FY2013 4Q Conference Call for Domestic Institutional Investors and Analysts

Q&A (Executive Summary)

Date: May 21, 2014, 11:30–12:30

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Hiroaki Kiyomiya, Executive Vice President, Sony Life Insurance Co., Ltd.
Takayuki Ishii, Executive Officer, Sony Assurance Inc.
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Note: The original content has been revised, sorted appropriately and edited for ease of understanding.

Q&A

Q1: [SFH]

The dividend increase in FY2014 will raise your payout ratio. You have indicated that your target for the medium term is a payout ratio of 30–40%; do you plan for this figure to be near 40% going forward? Will you consider buying back your shares? Please provide an update about your thoughts regarding shareholder returns.

A1:

We make decisions about specific dividend amounts after taking into overall consideration a variety of factors, including the business environment and financial soundness, investment opportunities, and legal and regulatory developments worldwide. Going forward, we intend to steadily raise dividends, while striking a balance with corporate income levels. We are not planning shareholder returns through the share buyback because of our operating environment and our shareholder structure and because a few shares are available for trading. Accordingly, dividends will be our basic means of enhancing shareholder returns.

Q2: [Sony Life]

The number of Lifeplanner sales employees is up as of March 31, 2014. What have been the effects of your measures to increase the number of recruits? Do you expect this upward trend to continue? How will this impact your sales of insurance products?

A2:

Our measures for increasing the number of recruits has been to promote superior Lifeplanner sales employees to sales office manager positions. The number of Lifeplanner sales employees recruited in FY2013 was 439, up 69 compared to the FY2012 level. Going forward, we will continue to proactively promote Lifeplanner sales employees to sales office managers, so we expect the number of recruits to increase. A large number of employees were recruited in 4Q (three months) of FY2013. As they will commence sales activities in FY2014, we expect to begin seeing results in FY2014.

Q3: [Sony Life]

What is your relative percentage on annualized premiums from new policies from the Lifeplanner channel and the independent agent channel? I understand that the figure of the independent agent channel in FY2012 was around 25%. Has this changed?

A3:

The figure varies somewhat year on year, but in there was no significant change in FY2013—in the region of 25–30%.

Q4: [Sony Life]

In FY2013, new business on an annualized premium basis was down year on year. How should this be interpreted? How does this relate to the year-on-year increase in new business value?

A4:

Reasons for the year-on-year decline in annualized premiums from new policies in FY2013 included decreases in educational endowment insurance in the first sector, and lower sales of lump-sum payment whole life nursing-care insurance in the third sector. The new business margin was not affected significantly, but the figures leave the impression of sales volume being down from the preceding fiscal year.

Q5: [Sony Life]

How should we interpret Sony Life's core profit forecast for FY2014, including its breakdown?

A5:

We expect core profit and ordinary profit to be flat or up slightly. Special factors in FY2013 include a burden of approximately ¥6.0 billion in policy reserves on interest rate-sensitive whole life insurance incurred in line with the revision in premiums in May 2013. This reserve will have less of an impact in FY2014, which should generate a positive effect. At the same time, however, we expect to increase around ¥3.0 billion in the provision of policy reserves related to minimum guarantees for variable life insurance policies, and we expect the consumption tax rise to have a negative impact of approximately ¥3.0 billion. Thus, the special factors should essentially balance each other out, leading to a flat result.

The positive spread continues to trend upward, but during FY2013 we see much of this improvement as being due the impact of private equity funds; this factor should be excluded when looking at the trend. Increases in the policy amount in force lead to higher core profit and ordinary profit. However, whereas the new policy amount decreased in FY2013, we expect to see somewhat of an increase in FY2014. We believe the positive impact of an increase in the policy amount in force will be offset by the increased burden from new policies, so the upshot should be nearly even.

Q6: [Sony Life]

<u>On page 12 of the presentation materials</u>, looking at core profit excluding the indicated adjustment items, the figure appears to be down slightly from FY2012 to FY2013. What is the reason for this decline?

A6:

Insurance claims paid were slightly lower in FY2012 than in FY2013. The accumulation of insurance claims and other payments was the main reason for this decrease.

Q7: [Sony Life]

Looking at the figures for policy reserves related to minimum guarantees for variable life insurance policies, the cumulative figure for FY2013 was a provision of ¥4.2 billion, taking into account a reversal of ¥0.9 billion through 3Q (nine months) and a provision of ¥5.2 billion in 4Q (three months). Why is it that your forecasts incorporate a total provision of around ¥7.0 billion, which would mean an additional provision of approximately ¥3.0 billion?

A7:

First, we do not expect the market environment in FY2014 to be as favorable as it was in FY2013. Also, the balance in separate accounts increased from around ¥550.0 billion as of March 31, 2013, to approximately ¥640.0 billion as of March 31, 2014. Even if the new policy amount on variable life insurance decreases, we expect ongoing premiums. This results in a higher balance in separate accounts, and the burden in policy reserves related to minimum guarantees gradually increases.

Q8: [Sony Life]

To what extent do Sony Life's operating performance forecasts for FY2014 take into account the provision for policy reserves related to minimum guarantees for variable life insurance policies? To what degree are AEGON Sony Life's losses included?

A8:

With regard to the minimum guarantee on variable life insurance, for FY2014 we have incorporated an additional provision of approximately ¥3.0 billion. In FY2013, AEGON Sony Life's operations were in the red to the extent of around ¥2.0 billion (after application of the equity method). In line with the company's business expansion, charge-offs under Article 113 of the Insurance Business Act will increase in FY2014, so we expect the amount of losses to increase slightly.

