

# Corporate Governance

## Basic Stance on Corporate Governance

The SFH Group's corporate vision and philosophy is its basis for setting management strategy and expediting decision-making initiatives. One goal of our corporate vision is to become the financial services group foremost in customers' minds and trust. Although group subsidiaries have different histories, scales of operation, and business characteristics, SFH as a group works to achieve this goal by making the most effective use of the operating characteristics of, and information available from, each subsidiary within the scope permitted by law. In taking this approach, we place the utmost importance on the soundness and accuracy of our operations. To this end, we have designed a management structure to ensure groupwide compliance and risk management.

Note: SFH produces a Corporate Governance Report, available on SFH website at [http://www.sonyfh.co.jp/index\\_en.html](http://www.sonyfh.co.jp/index_en.html)

## Board of Directors, Auditors, and other Officers

(As of July 1, 2009)

### ■ Board of Directors

SFH's Board of Directors comprises nine members, responsible for making key business decisions and supervising business operations to ensure and expand the integrity of the SFH Group. SFH, as a pure holding company, allows its representative directors to hold the post of subsidiaries' directors and representative directors of the subsidiaries to be SFH's directors, aiming at integrating its management system and strengthening its corporate governance. Of these nine members, six are directors of subsidiaries within the group, one is a representative corporate executive officer of Sony Corporation, one is an outside director of Sony Corporation, and one is an outside director. The outside director is designated to enhance SFH's management transparency and objectivity.

The Articles of Incorporation of SFH stipulate that the maximum number of directors on the board is 12.

### ■ Compensation for SFH's Directors and Group Companies' Representative Directors

SFH has a Compensation Advisory Committee to decide on the policies and frameworks for compensation and present proposals for the compensation of SFH's directors and group companies' representative directors. This is designed to ensure transparency and objectivity of compensation decisions. The committee reports to the board of directors of SFH and SFH group companies in which SFH has a direct investment.

### ■ Audits and Supervision

#### (Statutory Audits)

The Board of Statutory Auditors has five members, of whom three are outside statutory auditors. The board receives reports on important audit matters, discusses them, and makes decisions under the rules of the Board of Statutory Auditors. Based on the audit policies and plans stipulated by the Board of Statutory Auditors, members are responsible for attending important meetings, including Board of Directors' meetings, and for examining the operations and financial condition of the company as well as supervising the duties executed by directors while maintaining close collaboration with independent auditors and internal Audit Department, e.g., receiving reports from them. As a rule, the standing statutory auditors of the SFH Group meet once quarterly to share information within the group.

#### (Internal Audits)

SFH performs internal audits through its Audit Department. SFH's Audit Department reports directly to the president and representative director of SFH and is independent of the company's operating divisions. The Audit Department examines the appropriateness and effectiveness of the company's internal control structures such as the governance processes, compliance, and risk management structure from an independent and objective standpoint. (see page 17 for details).

#### (Accounting Audits)

The names, accounting firm, and back-up team of the Certified Public Accountants (CPAs) who acted as the accounting auditors of SFH are as follows:

Accounting firm:	PricewaterhouseCoopers Aarata
CPAs	Keiichi Otsuka, Takuei Maruyama
Accounting audit team	Three CPAs, five others

### ■ Personal Relationships, Capital Relationships, Business Relationships and other Conflicts of Interest

There are no personal relationships between SFH's outside directors/auditors and SFH's other directors and auditors. Individual outside directors and auditors have no financial or other interest in SFH.

### ■ Exemption from Liability for Directors and Auditors

The Articles of Incorporation of SFH stipulate that the Board of Directors may exempt directors and auditors (including those who previously held these positions) from liability arising from negligence up to the statutory limit as provided in Article 426, Paragraph 1 of the Companies Act of Japan. The purpose of the exemption is to provide a setting in which directors and auditors can exercise their capabilities to the full and fulfill the roles expected of them in carrying out their duties.

### ■ Overview of Limited Liability Agreement

SFH has concluded an agreement with outside director under the provisions of Article 427, Paragraph 1 of the Companies Act of Japan and the Articles of Incorporation of SFH to limit liability as provided in Article 423, Paragraph 1 of the Companies Act of Japan. The maximum amount of liability as stipulated in the agreement is the minimum amount of liability provided in Article 425, Paragraph 1 of the Companies Act of Japan. Limited liability is only recognized when the duties carried out by the outside director that became the cause of liability, were performed in good faith and do not constitute severe negligence.

