FY2010 1Q Conference Call for Domestic Institutional Investors and Analysts Q&A (Executive Summary)

Date: August 12, 2010, 17:30–18:30
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.
Takayuki Suzuki, Executive Officer, Sony Bank Inc.

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

We presented "Guidance on the Value of Existing Business, a Portion of Sony Life's Market Consistent Embedded Value (MCEV)" in the FY2010 1Q Conference Call.

Overview

Sony Life has sought to reduce mismatch risk from asset–liability duration gap as part of its efforts to manage risk on the basis of economic value. As of March 31, 2010, the company had created an asset-liability structure that was less susceptible than in the past to the influence of financial market factors, particularly interest rate fluctuations. As part of our efforts to proactively disclose information to our shareholders and investors in a timely and appropriate manner, we continue to announce Sony Life's proforma calculations of value of existing business every quarter in this fiscal year. This time, we announce the results of the proforma calculations of value of existing business as of March 31, 2010 by using the interest rates and volatility as of June 30, 2010.

－We calculate a change in the sum of the present value of certainty-equivalent profit and the time value of options and guarantees which consists of portions of value of existing business. We use the interest swap rates and the implied volatilities on interest swaptions and foreign exchange rates as of June 30, 2010, to make the calculations on policies in force as of March 31, 2010. This calculation shows a decrease of approximately ¥163.0 billion in the value of existing business, compared with the calculation based on market conditions as of March 31, 2010.

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

For your reference, adjusted net worth, another remaining portion of MCEV, as of June 30, 2010 increased approximately ¥125.0 billion from March 31, 2010. Although a drop in stock prices resulted in a decrease in net unrealized gains on Japanese stocks held, the lowering of interest rates, centered on ultralong-term rates, caused net unrealized losses on ultralong-term bonds as of March 31, 2010 to reverse to net unrealized gains as of June 30, 2010.

The above calculation does not take into account the following changes between March 31 and June 30, 2010:

- Changes in policy amount in force (such as increases resulting from new policy acquisitions and decreases owing to lapse and surrender) nor changes in the product mix:
- Changes in assumptions behind the calculations with the exception of interest swap rates and the implied volatilities on interest swaptions and foreign exchange rates:
- Changes in the frictional costs and the cost of non-hedgeable risks.

Furthermore, the validity of this calculation has not been reviewed by outside specialists.

Q&A

(MCEV) Value of existing business for the life insurance business

Q1. I understand that Sony Life has not applied market conditions as of June 30, 2010, in its MCEV calculation of frictional costs and costs related to non-hedgeable risks. However, when discounting back to present value costs related to non-hedgable risks, would it be accurate to assume that such costs were higher than as of March 31, 2010, owing to lower interest swap rates? Would frictional costs similarly have risen for this reason?

A1. [Sony Life]

Under present market conditions, we assumed that frictional costs and costs related to non-hedgeable risks were higher [MCEV was lower] than as of March 31, 2010.

(MCEV) Value of new business for the life insurance business

Q2. New business on an annualized basis was up 13%, but interest swap rates were down, which offsets the increase in new business value for MCEV. Also, interest swap rate sensitivity was down as a result of activities related to past asset management. Product mix may have been changing. Given these factors, do you expect new business value will be flat, increase, or decrease for the current fiscal year?

A2. [Sony Life]

As we have not calculated new business value of MCEV as of June 30, 2010, we cannot say definitively, but the sensitivity of new business value is shown in MCEV disclosed as of March 31, 2010. I believe that the figures related to the value of existing business disclosed in this guidance are also similar to the results employing sensitivity as of March 31, 2010. The value of new business would generally be expected to decrease due to the effect of a downturn in interest swap rates, but we cannot say how much this will be offset by a rise in new business value owing to a rise in annualized premiums on new policies.

Core profit for the life insurance business

Q3. My question concerns Sony Life's financial results. With regard to the relationship between core profit and negative spread as shown on page 10 of the presentation materials, profit after negative spread has been subtracted from core profit was down ¥6.7 billion year on year. What were the reasons behind that decrease?

A3. [Sony Life]
Part of the ¥6.7 billion year-on-year decrease in profit after subtracting negative spread from core profit concerns the policy reserve related to the minimum guarantee for death protection on variable life insurance (not variable annuities), which went from a ¥0.9 billion reversal one year earlier to a ¥3.9 billion provision this period. This change accounts for ¥4.8 billion of the difference (decrease in profit). Among other reasons was an increase in the policy reserve requirement in line with the increase in the new policy amount.

