FY2014 2Q Conference Call for Domestic Institutional Investors and Analysts
Q&A (Executive Summary)

Date: November 14, 2014 15:30–16:30 (JST)

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

Q1: [Sony Life]

I have a question about the rate of year-on-year increase in the new policy amount. The rate of increase was quite high during the three months of FY2014 2Q. This appears to indicate a large-scale recovery from the decline recorded in FY2013 2Q, but what are your expectations from October 2014 onward?

A:

In 1Q and 2Q of FY2014, the new policy amount was up steadily in comparison with FY2013 levels. These results reflect the success of efforts to reinforce sales of death-protection products that we began in FY2014. In FY2014 3Q, sales of new products launched in October have been relatively favorable, so at this point we expect to maintain year-on-year growth of around 10% in our new policy amount. We believe this pace will continue into the future.

Q2: [Sony Life]

What is the breakdown of the increase in interest income and dividends and gains on sale of securities? Did you sell off any particular asset class, such as foreign bonds or Japanese government bonds (JGBs)? (Question in regard to page 6 of the presentation materials)

A:

Gains on sale of securities came to around ¥3.8 billion in FY2014 2Q. Total capital gains amounted to a positive figure of around ¥4.4 billion. As to assets generating interest income and dividends, we invest mainly in JGBs and have almost no holdings of foreign bonds, but investments in private equity funds continued to perform favorably as they did in the preceding fiscal year, which contributed to the rise in interest income and dividends.

Additional Q2: Was the increase in interest income and dividends due simply to increased holdings of JGBs? Were gains on sale of securities solely a result of selling

yen-denominated bonds?

Additional A: The rise in interest income and dividends was due to increased holdings of JGBs and favorable dividend income from private equity funds. Gains on sale of securities included JGBs and sales of some REITs.

Q3: [Sony Life]

Sometimes you generate gains on sales of securities, as was the case with the gains on the sale of JGBs you posted in 2Q of FY2014. From 3Q onward, what is the timing when we would expect to see gains on sales generated when you shift your holdings?

A:

Gains on sales of JGBs are not included in our plans at the start of the fiscal year, but going forward we may conduct such operations as selling off shorter-term instruments to adjust toward longer-term durations.

Q4: [Sony Life]

I have a question about Sony Life's investments. I understand that you intend to continue investing in JGBs, but now interest rates on 30-year bonds have dropped to 1.4%. Will your investment policy change depending on interest rate levels?

A:

At the moment, interest rates are down on 30-year and 40-year instruments, but we do not plan to change our policy of investing in ultralong-term bonds.

Q5: [Sony Life]

You mention that Sony Life's holding ratio of real estate in general account assets was up as a result of the September 2014 acquisition of Sony Corporation's headquarters site (<u>page 14 of the presentation materials</u>), but while your balance of real estate holdings has actually increased by around ¥60 billion, on the income statement your rental income has changed little. As Sony Life already owned the building and the current purchase was for the land only, would it be safe to assume that this transaction will have little impact on rental income? If acquiring the land will have little impact on rents, the land acquisition would seem to have somewhat of a negative impact on your solvency margin ratio and ERM. Were there any positive reasons behind this land purchase?

A:

The land acquisition means that we will no longer need to pay the expense of leasing the land, which will have a positive impact on income.

Q6: [Sony Life]

On current trend, the discount rate used for calculating policy reserves on savings-type products will decrease from April 2015. When Sony Life previously reduced the discount rate used for calculating policy reserves overall, some product revisions were delayed by a month, which affected performance. Will that happen again this time? Or are you planning to revise products, halt sales or revise rates at an early stage in order to avoid this risk?

A:

A new method for computing the discount rate used for calculating policy reserves will be introduced on certain products from April 2015, but in principle we plan to revise premium rates as necessary. In some cases we may leave rates unchanged if there is likely to be no large impact on income, but in any case we do not expect the same negative impact as we experienced in the previous fiscal year.

