgage loan volume to continue increasing?

A11. (Sony Bank)

As of September 30, 2009, our sub-standard loans based on the Financial Reconstruction Law, was only ¥69 million, and this has not increased as a percentage of total lending. We are not planning to change our overall credit requirements in the second half, but we will continue to take changes in the credit environment into account when screening individual cases. We will continue to respond flexibly, according to the circumstances.

In terms of acquiring mortgage loans, our stance remains unchanged. We will continue seeking to aggressively increase our mortgage loan volume.