### ■ Requirements for Decision by General Meeting of Shareholders

The Articles of Incorporation of SFH stipulate that special resolutions by the General Meeting of Shareholders as provided in Article 309, Paragraph 2 of the Companies Act of Japan require the attendance of shareholders with a minimum of one third of voting rights, and a majority vote of at least two-thirds of the voting rights.

The Articles of Incorporation of SFH also stipulate that director appointments require the attendance of shareholders with a minimum of one third of voting rights, and a majority vote.

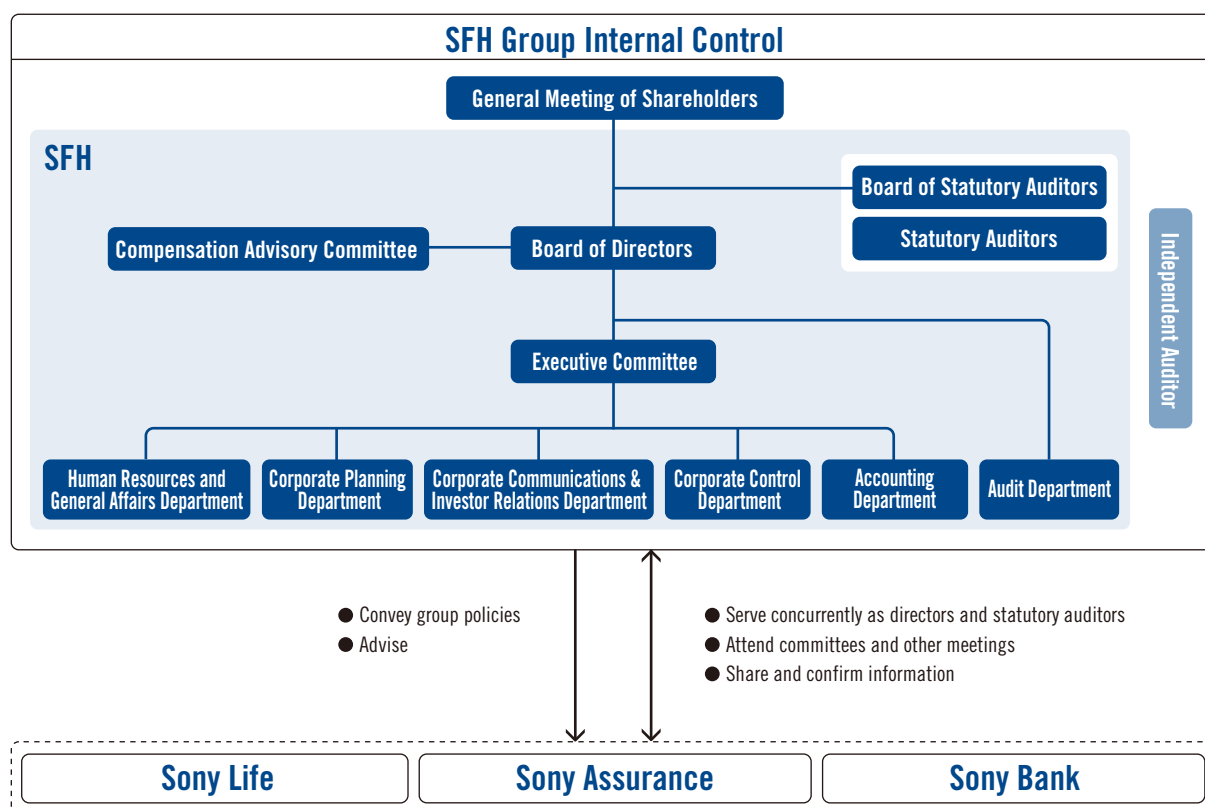
These rules aim to relax the quorum requirement to facilitate the running of General Meeting of Shareholders.

### ■ Internal Controls

SFH's Board of Directors has implemented a Basic Policy on Establishing an Internal Control System\* in compliance with the Companies Act of Japan and the Ordinance for Enforcement of the Companies Act of Japan. In line with this policy, SFH has established and now operates an appropriate internal control system.

