

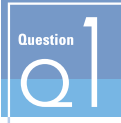
Toward a New Evolutionary Process



Strategic Business Innovator

As we further advance our “customer-centric principle,” the point of origin of our founding, the SBI Group is striving to attain significant growth to become a comprehensive corporate group that transcends the finance domain.

Yoshitaka Kitao
Representative Director & CEO



Please discuss your strategy for growth outside Japan.

(1) Established a subsidiary in Singapore for the launch of full-scale overseas investment activities

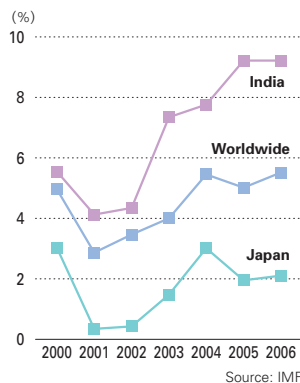
The SBI Group has established concrete targets for its international expansion. In the Asset Management Business, we are targeting overseas operations to account for one-third of profits within three years and one-half of profits within five years. Realizing these targets will provide us with a highly productive asset management structure that does not rely solely on emerging markets in Japan.

In May 2007, we established SBI VEN CAPITAL PTE. LTD. as a registered investment base in Singapore to reach out to accredited investors outside of Japan, where the current tax regime has deterred foreign institutions from investing into Japanese-managed venture capital funds. This dynamic has prevented the country from reaching its true potential as a major

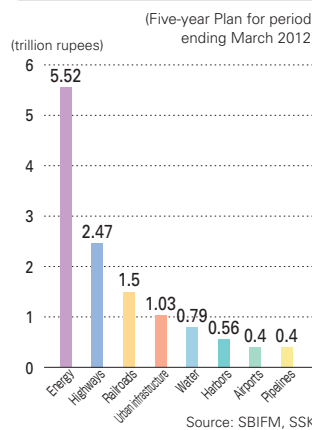
financial investment center. Therefore, we shall establish a fund in Singapore between 30-50 billion yen, which will invest primarily in companies domiciled in China, India, Vietnam, and Thailand, as well as in other fast growing Asian countries. Domestically, we had concentrated our investments in knowledge-driven areas like Internet, Mobile and Life Sciences, but in terms of our overseas investments, we will be opportunistic in our approach, rather than to be too narrowly focused on IT or any other specific market segment. SBI's Singapore office serves as a preferred, tax favorable destination serving foreign investors who might otherwise be levied a 20% withholding tax in Japan.

We are particularly focused on India and Vietnam. India has a growing middle class, and owing to its historical ties with Great Britain there is a large English-speaking population. The country's strong legal and accounting systems offer advantages that make India an attractive place for foreign companies to set up operations. Vietnam, much like Japan, has a diligent and industrious workforce, and this workforce is characterized by a younger demographic, owing primarily to the effects of the prolonged war. It is estimated that over 60% of the population of Vietnam is accounted for by people under the age of 30. Just as Japan experienced in its recent history, Vietnam will probably experience rapid growth in its Internet use, as the country's younger demographic will drive the utilization of the Internet. We believe that this natural progression will create many significant investment opportunities.

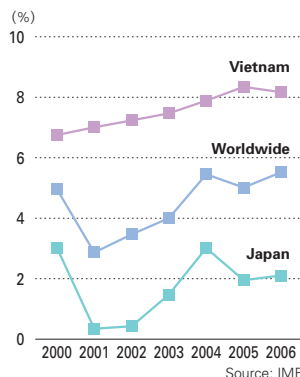
Real GDP Growth Rate



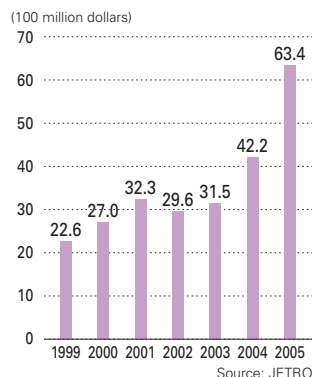
India's Planned Infrastructure Investments



Real GDP Growth Rate



Direct Foreign Investments in Vietnam



(2) Moving faster to form strategic alliances with best-of-breed overseas partners

The SBI Group is approaching leading partners in various countries to form strategic alliances in areas such as venture capital and turn-key financial application service providers (ASP). We are pursuing these alliances for the ultimate goal of establishing an integrated global financial ecosystem.

a) Venture capital alliances with financial institutions, universities and corporate entities

Strategic alliances with local companies and personal relationships with local businesspeople are of paramount importance to the success of overseas investment ventures.

In India, we have forged an alliance with The State Bank of India, which is the nation's largest commercial bank. We also formed a venture capital fund that will invest in unlisted companies with promising growth prospects, and this venture is now at the stage of conducting due diligence to select suitable companies. Relationships formed with businesspeople through this alliance are providing us with an enormous source of valuable information and proprietary deal flow.

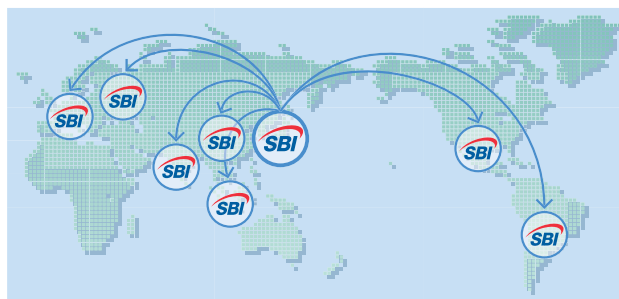
In China, we established funds with the Kingsway Group of Hong Kong and with Temasek Holdings, the principal investment arm of the Singapore government, to make investments in promising Chinese companies. Both of these funds have excellent prospects for generating high returns. We also have an alliance with Tsinghua Holdings, which is affiliated with Tsinghua University, one of China's most prestigious universities. With Tsinghua Holdings, we formed a joint venture that will establish a Renminbi (RMB) based fund in China, as there are many highly promising small companies in China that originate from universities. Furthermore, collaboration with Tsinghua University provides a means for establishing personal relationships with the many graduates of this university who go on to positions of prominence in their chosen fields.

In Vietnam, we have begun working with The Corporation for Financing and Promoting Technology (FPT), Vietnam's largest information technology group. We have reached an agreement in principle to jointly establish a fund management company for a fund denominated in the Vietnamese Dong (VND). This alliance will enable us to capitalize on opportunities in Vietnam, which is expected to sustain a high economic growth rate for many years to come. Furthermore, through this alliance we plan to contribute to the development of Vietnam's information economy.

It is through alliances such as these and primarily through venture capital funds that we plan to accelerate our overseas expansion.

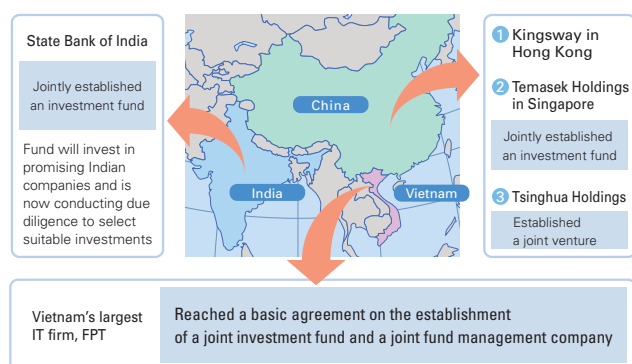
we expect to export sophisticated financial ecosystems in other Asian countries.

