Q&A (Summary) of the Corporate Strategy Meeting of the Sony Financial Group for Fiscal 2017

Date: May 31, 2017 (Wednesday), 15:30–17:00 (JST)

Respondents*: Shigeru Ishii, President, Representative Director of Sony Financial Holdings Inc.
Tomoo Hagimoto, President, Representative Director of Sony Life Insurance Co., Ltd.
Atsuo Niwa, President, Representative Director of Sony Assurance Inc.
Yuichiro Sumimoto**, Senior Managing Director of Sony Financial Holdings Inc.

*Respondents' positions were as of the indicated meeting date.
**To be appointed as President, Representative Director of Sony Bank Inc. on June 21, 2017.

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

[Q&A]

Q1: [SFH]

With regard to the change of your dividend policy, you have indicated that the company will place importance on profit indicators on the basis of economic value. What indicators, in particular, will you be looking at? Also, what are your thoughts concerning a standard that would trigger a decision to raise dividends?

If you place importance on new business value, conditions would be strongly affected by interest rate fluctuations as in Q1 of FY2016. How would you eliminate the impact of interest rate fluctuations? Also, how would you go about placing a value on the non-life insurance business and the banking business?

A:

(Page 62 of the presentation materials) As economic value is substantially affected by interest rate conditions, in principle we will consider increases in Sony Life's value based on core ROEV. This will eliminate the impact of interest rate fluctuations to some extent. With regard to decisions on increasing dividends, at this point we do not have clear standards in place.

This policy revision involved substantial internal discussion and took into consideration profits based on statutory accounting as the basis for the source of dividends. However, we have decided to place importance on profit indicators on the basis of economic value, as this is a better target for profit growth over the medium to long term. This indicator is linked to increases in corporate value, and it is one that we believe investors can accept. Sony Assurance and Sony Bank will be valued as in the past, based on calculations of adjusted ROE and ROE, which are included in consolidated adjusted ROE.

Q2: [SFH]

What was the biggest reason for your decision to maintain dividends at ¥55 per share? Was it because you took into consideration changes in the market environment during the year? New business value varies significantly due to interest rate fluctuations, but for example, even if core ROEV is low at the end of the fiscal year due to a sharp drop in interest rates, what would be your thoughts on shareholder returns if business operations are expanding steadily?

A:

We kept the dividend forecast at ¥55 per share for FY2017 because of uncertainty in the market environment and in the competitive environment following revisions in the standard yields used for calculating policy reserves, and our decision to assess the situation. Some may find our decision conservative, but we have kept the figure at ¥55 per share because this is the level we can indicate with confidence at this juncture. We are aware that the interest rate sensitivity of new business value is high; we would like you to understand that we determined to provide a dividend of ¥55 per share even if interest rates fall. With regard to a decision on raising the dividend, let us look at new business value. As Sony Life's new business value was around ¥15.0 billion in Q4 of FY2016, for example, new business value of around ¥60.0 billion on an annual basis would be one guide. If the actual figure were to be higher than that, we could consider raising the dividend.

Q3: [SFH]

If Sony Corporation's performance were to improve significantly, would discrepancies arise between the dividend policies of Sony and SFH, given that SFH's profits account for a substantial portion of Sony's profits?

A:

Sony Corporation is a major shareholder, but it is only one shareholder. We do not base our dividend policy solely on considerations of Sony Corporation.

Q4: [SFH]

Sony Corporation has increased its stake in two steps. Have communications increased?

Also, are you making clear progress toward the goal of generating synergies within the Sony Group? Put another way, what things should we look forward to in this area going forward?

A:

The Sony Financial Group uses the "Sony" brand, but Sony Corporation is only one of our shareholders and we also take minority shareholders into consideration. Consequently, we limit communications to some extent. On the other hand, Sony Corporation's management team has deep ties in the financial business, and we believe understanding has increased.

Regarding synergies with Sony, we are exploring a variety of collaboration possibilities with the Sony Group. These include Sony Computer Science Laboratories (Sony CSL) in the Fintech domain. Sony CSL excels at big data analysis, and the Sony Financial Group is considering collaboration in order to leverage this technology. On the SFH side, we have created the "SFG Fintech Forum" as a groupwide organization. By consolidating the point of contact, we have created a structure that facilitates communication.

Q5: [SFH]

In his presentation, Sony Corporation's President Hirai said that "Sony is a '*Kando*' company." How is SFH responding to this?

