

Disclosure of Economic Value-Based Embedded Value as of March 31, 2025

Tokyo, May 21, 2025 – Sony Life Insurance Co., Ltd. (“Sony Life”), a wholly owned subsidiary of Sony Financial Group Inc., today disclosed its economic value-based embedded value as of March 31, 2025. Economic value-based embedded value is an embedded value (“EV”) evaluated on an economic value basis and serves as an indicator of the Company’s corporate value. Sony Life previously disclosed market consistent embedded value (“MCEV”) in compliance with the European Insurance CFO Forum Market Consistent Embedded Value Principles^① for the period from March 31, 2008 through March 31, 2023. There have been no changes to the underlying concepts of assumptions or calculation methodologies in transitioning from MCEV to economic value-based embedded value.

Summary

The economic value-based EV and economic solvency ratio (“ESR”) as of March 31, 2025 are as follows. New business value refers to the value of new business acquired during the fiscal year ended March 31, 2025 (“FY2024”) as part of the economic value-based EV.

(Billions of yen)

	March 31, 2025	March 31, 2024	Change
Economic value-based EV	1,891.4	2,007.0	(115.5)
Adjusted net worth	(1,009.3)	(201.3)	(807.9)
Value of existing business	2,900.7	2,208.3	692.4

(Billions of yen)

	March 31, 2025	March 31, 2024	Change
Economic value-based capital	1,901.4	2,013.9	(112.5)
Economic value-based risk	1,132.1	1,077.1	54.9
ESR	168%	187%	(19 ppt)

(Billions of yen)

	FY2024	FY2023	Change
New business value	196.3	175.6	20.6

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1. Economic value-based EV

1.1 Definition of economic value-based EV

Economic value-based EV represents the present value of the current and future distributable earnings to shareholders generated from assets allocated to the covered business, after allowing sufficiently for the aggregate risks in the covered business. Economic value-based EV can be regarded as EV evaluated in a manner consistent with the pricing of financial instruments traded in financial markets.

Economic value-based EV consists of adjusted net worth and the value of existing business. Adjusted net worth is the amount of assets allocated to the covered business as of the valuation date, calculated as the excess of their market value over statutory policy reserves and other liabilities. The value of existing business consists of the present value of certainty-equivalent profit, the time value of options and guarantees, frictional costs, and the cost of non-hedgeable risks.

- The present value of certainty-equivalent profit represents the present value of profits based on future cash flows generated from the covered business.
- The time value of options and guarantees represents the stochastic valuation, based on risk-neutral scenarios, of the time value of options and guarantees inherent in insurance contracts.
- Frictional costs represent the present value of investment costs and taxes associated with assets backing the required capital at each point in the future.
- The cost of non-hedgeable risks represents the present value of costs required to maintain capital for non-hedgeable risks in the future.

All four components described above are evaluated on an after-tax basis.

1.2 Economic value-based EV

Despite increases resulting from the acquisition of new policies, economic value-based EV as of March 31, 2025 decreased by ¥115.5 billion, mainly due to an increase in interest rate Adjusted net worth decreased significantly and the value of existing business increased significantly due to an increase in interest rates; however, a large part of these changes was offset by the effect of ALM.

(Billions of yen)

	March 31, 2025	March 31, 2024	Change
Economic value-based EV	1,891.4	2,007.0	(115.5)
Adjusted net worth	(1,009.3)	(201.3)	(807.9)
Value of existing business	2,900.7	2,208.3	692.4

1.3 Adjusted net worth

Adjusted net worth is calculated as the market value of assets allocated for the covered business in excess of statutory policy reserves and other liabilities as of the valuation date. Based on Japanese GAAP, it is calculated as the total amount of the net assets section on the balance sheet, adding reserve for price fluctuations, contingency reserve, reserve for possible loan losses, reinsurance debit for coinsurance-type reinsurance (future profits to be recognized), adjustments related to modified coinsurance reinsurance, unrealized gains or losses on held-to-maturity securities, unrealized gains or losses on policy reserve matching bonds, and unrealized gains or losses on land and buildings, less unfunded pension liabilities, intangible fixed assets (excluding goodwill), and goodwill, after deducting the amount of tax effect equivalent to these 11 items, to which valuation gains or losses on subsidiaries and affiliated companies are added.

