FY2017 Q4 Conference Call for Institutional Investors and Analysists

Q&A Executive Summary

Date: May 14, 2018, 16:00–16:54 (JST)

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

Q1: [Sony Life, SFH]

Your revision in the insurance risk measurement method caused insurance risk to drop by half. I understand that the reduction was due to the application of an internal model, but what factors contributed to this reduction in comparison with the past?

Also, would it be correct to understand that the rise on ESR does not have a direct, positive effect on your current dividend policy? European and US insurance companies set payout ratios linked to their capital ratios. In SFH's case, there is no indication that the capital ratio was directly taken into account in your policy on the payout ratio. Does the current revision have no direct impact on payout?

A: We have been considering a revision to insurance risk for some time. We have accumulated experiential data and knowledge about our internal model, hence the current revision to our measurement method. The current revision involves changing our internal model to reflect our product mix, product characteristics and the risks of our own products. We cannot provide a detailed explanation, as the changes relate to the profitability of individual products, but the biggest impact comes from surrender risk.

In addition, ESR is increasing, but we think of ESR and dividends separately. With regard to dividends, fundamentally we will make decisions based on levels of consolidated adjusted ROE.

Q2: [SFH]

You don't have numeric values for your payout ratio like other companies do, which makes things hard to understand.

You raised the dividend from ¥55 last year, and this year you are forecasting ¥62.5. What is the likelihood you will consider raising the dividend amount from ¥62.5 based on changes in new business value?

A: We decided to raise the dividend this time by ¥2.5, based on the assumption that we could expect consolidated adjusted ROE of 5% or more over the medium term. Basically, we are assuming that ¥2.5 is a level that will allow us to continue raising dividends over the medium term. Going forward, when reviewing the ¥2.5 figure we will look at adjusted ROE levels. If these levels are substantially above our current numerical target of 5%, we will consider raising the amount of dividend increase.

Q3: [SFH]

You have not indicated a target range for ESR, but with the current revision in the measurement method will you indicate this in your new medium-term management plan?

A: At this point, we have no plans to publicly announce our target range. Our current ESR is relatively high, at 227%, but taking into consideration Sony Life's risk characteristics, interest rate levels could move this figure substantially. If interest rates fall sharply as they did in July 2016, ESR could go below 200% and near 100%. On the other hand, a rise in interest rates could push ESR above 227%. We cannot disclose an appropriate range in the current circumstances.

Q4: [SFH]

To date, you have targeted new business value of ¥60 billion, and from here on out you have set adjusted ROE of 5% or more as an indicator for increasing dividends. You have adopted a trigger format unlike any used by other insurance companies in Japan or overseas. What are your reasons for and the thoughts behind this decision? If surplus capital were to rise, causing the denominator to increase, ROE would fall, so SFH would be unable to raise dividends, correct?

A: Last fiscal year, we revised our dividend policy. We transitioned to a policy of focusing on indicators of profit based on economic value rather than a dividend payout ratio using statutory accounting. To do so, the most important elements are profit based on economic value and adjusted ROE. We have set the current dividend level to link to this policy.

It is true that higher ESR could be the results from two cases: an increase in surplus capital or a rise in interest rates. At the least, we believe ESR figures will vary little from today's levels, assuming current interest rates remain in place. For that reason, it is unlikely that surplus capital would rise. If interest rates were to move substantially, we would revise our assumptions and disclose a revised dividend policy at that point.

Q5: [Sony Life]

Regarding the decline in the insurance risk, does this mean that the risk of surrender when interest rates rise is decreasing?

A: Surrender trends sometimes vary according to interest rate fluctuations, but the revised surrender risk measures future surrender stress that is unaffected by interest rate fluctuations. The main reason for the lower risk compared with the conventional EU Solvency II standard method is the result of having reviewed our own experiential values, calculation method and risk integration method.

Q6: [Sony Life]

Looking at your insurance risk measurement method, it seems that for some time you have been relatively conservative compared to European insurance companies. Is this the reason for the revision?

A: We recognize that we have been conservative on two points—the insurance risk coefficient and the integration method—and have revised accordingly.

Q7: [Sony Life]

<u>Page 49 of the presentation materials</u> indicates the MCEV impact, while page 48 notes that you raised the cost of capital rate from 2.5% to 3%. This lowered MCEV, but overall MCEV increased by around ¥100 billion in FY17.4Q. Can you please provide a breakdown of the changes related to revisions in the MCEV measurement method?

A: We made two changes: the insurance risk measurement method and the cost of capital rate. The revision in the insurance risk measurement method raised MCEV by around ¥150 billion, and the change in the cost of capital rate lowered MCEV by approximately ¥50 billion. The net effect on MCEV was therefore around ¥100 billion.

