Financial Section

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Management Discussion and Analysis

Analysis of Business Results for the Fiscal Year

During the fiscal year ended March 31, 2011, the business environment surrounding the Group continued to be severe as individual stock brokerage trading value in the domestic equity market declined 16.3% year-on-year and the number of IPO companies remained at a low level, although the number increased by 4 from a year earlier to 23. Meanwhile, overseas, markets of emerging countries with high growth expectations continued to be relatively steady despite showing signs of instability at times affected by global conditions, and the world's IPO market continues to recover, driven by China and Hong Kong. Under these circumstances, the Group's consolidated results of operations in the fiscal year ended March 31, 2011 were as follows. Net sales increased 13.3% year-on-year to ¥141,081 million, operating income climbed 160.3% to ¥8,932 million, ordinary income surged 216.8% to ¥3,525 million, and net income increased 93.0% year-on-year to ¥4,534 million. Amid the harsh business environment, we achieved higher income and profit than the results of the previous fiscal year.

Asset Management Business

In the Asset Management Business, net sales increased 52.1% year-on-year to ¥30,701 million and operating income surged 276.5% year-on-year to ¥9,577 million. Amid a continued tough business environment although the number of new companies listing on domestic stock markets increased from a year earlier, and the number of IPOs and M&As with which the Asset Management Business was involved increased from 11 in the previous fiscal year to 17, given that these activities took place primarily overseas where stock markets have been recovering ahead of domestic markets. In addition, NEW HORIZON FUND, L.P., which invests in unlisted stocks in China, contributed ¥3,325 million in operating income to the Group. Aggressive investments made in China and other emerging Asian countries since 2005 have paid off and are now generating significant profit. The Company believes that a lingering difficult business environment with weak stock market performance actually offers an ideal opportunity to make new investments, and the Company has taken advantage of the drop in investment costs since the Lehman Shock to continue investing aggressively. During the fiscal year ended March 31, 2011, funds managed by the Group invested ¥50,579 million, and together with direct investments of ¥13,856 million, investments by the Group amounted to a total of ¥64,435 million. The number of investees totaled 185 companies.

Brokerage & Investment Banking Business

In the Brokerage & Investment Banking Business, net sales declined 4.5% from the previous fiscal year to ¥47,873 million and operating income decreased 34.7% year-on-year to ¥6,123 million. The business environment remained harsh with individual stock brokerage trading value continuing to slide. However, SBI SECURITIES Co., Ltd. maintained favorable performance, adding 155,960 new customer accounts during the fiscal year ended March 31, 2011, and the number of accounts totaled 2,209,946 at year-end. The consolidated performance of SBI SECURITIES Co., Ltd. for the fiscal year ended March 31, 2011 resulted in net sales of ¥44,077 million, down 4.4% year-on-year and operating income of ¥9,896 million, down 20.5% year-on-year, due to the decline in brokerage commissions caused by the fall in individual stock brokerage trading value, although revenues relating to the investment trust business increased as a result of favorable sales of investment trusts and revenues from trading increased backed by higher sales of foreign bonds. At SBI Liquidity Market Co., Ltd., which began operations in November 2008, trading value has remained at a high level even after the introduction of leverage restrictions in August 2010. Non-consolidated results of the company for the fiscal year ended March 31, 2011 were operating revenue of ¥9,493 million and operating income of ¥1,991 million.

Financial Services Business

In the Financial Services Business, we recorded higher revenues again, and net sales increased 19.2% year-on-year to ¥30,530 million as a result of favorable performance of listed subsidiaries, SBI VeriTrans Co., Ltd. and Morningstar Japan K.K. However, operating losses in the consumer credit and card business had a material impact as a result of which the Financial Services Business segment recorded an operating loss of ¥536 million.

At SBI Sumishin Net Bank, Ltd., an affiliate accounted for under the equity method, the total deposit balance as at March 31, 2011 was ¥1,552.4 billion and the number of accounts topped 1 million in February 2011 and 1,049,000 in March 2011. These results significantly exceeded the initial plan, and consequently, the Bank recorded non-consolidated net income of ¥3,528 million, up 52.3% year-on-year.

Housing and Real Estate Business

In the Housing and Real Estate Business, which is comprised of the real estate business, the financial real estate business and the lifestyle networks business, net sales increased 36.8% year-on-year to ¥23,467 million and operating income surged 286.4% year-on-year to ¥3,370 million. While the domestic real estate market has yet to show full-fledged recovery, sales of small and mid-size properties to wealthy individuals and other investors are on the rise. Under such circumstances, SBI Mortgage Co., Ltd. continues to offer “Flat 35,” a long-term fixed interest rate housing loan product, in partnership with the Japan Housing Financing Agency, through over 100 “SBI housing loan shops/SBI Money Plaza” nationwide at the lowest rates in the industry. As a result, the company has been building up its loan balance, which exceeded ¥900 billion as of March 31, 2011. The company’s non-consolidated net sales amounted to ¥9,555 million and operating income was ¥2,888 million.

Selling, General and Administrative Expenses

During the consolidated fiscal year, selling, general and administrative expenses amounted to ¥64,613 million, up 4.3% year-on-year, and consisted primarily of personnel expenses and securities system outsourcing costs.

Non-operating Income

Non-operating income for the consolidated fiscal year amounted to ¥1,186 million, up 0.1% year-on-year. This was primarily interest income and dividend income.

Non-operating Expenses

Non-operating expenses rose 88.1% from the previous consolidated fiscal year to ¥6,593 million, consisting primarily of interest expenses and foreign exchange loss.

Extraordinary Income

During the consolidated fiscal year, extraordinary income rose 189.0% year-on-year to ¥10,018 million. This was mainly gains on sales of investment securities.

Extraordinary Expense

Extraordinary expense increased 121.8% from the previous consolidated fiscal year to ¥8,113 million. This consisted primarily of provision of allowance for doubtful accounts.

Operating Revenues by Segment

	Year Ended 31 March 2010 (From 1 April 2009 to 31 March 2010)		Year Ended 31 March 2011 (From 1 April 2010 to 31 March 2011)	
Segment	Millions of Yen	%	Millions of Yen	%
Asset Management Business	¥ 20,189	16.2	¥ 30,701	21.8
Investment in Securities	17,374		28,475	
Revenue from Operational Investment Securities	16,103		27,127	
Fees from Funds	1,270		1,348	
Investment Advisory Services Fees and Others	2,815		2,225	
Brokerage & Investment Banking Business	50,122	40.2	47,873	33.9
Financial Services Business	25,605	20.6	30,530	21.6
Marketplace Business	5,733		5,699	
Financial Products Business	8,462		9,300	
Financial Solutions Business	5,519		8,309	
Other Businesses	5,890		7,220	
Housing and Real Estate Business	17,153	13.8	23,467	16.6
Real Estate Business	6,522		10,320	
Financial Real Estate Business	9,110		11,646	
Lifestyle Networks Business	1,520		1,500	
Sub-total	¥113,071	90.8	¥132,573	93.9
Others	16,889	13.6	15,631	11.1
Inter-segment revenues	(5,419)	(4.4)	(7,122)	(5.0)
Net sales	¥124,541	100.0	¥141,081	100.0

(Note) The “Others” column includes revenues in businesses not determined as reportable segments.

Cash Flows

As of 31 March 2011, total assets stood at ¥1,293,606 million, up ¥63,666 million from ¥1,229,939 million at the end of the previous consolidated fiscal year. Net assets amounted to ¥456,982 million, up ¥28,367 million from a year earlier, owing primarily to the issuance of new shares under an offering in which the payment date was 23 June 2010.

Cash and cash equivalents as at the end of the consolidated fiscal year totaled ¥148,786 million, up ¥6,204 million compared with the balance of ¥142,581 million a year earlier. The following is a summary of cash flows and underlying factors.

Net Cash Used in Operating Activities

Net cash used in operating activities totaled ¥742 million, compared with net cash used of ¥53,134 million in the previous consolidated fiscal year. This mainly reflected the cash outflow of ¥35,988 million for increase in operational investment securities and of ¥18,000 million for increase in cash segregated as deposits against the cash inflow of ¥26,760 million for increase in guarantee deposits received, of ¥6,341 million for increase in deposits from customers, and of ¥4,962 million for increase in margin transaction assets/liabilities.

Net Cash Used in Investing Activities

Net cash used in investing activities totaled ¥16,642 million, compared with net cash used in the previous consolidated fiscal year of ¥15,563 million. This was mainly attributable to cash outflows of ¥13,621 million for purchases of investment securities, and ¥22,069 million for payments of loans receivable, despite cash inflows of ¥11,212 million for proceeds from sales of investment securities, and of ¥15,496 million in collection of loans receivable.

Net Cash from Financing Activities

Net cash from financing activities totaled ¥25,154 million, compared with net cash from financing activities in the previous consolidated fiscal year of ¥84,599 million. This mainly reflected cash outflows of ¥113,100 million for redemption of bonds payable despite the cash inflow of ¥71,019 million for proceeds from issuance of bonds payable, an increase in short-term loans payable in the amount of ¥39,259 million, and proceeds from stock issuance of ¥35,698 million.

Note: Forward-looking descriptions provided herein are based on judgments of the Company as of June 29, 2011.

Business Plan

The Group has completed the creation of a business structure in Japan as a comprehensive financial conglomerate centered on Internet-based financial services. Overseas, the Group has been rapidly expanding its investment business and establishing an investment framework primarily in Asian countries with remarkable growth.

Going forward, we will aggressively promote further expansion of our overseas investment business and provide local foreign financial institutions we invest in with innovative know-how on Internet financial services fostered through our businesses in Japan. By so doing, we expect to become a comprehensive financial group that can make contributions globally with a focus on Asia.

The Company became the first listed company in Japan to be listed on the Main Board of the Hong Kong Exchanges and Clearing Limited on 14 April 2011. We will maximize this opportunity to enhance our credibility and recognition in Asia to further develop businesses of the Group.

In Japan, we will accelerate growth as a provider of diverse low-cost, high-quality financial products and services by effectively taking into account the growing sentiment among consumers to cut back on their spending and the increased use of the Internet for executing various financial transactions, and further provoking synergistic effects among businesses we have developed in the Group.

In the Asset Management Business, we recognize that a high priority lies in expanding our investments in emerging countries, primarily in Asia, and establishing an effective investment system. The Company will pursue setting up funds jointly with our leading local partners while monitoring the economic conditions of such countries as we continue to push establishment and penetration of our global network. We pursue private equity investment by identifying targets and concentrating our investments in growth areas in the aim to contribute in developing industries while benefiting from high investment performance. The Group will continue to invest in four key areas of IT, biotechnology, environment and energy, and finance going ahead. In the financial sectors, we will transfer the know-how of the Group and pursue direct investment in overseas financial institutions by which we can expect to enhance the value of corporations we invest in. The Group will also invest in and finance corporations of varying sizes and in different phases of development through operating buy-out and mezzanine funds. In undertaking these business activities, the Group will strive for further growth by continuing to aggressively utilize the resources both inside and outside of the Group and heightening the performance of the funds we operate as we promptly improve the corporate value of companies we invest in.

In the Brokerage & Investment Banking Business, we will aim to achieve greater growth even under unstable conditions in the Japanese stock markets. SBI SECURITIES Co., Ltd. will continue to expand its overseas product lineups and strengthen foreign exchange transactions and further enhance its call center operations that receive high recognition from evaluating agencies in heightening its service level even more. We will also promote integration of "net" and "real" channels and actively make use of the intermediary business to continue expanding the face-to-face channel while achieving effective cost reductions. Furthermore, in the aim to maximizing synergies within the financial conglomerate, the Company will tighten grips with financial companies in the Group, in particular with SBI Sumishin Net Bank, Ltd., to develop the Group's Internet-based one-stop financial service system. In the consolidated fiscal year, PTS (proprietary trading system) of high public nature operated by SBI Japannext Co., Ltd. posted a considerable increase in trading value. Going forward, we will aim to handle a greater trading value by primarily increasing participants and improving liquidity. SBI Liquidity Market Co., Ltd., which began operation in November 2008, provides liquidity and market infrastructure for FX transactions to SBI SECURITIES Co., Ltd. The firm will make improvements to the transaction environment, enhance liquidity as well as provide services to parties outside of the Group in the aim to further diversify sources of revenue in this business.

In the Financial Services Business, we established SBI Sumishin Net Bank, Ltd., SBI Insurance Co., Ltd. and other new companies during 2007 and 2008 for undertaking new businesses in our aim to build an earnings structure that does not depend solely on stock markets. It is our key objective to further develop these businesses by provoking stronger synergistic effects among Group companies. In the Marketplace Business centered on the operation of comparison websites such as "InsWeb" and "E-LOAN," we must continue to expand our service lineups including enhancing content and improving functions. Additionally, in striving for higher growth, we see the need to push development of Morningstar Japan K.K., which continues to expand its services and channel offerings, supported by growing asset management needs, and SBI VeriTrans Co., Ltd., that has begun moving ahead with the Chinese business on the backdrop of the expansion in EC and credit card markets.

In the Housing and Real Estate Business, we will pursue real estate development, while monitoring market conditions, through making efforts to capture business opportunities and to diversify and stabilize revenues. In the financial real estate category, SBI Mortgage Co., Ltd. has established its own brand as a provider of housing loans with low, all-term fixed interest rates. We will continue to enhance "SBI Money Plaza," a franchise-based face-to-face channel, to continue attracting customers and increasing loan drawdowns. In the lifestyle networks business category, we are determined to focus our efforts in operating brokering sites to provide useful, attractive services in assisting consumers at every stage and major event of their lives.

With a view to making a big step forward in our overseas business activities by further spurring synergies among companies within the Group, we will pursue our "Pentagon Management" strategy for the financial services business as follows:

1. Position five core businesses from the Group's financial business ecosystem, which are securities, banking, nonlife insurance, life insurance and payment settlement services
2. Aim for exponential growth of the overall Group by driving interactions and provoking synergistic effects among core businesses.
3. With each of the core businesses in the center, place related companies and businesses as support functions around the businesses, and persist in promoting synergies among the core businesses to differentiate the Group from competing companies and stretch growth.
4. Expand "SBI Money Plaza" and other "real" channels nationwide as the infrastructure business that accelerates growth of the five core businesses and promote harmony between "net" and "real" channels. Simultaneously provide a selection of competitive products to customers by taking a "neutral position" regardless of being inside or outside the Group to become "Japan's largest financial products distributor."
5. Transfer the systems and know-how of the Group's core businesses accumulated in Japan to emerging countries in accordance with the phase of economic development to develop the financial services business in those countries.

Furthermore, in July 2010, the Group launched a concept called the "Brilliant Cut Initiative." By modeling the Group companies and businesses on facets of a diamond, namely a "58 brilliant-cut diamond," known to be the brightest and the most beautiful with each of the facets giving the best shine when cut this way. The 58 major companies and business entities of the Group's business ecosystem reflect the 58 facets of a brilliant-cut diamond, which together shine most beautifully as one. In the aim to give out the best shine as a Group, we will pursue the "Brilliant Cut initiative" in shifting our management emphasis from the traditional group-wide expansion to profitability.

Under the "Brilliant Cut Initiative" we will pursue the following three basic policies in the next three years:

Companies and businesses in the black:
Further expand profits through the pursuit of mutual synergies

Companies and businesses in the red:
Aim to be in the black within the next three years (for companies to be newly founded, in three years after establishment) by making effective use of Group resources and more aggressively pursuing Group-wide synergies

*Any company or business not expected to be in the black will be dissolved or sold as a general rule.
—New establishments: With the exception of companies currently in the process of founding, no new business company will be established.

—Acquisition: Limited only to profitable companies and cases that can be expected to promote strong synergies with the existing companies in the Group's business ecosystem.

The Group recognizes that continuous enhancement of human resources is an essential Group-wide initiative. It has become increasingly important to secure highly competent individuals that support the rapid expansion of our businesses and to continue developing the skills of our employees. For this purpose, we have been exerting greater efforts in hiring excellent individuals who are willing to share the management philosophy of the Group as well as recruiting university graduates to secure human capital for passing on the Group's unique corporate culture from one generation of employees to the next. The initiative of recruiting university graduates that began in April 2006 has resulted in individuals with the potential to advance to senior executive positions to already contribute strongly in key positions of the organization. We will continue to secure highly competent and global-oriented human resources and promote career development of our staff in pursuing perpetual growth and development of the Group.

Risk Information

Summary

The following principal categories of business risks and other risks affecting our Group's business may have a material impact on investment decisions. From the point of disclosing information, we have also listed risk factors below which may not completely match our business. In recognizing these latent risks, we will work to avoid any such risks and take appropriate measures in the event that any such risk arises.

Also, the following contains contents about the future based on current information (29, June 2011).

Risks Relating to Our General Operations

1) Our corporate structure, which consists of a large number of public and private companies in multiple business lines, exposes us to challenges not found in companies with a single business line

Our Group consists of portfolio companies operating in multiple industries, including asset management, brokerage and investment banking, financial services, housing and real estate and other businesses. Our Group also comprises of some publicly traded subsidiaries. Due to the diverse characteristics of our portfolio companies, we face challenges not found in companies with a single business line. In particular, there are three aspects:

- we are exposed to business, market and regulatory risks relating to different industries.
  We need to devote substantial resources to monitor changes in different operating environments, so that we can react with appropriate strategies that fit the needs of the portfolio companies affected;
- due to our large number of portfolio companies involved, successful operation of our Group requires an effective management system that emphasizes accountability, imposes financial discipline on portfolio companies, and creates value-focused incentives for management. As we continue to grow through acquisitions of businesses in an increasing number of different industries, our operations will become more complex, which increases the difficulty of implementing our management system; and
- our portfolio companies in different operating segments may determine that it is in their respective shareholders' interests to pursue business ventures together. We cannot assure you that such business ventures will be successful or generate the synergies expected.

2) Our voting interests in our portfolio companies may be diluted

Our portfolio companies may become publicly traded, which will dilute our voting interests in these entities. In addition, our portfolio companies may from time to time need additional capital to achieve their expansion plans or other business objectives and may issue additional shares or other equity securities to meet their capital needs. We may choose not to, or be unable to, subscribe for the securities offered in any such additional issuances by our portfolio companies. If we fail to subscribe for additional securities of a portfolio company on a pro-rata basis to our existing shareholding in such company, our equity interest in the portfolio company will be diluted.

A dilution in our equity interest in a portfolio company would reduce our share of the profits earned by such portfolio company, which may have an adverse effect on our results of operations. Further, if our ownership were reduced significantly, it may cause our representation on such company's board of directors to be reduced, or otherwise reduce our ability to direct or influence the operations of that portfolio company.

3) The growth we expect in the market for our online products and services may not materialize

The market in Japan for online financial products and services continues to evolve. Our success depends substantially on continued growth in the use of online products and services, such as online brokerage services, Internet banking, Internet-based insurance products and services by individuals. If this growth does not materialize, our business will suffer. Factors that could discourage Japanese individuals from using online products and services include security or privacy concerns, inconsistent quality of service and frustration with actual or perceived difficulties in using the Internet to conduct brokerage and other financial transactions.