Adjusted net worth as of March 31, 2025 decreased ¥807.9 billion, primarily due to the deterioration in unrealized gains or losses on held-to-maturity securities caused by an increase in interest rates. Although adjusted net worth became negative, the increase in the value of existing business offsets the decrease in adjusted net worth due to the effect of ALM, and there are no concerns regarding soundness.

1.4 Value of existing business

The value of existing business is the present value of certainty-equivalent profit less the time value of options and guarantees, frictional costs and the cost of non-hedgeable risks. The value of existing business as of March 31, 2025 increased ¥692.4 billion, primarily due to an increase in interest rates. On the other hand, as noted above, the value of bonds held for ALM purposes moves in a way to offset such a change in the value of existing business.

(Billions of yen)

	March 31, 2025	March 31, 2024	Change
Value of existing business	2,900.7	2,208.3	692.4
Present value of certainty-equivalent profit	3,463.4	2,764.7	698.6
Time value of options and guarantees	(206.5)	(196.2)	(10.3)
Frictional costs	(9.9)	(6.8)	(3.0)
Cost of non-hedgeable risks	(346.1)	(353.2)	7.1

(1) Present value of certainty-equivalent profit

The present value of certainty-equivalent profit is the present value of profit based on the future cash flows generated from the covered business. The risk-free rate is used as the assumed investment return on all assets and the discount rate. The present value of certainty-equivalent profit reflects the intrinsic value of options and guarantees.

(2) Time value of options and guarantees

We have calculated the time value of options and guarantees using the stochastic method with risk-neutral scenarios. The time value of options and guarantees is calculated as the difference between the present value of certainty-equivalent profit and the present value of stochastic future profits.

(3) Frictional costs

We have calculated frictional costs as the present value of investment costs and taxes on assets backing the required capital at each point of time in the future. The required capital is defined as the greater of the amount of capital required to maintain a solvency margin ratio of 200%, which is the statutory minimum capital requirement in Japan, and the amount of capital to cover risks based on the internal model on an economic value basis.

(4) Cost of non-hedgeable risks

As risks regarding the asymmetric nature of cash flows not reflected in the present value of certainty-equivalent profit are fully reflected in the time value of options and guarantees, we have reflected an allowance for the uncertainty of non-economic assumptions and the portion of economic assumptions considered non-hedgeable with respect to the cost of non-hedgeable risks. Specifically, we have assumed a risk margin based on the internal model as the cost of non-hedgeable risks and calculated it using the cost of capital approach.

(5) Cost of capital rate

We have set the cost of capital rate at 3.0%, taking into account developments in economic value-based solvency regulations in Japan as well as our internal analysis. We may revise the method of setting the cost of capital rate in the future, as an industry standard has not yet been established.

1.5 New business value

New business value represents the value at point of sales of new business acquired during the fiscal year ended March 31, 2025, and does not include the value of new business expected to be acquired in the future.

The new business value in this fiscal year increased ¥20.6 billion, primarily due to strong new business sales.

(Billions of yen)

	FY2024	FY2023	Change
New business value	196.3	175.6	20.6

1.6 New business margin

The new business margin described below is the ratio of new business value to the present value of premium income. The present value of premium income is calculated applying the same assumptions as those for the calculation of new business value, and is based on premiums before the deduction of reinsurance premiums. The new business margin in this fiscal year increased primarily due to changes in insurance assumptions.

