

March 15, 2010

Teruhisa Tokunaka, President and Representative Director
Sony Financial Holdings Inc.
(Code No. 8729 TSE 1st Section)

Impact of Asset Management Policy Changes and Other Factors on Sony Life's Market Consistent Embedded Value

Sony Financial Holdings Inc. announced that its wholly-owned subsidiary, Sony Life Insurance Co., Ltd. ("Sony Life") implemented changes to its asset management policy and other factors, which affects Sony Life's market consistent embedded value ("MCEV").

Contents

- (1) Preface
- (2) Background
- (3) Principal Revisions
- (4) Impact on MCEV

Reference: Sony Life's MCEV

For inquiries:

Corporate Communications & Investor Relations Dept.

Sony Financial Holdings Inc.

Telephone: +81-3-5785-1074 (9:00–17:30 JST)

Email: press@sonyfh.co.jp

Website of Sony Financial Holdings Inc.

http://www.sonyfh.co.jp/index_en.html

(1) Preface

Sony Life has mitigated the mismatch risk from the asset–liability duration gap¹ in line with its practice of risk management on an economic value basis.

In accordance with the above practice, Sony Life has decided to change its asset management policy for interest rate-sensitive whole life insurance² and semi-participating insurance³. These products provide mechanisms that return interest gains as dividends to policyholders. In terms of the asset management for these products, the mitigation of the mismatch risk from the asset–liability duration gap is considered to be conducive to providing long-term, stable returns to policyholders. From this perspective, Sony Life has changed its policy and will make stable investments only in bonds from fiscal 2010, reflecting the change in its asset management policy to fit the corresponding liability characteristics by replacing all partial investments in stock and other risk assets with bonds.

The above policy change will be reflected in the evaluation of MCEV as of March 31, 2010. Moreover, a partial change will be made to the assumptions in the calculation of third-sector products including medical and other insurance. We expect these changes to have a significant effect on Sony Life's MCEV. As MCEV is one important indicator of corporate value for the life insurance business, we will provide the following announcement outlining the details and amount affected.

1. Fluctuation risk of the difference between assets and liabilities (net assets on an economic value basis) arising from different interest rate sensitivities between assets and liabilities.
2. Type of insurance product in which the policyholder's insurance benefit increases in response to asset management performance.
3. Type of insurance product that pays out policyholder dividends every five years, in the event that investment profit on policy reserves and others are higher than expected.

(2) Background

In terms of interest rate-sensitive whole life insurance and semi-participating insurance, Sony Life had mainly conducted bond-based asset management, but part of its assets had also been invested in risk assets, including stocks.

Meanwhile, Sony Life has recognized it necessary to mitigate the mismatch risk from the asset–liability duration gap for ensuring financial health in its practice of risk management on an economic value basis from the previous fiscal year. Accordingly, Sony Life has increased its investment ratio of ultralong-term bonds and drastically reduced its holding ratio of stocks and other risk assets within the general account in an attempt to revise its asset portfolio. As a result, investment income primarily consists of interest income from bonds, and the volatility risk on the rate of return on the held assets has been mitigated by the reduction in risk assets.

In terms of the invested assets for the above two products, Sony Life has regarded it necessary to mitigate the mismatch risk from the asset–liability duration gap for ensuring financial health. Sony Life also believes that continued investment in long-term bonds contributes to providing policyholders with stable returns over the long-term. Therefore, Sony Life has decided to change its asset management policy to invest in no stocks or other risk assets, but only in bonds from fiscal 2010.

If a company's management policy changes or if it accumulates detailed data pertaining to its assumptions, including mortality rates, that company should reflect those changes by revising the assumptions it uses to calculate MCEV. In terms of the March 31, 2010, calculation of MCEV, in addition to incorporating the abovementioned asset management policy, Sony Life will change the assumptions of the calculation including mortality rates for third-sector products.

(3) Principal Revisions

- Changes to asset management policy for interest rate-sensitive whole life insurance
No investments will be made in stocks or other risk assets, but only in bonds from fiscal 2010, aiming at a stable asset management.
- Changes to asset management policy for semi-participating insurance
From FY2010, Sony Life will invest in no stocks or other risk assets. Rather, the company will aim to achieve stable asset management by investing only in bonds. In accordance with this change, Sony Life changed its calculation method of dividends to policyholders from fiscal 2010, from its method of adding gains/losses on sale of securities to interest income and dividends as dividend resources, to a method of providing dividends based on interest income, which is unaffected by fluctuations in asset market value.
- Changes to mortality rates and other assumptions for third-sector products
Sony Life will switch over to mortality rates based on its detailed data for third-sector products from those for first-sector products, which were focused on providing death protection insurance. Sony Life

will also revise certain assumptions, reflecting the real trend from its accumulated detailed data, including the negative impact on some products for which morbidity rates are confirmed to be worsening.

(4) Impact on MCEV

In terms of interest rate-sensitive whole life insurance and semi-participating insurance, Sony Life will be able to minimize the fluctuation risk on the held assets and volatility in policyholder dividends, by switching over to investing in bonds from risk assets in its asset portfolio, and providing returns to policyholders based on returns on bonds held. As a result, the MCEV subtractive component, time value of options and guarantees, is reduced, which results in an increase in MCEV and mitigates its fluctuations.

In terms of mortality rates for third-sector products, Sony Life confirmed that third-sector products mortality rates are low, by comparing its accumulated data for third-sector products with those for first sector products. As a result of reflecting these changes, MCEV decreased as shown in the sensitivity data included in the *Disclosure of Market Consistent Embedded Value as of March 31, 2009*, on June 1, 2009. The worsening trend in morbidity rates within third-sector products will also decrease MCEV as the amount of future payouts is expected to increase.

The result of these calculations is as follows.

Note: Please keep in mind that the validity of these calculations has not been verified by outside specialists. MCEV as of March 31, 2010 calculated in accordance with the European Insurance CFO Forum Market Consistent Embedded Value Principles[®] (MCEV principles) is scheduled to be announced at the end of May 2010.

Impact on MCEV	(Billions of yen)
Reflection in asset management policy and dividend policy	228.9
Changes to assumptions in the calculation for third-sector products	(41.3)
Total	187.6
Of which, new business value	19.2

The impact on MCEV has been calculated from the perspective of how much the reflection of changes in Sony Life's asset management policy and dividend policy, as well as its changes to the assumptions in the calculation for third-sector products, mentioned above, might affect MCEV as of March 31, 2009, calculated based on policies in force and market conditions, including interest swap rates as of March 31, 2009. Furthermore, this impact will be in a table showing "Reconciliation analysis from MCEV at the end of the prior year" in MCEV disclosure materials as of March 31, 2010.

Reference

Sony Life's MCEV

The table below shows Sony Life's MCEV as of March 31, 2009, as announced on June 1, 2009.

(Billions of yen)

	As of March 31, 2009	As of March 31, 2008	Change
MCEV	400.9	816.5	(415.6)
Adjusted net worth	195.4	248.5	(53.1)
Value of existing businesses	205.4	568.0	(362.5)
Of which, new business value	15.4	48.2	(32.9)

Note: Please see the *Disclosure of Market Consistent Embedded Value as of March 31, 2009* section of the Sony Financial Holdings website for further details.

URL: http://www.sonyfh.co.jp/en/news_e/article_e/090601_01.pdf