As a first step, now negotiating with a major local bank to begin operations in Thailand

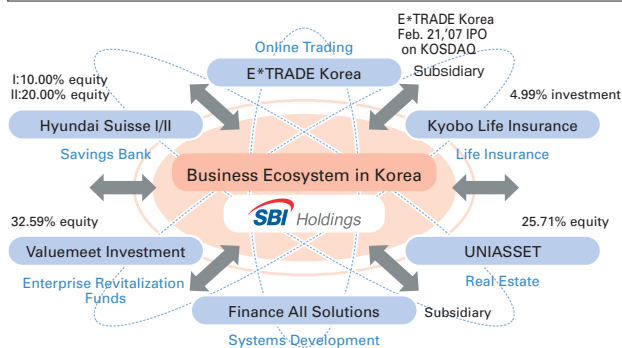


The SBI Group has been successful in unifying several ecosystems into a single network business ecosystem that produces significant synergies. This business ecosystem will allow the SBI Group to sustain growth at a level that is not possible in a single company structure, and it is this business ecosystem that we ultimately would like to share with other countries.

Accelerate overseas business focusing on venture capital by working with local financial institutions, universities and operating companies



Positioned to capture specific synergies from the business ecosystem already in place in South Korea



In South Korea, we have assembled a group of financial companies by investing in existing companies as well as starting up others ourselves. Today, our portfolio in this country extends across banking, insurance, online securities, real estate and IT systems development. Our subsidiary, E*TRADE Korea conducted an IPO in February 2007, listing its shares on the KOSDAQ market. In the same month, we purchased a 4.99% equity stake in Kyobo Life Insurance, one of South Korea's big-three life insurers. The following June, in response to the company's request for assistance in asset management activities, I accepted a seat on their board of directors. Investing in companies and establishing others has given us a presence in

b) Using an ASP model to transplant our financial ecosystem to Asian countries

Having constructed a financial ecosystem in Japan, we now plan to transplant our financial ecosystem through a fee-based ASP model. We believe that this can be realized by providing the know-how and business model that we accumulated in our Japanese financial ecosystem. To this end, we are currently negotiating with a major Thai bank to start building a financial ecosystem in Thailand. Ultimately,

many business fields in South Korea, but unlike our Japanese business ecosystem, our Korean companies are not fully-benefiting from meaningful synergies between themselves. Going forward, generating such synergies will be among the highest priorities for our Korean business operations.

(3) New Horizon Fund’s unrealized gains exceeds the original fund contributions

The SBI Group and Temasek Holdings, an investment organization controlled by the government of Singapore, jointly established the New Horizon Fund in May 2005. With an initial fund investment of US\$100 million, the fund has made investments in 10 promising companies in China. Of these, four companies are now publicly owned, resulting in unrealized capital

gains of US\$153 million (as of June 2007), exceeding the original fund contributions.

Whereas I fully appreciate the risks associated with emerging market investments, not investing in these markets may pose an even greater risk. I sincerely believe that we will do well by investing in promising markets and companies. The economies of many Asian countries are growing faster than that of Japan, and the currencies of these countries are likely to strengthen as well. All in all, overseas investments are extremely attractive for many reasons. We will capitalize on these opportunities by utilizing various approaches to conduct joint operations with the overseas companies that are best suited to be our business partners.

Unrealized Gains Already Exceed the Original Fund Contributions at New Horizon Fund (started May 2005)

Four of the 10 companies in the New Horizon Fund portfolio are now publicly owned and one more company is planning an IPO in September 2007. Unrealized capital gains at the four publicly owned companies alone already total more than 150% of the fund’s initial principal. SBI Holdings expects to receive distributions of US\$36.6 million from this fund (initial fund investment was US\$50 million). SBI Holdings plans to record these distributions in the fourth quarter since the fund ends its fiscal year in December.

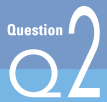
(Unit : US\$ million)

Portfolio company	Investment	Category	IPO (planned)	Status	
				March '07	June '07
Sinchuan MeiFeng Chemical Industry	14.8	A-Class Shares		Unrealized gain 30.5	42.0
Changsha Zoomlion Heavy Industry Science & Technology Development	13.3	A-Class Shares		Unrealized gain 35.6	110.7
China Printing & Dyeing Pet (Jiang Long)	3.5	Post-IPO		Unrealized gain 1.0	2.2
Yingli Green Energy Holding	2.5	Post-IPO		Pre-IPO	3.5
Kingsoft	7.2	Pre-IPO	2007		Projected IRR : 72%
Cathy Industrial Biotech	12.2	Pre-IPO	2007		Projected IRR : 148%
China Stem Cells Holdings	4.1	Pre-IPO	2007		Projected IRR : 57%
Goldwind Science and Technology Co., Ltd	4.1	Pre-IPO	2007		Projected IRR : 77%
Jiangsu Ealong Biotech	2.5	Pre-IPO	2007		Projected IRR : 84%
Shineway Group	20.0	Pre-IPO	2009		Projected IRR : 34%
Total	84.3				

SBI Holdings will invest US\$50 million in a second fund with principal of US\$500 million.

Total of US\$152.9 million

Question



SBI E*TRADE SECURITIES and SBI Securities are to merge later this year. How is SBI E*TRADE SECURITIES performing and what is your strategy for achieving more growth at this company? Will you also explain your strategy for SBI Fund Bank, which the SBI Group recently established?

(1) Merger of SBI E*TRADE SECURITIES and SBI Securities

At the SBI Group, adherence to the customer-centric principle is of paramount importance. Therefore, this principle is at the center of the merger of these two companies, which will fully integrate online and conventional (face-to-face) securities operations. We will create Japan’s first truly integrated online and offline securities company model. This model will incorporate the strengths of the online securities business, such as a low cost structure, the ability to attract many customers and a very high trading volume, along with the strengths of conventional off-line

securities operations, including strong regional roots and the ability to combine sales activities with consulting services. Through the combination of these resources, we will position ourselves to better serve the needs of our customers.

With the creation of this unprecedented business model, our business scope will expand significantly in our securities operations. The post-merger company will become a full-service securities company with activities that go far beyond the online securities business alone. The new company will thus be positioned to reinforce its status among the leaders of Japan’s

securities industry. Following the merger, the equity stake of SBI Holdings in SBI E*TRADE SECURITIES, the surviving company, will rise from 52.4% to an estimated 56.0%.

SBI E*TRADE SECURITIES holds a prominent position in Japan's equity markets as the country's largest online securities company. At the end of June 2007, the company had more than 1.45 million customer accounts and accounted for 29.4% of retail stock brokerage trading value in Japan (year ended March 2007). SBI E*TRADE SECURITIES has also forged strong relationships with corporate clients, as the company has rapidly expanded its investment banking operations, including IPO underwriting and M&A advisory services. Such services and operations allow the company to function as a bridge between individual investors and corporate clients. SBI Securities, which provide its services on a face to face basis, has a customer base made up primarily of high-net-worth individuals over the age of 50. To serve these customers, the company has a nationwide network of 27 offices and a sales force of about 250 employees.

