

**FY2016 Q3 Conference Call for Institutional Investors and Analysts**  
**Q&A (Executive Summary)**

Date: February 14, 2017, 15:30–16:15 (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]**

**On Page 13 of the presentation materials, losses on derivatives to hedge market-related risks related to the provision of policy reserves for minimum guarantees for variable life insurance were recorded in Q2 of FY2016 and also in Q3 of FY2016. What is the quarterly hedge-related loss amount? Also, what is the likelihood that hedge-related losses will occur in Q4 of FY2016, as well?**

A:

In Q3 of FY2016 (nine months), the provision of policy reserves for minimum guarantees for variable life insurance improved ¥19.7 billion year on year. Of this amount, an improvement of approximately ¥15.0 billion was due to a decline in the provision of policy reserve due to lower acquisition of new variable life insurance policies, and the remainder of around ¥4.6 billion was due to other factors, including the market. In Q3 of FY2016 (nine months), losses on hedges of variable life insurance were up ¥13.6 billion year on year, negatively offsetting these other factors, including the market (by ¥4.6 billion).

For Q3 of FY2016 (nine months), the total of provision of policy reserves for minimum guarantees for variable life insurance and losses on hedges was a negative ¥18.8 billion. By quarter, the figure was negative ¥4.0 billion in Q1 of FY2016 (three months), negative ¥6.5 billion in Q2 of FY2016 (three months) and negative ¥8.2 billion in Q3 of FY2016 (three months). Of these amounts, the nine-month cumulative amount of hedge-related losses (net losses after offsetting the positive effect of market recovery included in the provision of policy reserves for minimum guarantees) was less than ¥10.0 billion. The figure was zero in Q1, and losses in Q3 were higher than Q2.

With hedges of variable life insurance, we aim to reduce to some extent the market fluctuation risk based on economic value, but exposure on a statutory accounting basis is different from that based on economic value, leading to a negative impact on an accounting basis from Q2 of FY2016 to

Q3 of FY2016. In this regard, without destroying the principle of the hedge based on economic value, in January 2017 we slightly revised our hedge ratio for each account to curtail the impact on statutory accounting. A second factor is the disparity between real assets under management and hedge assets (index futures). In this area, we continue to use the same hedging method as we have in the past, so the potential fluctuation of profit still remains. Going forward, we will need to consider investment methods to curtail this fluctuation risk.

**Additional Q:**

**Would it be correct to say that in Q2 of FY2016 (three months), there was a large difference between real assets under management and the index hedges, whereas in Q3 of FY2016 (three months) there was a much larger difference between exposures based on economic value and on a statutory accounting basis?**

A:

The differences between real assets under management and hedge assets (index futures) were larger in both Q2 of FY2016 (three months) and Q3 of FY2016 (three months).

The difference between exposures based on economic value and on a statutory accounting basis increased from Q2 of FY2016 (three months) to Q3 of FY2016 (three months).

**Q2: [Sony Life]**

**Looking at page 32 of the presentation materials, could you please break down amounts for the increase in MCEV due to a rise in interest rates, decrease in the lapse and surrender rate, and reduction in MCEV due to the rise in the inflation rate?**

A:

Interest rates as of December 31, 2016, were high compared with March 31, 2016. The impact of higher interest rates was positive ¥33.0 billion; negative factors included higher inflation rates (having an effect of ¥27.0 billion), and a change in assumptions related to insurance policies, including a lower lapse and surrender rate (having an effect of around ¥56.0 billion). As a result, MCEV as of December 31, 2016, was down ¥47.0 billion from the figure on March 31, 2016.

**Additional Q:**

**Do you expect the lapse and surrender rate to fall further?**

A:

When calculating MCEV, we use the lapse and surrender rate average over the past three years. The rate has fallen considerably over the past three years and is currently stable at a low level, so we believe the negative effect on MCEV should stabilize after a period of time.

**Q3: [Sony Life]**

**In the analysis of the impact on core profit on page 13 of the presentation materials, in Q3 of FY2016 (nine months) core profit was ¥65.8 billion, and other profit—less ¥11.1 billion for the positive spread and negative ¥4.5 billion for the provision of policy reserves for minimum guarantees for variable life insurance—was ¥59.2 billion. Looking just at Q3 of FY2016 (three months), other profit—less the positive spread and provision of policy reserves for minimum guarantees for variable life insurance—should be ¥23.4 billion. Until now, that figure has been continuously below ¥20.0 billion, but in Q3 of FY2016 (three months), the figure improved to ¥23.4 billion. What was the reason for this improvement?**

A:

This figure amounts to an improvement of around ¥7.0 billion compared with Q2 of FY2016 (three months). There were three reasons for the improvement: (1) expense payments were relatively low in Q3 of FY2016 (three months), so were high by comparison in Q2 of FY2016 (three months), (2) separate account investments were favorable, generating profit from the Company's investment of seed money within separate accounts and (3) initial expenses fell due to lower acquisition of new policies.

**Additional Q:**

**What is the amount of improvement due to the Company's investment of seed money within separate accounts? Around ¥2.0 to ¥3.0 billion?**

A:

Around ¥2.0 billion.

**Q4: [Sony Life]**

**You have shifted to the use of UFR in calculating MCEV for Sony Life, but are not disclosing the sensitivity. Given the current situation, approximately what impact would a 10bp parallel shift have on MCEV?**

**Also, if JGB yield is up by around 10bp in the 35–40-year range, which is the duration of liabilities, and 25-year interest rates—which are near the duration of bonds held—do not move, approximately how much would MCEV change? What are the sensitivities due to a parallel shift and due to a steepening?**

A:

Looking at MCEV's interest rate sensitivity as of December 31, 2016, a 10bp downward parallel shift in interest rates would have reduced MCEV by ¥25.0 billion to ¥30.0 billion. We have not calculated the impact due to steepening.

**Additional Q:**

**I would like to confirm your thoughts regarding the impact due to steepening. As net asset sensitivity does not change with or without the presence of UFR, would it be accurate to subtract this amount by looking at the net asset sensitivity of initial MCEV?**

A:

Yes. Net asset sensitivity is not affected by UFR; the only impact is on the liabilities side.