FY2014 3Q Conference Call for Domestic Institutional Investors and Analysts
Q&A (Executive Summary)

Date: February 13, 2015 15:30–16:20（JST）

Respondents: Hirotoshi Watanabe, Senior Managing Director, Member of the Board, Sony Financial Holdings, Inc.
Hiroaki Kiyomiya, Executive Vice President, Sony Life Insurance Co., Ltd.
Takayuki Ishii, Executive Officer, Sony Assurance Inc.
Sumio Mizoguchi, Executive Officer, Sony Bank Inc.

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

Q1: [SFH]
You have revised upward your consolidated financial forecast for FY2014, but dividends remain unchanged at ¥40 per share. At the initially forecast figures, your payout ratio would have been midway through the range between 30–40%, but the current revision takes the payout ratio into the lower half of the 30–40% range. What are your thoughts on this?
A1:
Earnings are higher than we had anticipated because of a positive market environment and temporary gains on the sale of bonds. We have set our target payout ratio at 30–40%. We see dividend amounts as a medium-term forecast, and we aim to steadily increase the dividend payout. Our basic policy of strengthening shareholder dividend payouts from the next fiscal year onward remains unchanged. We will be discussing a number of topics internally in the lead-up to our corporate strategy meeting in June. This will include confirming our medium-term perspectives and policies.

Q2: [SFH]
Would it be accurate to say that your initial dividend forecast for FY2015 will be determined on the basis of your current policy (a target payout ratio of 30–40%), and that you will review your policy for shareholder returns in FY2016 and onward in the lead-up to your corporate strategy meeting in June?
A2:
Yes, that is correct. The considerations of our policy for next fiscal year and beyond will be linked with our medium-term business plan.

Q3: [SFH]
Are you saying that the temporary factor of gains on the sale of bonds should not be a source of shareholder returns? Regardless of whether the gain is on income or capital, a gain is a gain. Why

should this sort of gain be excluded from shareholder returns?

A3:

We have a misunderstanding here. Our aim is to steadily increase dividends over the medium to long term. To accomplish this goal, rather than deciding dividend levels based on earnings during a single fiscal year, we look at a variety of factors such as the medium- to long-term growth trend line and the external environment before coming up with a comprehensive return policy.

Q4: [SFH]

At your corporate strategy meeting last year, you indicated that your profit targets for FY2016 on a statutory basis were consolidated ordinary profit of ¥86.0 billion and operating income according to US-GAAP of more than ¥180.0 billion. With profit levels up for the current fiscal year, ordinary profit already looks likely to exceed your target for FY2016. What are your medium-term profit expectations for next fiscal year onward?

A4:

Factors behind our better-than-expected performance through 3Q included a favorable market environment and the posting of gains on sale of securities by Sony Life and Sony Bank, which generated more than ¥10.0 billion. Even excluding temporary factors such as these, our basic profits remain solid. Basically, the Sony Financial Group has increased its profits in line with its business expansion, specifically, the growth of Sony Life's policy amount in force. In addition, Sony Financial Group has posted gains on sale of securities in line with the shifting of bond holdings, as well as the impact of market trends. With Sony Life's sales of new policies progressing favorably, we believe base profit levels are likely to rise steadily as the policy amount in force increases.

Q5: [Sony Life]

In 3Q, the new policy amount rose substantially due to the impact of new products launched in October 2014. Around how much do you expect the new policy amount to grow in 4Q and FY2015?

A5:

October 2014 marked the launch of new products related to family income insurance and living benefit insurance, and the growth in new policy amount was particularly high for products involving new types of family income insurance. Based on past experience, new products tend to boost sales for around one year, so during that period we might see sales around 10–20% higher than they would otherwise be.

Q6: [Sony Life]

In November 2014, you discontinued sales of certain types of educational endowment insurance and revised policy details. I would like to reconfirm the importance to Sony Life of educational endowment insurance, including its impact. In addition, I would like to know whether there are any other products that you have revised policy details since September 2014?

A6:

In October 2014, we discontinued all sales of lump-sum payment endowment insurance, and in November we stopped sales of certain types of educational endowment insurance. Going forward, we may discontinue product sales or revise insurance premium rates depending on interest rate trends. We recently stopped sales of Type I and Type II nonparticipating educational endowment insurance, but we are still offering other types of this insurance. Therefore, we do not expect our discontinuing sales of educational endowment insurance to have a major impact on performance at this point.

Q7: [Sony Life]

I would like to ask about the likelihood of lapsing back to a negative spread. What is your average assumed interest rate for the overall policy amount in force and Sony Life's average assumed interest rate on new money received?

A7:

We have a positive spread for the company as a whole. Our average assumed interest rate is 2.1%, and our investment yield for core profit is 2.35%. For products we are currently selling, our assumed interest rate for liabilities is fixed but our investment yield on purchased assets fluctuates each time, so with interest rates remaining at their current low levels we may generate negative spreads in some areas. However, these will turn to positive spreads when interest rates rise. This being the case, rather than looking at individual products we recognize the spread as being positive for the company overall. Also, Sony Life does not look only at the negative spread. Rather, we take into overall account income and expenses that includes other mortality profit/losses and expense profit/losses. On individual products, we make decisions on whether to continue sales based on the value of new policies.

Q8: [Sony Life]

Currently, your bond duration held is lengthening. Will you revisit your policy of continuing to mechanically purchase ultralong-term bonds? Sony Life has been downgraded by Moody's because of its high percentage holdings of Japanese government bonds. Do you intend to change your investment policy?

