FY2010 2Q Conference Call for Domestic Institutional Investors and Analysts Q&A (Executive Summary)

Date: November 15, 2010, 17:00–18:00

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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)", as of September 30, 2010.

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 September 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 components of value of existing business. We use the interest swap rates and the implied volatilities on interest swaptions and foreign exchange rates as of September 30, 2010, to make the calculations on policies in force as of March 31, 2010. This calculation shows a decrease of approximately ¥222.0 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 components of the value of existing business.

For your reference, adjusted net worth, another remaining component of MCEV, increased approximately ¥188.0 billion from March 31 to September 30, 2010, in line with a reversal from net unrealized losses to net unrealized gains on ultralong-term bonds. This reversal stemmed from the lowering of interest rates, mainly ultralong-term rates.

The above calculation does not take into account the following changes between March 31 and September 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

Q1.

Sony Life's number of Lifeplanner sales employees as of September 30, 2010, was down 17 from the number as of March 31, 2010. You have explained that this decrease is due to a lower number of new recruits, owing to increasingly stringent recruiting standards, and a higher number of resignations. What is the background for the increase in resignations?

A1. [Sony Life]

The number of resignations during FY2008 and FY2009 was lower than the average, due to a downturn in the economic climate, among other factors. The number of resignations during the first half of FY2010 was up year on year, but we see this figure as indicator that trends have returned to typical levels.

Q2.

The number of Lifeplanner sales employees increased during the two consecutive fiscal years to March 31, 2010. At what point after their hiring do they begin contributing to Sony Life's performance?

A2. [Sony Life]

Lifeplanner sales employees spend their first years at Sony Life undergoing thorough training. At present, the training period for new Lifeplanner sales employees is set at three years. That being said, they earn their insurance sales certification during their first month after joining the company. They begin their sales activities after that time, so effectively they begin contributing to sales following their first month of training.

Realistically, however, it takes some time and training for a Lifeplanner sales employee to learn how to provide quality services to customers. Also, the effects of training take hold at different times for different people, which makes it impossible to give a definite answer as to when they truly begin contributing to performance.

Q3.

The number of office employees at Sony Life has increased steadily over the past several years. Is this due to expanded business operations?

Do you expect the number of office employees to continue increasing?

Indicators such as annualized premiums and policy amount in force per employee tend to fall as the number of office employees increases. What are the company's thoughts on this?

A3. [Sony Life]

There were certain times in the past when we focused on reducing the number of **office employees**. After that time, we increased the number of personnel to deal with claim payment issues, expand the Partner channel and enhance our systems. In short, the purpose of this increase has been to strengthen our sales support and internal control functions.

Going forward, we will have to increase the number of **office employees** to some extent in order to expand our business operations, but we employ a number of indicators to manage efficiency. As we control this expansion to within forecast operating expense levels, there should be no sudden increase in our personnel numbers.

In short, we do not believe that the recent increase in the number of **office employees** is a problem.

Q4.

Page 10 of the presentation materials shows Sony Life's core profit and negative spread. The first-half core profit that remains after deducting the negative spread is down ¥6.4 billion compared with the first half of the preceding fiscal year (from ¥37.3 billion to ¥30.9 billion). Why is this?

A4. [Sony Life]

In the first half of the preceding fiscal year, we had a ¥0.5 billion reversal of policy reserves stemming from the minimum guarantee on variable life insurance. In contrast, during the first half of the current fiscal year, we recorded this provision of ¥4.1 billion. This resulted in a ¥4.6 billion decline in core profit. The remaining difference of ¥1.8 billion came from an increase in the provision for policy reserves due to an increase in new insurance sales and a drop in the lapse and surrender rate.

Q5.

Looking at Sony Life's asset management policy going forward, can you give us an idea of around how much new money you will be investing, and in what sort of risk assets?

Do you plan to begin investing in risk assets in the second half?

A5. [Sony Life]

Through the first half, we used the cash we obtained as new money and through the sale of securities to increase our holdings of ultra long-term bonds with the aim of reducing interest rate risk. As a result, we have succeeded in limiting our exposure to interest rate fluctuations, and the process of shifting our bond holdings is largely complete.

From the second half onward, we will need to continue investing the bulk of any new money we receive from increases in the new policy amount stemming from new insurance sales in ultra long-term bonds to reduce interest rate risk. At the same time, we will consider investing the remaining amount of new money in risk assets, taking market conditions into consideration. At this stage, however, we do not have any specific investment plans, nor can we say exactly at what point we will begin investing in risk assets from the second half onward.

Q6.