Q9: [Sony Life]

Sony Life's Lifeplanner sales employees are selling AEGON Sony Life products. How do you manage these operations internally?

A9:

Sony Life's Lifeplanner sales employees account for around 40% of AEGON Sony Life's sales. Internally, we divide out sales made by Lifeplanner sales employees into a Sony Life portion and an AEGON Sony Life portion. Because what is fundamentally important is to provide the protection that is necessary to meet customers' needs, we see the ability to offer both Sony Life products and AEGON Sony Life products as being positive for the Group as a whole.

We manage the new business value and new business margin of AEGON Sony Life internally. However, because the company is in its startup phase it has a relatively high burden of operating costs, so its new business value is lower than that for Sony Life.

For Sony Life on a stand-alone basis, the sales department uses commissions as a management indicator of sales conditions. In FY2013, commissions for the Lifeplanner channel were down year on year for Sony Life on a stand-alone basis, but after taking the AEGON Sony Life portion into account they were nearly flat or up slightly.

Q10: [Sony Life]

Looking at Sony Life's risk amount based on economic value, insurance risk went from ¥605.6 billion in FY2012 to ¥654.5 billion in FY2013. The increase in insurance risk was higher than the rise in policy amount in force; was there some specific reason for this? Was there some change in the calculation method?

A10:

There was no change in the method of calculating insurance risk. We consider insurance risk to generally increase at about the same amount as the policy amount in force, but in point of fact it differs from year to year depending on the products sold. Also, the factors used to calculate insurance risk include the mortality rate and the expense ratio. As assumptions for these factors are revised once each year, the full year's impact appeared at once in the figures for the fiscal year ended March 31, 2014. Typically, calculations for 1Q through 3Q are determined on the basis of assumptions as of March 31 of the preceding fiscal year. These assumptions for mortality rate and the expense ratio are used not only for MCEV, but also for calculating risk amount, and are then revised on March 2014. These revisions have a positive impact on EV.

Q11: [Sony Life]

Why did new business value increase only ¥10.0 billion in 4Q (three months)?

A11:

The leading impact on results for 4Q (three months) reflected the increase in the inflation rate. In addition to new policies acquired in 4Q (three months), this raise affected new policies acquired in 1Q through 3Q, but ultimately the result was evident in the change in the figures for 4Q (three months). The impact on the new business margin was a negative 0.3% from December 31, 2013 (nine months) to March 31, 2014 (12 months). Most of that change was due to the increase in the inflation rate. The amount of the impact was about ¥2.0 billion.

Q12: [Sony Life]

I understand that on March 31, 2014, you revised the method of measuring interest rate risk in Japanese yen. When using principal component analysis, around what degree of shock was applied to the yield curve for each component?

A12:

Fundamentally, our calculation method involved applying a shock based on data observable in the past at a value at risk (VaR) confidence level of 99.5%. This VaR confidence level remains unchanged from past calculations.

Q13: [Sony Assurance]

What is your outlook for the sum of the E.I. loss ratio and the net expense ratio? For FY2013, the E.I. loss ratio was 68%; what trend do you expect the figure to follow going forward?

A13:

We assume that the **sum of the** E.I. loss ratio and net expense ratio will increase slightly from FY2013 to FY2014. We believe the loss ratio will improve (decrease), but expect the expense ratio to increase slightly due to system investments. Taken together, we expect the increase to be small—within 1%.

Q14: [Sony Assurance]

What are your thoughts on future revisions in insurance premium rates?

A14:

We introduced a revision in premiums on automobile insurance in April 2014. In making this revision, we took into account a variety of positive and negative factors, including the impact of premium increases made up through the preceding year, response to the consumption tax increase, changes due to the effective discount from the introduction of the bonus-malus system (non-fleet driver rating system), reduced premiums for the following year based on factors such as a decrease in the number of accidents, and we introduced the rate revision starting in April 2014 from the standpoint of maintaining income levels. At present, we have not made any plans about future rate changes, but if the consumption rate does increase further in 2015, that timing might be appropriate for a revision in premiums.

(Additional Q: The sum of the E.I. loss ratio and the net expense ratio are already below 95%. Are you aiming to boost income levels even higher?)

We would like our level of ordinary profit to be slightly higher. We will also work to increase profit by confirming trends on the loss ratio and holding down the expense ratio; we will not rely only on revising premiums.

Q15: [Sony Bank]

On the asset side, mortgage loans are increasing steadily. On the liability side, however, foreign exchange fluctuations are affecting customer trends and resulting in a fair amount of instability in foreign currency time deposits. How will you respond on the asset side, including mortgage loans, to this instability on the liability side?

A15:

When looking at the relationship between mortgage loans and foreign currency time deposits, investment and funding operations must be separated, because mortgage loans are denominated in Japanese yen, whereas foreign currency time deposits are in foreign currencies. In terms of foreign currency time deposits, balances certainly change as customers conduct transactions in response to foreign exchange fluctuations, but as our investments are in highly liquid assets we can manage risk by responding flexibly to changes in these balances. With regard to foreign currency deposits (funding), we invest in foreign currencies so that Sony Bank does not bear foreign currency risk.

With regard to Japanese yen denominations, mortgage loans (assets) are increasing more rapidly than Japanese yen deposits (liabilities). To maintain flexibility, we are adjusting this balance with flexible securities and deposits (assets).