Q7: [Sony Life]

Sony Assurance has revised its performance outlook upward, but no upward revision was made to SFH's consolidated financial forecast because of concerns about the risk of market fluctuations from October 2014 onward. Does this risk of market fluctuations primarily point to interest rate fluctuations, or does it indicate foreign exchange risk? (Question in regard to <u>page 29 of the presentation materials</u>)

A:

In the first half of FY2014, we posted gains on sale of securities, and the provision of policy reserves for minimum guarantees for variable life insurance was small as a result of the favorable market environment. These factors, plus positive results on private equity fund investments, meant that the positive spread rose further than we had anticipated. This led to a positive aberration of around ¥6–7 billion, compared with our initial expectations. Assuming that our performance of the second-half of FY2014 is in line with our expectations, an upward aberration is possible. However, as of mid-October 2014 the market is down substantially compared with the levels on which we based our forecast. Our forecast for the full fiscal year may change depending on the degree to which the market affects our provision of policy reserves for minimum guarantees for variable life insurance in the second half of FY2014. Consequently, at this stage we have elected not to revise our financial forecast.

Q8: [Sony Life]

I have a question about MCEV as of September 30, 2014. <u>Page 31 of the presentation materials</u> shows changes in MCEV compared with the figures for March 31, 2014, and June 30, 2014. I would like to ask you to supply additional information, particularly with regard to the effect of yen interest rate levels and changes in the yield curve.

A:

Compared with June 2014, the difference between our economic assumptions and actual results amounted to ¥34.6 billion. Interest rate decreases and changes in the yield curve had essentially no impact on this figure. Positive factors included the impact of fluctuations in stock prices and exchange rates, as well as the effect of a lower rate of inflation.

Q9: [Sony Life]

I have a question about MCEV. At the end of October 2014, the Bank of Japan (BOJ) announced plans for additional monetary easing. Since that time, yields on JGBs have fallen, dropping around 8 basis points for 30- and 40-year instruments and 3 basis points for 20-year JGBs. The yield curves have flattened between 20 and 30 years, and move in parallel after that point. Looking at changes going forward, even if yields on 30- and 40-year JGBs drop, they are likely to do so in parallel, but interest rates on 20- and 30-year JGBs appear likely to flatten out. In past situations of this nature, even though you were on the lookout for a negative impact due to the flattening of 20-year JGBs, this did not happen. On the other hand, looking at the impact on 30- to 40-year JGBs, it would have been more appropriate to look at 40-year bonds on the liability side and 30-year bonds on the asset side. Do you expect this thinking to prevail under the current circumstances, as well? Or do you think it would be better to look at fluctuations on 20-year JGBs?

A:

With regard to Sony Life’s MCEV, you should focus primarily on interest rates for 30- and 40-year JGBs. Compared with MCEV as of March 31, 2014, assuming a parallel shift, earlier I believe we mentioned that an interest rate decline of 10 basis points would have the effect of reducing MCEV by around ¥10–15 billion. This is still the case. We calculated our MCEV as of November 4, 2014, after the BOJ announcement about further monetary easing. At that point, the net result of a decrease from lower interest rates and the positive effects of higher stock prices and yen depreciation was around minus ¥5.0 billion. At current levels, we see no major changes in MCEV.

Q10: [Sony Assurance]

I have a question about the earned/incurred loss ratio on non-life insurance. In 1Q of FY2014, this ratio was down by around 7 percentage points compared with 1Q of FY2013. For the first half, the year-on-year decrease is only around 3.5 percentage points. What is the reason for this reduction?

A:

The reason that the decline in the loss ratio leveled off from 1Q to 2Q was that the provision for reserve for outstanding losses increased. This change was because we reviewed the reserves we had set aside against incidents involving large payouts in past fiscal years, adding to the IBNR reserve.

Given that the trend of lower accident rates remains unchanged, we expect the figures to settle down from 3Q onward.

Additional Q10: Were the accidents involving large payouts specific incidents? Did you change your method of accounting for accidents involving large payouts?

Additional A: These involved multiple, individual incidents. We have not changed our calculation method.

