Impact of Asset Management Policy Changes and Other Factors on Sony Life's Market Consistent Embedded Value (MCEV) Conference Call for Domestic Institutional Investors and Analysts Q&A (Executive Summary)

Date: March 15, 2010, 18:00–18:30

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

Q&A

Q1.

I understand that reflecting changes in your asset management policy (for interest rate-sensitive whole life insurance and semi-participating insurance) and dividend policy (for semi-participating insurance) has reduced the time value of options and guarantees (which lower MCEV). In other words, I believe this means that the expected value of cash flows returning to the company are slightly higher. In terms of management direction, please explain the impact this change will have on SFH's shareholder dividends.

A1.

Generally, we use Japanese GAAP to calculate the amount of income available for payment as dividends to shareholders, so an increase in MCEV does not directly lead to a rise in dividends. However, supposing MCEV (as a kind of internal control tool) is low, it is possible that dividends may not be paid out to shareholders, depending on risk conditions from the standpoint of internal control, even if the amount of income available for dividends is sufficient. In this sense, an increase in MCEV provides leeway in responding to potential risk, which makes it easier to distribute dividends to shareholders.

Q2.

It seems to me that such a large change in the time value of options and guarantees indicates that the sensitivity disclosed in June 2009 could have been substantially in error. I would appreciate an update on this.

A2.

On February 12, 2010, we provided guidance indicating that if interest swap rates as of December 31, 2009, were applied to in-force business as of March 31, 2009, the increase in the value of existing business would be ¥176.0 billion. The corresponding figure here is ¥155.0 billion. Please understand that, different from the guidance provided on February 12, the current calculation also takes into account the rate of implied volatility as of December 31, 2009. (Strictly speaking, the rise in the value of existing business is the amount of increase in the total of *'present value of certainty-equivalent profit'* and *'the time value of options and guarantees'* which are both MCEV components,.)

Looking at MCEV sensitivity as of March 31, 2009, which we disclosed in June 2009, our sensitivity analysis indicates a ¥414.8 billion increase in the value of existing business—from ¥205.4 billion to ¥620.2 billion—for each 100bp rise in interest swap rates. Applying this sensitivity to the previously mentioned ¥176.0 billion increase in the value of existing business results in an estimate equivalent to 0.42% increase in interest swap rates as a parallel shift. Consequently, adding ¥187.6 billion mainly resulting from changes in our asset management policy disclosed today to the ¥205.4 billion in the value of existing business as of March 31, 2009, accounts for ¥393.0 billion. Please understand that the value of existing business increased by ¥155.0 billion on top of this ¥393.0 billion due to the rise in interest swap rates from March 31, 2009, to December 31, 2009, equivalent to a parallel shift of 0.42%. In addition, although the sensitivity of interest swaption implied volatility as of March 31, 2009, was a negative 17%, we estimate that that figure had decreased to nearly single-digit levels by December 31, 2009.

Q3.

For third-sector products, given the fact that present value of certainty-equivalent profit (a component of MCEV) falls as mortality rates decrease, is it safe to assume that in the future you will reduce premiums on third-sector products? Or have premiums already been revised? Also, were morbidity rates higher than you had assumed?

A3.

For third-sector products—principally medical insurance—a decrease in mortality rates causes future benefits (insurance claim payments) to increase, which reduces MCEV. We do not know what will happen with regard to premiums on third-sector products. In the past, we used the same mortality rates for third-sector products as for first-sector products. However, now that we have accumulated enough of our own data on third-sector products we have begun applying this information, causing a decrease in mortality rates for MCEV calculation.
(Considering that MCEV Principles call for such changes when morbidity rates on a product are confirmed to be worsening, we will reflect this information as we confirmed that survey results indicated a downward trend in morbidity rates on certain products.)

Q4.

As for investment assets in relation to interest-rate sensitive whole life insurance and semi-participating insurance, I understand that you plan to sell off stocks and convertible bonds and reduce these holdings to zero by March 31, 2010. Has the impact of this move been factored into your full-year forecast for fiscal 2009?

A4.

The impact of gains or losses on the sale of these risk assets was factored into the full-year financial forecast we announced on February 4, 2010, titled "Revision of Consolidated Financial Forecast for the Year Ending March 31, 2010."

Please be aware that our statement about reducing holdings of stocks and convertible bonds to zero applies only to investment assets related to interest-rate sensitive whole life insurance and semi-participating insurance. We will retain some holdings of stocks and convertible bonds in relation to other non-participating product categories, albeit only in small amounts.

Q5.

You said the change in your asset management policy on interest-rate sensitive whole life insurance and semi-participating insurance will concentrate investment in bonds. Please explain specifically how this change will affect the practice that you have been addressing to lengthen asset durations.

A5.

We have not indicated any specific numeric target in relation to asset durations, but our stance remains unchanged. We will continue to gradually lengthen durations, as we have done in the past.