

FY2018 Q3 Conference Call for Institutional Investors and Analysts

Q&A Executive Summary

Date: February 13, 2019, 15:30–16:20 (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, Executive Officer, Sony Bank Inc.

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

Q1: [Sony Life] What is the trend with regard to the cancellation of existing policies for family income insurance, for which you revised premium rates, and for new medical insurance, when taking out these insurance products? Also, what trends do you anticipate going forward?

A: On an annualized basis for FY2018, the lapse and surrender rate has been improving: from 7.6% in Q1 to 6.7% in Q2 to 6.3% in Q3. We expect the rate to improve gradually going forward, as well.

Q2: [Sony Life] For U.S. dollar-denominated single premium whole life insurance, I understand the trend is toward indicating a net yield, to avoid the risk of customers mistakenly assuming that indicate reserve interest rates and assumed interest rates are the interest rates on insurance premiums. I would think that changing the way rates are shown would affect insurers' sales. Would I be correct in assuming that Sony Life's sales are not being affected?

A: For our U.S. dollar-denominated insurance and variable life insurance, we show risk information on pamphlets and solicitation materials and provide training for sales people handling these insurance products. We also make follow-up calls when signing a policy to ensure that customers have a correct understanding of our products. We believe the current trend is not affecting our sales because we perform such activities so thoroughly.

Q3: [Sony Life] The positive spread improved in Q3 of FY2018 (9M). Was this partly due to the contribution of interest income on U.S. government bonds you purchased in line with the increase in products denominated in U.S. dollars?

A: That is correct.

Q4: [Sony Life] Your holdings of foreign bonds exceed ¥500 billion. Is this essentially in line with liabilities, and is this a reason behind the increase in the positive spread?

A: We acquired foreign bonds of more than ¥500 billion to match our liabilities, and this is one reason for the increase in the positive spread. As we purchase some assets in advance, these assets are currently higher than the liabilities.

Q5: [Sony Life] The net amount of the provision of policy reserves for minimum guarantees on variable life insurance and gains (losses) on hedges was positive ¥1.5 billion in Q1 (3M) of FY2018 and negative ¥1.0 billion in Q2 (3M). What was the amount in Q3 (3M)?

A: In Q2 of FY2018, we began switching hedging from the use of stock index futures in some separate accounts to total return swaps referencing individual stocks. As a result, even though market price fluctuations were large, the misalignment in gains (losses) on hedges was negative ¥1.5 billion in Q3 (3M).

Q6: [Sony Life] Has there been any change in your policy of booking expected gains on the sale of available-for-sale securities (stocks) for the three years from FY2018?

A: No, there is no change.

Q7: [Sony Life] This was the first time since FY2014 that your forecast for full-year consolidated ordinary profit has reached ¥90 billion, and my understanding is that much of that is due to Sony Life. How much has this been affected by gains (losses) on hedges related to variable life insurance? Would you please explain the factors behind the upward revision of approximately ¥7 billion at Sony Life compared with your initial forecast?

A: The misalignment in gains (losses) on hedges related to variable life insurance was ¥1.0 billion in Q3 of FY2018 (9M). This figure is not significantly different from the previous year or from our initial expectations.

The reason for the upward revision from our initial forecast was that although we recorded an impairment loss relating to available-for-sale securities in the general account (a loss of ¥4.0 billion), the provision of policy reserves was lower than we had expected due to an increase in surrenders (positive impact of around ¥6.0 billion). Also, gains (losses) on derivative transactions to hedge market risk related to available-for-sale securities in the general account exceeded our initial expectations (positive impact of around ¥2.0 billion).

Q8: [Sony Life] What was the reason for the 0.4-percentage-point improvement in the new business margin from the previous quarter? Didn't the decline in yen interest rates have a major impact?

A: The rise in US dollar interest rates accounted for most of the effect. Calculations of new business value use the accumulation of new business value on a monthly basis. Average US dollar interest rates were higher in Q3 (3M) of FY2018 than in Q2 (3M). This was the reason for the improvement.

The decline in average yen interest rates from Q2 (3M) to Q3 (3M) was not that significant, so the impact was not large.

Q9: [Sony Life] When forecasting the new business margin for 4Q (3M) of FY2018, how do you consider the current interest rate decline and the status of the product portfolio?

A: The current interest rate decline will probably have a negative impact on the new business margin. At present, we are unable to comment on our forecast regarding the product portfolio.

Q10: [Sony Assurance] When revising your forecasts, what were the specifics of your expectations for increases in operating expenses and the provision for policy reserves?

A: With regard to expenses, we had not used all of the operating expenses we had planned for Q3 (9M), so those expenses are expected to shift into Q4 (3M). Also, we expect system-related expenses to increase.

Regarding the provision for policy reserves, we are considering the accumulation of policy reserves for certain products at the end of March 2019. This factor is incorporated into our forecasts to some extent.

Q11: [Sony Bank] Looking at Sony Bank's holding of securities by ratings, you have ¥300 billion rated AAA. Of that, I understand that collateralized loan obligations (CLOs) account for around ¥200 billion. Is this on foreign currency deposits? Or are you raising foreign currency some other way?

A: We do not disclose the amounts or scale of investment on individual CLOs. In general, we invest the deposits we have received from customers. We do not raise funds in the market equivalent to CLO investments.

Q12: [SFH] Although you didn't change your dividend forecast, is there any likelihood that you might adjust the year-end dividend upward as adjusted ROE is moving toward an annualized level of 7%?

You revised your dividend forecast upward last fiscal year at the timing of the preliminary

Q3 earnings announcement. Taking the current market environment and other factors into account, what is your judgment regarding an upward revision?

Also, if adjusted ROE exceeds 7% for a single fiscal year, would you raise dividends above the current medium-term pace of ¥2.5 per year for only a single year or from next fiscal year as well?

A: Our thoughts on dividends are unchanged from the discussion we had during our teleconference following the earnings announcement for Q2 of FY2018. Our medium-term plans target a consolidated adjusted ROE of 6–7%. If the figure exceeds 7%, we will consider additional dividend increases. At present, we are unsure whether the figure will reach 7% for the current fiscal year.

If we judge that the figure is likely to remain at 7% not just this fiscal year but the following years as well, we may consider increasing dividends by more than ¥2.5 per year. However, if the figure is 7% only for a single year, we would consider the revision on a single-year basis. We will not instantly raise dividends at the moment the figure goes above 7%.

Q13: [SFH] Does Sony Corporation's acquisition of its own stock affect SFH's policy on shareholder returns?

A: No, our policy is not affected. Also, SFH has no plans to acquire our own stock.