Consolidated Financial Results for the First Quarter of Fiscal 2019
Conference Call for Institutional Investors and Analysts Q&A (Executive Summary)

Date: August 8, 2019 3:30-4:30 p.m. (JST)

Respondents:

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Note: The questions and answers have been paraphrased, edited, and sorted for ease of understanding.

Q1: [Sony Life] In Q1 of fiscal 2019, performance was strong (on both the Japanese statutory accounting and U.S.-GAAP bases) compared to the full-year consolidated earnings forecasts at the beginning of the fiscal year. Would it be accurate to assume that profits are likely to exceed the consolidated earnings forecasts?

A: Performance was strong compared to the full-year consolidated earnings forecasts on both the Japanese statutory and U.S.-GAAP bases, but this was due to factors such as the delayed booking of operating expenses and the lower level of payments of insurance claims and other for the three months. We expect these factors to settle in line with the full-year forecasts. Therefore, we have not revised the full-year earnings forecasts.

Q2: [Sony Life] Ordinary profit increased YoY due to a decline in costs related to the acquisition of new policies, lower payments for insurance claims and other, and an increase in the policy amount in force. What factors contributed the most?

A: The decrease in the cost of acquiring of new policies.

Q3: [Sony Life] What is the difference between the provision for policy reserves related to minimum guarantees for variable life insurance and gains or losses on hedging?

A: The difference arises because of the differing effects of hedging on economic value, Japanese statutory accounting, and U.S.-GAAP accounting. In the statutory accounts for Q1 FY2019, performance was affected by approximately +¥500 million.

Q4: [Sony Life] On page 31, you stated that the company would continue to purchase ultralong-term bonds. Despite the current decline in interest rates, is there no change in

the company's policy to purchase ultralong-term bonds? Also, the balance of foreign bonds is increasing significantly. My understanding is that you purchased these bonds in line with the liabilities of U.S. dollar-denominated insurance, and that foreign exchange risk and overseas interest rate risk have not increased. Is this correct?

A: We have not changed our policy of purchasing ultralong-term bonds based on the ALM concept. While some foreign bonds are purchased in anticipation of future sales, those are purchased in line with U.S. dollar-denominated insurance liabilities based on the ALM concept.

Q5: [Sony Life] Can you maintain a positive spread even at current interest rates?

A: We have maintained about the same level of positive spread for the past few years. As the assumed interest rates on liabilities are also gradually declining, there is no prospect of a significant decline in the future.

Q6: [Sony Life] What were the factors behind the ¥69 billion decline in MCEV from the end of the previous fiscal year, and how are fluctuations in U.S. dollar interest rates affecting the MCEV, as U.S. dollar-denominated insurance rises?

A: Major factors include shareholder dividends of ¥32.0 billion, an increase in new business value of ¥17.0 billion, expected existing business contribution of ¥3.7 billion, assumption change in the economic variances of negative ¥38.0 billion due to a decline in yen interest rates (parallel shift), yield curve changes of yen interest rates of negative ¥25.0 billion, and the impact of change in mortality and morbidity rates of ¥4.0 billion. The impact of fluctuations in the U.S. dollar interest rate on the MCEV is limited.

Q7: [Sony Life] Could you explain the factors behind the decline in the new business value by ¥6 billion from the Q4 of fiscal 2018? Should this be explained separately by changes in sales volume and new business margin?

A: The total sales volume was about 70%, as a result of a decline in sales volume to about two-thirds, offset by an increase of about 10% in the new business margin.

Q8: [Sony Life] Page 21 shows that a change in insurance assumptions contributed positively to the increase in new business margins from 5.0% in Q4 of fiscal 2018 to 5.4%. What is the change in insurance assumptions, and what is your current outlook on new business value for the full year, which was slightly less than ¥80 billion at the beginning of the fiscal year?

A: The increase in the new business margin was due to the revision of insurance assumptions and changes in the product mix, despite a decrease due to lower interest rates, and each factor contributed the same absolute amount. Changes in insurance assumptions are revised future calculation assumptions based on actual results in the lapse rate, mortality rate, and expense ratio. The full-year outlook for new business value is not clearly stated, as interest rates have been declining significantly in the recent quarter.