Q11: [Sony Assurance]

There was a discussion about accidents involving large payouts with regard to the earn/incurred loss ratio during the first half of FY2014. My sense is that the upper limit on losses paid per policy on automobile insurance is generally around ¥100–200 million. Did you underwrite policies with accidents involving large payouts that would affect the figures of the first half of FY2014 by several percentage points?

A:

The change is not due to a single accident involving a large payouts, but rather to multiple accidents that occurred in past fiscal years. The impact appears large because of additions to both the standard reserve and the IBNR reserve.

Q12: [Sony Assurance]

With the loss ratio continuing to improve, the reference net ratio should begin to fall next fiscal year. Will you revise premium rates in response?

A:

To your question about premium rates, at present the loss ratio continues to decrease. With the reference net ratio increasing, normally we would revise premium rates to account for this change in the reference net ratio. However, there is some discussion about delaying further consumption tax hikes. If the tax rate does not increase, there will be no need to raise rates. Alternatively, if rates were raised the degree of this increase would be smaller than if the consumption tax were increased. As a result, we are undecided. We will make the decision on whether or not to revise rates based on changes in the loss ratio going forward.

Additional Q12: Will an increase in the consumption tax rate affect premium rates next fiscal year, as well?

Additional A: If the consumption tax rises, operating expenses and the loss ratio will also increase, so unless we reflect this in our premium rates to some extent, net profits will worsen.

Q13: [Sony Assurance]

I have a question about Sony Assurance's new product, <u>a PHYD（Pay-How-You-Drive）Type of Automobile Insurance "Gentle Driving Cash-Back Plan"</u> (the "new non-life insurance product"). What are your sales targets? I assume that some initial investment will be required—will the critical path for the combined ratio be approximately the same as for general automobile insurance?

A:

As our release about the new non-life insurance product explains, we will take a careful approach to sales, as the product involves individual customers' knowing their driving behavior and taking out policies with this full understanding. As this is the first product of its type in Japan, we intend to see how customers will receive it. Consequently, we have not set any major sales targets.

Responding secondly to your question of how we view the combined ratio, we expect this ratio to be approximately the same as for current products, but this will depend on what kind of customers take out policies. If numerous customers eligible for cash back take out policies, our expectations could be off, but we do not believe the product will have a significant negative impact on operating performance. With regard to initial investment, the devices themselves are not very expensive, so initial investment is not high. First, we want to see how the product is received.

Additional Q13: I believe that similar products are available overseas. Are you using statistical data from these products?

Additional A: We referred to data of this sort, but to receive approval from the regulatory authorities we accumulated various types of data within Japan, and used these results in setting premium rates.

Q14: [Sony Assurance]

I have a question about the new non-life insurance product. Which component involves a pending patent? Do setting insurance premium rates mean somehow gathering accident data for result ratings and using this information in a discount rate? My sense is that it would be difficult to accumulate accident data in Japan, so how did you accumulate data and reflect this information into insurance premium rates? Also, I understand that you are collaborating with a company that possesses sensor technology. Have you considered collaborating with Sony Corporation, or is this an idea you would consider in the future?

A:

The patent is currently pending on our methodology to reflect driving behavior in calculating automobile insurance premiums.

We took a long time to review correlation between the information of rapid accelerations and hard braking, and accident rates. To your question about collaboration with Sony Corporation, the current product involves risk segmentation for the relationship between rapid accelerations and hard braking, and accidents rates, so we are not using Sony's technology. However, Sony has some very promising automobile driving support technologies, so if we can find a way to use this in risk segmentation, we may elect to do so.

Additional Q14: I am interested in how you accumulated data. Did Sony Assurance conduct the studies itself? In general, Japanese automobile accidents are managed according to vehicle model, so it would seem difficult to connect the degree of acceleration with accidents. What is the background for this approach?

Additional A: Initially, our employees took charge of gathering data. Thereafter, we elicited the cooperation of numerous Sony Assurance customers in accumulating data.