To summarize, I believe that integrating the two securities companies will enable us to achieve the following goals.

Profiles of SBI E*TRADE SECURITIES and SBI Securities

Providing growth by using a new business model based on online securities services, a first in Japan

	SBI E*TRADE SECURITIES	SBI Securities
Customers	Mainly salaried employees between ages of 30 and 50, extending from individuals building wealth to high-net-worth individuals	Mainly high-net-worth individuals and companies in all areas of Japan
Service format	Serves customers using the Internet and call centers	Serves customers using face-to-face contact at 27 offices nationwide and a sales force of about 250
Paid-in capital (As of March 31, 2007)	¥47,864 million	¥12,118 million
Shares issued	3,188,493	1,018,563.87
Employees (As of March 31, 2007)	140	370
High-net-worth customers (accounts with at least ¥50 million as of March 31, 2007)	6,448 accounts	1,219 accounts

Objectives of the Merger

1. Through the integration of online and conventional securities company resources, further enhance the customer-centric principle
2. Build a more commanding position in all sectors of the securities market, in addition to the number-one position in online securities
3. Cut costs, mainly for IT systems and back office operations, and boost operating efficiency
4. Launch a full-fledged private banking business
5. Increase our presence in the public placement market by reinforcing underwriting operations

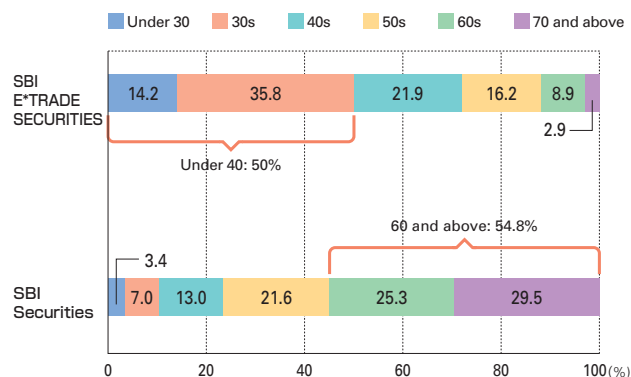
Objective 1: Through the integration of online and conventional securities company resources, further enhance the customer-centric principle

More than half of the customers of SBI E*TRADE SECURITIES are younger than 40, but at SBI Securities 54.8% of customers are at least 60 years old.

As I mentioned earlier, the SBI Group's philosophy is to adhere to the customer-centric principle. This means providing customers of all ages with our full line of products and services, either using the Internet or through other channels. In keeping with this principle, our services must be readily available even to those customers who do not use the Internet. Furthermore, some products require a higher degree of customer care and explanation of risk information. These types of financial products are best suited for face-to-face sales channels, where account executives may directly answer customers' questions. This is one of the major reasons why we are combining our online and conventional sales channels into a single company. I firmly believe that both the Internet and conventional sales channels together are essential in order to truly adhere to our customer-centric principle.

Integrating Internet and Brick-and-Mortar Customer Bases Complements Mutual Customer Base by Age Bracket

(At the end of March 2007)



Objective 2: Build a more commanding position in all sectors of the securities market, in addition to the number one position in online securities

Taken together, SBI E*TRADE SECURITIES and SBI Securities rank among Japan's 10 largest securities companies, both publicly and privately owned, in terms of customers and performance for fiscal 2006. With about 1.47 million customer accounts, the combined companies rank fourth in customer accounts, tenth in customer assets (¥4,573.2 billion), ninth in operating revenues (¥65.4 billion), and seventh in ordinary income (¥25.8 billion).

SBI E*TRADE in the Securities Industry (Customer Base FY2006)

Ranking by customer accounts
(Accounts)

1	NOMURA *1	3,953,000
2	DAIWA Gr.	2,819,000
3	NIKKO Gr.	2,239,000
4	SBI E*TRADE+SBI	1,468,155
5	MITSUBISHI UFJ *1	1,186,000
6	SHINKO	1,036,000
7	MONEX	750,364
8	RAKUTEN	675,548
9	MATSUI	668,073
10	KABU.COM	562,606

Ranking by assets in customer accounts
(100 million yen)

1	NOMURA	851,875
2	DAIWA Gr.	592,335
3	NIKKO Gr.	406,351
4	MITSUBISHI UFJ	277,507
5	MIZUHO	188,203
6	SHINKO	147,811
7	MIZUHO INVESTORS	75,979
8	SMBC FRIEND	48,074
9	TOKAI TOKYO	47,844
10	SBI E*TRADE+SBI	45,732
11	OKASAN HD	43,025
12	MONEX	21,276
13	MARUSAN	21,154
14	COSMO	20,680
15	ICHIYOSHI	19,665
16	MATSUI	17,384
17	TOYO	14,842
18	RAKUTEN	13,494
19	KABU.COM	12,451
20	MITO	11,735

Source: Compiled by SBI Holdings from information disclosed by each company

Source: Compiled by SBI Holdings from The Nikkei

*1 Outstanding balance, Number of accounts

SBI E*TRADE in the Securities Industry (Performance FY2006)

Ranking by operating revenues
(Million yen)

1	NOMURA	2,049,101
2	DAIWA Gr.	917,307
3	MIZUHO	647,292
4	NIKKO Gr.	516,642
5	MITSUBISHI UFJ	435,508
6	SHINKO	146,794
7	MIZUHO INVESTORS	73,866
8	OKASANHD	70,050
9	SBI E*TRADE+SBI	65,425
10	TOKAI TOKYO	63,765
11	SMBC FRIEND	58,747
12	MATSUI	43,691
13	RAKUTEN	33,994
14	MONEX	33,244
15	ICHIYOSHI	25,482
16	COSMO	24,705
17	MARUSAN	22,208
18	KABU.COM	20,946

Ranking by ordinary income
(Million yen)

1	NOMURA	321,758
2	DAIWA Gr.	195,415
3	NIKKO Gr.	100,443
4	MITSUBISHI UFJ	73,671
5	MIZUHO	46,315
6	SHINKO	29,056
7	SBI E*TRADE+SBI	25,808
8	MATSUI	22,720
9	SMBC FRIEND	21,835
10	TOKAI TOKYO	18,723
11	MIZUHO INVESTORS	18,529
12	MONEX	16,688
13	RAKUTEN	14,446
14	OKASAN HD	14,234
15	KABU.COM	11,017
16	ICHIYOSHI	6,498
17	MARUSAN	5,748

Source: Compiled by SBI Holdings from The Nikkei Financial Daily (May 1, 2007) data

*Kabu.com data is on a non-consolidated basis
Nomura: Current revenue is a simple total of the current revenues of Nomura Group firms. Current income represents income before income taxes.

