FY2011 3Q Conference Call for Domestic Institutional Investors and Analysts
Q&A (Executive Summary)

Date: February 14, 2012, 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, sorted appropriately and edited for ease of understanding.

During the conference, we presented "Guidance on the Value of Existing Business, a Component of Sony Life's Market Consistent Embedded Value (EV) as of the end of December 2011."

Overview

Sony Life has sought to reduce mismatch risk from the asset–liability duration gap as part of its efforts to manage risk on the basis of economic value. Accordingly, the company continues striving to create an asset–liability structure that is 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, each quarter we announce Sony Life's calculations of the impact of interest rate fluctuations on the value of existing business.

―**Change in the value of existing business (From March 31 to December 31, 2011): Down approximately ¥133.0 billion**

- We calculate only the 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 the value of existing business. Specifically, we use only JGB yields and the implied volatilities on interest swaptions and foreign exchange rates as of December 31, 2011, to make the calculations on the portion of the values of policies in force as of the end of March 31, 2011, that corresponds to JGB yields.
- 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 ¥149.0 billion from March 31 to December 31, 2011**, in line with an increase in net unrealized gains on ultralong-term bonds held to maturity. This increase 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 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 bond 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]
What was the increase in embedded value (EV) as of December 31, 2011 compared with that as of March 31, 2011, resulting from the reduction in the corporate tax rate?
A1.
We calculate this increase to be approximately ¥50.0 billion as of December 31, 2011, owing mainly to increases in the value of existing business and the effect on adjusted net worth of unrealized gains or losses on held-to-maturity securities resulting from the decline in deferred tax assets.

Q2. [Sony Life]
In relation to EV, could you provide us with guidance on frictional costs and the cost of non-hedgeable risks? Also, annualized premiums from new policies have been up recently in the third sector. How are changes in the product mix affecting the EV value of new business?
A2.
One of the main reasons for the change in EV is the change in corporate taxes. We estimate this to have had a positive impact of around ¥50.0 billion. An increased cost on the minimum guarantee for variable life insurance, as well as non-hedgeable risks and frictional costs, had a combined effect that we estimate at a negative ¥40.0 billion.

With regard to the value of new business, our product mix has changed slightly, but there has been no major tendency that specific products are sold. Calculating the value of new business as of March 31, 2011, adjusted for interest rate sensitivity to changes in interest rate fluctuations, we estimate the amount to be up approximately ¥40.0 billion for the first nine months of FY2011.
(Note: The above-mentioned calculations are approximations; their totals using formal methods of calculation may result in a disparity of around ¥10–20 billion.)

Q3. [Sony Life]
What was the impact of a reversal in 3Q of FY2011 to the reserve for outstanding claims, which was provided on March 31, 2011, in relation to the Great East Japan Earthquake?
A3.
The impact on income during the first nine months of FY2011 (April through December) was a positive ¥3.9 billion. During the three-month period (October through December), the impact was approximately positive ¥0.2 billion.

Q4. [Sony Life]
The total for 3Q of FY2011 (three months) of the mortality and expense margin, or the amount of profit corresponding to core profit less interest gains and losses, was up significantly year on year. Would it be correct to say that this was better than you had expected?
A4.
Core profit during 3Q of FY2011 (three months) was ¥19.2 billion (up ¥2.1 billion year on year). This was due to the gradual reduction in the negative spread, as well as the slightly lower insurance claims and other payments than had been expected. However, we expect insurance claims and other payments to return to their normal level.

Q5. [Sony Life]
Page 8 of the presentation materials indicates that the new policy amount and number of policies were up year on year in 3Q of FY2011 (three months). Why was this?
A5.
One reason for the increases was the derivative effect of our efforts targeting the senior market (an increase in demand for products that address the risks of living longer, such as annuities and nursing care products). Also, we believe that

the effects of increasingly stringent recruiting standards of Lifeplanner sales employees, the standardization of management at branches and more extensive training are gradually beginning to be felt.