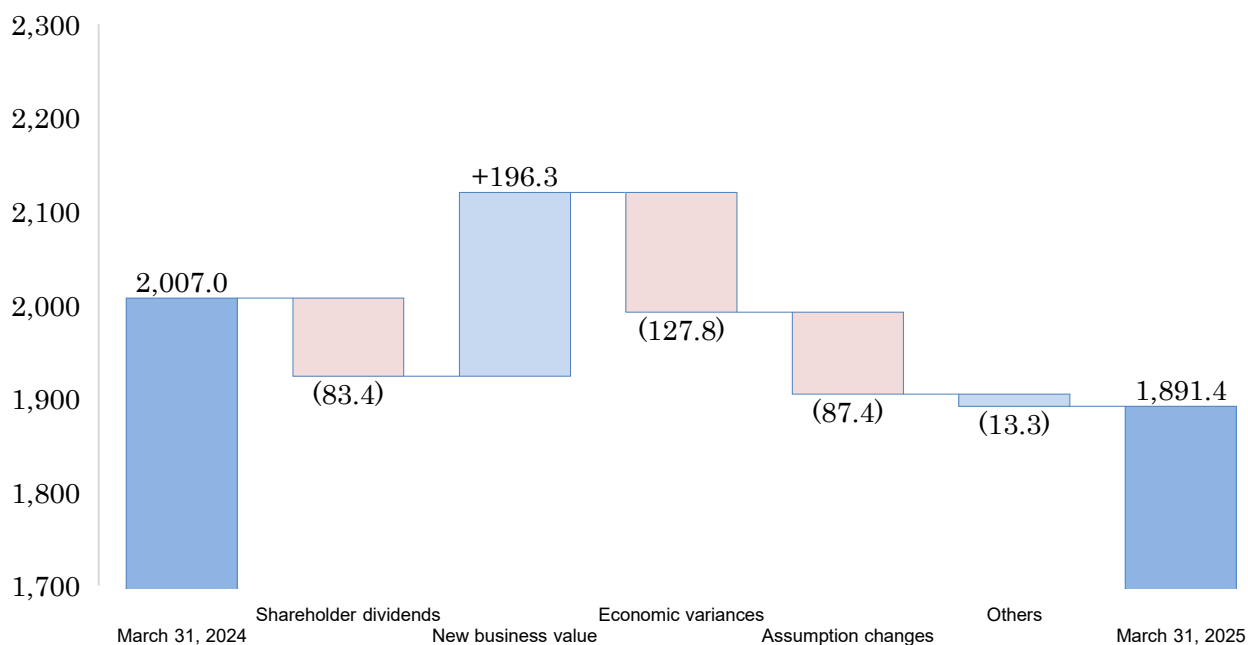
(Billions of yen)

	FY2024	FY2023	Change
New business value	196.3	175.6	20.6
Present value of premium income	2,735.5	2,605.3	130.2
New business margin	7.2%	6.7%	0.4 ppt

1.7 Reconciliation analysis from the end of the previous fiscal year

The figure below shows the reconciliation analysis of economic value-based EV from March 31, 2024 to March 31, 2025

(Billions of yen)



(1) Shareholder dividends

Economic value-based EV reflects a decrease due to dividend payments to shareholders.

(2) New business value for this fiscal year

Economic value-based EV reflects an increase resulting from the acquisition of new policies during this fiscal year.

(3) Economic variances

Economic value-based EV reflects the impact of changes in future value due to differences between actual economic assumptions, such as market interest rates and implied volatilities, and the assumed values incorporated in the market environment at the time of the previous fiscal year-end valuation (or at the time of the new business value calculation, in the case of new business value), as well as the impact of differences between expected investment returns assumed at the previous fiscal year-end to be realized during the current fiscal year and actual results.

(4) Assumption changes

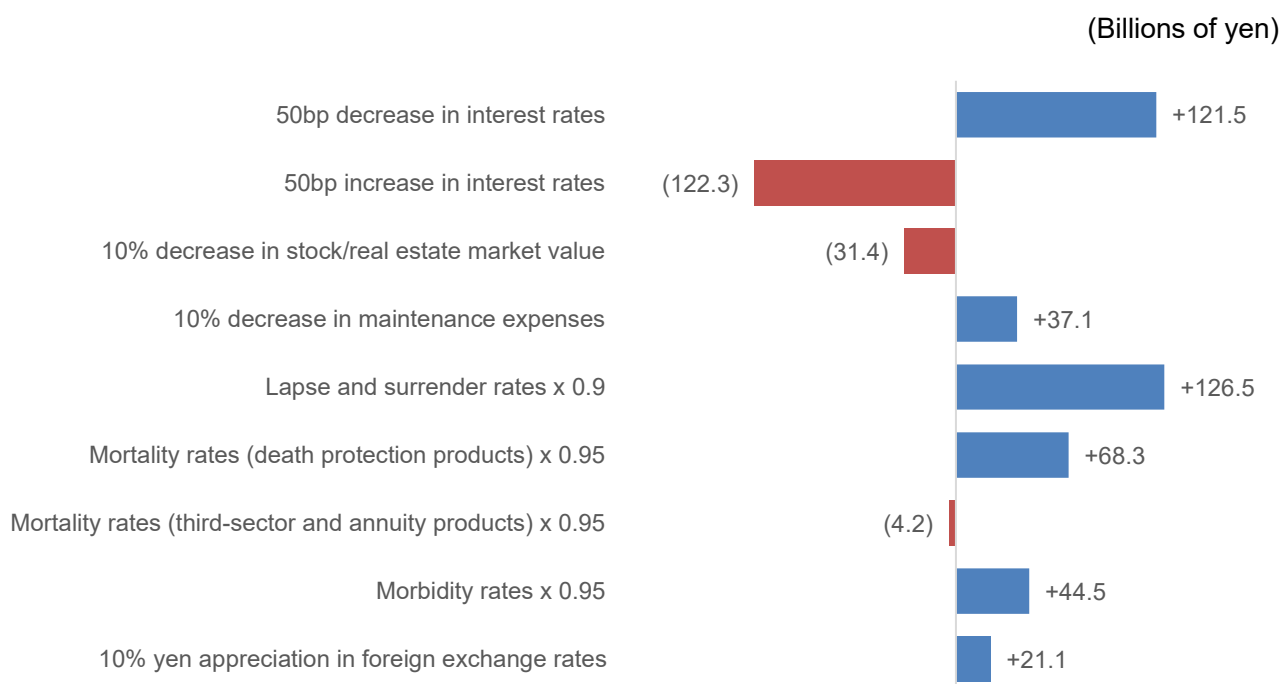
Economic value-based EV reflects the impact of changes in future assumptions based on actual experience, including mortality and morbidity rates, lapse and surrender rates, and operating expense rates.

