

Management's Discussion & Analysis

Analysis of Business Results for the Fiscal Year

In the fiscal year ended March 31, 2010, the SBI Group continued to face a challenging business environment that was even more difficult than the previous fiscal year, with individual investor stock brokerage trading value declining 6.9% year-on-year in the Japanese stock markets and the number of IPOs falling by 15 companies to 19 companies. Meanwhile, overseas stock markets appeared to be over the worst, with markets performing relatively well centered on emerging countries with good prospects for growth, and the global IPO market recovering on the back of new listings in China and Hong Kong. Against this backdrop, operating revenues declined 4.9% year-on-year to ¥124,542 million, operating income dropped 22.1% to ¥3,432 million, and ordinary income surged to ¥1,113 million, a 2,875.4% rise from the previous fiscal year. Net income totaled ¥2,350 million, from a net loss of ¥18,375 million a year earlier. This marked a bottom-line profit for the first time in two years, despite recording provisions of allowances for doubtful accounts and the booking of other items totaling ¥8,299 million. Moves to rationalize operations after the Lehman Shock, primarily through organizational restructuring, have wound down, and we are starting to see signs of recovery in each of our business segments.

Asset Management Business

In the Asset Management Business, operating revenues rose 26.4% year-on-year to ¥20,195 million and operating income declined 28.2% to ¥1,863 million. Despite a continued tough business environment amid an ongoing sharp fall in the number of new companies listing on domestic stock markets, the number of IPOs and M&As with which the Asset Management Business was involved recovered strongly from zero in the previous fiscal year to 11 companies in the fiscal year under review. Also, with overseas stock markets recovering ahead of Japanese markets, NEW HORIZON FUND, L.P., which invests in unlisted stocks in China, contributed ¥2,156 million in operating income to the SBI Group. Aggressive investments made and expanded by the Asset Management Business in China and other emerging economies in Asia since 2005 have paid off and are now generating a profit. Furthermore, SBI Holdings, Inc. (the "Company") believes the ongoing tough business environment and weak stock market performance presents an ideal opportunity to make new

investments, and the Company has actively invested to take advantage of the drop in investment costs since the Lehman Shock. During the fiscal year under review, funds managed by the SBI Group invested a total of ¥54,370 million, for a total of ¥59,532 million after including direct investments of ¥5,161 million. The number of investees totaled 143 companies.

Brokerage & Investment Banking Business

In the Brokerage & Investment Banking Business, operating revenues rose 1.9% year-on-year to ¥50,123 million and operating income increased 64.1% to ¥9,375 million. Conditions remained difficult, with individual stock brokerage trading value continuing to decline, but SBI SECURITIES Co., Ltd. continued to perform well, adding 187,478 new customer accounts during the year under review. In December 2009, the company also became the first online brokerage to top two million registered accounts, with the total reaching 2,053,986 at the end of March 2010. Customer assets also considerably increased, rising 37.4% year-on-year to ¥4,093.2 billion at the end of March 2010. For the current fiscal year, SBI SECURITIES reported a drop in consolidated operating revenues of 3.0% year-on-year to ¥46,114 million, but saw operating income rise 29.0% to ¥12,455 million primarily on the back of strong foreign exchange margin (FX) trading. The year-on-year drop in operating revenues primarily reflected the booking of operating revenues from E*Trade Korea Co., Ltd. up to the second quarter of the previous fiscal year when the company was sold. At SBI Liquidity Market Co., Ltd., which began operations in November 2008, trading value of FX trading has grown rapidly over a short period of time. In the fiscal year under review, nonconsolidated operating revenues of SBI Liquidity Market were ¥10,574 million and operating income was ¥3,081 million.

Financial Services Business

The Financial Services Business reported another year of higher operating revenues, rising 13.2% year-on-year to ¥25,606 million thanks to solid performances at existing businesses operated by each company in this segment. Although operating income declined 86.2% year-on-year to ¥207 million, reflecting the booking of ¥1,511 million for provisions of allowances for doubtful accounts related to the consumer loan business and operating losses in new businesses, the Company managed to ensure an operating profit thanks to an upturn in existing businesses and cost reductions.