In the IPO underwriting sector, SBI E*TRADE SECURITIES participated in the underwriting of 121 of the 187 IPOs in Japan during fiscal 2006 for a participation ratio of 64.7%, ranking second only to Mitsubishi UFJ Securities. The combined

company expects to enhance its position in the underwriting market by serving as lead underwriter for more offerings during the current fiscal year.

Objective 3: Cut costs, mainly for IT systems and back office operations, and boost operating efficiency

We expect to achieve significant cost savings by integrating the disparate securities back office systems of SBI E*TRADE SECURITIES and SBI Securities.

Objective 4: Launch a full-fledged private banking business

SBI E*TRADE SECURITIES and SBI Securities combined have 7,667 high-net-worth individual accounts*, which we define as an account of more than ¥50 million. These accounts reflect in part the ability of online securities operations to attract a large number of high-net-worth individuals. Furthermore, our venture capital business is building solid relationships with new high-net-worth individuals. For instance, of the 258 companies in which our venture capital funds have invested, 99 have completed an IPO*, providing their shareholders with new-found wealth. We are targeting the investment needs of these individuals, who already have existing relationships with the SBI Group, and our goal is to offer services that are even more sophisticated and diverse. As an example, private banking specialists will create plans that match the assets and goals of each customer and offer the products needed to execute those plans. Moreover, as of March 31, 2007, SBI E*TRADE SECURITIES had underwritten a total of 451 IPOs since it began Internet based operations. Overall, venture capital and underwriting activities provide many opportunities for assisting company owners and other such high-net-worth individuals in managing their personal assets. We plan to develop specific products for this market as well as to take other actions in order to build a sound infrastructure for a private banking business.

*Fiscal year ended March 31, 2007

Use of group resources to develop products for high-net-worth market in order to reinforce private banking operations

Backed by the collective resources of the SBI Group asset management business



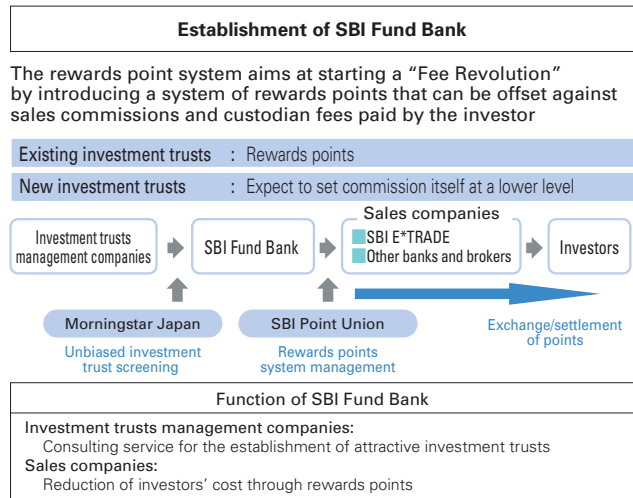
Objective 5: Increase our presence in the public placement market by reinforcing underwriting operations

Utilizing the face-to-face distribution channels of SBI Securities will make it possible to distribute securities that require greater sales capabilities than possessed by online securities companies. For example, public placements require the relative quick sale of underwritten shares. The post-merger SBI E*TRADE SECURITIES will thus gain the ability to increase its volume of public placements by listed companies. We believe this will make a significant contribution to growth in earnings from wholesale securities services.

(2) Established SBI Fund Bank to start a “fee revolution” in the investment trust business

Throughout its existence, SBI E*TRADE SECURITIES has played a leading role in drastically reducing stock brokerage commissions in Japan. Today, the company charges a commission of less than one-tenth as much as most conventional securities companies. Cutting brokerage commissions has meant that investors now keep the proceeds which previously went to securities companies, which is the essence of our commitment to the adherence of the customer-centric principle. To take the next step, we have established SBI Fund Bank, where the company’s mission is to achieve a similar revolution in investment trust sales commissions and other fees in the investment trust business.

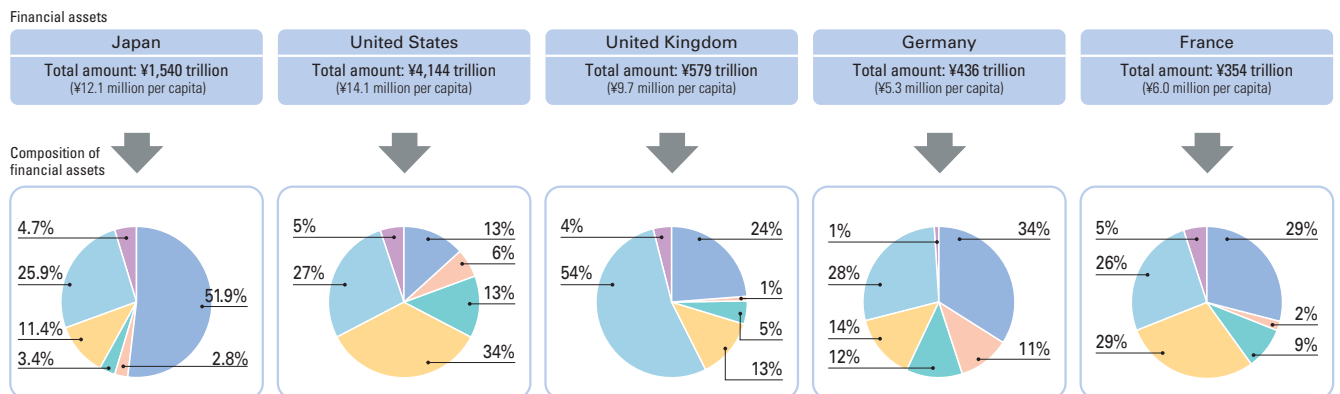
As individuals in Japan shift their money from savings to investments, assets in equity investment trusts have climbed rapidly. One result is the growth in the influence of individuals as indirect buyers in Japan’s stock markets. A similar a shift



occurred in Germany during the 1990s, whereupon investment trusts rose from 4.1% of household savings in 1991 to 12.1% as of December 31, 2005. During the same period, individuals in Germany reduced their money in cash and bank deposits by 11.6%. In Japan, investment trusts accounted for only 4.3% of individuals’ savings as of December 31, 2006, but cash and bank deposits accounted for more than one half of these savings. We believe that the time has come for Japan to experience a similar shift to investment trusts as experienced in Germany in the 1990s. This is why we established SBI Fund Bank. By lowering sales commissions and trust fees paid by investors, we intend to start a “fee revolution” in the investment trust industry.

The Shift from Savings to Investments
Financial assets of individuals in Japan will gradually become similar to those in U.S. and Europe

- Japanese individuals hold financial assets totaling ¥1,540 trillion, more than the combined total for the UK, Germany and France (¥1,369 trillion).
- Financial assets per capita in Japan is ¥12.1 million.



Source: Bank of Japan; Japan as of December 31, 2006, U.S. as of June 30, 2005; others as of December 31, 2001

Question

3

**The SBI Group will soon launch an Internet bank, Internet nonlife insurance company, Internet life insurance company and other new ventures.
What is your strategy for making these companies profitable?**

We have formed partnerships with highly respected companies to start Internet banking and Internet insurance businesses during the fiscal year ending in March 2008, and establishing these companies will finally complete our financial ecosystem. By returning to our roots as an Internet based organization, we plan to conduct marketing activities that extensively utilize Web 2.0 tools such as blogs and Social Networking Services (SNS). At the same time, we will focus on making our new bank and the two insurance companies profitable as quickly as possible by building a framework for supporting the growth of these companies.

