Sony Life

NEWS RELEASE

November 28, 2008
Sony Life Insurance Co., Ltd.

Disclosure of Market Consistent Embedded Value as of March 31, 2008

Tokyo, November 28, 2008 – Sony Life Insurance Co., Ltd. (“Sony Life”), a wholly-owned subsidiary of Sony Financial Holdings Inc., today disclosed its Market Consistent Embedded Value (“MCEV”) as of March 31, 2008. In the past, Sony Life disclosed its Traditional Embedded Value (“TEV”) as one of the indices used to evaluate the corporate value of Sony Life and the life insurance businesses of the Sony Financial Holdings Group.

While Sony Life has previously disclosed TEV, in Europe the disclosure of the European Embedded Value (“EEV”) has become widely spread as an improvement to the TEV from investors’ viewpoints, resulting in a recent increase in the number of life insurance companies employing a market-consistent approach as a methodology to evaluate EEV. In response to this situation, the CFO (Chief Financial Officer) Forum, comprised of CFOs from major insurance companies in Europe, published the European Insurance CFO Forum Market Consistent Embedded Value Principles©[1] (“MCEV Principles”) in June 2008, establishing the standards for disclosure regarding MCEV.

In response to these developments, Sony Life disclosed its embedded value (“EV”) as of March 31, 2008, recalculated in compliance with MCEV Principles. Going forward, Sony Life will disclose MCEV, instead of TEV, at the end of each fiscal year.

Sony Life maintains its accounting records and prepares its financial statements in Japanese yen, in accordance with the Company Law of Japan and the Insurance Business Law of Japan and in conformity with generally accepted accounting principles and practices in Japan (“Japanese GAAP”). Sony Financial Holdings Inc.’s parent company, Sony Corporation, reports its financial statements in accordance with generally accepted accounting principles and practices in the United States. The figures stated below with respect to Sony Life’s financial statements are based on Japanese GAAP.

Summary

The MCEV of Sony Life as of March 31, 2008 was as follows:

(Billions of yen)

		As of March 31, 2008
MCEV		816.5
	Adjusted net worth	248.5
	Value of existing business	568.0
New business value		48.2

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1. Introduction

1.1 About MCEV

The primary purpose of this press release is to provide information regarding the economic value of our life insurance business and movement analysis of its value.

Companies—primarily leading life insurance firms in Europe—have widely disclosed EEV since the CFO Forum, comprised of CFOs from major insurance companies, published EEV Principles in May 2004. EEV Principles attempt to address criticisms to TEV (such as the appropriate valuation of costs related to options and various guarantees and improving comparability with other firms) and facilitate the implementation of market consistent valuation methods, which led many leading insurance companies in Europe to disclose EEV based on market-consistent approaches.

However, EEV Principles allow various calculation methodologies, including MCEV. Many insurance companies in Europe disclose MCEV as part of their financial reports and use it as an internal management tool, so the CFO Forum published MCEV Principles in June 2008 in order to make EV information effective and appropriate for investors by streamlining MCEV disclosure standards for international use. Disclosure compliant with MCEV Principles is expected to spread, particularly in Europe.
In step with these developments, Sonly Life has made the decision to recalculate and disclose EV as of March 31, 2008 compliant with MCEV Principles. Going forward, we will disclose MCEV, instead of TEV, at the end of each fiscal year.

1.2 Covered business

Our calculations include the business operated by Sony Life and its subsidiary and affiliate companies. It should be noted, however, that we have calculated the value of the subsidiary and affiliated companies by adding their book values on a Japanese GAAP basis to the calculation of adjusted net worth.

1.3 Statement of directors

The Board of Directors of Sony Life confirms that the EV presented here has been produced following the methodology set out in the MCEV Principles. Areas of material noncompliance are stated in section 1.5 .

1.4 Opinion of outside specialist

Sony Life requested Milliman Inc., an external actuarial consulting firm with expert knowledge in the area of MCEV valuations, to review the methodology, assumptions and calculations and obtained opinion from Milliman Inc. Please refer to Section 5 (“Opinion of Outside Specialist”) for details.

1.5 Compliance with MCEV Principles

We have calculated our MCEV in accordance with the calculation methodologies and assumptions in the MCEV Principles. Points of notice regarding MCEV Principles compliance are as follows.

- The calculated value of MCEV is the value for Sony Life only, and not the consolidated value of our parent company, Sony Financial Holdings Inc.
- With respect to Sony Life's subsidiary, Sony Life Insurance (Philippines) Corporation and its equity method affiliate, AEGON Sony Life Planning Co., Ltd., we have not evaluated their life insurance business but reflected their book values in the calculation of adjusted net worth. Values of subsidiary and affiliated companies were not changed in sensitivity tests.
- Any calculated values of MCEV are not presented separately by segment of subsidiary and affiliated company.
- We have calculated adjusted net worth based on Japanese GAAP, not on International Financial Reporting Standards (IFRS).
- We have not conducted movement analysis from the prior period, as we did not calculate MCEV on March 31, 2007.

