

FY2011 1Q Conference Call for Domestic Institutional Investors and Analysts
Q&A (Executive Summary)

Date: August 12, 2011, 16:30–17:30

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Mitsuhiro Koizumi, Director, Member of the Board, 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 (EV) as of June 30, 2011.”

Sony Life has sought to reduce mismatch risk on sensitivity to interest rate from asset–liability management perspective as part of its efforts to manage risks on the basis of economic value. As ongoing its efforts, Sony Life strives for maintaining an asset-liability structure that has limited susceptibility to the influence of financial market factors, particularly interest rate fluctuations. As part of its 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 how much affected by interest rate fluctuations value of existing business would be every quarter.

Sony Life has been comprehensively managing interest rate risk residing in its assets and liabilities by investing mainly in ultralong-term JGBs in asset side to prepare for the future insurance claims and other payments in liability side. Thus, it is considered reasonable and proper to use JGB yields as risk-free-rate for calculation of liability side for the purpose of internal risk management. Accordingly, we announce the results of the proforma calculations of changes in value of existing business as of the end of March, 2011 by using the JGB yields, instead of interest swap rates, and volatility as of the end of June 2011.

- 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 JGB yields and the implied volatilities on interest swaptions and foreign exchange rates as of the end of June 2011, to make the calculations on the above portions of policies in force based on the JGB yields as of the end of March, 2011. This calculation shows a decrease of approximately ¥74.0 billion in the value of the above portions of existing business, compared with the calculation based on market conditions as of the end of March, 2011.
- 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 EV, increased approximately ¥69.0 billion from the end of March to the end of June 2011, owing mainly to increased net unrealized gains on ultralong-term bonds in line with a lowering of interest rates, centering on ultralong-term.

The above calculation does not take into account the following changes between the end of March and the end of June 2011:

- 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 JGB yields 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]

I understand that JGB yields continue to be used in future calculations of embedded value (EV). What period should we look at for JGB yields? According to your current guidance, the value of existing business on June 30, 2011, was down approximately ¥74.0 billion from the level on March 31, 2011. This (applying the interest swap rate sensitivity that has been disclosed) corresponds to a decrease of 11–12 bp. Is it most appropriate to look at yields on 30-year JGBs?

A1.

The liability duration exceeds 30 years, so you should refer to JGB yields for 30- and 40-year bonds.

Q2. [Sony Life]

With regard to MCEV, what is the amount of impact of shifting from the interest swap rate to JGB yields?

A2.

We have explained that EV valued using JGB yields as of March 31, 2011 would have been ¥47.6 billion higher than that calculated using the interest swap rate. The calculation as of June 30, 2011, has been simplified, but the use of JGB yields would in general result in a higher figure than the calculation using the interest swap rate. Therefore, EV would be higher if calculated using JGB yields.

For reference, we have not selected JGB yields because they generate a higher EV. Rather, it is because Sony Life's investments are centered on JGBs, so evaluating liabilities in terms of JGB yields provides better market consistency.

Q3. [Sony Life]

I had expected the drop in the number of Lifeplanner sales employees to eventually bottom out, but their number fell further in FY2011 1Q. Why was that?

A3.

The number of Lifeplanner sales employees resigning has returned to normal. In FY2011 1Q, the number of people resigning was up slightly year on year, but for all of FY2011, we do not believe the number will be significantly different from that in the preceding fiscal year.

With regard to the hiring of Lifeplanner sales employees, we have maintained the same stricter standards that we put in place from fiscal 2009. As a result, productivity of new Lifeplanner sales

employees has risen, so we plan to keep these stricter standards in place. Hiring activities were delayed somewhat by the effects of the Great East Japan Earthquake, but for all of FY2011 we expect to recruit more people than in the preceding fiscal year.

Q4. [Sony Life]

Would you please explain in detail the reason why core profit in the FY2011 1Q was up year on year?

A4.

In FY2011 1Q, core profit was up ¥7.4 billion year on year, to ¥19.2 billion. Primary reasons for this increase included the ¥3.3 billion positive impact of a partial reversal of reserve for outstanding claims, which was accumulated after the Great East Japan Earthquake, a ¥3.0 billion decrease in the provision of policy reserves for minimum guarantees for variable life insurance (a provision of ¥0.8 billion in FY2011 1Q, compared with a provision of ¥3.9 billion in FY2010 1Q), and a ¥1.3 billion decrease in the negative spread.

Q5. [Sony Life]

Operating expenses were up slightly year on year (+5%) in FY2011 1Q. Why was that? Also, do you expect the rate of increase in operating expenses to accelerate from its current pace throughout FY2011?

A5.

The quarterly pace of year on year increase in operating expenses is rather fluctuating. Although I would expect variable expenses to be up due to such factors as new policy acquisition, I would expect the pace of increase for all of FY2011 to remain approximately at the same level year on year as we acknowledge that operating expenses are under proper control.

