# FY2018 Q2 Conference Call for Institutional Investors and Analysts

## Q&A Executive Summary

Date: November 12, 2018, 16:00–16:55 (JST)

Respondents: Hiroaki Kiyomiya, Managing Director, Member of the Board, Sony Financial Holdings Inc.
Eigo Nasu, Executive Officer, Sony Life Insurance Co., Ltd.
Toru Hasegawa, Executive Officer, Sony Assurance Inc.
Sachio Hayashi, Senior Executive Officer, Sony Bank Inc.

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

**Q1: [Sony Life] In your initial forecast for ordinary profit in the life insurance business, as reasons for a year-on-year increase you cited ¥6 billion in contributions due to an increase in policy amount in force, ¥6 billion from gains on sales of securities and ¥4 billion from improvement in gains and losses on derivatives used for hedges related to available-for-sale securities. How has progress through the first half been on each of these factors?**

A: In FY18.1H, the rise in profit due to an increase in policy amount in force was around half the annual target amount of approximately ¥6 billion. Profit from gains on sales of securities in FY18.1H was also around half the annual target of ¥6 billion. Looking at hedging gains and losses on derivatives, in FY17 we recorded a loss of ¥4.0 billion. We anticipate zero for FY18. However, due to a rise in stock prices, the figure for FY18.1H was a loss of ¥2.6 billion.

Also, the impairment loss on ClearView shares resulted in a significant minus compared with our initial forecast. Offsetting this loss were such factors as a decrease in the provision of policy reserves in line with a rise in surrenders.

**Q2: [Sony Life] Page 5 of the presentation materials cites "a decline in the provision of policy reserves for products with higher surrenders" as a reason for the increase in ordinary profit in the life insurance business, but this factor was not present in FY18.1Q (3M). Would you please explain the details and indicate approximately how much profit relating to contract surrenders was generated in FY18.1H? Also, what securities did you post an impairment loss on?**

A: The surrender rate on family income insurance rose in FY18.1Q (3M). In FY18.2Q (3M), we were also affected by an increase in new medical insurance policies from customers who had surrendered the former medical insurance. This profit results from the difference between the amounts for payments made at surrender and the reversal of policy reserves.

The impairment on securities is the result of a ¥4.0 billion impairment loss on ClearView shares.

**Q3: [Sony Life] Page 12 of the presentation materials shows that gains (losses) on hedges of variable life insurance amounted to a loss of ¥12.3 billion in FY18.1H. As the loss was ¥3.9 billion in FY18.1Q (3M), the loss in FY18.2Q (3M) was apparently ¥8.4 billion. Were any particular negative factors in play, such as net hedge-related losses after offsetting the positive effect of favorable market conditions?**

A: The figures you have indicated do not include the change in liabilities. In FY18.2Q (3M), net hedge-related gains (losses) of variable life insurance was a negative ¥1.0 billion. This figure was a positive ¥1.5 billion in FY18.1Q (3M), so the figure for FY18.1H was a positive ¥0.5 billion. Looking at hedges related to minimum guarantees on variable life insurance, in FY18.2Q we shifted from hedges using stock index futures to the use of swap contracts referencing individual stocks. From FY18.3Q onward, we expect the net hedge-related losses on variable life insurance to decrease further.

**Q4: [Sony Life] Adjusted core profit, core profit less the combination of positive spread and the provision of policy reserves for minimum guarantees for variable life insurance can be viewed as the marginal profit on risk plus the marginal profit on expenses. Until last year, the company was positing adjusted core profit at a quarterly rate of around ¥20 billion. In FY18.2Q (3M), this figure rose to ¥26 billion. Would it be correct to assume that most of this change was due to a rise in surrenders, or were other factors in play?**

A: In the short term, a decline in the provision of policy reserves for products with higher surrenders was the main factor. On a year-on-year basis, profit grows in line with expansion in the volume of policy amount in force was the main factor.

