FY2010 3Q Conference Call for Domestic Institutional Investors and Analysts Q&A (Executive Summary)

Date: February 14, 2011, 16:30–17:30
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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) as of the end of December 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 the end of March, 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 the end of March, 2010 by using the interest rates and volatility as of the end of December, 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 the end of December, 2010, to make the calculations on policies in force as of the end of March, 2010. This calculation shows a decrease of approximately ¥174.0 billion in the value of existing business, compared with the calculation based on market conditions as of the end of March, 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 ¥123.0 billion from the end of March to the end of December, 2010, in line with a reversal from net unrealized losses to net unrealized gains on ultralong-term bonds held to maturity. 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 the end of March and the end of December, 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.

We use the interest swap rates and the implied volatilities on interest swaptions and foreign exchange rates as of December 30, 2010 to make the above calculations due to closures of financial markets in Japan on December 31.

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

<u>Q&A</u>

Q1.

Sony Life's number of Lifeplamner sales employees as of December 31, 2010 decreased by 60 persons from the number as of March 31, 2010. I would like to know the recruitment policy onward.

A1. [Sony Life]

With regard to your question about the background for a decrease in the number of Lifeplanner sales employees, this is due to increasingly stringent recruiting standards. We are also aware that the number of resignations during the nine months ended December 31, 2010 was up from the same period of the prior fiscal year, but we see this figure indicates that trend have returned to typical levels reflecting the recent job-market recovery.

While working on the above-mentioned stringent recruiting standards, we are stepping up our recruiting activities. We expect the number of Lifeplanner sales employees to increase going forward.

Q2.

An acquisition of new policies seems to be brisk while the number of Lifeplanner sales employees decreased. Please explain the changes in trends in terms of the number of newly acquired policies from other life insurance companies or changes of the policyholders' age composition, if any.

A2. [Sony Life]

We have concluded that the trends have not much changed.

In FY2009, the lapse and surrender rate increased temporarily because some policyholders of the family income insurance converted to its discount rider for nonsmokers and others in excellent health. However, compared with the FY2009 levels, the lapse and surrender rate is back within the normal range while the brisk sales of family income insurance continued. This means that we have succeeded in acquiring new policies while reducing the lapse and surrender rate which rose temporarily about a year earlier due to the increase in policyholders' conversion to the new products.

Q3.

Are you considering of taking any actions such as a revision of the commission systems to stop Lifeplanner sales employees leaving the company?

A3. [Sony Life]

Sony Life provides training programs to Lifeplanner sales employees and hopes to reduce the number of resignations. That being said, Lifeplanner sales employees work based on the commission systems. Therefore, a certain number of resignations are inevitable. Moreover, we are not considering of the revision of the commission systems.

Q4.

Page 10 of the presentation material shows that the negative spread for the nine months ended December 31, 2010 for Sony life improved by decreasing ¥6.7 billion, year on year, while core profit declined ¥1.2 billion for the nine months ended December 31, 2010. What is the main reason for a change in the gap between the two figures, the negative spread and the core profit? I regard the gap as mortality and expense margins hypothetically and by right it should have increased, year on year. Did the mortality and expense margin decrease from your initial forecast?

A4. [Sony Life]

The negative spread has been steadily decreasing, contributing to the core profit positively.

In the same period of the preceding fiscal year, we had a ¥0.4 billion reversal of policy reserves stemming from the minimum guarantee on variable life insurance. In contrast, during the nine months ended December 31 of the current fiscal year, we recorded this provision of ¥4.5 billion. This resulted in a ¥4.9 billion decline in core profit. The remaining difference came from an increase in the provision for policy reserves due to factors such as a drop in the lapse and surrender rate, an increase in new insurance sales, and a change in the product mix. Operating expenses are controlled appropriately.

Q5.

The growth of Sony Life's new policy amount for the nine months for this fiscal year looks steady, while the quarter growth rate seems slower. Please give me some explanation. Also, do you expect these trends to remain in the forth quarter of FY2010?

A5. [Sony Life]

In the third quarter of FY2009, new policy amount in force grew sharply owing to the launch of family income insurance (with a discount rider for nonsmokers and others in excellent health) in November 2009. Although the conversion from the existing products to new products in family income insurance has calmed down, which was shown in the decrease in lapse and surrender rate, the brisk sales of family income insurance still continued in this fiscal year. In general, we recognize our operating performance during the third quarter of FY2010 steadily grows, although the growth rate compared with the same period of the prior fiscal year seems to be slowing down.

Sony Life's growth rate of new policy amount for the forth quarter of this fiscal year is not likely to be comparable with the same period of the prior fiscal year, when new products of family income insurance were sold well. If you look at the growth rate based on annualized premiums from new policies, the situation looks different with based on policy amount, reflecting the recent trend of slightly higher composition of savings-type insurance in the product mix.

Q6.