A:

President Hirai talks about connecting with customers at the last one inch ("Kando @ the Last One Inch").

Sony Life's Lifeplanner sales employees are the closest to customers. Using the "Sony" brand, Lifeplanner sales employees, who are able to forge direct connections with customers provide that sort of *Kando* in their customer response. Our concept is to increase brand value through life planning. We also aim to deliver *Kando* through collaborative development with Sony in the Fintech field.

Q6: [Sony Life]

Other companies are shifting toward protection-type products, with a particular shift toward the third sector. I understand that Sony Life's business model involves a low share of business in the third sector, but wouldn't it be possible to increase the share of third-sector business in the interest of improving profitability amid the ongoing low-interest-rate environment?

A:

At present, Sony Life's share of annualized premiums from new policies in the third sector is around 20%. Unit sales of medical insurance are decreasing, but living benefit insurance includes nursing care and personal accident coverage. This is compensating for the drop in sales of medical insurance, so the share of business in the third sector is growing to some extent.

Sony Life is prioritizing and launching new products at a rate of two per year, and we would like to launch third-sector products in the future. Profits on third-sector products are generally considered to be highly profitable, but price competition is heating up in some areas. It would be inaccurate to think that we could ensure high margins in all areas of medical insurance. We will take this factor into consideration when developing new products.

Q7: [Sony Life]

MCEV sensitivity was fairly low as of March 31, 2017. Was this due to a rise in ultralong-term interest rates led by the introduction of an ultimate forward rate (UFR)? Would it be accurate to assume that MCEV will not rise much even if ultralong-term interest rates increase?

A:

Interest rate rises in the market are one factor causing interest rate sensitivity to decrease, but the introduction of a UFR was the biggest factor. MCEV will not increase as much as it did in the past even if interest rates rise, but conversely, neither will MCEV fall as much as before when interest rates decrease.

Additional Q:

Would it be accurate to say that management believes it is preferable to have less change (inability to take advantage of upsides) due to interest rate fluctuations?

A:

To date we have pursued ultralong-term investments in order to reduce interest rate sensitivity with respect to overall MCEV. We view little change in response to interest rate fluctuations as a positive.

Because changes in MCEV due to interest rate fluctuations have grown smaller, accumulating new business value is a more important consideration for boosting MCEV. New business value is also affected by interest rate fluctuations, but we are working to steadily increase new business value through appropriate measures such as product pricing that take interest rate circumstances into account.

Q8: [Sony Life]

In Q4 of FY2016, asset-side duration shortened a bit, and efforts to lengthen the duration appear to be at a standstill. Going forward, will you change your policy with regard to duration mismatches?

A:

Sony Life's portfolio includes a large quantity of yen-denominated bonds, so the overall duration will not be affected significantly even if new investment amounts change somewhat. Duration shortens when yen interest rates rise, and lengthen when they fall. In Q4 of FY2016, the duration shortened mainly because of an increase in interest rates.

Q9: [Sony Bank]

(<u>Page 42 of the presentation materials</u>) Sony Payment Services' share of the market for e-commerce settlement services is growing steadily. What is its competitive advantage? Also, what is the standard percentage from which spread revenue derives?

A:

We believe the strength of Sony Payment Services' settlement lies in its strong authentication function. The brand, which is backed up by a high degree of safety, has an excellent foundation of trust and creditworthiness. We do not disclose spreads.

> **Additional Q:**
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> **Given the figures in your presentation materials, I would calculate a spread of around 50bp, given that transaction volume is ¥700.0 billion and sales are ¥3.4 billion. Would that be accurate?**
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> A:
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> Yes, that figure is in the right ballpark.

Q10: [Nursing Care]

Regarding the nursing care business, five years have passed since I first heard your explanation that your aim was to turn this business into one generating several billion yen in ordinary profit—like the non-life insurance and banking businesses—within around 10 years. How is your progress toward that goal?

A:

Although I will refrain from any detailed explanations, our initiatives in the nursing care business are progressing steadily. Having entered this business, we believe it is imperative to make it profitable. We are converting Yuuai Holdings to a subsidiary somewhat later than we had initially planned, but we aim to make up ground in moving toward profitability.

Note: The "10 years" referred to here was not meant to be from the time the intention was stated, but rather from the time of actually entering into that business, which was in November 2013. Three and a half years have passed since then.