Q8: [Sony Life]

<u>On page 34 of the presentation materials</u>, in the section showing changes in MCEV, the new measurement method indicator is shown only for March 31, 2018. Are you not disclosing figures indicating the new method applied retroactively?

A: We are indicating the new measurement method indicator for March 31, 2018 only, and not disclosing figures retroactively. Page 49 of the presentation materials shows March 31, 2018 figures before and after the revision. Going forward, we will indicate MCEV only using the new measurement method.

Q9: [Sony Life]

What is your forecast for new business value in FY18?

A: We had a new business value of around ¥20.0 billion in FY17.4Q (3M). For FY18, on an annualized basis we expect four times this amount, or around ¥80 billion.

Q10: [Sony Life]

I would like to ask a question about ESR sensitivity. Page 35 of the presentation materials states that "ESR is at the level that could be maintained at 100% even if interest rates were to fall to July 2016 levels," but it seems that sensitivity increases somewhat when interest rates fall by 50bp. Could you provide any estimated values you might have?

A: When interest rates fall significantly, ESR tends to drop suddenly as capital decreases and insurance risk rises. The shock impact from a 100bp drop in interest rates would be larger than simply double that of a 50bp drop. Results of our sensitivity and stress tests indicate that ESR would remain at 100% even with interest rates at their historic low (when 40-year interest rates fell below 0.1% in July 2016). We are focusing on this level. (We want to maintain a level of 100% ESR regardless of how low interest rates become.)

Q11: [Sony Life]

According to page 49 of the presentation materials, the impact on the new business margin for new policies in FY2017 if the revised insurance risk measurement method were reflected would be positive 0.7 pt. You have said that in FY18 your target is new business value of around four times that of the result in FY17.4Q. Did you take into account the impact of the revision in the insurance risk measurement method in that figure?

A: The figures shown on page 49 are only about the impact on new business value in FY17; the impact is not directly applicable to FY18. However, our target takes this impact into account.

Q12: [Sony Life]

With regard to your customer-oriented operating policy in the past you have discontinued short-term contests, but have you introduced additional measures or are you considering any going forward?

A: As part of our customer-oriented business operations, some of our measures to provide our customers with optimal protection are to make full use of LiPSS, introduce "Karte" customer database, and revise educational and training systems, to enhance the quality of consulting-based sales and follow-up.

Q13: [Sony Life]

For Lifeplanner sales employees, one approach would be to move from a fully commission-based system to a fixed salary system, such as other insurance companies use. If you were to revise the compensation system in this way, what would be the impact on operating performance in FY18?

A: We have not decided on specifics with regard to revising the compensation system, so we do not incorporate any impact on FY18 operating performance.

Q14: [Sony Life]

What was the background for your decision not to go through with the proposed conversion of ClearView to a subsidiary?

Also, please describe your thoughts with regard to your future overseas growth strategy.

A: Out of consideration of ClearView, we will refrain from disclosing details. As a 14.9% shareholder, we will continue to dispatch an director and aim to maintain relations. Regarding our overseas strategy, we are considering the development of an independent agency business in Singapore, and this strategy is progressing according to plan. We will continue to consider our overseas strategy in the interest of medium- to long-term growth.

Q15: [Sony Life]

I have a question about the breakdown of capital gains and losses on page 44 of the presentation materials. In FY17.4Q (3M), net losses on derivatives fell significantly compared with FY17.3Q (9M), and foreign exchange gains turned to foreign exchange losses. Why was that?

A: Foreign exchange losses result from yen appreciation with respect to the foreign bonds we have purchased and hold in correlation with our liabilities for U.S. dollar-denominated insurance. However, these foreign exchange losses are offset in ordinary profit by changes in policy reserves on liabilities and foreign exchange hedges on the difference between foreign bonds and policy reserves. At the same time, foreign exchange hedge costs booked as expenses were around ¥1.1 billion in FY17.4Q (3M). This was because of costs related to foreign exchange hedges on the amount of assets held in excess of statutory policy reserves of foreign currency-denominated insurance.

Q16: [Sony Life]

The mortality tables were revised in April 2018. Did this have any impacts, such as restraining purchasing, in FY17.4Q?

Have sales of family income insurance and other protection-type products accelerated since April 2018?

Also, have these sales affected new business value?

A: We made revisions to term life insurance in February and April. Performance increased following the February revision in insurance premium rates, and this trend has continued since April. Looking at new business value only on products on which we revised insurance premium rates, the new business margin has fallen but if we are able to maintain a certain sales volume of policies, the revisions would have a positive impact on new business value. New business value in FY17.4Q (3M) was higher than in FY17.3Q (3M).

Q17: [Sony Bank]

How many Sony Bank WALLET cards had you issued as of the end of FY17.4Q, and what is the volume of debit card use?

A: As of end-FY17.4Q, we had issued 379,000 cards (effective number of members). We do not disclose results on usage.