4) Changes in the legal or financial stability of, or cultural or business strategic differences with, any counterparties with whom we enter into joint ventures or alliances

We operate joint ventures and enter into alliances with foreign and domestic counterparties and the success of these operations is often dependent upon the financial and legal stability of our counterparties. If one of the counterparties with whom we operate a joint venture or continue a business alliance suffers a decline in its financial condition for any reason, or is subject to instability owing to a change to the laws governing its operations after we have invested in the joint venture or the business alliance, we may be unable to successfully operate the joint venture or alliance, or we may be required to invest additional capital or cease operations altogether. Likewise, significant differences in corporate culture and business strategy between ourselves and such partners may come to light and may result in significant changes to the assumptions that we made when we decided to enter into the joint venture or alliance. If our joint venture or counterparties are unable to perform as expected, or if any unexpected events relating to the alliances occur, then we may be unable to continue those businesses successfully. Our inability to successfully operate joint ventures or alliances may adversely affect our reputation and our results of operations.

5) Risks relating to business reputation

We are vulnerable to poor market perception and reputational risk since we operate in industries where integrity and the trust and confidence of our clients are of utmost importance. Negative publicity (whether or not justified) associated with us or any of our funds, products, services, officers or employees, partners or alliances, or the occurrence of any of the risks set out in this section could result in a loss of clients and/or mandates. Our business operations are highly dependent on our officers, employees, partners and/or alliances. The actions, misconduct, omissions, failures or breaches of any of our officers or employees, partners and/or alliances may, by association, create negative publicity in relation to our Group. Accordingly, any mismanagement, fraud or failure to discharge legal, contractual, regulatory or fiduciary duties, responsibilities, liabilities or obligations, or the negative perception resulting from such activities or any allegation of such activities, could have an adverse effect on our Group's business, growth prospects, results of operations and/or financial condition.

6) Risks relating to business restructuring and expansion

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

In addition to internal business restructuring, such as the share exchange in August 2008 and the share exchange in August 2009 through which respectively SBI SECURITIES Co., Ltd. and SBI Futures Co., Ltd. became our wholly-owned subsidiaries and we transferred all our shares in SBI AXA Life Insurance Co., Ltd. to AXA Japan Holding Co., Ltd. on 16 February 2010. We intend to aggressively pursue business expansion, including mergers and acquisitions of businesses that we believe offer favorable synergies with our core businesses. We face the risk that our restructuring and business expansion activities may not produce the results that we expect. Failure to achieve expected results could have an adverse effect on our financial condition and results of operations.

As of the Latest Practicable Date, we executed a share exchange agreement to convert SBI VeriTrans Co., Ltd. into a wholly-owned subsidiary on 24 February 2011. Meanwhile, Morningstar Japan K.K. executed a share exchange with Gomez Consulting Co., Ltd. to make Gomez Consulting Co., Ltd. its wholly-owned subsidiary on April 22, 2011.

The materiality threshold adopted by the Directors in determining whether an investment, partnership or acquisition is material or not is based on an assessment of the amount involved for such investment, partnership or acquisition, how material such investment, partnership or acquisition is in relation to the overall strategy of the Group and the effect or size of the impact such investment, partnership or acquisition would have on the Group's income, profit/loss and financial position if such investment, partnership or acquisition were to proceed. We may not be able to identify suitable investment opportunities, partners or acquisition candidates. Even if we do identify suitable investment opportunities, partners or acquisition candidates, we may be unable to negotiate terms that are commercially acceptable to us or complete those transactions at all. With respect to our acquisitions, we could have difficulty in integrating these companies or businesses, including internal operations, distribution networks, product lines and personnel, with our existing business, and there is no assurance that the expected strategic benefits of any acquisitions or alliances will be realized. The acquired companies may have low margins and require significant restructuring to increase efficiency. In addition, the key personnel of an acquired company may decide not to work for us. The acquired company could involve a number of specific risks, including diversion of management's attention, higher costs, unanticipated events or circumstances, legal liabilities, failure of the business of the acquired company, fall in value of investments and amortization of acquired intangible assets, some or all of which could have an adverse effect on our business, financial condition and results of operations. In the event that we plan to acquire or invest in an overseas company, we may be required to obtain the prior approval of the relevant regulators and/or the government and there can be no assurance that such approvals will be obtained in a timely manner or at all. In addition, any acquisition of an overseas company will expose us to foreign exchange risks, foreign regulations applicable to its business and different environments that we are not familiar with.

7) Risks relating to entering new businesses

Based on the management principle of "Aiming to Be a New Industry Creator," we are aggressively creating and nurturing new businesses. If our new businesses are unable to achieve their business plans as originally formulated, and if they are unable to record earnings commensurate with their initial investments, such failure could have an adverse effect on our financial condition and results of operations. In addition, our new businesses could become subject to new laws and regulations or be placed under the guidance of particular regulatory authorities. Any violations by our new businesses of the laws, regulations or guidance that is applicable to them, and any administrative or legal actions directed at them, could impede the conduct of their operations and have an adverse effect on our financial condition and results of operations.

8) Risks relating to being a financial conglomerate

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

9) Risks relating to investment securities

We hold a large amount of investment securities, including investments in unconsolidated subsidiaries and affiliated companies. We could experience impairment losses on our investment securities as a result of declines in their value, which could adversely affect our financial condition and results of operations.

10) Litigation risk

We are exposed to litigation risk relating to the operations of our business segments on an ongoing basis. While we cannot predict the outcome of any pending or future litigation, given the inherent unpredictability of litigation, it is possible that an adverse outcome in any one or more matters could have an adverse effect on our financial condition and results of operations.

11) Risk relating to risk management and internal control

We have established risk management and internal control systems and procedures. Certain areas within our risk management and internal control systems may require constant monitoring, maintenance and continual improvements by our senior management and staff. If our efforts to maintain these systems are provided to be ineffective or inadequate, we may be subject to sanctions or penalties and our business prospects and reputation may be adversely affected.

Our internal control system, no matter how sophisticated in design, still contains inherent limitations caused by misjudgment or fault. As such, there is no assurance that our risk management and internal control systems are adequate or effective, notwithstanding our efforts, and any failure to address any internal control matters and other deficiencies could result in investigations and/or disciplinary actions or even prosecution being taken against our Group and/or our employees, disruption to our risk management system, and an adverse effect on our financial condition and results of operations.

12) Risks relating to funding liquidity

We raise working capital through various means, including equity finance in the capital markets, loans from financial institutions, and issuances of corporate bonds. Due to the ongoing global economic crisis and the resulting deterioration in the global credit markets, including reduced lending by financial institutions, we may face difficulty raising funds under favorable conditions or at all. In addition, potential downgrades to our credit ratings could interfere with our ability to raise funds from external sources. In such circumstances our access to funds could be restricted, and our financing costs could increase. Any such events could adversely affect our financial condition and results of operations.

13) Derivatives risk

We utilize derivative instruments to reduce investment portfolio price fluctuations and to manage interest rate and foreign exchange rate risk. However, we may not be able to successfully manage our risks through the use of derivatives. Counterparties may fail to honor the terms of their derivatives contracts with us. Alternatively, our ability to enter into derivative transactions may be adversely affected if our credit ratings are downgraded.

We may also suffer losses from trading activities, a part of which include the use of derivative instruments. As a result, our financial condition and results of operations could be adversely affected.

14) We depend in part on payments from our subsidiaries and other entities

We depend in part on dividends, distributions and others from our subsidiaries and other entities, such as partnerships and other investment vehicles, to fund payments on our obligations, including our debt obligations. Regulatory and other legal restrictions, including contractual restrictions, may limit our ability to transfer funds to or from our subsidiaries and other entities. Some of our subsidiaries and other entities which we depend on, in part, for payments are subject to laws and regulations that authorize regulatory bodies to block or reduce the flow of funds to us, or that prohibit such transfers altogether in certain circumstances. These laws and regulations may hinder our ability to access funds that we may need to make payments on our obligations.

15) Reliance on key personnel

Our business operations depend on the leadership of our Representative Director and Chief Executive Officer, Mr. Yoshitaka Kitao, and other key members of our management team. If one or more of our current management teams becomes unable to continue to operate our businesses, such event could adversely affect our financial condition and results of operations. Any remedial action adopted by management to deal with a loss of key personnel may not take effect immediately or at all.

16) Risks relating to employees

We employ who we consider highly skilled and qualified personnel to work under our management team. If we are unable to continue to engage highly skilled and qualified personnel of the requisite caliber and skills, this could adversely affect our financial condition and results of operations.

17) Risks relating to trademarks and other intellectual property rights

Our businesses involve various types of intellectual property, including patents, copyrights and other forms of intellectual property, particularly those related to our “SBI” brand. We rely on our ability to protect the intellectual property we own and use in our business. If we fail to sufficiently protect our intellectual property, or if we are unable to acquire the necessary licenses for the use of third-party intellectual property, we may experience difficulty in developing technologies or providing services. Also, we may be the subject of legal actions brought by third parties alleging infringement of their intellectual property. In addition, we may experience increased costs in connection with intellectual property, especially those related to copyright. Such additional costs could have an adverse effect on our financial condition and results of operations.

18) Risks relating to enactment of, or changes in, laws, regulations and accounting standards

Enactment of, or changes in, laws and regulations may affect the way that we conduct our business, the products or services that we may offer in Japan or overseas, as well as our customers, borrowers, portfolio companies and funding sources. Such enactment or changes are unpredictable and may cause our costs to increase. As a result of such enactment or changes, our business activities, financial condition and results of operations could be adversely affected.

Withdrawal or amendment of any regulatory approval or of any exemption from registration in respect of any part of our Group’s activities or any of our funds in any jurisdiction might oblige us to cease conducting a particular business or change the way in which it is conducted. Similarly, the withdrawal of either a license or an approval of one or more individuals would hinder their ability to perform their current role. The carrying on of regulated activities by unauthorized persons could have a number of consequences including the possibility of agreements made in the course of carrying on such activities being unenforceable.

Enactment of, or changes in, accounting standards may have a significant effect on how we record and report our financial condition and results of operations, even if our underlying business fundamentals remain the same. As a result of such enactment or changes, our business activities, our financial condition and results of operations could be adversely affected.

19) Risks relating to insurance coverage

To manage operating risks, we maintain in our portfolio companies insurance coverage of various kinds. However, we cannot assure you that all claims under their insurance policies will be honored fully or on time. Furthermore, we are generally unable to insure against certain types of losses, including losses caused by earthquakes, typhoons, floods, wars and riots, and we do not have business interruption insurance. To the extent that any of our portfolio companies suffer loss or damage that is not covered by insurance or that exceeds the limit of its insurance coverage, our financial condition and results of operations and cash flow may be adversely affected.

20) Past results may not be indicative of future performance

Our historical financial information may not necessarily reflect our financial condition, or results of operations in the future. We may experience slower growth in some of our businesses and we may not be successful in launching new businesses. New businesses may not achieve as quick or as large growth as anticipated, and our multiple business strategy may not be successful and we may not be able to successfully integrate future businesses or assets into our existing operations.

21) We may suffer substantial losses in the event of a natural disaster, such as an earthquake, terrorist attack or other casualty event in Japan or other markets in which we operate

A substantial portion of our assets, as well as our head office, are located in Japan and a substantial portion of our net sales are derived from our operations in Japan. Our overseas operations are subject to similar or other disaster risks. Additionally, large disasters, outbreaks, terrorist attacks or other casualty events affecting our operational network, either in Japan or overseas, could disrupt our operations even in the absence of direct physical damage to our properties, or cause a material economic downturn in the affected area or country, which in turn could result in significant interruptions to or an adverse effect on our businesses, financial condition and results of operations.

22) We cannot guarantee the accuracy of facts and statistics with respect to certain information obtained from official governmental sources and other data

Facts and statistics relating to Japan, the Japanese economy and the financial sector (including the financial services industry) and other sectors in which we operate derived from official government or other industry sources are generally believed to be reliable. However, we cannot guarantee the quality or reliability of such information. We have not prepared or verified the accuracy of the information received from such sources. We make no representation as to the accuracy or completeness of such facts and statistics from these sources. Furthermore, there can be no assurance that these sources have stated or compiled such facts and figures on the same basis or with the same degree of accuracy or completeness as may be the case elsewhere. In all cases, you should not unduly rely on these facts and statistics.

Risks by Business Domain

Risks Relating to Our Asset Management Segment

1) Impact of changes in the business environment on our asset management segment

The main investment revenue sources for our asset management segment and investment partnerships managed by our Group, are capital gains on the disposal of shareholdings and management revenue from investment partnerships. However, these revenue sources are easily affected by fluctuations in the political, economic and industrial situation and in stock market conditions, particularly the market for initial public offerings. These external factors beyond our control may contribute to fluctuations in the performance of our asset management segment, and thereby exert a substantial influence on the performance of the entire Group. Our performance may also be subject to large fluctuations as the realization of investment profits may be concentrated in a fixed period.

2) Risks associated with outside investors in our funds

We could experience difficulty raising new capital, both from existing and new outside investors, if our funds perform poorly. In addition, we may not be able to draw upon the commitments of existing outside investors, if those investors experience decreased liquidity, impaired financial soundness or other financial hardships. Difficulty in raising new funds in our asset management business may interfere with our ability to operate our funds as planned, which could have an adverse effect on our financial condition and results of operations.

3) Investment risk

We, and investment partnerships managed by us, have invested in many venture companies and companies undergoing restructuring. The future prospects of these companies are affected by many uncertainties and various potential future events that could cause fluctuations in their performance. These factors include, but are not limited to:

- changes in the competitive environment caused by the rapid progress of technological innovation and fluctuations in industrial standards;
- the hiring and retention of exceptional managers and staff;
- vulnerabilities in these companies' financial structure; and
- the non-disclosure of important information by the companies.

In addition, some of the businesses that we invest in operate in industries that are inherently speculative and risky. The investment risks associated with such uncertainty could lead to losses that could have an adverse effect on our financial condition and results of operations.

4) Foreign currency risk

We, and investment partnerships managed by us, are exposed to foreign currency risk when making investments denominated in foreign currencies. Fluctuations in exchange rates may affect our financial condition and results of operations due to uncertainty over both the timing of the recovery of the investment and the amount recovered.

5) Overseas investment risk

When investing overseas, we, and investment partnerships managed by us, face potential social unrest caused by changes in local economic conditions, changes in political factors, changes in the legal system or terrorism. Country risk may be difficult to minimize or perfectly avoid and may affect our financial condition and results of operations.

In particular, our funds invest in companies in emerging markets, including China and other countries in Asia. Many emerging market countries are developing economically and politically and could not have firmly established securities markets. Investments in companies in emerging markets may involve a high degree of risk and may be speculative.

We cannot guarantee that we will be able to achieve satisfactory investment performance for our funds in emerging markets in the future. Failure to do so could have an adverse effect on our business, growth prospects, fund establishment fees, offering investment funds, fund management fees and success fees, results of financial condition and/or operations.

6) Competition in our asset management segment

At a time of intense competition in the venture investment business and restructuring investment business, including from new entrants, and with domestic and overseas financial institutions and investment companies launching numerous funds, there is no assurance that we will be able to maintain our competitiveness. We may not be able to raise investment funds of a sufficient scale in line with our plans, or to find promising investee companies that would provide adequate returns on investment, as a result of industry rivals deploying revolutionary new services or due to mergers and collaborations between industry rivals.

7) Legal regulations affecting our asset management segment

The investment partnerships we manage are subject to, and must comply with, the Financial Instruments and Exchange Act (FIEA), the Money Lending Business Act of Japan, the Companies Act, the Civil Code of Japan, the Limited Partnership Act for Investment of Japan and other laws, domestic and foreign. We also operate investment trust management companies that are registered as investment management businesses or as investment advisory or agency businesses in accordance with the FIEA. The business operations of our asset management segment may be hindered, and adversely affected, in the event of revisions to the FIEA or other related laws, or in the event that required registrations are revoked.

Risks Relating to Our Brokerage and Investment Banking Segment

1) Impact of changes in the business environment affecting our brokerage and investment banking segment

Brokerage commissions account for the majority of the revenue from customers of our brokerage and investment banking segment. This segment is, therefore, highly exposed to fluctuations in the trading volume and trading values of stock markets. Trading volume and trading values on stock markets are affected by various factors, such as corporate profits, exchange rate fluctuations, interest rates, international political conditions, fluctuations in the main global markets and investor sentiment. A fall in share prices tends to lead to a contraction in trading volume. There can be no guarantee of favorable stock market conditions in the future, and the performance of our brokerage and investment banking segment could be adversely affected by declines in share prices and any resulting drop in trading volumes.

The Japanese government, certain foreign governments and various financial instruments exchanges are currently promoting financial and stock market reforms. The substance of these reforms could have an adverse effect on our financial condition and results of operations.

2) Credit risk

Margin transactions for domestic stocks are one of the revenue sources for our brokerage and investment banking segment. However, the value of the collateral deposited by a customer for a margin transaction may be inadequate if the customer suffers a loss on the margin transaction or if the value of the securities posted as collateral declines. In addition, the funds required for margin transactions are primarily financed through borrowings from securities finance companies. However, the value of securities pledged by us to securities finance companies as collateral for such borrowings may also fluctuate. In the event of a decline in the value of securities pledged by us as collateral, the securities finance companies from which we have borrowed may request that we pledge additional collateral, in which case we would be required to secure the funds uniquely in order to fund such additional collateral requirements.

We would borrow shares from our customers and lend such shares to other broker-dealers. We may suffer losses if there are sharp changes in market values of securities and our counterparties to borrowing and lending transactions fail to honor their commitments. Any fluctuation in public equity markets may lead to the risk that parties to stock lending transactions may fail to meet their commitments. In addition, if we fail to expand our customer base for stock lending services and maintain good relationships with other securities companies to which we lend securities, it may have an adverse effect on our reputation and results of operations.

Moreover, over-the-counter foreign exchange margin transactions are transactions conducted by depositing certain amount of margin as collateral. Our customers may make large amount of profits or suffer large amount of losses compared to the amount of margin deposited. Subject to changes in foreign exchange market conditions, in cases where losses suffered exceed the amount of margin deposited, depending on the total amount or the number of incidences, our results of operations could be adversely affected, as bad debt losses may be incurred and further increase in loan loss provision may be necessary due to an increase in unsecured accounts receivable.

3) Foreign currency and counterparty risk

We face counterparty risk with respect to over-the-counter foreign exchange transactions with counterparties, which we perform in order to hedge foreign exchange fluctuations in the positions that we take in relation to our customers. If unforeseen circumstances should occur such as systemic damage to, or the deterioration of, the business and financial condition of, a counterparty, we may not be able to hedge market risk for our customers, which could have an adverse effect on our financial condition and results of operations.

4) Underwriting risk

In order to diversify our revenue sources, we are increasing the resources devoted to the underwriting of shares. Due to this we face increased underwriting risk in the event that underwritten securities cannot be resold. Price fluctuations of securities offered but not resold may have an adverse effect on our financial condition and results of operations. A decline in the reputation of an issuer, either during or after a public offering for which we have acted as lead managing underwriter, could damage our reputation and hinder the development of our underwriting business, which would adversely affect our financial condition and results of operations.

5) Risks relating to proprietary trading system (PTS) business

Our proprietary trading system, Japannext PTS, is an off-exchange electronic trading market to which multiple securities companies can connect. Any potential operational difficulties, whether caused by unexpected events such as system failures, non-settlement or late settlement, or the bankruptcy of participating securities companies, could damage the confidence of investors and participating securities companies in the reliability and security of the proprietary trading system, which would adversely affect our financial condition and results of operations.

6) Competition in brokerage and investment banking segment

Competition among brokerage companies has been intensifying. We expect competition to continue to intensify as more companies from other industries enter the online securities brokerage market in response to deregulation, as well as due to the emergence of foreign companies. Furthermore, large securities companies are developing and improving their online securities brokerage businesses. In addition, the minimum unit cost needed to acquire a single new customer account is also projected to increase due to such competition. These factors could have an adverse effect on the operating performance of our brokerage and investment banking segment.