**Q5: [Sony Life] Page 11 of Summary Information on Sony Life's Financial Results for the Six Months Ended September 30, 2018, indicates that the effects of currently market fluctuations of products denominated in foreign currencies was ¥16.5 billion, but the note says the "change has no impact on core profit." As the above amount was recorded as capital expenses, would it be correct to assume that this means there was no effect on core profit (adjusted core profit)?**

A: That is correct.

**Q6: [Sony Life] Looking at Sony Life's investments, indicated on page 33 of the presentation materials, foreign bond exposure has been growing over the past six months. What are your targets for this direction going forward?**

A: We have been purchasing foreign bonds to correspond with our US dollar-denominated insurance liabilities. Although, we purchased slightly more of these bonds than our expected sales of US dollar-denominated insurance, and we have taken out foreign exchange contracts on that difference. Going forward, we plan to continue purchasing foreign bonds based on our sales of US dollar-denominated insurance.

**Q7: [Sony Life] On page 36 of the presentation materials, capital expenses include an increasing exchange loss related to US dollar-denominated insurance. Is it correct to assume that this may not be a problem?**
A: Gains (losses) related to US dollar-denominated insurance totaled a positive ¥0.2 billion in FY18.1H, having a slightly positive impact on ordinary profit.

**Q8: [Sony Life] Page 38 of the presentation materials, which shows the trend in annualized premiums from new policies (ANP), indicates that third-sector ANP in FY18.2Q (3M) did not increase as much as in the previous quarter. How should we interpret the impact of medical insurance, for which sales commenced in July? Also, in new medical insurance what is your share for return-type products?**
A: Third-sector ANP includes products other than medical insurance, and medical insurance is also recorded partly in the first sector. For these reasons, it is difficult to determine the impact of new medical insurance products by looking just at third-sector ANP.
New business for new medical insurance products were approximately double, compared with previous products through FY18.1Q (3M). Also, about one-third of new medical insurance policies are from customers who had surrendered the former medical insurance. The remaining two-thirds represents real new policies, indicating firm growth in policy amount in force. Of new medical insurance, our share on return-type products is around 40% on an ANP basis.

**Q9: [Sony Life] Page 39 of the presentation materials, which shows the trend on new business value in FY18.2Q (3M), shows essentially no change from the previous quarter. Is new medical insurance having minor impact on new business value?**
A: Our new medical insurance has a slightly lower new business margin than our previous medical insurance. We are compensating for this situation through sales volume, contributing to an increase in new business value. Looking at the impact of new medical insurance on new business value, we refrain from responding to questions about the profitability of individual products.

**Q10: [Sony Life] As reasons for changes in the new business margin, could you explain the reason the margin worsened by 0.2 percentage points compared with FY18.1Q (3M)? Page 32 of the presentation materials suggests the product mix has changed little from FY18.1Q (3M). Within protection-type products, would it be accurate to say that the share of medical insurance increased and that the margin on this insurance was low? Interest rates rose substantially from June 30 to September 30. Approximately what degree of impact did the rise in interest rates have?**
A: We refrain from responding to questions about the profitability of individual products. Rather than profit decreasing because our share of medical insurance increased, this decrease was the result of various changes in the product mix. The substantial rise in interest rates was felt only in September. As we calculate new business value on the basis of single-month interest rates, performance was not affected by interest rate changes in July and August. The rise in interest rates had a slightly positive impact in September on a standalone basis, but the overall impact on new business value and the new business margin was limited.

**Q11: [Sony Life] Would it be accurate to assume that higher interest rates will have a substantial positive impact on performance in FY18.3Q?**

A: If interest rates remain at September level, they should begin to have an impact.

**Q12: [Sony Life] The new business margin did not rise despite the increase in new business on medical insurance. Was this because individual annuities made up a higher share of new business? Does the recent increase in sales of savings-type product such as individual annuities that indicate room for improvement in incentives for Lifeplanner sales employees?**

A: Within the category of individual annuities, sales of individual variable annuities were particularly favorable. We believe the reason stems from a certain customer need, given positive market prices. Speaking in general terms, companies are becoming more price-competitive on medical insurance, so the profitability of this insurance is lower than in the past.