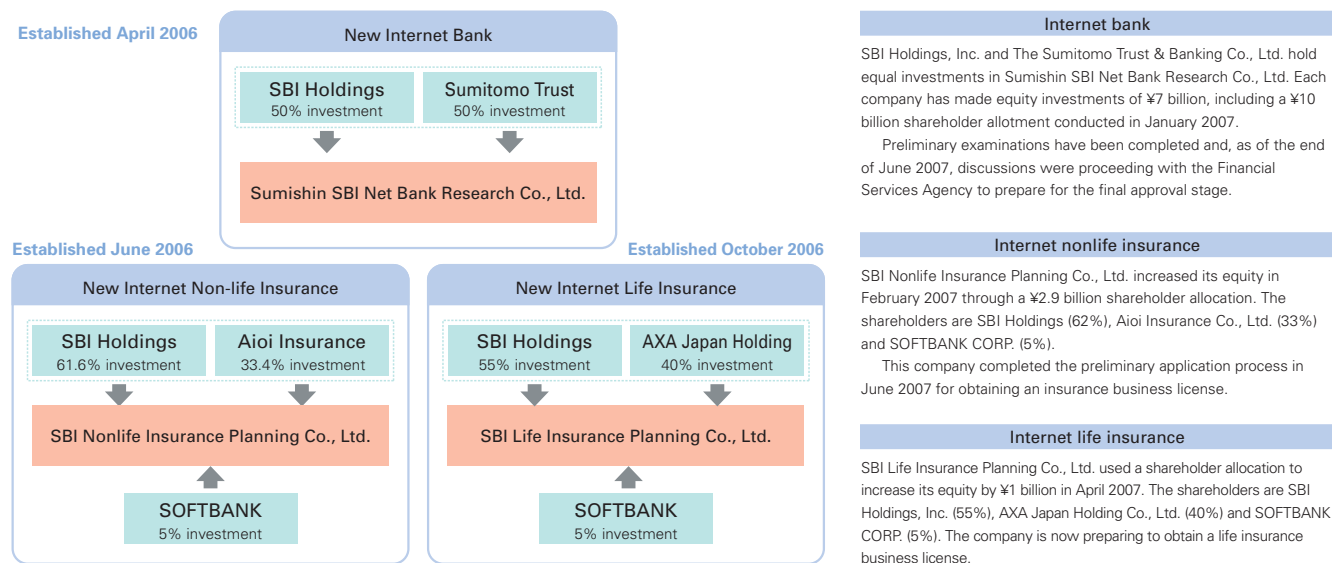
Launching these three major businesses will require further strengthening of our compliance system to one that reflects the activities of a financial services conglomerate. To oversee this system, SBI Holdings established the Financial Conglomerate Governance Dept. in June 2007. With the establishment of this new unit, we will be able to further strengthen the oversight of group management activities, and two of their priorities will be to guard for financial soundness and to ensure that all companies properly conduct their business operations.

Since the inception of the SBI Group, we have regarded banking as an essential and central component of our efforts to become a comprehensive financial services group. The U.S. experienced a banking system crisis in the 1980s, and Japan's

banks struggled with problem loans during the 1990s. Having witnessed these problems, we feel that we understand and appreciate the challenges of starting and operating a successful bank. Therefore, we carefully considered the timing for starting our bank, and our decision to launch a bank now reflects several factors. One is our financial ecosystem. We have successfully advanced our ecosystem to the current level of operation, and we have determined that we are now in a position to pursue further synergies with other new businesses. Another factor is the removal of many barriers that have separated banks and securities companies in Japan, where the country is clearly approaching the age of universal banking. Owing to these developments, we concluded that the timing was ripe to start an Internet bank. Once barriers separating the banking and securities sectors are gone, we can capture significant synergies across Internet banking and securities operations. Furthermore, if we hesitate to act, we may fall behind our competitors.

Success at these new Internet companies will require many components to support their operations. Let me explain a few of these components.

Joint Ventures with Prominent Companies



(1) Support from established SBI Group companies

The SBI Group is already experienced in Internet banking. In April 2000, we launched the Suruga Bank SoftBank Branch, which was a pioneer in the introduction of online banking to Japan. In August 2001, only 16 months later, this branch became profitable on a monthly basis. The next milestone was reached when it became profitable for the fiscal year that ended in March 2002. Since then, the branch has reported a profit every year. At the end of March 2007, the branch reported deposits of ¥18.6 billion and 217,200 customer accounts. We have reached an agreement with Suruga Bank to invite the customers of this branch to set up accounts at our new Internet bank, so that our Internet Bank will have a head start from day one.

Our new Internet bank is building an IT system that will permit full-scale collaboration with SBI E*TRADE SECURITIES. Whereas SBI E*TRADE SECURITIES already has existing synergies with the Suruga Bank Softbank Branch through an immediate deposit and withdrawal service, we plan to offer the same service at our Internet bank as a way to differentiate it from competitor online banks that are already in operations.

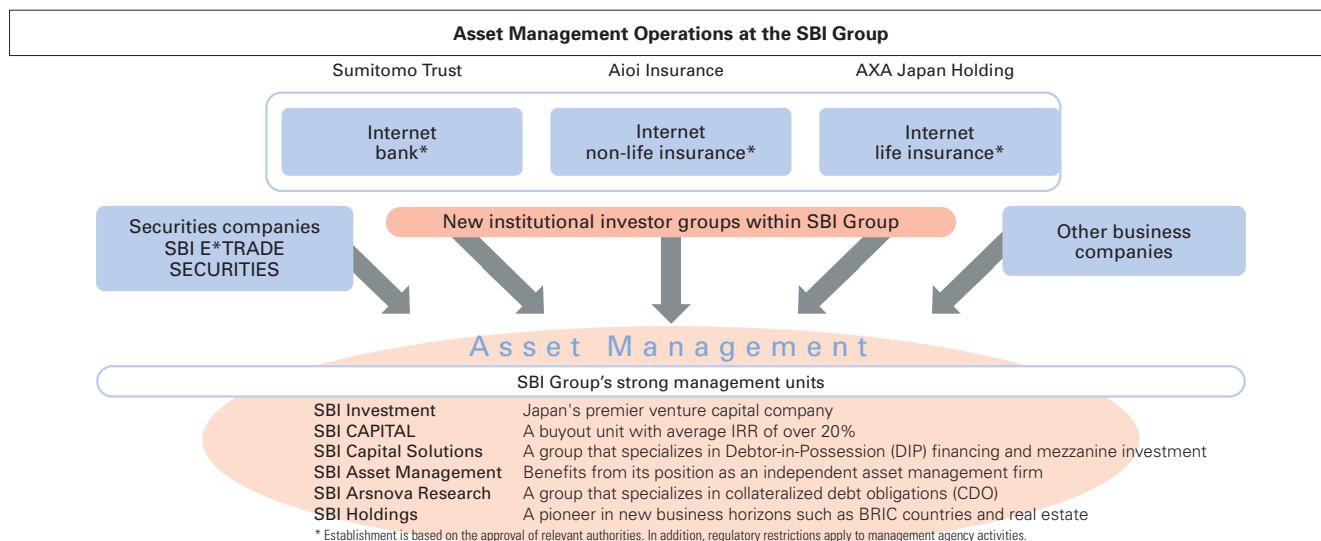
Many Internet banks in Japan have been experiencing operating difficulties. Poor net interest income owing to the lack of an effective asset management framework is the primary cause. The answer is clear, asset management is vital to the success of an Internet bank. The Internet bank, Internet nonlife insurer and Internet life insurer are three large institutional investor groups which will become a part of the SBI Group. We have nurtured a powerful asset management organization that can serve these three companies, and this asset management expertise will enable us to build an infrastructure that can generate consistently strong returns for assets of the new bank and insurance companies.

