<u>FY2016 Q2 Conference Call for Institutional Investors and Analysts</u>
<u>Q&A (Executive Summary)</u>

Date: November 14, 2016, 16:00–16:45 (JST)

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

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

Q1: [Sony Life]

Approximately what percentage of your sales of variable life insurance was in 1H of FY2016 compared with the original plan?

A:

In 1H of FY2016, the sales for variable life insurance were around 30% comparing with the sales from year earlier (approximately 60% of the original plan).

Additional Q:

What is your sales forecast for variable life insurance in 2H of FY2016?

A:

We expect the sales volume to be around 30% of its sales a year earlier in 2H of FY2016. On an annual basis, we also expect the sales to be around 30% throughout the FY2016. (Our sales are expected to be around 40% of our forecast in 2H of FY2016, resulting in a decrease of around 50% for annual basis in FY2016 compared to our plan.)

Q2: [Sony Life]

<u>"6. Reconciliation to Core Profit and Non-consolidated Ordinary Profit" on page 12 of the "Summary Information on Sony Life's Financial Results for the Six Months Ended September 30, 2016"</u> shows that within capital gains, gains on derivatives, net, was negative ¥4.2 billion in Q2 of FY2016. (Calculated from ¥8,821 million in Q1 of FY2016 and ¥4,577 million in 1H of FY2016) Was this because of a hedge on minimum guarantees for variable life insurance in Q2 of FY2016? Was the worsening of gains on derivatives, net, affected by hedging positions for products other than variable life insurance?

A:

Hedges on minimum guarantees for variable life insurance were negative due to differences between the hedges on the S&P 500 and other stock futures and individual stock holdings, as well as differences stemming from an absence of hedges on bonds.

We also place hedges on available-for-sales securities and other holdings in addition to variable life insurance, but these were also negative in Q2 of FY2016.

Q3: [Sony Life]

I have a question about hedges. You mentioned the negative influence on profit/loss resulting from unhedged bonds, but assuming that bond prices fall when interest rates rise, would that have a negative impact on profit/loss?

A:

I believe this is a question about bond-type funds in variable life insurance. In variable life insurance, we place hedges on Japanese stocks, foreign stocks and foreign exchange, but we do not place hedges on bonds. If bond prices fall when interest rates are rising, it is possible for a misalignment to occur between minimum guarantees for variable life insurance and hedging effects. Rather than a fluctuation in bond prices, what occurred here was mainly a misalignment between the individual stocks held in separate accounts and the hedge index. Going forward, we will need to consider bond-type hedges, including whether to implement them.

Q4: [Sony Life]

<u>Page 13 of the presentation materials</u> indicates an ¥11.6 billion amount for the provision of policy reserves for minimum guarantees for variable life insurance. Could you divide this amount out by sales factors and market factors? In Q1 of FY2016, capital gains (losses) excluding gains or losses on hedges were ¥6.1 billion. Why did this figure decrease to ¥5 billion in 1H FY2016? Also, was the mismatch between individual stocks and the index that you described earlier the reason that gains (losses) on hedges of variable life insurance worsened from ¥4.9 billion in Q1 of FY2016 to ¥1.0 billion in 1H of FY2016?

A:

Regarding the provision of policy reserves for minimum guarantees for variable life insurance in 1H of FY2016, sales factors accounted for approximately ¥4.0 billion. The remainder was due to the impact of market conditions and provision from policies in force.

The main factor for lower capital gains (losses) was the impact of a decrease in gains (losses) on hedges on available-for-sales securities.

Regarding gains (losses) on hedges of variable life insurance, the principal factor was valuation gains (losses) on derivatives. When market conditions are good, this figure worsens. Other factors, as mentioned earlier, include the differences between holdings of individual stocks and hedges on the S&P 500 and other stock futures, plus differences stemming from an absence of hedges on bonds, which had a negative effect.

Q5: [Sony Life]

On page 5 of "Summary Information on Sony Life's Financial Results for the Six Months Ended September 30, 2016," in the "(2) Changes in General Account Assets by Category" within "3. Status of Investment Assets (General Account)," within the category of foreign securities the amount for bonds increased ¥93.9 billion from March 31, 2016. I believe that hedges on derivatives are also increasing. Would it be correct to assume that this rise is due to an increase in foreign exchange hedges on purchases of US Treasuries in the general account in Q2 of FY2016? As derivatives all expire within one year, should we assume that they have a short-term role?

A:

We are purchasing US Treasuries in line with our increased sales of US dollar-denominated insurance products. Derivatives are increasing because we are placing hedges on some of those bonds. Derivatives serve a short-term role.

Additional Q:

Why are hedges increasing if customers bear the foreign exchange risk on US dollar-denominated products? Are all the foreign bonds purchased this time in the general account hedged? Could you divide out the derivatives on US dollar-denominated insurance and other derivatives and tell me about derivative hedges?

A:

In general, the majority of foreign bonds we purchase correspond to the amount of US dollar-denominated insurance we sell, but in Q2 of FY2016, we purchased a larger amount of these bonds, given the interest rate environment. Part of the hedges is for these bonds.

Additional Q:

From an EV perspective, would it be accurate to say that your exposure to unhedged foreign currency has not changed?

A:

That is correct.

Q6: [Sony Life]

I understand that your recruiting of Lifeplanner sales employees is progressing favorably.

What understanding do Lifeplanner sales employees have when they join the company with interest rates having plunged through the end of June and the values of the products they sell fallen?