You say that Sony Life's investment policy going forward is to invest in risk assets to some degree. Will you average out your capital gains for the first and second halves, or will you accent one half or the other, depending on market conditions?

Also, in terms of new money, would it be accurate to say that rather than making a marked shift toward investment into risk assets, you will invest in risk assets but by maintaining such investments within a specific range of your investment asset portfolio. Do you expect to generate capital gains as a result of this shift, including unrealized gains on existing holdings of debt securities?

A6. [Sony Life]

First of all, we will not make a sudden shift toward investing in risk assets from the second half of this fiscal year. Sony Life's new policy amount is increasing steadily, and we naturally will need to counter interest rate risk on these new policies. Ultimately, our investment stance (investing the bulk of new money in ultra long-term bonds to curtail interest rate risk) remains unchanged.

Q7.

In the past, Sony Life's new policy situation appears to have changed little from performance to date, and major life insurers are seeing declines in their lapse and surrender rates. Does this indicate that it is becoming more difficult for Sony Life to acquire policies from people who are currently major life insurance company policyholders?

A7. [Sony Life]

There may be some truth to the assertion that there is a link between declines in the lapse and surrender rates at major life insurers and a growing difficulty in getting policyholders to change insurers. Nevertheless, Sony Life continues to record a steady increase in new policies, even in the current climate. Even among people who have policies in place with other insurers, conducting life planning and proposing insurance that is in line with their needs sometimes encourages them to purchase additional insurance. For this reason, we plan to emphasize life planning even more strongly than we have in the past.

Q8.

Of the new policies Sony Life secured during the first half, what percentage was to new policyholders, and what portion constituted sales of additional policies to existing policyholders?

A8. [Sony Life]

One of strengths of Lifeplanner sales employees is their ability to sell insurance to meet customers' changing needs. In some instances, this may involve sales of additional policies to existing policyholders, but in principal we focus on sales to new customers. I am unable to answer your question specifically, however, as we do not record those details.

Q9.

Sony Life's lapse and surrender rate appears to have steadied in the first half, owing to its introduction during the first half of the preceding fiscal year of the discount rider for family income insurance, which is life insurance with disability benefit, for nonsmokers and other people in excellent health. What are your expectations for the lapse and surrender rate in the upcoming second half?

A9. [Sony Life]

We believe that the reason behind the earlier rise in the lapse and surrender rate had more to do with temporary factors, such as a downturn in economic circumstances and new product sales.

It is impossible to say exactly how much the lapse and surrender rate will fall during the second half, but as Sony Life does not plan to alter its sales policy of providing insurance on the basis of life planning, we assume that the lapse and surrender rate will return to normal levels.

Q10.

I understand that Sony Life is undertaking a Solvency II quantitative impact study based on the introduction of standards to meet EU capital requirements, and are using the QIS4 and QIS5 standards to verify these standards. Could you provide a quantitative explanation of any recent calculations?

A10. [Sony Life]

Sony Life is in the process of verifying its capital on the basis of QIS5 (which was announced on July 5, 2010). We cannot provide any specific results of our calculations, but we can say that because of our ongoing efforts to hold down interest rate risk, we do not expect this study to have much additional impact with regard to market risk. We do not expect much additional impact in terms of insurance risk. Consequently, our free surplus should not be affected substantially. As long as Sony Life continues to conduct its operations on the same risk management basis it has followed in the past, there should be no problems.

Q11.

Sony Assurance's loss ratio is trending upward. Can you provide any details as to whether you are planning raise premiums? By approximately what percent are you planning to raise premiums?

A11. [Sony Assurance]

We plan to introduce revised rates for policies that go into effect on or after February 1, 2011. In addition to rate revisions reflecting the (July 2009) reference net ratio, at the same time we will introduce full-scale changes in the content of these policies, including segmentation according to distance driven. Accordingly, for the same level of compensation under the same conditions, in some cases the revised rates will cause premiums to rise, whereas in some instances they will fall. For this reason, it is not possible to give a precise answer as to what percentage insurance premiums will increase. One of Sony Assurance's strengths is its pricing of insurance policies according to distance driven. Through our rate revisions, we plan to make this an even more attractive feature.

Q12.

Will Sony Assurance's loss ratio going forward return to the level of a year ago (owing to the upcoming rate revision)?

A12. [Sony Assurance]

The loss ratio was high during the first half, but recent developments indicate that loss ratio has gone from increasing to stable. We believe that an increase in distances driven is one reason for the increase in the loss ratio. The increase in distances driven by Sony Assurance’s customers appears to have taken its course. Although we need to continue paying attention to this aspect, we do not expect to see ongoing increases.

Through the upcoming rate revision, we expect to secure a reasonable level of profitability.