

Financial Services Segment Small Meeting Q&A (Summary)

Date: Wednesday, March 27, 2024

Important: Please read the following statement.

For your reference, below please find an English summary of the question and answer session for the Financial Services segment at the small meeting held for analysts, which was conducted in Japanese.

Question 1.

Q: You stated that you are considering various hedge procedures for variable insurance with minimum guarantee. Could you tell us what kind of hedge procedures you are considering introducing, and the approximate level of hedging accuracy?

A: With regard to fluctuation risks in interest rates, exchange rates, and stocks, if losses are incurred on customers' assets under management, there is a risk that Sony Life could also incur a loss due to minimum guarantees, and we have basically put hedges in place against these risks. On the other hand, for implied volatility and inflation, we have been unable to completely hedge the risks, mainly due to the difficulty in securing hedge procedures. Currently, according to the adoption of IFRS 17, profit and loss fluctuate due to valuation gain/loss as technical factors.

Question 2.

Q: When using reinsurance, what is the time frame for effectiveness, and what is the expected impact on profit?

A: Risk will be transferred to an outside company upon executing the reinsurance contract. Therefore, profit and loss fluctuation due to market fluctuation will be reduced once the contract is executed. Under IFRS 17, reinsurance premium is deferred as a contract service margin (CSM) adjustment, and it is not recognized as a loss immediately upon the execution of the contract. We are currently considering introducing reinsurance, so we would prefer to refrain from providing specific information about its impact.

Question 3.

Q: With regard to the difficulty in hedging implied volatility, is my understanding correct that while options for volatility hedging themselves are traded on the market, it is options for short-term volatility that are traded, whereas long-term options corresponding to the length of insurance contracts are not traded, and this is why it is difficult to hedge?

A: That is correct.

Question 4.

Q: To confirm profit growth as a measure of actual capability of your life insurance business, what kind of factors should we take into account?

A: The new policy amount for Sony Life is disclosed in the Supplemental Information for the Consolidated Financial Results. This is the number of policies acquired in each quarter. The profit obtained from new policies is the CSM, and it is initially recorded as a liability since it is an unearned profit. The term of insurance contracts is very long, and therefore profit is recorded over the mid- to long-term as the insurance service result of Sony Life where the CSM has been amortized. In that sense, when looking at the future growth of the insurance service result, you can gain a good understanding by looking at the new policy amount and CSM growth disclosed in the Supplemental Information.

The profit from the actual business following insurance underwriting and payment is the insurance service result, and we would like you to think of this as base profit for Sony Life. The Supplemental Information also includes a breakdown of Sony Life's operating income. As a simple way to look at the performance trend of the life insurance business, it is appropriate to look at trends in the insurance service result, which corresponds to the base profit. I think it is very important that we achieve stable growth in this area .

Question 5.

Q: What is Sony Financial Group's stance on shareholder returns? What part of profit should we look at as the basis for shareholder returns? Should we look at total profit for the Financial Services segment under IFRS 17, which includes investment gains and losses? Which profit serves as an indicator for looking at shareholder returns and enterprise value?

A: Shareholder returns are a topic that we should discuss in around 18 months' time, following our planned listing of the shares in October 2025, so at this point it is probably too early to mention a specific policy on shareholder returns. At the Business Segment Meeting in May, we plan to discuss about the Financial Services segment, and we are currently discussing our position on shareholder returns so that we can address it at that time. Since Sony Financial Group is to be deconsolidated from the Sony Group at the timing of the planned listing, shareholder returns are an extremely important factor for us. To ensure the certainty of returns and their predictability from the perspective of the capital markets, I think that it would be rational and appropriate to indicate shareholder returns in a form that is basically linked to base profit.

Question 6.

Q: Other result within operating income for Sony Life has been stable, but please provide a breakdown of profit and loss as well as information about the factors driving fluctuations.

A: Other result includes indirect business expenses and foreign currency procurement costs (repurchase costs). As disclosed in the Supplemental Information, indirect business expenses are gradually increasing following the expansion of the company's scale, and they remain relatively stable at just over 10 billion yen. On the other hand, repurchase costs have recently become very high due to the rising interest rate on the US dollar. They are expected to decrease if the US dollar interest rate declines, and we are decreasing the balance of repurchase costs. Therefore, I think it is reasonable to assume that indirect business expenses will remain relatively stable while repurchase costs are expected to decrease going forward.

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