In addition, though we are striving to improve the level of convenience enjoyed by investors who use our proprietary trading system platform, if the services we offer do not compare favourably to those offered by our competitors' proprietary trading system platforms, trading activity on our proprietary trading system may decline, which could have an adverse effect on our financial condition and results of operations.

7) Legal restrictions on the brokerage and investment banking segment

a. Registration of financial instruments business operators and others

Our Group, in order to operate financial instruments business; we are registered as a financial instruments business operator (FIBO) in accordance with the Financial Instruments and Exchange Act (FIEA), This business area is subject to the provisions of the FIEA and related laws such as the Financial Instruments and Exchange Act Enforcement Ordinance of Japan. In addition to the rules of Tokyo Stock Exchange, Osaka Stock Exchange, Nagoya Stock Exchange, Fukuoka Stock Exchange and Sapporo Securities Exchange of which we are a general trading member, we are subject to the rules and regulations established by the Japan Securities Dealers Association and Financial Futures Association of Japan, which are organizations established under the FIEA. In the event that we or our employees violate any of these laws, rules or regulations, our license to operate may be revoked or a court order may be issued requiring that we take administrative action in order to achieve specified improvements. Any such action or event could adversely affect our operation and results of operations.

SBI SECURITIES Co., Ltd. on 12 February 2010 from Financial Services Agency (FSA), received a business improvement administrative order to alter our operation since our operation had been acknowledged to fall under the case which is 'Situation in which sufficient management of the electronic information processing systems relating to financial instruments business is deemed not to have been taken' as defined in Item 14, Paragraph 1, Article 123 of the Cabinet Office Ordinance on the Financial Instruments Business, based upon Item 2, Article 40 of the Financial Instruments and Exchange Act. On 12 March 2010, we have submitted an improvement report to FSA. SBI SECURITIES Co., Ltd. and our Group solemnly receive the administrative action and hereon, by identifying the reason which caused this issue and revising management structure according to it, and by adjusting appropriately to defaults pointed out by outside system inspection, we are to strengthen and improve internal management system including system risk management system further on and to prevent reoccurrence and restore reputation. However, correspondence to this issue and restoration of our reputation requires time more than expected, our operation of our Group may be disturbed and may have an adverse effect on our results of operations. Correspondence to this issue, we have submitted our final improvement report on 31 March 2011.

b. Capital adequacy ratio regulations

Based on the FIEA and on the Cabinet Office Ordinance on the Financial Instruments Business regarding capital regulations for Type 1 FIBO, a system of capital adequacy ratio regulations has been created. Capital adequacy ratio (CAR) is ratio of capital to the aggregate value of the non-fixed portion of capital, potential fluctuations in securities holdings, and other potential risks. Type 1 FIBO must maintain CAR of 120% or higher. If the ratio falls below 120%, FSA will order changes to operational methods and other changes, and if the ratio falls below 100%, the agency may order the suspension of business operations for a period of up to three months. If the ratio is still below 100% after business has been suspended for three months and the agency does not recognize the prospect of the relevant company's recovery, the agency may cancel the company's registration for securities business. In addition, Type 1 FIBO must on a quarterly basis prepare documents recording its CAR and make these documents available for public examination at all their facilities, and a fine shall be levied in the case of nonconformance with this requirement.

c. Separate management of customer assets/investor protection funds

To help ensure that securities companies return customers' assets to customers in an appropriate and timely manner, securities companies are required to keep securities and cash entrusted by customers separate from the securities company's own assets. However, this separation requirement does not apply to securities purchased via margin transactions or to the proceeds of the sale of securities via margin transactions. As an additional means of protecting investors, the FIEA requires securities companies to participate in a government-approved investor protection fund. Our Group participates in the Japan Investor Protection Fund (JIPF). Investor protection funds obtain their funds by requiring contributions from their securities company members. If a member of the JIPF were to become bankrupt, the fund will ensure that customers of the bankrupt company receive the securities entrusted to that company as well as other specified claims on that company up to ¥10 million. Accordingly, if the bankruptcy of a member company requires the disbursal of funds greater than those already accumulated by the JIPF, our Group and other members may be required to make additional contributions.

d. The Act on Sales of Financial Products / the Consumer Contract Act of Japan

Designed to protect investors when they purchase financial products, the Act on Sales of Financial Products requires financial product sellers to provide specified explanations. In the case that investors lose money on investments in financial products that were not adequately explained, the Act obliges financial product sellers to provide compensation and provides for measures to ensure that the noncompliant financial product sales methods are rectified.

Focusing on the structural gaps between consumers and businesses with regard to the volume and quality of available information as well as negotiating capabilities, the Consumer Contract Act of Japan enables consumers in specified situations to repudiate contracts. We have established internal administration systems designed to ensure its rigorous compliance with this law, and there have not been any cases of non-compliance to date. However, if such a case were to arise in the future, it could entail the payment of compensation for damages, undermine customers' trust in the Company, and have other negative effects, and there is a possibility that such a situation could have an adverse effect on our financial condition and results of operations.

e. Margin rate restriction of foreign exchange margin transactions

FSA has announced regulations concerning the gradual reduction of margin rate from 1 August 2010 with respect to foreign exchange margin transactions and margin rate will be even lowered on 1 August 2011. At this present moment, this restriction does not have an impact but there may be the possibility that it may affect our Group's results of operation in the future.

8) Systems risks affecting our brokerage and investment banking segment

The Internet is our primary sales channel. Accordingly, we recognize that ensuring the stability of its system for online transactions is the most crucial management issue. We are undertaking continual initiatives to maintain and enhance the level of service. Nevertheless, a system malfunction may occur due to reasons unforeseen at present, including hardware and software malfunctions, human error, a breakdown in communication lines, computer viruses, cyber terrorism, or a system malfunction caused by a natural disaster. We have implemented a number of countermeasures, which include building redundant mission critical systems and monitoring functions for 24/7, as well as establishing backup sites at multiple locations. 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 our systems and support structure. This, in turn, may result in the loss of a large number of customers. In addition, we are developing new systems and increasing capacity in response to expected increases in the number of accounts and trading volume. However, if such number of accounts or trading volume increase less than our expectation, increased costs in relation to our systems such as depreciation and lease fees which do not contribute to our profit could have an adverse effect on our financial condition and results of operations.

9) Security of customer information in our brokerage and investment banking segment

Any unauthorized orders for securities trades, leaks or destruction of important customer data could give rise to liabilities and in turn have an adverse effect on our financial condition and results of operations. Any violations of the Personal Information Protection Act of Japan or any leaks or destruction of important customer data could have negative consequences, including a loss of customer trust, which would have an adverse effect on our financial condition and results of operations.

Risks Relating to Our Financial Services Segment

1) Impact of changes in the business environment on our financial services segment

a. Effects of interest rate fluctuations

We obtain much of the funding required for purchases of leased assets in our leasing business through borrowing. Dramatic increases in the interest rates at which we are able to borrow would result in increased costs in our leasing business. Increases in interest rates could also lead to increased expenses in our consumer loan business. Accordingly, increases in interest rates could have an adverse effect on our financial condition and results of operations.

b. Responding to technical innovations
Because the Internet is the primary channel through which we provide services to our customers, it is imperative for our future growth prospects that we maintain thorough familiarity with the Internet and related technology. With technological innovation comes changes in the technical standards and user environments in which our customers operate. If we are slow to respond to technological advancements, the services we provide are likely to suffer and become inferior or obsolete, resulting in a loss of competitive advantage within the industry. Our financial condition and results of operations could be affected if we lag behind in our efforts to keep up with changes in our technological environment. In addition, we could incur significant expenses to develop new internal systems or perform major system upgrades in order to keep pace with important technological changes.

2) Competition in the financial services segment
Because initial capital investment requirements for comparison shopping websites, such as those that compare financial, insurance and loan products, are low and because such businesses may be launched with relatively low personnel costs, competition in this business is intensifying as more companies enter into the market. Such competitive pressures could have an impact on the profitability of our financial services segment. In addition, there are a number of competing websites in the non-financial services area, where three of our group companies are active. As the number of our competitors in these fields increases, the number of users who visit our websites could decrease, which could cause additional downward pressure on revenues. Any of these factors could have an adverse effect on our financial condition and results of operations.

3) Risk relating to banking business
In the banking industry, it is necessary to respond to a great variety of risks: credit risk, market risk, liquidity risk, compliance risk, administrative risk, system risk, information security risk, risks associated with contracting with third parties, event risk, reputation risk, capital ratio risk, strategic risk, and risk associated with regulatory change. Any failure to adequately address these risks could be disruptive to business operations. In addition, if we are unable to achieve the targets projected in our initial business plan for this sector, and if future income is inadequate to cover our initial investments, operating results could be adversely affected.

4) Risk relating to insurance business
In the insurance industry, it is necessary to respond to a great variety of risks: insurance underwriting risk, market risk, credit risk, liquidity risk, administrative risk, system risk, information security risk, legal risk and casualty risk. Any failure to adequately address any of these risks could be disruptive to our business operations. In addition, if we are unable to achieve the targets projected in our initial business plan for this sector, and if future income is inadequate to cover our initial investments, operating results could be adversely affected.

5) Legal risks affecting our financial services segment
Licenses, permits or registrations are required to conduct businesses under our financial services segment under the Money Lending Business Act, the Banking Act of Japan, Insurance Business Act of Japan and their respective related ordinances and regulations, the Insurance Act of Japan, the Act on Special Measures regarding Servicer Business of Japan and others. Our business would be adversely affected if any necessary licenses, permits or registrations were revoked for any reason.

6) Systems risks affecting financial services segment
Because our financial services segment relies heavily on computer systems, if unforeseeable events such as earthquakes, floods, fires, computer viruses, power outages, communications failures, work-stoppages by third-party service providers or unpredictable system failures were to result in a delay, suspension or cessation of services to our customers, such events could have an adverse effect on our financial condition and results of operations.

7) Security of customer information in our financial services segment
If any leaks of customer information should occur, we could lose the trust of our customers and incur significant legal and other costs, either of which could have an adverse effect on our financial condition and results of operations. In addition, any violation of the Personal Information Protection Act of Japan or any leaks of customer information could lead to a loss of trust by our customers and could have an adverse effect on our operating results.

Risks Relating to Our Housing and Real Estate Segment

1) Impact of changes in the business environment on our housing and real estate segment

a. Effects of real estate market conditions

Changes in real estate market conditions, such as land prices and lease rates, could affect our financial condition and results of operations in our real estate holdings, including our direct holdings and our holdings through investment partnerships. For example, we may be required to increase allowance for doubtful accounts with respect to real estate we hold as collateral for loans if the appraised value of such real estate decreases. In addition, since the housing loan business in our housing and real estate segment concentrates primarily on the provision of housing loans to consumers who are building or buying new homes, fluctuations in the volume of housing loans subject to external factors such as new housing starts could have an adverse effect on our financial condition and results of operations.

b. Effects of fluctuations in interest rates and related market conditions

Interest rate fluctuations lead to higher procurement costs, including procurement costs for non-recourse loans in our housing and real estate segment. In addition, in the real estate financing business in our housing and real estate segment, changes in interest rates could impact the interest rates on housing loans and mortgages, and may affect the number of new borrowers and refinancing borrowers. Drastic changes in interest rates could affect securitization of housing loans. Thus, changes in interest rates could have an adverse effect on our financial condition and results of operations.

2) Investment risk

If problems or defects that were not identified in the pre-purchase diligence process for a property are later revealed following the acquisition of that property, such as unusual rights relationships, poor soil quality, inadequate construction or environmental problems, those problems could have an adverse effect on the value or cash flow from that property. Other factors that could have an adverse effect on a property's price and cash flow include fires, riots, terrorism, earthquakes, volcanic eruptions, tidal waves and other unforeseeable natural disasters.

3) Foreign currency risk

Investments in our housing and real estate segment that are denominated in foreign currencies are subject to risk caused by fluctuations in foreign exchange rates. Because both the timing and amount of recovery from real estate properties are inherently uncertain, the operating results of our housing and real estate segment could be adversely affected by fluctuations in foreign exchange rates.

4) Risks relating to investment in overseas real estate

Investments in overseas real estate expose us to risks including losses due to disruptions in economic and political conditions, changes in the local legal system and social disruptions resulting from terrorism and other factors. We are 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 could have an adverse effect on our financial condition and results of operations.

5) Competition in businesses relating to residential real estate

Competition in the residential real estate market is expected to intensify as the number of new entrants increases in response to greater business opportunities. If our efforts to maintain and strengthen our competitive position are unsuccessful, price competition in the real estate market could put downward pressure on our revenues, which could have an adverse effect on our financial condition and results of operations.

6) Legal regulatory risk relating to residential real estate and lifestyle networks

In addition to the Building Lots and Building Transaction Business Act of Japan, which requires a license to act as an agent and broker in the purchase or lease of real estate, other laws in Japan such as the National Land Use Planning Act of Japan, Building Standards Act of Japan, City Planning Act of Japan, Act Concerning Specified Joint Business in Real Estate of Japan, Leased Land and House Lease Act of Japan, Construction Business Act of Japan, Architect Act of Japan, Labor Health and Safety Act of Japan and the Financial Instruments and Exchange Act also apply to us. In addition, the Money Lending Business Act also applies to our real estate financing business. With respect to the method of payment settlement, laws in Japan such as the Act for Regulation of Receiving Capital Subscription, Deposits, and Interest Rates, etc., of

Japan, the Banking Act, and the Payment Services Act of Japan are also applicable.

Our lifestyle networks business is subject to laws in Japan such as the Act on Specified Commercial Transactions of Japan, the Consumer Contract Act of Japan, the Pharmaceutical Affairs Act of Japan, the Product Liability Act of Japan, the Unauthorized Computer Access Act of Japan, and anti-nuisance ordinances.

Any administrative action that would require us to take steps to alter our operations, or any revocation of a license, permit or registration required under these various legal requirements, could adversely affect our financial condition and results of operations.

7) Systems risks affecting our residential real estate related business

Any computer failure causing a delay, suspension or cessation of services due to unforeseeable factors such as widespread earthquake or flood damage, fires, computer viruses, power outages, communications failures or work-stoppages by third-party service providers, could adversely affect our financial condition and results of operations.

8) Security of customer information in our real estate related businesses

If any leak or destruction of customer information were to occur, it could result in legal liability and a loss of trust and credibility, either of which could have an adverse effect on our financial condition and results of operation.

In addition, we have established an internal management structure, and are 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 our Group, or an information leak, the resulting loss of trust among customers and other consequences could have an adverse effect on our financial condition and results of operations.

Risks Relating to Our Other Businesses

1) Risks relating to system solution business

Our system solution business is primarily engaged in entrusted development and operation and maintenance of system.

The information technology industry continues to bring about technological innovation and industry technical standards and customer usage conditions continue to evolve through the constant introduction of new technologies. If we were to lag behind in our response to these new technologies, our services could become unattractive or obsolete, which could adversely affect our competitiveness in this industry.

In addition, if our system solution business is unable to achieve the goals set out in its business plans as originally formulated, and if it is unable to record earnings commensurate with its initial investments, such failure could have an adverse effect on our financial condition and results of operations.

2) Risks relating to biotechnology business

We focus on the research and development of proprietary drugs. However, we cannot assure you that our research and development efforts will result in the development of commercially successful products or innovative production technologies, or that any such research projects will generate the expected results. Substantially all of our biotechnology products must undergo a clinical trial process before they can be introduced into the market for commercial sale. The process is expensive, lengthy and uncertain. Our results of operations may be adversely affected if, after we devote significant time and expense on research and development and the clinical trial process, a product under development fails to achieve approval for commercial sale or we are subject to product liability claims in respect of our biotechnology products.

Consolidated Financial Statements of the Group

(Amounts in millions of Japanese Yen, rounded down to the nearest million except for per share information, unless otherwise stated)

Consolidated Balance Sheets

	Notes	2010 (millions of Yen)	2011 (millions of Yen)
		As at 31 March	
Assets			
Current assets			
Cash and deposits	VI.4	¥ 143,726	¥ 150,268
Notes and accounts receivable—trade	VI.4	8,483	10,658
Leases receivable and lease investment assets		17,924	16,166
Short-term investment securities		240	292
Cash segregated as deposits	VI.9	318,865	347,865
Operational investment securities	VI.1 & 4	121,576	141,881
Allowance for investment losses		(8,424)	(9,108)
Operational investment securities—net		113,152	132,773
Operational loans receivable	VI.4	34,694	27,905
Real estate inventories	VI.2 & 4	28,767	16,812
Trading instruments	VI.8	3,514	2,701
Loans on margin transactions		221,107	229,301
Cash collateral pledged for securities borrowings on margin transactions		40,533	21,098
Margin transaction assets		261,641	250,399
Short-term guarantee deposits		5,944	5,235
Deferred tax assets		7,667	14,243
Others	VI.4	37,732	57,473
Allowance for doubtful accounts		(2,032)	(4,017)
Total current assets		980,323	1,028,779
Non-current assets			
Property and equipment			
Buildings		9,972	15,799
Accumulated depreciation		(2,405)	(3,130)
Buildings—net	VI.4	7,567	12,668
Furniture and fixtures		5,079	4,972
Accumulated depreciation		(3,585)	(3,546)
Furniture and fixtures, net		1,493	1,426
Land	VI.4	7,556	10,908
Others		4,503	4,825
Accumulated depreciation		(506)	(1,397)
Others—net		3,996	3,427
Total property and equipment		20,613	28,431
Intangible assets			
Software		11,670	13,378
Goodwill		133,008	126,297
Others		608	567
Total intangible assets		145,286	140,244
Investments and other assets			
Investment securities	VI.3, 4 & 14	41,204	53,378
Deferred tax assets		14,196	12,830
Others		34,860	36,108
Allowance for doubtful accounts		(9,767)	(12,066)
Total investments and other assets		80,494	90,250
Total non-current assets		246,395	258,926
Deferred charges			
Stock issuance costs		—	152
Bonds issuance costs		61	32
Deferred operating costs under Article 113 of the Insurance Business Act		3,159	5,715
Total deferred charges		3,220	5,900
Total assets		¥1,229,939	¥1,293,606