In new businesses, equity-method affiliate SBI Sumishin Net Bank, Ltd. had a deposit balance of ¥1,193.8 billion and a total of 753,000 customer accounts as of March 31, 2010, both roughly double the level of a year earlier and expanding much faster than initially projected. The bank's nonconsolidated net income was ¥2,316 million, compared with a net loss of ¥3,699 million in the previous fiscal year, moving into the black three years after it was established. This upturn in profitability largely contributed to the improvement in equity in gains/losses of affiliates (non-operating gains/losses).

Housing and Real Estate Business

The Housing and Real Estate Business, which comprises the real estate business, financial real estate business, and lifestyle networks business, reported a 28.1% year-on-year decline in operating revenues to ¥29,408 million and an operating loss of ¥36 million.

Operating revenues in the real estate business, which primarily develops real estate assets for supply to investors, fell 64.5% to ¥6,522 million, owing to weakness in the domestic real estate market and other factors. However, there were

some positive signs emerging, with sales of small and medium-sized properties to wealthy individuals and other investors on the rise, although genuine recovery still remained some way off.

In the financial real estate business, operating revenues rose 15.4% year-on-year to ¥9,110 million. SBI Mortgage Co., Ltd. continues to offer "Flat 35," a long-term fixed-rate housing loan product, in partnership with the Japan Housing Finance Agency. As of March 31, 2010, SBI Mortgage's balance of housing loans outstanding totaled more than ¥600 billion and continues to grow steadily. In addition, the company has gradually been converting its network of face-to-face retail shops from "SBI Housing Loan" Shop to "SBI Housing Loan/SBI Money Plaza" to provide greater access to consumers for the whole SBI Group. At the same time, it is expanding its face-to-face retail channel primarily through the use of franchising.

In the lifestyle networks business, SBI Life Living, Inc. moved into the black for operating income on a consolidated basis, reflecting a solid performance from intermediary sales transactions and lifestyle-related comparison websites.

Operating Revenues by Segment

	Year ended 31st March, 2009		Year ended 31st March, 2010	
	Millions of Yen	%	Millions of Yen	%
Asset Management Business	¥ 15,982	12.2	20,195	16.2
Investment in Securities	12,924		17,374	
Revenue from Operational Investment Securities	11,804		16,103	
Fees from Funds	1,120		1,270	
Investment Advisory Services Fees and Others	3,057		2,820	
Brokerage & Investment Banking Business	49,182	37.6	50,123	40.2
Financial Services Business	22,617	17.3	25,606	20.6
Marketplace Business	4,737		5,733	
Financial Products Business	8,015		7,936	
Financial Solutions Business	4,516		5,519	
Other Businesses	4,338		4,052	
New Businesses	1,008		2,364	
Housing and Real Estate Business	40,907	31.2	29,408	23.6
Real Estate Business	18,353		6,522	
Financial Real Estate Business	7,892		9,110	
Lifestyle Networks Business	14,661		13,775	
System Solution Business	6,354	4.9	4,630	3.7
Intersegment Revenue	(4,119)	(3.2)	(5,420)	(4.3)
Total Operating Revenue	¥130,923	100.0	124,542	100.0

Note: For the year under review, the operations of the Brokerage & Investment Banking Business have not been divided into the Securities Business and the Commodity Futures Business, owing to the abolishment of the commodity futures trading business at SBI Futures Co., Ltd.

System Solution Business

The System Solution Business reported a 27.1% year-on-year drop in operating revenues to ¥4,630 million, and an operating loss of ¥515 million. These results were primarily generated by SBI Net Systems Co., Ltd. Amid prolonged cutbacks in investments for equipment by clients, mainly financial institutions, SBI Net Systems saw orders fall behind plan and experienced a delay in booking sales owing to changes in the timing of verification for orders received.

For the fiscal year ending March 31, 2011, we project a contribution from lower selling, general and administrative expenses on reductions in manufacturing costs due to promoting offshore development and on the integration of administrative departments. We also expect to receive contracts for new system development projects related to the business expansion of the SBI Group and further business growth leveraging its know-how.