Q9: [Sony Life] How do you evaluate ESR despite a decline in interest rates? How do you think about capital adequacy in the event of a further decline in interest rates? You disclose ESR with UFR figures, but does your management policy remain unchanged?
A: ESR is used as an indicator of capital adequacy, reflecting developments in international regulatory capital. Even in the current economic environment where interest rates are declining, there is no change in the investment policy of purchasing ultralong-term bonds to meet liabilities based on the ALM concept. By matching assets and liabilities over time, we hope to minimize the sensitivity of interest rate fluctuations.

Q10: [Sony Life] As interest rates decline, there will be some products with negative margins for new policies without UFR. What are the criteria for revising premiums and suspending sales? Also, how is SFH involved in this judgment?
A: Sony Life uses the new business margin without UFR as an internal management indicator, and its basic rule is to consider revising the insurance premium rate and suspending sales if this becomes negative for three consecutive quarters. This indicator is reported to the Board of Directors of SFH on a quarterly basis, and information is shared.

Q11: [Sony Life] How many Lifeplanners left their jobs compared to the same period of the previous year? Your outlook for the number of employees at the end of this fiscal year is around 5,300, and how do you evaluate the progress toward that?
A: In fiscal 2019, the number of people leaving the company in Q1 was 102, up slightly from 96 in the same period of the previous year, but the turnover rate has remained almost unchanged. In Q1, some Lifeplanners are appointed to unit manager in April, and Sony Life does not recruit Lifeplanners in June. Such seasonal factors made it difficult to increase the number of Lifeplanners. We intend to expand recruitment activities toward the end of the fiscal year, with the aim of increasing the number of Lifeplanners by 100 per year.

Q12: [Sony Life] Has the compensation system for Lifeplanners changed amid tightening fiduciary duties?
A: We will strive to improve our compensation system to appropriately reflect our customer-oriented approach.

Q13: [Sony Life] Does Sony Life have any problems similar to those of the rewritten insurance policies that occurred at Japan Post Insurance?

A: Regarding the issue of Japan Post Insurance, Sony Life is closely watching the situation, including the content of its announcement. We provide thorough employee education on compliance, and in fiscal 2010 we introduced a system for canceling old policies on a conditional suspension basis. Taking a customer-first approach to our operations, under this system previous policies are cancelled only after new ones are in place, thereby preventing periods in which policyholders are uninsured.

Q14: [Sony Life] Looking at the product mix on page 29, the share of savings-type products is increasing. How is the company thinking about this situation and how are you planning to change the product mix? How will the product mix change from Q2 onward following the resumption of sales of products for corporate clients on August 26? Is there any change in the outlook for the new policy amount and profit levels for FY2019?

A: Regarding the product mix in Q1, the weight of protection-type products decreased due to the suspension of sales of corporate contracts, and the weight of savings-type products increased due to the increase in sales of variable annuities. Going forward, Sony Life's policy is to continue selling products that meet customer needs, and there is no prospect of a product mix that can be clearly indicated. In the FY2019 full-year outlook, the company had initially assumed a shift in demand from corporate products to individual insurance. However, because we resumed sales of corporate products, we no longer expect a shift away from these products. Accordingly, there will be no major changes to the outlook for the new policy amount and profit levels for FY2019.

Q15: [SFH] Consolidated adjusted ROE is decreasing from Q1 of the previous fiscal year, but what is your annual outlook considering the resumption of sales of products for corporate clients?

A: Currently, the business climate remains challenging due to a decline in interest rates and other factors, and it is slightly below the initial forecast. However, by promoting initiatives to acquire new policies from Q2 onward, Sony Life is aiming to achieve the initial forecast of consolidated adjusted ROE for fiscal 2019 of about 6%.

Q16: [SFH] I understand that a dividend increase is unlikely to exceed ¥2.5 because—given the Q1 consolidated adjusted ROE level—the consolidated adjusted ROE will not reach the 7% level. Also, if the consolidated adjusted ROE declines significantly, is it

possible you will cancel the ¥2.5 dividend increase?

A: Currently, if the consolidated adjusted ROE is expected to be stable at 5% or higher over the medium term, SFH's policy is to continue increasing the dividend by ¥2.5 based on a comprehensive judgment. If this year's consolidated adjusted ROE is slightly below 5%, we would not necessarily rule out a dividend increase altogether.

Q17: [SFH] What kinds of discussion have been held since the change of the management board? Are discussions based on the corporate strategy meeting that you announced?

A: As we have received opinions from the newly appointed directors, we have just begun discussions in the direction of promoting the strategies that we announced at the corporate strategy meeting.