(5) Others

Economic value-based EV reflects the impact of other factors.

1.8 Sensitivity analysis

The sensitivity of changing the underlying assumptions on economic value-based EV is as follows.



(1) Interest rates

This sensitivity represents the impact of an immediate parallel shift of the Japanese and foreign government bond yield curves. Adjusted net worth changes as the market value of bonds and other assets changes; at the same time, the value of existing business changes as interest rates, the discount rate, yields of new bonds to be purchased in the future as existing bonds mature, and the investment returns on stocks and other assets change. Please note that, due to the bonds held for ALM purposes, adjusted net worth moves in a direction to offset a change in the value of existing business.

There is no zero floor in the case of declining interest rates. In developing the sensitivity scenarios, the parameters related to volatility in the interest rate model are the same as those used in the base case, and only the parameters related to the interest rate term structure are changed. The ultra-long-term portion of the yield curve is extrapolated without changing the ultimate forward rate.

(2) Stock and real estate market value

This sensitivity represents the impact of an immediate drop in the market value of stocks and real estate. Adjusted net worth is directly affected by changes in the market value of stocks and real estate. The value of existing business is also affected by changes in asset values.

(3) Maintenance expenses

This sensitivity represents the impact of a decrease in maintenance expenses. Maintenance expenses do not include sales commissions payable in future periods to Sony Life's Lifeplanner sales specialists and other sales force from in-force policies.

(4) Lapse and surrender rates

This sensitivity represents the impact of a decrease in lapse and surrender rates.

(5) Mortality rates

This sensitivity represents the impact of a decrease in mortality rates. The impact on death protection products and on third-sector insurance and annuity products is disclosed separately, as the effects differ. For third-sector insurance and annuity products, the scope includes base policies and riders of which principal benefits relate to accidental death, disability, cancer, medical care, and nursing care, as well as individual annuities. No management actions are reflected.

(6) Morbidity rates

This sensitivity represents the impact of a decrease in morbidity rates relating to sickness and other conditions in third-sector products.

(7) Foreign exchange rates

This sensitivity represents the impact of an immediate appreciation of the Japanese yen. Adjusted net worth is affected by changes in the value of foreign currency-denominated assets and liabilities, and the value of existing business is also affected.

(8) Others

The following points should be noted regarding the sensitivities:

- Frictional costs and the cost of non-hedgeable risks are not varied in the sensitivity analysis.
- Values of subsidiaries and affiliated companies are not changed, except in the case of (2) Stock and real estate market value and (7) Foreign exchange rates, where the stock values of subsidiaries and affiliated companies are adjusted.
- The impact of changing multiple assumptions simultaneously is not equal to the sum of the impacts of each individual assumption.