1.6 Definition of MCEV

MCEV Principles define MCEV as follows.
MCEV represents the present value of current and future distributable earnings to shareholders generated from assets allocated to the covered business after sufficient allowance for the aggregate risks in the covered business. MCEV can be expressed as the EV evaluated in a method consistent with the calculation of prices of financial products traded in the financial markets.
MCEV consists of adjusted net worth and the value of existing business.

Adjusted net worth is the amount of assets allocated for the covered business as of the valuation date and calculated as the amount of its market value in excess of statutory policy reserve and other liabilities. Adjusted net worth can be split to required capital and free surplus.

The value of existing business consists of the present value of certainty-equivalent profit, time value of options and guarantees, frictional costs, and the cost of non-hedgeable risks.

- The present value of certainty equivalent profit is the present value of profit based on future cash flows generated from the covered business.
- Time value of options and guarantees is the stochastic valuation of the time value of options and guarantees inherent in insurance contracts based on risk-neutral scenarios.
- Frictional costs are the present value of investment costs and taxes on assets backing the required capital at each point of time in the future.
- Cost of non-hedgeable risks means the present value of costs necessary to maintain capital related to non-hedgeable risks in the future. These four items are all on an after-tax basis.

Please refer to Section 4 ("Calculation method of MCEV") for more detailed definitions of terms.

2. MCEV Results for Sony Life

2.1 MCEV results

MCEV of Sony Life as of March 31, 2008 is shown in the table below.

(Billions of yen)

		As of March 31, 2008
MCEV		816.5
	Adjusted net worth	248.5
	Value of existing business	568.0
New business value		48.2

2.2 Adjusted net worth

Adjusted net worth is calculated as the market value of assets allocated for the covered business in excess of statutory policy reserve (excluding contingency reserve) and other liabilities as of the valuation date. It is the total amount of the net asset line on the balance sheet, adding a reserve for price fluctuations, contingency reserves, reserve for possible loan losses, and unrealized gains and losses on land and buildings, deducting unfunded pension liabilities and intangible fixed assets, and adjusting for the amount of tax effect equivalent to these six items (see below).
Adjusted net worth as of March 31, 2008, consists entirely of free surplus.

(Billions of yen)

		As of March 31, 2008
Adjusted net worth		248.5
	Total net assets	182.7
	Reserve for price fluctuations	24.1
	Contingency reserves	61.8
	Reserve for possible loan losses	0.0
	Unrealized gains or losses on land and buildings	29.0
	Unfunded pension liabilities	(3.5)
	Intangible fixed assets	(8.1)
	Tax effect equivalent of above six items	(37.4)

2.3 Value of existing business

The value of existing business is the present value of certainty-equivalent profit deducting the time value of options and guarantees, and frictional costs and the cost of non-hedgeable risks, broken down as follows.

(Billions of yen)

	As of March 31, 2008
Value of existing business	568.0
Present value of certainty-equivalent profit	810.4
Time value of options and guarantees	(94.8)
Frictional costs	(16.3)
Cost of non-hedgeable risks	(131.5)

2.4 New business value

Business included in the calculation of new business value is only that acquired during the fiscal year ended March 31, 2008, as disclosed in our accounting information, and does not include the value of new business expected to be acquired in the future. The value of new business is the value as of March 31, 2008 and is calculated based on the same assumptions used for the value of existing business on the same date. As the value of new business includes profits and losses from the point of sale to the end of March 2008, actual investment gains and losses during the fiscal year ended March 31, 2008 are reflected. A breakdown of the value of new business is as follows.

(Billions of yen)

	As of March 31, 2008
Value of new business	48.2
Present value of certainty-equivalent profit	76.3
Time value of options and guarantees	(13.2)
Frictional costs	(0.7)
Cost of non-hedgeable risks	(14.2)

2.5 New business margin

The new business margin (see below) is the ratio of the value of new business 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 the premium before the deduction of the reinsurance premium.

(Billions of yen)

	As of March 31, 2008
Value of new business	48.2
Present value of premium income	863.0
Value of new business / Present value of premium income	5.6%

Relationships between the acquired annualized premiums from new policies and the present value of premium income from new business for the fiscal year ended March 31, 2008 are as follows.

(Billions of yen)

	As of March 31, 2008
Single premium from new business	40.3
Annualized premiums from level premium new business[2]	78.4
Average annualization multiplier[3]	1,049%

2.6 Reconciliation analysis from TEV

Reconciliation analysis from TEV as of March 31, 2008 is as follows.

