FY2009 3Q Conference Call for Domestic Institutional Investors and Analysts Q&A (Executive Summary)

Date: February 12, 2010, 16:00–16:50

Respondents: Hiromichi Fujikata, Executive Vice President, Representative Director, Sony Financial Holdings Inc.

Mitsuhiro Koizumi, Director, Sony Life Insurance Co., Ltd.

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

We presented "Guidance on the Value of Existing Business, a Component of Sony Life's Market Consistent Embedded Value (MCEV)" in the FY2009 3Q Conference Call.

Overview

SFH provides guidance on the value of existing business, a component of MCEV, by using the interest swap rates as of December 31, 2009, to make calculations on in-force business as of March 31, 2009. This is because numerous inquiries SFH has received regarding interest rate sensitivity for MCEV.

SFH used the interest swap rates as of December 31, 2009, to make calculations on in-force business as of March 31, 2009 (Note: not in-force business as of December 31, 2009). This calculation shows an increase of approximately ¥176 billion in the value of existing business, compared with the calculation based on interest swap rates as of March 31, 2009. 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.

SFH considers, adjusted net worth, another remaining component of MCEV, has increased approximately ¥25 billion between March 31, 2009, and December 31, 2009, due primarily to a recent rise in stock prices, offsetting the change from unrealized gain into losses on ultra long-term bonds held as held-to-maturity securities, affected by an increase in interest rates mainly in the ultra long-term.

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.

Q1. Please explain the increase in the value of existing business, particularly the rise in the sum of the present value of certainty-equivalent profit and the time value of options and guarantees, compared with the calculation as of Mach 31, 2009. I understand that the increase as of December 31, 2009, amounted to approximately ¥176.0 billion, up approximately ¥36.0 billion from the ¥140.0 billion increase as of September 30, 2009. The rate of increase for the three months ended December 31, 2009, was less than I had expected, compared with the rise in implied forward rates calculated on the basis of interest swap rates. How can I analyze the value of existing business from the changes in the yield curve? I assume that lengthening of asset durations does not affect the value of existing business. I would like to know what else affects this calculation.

A1. [Sony Life]

We used interest swap rates as of December 31, 2009, to calculate the effect of the changes in interest rates on in-force business as of March 31, 2009. MCEV as of March 31, 2010, reflects changes in our financial position, including assets and liabilities, as well as revisions in the assumptions used in the MCEV calculations. Therefore, we consider it difficult to provide specific factors behind changes in the value of existing business.

Q2. For the MCEV calculation as of March 31, 2009, based on the QIS4 method of Solvency II, Sony Life's free surplus was negative. Should I expect the negative free surplus to be zero or positive, even if QIS4 is applied, taking into account increases in the value of existing business and in adjusted net worth as of December 31, 2009, as well as the effect of lengthening asset durations?

A2. [Sony Life]

We have not made any precise calculations of our free surplus at present, but we believe that the negative free surplus would be zero or positive.

Q3. When forecasting the sensitivity of new business value, what period should we be looking at for interest swap rates? I believe the product mix has changed since March 31, 2009, which results in a higher percentage of medical insurance and family income insurance with a discount rider for nonsmokers and other people in excellent health. I would like to know how these changes in the product mix affect the new business value as of December 31, 2009, assuming that interest swap rates remain unchanged from March 31, 2009.

A3. [Sony Life]

The period for interest swap rates depends on the product mix of new business. We have been explaining that the average duration of in-force business on liabilities is between 30 years and 40 years. New business has a longer duration than in-force business, and we assume that we should be looking at a slightly longer range in the yield span between 30 years and 40 years, but we will refrain from commenting on it as we do not have precise figures.

We cannot explain the impact on new business value of changes in the product mix, as we do not disclose figures for each product's profitability due to our policy.

Q4. Sales are brisk for family income insurance with a discount rider for nonsmokers and other people in excellent health. I assume that this rise is a result of individual customers converting from conventional products to more reasonably priced products. Taking into account the impact on the value of in-force policies, I would like to know whether Sony Life's product development strategy in this product segmentation is reasonable.

A4. [Sony Life]

We develop products considering the trends of competitors' products, condition of the insurance market and customers' needs, etc. This newly introduced family income insurance was designed to offer more reasonable prices to customers with excellent health. With regard to MCEV, the surrendered in-force policy amount has a negative impact on MCEV. However, we think that strong sales of newly introduced products will cover the above-mentioned negative impact and contribute to the growth of MCEV.

Q5. What is the reason behind the increase in the net loss ratio for the nine months ended December 31, 2009, in the non-life insurance business, compared with the same period of the previous fiscal year? Also, can I assume the same reason for the higher loss ratio factored in your operating results forecast?

A5. [Sony Assurance]

The loss ratio increased year on year, due to a rise in car accidents involving properties and vehicles, as well as owing to higher losses paid per policy. The number of accidents to be covered by bodily injury liability insurance also increased. We anticipate a future rise in the loss ratio for the same reasons.