Q6. [Sony Life]

On page 8 of the [presentation materials](#), the decrease in the number of new policies is slightly larger than the decline in the new policy amount. What is the reason for that? Has the per-policy amount increased?

A6.

Product mix has been changing since the second half of FY2010. In FY2010 1Q sales of educational endowment insurance and cancer hospitalization insurance were robust, but these figures have decreased for this first quarter. This caused the decline in the number of total new policies to be larger than its amount-wise.

(Additional question: Did profitability change as a result of shifts in the product mix?)

Sales of term life insurance and other death protection products were higher than in FY2010 1Q, but sales of medical insurance were lower. Profitability was up, though the overall improvement was not large.

Q7. [Sony Life]

The fall in annualized premiums from new policies was greater than that in the new policy amount. I understand that the main reason was a decline in sales of savings-type products, but how does this situation look if you exclude educational endowment insurance?

A7.

If you look at the figure excluding only educational endowment insurance, the figure for annualized premiums from new policies is approximately unchanged year on year.

Q8. [Sony Life]

I understand that corporate sales of cancer hospitalization insurance were down. Is there a connection between that fact and the decrease in the number of independent agencies?

A8.

No connection. The number of independent agencies appears to have declined because these agencies have increased in size and consolidated. If the number of branches is included, the number of independent agencies is up compared with March 31, 2011.

Q9. [Sony Life]

What is the sales status on whole life nursing-care insurance with reduced surrender value, which you launched in November 2010?

A9.

(Under nursing-care insurance category, owing to the new release of reduced surrender value insurance allowed the comparison with another conventional product of the higher benefit for death protection and its surrender value.) Eventually, sales of the conventional nursing-care insurance are higher than that for reduced surrender value.

Q10. [Sony Life]

I believe that unrealized gains on other securities as of June 30, 2011, were up as a result of the recent decrease in interest rates. Won't you continue to include net capital gains in current term forecasts?

A10.

In principle, we focus on reducing interest rate fluctuation risk for investment. Therefore, we do not intentionally generate capital gains. In FY2009 and FY2010, we conducted major shifts of our bond holdings, but we expect any such change during FY2011 to be small.

Q11. [Sony Assurance]

Premium income is up around 7% year on year, but once the full contributions of the increase in premiums takes effect, I believe this rise will be an additional 2 percentage points. What is the background for the leveling off in the rate of growth, compared with past performance? It appears that the rate of increase for direct non-life insurance overall is leveling off. Is that the case?

A11.

The rate of increase in premium income leveled off slightly. This was because of a temporary slowdown in new policy acquisition owing to the revision in premium levels in February 2011 and the impact of the Great East Japan Earthquake in March and the first half of April. Another factor is a recent slight increase in the number of premiums paid in installments.

Q12. [Sony Assurance]

Your earned/incurred loss ratio has improved year on year, which I believe is a result of a slower increase in policyholder driving distances. What are the recent trends on policyholder driving distances?

A12.

Although this does not represent the recent driving distance of policyholders, average driving distance during the past year as of each policy renewal peaked around December 2010. Distance has decreased gradually since that time, and this trend has continued through FY2011 1Q.

Q13. [Sony Assurance]

With regard to the year on year improvement in your earned/incurred loss ratio, please describe the status of accident reports you received for each of the months from April through June 2011.

A13.

Sony Assurance's number of in-force automobile insurance policies is expanding at a double-digit pace year on year, so please understand that the number of accidents reported is also up.

This rate of growth continued in FY2011 1Q, and the number of in-force policies as of June 30, 2011, was up 8.5% year on year, for an increase in approximately 100,000 policies. In April, the number of accidents was low, and was actually down year on year, but that number was up slightly in May and June. The rate of increase in the number of accidents during FY2011 1Q was lower than the 8.5% rise in the number of in-force policies.

Looking at recent trends, the number of accidents seasonally rises in July and August. In July 2011, the number of accidents was up year on year, but the rate of increase was only a few percent, the same levels as those in May and June this year. We will continue to monitor the situation, even considering the possibility of retroaction led by the aftermath of the 3.11 crisis.

Q14. [Sony Bank]

The rate of increase in risk-monitored loans appears to be on the rise. Is this because of a higher number of corporate loans? If so, do you plan to curtail the number of corporate loans going forward?

A14.

No corporate loans are included within risk-monitored loans. The main reason for the increase in risk-monitored loans is related to the relaxing of lending conditions on mortgage loans, owing to the introduction two years ago of the Act on Facilitation of Succession of Management of Small and Medium-Sized Enterprises. Another factor, which has only a slight impact, involves the rescheduling of mortgage loans, owing partly to the Great East Japan Earthquake. Rather than an overall upward trend in risk-monitored loans, the rise reflects temporary factors: regulatory changes and disaster.