We have basically taken a needs-based sales approach from the past, and these efforts have had a very positive effect on sales. Of course, we gain support from customers not only for our needs-based sales approach but also for products that meet customers' needs. The increase in the new policy amount suggests that we are being successful in both areas.

Q6. [Sony Life]
During 1Q (three months) and 2Q (three months) of FY2011, annualized premiums from new policies were down year on year, but this figure was slightly up year on year in 3Q of FY2011 (three months). Also, this figure for the third sector was up more than 4% year on year, which is a relatively significant improvement. Was this an effect of introducing the senior market initiatives that you explained at your management vision presentation in September 2011?
A6.
It would be difficult to explain the improvement in annualized premiums from new policies only as a result of the senior market initiatives. However, we provide a host of training related to annuities and nursing-care products in promoting the senior marketing initiatives. This is likely to have had some positive impact on sales.

Q7. [Sony Life]
In 3Q of FY2011 (three months), you recorded gains on sale of securities (approximately ¥5.0 billion). Would it be accurate to say that this was a temporary item, different from the significant amounts posted during the preceding fiscal year owing to a shifting bond holding to ultralong-term bonds?
A7.
During the previous fiscal year, we largely completed the shift (of bonds with short remaining terms to maturity to ultralong-term bonds), but we continue to buy ultralong-term bonds to reduce interest rate risk. The switch during 3Q of FY2011 (three months) was done as part of this approach.

Q8. [Sony Life]
What are your expectations for eliminating the negative spread going forward?
A8.
We expect the negative spread to be eliminated by the end of FY2013.

Q9. [Sony Life]
Approximately what is your recent average assumed interest rate?
A9.
Slightly above 2%.

Q10. [Sony Life]
What should we infer from your increase in operating expenses?
A10.
Operating expenses are increasing to some extent as our business grows, with the new policy amount steadily mounting and the policy amount in force growing steadily. However, we invest in improving business efficiency and enhancing policyholder services, so operating expenses vary to some degree from term to term. They are not necessarily linked directly to increases in the policy amount in force during a specific term. We manage operating expenses appropriately so that over the medium to long term, increases remain within the acceptable scope of rises in the policy amount in force.

Q11. [Sony Life]

The number of Lifeplanner sales employees hired during 3Q of 2011 (three months) was up year on year, but your number of Lifeplanner sales employees as of December 31, 2011, was down compared with March 31, 2011. Are these figures being affected by an uptrend in the number of resignations?

A11.

The number of resignations including retirees at legal retirement age is certainly increasing. However, the number of rehired Lifeplanner sales employees after their retirement is slightly higher than in the previous year.

Q12. [Sony Life]

Would you say that the number of Lifeplanner sales employees is currently at bottom?

A12.

At present, recruiting numbers are up steadily compared with the preceding year, and by March 31, 2012, we expect the number of Lifeplanner sales employees to be higher than as of March 31, 2011.

Q13. [Sony Assurance]

In the first six months of FY2011, your earned/incurred loss ratio was up 1.1 percentage points year on year, but during the first nine months of FY2011 the figure had worsened further, being up 3.1 percentage points year on year. Was this a result of natural disaster or was it because of an increase in losses paid per policy?

A13.

As was the case during the first six months of FY2011, the increase (year on year) in the earned/incurred loss ratio during the first nine months of FY2011 were a result of an increase in losses paid per policy owing to types of accidents involving people.

The increase in losses paid per policy reflects a provision for reserve for outstanding losses for the accidents involving people that occurred from FY2009 to FY2010, which included finalized loss amounts stemming from residual disabilities. In FY2011, the accident rate is actually down.

Q14. [Sony Assurance]

Going forward, do you expect the increase in losses paid per policy to continue on the basis of past years' increases in the number of accidents involving people?

A14.

Looking at the situation on a quarterly basis, the earned/incurred loss ratio during 3Q of FY2011 (three months) was down compared with the earned/incurred loss ratio for 2Q (three months). The increase in losses paid per policy is the result of a time lag in the loss amounts finalized on accidents involving people that occurred from FY2009 to FY2010, when the accident rate rose. The accident rate has been decreasing since the second half of FY2010, so we believe the increase in losses paid per policy, which is the reason for the provision for reserve for outstanding losses, should also peak.