Recruiting of Lifeplanner sales employees in the life insurance business
Q4. I understand that you have revised your recruiting standards for Lifeplanner sales employees, but in what ways? Also, do you plan to employ fewer Lifeplanner sales employees during the full year?
A4. [Sony Life]
We had already introduced initiatives to raise the quality of our recruits, but we have recently revised our standards based on our analysis of data showing relationships between our recruiting standards and the sales performance of these people once they were hired. This time, we have revised our external selection criteria, such as age, education and length of time unemployed. While these revisions make selection more stringent, we are stepping up our year-on-year recruiting activity volume. As a result, this fiscal year we aim to recruit approximately the same number as previous fiscal year.

The retirement of Lifeplanner sales employees in the life insurance business
Q5. Please explain the background for the increase in the number of Lifeplanner sales employees leaving the company. Have there been any changes? How many Lifeplanner sales employees were hired during the first quarter, and how many left?
A5. [Sony Life]
With regard to your question about the background for an increase in the number of Lifeplanner sales employees leaving the company, we are not aware of any major change in the background compared with the past. In FY2008 and FY2009, the number was relatively low, but I would say that the number has returned to levels that were normal through FY2007. In the first quarter, we recruited 87 people and 76 left the company.

The joint venture in the life insurance business in Japan with the AEGON Group of the Netherlands
Q6. Does the difference between the ordinary profit of the life insurance business as indicated in the consolidated financial results of Sony Financial Holdings (SFH) and the non-consolidated ordinary profit of Sony Life reflect the profits or losses of AEGON Sony Life Insurance? During the first quarter, a simple subtraction indicates a negative difference of approximately ¥0.3 billion between the consolidated and non-consolidated figures. Is this trend likely to continue in the future? Also, approximately when do you expect AEGON Sony Life Insurance to move into the black? Please outline the current situation at AEGON Sony Life Insurance.
A6. [Sony Life]
AEGON Sony Life Insurance is an affiliated company accounted for under the equity method. Approximately ¥0.2 billion losses, corresponding to Sony Life’s 50% ownership, is included in Sony Life’s consolidated ordinary profit. The company’s sales performance reflects the reality of a difficult sales environment for variable annuities, as well as the fact that it is taking the company longer to get on

its feet than had been initially expected. We expect the company to move into the black within 10 years of its start of operations (under Japanese GAAP).

The loss ratio on automobile insurance in the non-life insurance business

Q7. Since the second half of the preceding fiscal year, Sony Assurance's loss ratio (on earned/incurred basis) on automobile insurance has trended upward. My understanding is that because of the reduction and partial elimination of expressway tolls the rate of traveling vehicle accidents is on the increase even among policyholders who purchase non-life insurance on the Internet, which is a relatively low-risk group. Would it be accurate to say that trend is stabilizing?

By my calculations, three percentage point increase in Sony Assurance's net loss ratio has a ¥2.0 billion negative effect on annual profits. This amount is too large to ignore. What are your thoughts about this trend toward a higher loss ratio? Also, I understand that you are considering the possibility of increasing insurance premiums in the second half of the current fiscal year. What are your expectations regarding premium revisions?

A7. [Sony Assurance]

You are correct in your assumptions concerning the increased loss ratio. Such factors as the reduction in expressway tolls and the effects of subsidies on the purchase of environmentally friendly cars have resulted in increases in the frequency of automobile use, as well as distance traveled. This situation is resulting in a higher rate of accidents and an increase in claim payments. At this stage, it is difficult to make any predictions about the future. During the first quarter of the current fiscal year, average distance driven was up year on year, but the rate of year-on-year increase was down compared with the preceding quarter. We expect this trend to continue, but we will need to see the second quarter results before making any sort of judgment.

With regard to revising premiums, which affect the top-line figures, we will keep a close eye on the trend among our competitors and proceed in cautious manner (to maintain a balance between improving our profitability and maintaining our competitiveness).

The full-year forecast for the non-life insurance business

Q8. Your full-year forecast calls for a 6.6% year-on-year increase in ordinary revenues in the non-life insurance business, and your first quarter underwriting income was up 9.0% year on year. Was this first quarter result in line with your expectations, or do you anticipate that you will need to revise your full-year forecast upward? How do your recent financial results look at the moment?

A8. [Sony Assurance]

Our top-line increase during the first quarter was high in comparison to our full-year forecast, but it is not wildly out of line with our expectations. Also, because Sony Assurance's premiums are risk-segmented, premiums increase as driving distance rises, the top line could increase. At the same time, decreases in the new policy success rate and the persistency rate could materialize in contrast. So we are not changing our full-year forecasts. We also need to take into consideration seasonal factors, such as differences in profitability between the first and second halves. At present, we are not aware of any differences between the current trends and our full-year forecasts.