(2) Integration of online and conventional (face-to-face) services based on the customer-centric principle

The first SBI Money Plaza opened its doors in Tokyo's Aoyama district in May 2007. Our objective is to create a comprehensive financial product distributor that covers both online and conventional channels. Subject to the applicable laws and regulations, we plan to expand the Plaza's lineup to include the products of our Internet bank and our Internet nonlife and life insurance companies. With such diversity, these plazas will give us access to customer segments such as individuals who have not yet used the Internet for financial services, members of the baby-boom generation who need help in managing assets, high-net-worth individuals, and others.

SBI Mortgage plans to use a housing loan agency system to establish a nationwide network of SBI Housing Loan shops. The first shop opened in Nagoya in February 2007, and four other shops, which are all franchised, were subsequently opened in Fukuoka, Hamamatsu, Kagoshima and Sapporo (as of July 31, 2007). We established SBI Mortgage in 2001 as Japan's first mortgage bank, and since then the company has relied primarily on direct sales via the Internet. However, the company is now shifting its focus to the establishment of a network of housing loan shops to distribute its loans. Eventually, SBI Mortgage plans to distribute a multitude of financial products along with its housing loans.

To review, we foresee enormous synergies between the three new Internet companies and other members of the SBI Group, which possess a large and diverse customer and operating base. Producing these synergies will be vital to making the three new companies profitable quickly, as well as for the three companies to make positive contributions of their own to the SBI Group.



First SBI Money Plaza Opened on May 25, 2007

A comprehensive financial product distributor combining online and face-to-face services

Service lineup

- ◆ Life and nonlife insurance policies
- ◆ Housing loans
- ◆ Information about SBI Card
- ◆ Information about SBI E*TRADE SECURITIES accounts and services
- ◆ Agent for purchase of paintings
- ◆ Consulting for study abroad and living abroad
- ◆ Internet broadcasts of seminars to earn official qualifications
- ◆ Yahoo!BB
- ◆ Softbank Mobile, Others



First Shop (Tokyo Aoyama)

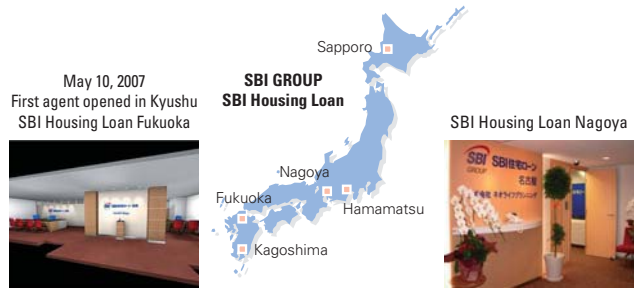
Services to be added*

Information, agency services and sales for banking, securities and other financial services as permitted by laws and regulations

*Assuming that regulatory approval is received

A Network of SBI Mortgage Housing Loan Shops

A place where customers can select the most suitable housing loan



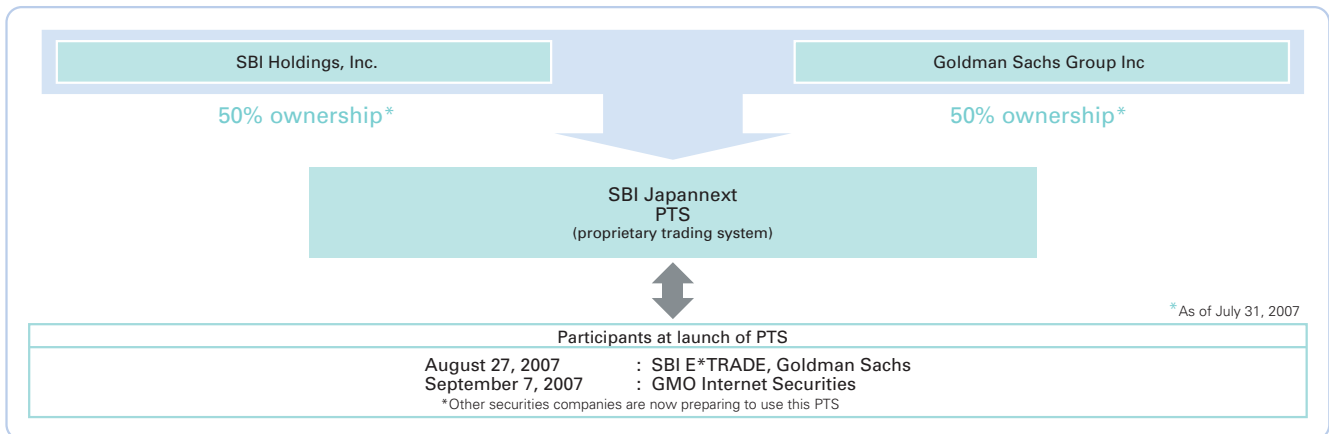
As Japan's pioneer in mortgage specialized banking, SBI Housing Loan plans to open SBI Housing Loan Shops in all major cities in Japan by the end of the current fiscal year.

Japannext Securities Prepares to Launch a Proprietary Trading System (PTS)

There is one more new business that requires a business license for this fiscal year, and that is the PTS of Japannext

Securities, which is owned jointly by SBI Holdings and Goldman Sachs.

**SBI Japannext Securities launched its PTS on August 27, 2007
- Approval received from Financial Services Agency on June 27, 2007-**



Summary of the Japannext PTS

- Stocks traded: About 4,000 (selected by Japannext Securities from the exchange-listed stocks in Japan)
- Hours: 19:00 to 23:50
- Price determination method: Order Driven Continuous Matching (only limit orders will be accepted)

The Japannext PTS received approval from Japan's Financial Services Agency in June 2007. Rather than making a market by ourselves, we plan to create a market for stocks through the participation of a number of securities

companies. We will seek this participation so that customer convenience may be enhanced, as well as to create greater liquidity and service for the investing public.

Question

Q4

The concept of a “business ecosystem” is a highly distinctive aspect of the SBI Group’s business model. Please describe this concept and explain how you plan to utilize this ecosystem.