Q15. [Sony Assurance]

As of 3Q of FY2011, losses paid per policy are higher than you had initially expected as a result of the past increase in the number of accidents involving people. Do you expect further provision of IBRN reserve (the reserve for outstanding losses incurred but not reported) as of March 31, 2012?

A15.

We calculate the IBNR reserve quarterly, not only at the end of the fiscal year. Therefore, the increase in our earned/incurred loss ratio to date is reflected as of December 31, 2011. This is one reason our earned/incurred loss ratio worsened during the first nine months of FY2011. At present, we do not expect to make any major increases in this reserve as we move toward March 31, 2012.

Q16. [Sony Assurance]

In the medium-term plan announced during your management vision presentation in September 2011, you indicated a target combined ratio of 93% on an earned/incurred basis for FY2013. As of 3Q of FY2011, however, this figure was 97%, suggesting somewhat of a divergence. What measures are you taking in this regard?

A16.

At present, the reason for the increase in the earned/incurred loss ratio is that the number of accidents in FY2009 and FY2010 was particularly high, and these were in the final stages of loss amount determination. The accident rate has been on a downward trend since the second half of FY2010, so we expect the upward trend in losses paid per policy—which has occurred because of this finalization of the loss amounts on accidents—should peak. Consequently, we do not expect the earned/incurred loss ratio to continue rising.

In addition, the revisions in premiums that we introduced in February 2011 were part of a two-part rise by category, staggered over two years. We expect the positive effects of this revision in premiums to become increasingly evident going forward. Accordingly, we expect the loss ratio to gradually improve going forward. However, we recognize that this will not be sufficient on its own, and we believe that additional rate revisions will be necessary. However, we are not yet at a stage where we are ready to discuss the specific timing or level of any additional rate revisions.

Q17. [Sony Assurance]

Assuming that the full effects of improvements in the accident rate and the rate revisions are felt, approximately how much would you expect the earned/incurred loss ratio to improve?

A17.

It will take some time for the effects of the rate revisions introduced in February 2011 to be felt. Moreover, we believe that an additional rate revision will become necessary in the future. Achieving the target stated in our medium-term strategy—a combined ratio of 93% on an earned/incurred basis by FY2013—may be somewhat later than we had initially expected; we are reviewing these plans.

Q18. [Sony Assurance]

The impact of the IBNR reserve seems to be one reason for the increase in the earned/incurred loss ratio. Would it be correct to say that Sony Assurance calculates its IBNR reserve using statistical estimates on a quarterly basis? Approximately how many percentage points is the loss ratio being pushed upward owing to IBNR reserve provision?

A18.

The IBNR reserve is calculated on a quarterly basis using statistical estimates. For the first nine months of FY2011, the impact on the earned/incurred loss ratio of the IBNR reserve provision was approximately plus 1.5 percentage points.

Q19. [SFH]

I would like to confirm your basic stance with regard to dividends. Compared with your payout ratio on the basis of income under Japanese GAAP, your payment ratio on the basis of income under U.S. GAAP or on an economic basis seems extremely low. How should your payout ratio be viewed?

A19.

We place priority on returning profits to shareholders and raising return on equity. While closely monitoring developments in European Solvency II and other standards of financial soundness, we will maintain our policy of providing stable dividends while ensuring the internal reserves needed for future business development.

With regard to dividend level, our dividend policy does not state any fundamental figure on payout ratio. Rather, we will continue to base our dividend policy on measures that provide appropriate levels of shareholder returns, assuming the ability to maintain the Group’s overall financial soundness.

Q20. [SFH]
S&P has downgraded Sony Life’s financial strength rating from AA– to A+ (outlook negative). Will this have an impact on SFH’s dividend or capital policies?
A20.
SFH retains a comparatively sound financial rating of AA– (R&I’s issuer rating). Consequently, this change in Sony Life’s rating should have no major effect on SFH’s dividend or capital policies.