Operating Revenues

Asset Management Business

(Investment in Securities Business)

The SBI Group invests in venture capital companies both in Japan and overseas industries such as IT, biotechnology, environment & energy, and financial fields. Revenues come from two main sources in the investment in securities business: (1) revenue from operational investment in securities, with revenues derived from the sale of securities held for the purpose of securing capital gains (revenue from operational investment securities), and (2) revenue from funds which comprises fund establishment fees, fund management fees and success fees that are based on a fund's performance. When the Company or its consolidated subsidiaries invest in a fund operated by the SBI Group, all operating revenues from the funds under the scope of consolidation, including the revenues corresponding to the stakes of other investors, are booked as revenue from operational investment securities.

In the fiscal year under review, revenue from operational investment securities rose 36.4% year-on-year to ¥16,103 million. This primarily reflected revenues from consolidated funds and the inclusion of NEW HORIZON FUND, L.P. in consolidated accounts. Revenue from funds increased 13.5% year-on-year to ¥1,270 million, and primarily reflected management fees from the SBI Broadband Capital Fund and the SBI BB Media Fund.

(Investment Advisory Services and Other Businesses)

Operating revenues from investment advisory services and other businesses declined 7.7% to ¥2,820 million, which primarily came from investment trust management fees and interest income from operational loans receivable.

Brokerage & Investment Banking Business

Operating revenues in this business are derived mainly from brokerage commissions from securities transactions, underwriting and sales fees for initial public offerings, and commissions for the placement and sale of stock.

Operating revenues increased 1.9% to ¥50,123 million. This revenue was primarily generated by SBI SECURITIES Co., Ltd. and SBI Liquidity Market Co., Ltd.

For the year under review, the operations of the Brokerage & Investment Banking Business have not been divided into Securities Business and Commodity Futures Business, owing to the abolishment of the commodity futures trading business at SBI Futures Co., Ltd.

Financial Services Business

(Marketplace Business)

The number of auto insurance estimates provided by our insurance portal website, "InsWeb," and the number of requests for information materials received by other finance-related websites were steady, with user transaction numbers* at financial services websites rising 4.1% year-on-year to 967,000. Operating revenues at the marketplace business increased 21.0% to ¥5,733 million in the fiscal year under review.

* Number of actual estimates, requests for information materials, provisional applications and other transactions conducted on the websites.

(Financial Products Business)

SBI Lease Co., Ltd. leases broadband communication infrastructure equipment and broadband content business equipment, and also offers leases for mobile communication infrastructure equipment. Leases outstanding as of March 31, 2010 totaled more than ¥68.3 billion, including subleasing and the arrangement of lease syndications. Operating revenues in this business declined 1.0% to ¥7,936 million.

(Financial Solutions Business)

SBI VeriTrans Co., Ltd., which offers online payment processing solutions for e-commerce businesses, continued to grow along with the expansion of the Internet and e-commerce markets in Japan. This company recorded a steady 14.7% increase in the number of transactions to more than 59.21 million. Also in this

business, the Company provides "MoneyLook[®]" account aggregation software, and this had more than 550,000 registered users as of March 31, 2010. As a result, operating revenues in the financial solutions business increased 22.2% to ¥5,519 million.

(Other Businesses)

Morningstar Japan K.K., which provides information on evaluations of financial products, particularly investment trusts, saw steady growth in the number of registered website users and providers of defined contribution pension services, while Gomez Consulting Co., Ltd., which provides website evaluation and ranking services and business support services, worked to strengthen its proposal capabilities, particularly in the financial sector where there were signs of a pickup in business sentiment. Operating revenues in other businesses declined 6.6% to ¥4,052 million.

(New Businesses)

SBI Card Co., Ltd. used its skill in offering cards with some of the industry's best features to increase the number of cards issued to more than 71,000 (as of March 31, 2010), after only three years and four months since starting operations. SBI Insurance Co., Ltd., which began operations in January 2008, is steadily increasing the number of auto insurance contracts by offering low premiums, expanding sales channels, and boosting sales with special deals. As of the end of the fiscal year under review, the cumulative number of contracts signed totaled more than 133,000. As a result, operating revenues in new businesses increased 134.4% year-on-year to ¥2,364 million. On February 16, 2010, all shares of SBI AXA Life Insurance Co., Ltd. held by the Company were transferred to AXA Japan Holding Co., Ltd.