The Financial Instruments and Exchange Law of Japan introduced internal control and financial reporting requirements in FY2008. SFH is listed and therefore has set up an internal control system to gather the financial information that must be reported in the "Yuka Shoken Hokokusho" and other securities reports. SFH's president and representative director is charged with evaluating these controls and ensuring their effectiveness. His/her evaluation then is audited externally by a CPA or similarly qualified professional. SFH has filed a report for FY2008 stating that its internal controls are effective.

\* Visit SFH website at [http://www.sonyfh.co.jp/index\\_en.html](http://www.sonyfh.co.jp/index_en.html) for more about Basic Policy on Establishing an Internal Control System and Internal Control Report.



## Conflicts of Interest Policy (Summary)

SFH has formulated a Management Policy Concerning Conflicts of Interest and established the structures required by the Banking Law of Japan, the Insurance Business Law of Japan, and the Financial Instruments and Exchange Law of Japan. The policy and structures are designed to ensure that customers' interests are not harmed by SFH Group companies.

### ■ Summary of Conflicts of Interest Policy

#### I. Basic Policy

The SFH Group\* has established a structure under the provisions of the Banking Law of Japan, the Insurance Business Law of Japan, and the Financial Instruments and Exchange Law of Japan to ensure that customers' interests are not harmed when making transactions with SFH Group companies\* in circumstances of potential conflict of interest between customers of SFH Group companies and Sony Group finance companies\* or between customers of SFH Group companies and customers of Sony Group finance companies.

\* Under this policy, "SFH Group companies" represents Sony Life, Sony Life Insurance (Philippines) Corporation, Sony Assurance, Sony Bank, and Sony Bank Securities; "SFH Group" represents SFH and SFH Group companies; and "Sony Group finance companies" represents SFH Group companies and Sony Finance International, Inc.

#### II. Transactions to be Managed

1. SFH has established a structure and take all necessary action to prevent customers' interests from being harmed by the transactions outlined below ("transactions to be managed").
  - 1) Transactions that put the SFH Group's interest first in circumstances where there is a conflict of interest between the SFH Group and customers
  - 2) Transactions that profit from customer information
  - 3) Transactions that profit from competing interests between customers
  - 4) Other transactions in which it is evident that the interests of customers may be harmed by SFH Group companies
2. For the purposes of the Management Policy Concerning Conflicts of Interest, "customers" whose interest should be protected are customers of the following businesses that SFH Group companies engage in.
  - 1) Sony Life Insurance Co., Ltd.  
Life insurance business, business of registered financial institutions, and other businesses that can be conducted by Sony Life under relevant laws.
  - 2) Sony Life Insurance (Philippines) Corporation  
Life insurance business and other business that can be conducted by Sony Life Insurance (Philippines) Corporation under relevant local laws.

- 3) Sony Assurance Inc.  
Non-life insurance business and other business that can be conducted by Sony Assurance under relevant laws
- 4) Sony Bank Inc.  
Banking business (including bank agency business by banking agents), business of registered financial institutions, and other business that can be conducted by Sony Bank under relevant laws.
- 5) Sony Bank Securities Inc.  
Trading of financial instruments and other businesses that can be conducted by Sony Bank Securities under relevant laws.

#### III. Structure for Management of Conflicts of Interest

##### 1. Structure

SFH has established a structure to manage conflicts of interest in the SFH Group by making the director who is head of the Corporate Control Department responsible for oversight of managing conflicts of interest, and the Corporate Control Department the business unit responsible for the managing conflicts of interest.

##### 2. Action

The director responsible for oversight of managing conflicts of interest shall order SFH Group companies to take the actions outlined below when the director deems them necessary on the basis of reports from SFH Group companies, customer complaints, or other sources:

- 1) Block the flow of information between divisions where a conflict of interest may arise
- 2) Suspend the transaction concerned, or change the terms and conditions or method of the transaction
- 3) Disclose the conflict of interest, or the potential for a conflict of interest, to customers
- 4) Take any other action deemed necessary by the business unit responsible for the managing conflicts of interest

##### 3. Record-keeping

The division responsible for managing conflicts of interest shall maintain records as outlined below and retain them for five years.

- 1) Records that specify transactions to be managed
- 2) Records associated with actions taken to appropriately protect customers

## Basic Policy on Eradicating Criminal Influences

SFH has formulated a Basic Group Policy on Eradicating Criminal Influences, described as the following. SFH and the SFH Group companies have built the structures to take a firm stance on countering criminal influences.