(Billions of yen)

		EV	New Business Value
TEV as of March 31, 2008		833.8	28.9
Amount of impact	(1) Model revisions	4.9	0.5
	(2) Time value of options and guarantees	(74.2)	(8.3)
	(3) Frictional costs	(0.5)	(0.0)
	(4) Cost of non-hedgeable risks	(131.5)	(14.2)
	(5) Impact of investment yield and discount rate	130.3	41.3
	(6) Adjusted net worth	53.7	—
MCEV as of March 31, 2008		816.5	48.2

(1) Model revisions
Revisions primarily reflect the impact from refining the model for variable life insurance and interest rate-sensitive whole life insurance to calculate time value of options and guarantees.

(2) Time value of options and guarantees
Primarily reflect the impact of the time value of options and guarantees for semi-participating products and interest rate-sensitive whole life insurance.

(3) Frictional costs
Reflect the impact of changing the required capital criteria based on which frictional costs are calculated. Specifically, the impact of considering the amount required on the fourth Quantitative Impact Study ("QIS4"[4]) of the EU Solvency II in addition to the standard of a solvency margin ratio of 600%. Frictional costs are explained in detail in section 4.12.

(4) Cost of non-hedgeable risks
The impact of reflecting non-hedgeable risks. Non-hedgeable risks are explained in section 4.13.

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[2] Annualized premiums from level premium new business is calculated by multiplying the number of payments in a year by the amount of premiums received at a time. It should be noted that the definition of annualized premiums here is different from that used in disclosure materials such as financial results and annual reports.

[3] The average annualization multiplier is calculated as (Present value of premium income – Single premium from new business) / Annualized premiums from level premium new business.

[4] Please refer to Section 6. ("Glossary") for the EU Solvency II and QIS4.

(5) Impact of investment yield and discount rate

The impact of changing assumptions for investment yield and discount rate from TEV to an MCEV basis.

	TEV basis	MCEV basis
Investment yield	New money yield ・ Implied forward rate of Japanese government bonds Investment of existing assets ・ Bonds are held to maturity except for convertible bonds, etc. ・ Unrealized gains on convertible bonds, etc. are reflected in adjusted net worth and the remaining amount is reinvested in Japanese government bonds. ・ The amount of stocks and other assets at the valuation date is kept level to the extent they are within an internal threshold target.	Deterministic method (Calculation of certainty equivalent) ・ Japanese yen interest rate swap rate Stochastic method ・ Market consistent yield based on economic assumptions, as described in section 3.1
Discount rate	・ Risk free rate (10-year Japanese government bonds yield) + Risk premium (4.5%)	Deterministic method (Calculation of certainty-equivalent) ・ Japanese yen interest rate swap rate Stochastic method ・ Interest rate of each scenario

(6) Adjusted net worth

The impact of deducting intangible fixed assets, and including unrealized gains/losses on bonds other than convertible bonds and unrealized gains and losses on buildings.

2.7 Sensitivity analysis

The impact of changing the underlying assumptions of MCEV is as follows.

Sensitivities

(Billions of yen)

Assumption	Change in Assumption	MCEV	Change in Amount	Rate of Change
Base	No change	816.5	―	―
Interest rates	100bp decrease	526.9	(289.6)	(35%)
	100bp increase	949.3	132.8	16%
Equity/property market value	10% decrease	786.4	(30.2)	(4%)
	10% increase	847.0	30.5	4%
Equity/property Implied volatility	25% increase	815.1	(1.4)	(0%)
	25% decrease	819.1	2.5	0%
Interest swaption Implied volatility	25% increase	795.6	(20.9)	(3%)
Maintenance expenses	10% decrease	825.8	9.3	1%
Lapse and surrender rates	x 0.9	835.0	18.5	2%
Mortality rates	Death protection products x 0.95	852.3	35.7	4%
	Third-sector and annuity products x 0.95	815.0	(1.5)	(0%)
Morbidity rates	x 0.95	839.1	22.6	3%
Required capital	Statutory required minimum level	831.5	15.0	2%

Sensitivity of new business value

(Billions of yen)

Assumption	Change in Assumption	New Business Value	Change in Amount	Rate of Change
Base	No change	48.2	—	—
Interest rates	100bp decrease	21.1	(27.2)	(56%)
	100bp increase	58.7	10.5	22%
Equity/property market value	10% decrease	48.4	0.2	0%
	10% increase	48.0	(0.3)	(1%)
Equity/property Implied volatility	25% increase	46.7	(1.5)	(3%)
	25% decrease	49.6	1.3	3%
Interest swaption Implied volatility	25% increase	46.1	(2.2)	(4%)
Maintenance expenses	10% decrease	49.3	1.1	2%
Lapse and surrender rates	x 0.9	51.0	2.8	6%
Mortality rates	Death protection products x 0.95	50.9	2.7	6%
	Third sector and annuity products x 0.95	48.2	0.0	0%
Morbidity rates	x 0.95	50.8	2.6	5%
Required capital	Statutory required minimum level	48.9	0.6	1%

(1) Interest rates

This sensitivity represents the impact of an immediate parallel shift of the swap curve as of March 31, 2008. Adjusted net worth would change as the market value of bonds and other assets held were to change. At the same time, the value of in-force business would also change as the discount rate and the investment return on equity, real estate, and etc. were changed. Here, downward change in interest rates is floored at 0%.