Please outline the current sales trends for Whole Life Nursing-care Insurance (Reduced Surrender Value), Lump-sum Payment Nursing-care Rider, and Discount Rider for Nonsmokers and Others in Excellent Health for Decreasing Term Life Insurance launched in November 2010. Sony Life's lapse and surrender rate increased as it did at the launch of the new product of family income insurance in November 2009. Do you expect the lapse and surrender rate to jump this time as well?

A6. [Sony Life]

Sales of newly released products are favorable. Considering the lapse and surrender rate, we assume that the rate will not jump to the such level as it hit in 2009 since the new Nursing-care Insurance are reduced premium type without death protection and surrender Value and it differs from the previously sold Nursing-care Insurance in terms of motive for purchase. As for the Discount Rider for Nonsmokers and Others in Excellent Health for Decreasing Term Life Insurance, although we expect a little conversion done by some policyholders who hold existing type of the products, we assume that overall lapse and surrender rate will not increase substantially.

Q7.

Sony Life seemed to have drastically decreased risks relating interest rate and stocks held. Could you give us an idea for Sony Life's investment strategy onward? Do you plan to begin investing in risk assets?

A7. [Sony Life]

Sony Life uses MCEV as one of the indices used to evaluate the corporate value, and it's policy amount in force is expected to increase steadily by acquiring new policies. As such, we naturally need to counter interest rate risk on these new policies through investing in ultra long-term bonds to control interest rate risk overall.

Q8.

Taking into account the past trend of Sony Life's value of existing business for MCEV, under the current level of interest rates I assume that Sony Life's new business value also decreased. Hypothetically excluding changes in interest rates, do you presume that new business value would have increased in line with upward trend of annualized premiums from new policies or decreased due to a change in product mix even under such upward premium trend?

A8. [Sony Life]

The current new business value is largely affected by the movements of interest rates. The changes in product mix have extremely less impact on new business value of MCEV.

Q9.

It seems that Sony Assurance's year-on-year rising trend in E.I. loss ratio slowed down for the nine months ended December 31, 2010, compared with that for the first half ended September 30, 2010. How does the recent E.I. loss ratio look?

A9. [Sony Assurance]

The E.I. loss ratio increased rapidly for the first half of this fiscal year compared with the same period of the preceding fiscal year. However, the loss ratio dropped 2pt during the recent three months ended December 31, 2010. The main reason is that an increase in car accident ratio calmed down resulting from a slowdown of the growth of customers' driving distances than before.

During the first half of this fiscal year, the loss ratio increased sharply in properties and collision coverage, and its rising trend during the third quarter of the fiscal year calmed down. We expect the rising trend won't accelerate again during the forth quarter, but we will need to see results before making any sort of judgment.

Q10.

Your full-year forecast in ordinary profit for Sony Assurance is expected to be in the same range as your nine months ended December, 2010. Do you expect the upward trend in underwriting income from the third quarter of the current fiscal year to continue in the fourth quarter? Also, can I assume that the loss ratio in the first quarter and second quarter of the current fiscal year rose temporarily?

A10. [Sony Assurance]

Under the ordinary profit for the nine months ended December 31, 2010, a higher loss ratio caused a decrease in profit for the first half of the current fiscal year. However, the effect of a rising loss ratio was mitigated by a reversal of catastrophe reserve in the third quarter. The primary reasons for the year-on-year growth in ordinary profit were a rise in ordinary revenues and a decline in the net expense ratio.

Our forecast for ordinary profit for the year ending March 31, 2011 of ¥2.5 billion minus ¥2.3 billion of the third quarter actual number is resulted in ¥0.2 billion for the remaining fourth quarter. The steady business expansion is expected in the fourth quarter, while we keep a close eye on the influence from revising premiums starting February 2011 in a cautious manner. We expect that the loss ratio will not fluctuate significantly in the current quarter compared with the levels of nine months ended December 31, 2010.

Q11.

Can you provide any details on revised premiums for policies regarding what percentage of premiums you raise? Did you introduce age segmentation system in the revision?

A11. [Sony Assurance]

We started to revise premium rates of auto insurance policies underwritten from February 1st, 2011. In addition to the rate revisions reflecting the reference net ratio, we introduce full-scale changes in the content of these policies, including segmentation according to distance driven. Although it is not possible to give you a precise answer of a degree of the rate revision, if you compare pre-revised premiums with revised premiums for renewed policies, under the same conditions, in some cases the

revised premiums will rise, whereas in others they will fall, due to the effect of the upgrade of drivers' status. The ratio for the increase and the decrease are assumed to be half and half.
As for the impact from the rate revisions on the profitability, we assume it would absorb worsened profitability at least to the extent that the combined ratio using E.I. loss ratio for the nine months ended December 31, 2010 increased 2.4pt compared with the same period of the prior fiscal year.
As for the age segmentation, Sony Assurance already adopted it in the past so that this time we revise rates by each age criteria depending on situations such as the loss ratio at each age criteria.

Q12.
Considering SFH's steady operating results, any chances to change its dividend policy?
A12. [SFH]
We have not made any policy changes so far.