The idea of a business ecosystem is attributed to a concept that has been debated in the study of “Complexity Science.” In essence, this ecosystem is an economic entity in which individual units interact and people form the foundation. Within this

ecosystem, each company is not merely a member of a particular industry, but they are integral elements of a single ecosystem that encompasses many industries. In this role, companies can produce mutual benefits and growth.

Idea of an Organization Based on Knowledge of Complexity

The Two Primary Propositions in “Complexity” Science

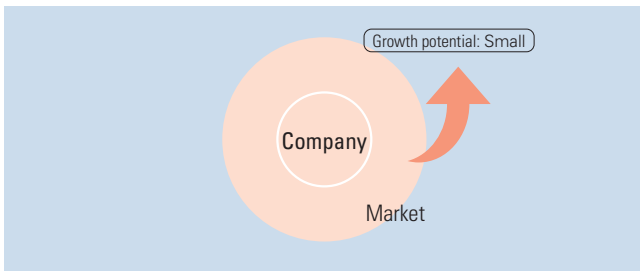
- A mass, which is composed of multiple parts, must be larger than the aggregate of the multiple parts.
- A mass contains new characteristics that cannot be found in the multiple parts that comprise the mass.



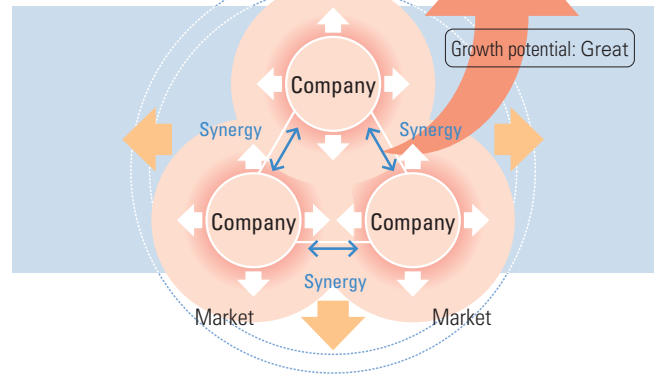
A business ecosystem, a new form of organization, should be developed in order to realize a high growth potential through a synergistic effect and mutual evolution among the various members of the ecosystem that cannot be accomplished by a stand-alone company.

Assembling and expanding the business ecosystem produces positive synergies among the constituent companies. This process also creates a mutual evolution process in each company’s market to support rapid growth.

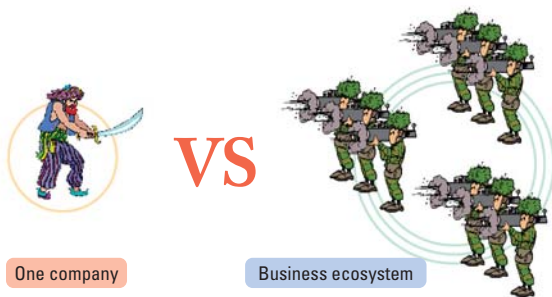
A company as a single economic entity



A “business ecosystem” in which a variety of constituent companies work together to achieve mutual evolution



Assembling a business ecosystem is essential to achieving an overwhelming competitive edge in today’s Internet-driven marketplace.



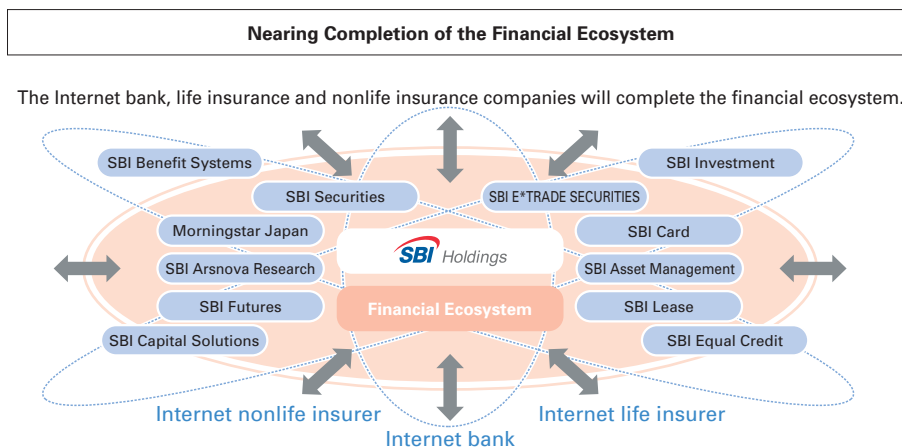
No company can compete and win by itself!

Building a business ecosystem has become a basic prerequisite for achieving a competitive edge in today’s age of Internet-driven businesses and markets. In fact, I believe that it is difficult for any one company to compete on its own in today’s Internet Age.

Since its inception in 1999, the SBI Group has grown through the establishment of many companies, primarily in the financial services sector, and this process created the business ecosystem that now defines our group. Our policy is “to utilize the finance sector as the nucleus to go beyond the sector.” We plan to build business ecosystems in the housing and real estate sector as well as in the information systems sector, which are both closely related to finance. Our ultimate objective is to transform the entire SBI Group into a single business ecosystem by capturing mutual synergies across these three ecosystems.

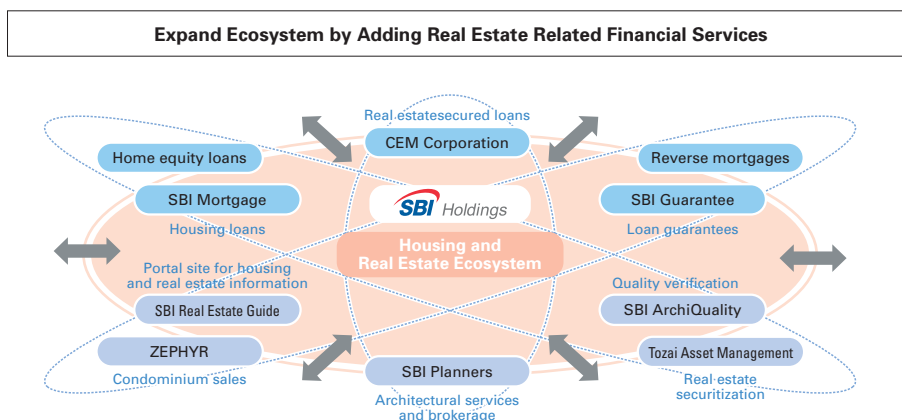
(1) Toward the completion of the financial ecosystem by launching the Internet bank and insurance companies

During the current fiscal year ending in March 2008, we plan to start operations at our Internet bank, nonlife insurance company and life insurance company. We will work to develop each company into an entity with the same scale and market presence as SBI E*TRADE SECURITIES. Achieving this goal will move us closer to our ultimate goal of assembling a formidable finance group.