	Notes	2010 (millions of Yen)	2011 (millions of Yen)
		As at 31 March	
Liabilities			
Current liabilities			
Short-term loans payable	VI.4	¥ 55,614	**¥ 97,164**
Current portion of long-term loans payable	VI.4	13,368	**12,147**
Current portion of bonds payable	VI.4	112,600	**70,060**
Accrued income taxes		4,953	**4,574**
Advances received	VI.10	1,828	**1,953**
Borrowings on margin transactions	VI.4	48,813	**70,386**
Cash received for securities lending on margin transactions		101,223	**73,370**
Margin transaction liabilities		150,036	**143,757**
Loans payable secured by securities		63,780	**61,797**
Guarantee deposits received		282,373	**309,134**
Deposits from customers		31,176	**37,819**
Accrued expenses		2,835	**3,202**
Deferred tax liabilities		2,959	**3,219**
Provision for bonuses		53	**79**
Other provisions		155	**448**
Others		25,353	**35,237**
Total current liabilities		747,090	**780,597**
Non-current liabilities			
Bonds payable	VI.4	—	**540**
Long-term loans payable	VI.4	27,620	**31,366**
Deferred tax liabilities		540	**424**
Provision for retirement benefits		52	**69**
Other provisions		877	**861**
Others		17,924	**17,567**
Total non-current liabilities		47,014	**50,828**
Statutory reserves			
Reserve for financial products transaction liabilities		7,219	**5,196**
Reserve for price fluctuation		0	**0**
Total statutory reserves	VI.11	7,219	**5,197**
Total liabilities		801,324	**836,623**
Net assets			
Shareholders' equity			
Capital stock		55,284	**73,236**
Capital surplus		218,968	**236,920**
Retained earnings		87,276	**88,073**
Treasury stock		(246)	**(246)**
Total shareholders' equity		361,282	**397,983**
Accumulated other comprehensive income (loss)			
Unrealized losses on available-for-sale securities		(559)	**(3,902)**
Deferred gains (losses) on derivatives under hedge accounting		14	**(239)**
Foreign currency translation adjustments		(1,506)	**(3,012)**
Total accumulated other comprehensive income (loss)		(2,051)	**(7,155)**
Stock acquisition rights		11	**11**
Minority interests		69,372	**66,142**
Total net assets		428,615	**456,982**
Total liabilities and net assets		¥1,229,939	**¥1,293,606**

Consolidated Statements of Operations

	Notes	Year ended 31 March 2010 (millions of Yen)	2011 (millions of Yen)
Net sales	VII.1	¥124,541	**¥141,081**
Cost of sales	VII.2	59,138	**67,535**
Gross profit		65,403	**73,546**
Selling, general and administrative expenses	VII.3 & 4	61,971	**64,613**
Operating income		3,431	**8,932**
Non-operating income			
Interest income		365	**402**
Dividend income		155	**191**
Share of results of affiliates		—	**163**
Refunded consumption taxes		188	**—**
Others		476	**429**
Total non-operating income		1,185	**1,186**
Non-operating expense			
Interest expense		1,960	**2,705**
Amortization of stock issuance costs		4	**50**
Amortization of bond issuance costs		60	**90**
Amortization of deferred operating costs under Article 113 of the Insurance Business Act		746	**952**
Share of results of affiliates		98	**—**
Foreign exchange losses		64	**1,349**
Others		569	**1,445**
Total non-operating expense		3,504	**6,593**
Ordinary income		1,112	**3,525**
Extraordinary income			
Gains on sales of investment securities		3,153	**7,584**
Reversal of allowance for doubtful accounts		40	**68**
Reversal of statutory reserves		33	**2,022**
Gains on the changes in interests in consolidated subsidiaries and equity method investees		185	**63**
Others		55	**279**
Total extraordinary income		3,466	**10,018**
Extraordinary expense			
Losses on sales of non-current assets	VII.5	0	**—**
Losses on retirement of non-current assets	VII.6	103	**193**
Impairment loss	VII.7	—	**861**
Provision of allowance for doubtful accounts	VII.8	1,989	**3,848**
Provision of statutory reserves		0	**0**
Losses on sales of investment securities		237	**66**
Losses on valuation of investment securities		46	**556**
Goodwill amortization for equity method affiliates with significant losses		238	**—**
Losses on the changes in equity interest in consolidated subsidiaries and equity method investees		44	**23**
Losses on disposal of subsidiaries and affiliates		—	**635**
Impact from applying the Accounting Standard of Asset Retirement Obligation		—	**501**
Others		998	**1,425**
Total extraordinary expense		3,658	**8,113**
Income before income taxes		920	**5,430**
Income taxes—current		(9,095)	**(10,120)**
Income taxes—deferred		8,359	**3,028**
Total income taxes		(736)	**(7,092)**
Net income (loss) before minority interests		184	**(1,661)**
Minority interests in loss		(2,165)	**(6,196)**
Net income		¥ 2,350	**¥ 4,534**

Consolidated Statement of Comprehensive Income

	Notes	Year ended 31 March 2011 (millions of Yen)
Net loss before minority interests		¥(1,661)
Other comprehensive income (loss)		
Unrealized losses on available-for-sale securities		(3,042)
Deferred losses on derivatives under hedge accounting		(14)
Foreign currency translation adjustments		(1,219)
Share of other comprehensive income (loss) of equity method affiliates		(533)
Total other comprehensive income (loss) for the year	VIII.2	(4,809)
Total comprehensive income (loss) for the year	VIII.1	¥(6,471)
Total comprehensive income (loss) for the year attributable to:		
–Owners of the parent		¥ (364)
–Minority interests		¥(6,106)

Consolidated Statements of Changes in Net Assets

	Notes	Year ended 31 March 2010 (millions of Yen)	2011 (millions of Yen)
SHAREHOLDERS' EQUITY	IX		
Capital stock			
Balance at the end of previous year		¥ 55,214	¥ 55,284
Changes during the year			
Issuance of new stock		69	17,952
Total changes during the year		69	17,952
Balance at the end of current year		55,284	73,236
Capital surplus			
Balance at the end of previous year		219,012	218,968
Changes during the year			
Issuance of new stock		69	17,952
Decrease through share exchanges		(112)	—
Disposal of treasury stock		(0)	(0)
Total changes during the year		(43)	17,951
Balance at the end of current year		218,968	236,920
Retained earnings			
Balance at the end of previous year		86,865	87,276
Changes during the year			
Dividends		(1,673)	(1,676)
Net income		2,350	4,534
Decrease through a merger		(194)	(224)
Adjustments due to change of scope of consolidation		217	(1,798)
Adjustments due to change of scope of equity method		(290)	(37)
Total changes during the year		410	797
Balance at the end of current year		87,276	88,073
Treasury stock			
Balance at the end of previous year		(636)	(246)
Changes during the year			
Disposal of treasury stock		389	—
Total changes during the year		389	—
Balance at the end of current year		(246)	(246)
Total shareholders' equity			
Balance at the end of previous year		360,456	361,282
Changes during the year			
Issuance of new stock		138	35,904
Decrease through share exchanges		(112)	—
Dividends	IX.3	(1,673)	(1,676)
Net income		2,350	4,534
Decrease through a merger		(194)	(224)
Adjustments due to change of scope of consolidation		217	(1,798)
Adjustments due to change of scope of equity method		(290)	(37)
Disposal of treasury stock		388	(0)
Total changes during the year		825	36,701
Balance at the end of current year		¥361,282	¥397,983

	Notes	Year ended 31 March 2010 (millions of Yen)	2011 (millions of Yen)
Accumulated other comprehensive (income) loss			
Unrealized losses on available-for-sale securities			
Balance at the end of previous year		¥ (5,946)	¥ (559)
Changes during the year			
Net changes other than shareholders' equity		5,387	(3,343)
Total changes during the year		5,387	(3,343)
Balance at the end of current year		(559)	(3,902)
Deferred gains (losses) on derivatives under hedge accounting			
Balance at the end of previous year		(25)	14
Changes during the year			
Net changes other than shareholders' equity		40	(254)
Total changes during the year		40	(254)
Balance at the end of current year		14	(239)
Foreign currency translation adjustments			
Balance at the end of previous year		(966)	(1,506)
Changes during the year			
Net changes other than shareholders' equity		(540)	(1,505)
Total changes during the year		(540)	(1,505)
Balance at the end of current year		(1,506)	(3,012)
Total accumulated other comprehensive (income) loss			
Balance at the end of previous year		(6,937)	(2,051)
Changes during the year			
Net changes other than shareholders' equity		4,886	(5,104)
Total changes during the year		4,886	(5,104)
Balance at the end of current year		(2,051)	(7,155)
Stock acquisition rights			
Balance at the end of previous year		11	11
Changes during the year			
Net changes other than shareholders' equity		(0)	(0)
Total changes during the year		(0)	(0)
Balance at the end of current year		11	11
Minority interests			
Balance at the end of previous year		65,808	69,372
Changes during the year			
Net changes other than shareholders' equity		3,564	(3,229)
Total changes during the year		3,564	(3,229)
Balance at the end of current year		69,372	66,142
Total net assets			
Balance at the end of previous year		419,338	428,615
Changes during the year			
Issuance of new stock		138	35,904
Decrease through share exchanges		(112)	—
Dividends		(1,673)	(1,676)
Net income		2,350	4,534
Decrease through a merger		(194)	(224)
Adjustments due to change of scope of consolidation		217	(1,798)
Adjustments due to change of scope of equity method		(290)	(37)
Disposal of treasury stock		388	0
Net changes other than shareholders' equity		8,450	(8,333)
Total changes during the year		9,276	28,367
Balance at the end of current year		¥428,615	¥456,982

Consolidated Statements of Cash Flows

	Notes	2010 (millions of Yen)	2011 (millions of Yen)
		Year ended 31 March	
Net cash from (used in) operating activities			
Income before income taxes		¥ 920	**¥ 5,430**
Adjustments for:			
Depreciation and amortization		5,550	**6,588**
Amortization of goodwill		7,764	**8,563**
Increase in provision		8,038	**11,451**
Share of results of affiliates		98	**(163)**
Write-down of operational investment securities		602	**1,618**
Equity in earnings of funds		(1,174)	**(2,793)**
Gains on sales of investment securities		(2,915)	**(7,517)**
Losses on valuation of investment securities		46	**556**
Foreign exchange losses		275	**3,333**
Interest and dividend income		(17,456)	**(16,587)**
Interest expense		5,962	**6,730**
Changes in assets and liabilities:			
Increase in operational investment securities		(8,961)	**(35,988)**
Decrease in operational loans receivable		6,188	**5,755**
Decrease (increase) in real estate inventories		(2,036)	**2,617**
(Increase) decrease in notes and accounts receivable—trade		(1,302)	**823**
Increase in notes and accounts payable—trade		263	**102**
Increase in cash segregated as deposits		(12,962)	**(18,000)**
Increase in trading instruments		(1,486)	**(2,326)**
Increase (decrease) in margin transaction assets/liabilities		(77,074)	**4,962**
Increase in deposits from customers		7,357	**6,341**
Increase in guarantee deposits received		4,173	**26,760**
(Decrease) increase in loans payable secured by securities		17,193	**(1,997)**
Increase (decrease) in advances received		1,464	**(890)**
Others, net		(1,614)	**(4,127)**
Subtotal		(61,085)	**1,242**
Interest and dividend income received		17,747	**17,168**
Interest expense paid		(5,629)	**(6,885)**
Income taxes paid		(4,167)	**(12,267)**
Net cash used in operating activities		¥(53,134)	**¥ (742)**

	Notes	Year ended 31 March 2010 (millions of Yen)	2011 (millions of Yen)
Net cash from (used in) investing activities			
Purchases of intangible assets		¥ (7,043)	¥ (4,767)
Purchases of investment securities		(7,653)	(13,621)
Proceeds from sales of investment securities		3,204	11,212
Proceeds from sales of investments in subsidiaries		28	249
Purchases of investments in subsidiaries resulting in change in scope of consolidation	X.2	(260)	(99)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	X.2	2,540	—
Purchases of investments in subsidiaries		(3,753)	(177)
Payments of loans receivable		(15,756)	(22,069)
Collection of loans receivable		16,226	15,496
Payments for lease and guarantee deposits		(1,491)	(1,172)
Proceeds from collection of lease and guarantee deposits		1,347	483
Others, net		(2,953)	(2,175)
Net cash used in investing activities		(15,563)	(16,642)
Net cash from (used in) financing activities			
Increase in short-term loans payable		940	39,259
Proceeds from long-term loans payable		28,360	9,000
Repayment of long-term loans payable		(22,208)	(15,849)
Proceeds from issuance of bonds payable		122,218	71,019
Redemption of bonds payable		(51,480)	(113,100)
Proceeds from stock issuance		141	35,698
Proceeds from stock issuance to minority interests		1,023	1,797
Contributions from minority shareholders in consolidated investment funds		11,931	4,083
Cash dividend paid		(1,681)	(1,673)
Cash dividend paid to minority shareholders		(218)	(225)
Distributions to minority shareholders in consolidated investment funds		(3,914)	(3,864)
Purchases of treasury stock		(13)	(4)
Others, net		(499)	(985)
Net cash from financing activities		84,599	25,154
Effect of changes in exchange rate on cash and cash equivalents		(490)	(2,893)
Net increase in cash and cash equivalents		15,410	4,876
Increase in cash and cash equivalents from newly consolidated subsidiaries		842	1,337
Decrease in cash and cash equivalents resulting from deconsolidation of subsidiaries		—	(28)
Increase in cash and cash equivalents resulting from merger		15	19
Cash and cash equivalents at beginning of year		126,312	142,581
Cash and cash equivalents at end of year	X.1	¥142,581	¥ 148,786

Notes to the Consolidated Financial Statements

I. BASIS OF PRESENTATION

The Consolidated Financial Statements of SBI Holdings, Inc. (the "Company") and its consolidated subsidiaries (hereinafter referred to as the "Group") were prepared in accordance with the generally accepted accounting principles in Japan ("JGAAP") and were presented by reference to the "Rules Governing Term, Form and Preparation of Consolidated Financial Statements" (Finance Ministerial Order the 28th, 1976, which is hereinafter referred to as the "Consolidated Financial Statements Rule"). The Consolidated Financial Statements of the Group have been prepared on the historical cost basis except for certain investments which are stated at fair value, the details of which are listed below.

The Consolidated Financial Statements are presented in Japanese Yen ("Yen" or "¥").

II. SIGNIFICANT ACCOUNTING POLICIES

1. Accounting policies

(1) Scope of consolidation and application of equity method

(a) Under the control or influence concept, those companies in which the Group, directly or indirectly, is able to exercise control are consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for using the equity method.

(b) All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit or loss resulting from intercompany transactions is eliminated.

(c) Basis for exclusion from scope of consolidation

(i) Small size entities of which total assets, sales, and proportional share of net income and retained earnings are considered to be immaterial are excluded from consolidation. Investments in partnerships which are classified as subsidiaries under Practical Issues Task Force ("PITF") No. 20—"Practical Solution on Application of Control," issued on 8 September 2006, are excluded from consolidation as the effect of consolidation may be misleading to investors, in accordance with the item (ii) of Article 5 (1) of the Consolidated Financial Statements Rule.

(ii) Venture capital investments are excluded from the scope of consolidation since the purpose of investments is not for exercising control but to foster the development of venture capital portfolios.

(d) Basis for not applying equity method

(i) Small size entities of which proportional share of net income and retained earnings are considered to be immaterial individually and collectively are not accounted for using equity method.

(ii) Venture capital investments are not accounted for using equity method since the purpose of investments is not for exercising significant influence but to foster the development of venture capital portfolios.

(e) Consolidated financial statements are prepared based on the financial statements of each reporting entity and adjustments are made when their year end dates are different over 3 months.

(2) Valuation method of significant assets

(a) Trading instruments

Trading instruments, which are held for the purpose of earning capital gains in the near term, are reported at fair value, with the related unrealized gains and losses included in income.

(b) Available-for-sale securities (consist of investment securities and operational investment securities other than investments in funds), which are not classified as trading instruments:

(i) Listed securities

Listed securities are measured at fair value, with fair value gains and losses, net of applicable taxes, reported as "unrealized gains (losses) on available-for-sales securities," a separate component of net assets. The cost of securities sold is determined based on the moving average cost method.

(ii) Unlisted securities

Unlisted securities are principally stated at cost less impairment, determined by the moving average cost method. However, unlisted available-for-sale securities held by certain overseas subsidiaries adopting International Financial Reporting Standards are measured at fair value.

(c) Investments in funds

For the investments in funds other than those included in the scope of consolidation, the Company's proportionate share in the net assets of the funds is calculated based on the funds' annual financial statements or interim financial statements and is presented as "Operational investment securities" (Current assets) or "Investment securities" (Non-current assets).

(d) Derivative contracts

Derivative contracts are measured at fair value.

(e) Real estate inventories

Real estate inventories are measured at the lower of cost or net realizable value.

(3) Depreciation method of depreciable assets

(a) Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation of property and equipment by the Company and its consolidated subsidiaries is computed using the declining-balance method over the estimated useful lives of assets, while the straight-line method is applied to buildings acquired after 1 April 1998. The range of useful lives is principally from 5 to 50 years for buildings, and from 4 to 20 years for furniture and fixtures. Most overseas consolidated subsidiaries apply the straight-line method. Leased assets are depreciated by the straight-line method over the lease terms with residual value of zero.

(b) Land

Land is stated at cost less impairment.

(c) Intangible assets

(i) Software used for internal purposes is amortized using the straight-line method over the estimated useful life of the software (5 years).

(ii) Software for sale is amortized using the straight-line method over the estimated saleable period of the software, which is 3 years or less. Leased assets are depreciated by using straight-line method over the lease terms with residual value of zero.

(4) Recognition and measurement of significant provisions and allowances

(a) Allowance for investment losses

Allowance for investment losses for operational investment securities and investment securities are provided based on the estimated losses of the investments and the financial condition of the investees.

(b) Allowances for doubtful accounts

Allowance for doubtful accounts is provided based on the Group's past credit loss experience and an evaluation of the recoverability of the outstanding receivables including notes and accounts receivable-trade, operational loans receivable, loans on margin transactions and other loans receivable.

(c) Provision for bonuses

Bonuses to employees are accrued at the balance sheet date.

(d) Employees' retirement benefits

The Group recorded liabilities for employees' retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The liabilities were recognized and measured by assuming all the employees voluntarily retired at the end of the year.

(e) Statutory reserve for securities transactions liabilities/financial products transactions

Pursuant to Article 46–5 of the Financial Instruments and Exchange Act, a statutory reserve is provided against possible losses resulting from execution errors related to securities business transactions. The amount is calculated in accordance with Article 175 of the "Cabinet Office Ordinance concerning Financial Instruments Business."

(f) Statutory reserve for price fluctuation

Statutory reserve is provided against possible losses resulting from stock price fluctuations in accordance with Article 115 of the Insurance Business Act.

(5) Translations of significant assets and liabilities denominated in foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese Yen using the exchange rates at the balance sheet date, and the translation adjustment is recognized as foreign exchange gains or losses. The balance sheets of the consolidated foreign subsidiaries are translated into Japanese Yen using their exchange rate as at the balance sheet date except for net assets, which are translated at the historical rates. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese Yen using the average exchange rate of the year. Differences arising from such translations are shown as "Foreign currency translation adjustments," as a separate component under "Net assets" except for the portion pertaining to the minority shareholders, which is included under "Minority interests" as a separate component under "Net assets."

(6) Recognition for net sales and cost of sales

Net sales and cost of sales

The Group's net sales primarily consist of a) revenue from operational investment securities, b) fees from funds, c) revenue from real estate business, d) revenue from securities transactions, and e) revenue from finance lease transactions. The costs of sales principally consist of the cost of operational investment securities, cost of real estate business, and the related provision of allowance for investment losses, if any.

(a) Revenue and cost of operational investment securities

Revenue from operational investment securities includes all of the revenue which is related to or generated by operational investment securities and securities held by funds. Cost of operational investment securities consists of the carrying value on the sale of operational investment securities and securities held by funds, and write down of operational investment securities and securities held by funds.

(b) Fees from funds

Fees from funds consist of establishment fees for fund organization, management fees, and success fees from funds which are not within the scope of consolidation and managed by the Group. Management fees from funds are recognized over the period of the fund management agreement. Establishment fees and success fees from funds are recognized when those revenue amounts are determined and the services are provided.

(c) Revenue from construction projects

When the total construction revenue, total construction costs and the stage of completion of the contract can be reliably measured at the balance sheet date, the percentage-of-completion method is applied. If the outcome of a construction contract cannot be reliably estimated at the balance sheet date, the completed contract method is applied.

