FY2016 Q4 Conference Call for Institutional Investors and Analysts

Q&A (Executive Summary)

Date: May 15, 2017, 15:30-16:30 (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.

Ahead of the Q&A, Mr. Kiyomiya made the following comments regarding Sony Life's operating performance.

- As page 42 of the presentation materials shows, in FY2016 Sony Life has made changes in its numerous products, suspending sales and making premium revisions as part of managing product profitability based on economic value.
- In Q4, the impact of these product revisions, combined with such factors as the favorable acquisition new policies and interest rate increases, led to the acquisition of ¥14.1 billion in new business value.
- In product revisions, a certain lead time exists between announcement and execution. This is due in part to Sony Life's consulting-based selling style, which involves meeting with customers multiple times to provide optimal protection, and because we believe certain processes are needed to execute our selling style and customer-first business operations.
- Lifeplanner sales employees and independent agents make rational proposals from the product line up at the time of sales in line with customers' needs. This approach builds trust with customers, which we believe helps increase corporate value over the medium to long term.
- In FY2017, we expect a revision in standard yields used for calculating policy reserves and steady acquisition of new policies to put downward pressure on profit under statutory accounting. However, we will work to steadily enhance corporate value through the accumulation of new business value.

<Q&A>

Q1: [Sony Life]
MCEV did not increase much between September 30 and December 31, 2016, which I believe was due to the impact of a decline in the lapse rate, but MCEV increased moving toward March 31, 2017. Of this rise, what was the impact of changes in insurance-related assumptions, such as

interest rate changes, the effect of stock prices and the lapse rate? Also, looking at risk amount as of March 31, 2017, was the decrease in insurance risk compared with December 31, 2016, due to a fall in the lapse rate?

A: Reasons for changes from December 31, 2016: Changes in insurance-related assumptions mainly include ¥11.3 billion from improvements in the mortality rate and ¥135.2 billion from the effect in economic assumptions. Of this amount, major factors were ¥75 billion from the rise of yen interest rate (parallel shift and changes in the shape of the yield curve) and ¥28 billion from fluctuations in stock prices, exchange rates and volatility. The decrease in insurance risk was due to the rise in interest rates.

Q2: [Sony Life]

Please explain the assumptions behind the ¥4 billion improvement in expenses related to the provision of policy reserves for minimum guarantees for variable life insurance shown on page 41 of the presentation materials. How have the sales forecast and market factors improved?

A: As we expect the sales volume of variable life insurance to remain essentially flat year on year in FY2017, the impact of the sales volume of new policies is not incorporated into expenses related to the provision of policy reserves for minimum guarantees for variable life insurance. Gains (losses) on hedges related to minimum guarantees for variable life insurance going from negative in FY2016 to return to neutral is forecast to have an impact of positive ¥7 billion, while factors including the revision in standard yields related to variable life insurance are expected to have an impact of minus ¥3 billion. These factors are included in the positive ¥4 billion in gains (losses) on minimum guarantees for variable life insurance.

Q3: [Sony Life]

Why did the company fall below its target for net income in FY2016?

A: In FY2016, no gain on sale of securities was recorded in Q4. We had expected to secure some degree of profit based on progress through February 2017, but profit was lower than expected in March. The first factor was an increase in the payment of insurance claims. The payment of insurance claims was lower than we had forecast through February, but in March these payments were larger than we had expected. The second factor was an increase in new policies. Because sales of long-term level premium plan term life insurance were higher than we had expected due to the introduction of premium revisions in April 2017, we incurred additional initial-period expenses for statutory accounting.

Additional Q: Do these two factors correspond to after-tax profit of around ¥4.4 billion?

A: On the basis of ordinary profit, they account for around ¥5 billion.

Q4: [Sony Life]

Your forecast for net income in FY2017 is ¥42 billion. This amounts to a decrease of around ¥15

billion compared with your FY2015 forecast of ¥57 billion. Are there factors in play behind this decrease other than the revision in standard yields as no other life insurance companies seem to expect such decrease in profit? Don't you expect to return to the profit levels of two years previously?

A: The impact of the revision in standard yields is a major factor in performance compared with two years ago. We believe the impact of the decrease in interest rates was also a factor. Sony Life invests mostly in ultralong-term bonds, and a positive spread was increasing two years ago, but we currently expect this to be flat due to a decrease in yields on these bonds. With the impact of a revision in standard yields continuing, we do not expect any sudden rise in statutory profit from FY2018 onward.

Q5: [Sony Life]

Within statutory accounting profit, the impact of the revision in standard yields is ¥12 billion. What products are particularly affected?

A: The impact on whole life insurance is large.