### ■ Basic Group Policy on Eradicating Criminal Influences

1. The SFH Group recognizes the importance of strictly avoiding any association with criminal elements from the perspectives of social responsibility, compliance, and corporate defense. It has therefore implemented frameworks to shut out criminal influences.
2. The SFH Group strictly rejects unfounded demands by criminal influences. Furthermore, the Group has put in place a framework for acting firmly, on an organizational basis, against those who make unfounded demands.
3. The SFH Group works closely with the police and external specialist entities, even during the peacetime, to ensure appropriate assistance and cooperation should it be threatened by criminal influences.

## Compliance

### ■ Basic Stance on Compliance

To ensure the ongoing health and appropriateness of business operations, SFH must encourage all the executives and employees to deepen their understanding of SFH's corporate philosophy and the laws and regulations that pertain to its businesses, foster compliance with these laws and regulations and manage its operations in a transparent and appropriate manner based on a strong sense of ethics. Including all these factors in its definition of "compliance", SFH considers compliance one of its most important management tasks. Accordingly, SFH has established systems to ensure that all executives and employees are fully aware of their duties and responsibilities under those laws and regulations.

As a financial holding company with insurance and banking subsidiaries, SFH is responsible for understanding the state of compliance of its group companies and advising these companies on compliance issues as it deems necessary. The first level of compliance-related responsibility lies with individual group companies, which are responsible for establishing systems to raise their level of compliance in line with their specific industry, type of operations and scale of business. SFH, on the other hand, has the role of maintaining an ongoing understanding of and promoting group companies' compliance from the viewpoint of group management.

### ■ Compliance Systems at SFH and SFH Group Companies

#### • SFH's Compliance Systems

SFH's Board of Directors has established a compliance manual\* and compliance program\*\*. SFH mounts ongoing efforts to ensure the conformance and the state of progress of compliance and takes the initiative in establishing compliance systems for itself and its group companies.

Under authority delegated by its Board of Directors, SFH's

Executive Committee directs each department to plan and enforce necessary compliance-related measures.

SFH's Corporate Control Department takes overall control of compliance planning, proposal creation and promotion. This department also monitors the compliance status of group companies.

#### • Compliance Systems at SFH Group Companies

Group companies are responsible for establishing effective compliance systems in line with their specific industry and type of operations.

#### • Compliance Meetings

SFH holds regular Compliance Meetings with group companies to conduct prior consultation on compliance-related issues and exchange information regarding the state of compliance promotion and legal issues. The Corporate Control Department serves as the secretariat for these meetings, whose members include SFH and group company executives, general managers and other staff in charge of compliance, depending on items being discussed. The results of meeting deliberations are reported to the Board of Directors and at meetings of other bodies.

#### \* Compliance manual

This manual outlines SFH's compliance system, describes the group's corporate philosophy and indicates laws and regulations for conformance of which executives and employees should be aware. The manual also establishes measures for handling situations discovered to be in conflict with laws and regulations—non-compliant activities—and for confirming the compliance status.

#### \*\* Compliance program

This program, conducted annually, in principal, defines a specific set of actions for confirming the state of compliance, as well as training and other related items.

### ■ Internal Hotline System

An internal hotline system is in place to enable executives and employees of SFH and the SFH Group companies, as well as temporary employees and the employees of business partners, to report business policies of the Sony Group, SFH and the SFH Group or operating or other activities that they are convinced contravene (or are in danger of contravening) laws and regulations or the internal regulations of the Sony Group, SFH or SFH Group companies. Informants may notify any of the hotline desks that have been established at each SFH Group company or the Compliance Hotline at Sony Corporation, which serves as the desk for the Sony Group, as appropriate. SFH is responsible for taking appropriate measures to protect informants and strictly managing and responding to any information they provide.

SFH communicates with Sony Corporation regarding appropriate responses to notifications received via the Compliance Hotline at Sony Corporation, as well as about notifications of issues having the potential to affect Sony Group companies other than those in the SFH Group.

