

FY2011 2Q Conference Call for Domestic Institutional Investors and Analysts
Q&A (Executive Summary)

Date: November 14, 2011, 17:30–18:30

Respondents: Hirotohi Watanabe, Director, Member of the Board, Sony Financial Holdings Inc.

Mitsuhiro Koizumi, Director, Member of the Board, Sony Life Insurance Co., Ltd.

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Note: The original content has been revised, sorted 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 September 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 and volatility as of the end of September 2011.

A decrease in the value of existing business (from the end of March to the end of September 2011): approximately ¥146.0 billion

- We calculate 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 September 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.
- 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 ¥139.0 billion from the end of March to the end of September 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 September 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]

To what extent did the increase in new business value during the six months between March 31 and September 30, 2011, affect embedded value (EV) as of March 31, 2011?

Also, what was the impact of frictional cost and the cost of non-hedgeable risks?

A1.

Using interest rate sensitivity as of March 31, 2011, new business value was affected by a downturn in interest rates. As of September 30, 2011, we estimate the positive effect at around ¥25.0 billion.

Looking not only at frictional cost and the cost of non-hedgeable risks, but at all the remaining factors including the negative impact on variable life insurance stemming from fluctuations in the financial market, we estimate the effect at around a negative ¥60–70 billion* as of September 30, 2011.

* This includes the negative impact of interest rates and volatility between March 31 and September 30, 2011, amounting to approximately ¥7.0 billion (negative impact on the value of existing business of approximately ¥146.0 billion plus the positive impact on adjusted net worth of ¥139.0 billion).

Q2. [Sony Life]

Annualized premiums from new policies are down year on year; what are your expectations for the second half?

A2.

Sales of cancer hospitalization insurance and educational endowment insurance were down, causing a year-on-year decrease in annualized premiums from new policies. We expect this trend to continue in the second half.

Q3. [Sony Life]

Do you see EV continuing to increase steadily in the second half, even if annualized premiums from new policies are down year on year owing to changes in the product mix?

A3.

As in the first half, during the second half we expect profits to remain stable, adding to EV, as the acquisition of new policies generates a steady increase in policies in force.

Q4. [Sony Life]

Regarding your forecast on annualized premiums from new policies, do you expect this to decline during the current fiscal year as a result of lower sales of savings-type insurance but to increase from next fiscal year?

A4.

Positive growth in annualized premiums from new policies during the current fiscal year is certainly unlikely, but assuming there are no major changes in the product mix, we anticipate steady increases from the next fiscal year.

Q5. [Sony Life]

Comparing the sum of the mortality margin and the expense margin, which amounts to core profit less negative spread, for 1Q and 2Q of FY2011, this figure worsened in 2Q even omitting the effect of the reversal of the reserve for outstanding losses. I believe this is because of changes in the provision for policy reserve on minimum guarantees for variable life insurance, but what were the year-on-year comparisons for 1Q and 2Q?

A5.

The figure for 1Q of FY2011 was up year on year, but down year on year for 2Q of FY2011. Compared with 1Q, during 2Q of FY2011 the provision for policy reserve on minimum guarantees for variable life insurance was up ¥3.2 billion (¥0.8 billion in 1Q, ¥4.0 billion in 2Q).

Q6. [Sony Life]

You recorded a loss on sale of Japanese stocks. Was there some change in your shareholding policy?

A6.

There was no particular change.

Q7. [Sony Life]

How much of the 56-person decrease in the number of Lifeplanner sales employees (LPs) from March 31, 2011, was due to promotions to management (office managers)?

Also, what is the status of your recruiting activities for the second half?

A7.

There has been a tendency to promote LPs to management (office managers) over the past year or two. A little less than half the 56-person decrease from March 31, 2011, was due to promotion.

Our recruiting activities were initially slow due to the impact of the earthquake, but in 2Q of FY2011 this activity was up year on year. Assuming we proceed at this pace, in the second half recruiting should be up year on year. For the full year, we expect recruiting to be even with the previous fiscal year or up slightly.