1.9 Economic solvency ratio (“ESR”)

We regard ESR as an economic value-based indicator of financial soundness and strive to maintain it above a certain level to ensure financial soundness. ESR is defined as the ratio of capital (i.e., economic value-based EV plus frictional costs) to economic value-based risk.¹

As of the end of FY2024, economic value-based risk increased by ¥54.9 billion from the end of the previous fiscal year to ¥1,132.1 billion. This was mainly due to an increase in underwriting risk resulting from an increase in interest rates and an increase in market-related risks, reflecting a revision to the methodology for measuring foreign exchange risk, despite a reduction in interest rate risk through the use of derivatives.

(Billions of yen)

	March 31, 2025	March 31, 2024	Change
1. Economic value-based capital	1,901.4	2,013.9	(112.5)
2. Economic value-based risk	1,132.1	1,077.1	54.9
Underwriting risk	775.9	742.3	33.5
Market-related risks	540.4	510.6	29.7
Of which, interest rate risk ²	345.4	361.0	(15.6)
Operational risk	52.0	49.5	2.4
Credit risk	21.1	15.4	5.6
Catastrophe risk	65.9	63.9	2.0
Diversification effects	(323.3)	(304.7)	(18.5)
ESR (1./2.)	168%	187%	(19 ppt)

¹ Economic value-based risk is measured using an internal model based on a 99.5% VaR over one year.

² Amounts are shown before reflecting diversification effects within market-related risks.

2. Assumptions

2.1 Economic assumptions

Economic value-based EV is calculated using economic assumptions as of March 31, 2025.

(1) Risk-free rate

We have used the JGB yields, U.S. Treasury yields, and Australian government bond yields as of March 31, 2025 as reference rates for the certainty-equivalent projections.

We have not added a liquidity premium to the risk-free rate, as there are no products for which it is considered appropriate to apply a liquidity premium, given that their cash flows are reasonably predictable and illiquid.

Regarding the extrapolation for ultra-long-term risk-free rates where there is no market data, an ultimate forward rate was applied. More specifically, the ultimate forward rate was set at 3.5%, and the last liquid point was set at 40 years (30 years for USD and AUD). Based on the Smith-Wilson methodology, forward rates from 41 years onward (31 years for USD and AUD) were extrapolated to converge to the ultimate forward rate over 30 years. These parameters were set primarily with reference to discussions on ICS.

The reasons for setting the last liquid point at 40 years (30 years for USD and AUD) are as follows:

- Government bonds with a maturity of 40 years (30 years for USD and AUD) have sufficient liquidity and observable market data.
- Sony Life holds a significant amount of government bonds with maturities of 30 to 40 years (30 years for USD), ensuring consistency in valuation between assets and liabilities.

The risk-free rates used in calculation for key terms (on a par-rate basis) are as follows:

Term (years)	JPY		USD		AUD	
	March 31, 2025	March 31, 2024	March 31, 2025	March 31, 2024	March 31, 2025	March 31, 2024
1	0.64%	0.05%	4.03%	5.03%	3.78%	4.08%
5	1.11%	0.37%	3.95%	4.21%	3.86%	3.61%
10	1.50%	0.75%	4.21%	4.20%	4.42%	3.96%
20	2.20%	1.48%	4.60%	4.45%	4.91%	4.25%
30	2.48%	1.79%	4.57%	4.34%	4.97%	4.33%
40	2.69%	1.94%	4.39%	4.19%	4.86%	4.29%
50	2.78%	2.07%	4.31%	4.12%	4.78%	4.24%
60	2.83%	2.17%	4.27%	4.08%	4.72%	4.21%
70	2.86%	2.23%	4.24%	4.06%	4.69%	4.18%
80	2.87%	2.28%	4.22%	4.05%	4.66%	4.16%

(Data: Ministry of Finance Japan for JGB [extrapolated] and Bloomberg for U.S. treasuries and

Australian government bonds [extrapolated])

(2) Interest-rate model

We have calibrated the interest rate model to the market as of March 31, 2025. We have estimated parameters for the interest rate model from the yield curve and the implied volatilities of interest swaptions with different terms. We have used 1,000 scenarios in calculating the time value of options and guarantees under the stochastic method.

(3) Implied volatilities of foreign exchange rates and stocks

We have obtained the data of spot implied volatilities from options with different terms. All implied volatilities are those for at-the-money options.

(4) Correlation factors

We have calculated correlation factors from the monthly returns of each index for a period of five years from April 2020 to March 31, 2025, as there is no market-consistent data for correlation factors.