## Risk Management

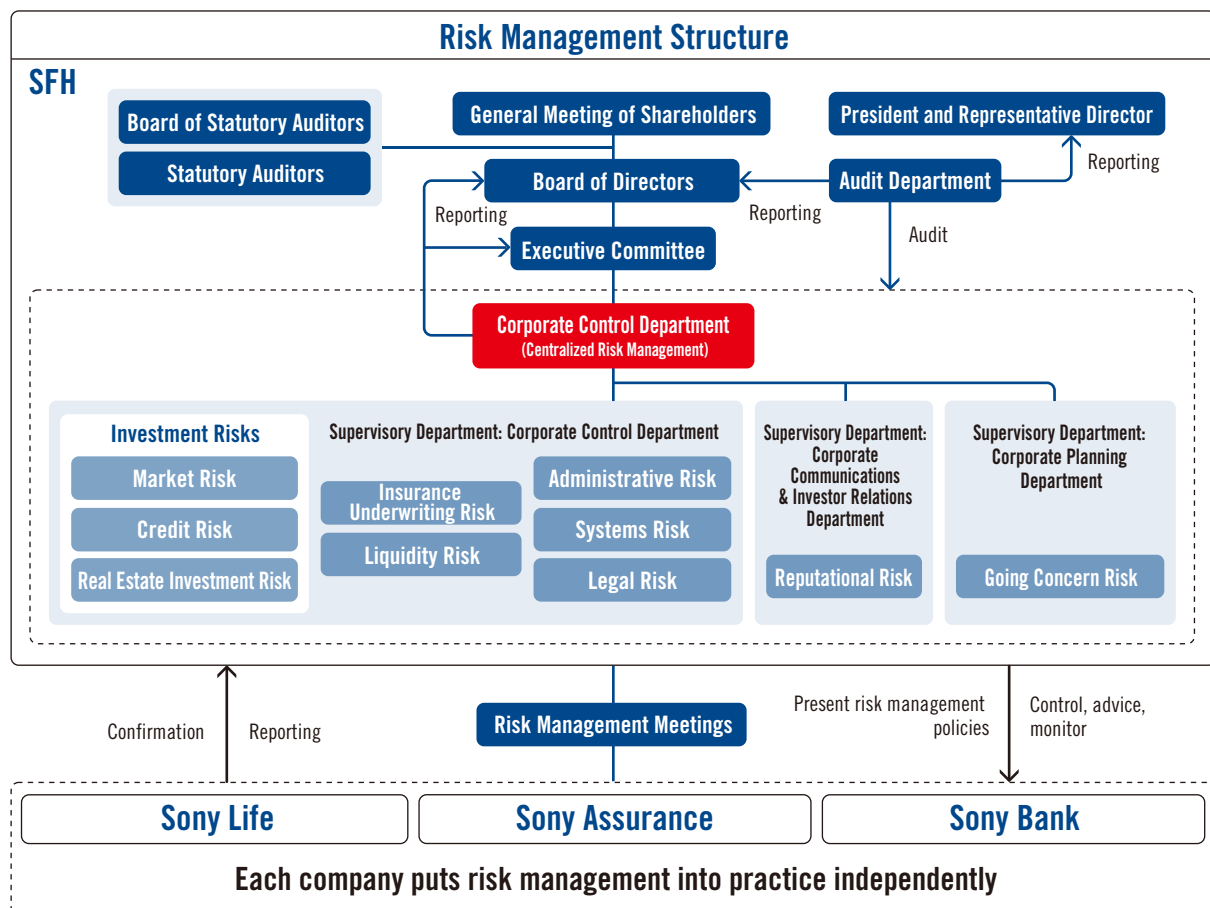
One of SFH's roles as a financial holding company is to further enhance and integrate group-wide risk management by centralizing the Group's management resources.

### Basic Policy on Group Risk Management

- As a financial holding company, SFH enhances corporate value of the group by aligning risk management with group-wide strategic objectives and management policies, while tailoring operating subsidiaries' risk management to the types of risk inherent in their respective lines of business.
- SFH adopts all necessary supplemental measures to ensure effective risk management, after confirming each operating subsidiary independently and responsibly to establish its own risk management structure to achieve its own management objectives.
- SFH takes steps to eliminate excessive concentration of risk in specific areas, establish appropriate controls over intra-group transactions and control the ripple effect of risk within the group.

SFH's Board of Directors formulates fundamental principles for risk management and communicates them to directors and employees throughout the SFH Group. The Board also identifies the types of risks specific to subsidiaries scale, business content, and other attributes and establishes structures designed to manage them effectively. SFH's Executive Committee, appointed by the Board of Directors, executes routine tasks pertaining to group risk management; specifically, while subsidiaries

each assess, monitor, and manage their risks on their own, the Corporate Control Department, responsible for SFH's risk management, controls their risks through monitoring and holding the Risk Management Meetings with subsidiaries' risk management divisions. The Corporate Control Department also reports its finding on the state of risk management regularly to SFH's Board of Directors and Executive Committee.