(2) Equity and property market value

This sensitivity represents the impact of immediate changes in market values of equity and property as of March 31, 2008. Adjusted net worth would change as the market value of equity and property were to change. At the same time, the value of in-force business would change as the asset mix was changed

(3) Implied volatility of equity and property

This sensitivity represents the impact of an increase in the implied volatilities of equity and property used in calculating the time value of options and guarantees. The value of convertible bonds would also change. If equity implied volatilities were changed, the value of convertible bonds would change and thus adjusted net worth would change. At the same time, the value of in-force business would also change as the time value of options and guarantees was affected.

(4) Interest swaption implied volatility

This sensitivity represents the impact of an increase in the implied volatility of interest swaption used in calculating the time value of options and guarantees. The value of in-force business would change as the time value of options and guarantees were changed.

(5) Maintenance expenses

This sensitivity represents the impact of an increase in maintenance expenses. It should be noted that maintenance expenses do not include sales commissions from the in-force policies payable to Lifeplanner sales employees of Sony Life in future periods.

(6) Lapse and surrender rates

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

(7) Mortality rates

This sensitivity represents the impact of a decrease in the mortality rates. We have shown the impact on death protection products and the impact on third-sector insurance and annuity products separately, as they would have different impacts. We have covered base policies and riders of which the principal benefits are accidental death, disability, cancer, medical and nursing benefits, and individual annuities with respect to the third-sector insurance and annuity product segment.

(8) Morbidity rates

This sensitivity represents the impact of a decrease in the morbidity rates of sickness and others in third-sector products.

(9) Required capital

This sensitivity represents the impact in the event that required capital was changed to the statutory minimum level, a solvency margin ratio of 200%.

(10) Other

The following points should be noted regarding sensitivity.

- Frictional costs and the cost of non-hedgeable risks do not change in the sensitivity tests, with the exception of frictional costs, which are changed in terms of (9) required capital.
- Values of subsidiary and affiliated companies are not changed.
- The impact of changing more than one assumption at a time is not congruent with the sum of impacts for each assumption.

3. Assumptions

3.1 Economic assumptions

We have made economic assumptions in our calculation of MCEV as of March 31, 2008.

(1) Risk free rate

We have used the interest swap rate of Japanese yen as of March 31, 2008 as a risk free rate for the certainty equivalent projections. As there are no data available beyond 50 years, we assumed that forward rates in the 51st year and beyond were equal to those in the 50th year. We have used Bloomberg's interest swap rate as our data source.

The spot yields of the swap rate for key terms are as follows:

Term	Yield
1 year	0.92%
5 year	1.03%
10 year	1.45%
20 year	2.04%
30 year	2.26%
40 year	2.34%
50 year	2.41%

(2) Interest-rate model

We have calibrated the interest rate model to the market as of March 31, 2008. 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 generated by Milliman Inc. in calculating the time value of options and guarantees under the stochastic method.

The implied volatilities of the interest swaption used in our estimation are as follows.

Term of swap (in years)	Term of option (in years)	Japanese yen	US dollar	Euro	UK pound
1	1	39.2%	49.1%	19.6%	24.3%
5	1	41.8%	35.7%	17.5%	16.5%
5	5	26.1%	20.3%	12.8%	12.2%
5	7	21.3%	17.6%	11.6%	11.5%
5	10	18.5%	15.1%	10.8%	10.9%
10	1	27.9%	28.3%	14.6%	13.9%
10	5	20.0%	18.7%	11.8%	11.2%
10	7	17.5%	16.7%	11.2%	10.7%
10	10	15.6%	14.6%	10.7%	10.4%
15	1	22.1%	24.7%	13.5%	12.8%
15	5	17.4%	16.7%	11.5%	10.5%
15	7	15.7%	15.1%	11.0%	10.3%
15	10	14.5%	12.9%	10.5%	10.3%

(3) Implied volatility of foreign exchange rates and equity

We have obtained spot implied volatilities from options with different terms. Implied volatilities are all those for at-the-money options. Bloomberg is the source of data for foreign exchange and averages of the implied volatilities provided by securities firms for the equity price index. We have assumed that forward implied volatilities in the 11th year and beyond are equal to those in the 10th year for both foreign exchange rates and the equity price index as these derivatives have low liquidities.