(5) Foreign exchange

Assets denominated in foreign currencies and the value of U.S. dollar-denominated and Australian dollar-denominated products are converted into Japanese yen using the TTM (telegraphic transfer middle exchange rate) as of March 31, 2025. The table below shows foreign exchange rates of major currencies.

	March 31, 2025	March 31, 2024
1 USD	JPY149.52	JPY151.41
1 AUD	JPY93.97	JPY98.61
1 EUR	JPY162.08	JPY163.24
1 GBP	JPY193.82	JPY191.22

2.2 Other assumptions

Assumptions for mortality and morbidity rates, lapse and surrender rates, and operating expense rates are developed based on best estimates by product as of March 31, 2025. Best-estimate assumptions are developed to reflect past and current experience as well as expected experience in the future. Expected future changes in assumptions are reflected only when they are supported by sufficient evidence. For mortality and morbidity rates, both improving and deteriorating trends are taken into account; no other expected future changes are assumed in the best-estimate assumptions applied. Assumptions are developed as follows:

(1) Mortality and morbidity rates

Mortality and morbidity rates are developed based on experience over the past three years, with trend adjustments applied. Improving trends are reflected for mortality rates, while for third-sector incidence rates, improving or deteriorating trends are reflected where such trends are observed. In addition, temporary impacts considered to be attributable to COVID-19 are excluded from third-sector incidence rates.

(2) Lapse and surrender rates

Lapse and surrender rates for the base case are developed based on experience over the past five years. Dynamic assumptions are also applied in accordance with interest rate levels, foreign exchange levels, and investment performance.

(3) Renewal rates

Renewal rates are developed based on past experience. Deterioration in mortality and morbidity rates after renewal due to anti-selection is also reflected.

(4) Operating expense rates

Unit costs for expenses related to policy maintenance and administration, and claims payments are developed based on actual operating expenses in the most recent fiscal year and depreciation costs over the same period. The unit costs reflect depreciation costs excluding one-off expenses that are not expected to recur in the future, which are incorporated as expected future system-related expenses.

(5) Effective tax rate

Following the promulgation of the “Act for Partial Amendment of the Income Tax Act, etc.” on March 31, 2025, which introduced the defense special corporation tax, the effective tax rate is set at 28.00% for FY2025 and 28.93% for FY2026 onward.

(6) Consumption tax rate

The increase in expenses is factored based on a consumption tax rate of 10%.

(7) Inflation rates

Inflation rates for the first 40 years are set at 1.650% with reference to a 10-year inflation swap rate. For the 41st year and thereafter, to ensure consistency with the extrapolation of ultra-long-term risk-free rates, inflation rates are assumed to gradually increase to 2.00% in the 70th year, which is the inflation rate reflected in the ultimate forward rate.

3. Method of calculating economic value-based EV

3.1 Covered business

The covered business is the business operated by Sony Life, its subsidiaries, and its affiliated companies.

3.2 Treatment of subsidiaries and affiliated companies

Subsidiaries and affiliated companies are reflected in the calculation of adjusted net worth at their book value³ based on Japanese GAAP.

3.3 Treatment of reinsurance

As we utilize reinsurance for some in-force policies, we reflect reinsurance premiums as expenses and reinsurance benefits and reinsurance commissions as income in the projections. Under Japanese GAAP, part of the reinsurance commissions received on coinsurance-type reinsurance is recognized as a reinsurance debit, deferring the recognition of profit. Accordingly, the reinsurance debit for coinsurance-type reinsurance is added to adjusted net worth. Modified coinsurance-type reinsurance defers initial expenses, and the deferred amount is recorded as a reinsurance credit. In the evaluation of economic value-based EV, this deferred amount is offset against the corresponding future expenses to be recognized; therefore, the reinsurance credit is deducted from adjusted net worth, and the corresponding future expenses to be recognized are not included in the value of existing business.

3.4 Treatment of semi-participating policies

Dividends are determined based on the level of future investment returns, using the same method as that applied for the dividend rate of FY2024 financial results, and are reflected in the present value of certainty-equivalent profit and the time value of options and guarantees.

3.5 Economic value-based EV

Economic value-based EV is defined as the present value of distributable earnings to shareholders generated from assets allocated to the covered business after making appropriate allowance for aggregate risks in the covered business. It is composed of adjusted net worth and the value of existing business.

³ When unrealized foreign exchange gains or losses arise from foreign currency valuation, an amount equivalent to those unrealized gains or losses (after tax effect) is recognized.