## Types of Risk Managed by SFH and Subsidiaries

- |                               |                               |                |                      |
|-------------------------------|-------------------------------|----------------|----------------------|
| ■ Market Risk                 | ■ Liquidity Risk              | ■ Systems Risk | ■ Reputational Risk  |
| ■ Credit Risk                 | ■ Insurance Underwriting Risk | ■ Legal Risk   | ■ Going Concern Risk |
| ■ Real Estate Investment Risk | ■ Administrative Risk         |                |                      |

### Definitions

Each Group company establishes its own framework for managing risk as appropriate for its scale and the attributes and type of its business, and they optimize their frameworks for the types of risks they face according to internal definitions.

As the operating and business environment changes, their risk management departments review the risk types and definitions set forth below, amending them as appropriate for new conditions.

#### ■ Market Risk

Risks associated with losses due to changes in the value of assets, including off-balance-sheet assets such as derivative instruments, as a result of unfavorable fluctuations in interest rates, the value of securities held, exchange rates, and other factors.

#### ■ Credit Risk

Risks associated with losses due to declines in the value of assets, including off-balance-sheet assets such as derivative instruments, resulting from deteriorations in the financial position of the issuers of the debt obligations held, or of counterparties to derivatives and other contracts entered into.

#### ■ Real Estate Investment Risk

Risks associated with losses due to declines in the market value of owned real estate or in the profitability of real estate holdings on account of unfavorable trends in rents or other factors.

#### ■ Liquidity Risk, Including:

##### • Cash Flow Risk

Risks associated with losses due to our inability to make cash payments because of an inability to maintain sufficient cash reserves, as well as risks associated with losses if SFH and group companies are forced to raise funds under unfavorable conditions in order to fulfill its cash-payment obligations.

##### • Market Liquidity Risk

Risks associated with losses due to inability to conduct market transactions, in particular from an inability to change our market position at a given time, as well as risks associate with losses if we are forced to complete transactions under unfavorable market conditions, in each case due to market turmoil or other factors.

#### ■ Insurance Underwriting Risk

Risks associated with losses due to significant differences between the assumptions SFH and group companies use to

establish appropriate premium levels, including assumptions regarding the expected frequency and scale of insured events and future economic conditions.

#### ■ Administrative Risk

Risks associated with losses due to errors, misconduct, malfunction, and other factors related to problems with our internal administrative processes.

#### ■ Systems Risk

Risks associated with losses arising from IT-system malfunction or breakdown, improper use or leakage of confidential information stemming from IT system problems.

#### ■ Legal Risk

Risks associated with losses due to violations of applicable laws, rules and regulations occurring during the course of doing business operations, as well as the risk of loss due to litigation. In particular, we are exposed to legal risk with respect to:

- the provision of services, including the introduction of new businesses, products and services;
- entry into various legal agreements, as well as the renewal, amendment, termination or rescission of agreements; and
- various legal and administrative proceedings.

#### ■ Reputational Risk

Risks associated with losses resulting from harm to our reputation in the market and among customers as a result of unethical behavior, unfair business practices, improper disclosure, or other factors.

#### ■ Going Concern Risk

The risk that SFH and group companies will be unable to continue operations as the result of a deterioration in our financial position, liquidity problems, system failures, scandals, accidents, and other crises.