(d) Revenue from securities transactions
Revenue from securities transactions primarily consists of brokerage commissions from securities transactions, fees from underwriting activities and offering of securities for initial public offerings, and fees for placements and sales of securities.
(e) Revenue from finance lease transactions
Revenue and cost of finance lease transactions are recognized when payments are received.
(f) Financial charges and cost of funding
Financial charges and cost of funding, which consist of interest expense for margin trading transactions and costs from repurchase agreement transactions, etc. which are related to the investment banking businesses, are recorded as cost of sales. As for certain consolidated subsidiaries, interest expense other than financial charges is classified as interests related to operating assets (e.g. leases receivable and lease investment assets, etc.) or to non-operating assets. Interest expense (cost of funding) related to operating assets is classified as cost of sales. During the development of a project, interest expense related to long term and large scale real estate development is included in the cost of the real estate inventories.

(7) Accounting for significant lease transactions
In March 2007, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after 1 April 2008.
(a) Lessee
ASBJ Statement No. 13 requires that all finance lease transactions be capitalized to recognize leased assets and lease obligations in the balance sheet. In addition, leases which existed at the transition date and did not transfer ownership of the leased assets to the lessee continue to be accounted for as operating lease transactions with certain "as if capitalized" information disclosed in the notes to the lessee's financial information.

The Group continues to account for leases which existed at the transition date that did not transfer ownership of the leased assets to the lessee as operating lease transactions.
(b) Lessor
ASBJ statement No. 13 requires that all finance leases be recognized as leases receivable, and that all finance leases that are deemed not to transfer ownership of the assets leased to other parties under operating leases be recognized as lease investment assets. For the finance leases which existed at the transition date and did not transfer ownership of the assets leased to other parties under operating leases, the book value of the leased assets (after deducting accumulated depreciation) at the transition date is used as the beginning value of the lease investment assets.

The Group adopted ASBJ statement No. 13 on 1 April 2008. Leases receivable and lease investment assets are stated at cost less accumulated depreciation. Depreciation is computed by using the straight-line method over the useful life with residual value of zero.

(8) Accounting for significant hedging transactions
(a) Accounting for hedges
The Group applies deferred hedge accounting when certain criteria are met. Foreign currency forward contracts are used to hedge foreign currency exposures in the Group. Receivables, payables and investment securities denominated in foreign currencies are translated at the contracted rates if the forward contracts are qualified for hedge accounting. Interest rate swaps, which are qualified for hedge accounting and met the specific matching criteria, are not remeasured at market value. The differential paid or received under the swap agreements is recognized and included in interest expense or income.
(b) Hedging instruments and hedged item
(i) Hedging instruments and hedged item
Foreign exchange forward contracts and foreign currency denominated receivables and payables and investment securities.
(ii) Hedging instruments and hedged item
Interest rate swap contracts and interest expense for loans and bonds payable.
(c) Hedging policy
(i) For foreign currency-denominated transactions, the foreign currency forward contracts are used to hedge foreign currency exposures in the Group.
(ii) For interest expense on borrowing, interest rate swap contract is utilized to mitigate the volatility of interest rates.
(d) Assessment of effectiveness between the hedging instrument and the hedged item
(i) The Group does not assess hedge effectiveness of foreign exchange forward contracts which qualify for hedge accounting and meet specific matching criteria.
(ii) The Group assesses hedge effectiveness by comparing the cumulative changes in the fair value of the hedged items and cumulative changes in the hedging instruments during the period from commencement of hedging to the point of assessing effectiveness, based on changes in both amount and others. The Group does not assess hedge effectiveness of interest rate swaps which qualify for hedge accounting and meet specific matching criteria.

2. Other significant accounting policies for consolidated financial statements

(1) Business Combination

FOR THE YEAR ENDED 31 MARCH 2011

In October 2003, the Business Accounting Council (the "BAC") issued a Statement of Opinion, "Accounting for Business Combinations" and on 27 December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Revised Guidance on Accounting Standard for Business Combinations and Business Divestitures."

The accounting standard for business combinations allowed companies to apply the pooling of interests method of accounting only when certain specific criteria were met such that the business combination was essentially regarded as a uniting-of-interests. For business combinations that did not meet the uniting-of-interests criteria, the business combination was considered to be an acquisition and the purchase method of accounting was required to be adopted. This standard also prescribed the accounting for combinations of entities under common control and for joint ventures.

Goodwill, representing the excess of the Company's investments in subsidiaries over the fair value of the net assets of the acquired subsidiaries at the date of acquisition, is amortized by straight-line method over the estimated useful life of goodwill. Goodwill is amortized over 20 years when its useful life cannot be reasonably estimated. Negative goodwill, representing the excess of the fair value of the net assets of the acquired subsidiaries at the date of acquisition over the Company's investments in such subsidiaries, is amortized by straight-line method over periods appropriate to the circumstances of the respective acquisitions. Immaterial goodwill or negative goodwill is charged/credited to consolidated statements of operations when incurred.

Assets acquired and liabilities assumed at a business combination are recorded at its fair value on the acquisition date.

FOR THE YEAR ENDED 31 MARCH 2010

In December 2008, the ASBJ issued a revised accounting standard for business combinations, "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 issued on 26 December 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 issued on 26 December 2008), "Partial amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No. 23 issued on 26 December 2008), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 (Revised 2008) issued on 26 December 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16 (Revised 2008) released on 26 December 2008) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 (Revised 2008) issued on 26 December 2008), hereinafter referred to as "revised standards." The revised standards were effective for the business combinations transactions undertaken on or after 1 April 2010 and are applied prospectively.

Major accounting changes under the revised accounting standards are as follows:

(i) The previous accounting standard for business combinations allowed companies to apply the pooling of interests method of accounting when certain specific criteria were met such that the business combination was essentially regarded as a uniting of interests. The revised standards requires accounting for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.

(ii) The previous accounting standard accounted for the research and development costs to be charged to income as incurred. Under the revised standards, an in-process research and development (IPR&D) acquired by a business combination is capitalized as an intangible asset.

(iii) Under the previous accounting standard, a bargain purchase (negative goodwill) was capitalized and is amortized within 20 years. Under the revised standards, a bargain purchase was recognized as profit on the acquisition date.

(iv) Under the previous accounting standard, when a parent obtained control over a subsidiary by a step acquisition, goodwill was measured on the date the parent obtained control as the difference between (a) the aggregate carrying amount of any previously held equity interests and the purchase consideration and (b) the net amount of the fair value of assets and the liabilities attributable to the parent on the date the parent obtains control. Under the revised standards, the acquirer should remeasure its previously held equity interests in the acquiree at its acquisition-date fair value and recognize any resulting gain or loss. Goodwill is measured at the acquisition date as the difference between (1) the aggregate of the acquisition date fair value of the consideration transferred, the amount of any non-controlling interests in the entity acquired and the acquisition-date fair value of any previously held equity interests in the entity acquired and (2) the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed.

(2) Accounting for investments in funds

For the investments in funds categorized as subsidiaries but not within the scope of consolidation, the Company's proportionate share in the net assets and revenue/expenses of those funds is calculated based on the funds' annual financial statements or semi-annual financial statements and is presented as "Investment securities" (Non-current assets) and revenue/expenses, respectively.

For the investments in funds held for operational investment purposes, which are not categorized as subsidiaries, the Company's proportionate share in the net assets and revenue/expenses of those funds is calculated based on the funds' annual financial statements or interim financial statements and is presented as "Operational investment securities" (Current assets) and revenue/expenses, respectively.

For the investment in funds other than those held for operational investment purpose, which are not categorized as subsidiaries, the Company's proportionate share in the net assets and revenue/expenses of those funds is calculated based on the funds' annual financial statements or interim financial statements and is presented as "Investment securities" (Non-current assets) and non-operating income/expenses, respectively.

(3) Deferred charges

(a) Stock issuance costs

Stock issuance costs are amortized over 3 years by using straight-line method.

(b) Bond issuance costs

Bond issuance costs are amortized over the bond term by using straight-line method.

(c) Deferred operating costs under Section 113 of the Insurance Business Act

This deferred operating costs can be amortized within 10 years according to Section 113 of the Insurance Business Act of Japan.

(4) Accounting for consumption tax

The amounts in the consolidated financial statements are presented without consumption or local consumption taxes.

(5) Cash segregated as deposits

Cash segregated as deposits are mainly client's trust money and cash deposited as collateral under the regulatory requirement, and stated at cost.

(6) Loans and receivables

Loans and receivables including notes and accounts receivable—trade, operational loans receivable and other loans receivable are measured at historical cost less allowance for doubtful accounts. The carrying amount of loans and receivables is reduced through the use of an allowance account. Margin loans receivable are stated at amounts equal to the purchase amounts of the relevant securities, which are collateralized by customers' securities and customers' deposits. (See the accounting policy in respect of allowance for doubtful accounts).

(7) Deposits from customers and guarantee deposits received

Deposits received are mainly deposits received from customers and guarantee deposits received which are recognized at cost.

(8) Impairment losses on non-current assets

The Group reviews their non-current assets for impairment whenever events or changes in circumstance indicate that the carrying amount of an asset or asset group may not be recoverable.

An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group.

The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(9) Asset retirement obligation

Asset retirement obligation is required to be recognized when there is a present obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. The asset retirement obligation should be measured at the present value.

(10) Borrowings

Borrowings are stated at cost, which represent the loans payable and bonds payable outstanding at balance sheet date.

(11) Retail margin trading liabilities

Retail margin trading liabilities are stated at cost.

(12) Stock options

ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance are applicable to stock options granted on and after 1 May 2006. This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and expense over the vesting period as consideration for receiving goods or services.

The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock options granted or the goods or services received. In the consolidated balance sheets, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

The standard covers equity-settled share-based payment transactions but does not cover cash-settled share-based payment transactions. The standard allows the stock options granted by unlisted companies to be measured at their intrinsic value if their fair values cannot be reliably estimated. The Group applied this accounting standard for stock options granted after 1 May 2006.

(13) Bonuses to directors and statutory auditors

Bonuses to directors and statutory auditors are accrued at the balance sheet date.

(14) Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before the Group is able to realize their benefits, or that future deductibility is uncertain.

(15) Per share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends attributable to the respective years including dividends to be paid after the end of the year.

(16) Cash and deposits and short-term investment securities

Cash and cash equivalents stated in the consolidated statements of cash flows are cash and deposits or short-term investment securities that are readily convertible into cash, and are not exposed to significant risk of changes in value, all of which will mature or become due within three months from the date of acquisition.

III. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The following new and revised accounting policies are adopted prospectively:

FOR THE YEAR ENDED 31 MARCH 2011

The Group has adopted “Accounting Standard for Asset Retirement Obligation” (ASBJ Statement No. 18 issued on 31 March 2008) and “Guidance for Accounting Standard for Asset Retirement Obligation” (ASBJ Guidance No. 21 issued on 31 March 2008). The operating income and ordinary income were decreased by ¥89 million and the income before income taxes was decreased by ¥591 million for the year ended 31 March 2011 as a result of the change.

The Group has adopted “Accounting Standard for Business Combinations” (ASBJ Statement No. 21 issued on 26 December 2008), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22 issued on 26 December 2008), “Partial amendments to Accounting Standard for Research and Development Costs” (ASBJ Statement No. 23 issued on 26 December 2008), “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7 (Revised 2008) issued on 26 December 2008), “Revised Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No. 16 (Revised 2008) released on 26 December 2008) and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10 (Revised 2008) issued on 26 December 2008).

IV. CHANGES IN PRESENTATION

Change in presentation due to expansion of a particular line item or grouping with other items if the corresponding amount exceeds or is below the benchmark of the associated consolidated financial statements caption. The following change in presentation is applied prospectively:

Consolidated statements of operations:

FOR THE YEAR ENDED 31 MARCH 2011

“Impairment loss” was included in “Others” line of “Extraordinary expense” for the year ended 31 March 2010 and was separately presented for the year ended 31 March 2011, as the amount now exceeds 10 percent of total amount of extraordinary expense. “Impairment loss” included in “Others” line of “Extraordinary expense” for the year ended 31 March 2010 amounted to ¥352 million.

V. ADDITIONAL INFORMATION

FOR THE YEAR ENDED 31 MARCH 2011

Execution of Share Exchange Agreement

The Company and its consolidated subsidiary, SBI VeriTrans Co., Ltd. (“SBI VeriTrans”), announced at board meetings held on 24 February 2011, that their respective boards of directors approved making SBI VeriTrans a wholly-owned subsidiary of the Company through a share exchange (the “Share Exchange”) subject to approval at SBI VeriTrans’ annual meeting of shareholders, and the two companies executed a share exchange agreement. Outline of the transactions is provided on the following page.

1. Timetable for the Share Exchange

Fiscal year end for the annual shareholders meeting	31 March 2011
Annual shareholders meeting to approve share exchange (SBI VeriTrans)	21 June 2011
Final trading date (SBI VeriTrans)	26 July 2011 (scheduled)
Share delisting date (SBI VeriTrans)	27 July 2011 (scheduled)
Share exchange date (effective date)	1 August 2011 (scheduled)

Note: The Company will implement the Share Exchange through the simplified share exchange arrangement pursuant to Article 796, Paragraph 3 of the Companies Act, and consequently, approval from its shareholders is not required.

2. Share Exchange Ratio

Company Name	The Company (Wholly Owning Parent Company After Share Exchange)	SBI VeriTrans (Wholly Owned Subsidiary After Share Exchange)
Share exchange ratio (Note 1)	1	4.7
Number of shares to be delivered for the Share Exchange	(Note 2)	—

Note 1: Share Exchange Ratio
For every one share of SBI VeriTrans' common share, 4.7 shares of the Company's common share will be allocated and delivered (if there are any material changes in the various conditions that serve as the basis for the calculations, this share exchange ratio may be subject to change through consultations between the two companies). However, no shares will be allocated for the Share Exchange with respect to the shares of SBI VeriTrans already held by the Company.

Note 2: Number of Shares to Be Delivered for the Share Exchange
In the implementation of the Share Exchange, the Company will newly issue and deliver shares of the Company's common share equal to the total number of shares of SBI VeriTrans' common share owned by shareholders of SBI VeriTrans (excluding the Company) stated or recorded in the SBI VeriTrans' shareholder register immediately prior to the Share Exchange coming into effect multiplied by 4.7.

VI. NOTES TO CONSOLIDATED BALANCE SHEETS

1. Operational investment securities

As at 31 March 2010 and 2011, operational investment securities included investments in funds and direct investments. Investment in funds included in operational investment securities consisted of the following:

	As at 31 March	
	2010	2011
	(millions of Yen)	(millions of Yen)
New Horizon Capital, L.P.	6,641	**17,041**
NEW HORIZON FUND, L.P.	10,465	**5,231**
SBI & BDJB CHINA FUND, L.P.	1,253	**2,370**
New Horizon Capital III, L.P.	—	**2,069**
SBI BB MEDIA INVESTMENT LIMITED PARTNERSHIP	1,375	**1,217**
Others	2,873	**3,814**
Subtotal (Investments in funds)	22,608	**31,746**
Direct investments	98,967	**110,135**
Total	121,576	**141,881**

2. Real estate inventories

Real estate inventories consisted of the following:

	As at 31 March	
	2010	2011
	(millions of Yen)	(millions of Yen)
Real estate for sale	9,837	**7,505**
Real estate for sale in progress	7,926	**7,083**
Real estate for development	1,403	**1,403**
Beneficial interest in real estate investment trust	9,601	**821**
Total	28,767	**16,812**

3. Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates are as follows:

	As at 31 March	
	2010	2011
	(millions of Yen)	(millions of Yen)
Investment securities	29,956	**43,463**

The above investment securities include investments in jointly controlled entities of ¥13,422 million and ¥20,763 million as at 31 March 2010 and 2011, respectively.

4. Pledged assets

Pledged assets consisted of the following:

	As at 31 March	
	2010	2011
	(millions of Yen)	(millions of Yen)
Cash and deposits	112	**521**
Notes and accounts receivable—trade	587	**2,126**
Operational investment securities	737	**420**
Operational loans receivable	2,864	**3,206**
Real estate inventories	10,519	**747**
Others-current assets	3,289	**4,593**
Buildings	—	**4,570**
Land	—	**5,063**
Investment securities	—	**1,937**
Total	18,109	**23,188**

The above assets were pledged as collateral for:

Short-term loans payable	10,194	**9,038**
Current portion of long-term loans payable	604	**1,291**
Current portion of bonds payable	300	**60**
Long-term loans payable	960	**8,269**
Bonds payable	—	**540**

Included in operational investment securities are ¥1,129 million and ¥1,163 million securities received from customers that were pledged as collateral for borrowings on margin transactions as at 31 March 2010 and 2011, respectively.

5. Contingent liabilities

(1) Credit guarantees

Guarantees for the debts owed to other financial institutions in the Group's credit guarantee business are as follows:

	As at 31 March	
	2010	2011
	(millions of Yen)	(millions of Yen)
Guarantee of bank loans	542	**18,234**

(2) Other contingent liabilities

AS AT MARCH 31 2010

On 28 July 2008, the Tokyo District Court made a decision to commence civil rehabilitation proceedings on ZEPHYR CO., LTD. ("ZPYR"). On 18 February 2009, ZPYR's restructuring plan was approved at the creditors' meeting and confirmed by the court.

As a result, the loan extended to ZPYR by SBI Incubation Co., Ltd. (a consolidated subsidiary of the Company, formerly known as Partners Investment Co., Ltd. ("PTINV")), in the aggregate amount of ¥11,366 million as at 31 March 2009 is expected to be collected through the disposal of real estate held as collateral to creditors. However, if there is an unrecoverable amount after the disposal of the real estate, the proceeds will be allocated using a percentage determined in the restructuring plan.

PTINV was merged with SBI Incubation Co., Ltd., which was the surviving company, in September 2009.

6. Off-balance sheet items—Fair values of the securities deposited in securities-related businesses

Securities deposited in securities-related businesses represented securities lent to customers under securities lending arrangements.

Fair values of the securities deposited in securities-related businesses are as follows:

	As at 31 March	
	2010	2011
	(millions of Yen)	(millions of Yen)
Securities loaned on margin transactions	108,452	**73,267**
Securities pledged for borrowings on margin transactions	49,619	**71,241**
Substitute securities for pledged margin transactions (except those related to customer's direct deposit)	—	**39,118**
Substitute securities for guarantee money paid	80,828	**41,234**
Securities loaned under loan agreement	61,557	**60,481**

7. Off-balance sheet items—Fair values of the securities received in securities-related businesses

Securities received in securities-related businesses represented securities borrowed by the Group under securities lending arrangements.