A:

With interest rates falling, we have discontinued sales of some products (mainly savings-type products), and introduced price increases. Lifeplanner sales employees are working assiduously to provide protection, although the product lineup is somewhat tighter compared to before. Even so, although prices have risen, they should be able to provide customers with ample protection with existing products, including yen-denominated whole life insurance, term life insurance and U.S. dollar-denominated insurance. Lifeplanner sales employees who wish to join the company are aware that the environment is difficult. We are offering companywide support by providing training so that they have ample expertise to sell these products.

Q7: [Sony Life]

I hear that foreign life insurers in Japan are reducing headcounts. How will this affect recruiting of Lifeplanner sales employees?

A:

Given the low interest rate environment, the product lineup is narrower now than in the past. However, we believe that we offer a sufficient range of products to provide ample protection to customers. To bolster operating performance going forward, while maintaining stringent recruiting standards we will continue to increase the number of Lifeplanner sales employees and expand our business volume.

Additional Q:

Are there any cases where people leaving foreign life insurers in Japan have changed jobs and become Lifeplanner sales employees at Sony Life? Has your fundamental policy of not hiring people from competitors changed?

A:

People leaving foreign life insurers in Japan have not moved to Sony Life. Our fundamental policy for Lifeplanner sales employees of not recruiting people from competitors remains unchanged.

Q8: [Sony Life]

<u>On page 6 of the presentation materials</u>, the breakdown of ordinary expenses shows that the provision for policy reserves in 1H of FY2016 was down ¥43.1 billion year on year. In Q1 of FY2016, that figure was down ¥82.7 billion year on year. Please explain why the amount of improvement in profit was lower.

A:

The decrease in provision for policy reserves was mainly affected by gains from investment in separate accounts.

The gain on investments in separate accounts during Q1 of FY2015 turned to a loss on investments in Q1 of FY2016, prompting a decrease in provision for policy reserves (policyholder accounts). However, the situation in Q2 was the reverse of Q1, with an increase in provision for policy reserves (policyholder accounts).

Changes in policyholder accounts are not reflected in profit.

Q9: [Sony Life]

<u>Page 32 of the presentation materials</u> indicates that the value of existing business as of September 30, 2016, was negative ¥958.5 billion. Competitors are recovering to the levels as of March 31, 2016, but Sony Life's recovery in the value of existing business is only around 80% of that figure. Are factors other than interest rates in play?

A:

The impact of interest rates is the biggest factor, but a decrease in the lapse rate is also taken into account. Each quarter, we calculate average lapse rates for the past three years.

Q10: [Sony Life]

Among the reasons for the change in EV since March 31, 2016, what was the impact of changes stemming from changes in insurance-related assumptions?

A:

The impact of changes in insurance-related assumptions was a negative ¥42.8 billion. This was mainly because of a decrease in the lapse and surrender rate.

Q11: [Sony Life]

From the EV standpoint, what is your sensitivity on exposure to stocks and foreign currency you cannot hedge?

A:

As of the end of September, 2016, our sensitivity to stocks was a negative ¥5.0 billion to negative ¥10.0 billion on a 10% downturn in stock prices.

Our sensitivity to exchange rates was a negative ¥5.0 billion to negative ¥10.0 billion on a 10% yen appreciation.

Q12: [Sony Life]

I have a question about your new business margin and product sales strategy. Your new

business margin was 1.6% in Q2 of FY2016. How do you evaluate that figure in light of results including curtailed sales?

A:

The 1.6% new business margin for Q2 of FY2016 is a total value, evaluated according to economic assumptions at the end of each month.

Interest rates were still low at the end of July. Rates rose slightly in September, and the new business margin was affected by interest rate levels. Sony Life strives to sell products actively while taking measures to improve profitability through product revisions and other initiatives. We will refrain from commenting as to whether our new business margin for Q2 of FY2016 was high or low, but in October we raised our prices on whole life insurance, for which profitability had worsened. Going forward, we will strengthen measures to improve profitability and reinforce our sales capabilities in the aim of accumulating new business value.

Q13: [Sony Life]

Looking at ESR on page 33 of the presentation materials, insurance risk as of September 30, 2016, was down compared with June 30 but higher than on March 31. Was the decline of the lapse rate on savings-type products the reason for the decrease in the total lapse rate?

A:

Sony Life is thoroughly dedicated to consulting-type sales. As a result, our lapse rate is low and stable. We do not disclose lapse rates on individual products, but we aim to increase corporate value by taking on insurance risk, and we do not see a decline in the lapse rate as negative.

Q14: [Sony Life]

The exchange and interest rate environments appear to be changing somewhat. I believe Sony Life is controlling its downside risks, but I would like to hear your thoughts on how Sony Life will take advantage of upsides.

A:

As we cannot read the future and fix our positions accordingly, we have product and sales strategies that are flexible in response to sudden decreases or increases in interest rates.

Q15: [Sony Life]

Sony Life has taken an equity stake in ClearView Wealth Limited (Australia). How will you move forward with your capital and business alliance? What will be your post merger integration (PMI) in the event of a 100% takeover in the future?

A:

We have taken a 14.9% stake in the company. We plan to dispatch a non-executive director, and our current stance is that we will work on initiatives to enhance the company’s value. No decisions have been made about converting the company to a wholly owned subsidiary, so I cannot comment in this regard at present.

Additional Q:

The selling side has various options 18 months after the investment. What are your thoughts in this respect?

A:

At the moment, we have merely acquired a 14.9% stake. At this point, we will refrain from answering questions about the future.