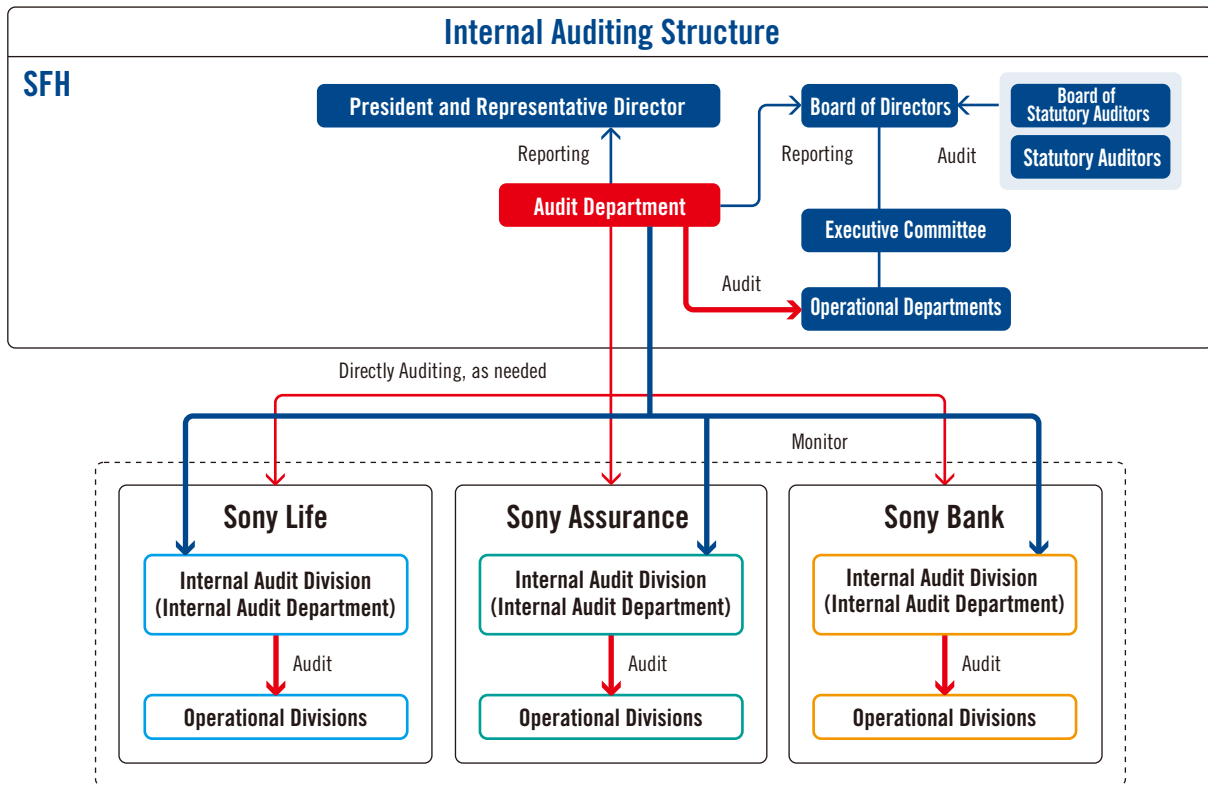
## Internal Audits

SFH performs internal audits through its Audit Department. Reporting directly to the president and representative director, this department operates outside the other lines of operational reporting and, from an independent and objective standpoint, conducts internal audits to check and evaluate the appropriateness of work processes and risk management.

SFH subsidiaries each have their own internal audit departments to perform internal audits designed to match their specific industry sector, the scale of their businesses, and the types of risk they face. SFH's Audit Department keeps abreast of subsidiaries' internal audits by monitoring their audit plans and audit reports and on the basis of information

shared at SFH Group Internal Audit Meetings. When necessary, SFH's Audit Department provides advice and proposals to its subsidiaries' internal audit departments. SFH's Audit Department regularly reports the results of its monitoring activities to the president and representative director and the Board of Directors. Should SFH's president and representative director perceive it necessary, as a result of the monitoring, SFH's Audit Department may directly audit subsidiaries within the scope of governing laws and regulations.

The Audit Department also cooperates with SFH's statutory auditors and external auditors, such as the independent auditor.



## Privacy Policy

SFH has formulated a Privacy Policy\* governing the handling of personal information. It sets out the company's policies on its use of personal information within the specific purposes and its acquisition of personal information to ensure compliance with applicable laws and regulations. SFH has also established and observes Rules on Information Security that set out specific security control protocols.

SFH monitors how SFH group companies' security control protocols are working. Specific group measures include the formulation of and revision of the Privacy Policy, setting up an organization to protect personal information and appointing

persons responsible, preparing a set of rules and a manual covering the handling of personal information, and education and training programs on the handling of personal information and information security.

SFH and SFH Group companies strive to maintain entrusted personal information to be accurate and updated to the extent necessary for the purposes of its use, and to protect personal information through steps to prevent unauthorized access, leakage, falsification, loss, destruction, and other incidents.

\* Visit SFH website at ([http://www.sonyfh.co.jp/index\\_en.html](http://www.sonyfh.co.jp/index_en.html)) for more about Privacy Policy.