Additional Q: Wouldn't premium revisions on whole life insurance improve statutory profit?

A: Revising premiums on whole life insurance would improve statutory profit temporarily, but Sony Life manages profitability based on economic value. We have set the current insurance premiums based on decisions that should contribute to growth over the medium to long term, taking an ample new business margin and sales volumes into account.

Q6: [Sony Life]

<u>On page 41 of the presentation materials</u>, of the factors causing the ¥12 billion in changes in ordinary profit, approximately what is the impact of the revision in standard yields?

A: Most of the impact came from the revision in standard yields.

Q7: [Sony Life]

You anticipate an increase in new policies in FY2017 as well. Is this because of the positive recruiting of Lifeplanner sales employees or because price competitiveness is becoming apparent due to the early introduction of premium revisions?

A: As sales of variable life insurance decreased, productivity of the Lifeplanner channel in FY2016 also declined, but not substantially. Going forward, we expect higher productivity and an increase in the number of sales personnel to lead to an increase in the acquisition of new policies. In 2H of FY2016, the life insurance premium revisions introduced in October led to a decrease in competitiveness in the independent agent channel. From April 2017, competitors also introduced premium revisions so new policies from the independent agent channel should increase.

Q8: [Sony Life]

What are the assumed interest rates for US dollar-denominated insurance?

A: 3% for US dollar-denominated whole life insurance and 2.75% for US dollar-denominated endowments.

Additional Q: Do you plan to change your assumed interest rates on US dollar-denominated whole life insurance?

A: Not at this point.

Q9: [Sony Life]

What factors behind changes in profits have not been incorporated into your current medium-term business plan? Have a decrease in interest rates and a revision in standard yields been taken into account to some degree?

A: Our product portfolio is changing, due the impact of responding to the low interest rate environment. As we explained at our corporate strategy meeting last fiscal year, our mid-term plan didn't incorporate these impacts because we expect the change in our pricing strategy at that time due to the revision in standard yields.

Q10: [SFH]

I would like to confirm the intent behind the changes in your dividend policy. As you expect little increase in statutory profit in FY2017, do you forecast dividend per share of ¥55? You say that you also want to take profit based on economic value into consideration, leaving the dividend per share at ¥55 for FY2017, but if economic value increases, is it possible that you will increase dividends during the fiscal year? Profit based on US GAAP is two to three times the level of statutory profit. I believe profit based on US GAAP is near the level of profit based on economic value. Even so, do you plan to maintain the level of ¥55 based on statutory profit levels?

A: In FY2017, Sony Life expects the impact of the revision in standard yields and the accelerated acquisition of new policies to put downward pressure on statutory profit. However, we expect profit based on economic value to expand. While maintaining SFH's past focus on stable dividends, we expect to raise dividends that give more weight to increases in profit based on economic value, given Sony Life's increased management focus on profit based on economic value. If new policy acquisition is higher than we are assuming for FY2017 and FY2018, this would cause a decrease on the basis of statutory accounting, but the accumulation of new business value would lead to higher profit based on economic value. If this situation occurs, we would consider dividend increases.

Q11: [SFH]

<u>Looking at page 34 of the presentation materials</u>, if you plan to maintain a dividend payout ratio

of 50% or more for the foreseeable future, when EPS exceeds ¥110 are you likely to increase dividends regardless of MCEV levels?

A: If the acquisition of new policies outpaces our forecasts, this factor could put downward pressure on statutory profit. Our dividend payout ratio might then exceed 50% or even 60%. By “foreseeable future,” we are talking about our forecast dividend payout ratio for a two-year period: FY2017 and FY2018.

Additional Q: Would dividends increase if new policies does not increase but statutory profit rises?

A: This would be a departure from the target dividend payout ratio indicated in our mid-term dividend policy. By “50% or more,” we are referring to estimates of 50% or more based on the Company’s forecasts. We will make decisions on actual dividends by taking growth based on economic value into consideration, as well.

Q12: [SFH]

What statutory profit KPIs are you attaching importance to? Profit based on US GAAP is favorable, but statutory profit is lower than expected. Given the size of the gap with profit based on economic value, won’t management concentrate on meeting statutory profit targets?

A: We will explain medium- to long-term KPIs at the corporate strategy meeting. In the past, for shareholder dividends we have focused on net income. However, although revision in standard yields result in the acquisition of new policies making a positive contribution to profit based on economic value, it brings a strong trend putting downward pressure on profit under statutory accounting. For this reason, as business expansion accelerates it is becoming increasingly difficult for Sony Life to express growth based both on statutory profit and profit based on economic value. We have therefore realized that the importance of statutory profit needs to be reduced, so we have changed SFH’s dividend policy.