

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

Date: May 18, 2012, 19:00–20:00 (Tokyo)
Respondents: Hirotoishi Watanabe, Director, Member of the Board, Sony Financial Holdings, Inc.
Mitsuhiro Koizumi, Director, Member of the Board, Sony Life Insurance Co., Ltd.
Atsuo Niwa, Director, Member of the Board, Sony Assurance Inc.
Takayuki Suzuki, Executive Officer, Sony Bank Inc.

Note: The original content has been revised, sorted appropriately and edited for ease of understanding.

Q&A

Q1. [Sony Life]

What effect have changes in the market environment since March 31, 2012, had on MCEV?

A1.

Calculated on the basis of interest rates as of May 9, 2012, the impact of changes after March 31, 2012, was approximately negative ¥20.0 billion. As interest rates are down further as of today, the effect should be a slightly larger decrease.

Q2. [Sony Life]

Please provide a breakdown of the risk amount based on economic value. Also, I understand that the risk amount based on economic value of ¥551.5 billion is calculated using an internal model, which is similar but modified method of the EU Solvency II (QIS5) standard. However, if EU Solvency II were applied, a risk margin would be deducted from MCEV. Therefore, would it be correct to say that the solvency margin ratio based on EU Solvency II is around 160%?

A2.

The reason that we began disclosing risk amount based on economic value this time was to encourage a better understanding of the Sony Life's financial soundness. However, we are not disclosing detailed breakdowns of risk amounts. Your understanding of EU Solvency II is essentially correct.

Q3. [Sony Life]

Did management intend to send some sort of message through the timing of this disclosure of risk amount based on economic value? To some degree, SFH's share prices could incorporate Sony Life's financial risk, so was it your aim to provide an objective view of Sony Life's financial soundness?

A3.

Sony Life's corporate management operates on the basis of economic value. As with its financial soundness on a statutory basis, we wished to deepen your understanding of the company's soundness on an economic value basis.

(Additional question: Your prospective dividends for fiscal 2012 have not yet been determined. Is there any relation between this and the fact that you have started disclosing risk amount based on economic value?)

The reason for starting the disclosure of risk amount based on economic value is as explained above. You should consider dividends as a separate issue.

Q4. [Sony Life]

I understand that Sony Life's internal model was used for risk amount based on economic value. What would be the difference if you used the standard method?

A4.

We can not disclose the figures, but our internal model uses standards that are stricter than Solvency II in some respects, so figures for the risk amount would be higher with our model than for the standard method.

Q5. [Sony Life]

I would like to know your risk amount based on economic value as of March 31, 2011.

A5.

The figure as of March 31, 2011, was approximately ¥470.0 billion.

Q6. [Sony Life]

Page 8 of your presentation materials shows that your number of new policies for fiscal 2011 was slightly down from the previous fiscal year. Why was that? Also, I understand that the reason that annualized premiums from new policies were down in fiscal 2011 due to changes in the product mix. Will this downward trend continue in fiscal 2012?

A6.

The year-on-year decrease in the number of new policies in fiscal 2011 was due mainly to declines in educational endowment insurance and medical insurance.

The primary reason that annualized premiums from new policies were down year on year in fiscal 2011 is essentially the same as the reason for the drop in the number of new policies: namely, that educational endowment insurance declined. As such insurance products as living benefit insurance and nursing-care insurance are selling well now, we do not expect annualized premiums from new policies to decline in fiscal 2012, but they may remain flat. This could change, however, as fluctuations in the economic environment affect what insurance products are selling well.

(Additional question: Page 28 of the presentation materials, which indicates your consolidated financial forecast for fiscal 2012, shows an increase in revenues from the life insurance business. Although increases in the policy amount in force are the primary reason, do you expect annualized premiums from new policies to continue their downward trend?)

Our consolidated financial forecast for fiscal 2012 is made based on an assumption that there will be no change from our current product mix.

On the sales front, we expect new policy acquisitions to increase as the productivity of Lifeplanner sales employees rises. This should boost the new policy amount.

Q7. [Sony Life]

In 4Q of fiscal 2011 (three months), the annualized premiums from new policies was up year on year. What was the reason for this?

A7.

As we mentioned earlier, this was mainly due to increases in living benefit insurance, nursing-care insurance and endowment insurance.

Q8. [Sony Life]

Your balance of foreign securities as of March 31, 2012, was up slightly compared with the end of the previous fiscal year. As your investment in ultralong-term bonds has generally run its course, what is your asset management policy for fiscal 2012?

Also, please indicate whether you plan to continue holding bonds linked to the Nikkei 225 stock index.

A8.

As new policies will continue to accumulate, we will maintain unchanged our current stance on ALM (to continue investing mainly in ultralong-term bonds).

Bonds linked to the Nikkei 225 stock index, (principal protected 30-year notes with Nikkei 225 index-linked coupons) are to be held to maturity.

Q9. [Sony Life]

Page 12 of the presentation materials indicates that investment yield in the general account is down. Why is that?

A9.

This is because whereas investment yield for core profit is based on income, investment yield in the general account includes net capital gains.

Q10. [Sony Life]

Please explain why the number of Lifeplanner sales employees increased by 115 in Q4 of fiscal 2011 (three months).

A10.