Implied volatilities used for the estimation are as follows:

	Foreign Exchange			Equity			
Term	USD/JPY	EUR/JPY	GBP/JPY	Japan TOPIX	U.S.A. S&P	EURO SX5E	U.K. FTSE
1	12.1%	12.1%	13.7%	22.9%	24.1%	23.4%	23.7%
5	10.7%	11.4%	12.9%	21.7%	25.9%	26.3%	25.8%
10	13.1%	13.0%	12.9%	22.6%	28.0%	28.0%	27.6%

(4) Correlation factor

We have calculated correlation factors from the monthly return of each index for a period of five years from April 2003 and to the end of March 2008 as there is no market-consistent data for correlation factors.

	JPY 1Y	USD 1Y	EUR 1Y	GBP 1Y	USD/ JPY	EUR/ JPY	GBP/ JPY	TOPIX	SPX	SX5E	FTSE
JPY 1Y	1.00	0.21	0.20	0.10	(0.05)	(0.07)	(0.07)	(0.00)	(0.09)	0.00	(0.02)
USD 1Y	0.21	1.00	0.60	0.41	0.52	0.28	0.40	0.39	0.38	0.57	0.54
EUR 1Y	0.20	0.60	1.00	0.54	0.37	0.18	0.13	0.08	0.24	0.39	0.31
GBP 1Y	0.10	0.41	0.54	1.00	0.12	(0.07)	0.23	0.15	0.19	0.21	0.11
USD/ JPY	(0.05)	0.52	0.37	0.12	1.00	0.53	0.60	0.31	0.24	0.47	0.47
EUR/ JPY	(0.07)	0.28	0.18	(0.07)	0.53	1.00	0.77	0.12	0.42	0.32	0.46
GBP/ JPY	(0.07)	0.40	0.13	0.23	0.60	0.77	1.00	0.23	0.38	0.35	0.37
TOPIX	(0.00)	0.39	0.08	0.15	0.31	0.12	0.23	1.00	0.42	0.48	0.53
SPX	(0.09)	0.38	0.24	0.19	0.24	0.42	0.38	0.42	1.00	0.82	0.76
SX5E	0.00	0.57	0.39	0.21	0.47	0.32	0.35	0.48	0.82	1.00	0.87
FTSE	(0.02)	0.54	0.31	0.11	0.47	0.46	0.37	0.53	0.76	0.87	1.00

(5) Foreign exchange

Assets denominated in foreign currencies are converted to Japanese yen using the TTM (telegraphic transfer middle exchange rate) as of March 31, 2008.

Dollar / Yen	100.19
Euro / Yen	158.19
UK pound / Yen	200.11

3.2 Future asset allocation

(1) Asset allocation in the general account

Segment accounting is conducted for individual insurance and individual annuity with the classifications of non-participating product segment, semi-participating product segment and interest rate-sensitive whole life insurance segment. Asset allocation in the general account under the stochastic method was determined based on the actual asset allocation in each segment as of March 31, 2008 with an assumption of no changes in asset allocation thereafter.

(2) Asset allocation in the separate account

There are eight funds established in the separate account. The asset allocation for each fund at the beginning of the projection is determined based on the actual fund allocation as of March 31, 2008 and no rebalancing adjustments are applied to maintain the initial fund allocation thereafter.

3.3 Other assumptions

Assumptions including mortality and morbidity rates, lapse and surrender rates, and operating expense rates, were developed based on product best estimates as of March 31, 2008. Best-estimate assumptions are developed to reflect past and current experiences as well as expected experiences in the future. Expected future changes are not reflected in the best estimate assumptions, as expected future changes in assumptions should be reflected only when they are supported by sufficient reasons. Assumptions were developed as follows.

(1) Mortality and morbidity rates

Developed based on experiences over the three most recent years.

(2) Lapse and surrender rates

Lapse and surrender rates for the base case were developed based on experiences over the three most recent years. We have also developed dynamic assumptions in accordance with the level of interest rate or investment performance. The dynamic assumptions are made for the following products:

- Variable life insurance
- Interest rate-sensitive whole life insurance
- Semi-participating products
- Non-participating whole life insurance
- Non-participating endowment insurance

(3) Flexible premiums

There are no flexible premium products and thus no assumptions were developed.

(4) Renewal rates

Because there is very little renewable business and it does not have a significant impact on results, policy renewal was reflected in a simplified manner.

(5) Operating expense rates

We have developed unit costs of the expenses incurred for maintenance and administration of policies and payments of claims based on the actual operating expenses in the most recent year. Within the actual operating expenses, exceptional one-time expenses incurred during the fiscal year ended March 31, 2008, and therefore excluded from the unit cost, accounted for 1% of the total operating expenses, comprised primarily of the following.

- Incurred expenses relating to preparing the establishment of AEGON Sony Life Planning Co., Ltd., an affiliated company of Sony Life.
- Incurred expenses relating to investigation into the status of claims and other payments, which was exceptionally implemented in the fiscal year ended March 31, 2008.