Q8. [Sony Life]

Is the decrease in sales of cancer hospitalization insurance and educational endowment insurance the reason for the year-on-year decline in the number of new policies?

Or is this the result of a decrease in the number of LPs? Has there been any change in LP productivity?

A8.

The decrease in the number of new policies is because of the year-on-year decline in sales of cancer hospitalization insurance and educational endowment insurance.

Although we are unable to provide specific figures on LP productivity, there was a slight decrease on an annualized premium basis owing to changes in the product mix. However, we are currently introducing stricter recruiting standards for LPs and providing more robust training, and we have begun to see the impact of these efforts. We therefore believe the downturn in productivity to be temporary.

Q9. [Sony Life]

What is the background for the decrease in sales of educational endowment insurance?

A9.

We do not believe that educational endowment insurance sales are in a slump. Sales were down year on year in comparison with high growth in the preceding year, owing to such factors as the introduction of child allowance by the DPJ. We believe that current figures indicate that sales have returned to normal levels.

Q10. [Sony Life]

Rather than being a core product, my understanding is that educational endowment insurance is offered as a way to sell protection-type products. I believe that educational endowment insurance provide lower premium profitability than protection-type products. Would it be correct to say that LP productivity has not decreased much on a commission basis?

A10.

Partly as a result of enhanced LP training, productivity is rising on a commission basis.

Q11. [Sony Life]

What is the background for the improvement in the lapse and surrender rate?

A11.

During the previous fiscal year, the lapse and surrender rate rose temporarily, owing to a switchover on risk-segmented family income insurance products, which are life insurance with disability benefit. We see the improvement as an indication that this rate has returned to a normal level.

Q12. [Sony Assurance]

The medium-term management vision that you announced in September 2011 calls for ordinary profit by FY2013 to be double the FY2010 level. I believe that you were aware of the current worsening of your combined ratio at the time you announced the medium-term management vision, so please explain the pace at which you expect the combined ratio to improve by FY2013.

A12.

We expect the number of new policies to continue rising at near double-digit levels, and we anticipate increased profits on this increase in sales.

Within the combined ratio, our loss ratio worsened in the first half of FY2011. This was due in particular to more significant worsening than we had expected during 2Q. We are in the process of analyzing the detailed reasons behind this worsening, but rather than an increase in the number of

accidents exceeding the increase in insurance premium revenues, we believe that one factor was a rise in the number of accidents involving people and having high outlays. We will continue to look carefully at whether this is a temporary trend or something that is likely to continue.

We expect the effect of the premium revisions introduced in February 2011 to gradually become apparent in terms of improvements in the loss ratio. However, if we determine that the worsening trend in the loss ratio appears likely to continue, we may consider revising insurance premiums again. In that case, we would revise premiums based on the loss ratio for FY2009.

We expect to meet our medium-term target for ordinary profit, as even if the loss ratio increased that could be offset by reversing the catastrophe reserve.

Q13. [Sony Assurance]

Non-Life Insurance Rating Organization of Japan announced a revision in non-fleet grading system in line with the revision in the automobile insurance reference net ratio. What additional system investments are likely to result from this change?

A13.

System allowances will be necessary, but we should be able to cover this within our normal system investments. There is no clear schedule for Sony Assurance's compliance with the current revision in reference net ratio, but we expect to handle system investments during the first half of FY2012.

Q14. [Sony Assurance]

Does your insurance claim payments increase due to a higher number of accidents involving people, or is this to accumulate the reserve for outstanding losses on past accidents?

A14.

The increase is mainly to add to the reserve for outstanding losses to reflect high-outlay accidents such as those involving residual disability, owing to accidents involving people during the current and previous fiscal years.

Q15. [Sony Bank]

I believe that there have been a number of changes in investing behavior on foreign currency and investment trusts, owing to changes in the financial market environment. Have you seen any changes in the investing behavior of your depositors at Sony Bank?

A15.

We have not seen any major changes in investing behavior. Sony Bank's depositors tend to buy foreign currency when the yen appreciates and sell it when the yen depreciates. This type of contrarian investing behavior is unchanged from the past behavior.