Consolidated Financial Results for the Fiscal2019

Conference Call for Institutional Investors and Analysts Q&A (Executive Summary)

Date: May 19, 2020 5:30–6:15 p.m. (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.

Yukio Hayashi, Executive Officer, Sony Bank Inc.

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

Q1: [Sony Life] How is the COVID-19 pandemic affecting the current new policy amount and the hiring of Lifeplanner sales employees? What future developments do you anticipate?

A: The new policy amount for April 2020 was at around 75% of the April 2019 level. We expect the new policy amount in May to be even lower than for April, as we have closed all branches from mid-April through May 31 and have suspended face-to-face sales activities. Going forward, we plan to resume face-to-face sales activities gradually, monitoring how economic activity recommences.

Hiring of Lifeplanner sales employees was not down substantially in April, but currently we are refraining from face-to-face recruiting activities. Going forward, we plan to conduct online interviews and maintain our hiring emphasis on quality.

As non-face-to-face sales activities, we are currently responding to existing policyholders. We are consulting over the telephone, sending applications via the post, and we have begun providing online consultation using conferencing systems. We plan to further step up these activities by leveraging technology.

Q2: [Sony Life] Partly due to the impact of COVID-19, the use of non-face-to-face channels may be unavoidable going forward. Do you aim to bring life insurance fully online?

A: We are not thinking of moving life insurance fully online. We will support the efforts of Lifeplanner sales employees by enhancing non-face-to-face solicitation activities.

Q3: [Sony Life] With U.S. dollar interest rates falling, what are your thoughts on the U.S. dollar-denominated single-premium whole life insurance that was sold in large quantities?

A: We suspended sales of U.S. dollar-denominated single-premium whole life insurance in April 2020. Demand rose in Q4 of FY2019 (3M), but as we are hedging in anticipation of future new policy acquisition, to some extent we are able to restrain the impact of a decline in U.S. dollar interest rates. We will continue to closely manage earnings.

Q4: [Sony Life] Why was the overall risk amount up compared with Q3?

A: There were two main reasons. First, we revised our method of assessing interest rate risk. Second, U.S. dollar interest rates fell significantly, so insurance risk rose. Each of these factors was responsible for around half of the increase.

With regard to the first factor (revising our method of assessing interest rate risk), we revised our assessment method, which held that when ultralong-term yen interest rates are at a level near zero the risk of yen interest rates falling was small. We changed the assessment method to take into account the possibility of interest rates becoming more negative.

Q5: [Sony Life] I understand that your performance forecast for FY2020 is "undetermined," but will you accumulate a contingency reserve in relation to the absorption-type merger of Sony Life With Insurance?

A: The absorption-type merger of Sony Life With Insurance is slated for April 2021. In FY2021, we expect to set aside a lump sum of around ¥30 billion as a contingency reserve.

Q6: [SFH] Did you disclose your thoughts on consolidated Group ESR because you had begun to see your way to curtailing ESR volatility?

A: Sony Life has been working to reduce interest rate risk for some time. Going forward, we will continue working to control changes in ESR to some extent through efforts to lower interest rate risk.

Q7: [SFH] Does the level of consolidated Group ESR you are targeting for the foreseeable future not indicate a certain level of specificity as a listed company? By becoming a wholly owned Sony subsidiary, won't your ESR level decrease and the cost of capital rise?

A: Our current disclosure is based on our current thinking. We plan to maintain this thinking for the foreseeable future.

Q8: [Sony Life] At Sony's corporate strategy meeting today, mention was made of "engaging in measures to further enhance the value of Lifeplanner sales employees." Do these specific initiatives refer to products, solicitation and sales, or revisions in the compensation system for Lifeplanner sales employees? Also, how is progress?

A: For Lifeplanner sales employees, we are stepping efforts in terms of the quality of consulting-based sales and consulting-based follow-up activities. At the same time, we plan to leverage the Sony Group's technologies and enhance our collaboration in other ways.