Unit costs include management administration charges payable to the parent company, Sony Financial Holdings Inc. The look-through effect has not been considered with regards to Sony Financial Holdings Inc.

(6) Tax rate

Based on the most recent effective tax rate.

(7) Inflation

Set inflation to 0% reflecting the break-even inflation rate derived from 10-year Consumer Price Index (CPI)-indexed Japanese government bonds.

4. Calculation method of MCEV

4.1 Covered business

The covered business is the business operated by Sony Life, its subsidiary and its affiliate companies.

4.2 Treatment of subsidiary and affiliate companies

With respect to subsidiary, Sony Life Insurance (Philippines) Corporation, and its equity method affiliate, AEGON Sony Life Planning Co., Ltd., book values reflect the calculation of adjusted net worth based on Japanese GAAP. Amounts reflecting adjusted net worth are ¥6.5 billion and ¥1.0 billion, respectively. These are the only values reflecting the results of these companies; all other results solely reflect Sony Life itself.

4.3 Treatment of reinsurance

We have designated reinsurance premiums as expenses and reinsurance benefits as income in our projections, as we consider the mortality risks as part of the death protection insurance products.

4.4 Treatment of semi-participating policies

We have calculated dividends in accordance with the level of future investment returns, based on the same method used to determine the dividend rate for the accounting closure of March 31, 2008, reflecting the present value of certainty-equivalent profit and the time value of options and guarantees.

4.5 MCEV

MCEV is defined as the present value of distributable earnings to shareholders generated from assets allocated to the covered business after sufficient allowance for the aggregate risks in the covered business and consists of adjusted net worth and the value of existing business.

4.6 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. Specifically, it equals to the total amount of the net asset section on the balance sheet, adding reserve for price fluctuations, contingency reserves, reserve for possible loan losses, and unrealized gains and losses on land and buildings, deducting unfunded pension liabilities and intangible fixed assets, and adjusting for the amount of tax effect equivalent of these six items. Adjusted net worth can be split into required capital and free surplus.

4.7 Required capital

MCEV Principles define required capital as the capital necessary to hold an excess of statutory policy reserves, and it should be the larger of the solvency capital to meet the statutory required minimum level and the capital required to meet the internal objectives or to achieve the company's targeted credit rating.

We set our required capital as the larger of the amount of capital corresponding to a solvency margin ratio of 600% and the amount of capital to cover risks based on the internal model.

We have defined the amount of capital to cover risks based on the internal model as the total amount of technical provision and solvency risk capital stipulated by QIS4 of the EU Solvency II held in excess of statutory policy reserves (excluding contingency reserves). It should be noted that we have used a different cost of capital rate in calculating risk margin included in the technical provision than the one stipulated by the QIS4. Please refer to section 4.14 for the specific cost of capital rate.

Although the Japanese statutory required minimum levels is a solvency margin ratio of 200%, we set our level for the targeted solvency margin ratio to 600% in calculating MCEV as of March 31, 2008, as there are arguments that a level of 200% would not necessarily be sufficient to present the soundness of an insurance company. As a result, this criterion is currently under revision to improve the credibility of the solvency margin ratio, and Sony Life has used the solvency margin ratio of 600% as a basis to calculate the cost of capital for TEV. It is expected that the solvency margin ratio will be revised and that the risk calibration will become stricter in the future, therefore we plan to change the targeted solvency capital level to that required by the statutory minimum criteria.

We will consider improving the internal model, taking into account the domestic and overseas situations, including movements of international accounting standards, valuation methods of insurance liability on an economic value basis and solvency margin standard trends, as well as the analysis of our internal mortality and morbidity rates data.

4.8 Free surplus

Free surplus is the amount of adjusted net worth other than that for required capital. Adjusted net worth as of March 31, 2008 consisted entirely of free surplus.

4.9 Value of existing business

The value of existing business is calculated as the present value of certainty equivalent profit deducting time value of options and guarantees, frictional costs and cost of non-hedgeable risks. New business value is calculated using the same method.

4.10 Present value of certainty equivalent profit

Present value of certainty equivalent profit is the present value of profit based on the future cash flows generated

from the covered business. Investment return on all assets and the discount rate are set to the risk free rate.
The present value of certainty equivalent profit reflects the intrinsic value of options and guarantees.