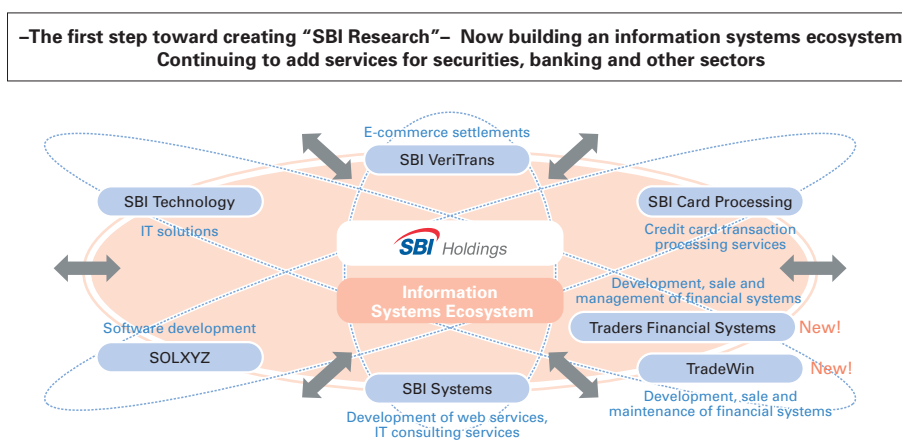
(2) The housing and real estate ecosystem

The housing and real estate sector presents numerous business opportunities that are closely linked to finance, with real estate securitization being a prime example. This means that real estate operations may share many resources with our financial companies. Consequently, we intend to establish a powerful business ecosystem in the housing and real estate sector, which has the potential of generating an immense volume of synergies with our existing ecosystems.



(3) The information systems ecosystem

As an organization with many Internet-based businesses, IT systems and software are vital to our operations. This provides us with an opportunity to create an information systems ecosystem, which we believe will play a major role in building and operating various systems at group companies. Our plans also look ahead to Finance 2.0, a platform for the coming age of knowledge based financial services. We expect to set the stage for future growth at the SBI Group by utilizing our information systems ecosystem to unify both finance and the Internet.



Q5

In the past fiscal year, a change in the accounting policy resulted in the consolidation of several SBI Group funds. Please summarize the effect of this accounting change in simple terms.

Complying with the new accounting standard, we included several funds operated by the SBI Group in our consolidated financial statements starting with the first half of the previous fiscal year. We took this action because of the importance of these funds with regard to our financial statements, and based on the advice of our independent auditor, a total of 12 funds, including four real estate funds, were consolidated as of March 31, 2007.

In the Asset Management Business, fund establishment, management and success fees were the primary sources of

operating revenues prior to this change. However, this fee income is now eliminated during the consolidation process, but are included in net income after an adjustment for minority interests. In principle, net income is the same under both the previous and new accounting standards, but the consolidation of funds has produced significant changes in operating income and income before income taxes.

The best way to understand the differences is to compare our consolidated income statement before and after consolidation of the funds.

<Case 1.> When stocks are not sold by a fund during the fiscal year

Example 1: A ¥100 billion fund (5% management fee) in which the SBI Group has a 10% equity stake

Under the previous accounting standard, the fund management fee of ¥4.5 billion (¥100 billion X (100% - 10%) X 5%) is included in operating revenues, operating income and ordinary income. Under the new standard, with this fund consolidated, management fees

from external parties are eliminated during the consolidation process, lowering operating revenues. But since these management fees are now included in minority interests, net income is, in principle, the same under both accounting standards.

Effect of Fund Consolidation on Income Statement (Case I)

Example Fund with assets of ¥100 billion (5% management fee) and 10% investment by the SBI Group
No sales of stock during the fiscal year. (SG&A expenses are zero for convenience.)

(100 million yen)	Previous accounting standard	After fund consolidation	
Operating revenues	45*	0	$\text{¥1,000} \times (100-10)\% \times 5\%$
Sales of stock	0	0	
Fund management fees	45	0	Eliminated in consolidation -45
Operating costs	0	0	
Cost of stock	0	0	
Gross profit	45	0	
SG&A expenses	-	-	
Operating income	45	0	
Ordinary income	45	0	
Income before income taxes	45	0	
Minority interests in net income	0	45	Minority interests in net income +45
Taxes*	▲18	▲18	
Net income	27	27	In general, there is no difference ±0

*Assumes a corporate tax rate of 40% and does not reflect tax-effect accounting.

Cause of big decline in operating income

The entire management fee is deducted from revenues because even the fees corresponding to the investments of external investors are treated as internal transactions and eliminated in consolidation.
→ The management fee is recognized instead as a minority interest in net income

◀Case 2.▶ When a fund conducts a sale of stocks during the fiscal year, with proceeds of ¥10 billion and a cost of ¥4 billion

Example 2: A ¥100 billion fund (0% management fee) in which the SBI Group has a 10% equity stake

Under the previous accounting standard, 10% of the sales proceeds, which is ¥1 billion (¥10 billion X 10%) is included in operating revenues and 10% of the cost, which is ¥400 million (¥4 billion X 10%) is included in operating costs. Under the new accounting standard, with this fund consolidated, operating

revenues and operating costs also include external parties' portions of sales proceeds and the corresponding cost. The additional revenues and cost all drop down to income before income taxes. Again, there is a minority interests adjustment, so net income is, in principle, the same under both accounting standards.

Effect of Fund Consolidation on Income Statement (Case II)

Example

Fund with assets of ¥100 billion (0% management fee) and 10% investment by the SBI Group
One sale of stock during the fiscal year, with a cost basis of ¥4 billion and proceeds of ¥10 billion

(100 million yen)	Previous accounting standard	After fund consolidation	
Operating revenues	10*	100	(100 million yen) ¥100 x 10% (SG&A expenses are zero for convenience.)
Sales of stock	10	100	
Fund management fees	0	0	Portion corresponding to external investors +90
Operating costs	▲4	▲40	Portion corresponding to external investors -36
Cost of stock	▲4	▲40	
Gross profit	6	60	All figures through income before income taxes are higher because operating revenues and operating costs include the portion of stock sale proceeds and cost corresponding to external investors. → The external investors' portion (90%) of the ¥6 billion capital gain is deducted as minority interest in net income
SG&A expenses	-	-	
Operating income	6	60	
Ordinary income	6	60	Minority interests in net income -54
Income before income taxes	6	60	
Minority interests in net income	0	▲54	In general, there is no difference ±0
Taxes*	▲2.4	▲2.4	
Net income	3.6	3.6	

*Assumes a corporate tax rate of 40% and does not reflect tax-effect accounting.

When we consolidated the funds, we determined the time that we first included the funds in the scope of consolidation, based on accounting rules. We then calculated the difference between the value of the equity stake held by the parent company and the net asset value (market value) of the fund. We posted the resulting figure, whether positive or negative, on our balance sheet as goodwill.

For example, some of the newly consolidated funds had a high market value (large unrealized capital gain for SBI Holdings) at the time of their consolidation. This resulted in negative goodwill. Afterward, these funds sold stocks to generate capital gains, eliminating the cause of the originally high market value. Due to these sales, accounting principles require us to amortize

all negative goodwill as non-operating income. This amortization of negative goodwill resulted in a large increase in our consolidated ordinary income in the first half of the March 2007 fiscal year.

There is a view among some SBI Group executives that the previous accounting standard which included fees from venture capital operations directly in operating revenues more accurately reflected the performance of our venture capital business. However, we have decided to consolidate the funds to comply with the new accounting standard.

Going forward, we will consider ways to present our financial information in a way that allows comparisons between the previous and current accounting standards.