We are revising the compensation system as appropriate, but we have no response at this time.

Q9: [Sony Life] By becoming a wholly owned subsidiary of Sony, do you plan to diversify Sony Life's channels?

A: First, as measures to counter COVID-19 we will concentrate on stepping up non-face-to-face sales activities. Based on how such factors as how customer behavior changes, we will leverage technology and consider how to strengthen the Lifeplanner channel.

Q10: [SFH] What competitive advantages will becoming a wholly owned Sony subsidiary confer?

A: The Sony Group is involved in a wide range of businesses. By strengthening relations with Group companies, we aim to promote further ties, including by leveraging technology.

Q11: [SFH] I believe you have been strengthening ties with Sony for the past few years. What specific synergies did you see? What additional synergies do you expect to reap by becoming a wholly owned subsidiary of Sony?

A: To date, we have cooperated with the Sony Group in such areas as big data analytics and leveraging AI. We are seeing some results, including Sony Assurance's "GOOD DRIVE", PHYD automobile insurance leveraging AI and on the technology front with Sony Life and Sony Bank. Over the past year or two, the financial team has also participated as a Group member in Sony's technology exhibitions. We have begun looking at ways the financial business can take advantage of Sony's technologies.

By becoming a wholly owned subsidiary of Sony, we expect to collaborate over a broader range of technologies, also in businesses other than electronics. By accelerating decision-making, we believe we can further enhance ties within the Sony Group. Although we are unable to mention specifics at this time, we believe that we can strengthen collaboration even more than in the past.

Q12: [SFH] As a listed financial company, to date you have had to disclose operating performance on a quarterly basis, which may have encouraged a short-term perspective. By becoming a wholly owned subsidiary of Sony, will it become easier to make R&D investments from a medium- to long-term perspective?

A: Life insurance has a long insurance period, making it necessary to take a long-term perspective on investing. By integrating our management within the Sony Group, we think we may be able to invest from an even longer-term perspective than in the past.

Q13: [SFH] Wasn't losing access to capital markets a negative consideration? Is there any possibility you might relist in the future?

A: The financial business was listed in 2007 because capital was needed to foster growth. Looking at the current conditions, however, we believe being a part of the Sony Group offers synergies that will enable management from more of a long-term perspective. Having compared the two, we believe that becoming a wholly owned subsidiary of Sony will better enhance business value over the medium to long term. At present, we cannot speak to the future.

Q14: [SFH] Was the tender offer price calculation based on U.S. GAAP?
A: The price was based on Japanese GAAP, with MCEV and appraisal value also taken into consideration.

Q15: [SFH] Doesn't the tender offer price of ¥2,600 seem low?
A: To ensure the fairness of this tender offer and from the perspective of securing profits for the general shareholders, we established a special committee consisting of independent outside directors to duly deliberate and consider the matter. Multiple analytical methods were used to calculate the price, further ensuring its appropriateness. We obtained fairness opinions about the price of ¥2,600 from Plutus Consulting, which advised the special committee, and Mitsubishi UFJ Morgan Stanley Securities, our financial advisor. On this basis, the Board of Directors approved the offer and resolved to recommend its adoption.

Q16: [SFH] As a listed company, you focused on economic value. After becoming a wholly owned subsidiary of Sony, will you shift to U.S. GAAP?
A: At present, the financial business is planning to continue focusing on economic value. Management behavior may take U.S. GAAP into consideration, but this has not yet been decided.

Q17: [Sony Life] U.S. GAAP is significantly affected by market fluctuations. As you are currently hedging on the basis of economic value, I believe you would be over-hedged on the basis of U.S. GAAP. When you become a wholly owned subsidiary of Sony, is it possible you will change your hedging policy?
A: Fundamentally, we review our hedging position and policy each quarter. In principle, we conduct hedges on the basis of economic value, but it is technically possible to change our hedge position to control profits under U.S. GAAP. We have not yet decided what we will do in the future.