Housing and Real Estate Business

(Real Estate Business)

Operating revenues in this business declined 64.5% year-on-year to ¥6,522 million, which are primarily generated by the Company and SBI Life Living, Inc. (formerly Living Corporation, Inc.)

(Financial Real Estate Business)

In the financial real estate business, which together with the real estate business forms the Group's housing and real estate ecosystem, operating revenues rose 15.4% to ¥9,110 million. Operating revenues in this business are derived from SBI Mortgage Co., Ltd. and CEM Corporation.

(Lifestyle Networks Business)

This business is engaged in the operation of websites for comparisons, searches and estimates of various products and services, as well as sales and services relating to beauty care, health food products, women's clothing and accessories, and other products. Operating revenues in this business dropped 6.0% year-on-year to ¥13,775 million.

System Solution Business

Operating revenues in this business declined 27.1% to ¥4,630 million for the fiscal year under review. Operating revenues in the business are primarily generated by SBI Net Systems Co., Ltd.

Note: Operating revenues by segment are prior to the elimination of intersegment revenues.

Selling, General and Administrative Expenses

During the fiscal year under review, selling, general and administrative expenses amounted to ¥61,971 million, down 1.5% year-on-year, and primarily comprised of personnel costs and securities system outsourcing costs.

Other Income (Expenses)

Net other loss was ¥2,511 million (net other loss of ¥20,536 million in the previous fiscal year) mainly owing to allowance for doubtful accounts of ¥1,973 million and interest expense of ¥1,960 million.

Cash Flows

Total assets stood at ¥1,229,940 million at the end of March 2010, an increase of ¥150,706 million compared with the balance of ¥1,079,234 million a year earlier. Key factors behind the rise included increases of ¥52,500 million in cash segregated as deposits and ¥80,840 million in margin transaction assets booked by the Brokerage & Investment Banking Business. In addition, compared with the end of the previous fiscal year, net current assets rose ¥9,276 million to ¥428,615 million.

Cash and cash equivalents totaled ¥142,582 million at the end of March 2010, an increase of ¥16,269 million compared with the balance of ¥126,313 million a year earlier. The following is a summary of cash flows.

Operating Activities

Net cash used by operating activities totaled ¥53,135 million, compared with net cash provided of ¥103,035 million in the previous fiscal year. This mainly reflected cash outflows of ¥77,075 million for net changes in margin transaction assets and liabilities, and ¥12,962 million for increase in cash segregated as deposits for customers.

Investing Activities

Net cash used in investing activities totaled ¥15,563 million, compared with net cash used in the previous fiscal year of ¥1,104 million. This was mainly attributable to cash outflows of ¥7,653 million for purchases of investment securities, and ¥7,043 million for purchases of intangible assets.

Financing Activities

Net cash provided by financing activities totaled ¥84,599 million, compared with net cash used in the previous fiscal year of ¥137,515 million. This mainly reflected cash of ¥122,219 million for proceeds from the issuance of corporate bonds.

Risk Information

The following principal categories of business risks and other risks affecting the SBI Group's businesses may have a material impact on investment decisions. Although the risks below are those currently recognized by the Company, this is not necessarily a complete list of risks. In recognizing these latent risks, the SBI Group will work to avoid any such risks and take appropriate measures in the event that any such risk arises.

Impact of Changes and Other Events in the Operating Environment

The SBI Group is engaged in a diverse range of businesses that include investments, housing and real estate, financial instrument trading, proprietary trading system (PTS), banking, insurance, housing loan, and leasing businesses. Accordingly, there is a possibility that trends in such related markets as the stock markets, money markets, foreign exchange markets and real estate markets as well as political, economic and industry trends may have a significant impact on the SBI Group. Therefore, such external factors over which the SBI Group has no control could cause changes in business results and have a major impact on the SBI Group's overall business results. Furthermore, the Company's business results may experience substantial fluctuations in the event that investment gains/losses are concentrated in certain time periods.