To some extent, some seasonal factors account for the difference in the number of Lifeplanner sales employees hired. We believe that another reason is due to the success of our continued stringent recruitment and appointment of talented Lifeplanner sales employees as sales office manager (responsible for recruiting activities).

In addition, our recruiting activities and the number of new hires are up since the beginning of fiscal 2012, compared with the preceding fiscal year.

Q11. [Sony Life]

I have heard that you have changed your past policy from giving sales office managers responsibility for hiring Lifeplanner sales employees to one of boosting recruiting activities as a company. Based on the results, will you continue to increase your number of Lifeplanner sales employees?

A11.

As before, our basic stance is for sales office managers to be in charge of hiring activities for Lifeplanner sales employees. As a company, we have strengthened our training efforts for sales office managers to hone their skills as to the manner of conducting their recruiting activities and how to find candidates. Also, branch managers firmly manage sales office managers' recruiting activities.

As a result, the quality of the sales office managers' recruiting activities has increased, and the number of sales office managers has itself increased. Accordingly, the number of Lifeplanner sales employees recruited is on the rise.

(Additional question: What is your future outlook on increasing the number of Lifeplanner sales employees to more than 4,000?)

We are working to achieve our medium-term objective.

Q12. [Sony Life]

I believe that in the past, one of the reasons for the increase in the number of Lifeplanner sales employees was that in addition to additional recruiting, the number of people leaving was down. In Q4 of fiscal 2011 (three months), the number increased by 115. What was the primary reason: an increase in the number recruited or a decrease in the number leaving?

A12.

It is better not to look for factors such as these during a short span like three months.

Looking at this on a fiscal year basis, the percentage of Lifeplanner sales employees leaving has been down since the Lehman shock. This percentage has now returned to pre-Lehman levels, but because we are steadily increasing the number of recruits, the overall number is rising.

Q13. [Sony Life]

Why have you discontinued your disclosure of the number of independent agents from this presentation? If you can disclose the figure, what is it?

A13.

The figure as of March 31, 2012, was 2,070.

There was no particular reason for not disclosing the figure.

Q14. [Sony Assurance]

Page 20 of the presentation materials indicates that your loss ratio was up in fiscal 2011. What is your forecast for the loss ratio in fiscal 2012?

Also, your consolidated financial forecast for fiscal 2012 indicates that owing to such factors as system-related expenses, you expect the expense ratio to increase slightly. Approximately how much are you expecting this rise to be?

A14.

Looking at the earned/incurred loss ratio for fiscal 2011, and excluding Q1 (three months) when the ratio was low owing to the impact of the Great East Japan Earthquake, from Q2 onward the ratio has remained flat at around 74% each quarter, if temporary factors are ignored. We expect these conditions to continue during fiscal 2012, but as this figure is still too high we plan to introduce measures to improve the ratio, though we cannot discuss specifics at this stage. In fiscal 2012, we intend to reduce the earned/incurred loss ratio compared with fiscal 2011. We therefore expect the earned/incurred loss ratio for fiscal 2012 to be slightly lower than the 72.4% figure for fiscal 2011.

With regard to the expense ratio, the main reason is that now that we have finished reconfiguring our Web-based system and are releasing the new system, depreciation will increase. Including this factor, we expect the overall increase to be in the neighborhood of one percentage point.

Q15. [Sony Assurance]

With regard to the earned/incurred loss ratio, figures were flat for Q2, Q3 and Q4 of fiscal 2011, but in Q2 you significantly increased the accumulation in provision for reserve for outstanding losses to cover the accidents involving people in past years, as well as due to snow damage in Q4. Would you say the ratio remained flat, including these factors?

A15.

For fiscal 2011, the earned/incurred loss ratio in Q2 (three months) was 75.8%, in Q3 (three months) 73.3% and in Q4 (three months) 75.0%.

In Q2, the figure would have been around 74% if you exclude temporary factors such as typhoons and other natural disasters and losses on overseas cargo insurance. The temporary factor in Q4 was a shift to slightly more conservative standards for recording the IBNR reserve. Excluding this factor, the figure would be around 74%.

That is why I said that the earned/incurred loss ratio for fiscal 2011 was flat at approximately 74% for Q2, Q3 and Q4, if extraordinary factors are ignored.

Q16. [Sony Assurance]

You reversed the catastrophe reserve in fiscal 2011, but if your loss ratio continues at the present rates I believe you will need to continue reversing this reserve in the future. What are some of the measures you are considering, including reducing the loss ratio, revising insurance rates, changing the rate of provision for the catastrophe reserve or any combination of these?

A16.

This was the first time that the net figure was negative, after providing for and reversing the catastrophe reserve, but we are not thinking of changing the rate of provision for the catastrophe reserve. We will consider measures to improve the loss ratio, such as by revising insurance premium rates. However, after netting out provisions for and reversals of the catastrophe reserve, we still expect the figure to be negative in fiscal 2012.

Q17. [SFH]

Prospective dividends for fiscal 2012 have not been determined, but what will your dividend policy be, assuming that performance is in line with your consolidated financial forecast for fiscal 2012?

A17.

In principle, our dividend policy remains unchanged. SFH places priority on returning profits to shareholders and raising return on equity. Accordingly, we will consider the dividend level for fiscal 2012, taking operating performance into account.