Fair values of the securities received in securities-related businesses are as follows:

	As at 31 March	
	2010	2011
	(millions of Yen)	(millions of Yen)
Securities pledged for loans on margin transactions	216,132	211,846
Securities borrowings on margin transactions	41,084	20,976
Substitute securities for guarantee money received, which were agreed on as collateral for other transactions	216,883	250,092
Substitute securities for guarantee money received on futures	99	—
Substitute securities for margin money received, which were agreed on as collateral for other transactions	—	100
Securities borrowed under loan agreement other than margin transactions	68,275	71,880

8. Trading instruments

Trading instruments consisted of the following:

	As at 31 March	
	2010	2011
	(millions of Yen)	(millions of Yen)
Equity securities	0	28
Debt securities	901	188
Others	125	4
Subtotal	1,027	222
Derivatives	2,487	2,479
Total	3,514	2,701

9. Cash segregated as deposits under the regulatory requirement

Cash segregated as deposits are required in respect of the following activities:

	As at 31 March	
	2010	2011
	(millions of Yen)	(millions of Yen)
Securities brokerage business		
Cash segregated as deposits under the Financial Instruments and Exchange Act Article No. 43-2-2 for the securities brokerage business	279,000	297,000
Foreign exchange brokerage business		
Cash segregated as deposits under the Financial Instruments and Exchange Act Article No. 43-3 for foreign exchange brokerage business	39,865	50,865
Total	318,865	347,865

10. Advances received

Advances received included advances for management fees from funds and other advances are as follows:

	As at 31 March	
	2010	2011
	(millions of Yen)	(millions of Yen)
SBI BB MEDIA INVESTMENT LIMITED PARTNERSHIP	157	—
SBI BROADBAND CAPITAL Silent Partnership	209	212
Other funds	24	12
Total management fees	391	224
Other advances received	1,436	1,728
Total	1,828	1,953

11. Statutory reserves

As at 31 March 2010 and 2011, a reserve for the financial products transaction liabilities was provided in accordance with Article 46-5 of Japanese Financial Instruments and Exchange Act, and a statutory reserve for price fluctuations was provided in accordance with Article 115 of the Insurance Business Act.

12. Credit facilities provided

Several consolidated subsidiaries were engaged in retail loan business, cash advance business for credit cards, and financing corporate reorganization. The credit facilities provided by these subsidiaries in respect of their operations are as follows:

	As at 31 March	
	2010	2011
	(millions of Yen)	(millions of Yen)
Credit facilities	12,439	**5,986**
Utilized	3,461	**2,928**
Unused portion	8,978	**3,057**

It is noted that above credit facilities can be utilized only if certain conditions are met. The purpose for the borrowings and any credit rating changes of the customers could result in the withdrawal of credit facilities.

13. Lines of credit from financial institutions

To ensure an efficient operating funds procurement, the Group entered into overdraft facilities with 15 and 16 banks as at 31 March 2010 and 2011, respectively. Unused overdraft facilities at the end of the year are as follows:

	As at 31 March	
	2010	2011
	(millions of Yen)	(millions of Yen)
Lines of credit	123,909	**160,700**
Used balance	43,230	**84,424**
Unused portion	80,679	**76,276**

14. Amount of allowance for investment losses which are directly deducted from investment securities

	As at 31 March	
	2010	2011
	(millions of Yen)	(millions of Yen)
Investments securities	300	**300**

VII. NOTES TO CONSOLIDATED STATEMENTS OF OPERATIONS

1. Gains (losses) on trading included in net sales consisted of the following:

	Year ended 31 March					
	2010			2011		
	(millions of Yen)	(millions of Yen)	(millions of Yen)	(millions of Yen)	(millions of Yen)	(millions of Yen)
	Realized	Unrealized	Total	Realized	Unrealized	Total
Equity securities	3	35	38	**14**	**0**	**14**
Debt securities	195	41	237	**1,307**	**(23)**	**1,284**
Others	11,120	296	11,417	**8,984**	**1,628**	**10,613**
Total	11,320	373	11,693	**10,306**	**1,605**	**11,911**

Above trading gains (losses) included gains (losses) on certain businesses other than securities-related business of ¥81 million and ¥55 million for the years ended 31 March 2010 and 2011, respectively.

2. Costs of sales consisted of the following:

	Year ended 31 March	
	2010	2011
	(millions of Yen)	(millions of Yen)
Cost of sales arising from operational investment securities	7,805	**7,031**
Provision of allowance for operational investment securities losses	3,073	**5,957**
Financial charges	3,851	**3,872**
Cost of sales arising from real estate inventories	3,868	**5,465**
Others	40,539	**45,208**
Total	59,138	**67,535**

Cost of sales arising from operational investment securities includes valuation losses of ¥702 million and ¥1,652 million for the years ended 31 March 2010 and 2011, respectively. Others included financial costs and payrolls related to net sales.

3. Selling, general and administrative expenses includes the following:

	Year ended 31 March	
	2010	2011
	(millions of Yen)	(millions of Yen)
Payroll and bonuses	9,970	**10,552**
Retirement benefit costs	25	**28**
Provision of allowance for doubtful accounts	2,140	**2,407**
Provision of bonuses	53	**61**
Outsourcing fees	10,412	**11,188**
Amortization of goodwill	7,764	**7,889**

4. Selling, general and administrative expenses included research and development costs of ¥447 million and ¥542 million for the years ended 31 March 2010 and 2011, respectively.

5. Losses on disposal of non-current assets consisted of the following:

	Year ended 31 March	
	2010	2011
	(millions of Yen)	(millions of Yen)
Furniture and fixtures	0	**—**
Total	0	**—**

6. Losses on retirement of non-current assets consisted of the following:

	Year ended 31 March	
	2010	2011
	(millions of Yen)	(millions of Yen)
Buildings	55	**45**
Furniture and fixtures	17	**14**
Other property and equipment	0	**0**
Software	26	**128**
Other intangible assets	4	**4**
Total	103	**193**

7. The Group recorded the following impairment losses for the year ended 31 March 2011:

Business	Category	Items	Location	Impairment loss amount (Millions of yen)
Brokerage & Investment Banking Business	Assets for on-line securities operation system	Buildings, furniture and fixtures, software and leased assets	Tokyo	350
Financial Services Business	Assets for operation of car related information site	Buildings, furniture and fixtures and software, etc.	Tokyo	150
Others	Assets for healthcare related business	Buildings, furniture and fixtures and software, etc.	Tokyo	360

(1) Grouping of assets

The grouping of assets was generally based on the independent lowest cash-generating unit. The grouping of lease property and unutilized assets was based on individual asset.

(2) Background to recognize impairment loss

In the Brokerage & Investment Banking Business, implementation of a new online securities operation system necessitated the disposal of the assets used for the prior operation system. Since the recoverable amount was less than the carrying amount, the difference between the recoverable amount and the carrying amount of the assets was recognized as an impairment loss. The amounts of impairment losses for buildings, furniture and fixtures, software and leased assets were ¥2 million, ¥16 million, ¥36 million and ¥295 million, respectively.

In the Financial Services Business, the difference between the recoverable amount and the carrying amount of assets used for the operation of car related information site was recognized as an impairment loss due to no expectation of initially expected profits. The amounts of impairment losses for buildings, furniture and fixtures, software and other assets were ¥3 million, ¥7 million, ¥138 million and ¥2 million, respectively.

In the Health Care Related Business, the difference between the recoverable amount and the carrying amount of assets used for health care operation was recognized as an impairment loss due to no expectation of initially expected profits. The amounts of impairment losses for buildings, furniture and fixtures, software and other assets were ¥29 million, ¥86 million, ¥233 million and ¥10 million, respectively.

(3) Calculation of recoverable amount

The recoverable amount is measured with the net sales value of zero for the assets to be disposed of. For the other assets, the recoverable amount is measured with the value in use based on the future cash flow.

8. For the year ended 31 March 2010, the provision for doubtful accounts included additional ¥1,206 million which was due from ZPYR. With regard to the settlement of the exercised right of avoidance by the oversight committee member of the ZPYR Civil rehabilitation proceeding on 1 October 2009, the provision for doubtful accounts is re-estimated. The impaired loan receivable is expected to be collected after foreclosure on ZPYR.

VIII. NOTES TO CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The Group applied Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25) issued on 30 June 2010 which requires to present other comprehensive income and comprehensive income from the year ended 31 March 2011 prospectively. If ASBJ Statement No. 25 applied for the year ended 31 March 2010, following information is presented.

1. Comprehensive income for the year attributable to:

	(millions of Yen)
– Owners of the parent	7,384
– Minority interests	(1,260)
Total	6,124

2. Other comprehensive income:

	(millions of Yen)
Unrealized gains on available-for-sale securities	2,130
Deferred gains on derivatives under hedge accounting	41
Foreign currency translation adjustments	(402)
Share of other comprehensive income of equity method affiliates	4,169
Total	5,939

IX. NOTES TO CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

1. Outstanding number of capital stock and treasury stock

Year ended 31 March 2010	As at 31 March 2009 (share)	Increase (share)	Decrease (share)	As at 31 March 2010 (share)
Outstanding capital stock				
Common shares (Note 1)	16,768,733	13,558	—	16,782,291
Treasury stock				
Common shares (Note 2)	37,661	—	23,040	14,621

Notes: 1. The increase in common shares of 13,558 was due to exercise of stock acquisition rights.
2. The decrease in treasury stock (common shares) of 23,040 was due to the acquisition of SBI Futures Co., Ltd. SBI Futures became a wholly owned subsidiary through a share exchange.

Year ended 31 March 2011	As at 31 March 2010 (share)	Increase (share)	Decrease (share)	As at 31 March 2011 (share)
Outstanding capital stock				
Common shares	**16,782,291**	**3,161,727**	**—**	**19,944,018**
Treasury stock				
Common shares	**14,621**	**—**	**—**	**14,621**

Note: The increase in common shares of 3,161,727 consisted of newly issued 3,112,000 shares of which the settlement date was 23 June 2010, and shares by the exercise of 49,727 acquisition rights shares.

2. Stock acquisition rights

Entity	Details of stock acquisition rights	Type of share	Year ended 31 March 2010 As at 31 March 2009	Number of shares for stock acquisition rights (share) Increase	Decrease	As at 31 March 2010	As at 31 March 2010 (millions of Yen)
Reporting entity (the Company)	Stock acquisition rights (Notes 1, 2)	Common shares	330,383.77	—	16,871.13	313,512.64	—
Consolidated subsidiaries	—	—	—	—	—	—	11
Total	—	—	—	—	—	—	11

Notes: 1. Stock acquisition rights were exercisable during the year ended 31 March 2010.
2. The decrease in stock acquisition rights was due to the exercise and expiration of the rights.

Entity	Details of stock acquisition rights	Type of share	Year ended 31 March 2011 As at 31 March 2010	Number of shares for stock acquisition rights (share) Increase	Decrease	As at 31 March 2011	As at 31 March 2011 (millions of Yen)
Reporting entity (the Company)	Stock acquisition rights (Notes 1, 2 and 3)	Common shares	313,512.64	**6,811.13**	**66,405.53**	**253,918.24**	**—**
Consolidated subsidiaries	—	—	—	**—**	**—**	**—**	**11**
Total	—	—	—	**—**	**—**	**—**	**11**

Notes: 1. Stock acquisition rights were exercisable during the year ended 31 March 2011.
2. The increase in stock acquisition rights was due to the adjustment of the number of shares for stock acquisition rights accompanying the issuance of new shares by offering.
3. The decrease in stock acquisition rights was due to the exercise and expiration of the rights.

3. Dividends

Dividend paid

Year ended 31 March 2010

Resolution	Type of share	Dividend amount (millions of Yen) Effective date	Amount per share (Yen)	Declared date	Effective date
Board of Directors' Meeting on 27 May 2009	Common shares	1,673	100	31 March 2009	11 June 2009

Year ended 31 March 2011

Resolution	Type of share	Dividend amount (millions of Yen) Effective date	Amount per share (Yen)	Declared date	Effective date
Board of Directors' Meeting on 26 May 2010	Common shares	1,676	100	31 March 2010	14 June 2010

Dividend whose declared date fell in the year ended 31 March 2010, and whose effective date will be in the year ended 31 March 2011

Resolution	Type of share	Dividend amount (millions of Yen)	Dividend resource	Amount per share (Yen)	Declared date	Effective date
Board of Directors' Meeting on 26 May 2010	Common shares	1,676	Retained earnings	100	31 March 2010	14 June 2010

Dividend whose declared date fell in the year ended 31 March 2011, and whose effective date will be in the year ended 31 March 2012

Resolution	Type of share	Dividend amount (millions of Yen)	Dividend resource	Amount per share (Yen)	Declared date	Effective date
Board of Directors' Meeting on 27 April 2011	Common shares	2,391	Retained earnings	120	31 March 2011	9 June 2011

X. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

1. Cash and cash equivalents reconciliation

	Year ended 31 March	
	2010	**2011**
	(millions of Yen)	(millions of Yen)
Cash and deposits	143,726	**150,268**
Time deposits with original maturity of more than three months	(1,275)	**(1,623)**
Money Market Fund (MMF) included in trading instruments	130	**142**
Deposit included in others (current assets)	—	**0**
Cash and cash equivalents	142,581	**148,786**

2. Cash paid/received resulting from change in scope of consolidation

FOR THE YEAR ENDED 31 MARCH 2010

The followings are details of the selling price of the shares, assets and liabilities of a deconsolidated subsidiary.

	millions of Yen
SBI AXA Life Insurance Co., Ltd.	
Current assets	1,765
Non-current assets	847
Deferred assets	3,238
Current liabilities	(258)
Non-current liabilities	(228)
Statutory reserves	(0)
Unrealized gains (losses) on available-for-sale securities	8
Minority interests	(2,414)
Gains on sale of securities	836
Selling price of shares of SBI AXA Life Insurance Co., Ltd.	3,795
Cash and cash equivalents of SBI AXA Life Insurance Co., Ltd.	(1,267)
Difference: Cash received from sale of shares of SBI AXA Life Insurance Co., Ltd.	2,527

FOR THE YEAR ENDED 31 MARCH 2011

The followings are details of the acquisition cost of the stocks, assets and liabilities of a newly consolidated subsidiary.

	millions of Yen
SBI Global Investment Co., Ltd.	
Current assets	**1,562**
Non-current assets	**47**
Goodwill	**281**
Current liabilities	**(604)**
Minority interests	**(601)**
Acquisition cost of stocks of SBI Global Investment Co., Ltd. securities	**685**
Accumulated acquisition cost of stocks before obtaining control	**(493)**
Loss arising from remeasurement of the previously held equity interest	**189**
Cash and cash equivalents of SBI Global Investment Co., Ltd.	**(133)**
Difference: Cash paid in acquisition of SBI Global Investment Co., Ltd.	**248**

XI. NOTES TO LEASE TRANSACTIONS

LESSEE

1. Finance lease

Finance lease transaction commenced before 31 March 2008 that did not transfer ownership are accounted in a manner similar to an operating lease transaction. The information regarding these leases is as follows:

(a) Pro forma information of leased assets, on an "as if capitalized" basis as at 31 March 2010 and 2011

As at 31 March 2010	Acquisition costs (millions of Yen)	Accumulated depreciation (millions of Yen)	Carrying amount (millions of Yen)
Building	660	550	110
Furniture and fixtures	5,645	4,346	1,299
Software	500	394	106
Total	6,807	5,291	1,515

As at 31 March 2011	Acquisition costs (millions of Yen)	Accumulated depreciation (millions of Yen)	Carrying amount (millions of Yen)
Building	**660**	**579**	**81**
Furniture and fixtures	**909**	**759**	**149**
Software	**208**	**181**	**27**
Total	**1,779**	**1,520**	**258**

(b) Obligation balances under finance leases

	As at 31 March	
	2010	**2011**
	(millions of Yen)	(millions of Yen)
Due within one year	1,168	**213**
Due after one year	483	**125**
Total	1,652	**33**

Note: The above information included obligations under finance leases, which were not cancellable for sub-lease contracts.

(c) Lease payments, reversal of accumulated impairment losses, depreciation, interest expenses and impairment losses:

	As at 31 March	
	2010	**2011**
	(millions of Yen)	(millions of Yen)
Lease payments	1,850	**1,076**
Reversal of accumulated impairment losses	—	**295**
Depreciation	1,678	**976**
Interest expenses	53	**27**
Impairment losses	—	**295**

(d) Depreciation method

Leased assets were depreciated by using straight-line method over the lease terms with residual value of zero.

(e) Calculation of interest expenses

The difference between total lease payments and the acquisition cost was assumed to be interest expense and the interest method was used to allocate interest expense to each year.

2. Operating lease

Future lease payments on operating lease contracts, which were not cancellable:

	As at 31 March	
	2010	**2011**
	(millions of Yen)	(millions of Yen)
Due within one year	1	**0**
Due after one year	0	**—**
Total	2	**0**

LESSOR

On 30 March 2007, the ASBJ revised ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which was issued on 17 June 1993 and "Guidance for Accounting Standard for Lease Transaction" (ASBJ Guidance No. 16 issued on 18 January 1994 and revised on 30 March 2007).

Under the revised standard, the disclosure regarding the lessor's lease transactions were changed after 31 March 2008.

1. Net investments in leases

Current assets

	As at 31 March 2010 (millions of Yen)	As at 31 March 2011 (millions of Yen)
Leases receivable	12,566	**9,373**
Estimated residual values	39	**14**
Unearned interest income	(644)	**(413)**
Investment in leases, current	11,960	**8,974**

2. Maturity analysis for leases receivable for finance leases that transfer ownership of the leased assets to the lessee

Current assets

As at 31 March 2010	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Leases receivable (millions of Yen)	2,077	1,860	1,357	703	320	—
Investments in leases (millions of Yen)	3,176	2,452	2,104	1,884	1,761	1,186

As at 31 March 2011	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Leases receivable (millions of Yen)	**2,650**	**2,029**	**1,374**	**1,010**	**500**	**—**
Investments in leases (millions of Yen)	**2,403**	**2,110**	**1,899**	**1,770**	**1,150**	**39**

3. Future lease payments to be received under operating lease, which were not cancellable

	As at 31 March 2010 (millions of Yen)	As at 31 March 2011 (millions of Yen)
Due within one year	1	**0**
Due after one year	0	**—**
Total	2	**0**

4. Leases receivable and lease investment assets, and lease obligations under a sublease transaction recorded at cost including interest portion

(a) Leases receivable and lease investment assets

	As at 31 March 2010 (millions of Yen)	As at 31 March 2011 (millions of Yen)
Current assets	7,230	**5,665**

(b) Lease obligation

	As at 31 March 2010 (millions of Yen)	As at 31 March 2011 (millions of Yen)
Current liabilities	1,530	**1,167**
Non-current liabilities	5,151	**3,984**

XII. FINANCIAL INSTRUMENTS

1. Details of the financial instruments

(1) Group Policy for Financial Instruments

The Group engages in a wide range of financial related businesses, such as investment business, fund management business, securities business, leasing business, loan business, credit card business and insurance businesses, to avoid excessive concentration of risk on specific entities or businesses. To operate these businesses, the Group raises funds by indirect financing such as bank borrowing, direct financing such as bond issuance and equity financing, and transaction with securities financing companies. The Group also considers the market environment and maintains an appropriate strategy for short and long term financing.

The Group and certain consolidated subsidiaries utilize derivative instruments, including foreign currency forward contracts, interest rate swaps, index futures, and foreign currency spot contracts.

The Group entered into foreign currency forward contracts and interest swap transactions primarily to hedge foreign exchange risk and to manage its interest rate exposures on borrowings, respectively. The Group does not hold or issue them for speculative purpose. Index futures and commodity futures were entered for the purpose of day trading or capping of the size of their transactions. Index futures were mainly daily trading under limited trading scale. Foreign currency spot contracts were entered into for managing the exposures on foreign currency brokerage transactions. The transaction was conducted with individually counterparties based on the Group's "Position Management Rule."

(2) Nature and Extent of Risks Arising from Financial Instruments

Financial assets held by the Group primarily consist of investment-related assets, securities-related assets and financing-related assets.