Additionally, governments, government ministries and agencies, as well as various financial markets are proceeding with system reforms and amendments to laws concerning stock markets and other markets related to the SBI Group's businesses. Although appropriate measures are taken upon sufficiently ascertaining these developments, additional major changes to system reforms and legal amendments in the future may have an impact on the SBI Group's business results.

Competition

The SBI Group is engaged in businesses in fields characterized by innovation and high growth. Since these businesses are considered to have promising growth potential, competition is intense and new participants continue to enter these fields. Consequently, there is no assurance that the SBI Group can remain competitive in the event of excessive competition that exceeds market growth. The SBI Group will continue to endeavor in its efforts to maintain and increase its current competitive business

advantages. However, the emergence of strong competitors could cause the SBI Group to lose its dominant position, and therefore have an impact on its business results.

System Risk

The SBI Group extensively utilizes the Internet in carrying out its businesses. Since a large portion of business activities depend on computer systems, the SBI Group has devised various countermeasures that include the build-up of backup computer systems. Nevertheless, the SBI Group's business results may be significantly affected if its computer systems become inoperable due to reasons unforeseen at present, including hardware and software malfunctions, human error, interruption or cessation of service due to a breakdown in communication lines, or problems with the communications provider, computer viruses, cyber terrorism, or a system malfunction caused by a natural disaster.

Particularly in the Brokerage & Investment Banking Business, which utilizes the Internet as the principal sales channel, the SBI Group recognizes that ensuring the stability of its system for online transactions is the most crucial management issue. The SBI Group has thus implemented a number of countermeasures, which include building redundant mission critical systems and monitoring functions, as well as establishing backup sites at multiple locations and undertaking continual initiatives to maintain and enhance the level of service. Nevertheless, should a system malfunction occur despite the implementation of these countermeasures, there is a possibility that a delay or failure to appropriately respond may result in claims for damage resulting from such a malfunction, and this may also erode trust in the SBI Group's systems and support structure. This, in turn, may result in the loss of a large number of customers.

The businesses in which the SBI Group is engaged involve various intellectual property rights such as patent rights and copyrights. The inadequate safeguarding of the SBI Group's intellectual property rights or the lack of proper licensing for the use of intellectual property rights owned by a third party may complicate technological development efforts or the provision of services.

Investment Risk

In the Asset Management Business, the portfolio companies of the investment associations managed by the SBI Group include numerous emerging companies and companies undergoing restructuring. These companies face numerous challenges regarding their future performance, resulting in the possibility of a change in the business results of these portfolio companies due to various factors in the future. These factors include, but are not limited to, changes in the competitive environment owing to sudden technological innovations or changes in industry standards, the inability to secure and maintain talented managers and employees, a weak financial position, or the failure of portfolio companies to disclose crucial information.

In the Real Estate Business, the SBI Group conducts sufficient prior due diligence when acquiring real estate. However, the discovery of problems after acquisitions in areas beyond the scope of the due diligence, including problems related to rights that are unique to the real estate industry, soil and geological issues involving the site or the environment, may have a significant impact on the value or profitability of a property. Also, the occurrence of any unforeseen accidents, incidents, or natural disasters such as fires, civil unrest, terrorism, earthquakes, volcanic eruptions, or tidal waves may impact the value or profitability of the property.

In addition, investment activities outside Japan may be affected by changes in local economies, politics and legal systems, terrorism, or unforeseen social unrest. The SBI Group is thoroughly studying and analyzing conditions in other countries in order to reduce exposure to country risk. However, since it is difficult to completely avoid the effects of these risks, the occurrence of any of these problems may have an impact on the SBI Group's business results.

Protection of Personal Information

By extensively utilizing the Internet, the SBI Group carries out wide-ranging business activities that include Financial Services, Real Estate and Lifestyle Networks businesses. In the course of these activities, the SBI Group obtains and uses information on numerous customers. The SBI Group is engaged in financial service businesses, including the financial instrument trading, banking and insurance operations. Since financial service businesses demand confidence, stability and safety, the SBI Group believes that preventing damage from leaks of customer

information and unauthorized access is extremely crucial. The SBI Group thus recognizes that information security is its most crucial issue for ensuring that customers may use its services with confidence.