A8:

The main reason for the current lengthening on the duration of bonds held is the impact of lower interest rates rather than an accumulation of ultralong-term bonds. Our investment policy involves setting major plans for each fiscal year and each quarter. Although there is some variation from year to year, we will maintain our fundamental policy of investing in ultralong-term bonds.

Q9: [Sony Life]

MCEV was lower on December 31, 2014, than on September 30, 2014, but interest rates have rebounded to some degree from December 31, 2014, to the present. Please share any trial calculations

you have made that reflect current interest rates.

A9:

As of January 31, 2015, interest rate levels were up somewhat compared with December 31, 2014, which would cause MCEV to trend slightly upward. We have not made any trial calculations of MCEV that reflect the impact of current interest rate rises since January 31, 2015.

Q10: [Sony Life]

What was MCEV's interest rate sensitivity as of December 31, 2014?

A10:

As of September 30, 2014, MCEV's sensitivity to an interest rate fluctuation of 10bp was around ¥15.0 billion. After that point, interest rates decreased, so the shock percentage for a sensitivity calculation itself increased, causing sensitivity to increase to approximately ¥25.0 billion as of December 31, 2014. Interest rates have risen since December 31, 2014, so this sensitivity will have fallen off somewhat.

Q11: [Sony Life]

The new business margin was down as of December 31, 2014, and interest rates fell further in mid-January. How did you respond to this situation with regard to product sales and investment?

Given that we cannot ignore the potential risk of interest rates falling again as the result of additional monetary easing by the Bank of Japan (BoJ), what sort of measures are you taking to maintain new business value?

A11:

On the product sales front, we have discontinued sales of savings-type products and revised premiums in response to the fall in interest rates. We periodically check the profitability of products and respond promptly as a Company when we determine that measures are necessary.

We are having a variety of internal discussions on the investment front. Our basic philosophy is to respond expeditiously to an environment of extremely low interest rates while purchasing ultralong-term bonds to match our long-term insurance liabilities. We are not making major changes to our investment policy such as substantially building up holdings of risk assets.

Q12: [Sony Life]

I have a question about the new business value in MCEV. You note that the new policy amount is firm even into 4Q, but if the new business margin were to fall, wouldn't the new business value improve in 4Q? Can you provide some sort of guidance for new business value for FY2015 onward? Also, would it be correct to say that volatility of new business value is largely affected by interest rate movements even though it could be improved by your flexible changes in the product mix?

A12:

At the level of interest rates prevailing on December 31, 2014, the new business margin was around 3%, and the new business value was more than ¥10.0 billion. The sensitivity of new business value to interest rates is relatively high, so if we were to return to the interest rate levels prevailing as of September 30, 2014, for example, the new business margin would be somewhere around 5%. We have discontinued sales of some savings-type products in response to interest rate fluctuations, and as we do not plan to launch any new products in 4Q, our product mix should be about the same as in 3Q.

Q13: [Sony Life]

Looking at risk amount based on economic value, both insurance risk and interest rate risk were up slightly as of December 31, 2014, compared with their levels on March 31, 2014. Was there some reason for these changes other than interest rate fluctuations?

A13:

Interest rate fluctuations were the overriding factor. Under the methods previously used to calculate interest rate risk, we applied a 100bp interest rate shock, so a decline in interest rates caused the risk amount to rise. But because the current calculation method involves applying a shock percentage, as absolute interest levels fall the so-called “range of valuation” decreases. In that sense, the direct correlation that a decline in interest rates equals higher interest rate risk no longer exists. Insurance risk, on the other hand, rises as the policy amount in force grows, and a decrease in interest rates causes insurance liabilities to rise on a value basis. The calculation becomes the extent to which the value of these liabilities increases as the policy amount in force rises, so insurance risk tends to increase more rapidly than the policy amount in force.

Q14: [Sony Life, Sony Bank]

You mentioned that gains on sale of securities was one factor behind the upward revision to your FY2014 profit forecast. Please explain the background to this situation. In Sony Life’s case, in addition to using new money to purchase ultralong-term bonds, to some degree the company could generate some profits by selling off short-term bonds. Does this mean that Sony Life is working aggressively to extend durations on the asset side?

A14:

For Sony Life, the duration of assets tends to shorten over time more markedly than for liabilities. Consequently, the company’s ALM involves controlling the interest rate risk by selling short-term bonds and purchasing ultralong-term bonds to extend durations to control interest rate risk. Sony Life is likely to continue shifting its bond holdings in this manner.

Since September 2014, as ongoing yen depreciation has prompted the conversion of foreign currency deposits to yen, Sony Bank has sold foreign bonds in compensation.

Q15: [Sony Bank]

General and administrative expenses appear to have risen slightly from their levels in the first half of FY2014. Why is this?

A15:

This rise is due to the fact that first-half advertising expenses slipped to the second half, and outsourcing and personnel expenses increased in line with our business expansion.

Q16: [Sony Assurance]

How many applications have you received in relation to your recent “Gentle Driving Cash-Back Plan” trial?

A16:

Sales commence on Monday, February 16, 2015*, so we do not yet have any actual policies, but we began accepting trial applications in November 2014. We received some 5,000 trial applications from customers over a period of approximately one month. The response has been generally favorable, so we expect these trials to lead to contracted policies once sales commence.

* Actually, sales were commenced on February 23, 2015. For details, please refer to Sony Assurance’s website. (http://www.sonysonpo.co.jp/)