Investment-related assets include short-term investment securities, operational investment securities, and investment securities, which primarily represent investment in stocks and funds. These assets are held through the Company or certain consolidated subsidiaries (including the consolidated investment funds) of the Company for the purpose of fostering the development of venture capital portfolio companies or earning capital gains. These assets are exposed to the issuer's credit risk and the stock price fluctuation risk. Furthermore, unlisted equity securities are exposed to liquidity risk and investment assets denominated in foreign currency are exposed to the risk of exchange fluctuations.

Securities-related assets consist of trading instruments, margin transaction assets, short-term guarantee deposits and cash segregated as deposits. These assets are exposed to the credit risk and the interest rate risk of the brokerage customers of some of the consolidated subsidiaries, securities financing companies, and financial institutions.

Financing-related assets consist of operational loans receivable, leases receivable and lease investment assets and accounts receivable. These assets include real estate loans for domestic companies and individuals, unsecured personal loans, leases receivable and lease investment assets for operational companies and the receivable arising from the sales of leasing business or credit card business. These assets are exposed to the interest rate risk and credit risk of accounts such as default due to worsening economic conditions with higher credit risk exposure.

Financial liabilities of the Group primarily consist of loans payable, bonds payable and securities-related liabilities. The loans payable of the Group are exposed to liquidity risk from changes in the pricing policy of the financial institutions to the Group. Also, the bonds payable are monitored due to liquidity risk from market conditions or reducing credit rating of the Group.

Securities-related liabilities consist of margin transaction liabilities, loans payable secured by securities on repurchase agreement transactions, guarantee deposits received from margin transactions, and deposits from customers. The financing environment of the security business operated by the Group's certain subsidiaries is affected by the business policy of securities financing companies and its investment strategy. The Group exercises control by matching the financing with the related securities assets.

The Group enters into foreign currency forward contracts and interest swap transactions primarily to hedge foreign exchange risk associated with receivables, payables and securities denominated in foreign currencies and to manage its interest rate exposures on borrowings, respectively.

The Group manages index futures as a part of investment business which is exposed to market risk. Because the counterparties of foreign currency forward contracts and interest rate swap agreements are limited to creditworthy major Japanese financial institutions and index futures are traded in the public market, the credit risk arising from default is considered to be minimal.

The Group also enters into foreign currency spot contracts in the course of ordinary operations, and for hedging risks arising from the business. The transactions are subject to interest rate risks and foreign currency risks as well as exposed to credit risks with customers and credit and settlement risks with counterparties.

(3) Risk Management System over Financial Instruments

In order to maintain financial strength and appropriate operational procedures, the Company has risk management policies to identify, analyze and manage the relevant risks integrally. The management policies for credit risk, market risk, and liquidity risk are as follows:

Credit risk management

(a) Accurately analyze financial conditions of investees/debtors and quantity relevant credit risk.
(b) Appropriately manage the Group's own capital and the related risks by periodic monitoring.
(c) Under foreign investments or lending transaction, the Group identifies intrinsic risk of investees/debtors through collaboration with domestic/foreign offices as well as overseas partners followed by periodic monitoring.
(d) Recognize investment risk as significant risk to be controlled among various credit risks and perform detailed analysis of fluctuation in risk associated with operational investment securities.

Market risk management

(a) Understand underlying currency and term of assets and quantify market risk.
(b) Appropriately manage the balance between the Group's own capital and its related risk by periodic monitoring.
(c) Never enter into derivative transactions for speculative purposes in absence of established operating rules.

Liquidity risk management

(a) Secure various financing arrangements such as bank overdraft facility, bond issuance registration or stock issuance.
(b) Collect information on the Group's working capital requirement and understand the cash flow positions.
(c) Obtain reports from the department responsible for cash management based upon the liquidity risk management policies stated in (a) and (b) above to monitor cash flow risks.

Under these policies, the Company assigns a risk management officer who is in charge of risk management and sets up a risk management department in line with the risk management rules and the group risk control rules in order to properly analyze and control these risks. The risk management department analyzes and monitors the Group's risk on a timely basis.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted market price. If quoted market price is not available, fair values are calculated with valuation techniques which are considered to be reasonable. As the fair value determination takes variable factors into consideration, such fair values may fluctuate by using different assumptions. Please see section "XIV. DERIVATIVE CONTRACTS" for the detail of fair value of derivatives.

2. Fair value of financial instruments

The tables below presents the carrying amounts, the fair value of the financial instruments, and the difference between the carrying amounts and fair value as at 31 March 2010 and 2011.

The tables below do not include assets and liabilities which cannot be measured at fair value due to difficulties in determining fair value (refer to Note 2).

	As at 31 March 2010			As at 31 March 2011		
	Carrying amount (millions of Yen)	Fair value (millions of Yen)	Difference (millions of Yen)	Carrying amount (millions of Yen)	Fair value (millions of Yen)	Difference (millions of Yen)
(1) Cash and deposits	143,726	143,726	—	150,268	150,268	—
(2) Notes and accounts receivable—trade	8,483	8,508	24	10,658	10,549	(108)
(3) Leases receivable and lease investment assets	17,924	18,063	138	16,166	16,300	134
(4) Short-term investment securities, operational investment securities and investment securities						
Available-for-sale securities	33,888	33,888	—	60,546	60,546	—
Securities in affiliates	1,133	1,136	2	5,068	3,314	(1,753)
(5) Cash segregated as deposits	318,865	318,865	—	347,865	347,865	—
(6) Operational loans receivable	34,694			27,905		
Allowance for doubtful accounts(*1)	(1,080)			(896)		
(7) Trading instruments						
Trading securities	1,027	1,027	—	222	222	—
(8) Margin transaction assets	261,641	261,641	—	250,399	250,399	—
(9) Short-term guarantee deposits	5,944	5,944	—	5,235	5,235	—
Assets, total	826,248	828,785	2,536	873,441	873,025	(415)
(1) Short-term loans payable	55,614	55,614	—	97,164	97,164	—
(2) Current portion of bonds payable	112,600	112,600	—	—	—	—
(3) Accrued income taxes	4,953	4,953	—	4,574	4,574	—
(4) Margin transaction liabilities	150,036	150,036	—	143,757	143,757	—
(5) Loans payable secured by securities	63,780	63,780	—	61,797	61,797	—
(6) Guarantee deposits received	282,373	282,373	—	309,134	309,134	—
(7) Deposits from customers	31,176	31,176	—	37,819	37,819	—
(8) Bonds payable(*2)	—	—	—	70,600	70,600	—
(9) Long-term loans payable(*3)	40,988	40,994	6	43,514	43,537	22
Liabilities, total	741,524	741,530	6	768,362	768,385	22
Derivatives(*4)	734	734	—	2,367	2,367	—

Notes: (*1) Includes general reserve and specific reserve for operational loans receivable.
(*2) Includes current-portion of bonds payable as at 31 March 2011.
(*3) Includes current-portion of long term loans payable.
(*4) Receivables and payables arising from derivative transactions are stated at net value in the tables above.

NOTES:

(1) Calculation of fair value of financial instruments, investment securities and derivatives

(a) Assets

(i) (1) Cash and deposits, (5) Cash segregated as deposits, and (9) Short-term guarantee deposits

The fair values are measured at the carrying values as they approximate the carrying values because of their short maturities.

(ii) (2) Notes and accounts receivable-trade

With respect to notes and accounts receivable with short maturities, fair values are measured at the carrying values as they approximate the carrying values.

The fair values of receivables settled over long-term period such as installment sales receivable are measured at the present value of the future cash inflow discounted at the discount rate considering government risk free rates and credit risk rates.

(iii) (3) Leases receivable and lease investment assets

The fair values of leases receivable and lease investment assets are measured at the present value of the future cash inflow discounted at the discount rate considering government risk free rates and credit risk rates.

(iv) (4) Short-term investment securities, operational investment securities and investment securities and (7) Trading instruments

The fair values of equity securities are measured at the quoted market price of the stock exchange. The fair values of bonds are measured at the quoted market price of the stock exchange or the quoted price provided by financial institutions. The fair values of investment trusts are measured at the price quoted by financial institutions. The fair values of investments in funds are measured at the fair values of partnership net assets based on the Group's percentage share in the contributed capital, if such fair values are available. Unlisted available- for-sale securities held by certain overseas subsidiaries adopting International Financial Reporting Standards are measured at fair value.

(v) (6) Operational loans receivable

The fair values of operational loans receivable are measured at the present value of the future cash inflows, which are classified into different types of receivables and discounted at the rate determined by reference to an appropriate index such as a government bond yield adjusted with relevant credit risk.

As the estimated credit losses are provided based on the individual assessment of recoverability of loans receivable held by certain consolidated subsidiaries with corporate restructuring business, the fair values are measured at the carrying values less allowance for doubtful accounts since they approximate the measured values.

(vi) (8) Margin transaction assets

With respect to receivables from customers of margin transaction assets, the fair values are measured at the carrying value as the interest rates of the loans are floating rate and reflect the market interest rate within a short period so that, unless the borrower's credit condition changes significantly, the fair values are considered to approximate the carrying value.

Of these receivables, the fair values of those without set maturity date due to certain conditions such as the placing of a cap on the amount of loans which does not exceed the value of pledged assets, are measured at the carrying value. Based on the expected repayment term and the terms of interest, the fair values are considered to approximate the carrying values. With respect to cash collateral pledged for securities borrowing on margin transaction, the fair values are measured at the carrying value because of their short maturities.

(b) Liabilities

The fair values of liabilities other than (8) Bonds payable and (9) Long-term loans payable are measured at the carrying values as they approximate the carrying values because of their short maturities.

(i) (8) Bonds payable

With respect to bonds payable with maturity within one year, the fair values are measured at the carrying values as they approximate the carrying values because of their short maturities.

With respect to bonds payable with maturity over one year and floating interest rates, the fair values are measured at the carrying value as the interest rates of the debt reflect the market interest rate within a short period and as the credit conditions of consolidated subsidiaries that obtained the debt are not expected to change significantly.

(ii) (9) Long-term loans payable

With respect to long-term loans payable with floating interest rates, the fair values are measured at the carrying value as the interest rates of the debt reflect the market interest rate within a short period and as the credit conditions of consolidated subsidiaries that obtained the debt are not expected to change significantly.

With respect to long-term loans payable with fixed rate, the fair values are measured at the present value of the future cash outflows, where the sum of principal and interest at certain intervals, or the sum of principal and interest determined using interest swap rates for which the special hedge accounting treatment is used, is discounted at the discount rate that may be applicable for similar types of debt borrowed under current conditions.

(c) Derivatives

The information of the fair value for derivatives is included in section "XIV. DERIVATIVE CONTRACTS."

(2) The following securities were stated at cost because the fair values could not be reliably determined. They were excluded from "Assets-(iv) (4) Short-term investment securities, operational investment securities and investment securities" of "Fair value of financial instruments."

As at 31 March 2010

Classification	Carrying amount (millions of Yen)
Available-for-sale securities	
Non-fair valued equity securities(*1)	90,051
Non-fair valued bonds	
Convertible bonds with stock acquisition rights(*2)	2,414
Investments in funds(*3)	6,680
Stock acquisition rights(*2)	31
Total	99,177
Investments in subsidiaries and affiliates	
Unlisted equity securities(*1)	28,369
Investments in funds(*3)	452
Total	28,822

As at 31 March 2011

Classification	Carrying amount (millions of Yen)
Available-for-sale securities	
Non-fair valued equity securities(*1)	82,363
Non-fair valued bonds	
Convertible bonds with stock acquisition rights(*2)	2,200
Investments in funds(*3)	6,032
Stock acquisition rights(*2)	946
Total	91,543
Investments in subsidiaries and affiliates	
Unlisted equity securities(*1)	38,043
Investments in funds(*3)	351
Total	38,395

(*1) Unlisted equity securities were excluded from the fair value disclosure as there was no market value and it was extremely difficult to measure the fair value.

(*2) Convertible bonds with stock acquisition rights were excluded from the fair value disclosure as there was no market value and it was extremely difficult to estimate the future cash flow as a basis of fair value.

(*3) Investments in funds whose investments were mainly composed of unlisted equity securities were excluded from the fair value disclosure as it was extremely difficult to measure the fair value of unlisted equity.

(3) Maturity analysis for financial assets and securities with contractual maturities

(millions of Yen)

As at 31 March 2010	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Cash and deposits	143,726	—	—	—	—	—
Notes and accounts receivable—trade	8,067	323	76	12	2	0
Short-term investment securities, operational investment securities and investment securities with maturity date						
Debt securities						
(Corporate bonds)	60	150	50	—	—	—
Cash segregated as deposits	318,865	—	—	—	—	—
Operational loans receivable	22,899	3,434	2,229	1,105	836	4,190
Margin transaction assets	261,641	—	—	—	—	—
Short-term guarantee deposits	5,944	—	—	—	—	—
Total	761,204	3,907	2,355	1,118	838	4,191

(millions of Yen)

As at 31 March 2011	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Cash and deposits	150,268	—	—	—	—	—
Notes and accounts receivable—trade	9,090	847	394	189	135	0
Short-term investment securities, operational investment securities and investment securities with maturity date						
Debt securities						
(Corporate bonds)	207	50	1,442	—	—	—
Cash segregated as deposits	347,865	—	—	—	—	—
Operational loans receivable	18,420	2,538	2,471	773	956	2,744
Margin transaction assets	250,399	—	—	—	—	—
Short-term guarantee deposits	5,235	—	—	—	—	—
Total	781,487	3,436	4,308	963	1,092	2,745

(*) Maturities of leases receivable and lease investment assets after balance sheet date are described in the "Notes to lease transactions for consolidated financial statements."

(4) Maturity analysis for long-term loans payable and other interest-bearing debt after balance sheet date

(millions of Yen)

As at 31 March 2010	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Short-term loans payable	55,614	—	—	—	—	—
Current portion of bonds payable	112,600	—	—	—	—	—
Margin transaction liabilities						
Borrowings on margin transactions	48,813	—	—	—	—	—
Long-term loans payable	13,368	10,066	16,494	100	—	960
Total	230,396	10,066	16,494	100	—	960

(millions of Yen)

As at 31 March 2011	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Short-term loans payable	97,164	—	—	—	—	—
Current portion of bonds payable		—	—	—	—	—
Margin transaction liabilities	70,386					
Borrowings on margin transactions	70,060	60	60	60	60	300
Long-term loans payable	12,147	18,315	4,918	1,065	6,700	365
Total	249,758	18,375	4,978	1,125	6,760	665

XIII. SECURITIES

The Group applied the revised accounting standard (ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" issued on 10 March 2008) and the new guidance (ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures" issued on 10 March 2008) after 31 March 2009.

FOR THE YEAR ENDED 31 MARCH 2010

1. Trading instruments

Valuation gains of ¥75 million were included in income for the year ended 31 March 2010.

2. Available-for-sale securities with fair value

	Type	Carrying amount (millions of Yen)	Acquisition costs (millions of Yen)	Difference (millions of Yen)
Carrying amount exceeds acquisition cost	(1) Equity securities	6,452	4,155	2,297
	(2) Debt securities			
	Corporate bonds	52	50	2
	(3) Others	20,101	9,607	10,493
	Sub-total	26,606	13,813	12,793
Carrying amount does not exceed acquisition cost	(1) Equity securities	95,774	97,685	(1,910)
	(2) Debt securities			
	Corporate bonds	2,620	2,624	(4)
	(3) Others	8,064	8,662	(598)
	Sub-total	106,459	108,972	(2,513)
	Total	133,065	122,785	10,279

3. Available-for-sale securities sold during the year

Securities	Proceeds from sales (millions of Yen)	Gains on sales (millions of Yen)	Losses on sales (millions of Yen)
(1) Equity securities	10,273	4,828	308
(2) Debt securities			
Corporate bonds	1,745	47	—
Others	197	0	0
(3) Others	3,560	599	—
Total	15,777	5,476	309

4. Impairment loss on securities

Impairment loss on available-for-sale securities of ¥648 million was recorded during the year 2010.

FOR THE YEAR ENDED 31 MARCH 2011

1. Trading instruments

Valuation losses of ¥14 million were included in income for the year ended 31 March 2011.

2. Available-for-sale securities with fair value

	Type	Carrying amount (millions of Yen)	Acquisition costs (millions of Yen)	Difference (millions of Yen)
Carrying amount exceeds acquisition cost	(1) Equity securities	**6,430**	**4,633**	**1,797**
	(2) Debt securities			
	Corporate bonds	**52**	**50**	**2**
	(3) Others	**9,143**	**5,554**	**3,588**
	Sub-total	**15,626**	**10,238**	**5,388**
Carrying amount does not exceed acquisition cost	(1) Equity securities	**104,008**	**113,662**	**(9,654)**
	(2) Debt securities			
	Corporate bonds	**3,851**	**3,851**	**—**
	(3) Others	**28,603**	**29,333**	**(730)**
	Sub-total	**136,463**	**146,847**	**(10,384)**
	Total	**152,090**	**157,085**	**(4,995)**

3. Available-for-sale securities sold during the year

Securities	Proceeds from sales (millions of Yen)	Gains on sales (millions of Yen)	Losses on sales (millions of Yen)
(1) Equity securities	11,888	6,199	967
(2) Debt securities			
Corporate bonds	6	1	—
Others	—	—	—
(3) Others	—	—	—
Total	11,895	6,200	967

4. Impairment loss on securities

Impairment loss on equity securities of ¥2,174 million (¥1,858 million on available-for-sale securities and ¥315 million on investments in subsidiaries and affiliates) was recorded during the year 2011.

XIV. DERIVATIVE CONTRACTS

FOR THE YEAR ENDED 31 MARCH 2010 AND 2011

1. Derivatives not subject to hedge accounting policy

As at 31 March 2010

Type	Transaction	Contractual amounts (millions of Yen)	Over 1 year (millions of Yen)	Fair value (millions of Yen)	Valuation gains (losses) (millions of Yen)
Transactions outside market	Foreign currency forward contracts				
	Short	27	—	(0)	(0)
	Long	28	—	0	0
	Foreign currency spot contracts				
	Short	112,660	—	(1,752)	(1,752)
	Long	112,078	—	2,486	2,486
Total		—	—	733	733
Market transactions	Index futures Long	62	—	1	1

As at 31 March 2011

Type	Transaction	Contractual amounts (millions of Yen)	Over 1 year (millions of Yen)	Fair value (millions of Yen)	Valuation gains (losses) (millions of Yen)
Transactions outside market	Foreign currency forward contracts				
	Short	85	—	(0)	(0)
	Long	91	—	(0)	(0)
	Foreign currency spot contracts				
	Short	187,335	—	73	73
	Long	184,683	—	2,294	2,294
Total		—	—	2,367	2,367
Market transactions	Index futures Long	68	—	0	0

Fair value of foreign currency forward contract was stated based on future exchange rate at balance sheet date, whereas fair value of foreign currency spot contracts was based on spot rate at the balance sheet date. Fair value of index futures was based on market closing price at the balance sheet date in each stock market.

2. Derivatives subject to hedge accounting

As at 31 March 2010

Hedge accounting method	Transaction	Hedged balance	Contract amounts (millions of Yen)	Over 1 year (millions of Yen)	Fair value (millions of Yen)
Interest rate swap	Interest rate swaps				
	Variable receipt fixed payment	Long-term loans payable	3,650	1,730	(Note 2)

Hedge accounting method	Transaction	Hedged balance	Contract amounts (millions of Yen)	Over 1 year (millions of Yen)	Fair value (millions of Yen)
			As at 31 March 2011		
Deferred method of interest rate swap	Interest rate swaps Variable receipt fixed payment	Bonds payable	600	540	(14)
Interest rate swap	Interest rate swaps Variable receipt fixed payment	Long-term loans payable	5,480	3,460	(Note 2)

Note: 1. Fair values were measured at the quoted market price of the stock exchange or the quoted market price provided by financial institutions.
2. For certain loans payable for which interest rate swaps were used to hedge the interest-rate fluctuations, the fair values of derivative financial instruments were included in the fair value of loans payable as hedged items.