The SBI Group has established an internal management structure, and is constantly working on making improvements for the purpose of complying with Japan's Personal Information Protection Act and associated regulations. In the event of a violation of a law or regulation at the SBI Group, or an information leak, the resulting loss of trust among customers and other consequences may have an impact on the SBI Group's business results.

Business Reorganization

As a "Strategic Business Innovator," one of the SBI Group's basic policies is to perpetuate "Self Evolution."

SBI Futures Co., Ltd. discontinued its commodity trading business in July 2009 and became a wholly-owned subsidiary of the Company through a stock exchange in August 2009. Also, on April 1, 2010, SBI Futures was merged into SBI SECURITIES Co., Ltd.

On February 16, 2010, the Company sold all the shares of SBI AXA Life Insurance it owned to AXA Japan Holding Co., Ltd.

Going forward, the SBI Group will actively expand its business portfolio by taking actions that include M&A activities in fields that can produce synergies with the SBI Group's core businesses. Nevertheless, despite sufficient prior investment analysis and detailed diligence, there is a possibility that this business reorganization and expansion in the range of business activities may have unanticipated results that impact the SBI Group's business results.

In the fiscal year that ended in March 2007, the SBI Group adopted "Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations" (Accounting Standards Board of Japan Practical Solution Report No. 20, September 8, 2006). As a result, the SBI Group began treating as consolidated subsidiaries several funds that the SBI Group manages.

Therefore, all assets, liabilities and other items at these funds are now included in the consolidated balance sheets of SBI Holdings. In addition, management and other fees from these funds that were previously recognized as operating revenues in the Asset Management Business are now eliminated through this consolidation. These fees are now included in the income statement as minority interests in net income.

Moreover, all revenues and expenses of the newly consolidated funds are included in the consolidated income statement irrespective of the SBI Group's ownership. An adjustment is made through minority interests in net income for the portion of revenues and expenses corresponding to external investors.

Consequently, the above changes caused by the application of "Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations" must be taken into consideration when comparing the SBI Group's consolidated financial condition, and results of operations in past fiscal years.

Investment Securities

The SBI Group holds a considerable amount of investment securities that include investments in unconsolidated subsidiaries and affiliated companies. Therefore, any losses incurred by the impairment of said investment securities may affect the results and financial position of the SBI Group.

Entering New Businesses

Based on the management principle of "Aiming to Be a New Industry Creator," the SBI Group is aggressively creating and cultivating core industries of the 21st century. Furthermore, the inability of new businesses to attain initially forecasted targets, or the failure to achieve sufficient future profits commensurate with initial investments may have an adverse impact on the SBI Group's business results. In addition, these new businesses could become subject to new laws or be placed under the guidance of regulatory authorities. Subsequent violations of such laws with any resulting administrative actions, or other punishment could impede the performance of these businesses.

Status as a Financial Conglomerate

The SBI Group is classified as a financial conglomerate as defined by the regulations of the Financial Services Agency. As a result, the SBI Group is further strengthening its risk management and compliance systems in order to maintain financial soundness, and to conduct business activities properly. However, if the SBI Group is subject to an administrative action or other punishment by the Financial Services Agency, for whatever reason, the SBI Group may have difficulty conducting its business operations.

Funding Liquidity Risk

The SBI Group secures the funds required for its business operations by procuring equity capital from capital markets, taking out loans from financial institutions, issuing bonds, and taking other actions. The ability to procure funds by the Company or its subsidiaries at the required time and desired terms may be restricted, and the cost of fund procurement may rise in the event of turmoil in the financial markets, the reluctance of financial institutions to extend credit, a reduction in the Company's credit rating, a surge in capital demand by the Company's subsidiaries, or other events. Such events may have an impact on the SBI Group's business results.

Reliance on Key Personnel

The SBI Group relies on a management team with strong leadership capabilities, beginning with Representative Director and CEO Yoshitaka Kitao. In the event that the current management team is no longer able to continue managing the SBI Group's business activities, there could be an adverse impact on the SBI Group's business results.

Employees

The SBI Group has always hired talented personnel under its management, which possesses strong leadership capabilities, however, its results may be negatively impacted should the continuous hiring of such personnel be rendered impossible.