4.11 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.
Time value of options and guarantees considers the following items:

- Minimum guarantees of variable life insurance
  The excess of account value over the scheduled policy reserves is attributed to policyholders. However, the cost of guaranteed minimum death benefits for variable life insurance incurred when account value is less than the scheduled policy reserve is attributed to shareholders.
- Minimum interest-rate guarantee for interest rate-sensitive whole life insurance
  When the investment return exceeds the assumed interest rate, the outperforming portion is credited to policyholder account value. However, when the investment return underperforms the assumed interest rate, the cost for the difference is attributed to shareholders, as the assumed interest rate is guaranteed.
- Interest dividend for semi-participating products
  When the investment return exceeds the assumed interest rate, the outperforming portion is credited to the fund for policyholder dividends and paid to policyholders every five years as interest dividends. Accordingly, any of such interest gains would not be attributed to shareholders, while interest losses would be attributed to shareholders.
- Surrender options
  Policyholders have various options in insurance contracts. Reflected among them are the cost of policyholders' exercising the right of surrender in the event of increased interest rates.

4.12 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.

4.13 Cost of non-hedgeable risks

As risks[5] 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 method prescribed in QIS4 of the EU Solvency II framework as the cost of non-hedgeable risks and calculated it with the cost of capital approach. It should be noted that the following points are different from the method prescribed in QIS4:

[5] Please refer to "Asymmetric risk" in the Section 6. ("Glossary") for the risks regarding the asymmetric nature of the cash flows.

- With respect to non-hedgeable risk, the uncertainty of the risk-free rates beyond the 50th year has been considered as an interest risk, in addition to life insurance underwriting risks and operational risks.
- Counterparty default risk has not been reflected in the non-hedgeable risks as its impact is limited.
- We have used risk amounts quantified after taking into consideration the risk mitigation effect through policyholder dividends without any adjustments.
- We have used the cost of capital rate described in section 4.14.

4.14 Cost of capital rate

QIS4 of the EU Solvency II has set a cost of capital rate at 6%, which is used for the cost of capital calculation. On the other hand, the CRO (Chief Risk Officer) Forum comprised of CROs from leading insurance companies in Europe, proposed that 2.5% to 4.5% would be the appropriate level based on several trial calculations. Following the philosophy of the CRO Forum's approach, we have decided to use 2.5% for the cost of capital rate consistent with the MCEV framework considering Japanese long-term equity risk premiums, the beta of Sony Financial Holdings Inc. and the anticipated impact of the equity risk exposure of Sony Life on the beta of Sony Financial Holdings Inc., which is a hedgeable risk. However, we may revise the cost of capital rate in the future, as an industry development standard has not yet been established.

5. Opinion of Outside Specialist

Sony Life requested Milliman Inc., an external actuarial consulting firm with expert knowledge in the area of MCEV valuations to review the methodology, assumptions and calculations. The opinion obtained from Milliman Inc. is as follows.

Milliman Inc. ("Milliman") has assisted Sony Life Insurance Co., Ltd. ("Sony Life") in developing the methodology and has been engaged to review Sony Life's assumptions and calculations used to determine the 2008 Market Consistent Embedded Value ("MCEV") as of March 31, 2008. Specifically, the scope of our review included the embedded value as of 31 March 2008, the sensitivities, and the new business value.

The board of directors made a statement in its News Release Form dated November 28, 2008 that the methodology, assumptions, and calculations have been made in accordance with the MCEV Principles©[6], with the following exceptions:

- The calculated value of MCEV here is not the value of Sony Life's parent company, Sony Financial Holdings, Inc., on consolidated basis but the calculated value for Sony Life only.
- With respect to Sony Life's subsidiary, Sony Life Insurance (Philippines) Corporation, and its equity method affiliate, AEGON Sony Life Planning Co., Ltd., Sony Life has not evaluated their life insurance business but reflected their book values to the calculation of adjusted net worth. Values of subsidiaries and affiliated companies are not changed in sensitivity tests.
- Any calculated values of MCEV are not presented separately by the segment of subsidiaries and affiliated

[6] European Insurance CFO Forum Market Consistent Embedded Value Principles © (Copyright © Stichting CFO Forum Foundation 2008)

companies.

- Sony Life has calculated adjusted net worth based on generally accepted accounting principles and practices in Japan and not based on the International Financial Reporting Standards (IFRS).
- Sony Life has not conducted movement analysis from the prior period, as Sony Life has not calculated MCEV at the end of March 2007.

Milliman has concluded that the methodology and assumptions used comply with the MCEV Principles except for the points described in the above paragraph. In particular:

- The non-economic assumptions have been set in accordance with regard to past, current and expected future experience,
- The economic assumptions used in the calculations are internally consistent and consistent with observable market data as per the valuation date;
- The methodology makes allowance for the aggregate risks in the covered business through Sony Life's market consistent embedded value methodology, which includes
    - a stochastic allowance for the cost of financial options and guarantees
    - a deduction for the cost of non-hedgeable risks
    - a deduction for the frictional costs on the required capital
- for participating insurance contracts, the assumed policyholders' dividend rates, allocation of dividends between policyholders and shareholders, and other management actions, are consistent with the assumptions and scenarios used in the projections and where applicable local market practice.