**Q13: [Sony Life] Is the carrying amount of ClearView shares as of September 30 approximately ¥7.7 billion? If the stock price falls by 30% from the end-September figure, will you record another impairment loss?**

A: Yes. We recorded an impairment loss as of the end of September, but if the value declines by another 30%, we will again record an impairment loss.

**Q14: [Sony Life] Are you considering drawing down the reserve for price fluctuations in line with the impairment loss on ClearView shares?**

A: No. We are not considering it.

**Q15: [Sony Life] Does Sony Life have to continue holding its stake in ClearView until Crescent Capital Partners finds another buyer?**

A: That is correct.

**Q16: [Sony Assurance] Approximately how much did the natural disasters in FY18.2Q affect Sony Assurance's profits and losses? Also, do your figures take into account the impact of Typhoon No. 24 at the end of September? Will losses from the natural disasters recorded in and after FY18.3Q?**

A: The damage we experienced was mostly in relation to automobile insurance. In the first half, we were particularly affected by Typhoon No. 21 in September and by the flooding in western Japan in July. In relation to Typhoon No. 21, wind damage was particularly noteworthy, causing damage to numerous vehicles.

On a direct basis, the impact in FY18.1H was approximately ¥2.4 billion. This amount was partly offset through such means as reinsurance, and on a net basis the impact amounted to around ¥1.7 billion.

In relation to Typhoon No. 24, we posted a reserve for outstanding claims in our FY18.1H results, so the impact in and after FY18.3Q should be limited.

**Q17: [Sony Assurance] Did you use the statistical approach to amass an IBNR reserve for the impact of Typhoon No. 24, rather than using the simplified method?**

A: Typhoon No. 24 made landfall and passed on September 30 and October 1, but we incorporated the accident reports clearly into our financial reporting, through to determining settlement values. Rather than using the statistical approach, we posted a reserve for outstanding claims based on damage amounts we had determined.

**Q18: [Sony Assurance] What will be the launch timing for the new telematics insurance being developed by the Sony Group and Yahoo Japan Corporation?**

A: We are jointly conducting research related to new telematics-type products and services with Yahoo Japan Corporation. We have conducted monitor testing, mainly of policyholders, and are developing algorithms and preparing corresponding systems. At this stage, we are unable to discuss product launch timing.

**Q19: [Sony Bank] To reduce the impact of a consumption tax hike, the Japanese government may be deliberating certain subsidies on cashless settlements. How will Sony Payment Services leverage structural changes such as this in its business? Also, how much do you expect business to expand?**

A: At the current date, we are not considering responding to policies individually, as the policies themselves are not yet clear. However, we believe that a move away from cash and an increase in credit card settlements would cause our business to increase.

**Q20: [Sony Bank] Around how much do you believe Sony Payment Services' settlement business will continue to increase? Please provide figures, if available. Also, is your share changing?**

A: We do not disclose individual figures, but performance is expanding steadily. We understand that our share is not changing.

**Q21: [SFH] <u>Page 45 of the presentation materials</u> indicates that consolidated adjusted ROE for FY18.1H was 3.3%. I would like to understand the relationship between this consolidated adjusted ROE figure and dividends. The company has explained that if the level of consolidated adjusted ROE substantially exceeds 5% for the year, it would consider raising the amount of dividend increase from ¥2.5 per year. Would an annualized level of 6.6% be construed as significantly exceeding 5%?**

A: As announced at our Corporate Strategy Meeting, we aim to increase adjusted ROE from 6% at present to 7% by FY20. We see 6–7% as being in line with our expected level over the medium term. If we were to exceed our medium-term target of 7%, we believe it would be possible to consider increasing the amount of dividend increase.