The calculation of MCEV is based on numerous assumptions with respect to economic conditions, operating conditions, taxes and other matters, many of which are beyond the control of Sony Life. Although the methodology and assumptions used comply with the MCEV Principles, deviation from projection assumptions to actual experiences in the future are to be expected. Such deviation may materially impact the value calculated.

Milliman reviewed the MCEV methodology, assumptions, calculations and analysis prepared by Sony Life. During its review, Milliman identified and discussed various MCEV calculation and definition issues with Sony Life staff. Based upon those discussions and follow-up actions, Milliman is not aware of any issues that would materially impact the disclosed market consistent embedded values, new business values or sensitivities. In arriving at this conclusion, Milliman has relied on data and information provided by Sony Life.

This opinion is made solely to Sony Life in accordance with the engagement letter between Sony Life and Milliman. Milliman does not accept or assume any responsibility, duty of care or liability to anyone else than Sony Life for or in connection with its review work, the opinion Milliman has formed or for any statements sets forth in this opinion, to the fullest extent permitted by applicable law.

6. Glossary

Term		Definition
A	Appraisal value	A corporate value based on projected cash flows receivable for shareholders from existing business and future new business. It is defined as the current MCEV plus new business value acquired in the future.
	Asymmetric risk	The risk where symmetric upward and downward changes on assumptions do not result in symmetric changes in cash flow. Such risk includes minimum guarantee of variable life insurance and policyholder dividend payment. These risks are evaluated with a stochastic method and presented as time value of options and guarantees.
B	Best estimate assumption	The assumption that is most expected to occur in the future.
C	Calibration	To set various stochastic model parameters in a market consistent manner.
	Cost of capital approach	One of the approaches to calculate risk margin. The cost of risk is determined by taking the present value of the cost to hold capital required in the future periods.
	Cost of non-hedgeable risk	The present value of the cost to hold required capital to cover future 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 to the time value of options and guarantees, We have reflected allowance for uncertainty of non economic assumptions and the portion of economic assumptions considered non-hedgeable of economic assumptions with respect to the cost of non-hedgeable risks in this cost.
F	Free surplus	The portion of adjusted net worth other than the required capital.
	Frictional costs	The present value of investment costs and taxes on assets backing the required capital at each point of time in the future.
I	Implied volatility	The expected rate of future variability embedded in current option prices, and represents the expected value of the market against the price fluctuation.
L	Look through	To measure the impact of an action on an entire business group, rather than only on a particular part of the group.
N	Non-financial risk	Examples are mortality risk, longevity risk, disability risk, operating expense risk, surrender risk and operational risk.
	Non-hedgeable non-financial risk	A non-financial risk such that deep and liquid capital markets do not exist to hedge such risk.
	Non-hedgeable risk	Non-hedgeable risk is composed of non-hedgeable financial risk and non-hedgeable non-financial risk.
O	Options and guarantees	The following are some features of options and guarantees: ・ Policy cash flow would be changed by exercising options granted to the policyholder, which may or may not be exercisable at the discretion of the policyholder. An example of such features is the exercise of surrender option. ・ It includes guarantee of benefits or policyholder values. An example is a minimum death benefit guarantee for variable life insurance.

Term		Definition
P	Present value of certainty equivalent profit	Present value of certainty equivalent profit is the present value of profit based on the future cash flows generated from the covered business.
Q	QIS4	Quantitative Impact Study. Conducted prior to implementation of the EU Solvency II. The 4th study was conducted in May 2008 and is referred as QIS4.
R	Required capital	MCEV Principles define required capital as the capital necessary to hold in excess of statutory policy reserve (excluding contingency reserve), and the larger of the solvency capital to meet the statutory required minimum level and the capital necessary to meet the internal objectives or to achieve the company's targeted credit rating. Required capital of Sony Life is set as the larger of the amount of capital corresponding to the solvency margin ratio of 600% and the amount of capital to cover risks based on the internal model.
	Risk free rate	The reference rate defined in MCEV Principles. MCEV Principles states that it should be the swap rate to the currency of the cash flows.
	Risk margin	The cost to hold capital to cover non-hedgeable risks reflected in evaluating the insurance liability on an economic value basis.
	Risk neutral probability	A pseudo probability derived so that the present value of future expected values under multiple scenarios discounted with current risk free rates is equal to the current value.
	Risk neutral scenario	An interest rate scenario generated under risk-neutral probabilities.
T	Technical provision	The value of liability on an economic value basis, which equals to the present value of best estimate cash flows plus Risk Margin.
	Time value and intrinsic value	An option value that has two elements, time value and intrinsic value. Intrinsic value is the option value under certainty equivalent conditions. Time value is the value of options other than intrinsic value, which is calculated as the difference between the present value of certainty equivalent profit and the present value of stochastic future profit.