XV. RETIREMENT BENEFITS

The Group has a contributory funded defined benefit pension plan and a defined contribution pension plan. Certain of the Group's domestic consolidated subsidiaries have tax-qualified plan, non-contributory funded defined pension plan and either a contributory funded defined benefit pension plan or a defined contribution pension plan for the employees' retirement plan.

1. Detail of the multi-employer plans for which the required contribution amounts were expensed as incurred (latest information)

(a) Total pension funding status:

	Kanto IT Software Health Insurance Society (millions of Yen)	Association of Welfare Pension Fund in the Commodity Futures Industry (millions of Yen)
	(As at 31 March 2009)	
Plan assets	127,937	48,150
Benefit Obligation	155,636	62,295
Difference	(27,699)	(14,144)

	Kanto IT Software Health Insurance Society (millions of Yen)
	(As at 31 March 2010)
Plan assets	161,054
Benefit Obligation	159,998
Difference	1,055

(b) The percentage of participants of the Group to above pension plan:

	(As at 31 March 2010)	(As at 31 March 2011)
Kanto IT Software Health Insurance Society	1.03%	1.10%
Association of Welfare Pension Fund in the Commodity Futures Industry	0.56%	

2. Liability for employees' retirement benefits

The following is related to the defined benefit pension plan and tax qualified pension plan for certain domestic consolidated subsidiaries.

	2010 (millions of Yen)	2011 (millions of Yen)
	As at 31 March	
(a) Projected benefit obligations	(108)	(118)
(b) Fair value of plan assets	56	48
(c) Provision for retirement benefits ((a) + (b))	(52)	(69)

3. Retirement benefit expense

	2010 (millions of Yen)	2011 (millions of Yen)
	Year ended 31 March	
Contribution to pension funds (Note 1)	138	122
Service cost (Note 2)	39	41
Contributions to the defined contribution pension plan (Note 3)	276	292
Total	454	456

Notes:
(1) Contribution amounted to multi-employer pension funds.
(2) Retirement benefit expense of certain domestic consolidated subsidiaries which applied compendium method.
(3) Contribution to the defined benefit pension plan and prepayment to pension plan.

4. Basis for calculation of retirement benefit obligation

Certain domestic subsidiaries, which apply either defined benefit pension plan or tax-qualified pension plan, use simplified method for the calculation of retirement obligation.

XVI. STOCK OPTION PLAN

Stock options outstanding as at 31 March 2011 are as follows:

Stock Options Issued by the Company

Stock Option	Number of Options Outstanding	Date of Grant	Exercise Price	Exercise Period
2001 Stock Option	11,394 shares	2002.2.1	¥19,666*	From 20 December 2003 to 19 December 2011
2002 Stock Option (1)	12,096.72 shares	2002.12.20	¥ 5,659*	From 20 December 2004 to 19 December 2012
2003 Stock Option (1)	20,465.52 shares	2003.9.25	¥16,908*	From 20 December 2004 to 19 December 2012
2003 Stock Option (2)	58,419.93 shares	2003.9.25	¥16,908*	From 24 June 2005 to 23 June 2013
2003 Stock Option (3)	16,709.07 shares	2003.10.23	¥26,152*	From 24 June 2005 to 23 June 2013
2005 Stock Option (1)	23,944 shares	2005.7.28	¥33,172*	From 28 July 2005 to 29 June 2013

*Due to the new stock issuance through public offering dated 23 June 2010, the exercise price is adjusted.

Stock Options Assumed by the Company due to Mergers and Acquisitions

Stock Option	Number of Options Outstanding	Date of Grant	Exercise Price	Exercise Period
E*TRADE Japan K.K. Stock Option	50,077.44 shares	2002.7.1	¥11,423*	From 21 June 2004 to 20 June 2012
SBI HOME Planner Co., LTD. 2003 Stock Option	514.29 shares	2004.4.15	¥21,349*	From 28 June 2005 to 27 June 2013
SBI Partners Co., Inc. 2005 Stock Option	580.80 shares	2005.11.29	¥35,050*	From 1 December 2005 to 31 October 2013
FINANCE ALL CORPORATION 2002 Stock Option	1,840 shares	2002.9.25	¥ 4,465	From 25 September 2004 to 24 September 2012
FINANCE ALL CORPORATION 2003 Stock Option	5,440 shares	2003.8.2	¥ 4,465	From 2 August 2005 to 1 August 2013
WORLD NICHIEI Securities Co., LTD. 2003 Stock Option	172.50 shares	2003.7.15	¥16,447*	From 1 July 2005 to 26 June 2013
WORLD NICHIEI FRONTIER Securities Co., LTD. 2004 Stock Option	18,769.15 shares	2004.6.29	¥47,447*	From 30 June 2006 to 29 June 2014
WORLD NICHIEI FRONTIER Securities Co., LTD. 2004 Stock Option	34.50 shares	2004.12.22	¥30,180*	From 30 June 2006 to 29 June 2014
SBI Securities Co., Ltd. 2005 Stock Option	18,349.40 shares	2005.7.4	¥44,405*	From 30 June 2007 to 29 June 2015
SBIH (3) Stock Option	13,331.84 shares	2008.8.1	¥45,663*	From 1 August 2008 to 23 June 2013
SBIH (4) Stock Option	1,779.08 shares	2008.8.1	¥53,447*	From 1 August 2008 to 23 June 2013
Total	253,918.24 shares			

* Due to the new stock issuance through public offering dated 23 June 2010, the exercise price is adjusted.

Stock Options Issued by Consolidated Subsidiaries

Stock Option	Number of Options Outstanding (Non-vested)	Date of Grant	Exercise Price	Exercise Period
SBI Mortgage Co., Ltd.				
Stock Option (1)	4,700 shares (4,700 shares)	2005.5.25	¥ 7,500	From 26 May 2007 to 25 May 2015
SBI Life Living Co., Ltd.				
Stock Option (2)	19 shares	2005.8.29	¥100,000	From 30 August 2007 to 29 August 2015
Stock Option (3)	960 shares	2008.6.1	¥270,834	From 1 June 2008 to 31 March 2013
Total	979 shares			
SBI Biotech Co., Ltd.				
Stock Option (1)	620 shares (620 shares)	2002.10.15	¥ 5,000	30 months after 6 months passed from the IPO
Stock Option (2)	536 shares	2002.10.15	¥ 5,000	From 15 October 2004 (536 shares) to 31 August 2012
Stock Option (5)	90 shares	2005.9.28	¥175,000	From 29 September 2005 (90 shares) to 30 August 2015
Total	1,246 shares (1,246 shares)			
SBI VeriTrans Co., Ltd.				
2004 Stock Option	336 shares	2004.2.13	¥ 5,741	From 13 February 2006 to 12 February 2014
Morningstar Japan K.K.				
2003 Stock Option (1)	2,368 shares	2003.11.5	¥ 57,500	From 20 March 2005 to 19 March 2013
2006 Stock Option (2)	250 shares	2006.4.21	¥133,500	From 24 March 2008 to 23 March 2016
Total	2,618 shares			
Gomez Consulting Co., Ltd.				
2003 Stock Option	40 shares	2003.3.15	¥ 44,250	From 15 March 2005 to 14 March 2013
2005 Stock Option	294 shares	2005.6.15	¥100,000	From 3 June 2007 to 2 June 2015
Total	334 shares			
HOMEOSTYLE, Inc.				
Warrant (1)	4,908 shares	2002.4.5	¥ 9,636	From 1 June 2002 (4,908 shares) to 12 March 2012
Warrant (2)	979 shares	2004.8.24	¥ 9,636	From 1 June 2002 (979 shares) to 12 March 2012
Stock Option (3)	285 shares	2005.2.28	¥ 16,000	From 1 March 2007 (285 shares) to 24 February 2015
Stock Option (4)	8,004 shares	2006.3.31	¥ 19,000	From 1 April 2008 (8,004 shares) to 25 March 2016
TK International Co., Ltd.				
Stock Option (the stock option which was taken over by HOMEOSTYLE, Inc. due to the M&A)	4,081 shares (4,081 shares)	2004.7.2	¥ 11,903	From 6 July 2006 to 30 June 2014
Total	18,257 shares (18,257 shares)			

Stock Option	Number of Options Outstanding (Non-vested)	Date of Grant	Exercise Price	Exercise Period
Autoc one K.K				
Stock Option (1)	5,850 shares	2002.12.27	¥ 10,000	From 1 November 2004 (5,850 shares) to 30 September 2012
Stock Option (3)	1,200 shares	2004.10.29	¥ 50,000	From 1 August 2006 (1,200 shares) to 31 May 2014
Stock Option (4)	200 shares	2005.2.25	¥ 50,000	From 1 August 2006 (200 shares) to 31 May 2014
Stock Option (5)	100 shares	2005.4.20	¥ 50,000	From 1 August 2006 (100 shares) to 31 May 2014
Stock Option (6)	50 shares	2005.4.20	¥ 50,000	From 1 August 2006 (50 shares) to 31 May 2014
Stock Option (7)	1,050 shares	2006.4.20	¥ 50,000	From 28 June 2007 (1,050 shares) to 27 June 2015
Stock Option (8)	30 shares	2008.3.28	¥ 60,000	From 29 June 2009 (30 shares) to 28 June 2017
Total	8,480 shares (8,480 shares)			

Stock Option	Number of Options Outstanding (Non-vested)	Date of Grant	Exercise Price	Exercise Period
SBI Trade Win Tech Co., Ltd.				
Warrant (2)	1,000 shares	2000.10.20	¥ 50,000	From 1 January 2001 (1,000 shares) to 16 April 2012
Warrant (3)	320 shares	2002.4.17	¥460,000	From 18 April 2002 (320 shares) to 16 April 2012
Total	1,320 shares (1,320 shares)			

The stock option activity for the years ended 31 March 2010 and 2011 is as follows:

	SBI Holdings, Inc.	SBI Mortgage Co., Ltd.	SBI Life Living Co., Ltd.	SBI Biotech Co., Ltd. (Shares)
Year Ended 31 March 2010				
Non-vested:				
31 March 2009—outstanding		4,700		1,246
Granted				
Cancelled				
Vested				
31 March 2010—outstanding		4,700		1,246
Vested:				
31 March 2009—outstanding	330,383.77		979	
Vested				
Exercised	13,571.35			
Cancelled	3,299.78			
31 March 2010—outstanding	313,512.64		979	
Year Ended 31 March 2011				
Non-vested:				
31 March 2010—outstanding		**4,700**		**1,246**
Granted				
Cancelled				
Vested				
31 March 2011—outstanding		**4,700**		**1,246**
Vested:				
31 March 2010—outstanding	**320,323.77***		**979**	
Vested				
Exercised	**49,737.50**			
Cancelled	**16,668.03**			
31 March 2011—outstanding	**253,918.24**		**979**	

* Due to the new stock issuance through public offering dated 23 June 2010, number of objective stocks were adjusted, therefore, the adjustments were reflected in the number of beginning balance of period.

	SBI Futures Co., Ltd.	SBI VeriTrans Co., Ltd.	Morningstar Japan K.K.	Gomez Consulting Co., Ltd. (Shares)
Year Ended 31 March 2010				
Non-vested:				
31 March 2009—outstanding	183			
Granted				
Cancelled	183			
Vested				
31 March 2010—outstanding				
Vested:				
31 March 2009—outstanding	950	1,632	2,954	704
Vested				
Exercised		1,116		
Cancelled	950			
31 March 2010—outstanding		516	2,954	704
Year Ended 31 March 2011				
Non-vested:				
31 March 2010—outstanding				
Granted				
Cancelled				
Vested				
31 March 2011—outstanding				
Vested:				
31 March 2010—outstanding		**516**	**2,954**	**704**
Vested				
Exercised		**180**		**370**
Cancelled			**336**	
31 March 2011—outstanding		**336**	**2,618**	**334**

	HOMEOSTYLE, Inc.	Autoc one K.K.	SBI Net Systems Co., Ltd.	SBI Trade Win Tech Co., Ltd. (Shares)
Year Ended 31 March 2010				
Non-vested:				
31 March 2009—outstanding	18,899	9,760		1,320
Granted				
Cancelled	35	960		
Vested				
31 March 2010—outstanding	18,864	8,800		1,320
Vested:				
31 March 2009—outstanding			455	
Vested				
Exercised				
Cancelled			455	
31 March 2010—outstanding				
Year Ended 31 March 2011				
Non-vested:				
31 March 2010—outstanding	**18,864**	**8,800**		**1,320**
Granted				
Cancelled	**607**	**320**		
Vested				
31 March 2011—outstanding	**18,257**	**8,480**		**1,320**
Vested:				
31 March 2010—outstanding				
Vested				
Exercised				
Cancelled				
31 March 2011—outstanding				

XVII. NOTES TO INCOME TAXES

1. Major components of the deferred tax assets and liabilities

	Year ended 31 March	
	2010	2011
	(millions of Yen)	(millions of Yen)
Deferred tax assets - Current		
Losses on valuation of investment securities (current assets)	4,181	**2,807**
Provision of allowance for investment losses (current assets)	1,712	**1,809**
Provision of allowance for doubtful accounts	1,258	**—**
Tax loss carried forward	1,312	**1,523**
Accrued enterprise taxes	399	**471**
Elimination of unrealized profit	—	**8,550**
Others	1,372	**459**
Subtotal	10,237	**15,622**
Valuation allowance	(1,099)	**(1,284)**
Total deferred tax assets—Current	9,137	**14,337**
Deferred tax assets (investment and other assets)		
Tax loss carried forward	14,229	**16,644**
Provision of allowance for doubtful accounts	1,217	**1,799**
Losses on valuation of investment securities (non-current assets)	4,286	**4,034**
Statutory reserve for financial products transaction liabilities	2,942	**2,209**
Others	2,179	**2,728**
Subtotal	24,855	**27,415**
Valuation allowance	(9,813)	**(13,837)**
Total deferred tax assets (investment and other assets)	15,042	**13,578**
Total deferred tax assets	24,179	**27,916**
Deferred tax liabilities—Current		
Unrealized gains on available-for-sale securities	(4,430)	**(3,313)**
Total deferred tax liabilities—Current	(4,430)	**(3,313)**
Deferred tax liabilities—Non-current		
Unrealized gains on available-for-sale securities	(1,197)	**(998)**
Others	(187)	**(173)**
Total deferred tax liabilities—Non-current	(1,385)	**(1,172)**
Total deferred tax liabilities	(5,815)	**(4,486)**
Net deferred tax assets	18,364	**23,429**

2. Reconciliation between the normal effective statutory tax rate and the actual effective tax rate

	Year ended 31 March	
	2010	2011
Normal effective tax rate	40.69%	**40.69%**
Expenses not deductible for income taxes purpose		
(Entertainment expenses, etc.)	20.71%	**1.49%**
Amortization of goodwill	343.09%	**64.17%**
Minority interests in fund, etc.	50.47%	**(39.43)%**
Income (losses) of the equity method	4.35%	**(1.23)%**
Consolidated adjustments of loss on sale of consolidated subsidiaries	(173.26)%	**(33.05)%**
Change in valuation allowance	(219.29)%	**96.03%**
Others—net	13.20%	**1.93%**
Actual effective tax rate	79.96%	**130.60%**

XVIII. BUSINESS COMBINATIONS

FOR THE YEAR ENDED 31 MARCH 2010

1. Transaction under common control ("acquisition of additional interests in a subsidiary")

(a) Share exchange—SBI Futures Co., Ltd. ("SBI Futures")

(i) Combined company's name, its business, legal structure of business combination, company's name after business combination and summary of transaction including its purpose.

Combined company's name	SBI Futures Co., Ltd.
Combined company's business	Futures trader
Legal structure of business combination	Share exchanges between the Company and minority interests of SBI Futures. After share exchange, SBI Futures became wholly owned subsidiary of the Company.
Company's name after business combination	No Change
Summary of transaction including its purpose	Although SBI Futures Co., Ltd. discontinued commodities futures business on 31 July 2009, the Company wholly owned it through a share exchange on 1 August 2009 to succeed online foreign exchange business which is anticipated a synergy effect and other business reorganizations smoothly.

(ii) Summary of accounting treatment

"Accounting for business combinations" (ASBJ published as at 31 October 2003) and "Guidance for Accounting Standard for Business Combinations and Business Divestitures" (ASBJ Guidance No. 10 published as at 15 November 2007), it is proceeded as trades with minority interests of those with common control.

(iii) Additional acquisition of stocks of subsidiary

— Acquisition cost and details

Consideration of acquisition	The Company's common shares	¥276 million
Direct acquisition cost	Research cost	¥2 million
Acquisition cost		¥278 million

— Share exchange ratio according to stock types, its computation basis, granted stocks, and those valuations

Share exchange ratio	Common shares The Company 1: SBI Futures 3
Computation basis	The valuations were conducted by HIBIYA & Co. on the company's side and conducted by TGP Business Solutions Co., Ltd. on SBI Futures Co., Ltd.'s side as independent source for share exchange. Stock exchange ratio was determined based on the valuation reports from both parties.
Exchanged shares	23,040 shares (all allotted treasury stocks the Company owns)
Fair value of exchanged shares	¥276 million

— Amount of goodwill recognized, reason of its occurrence, and amortization method and period

Amount of goodwill recognized	¥34 million
Reason of occurrence	The Company recorded the difference between the additional acquisition cost of SBI Futures Co., Ltd.'s common shares and decreasing amount of minority interests as a goodwill.
Amortization method and period	One-time amortization in the consolidated year due to the goodwill amount being immaterial.

FOR THE YEAR ENDED 31 MARCH 2011

1. Acquisition

(a) Acquisition of shares of KTIC Global Investment Advisory Co., Ltd.

(i) Acquired company's name, its business, reason and date of business combination, legal structure of business combination, company's name after business combination, ratio of voting rights, and basis of determining the acquiring company

Acquired company's name	KTIC Global Investment Advisory Co., Ltd.
Acquired company's business	Investment consulting business and investment discretion business
Reason of business combination	Utilizing the network of the acquired company to expand the investment business in Asia.
Date of business combination	1 June 2010
Legal structure of business combination	Acquisition of shares by cash as consideration
Company's name after business combination	SBI Global Investment Co., Ltd.
Ratio of voting rights	Ratio of voting rights before business combination: 22.9% Ratio of voting rights through additional acquisition: 17.2% Ratio of voting rights after business combination: 40.1%
Basis of determining the acquiring company	The company's consolidated subsidiary acquired the shares by cash as consideration.

(ii) Acquired company's period included in the consolidated statements of operations: From 1 July 2010 to 31 March 2011

(iii) Acquisition cost and its details

Consideration of acquisition	Fair value of common shares held before the business combination at the date of business combination	4,055 millions of Korean Won
	Fair value of common shares additionally acquired at the date of business combination	5,094 millions of Korean Won
Acquisition cost		9,150 millions of Korean Won

(iv) The difference between the fair value of the holding shares and the total acquisition cost of each transaction:
(2,535) millions of Korean Won

(v) Amount of goodwill recognized, reason of its occurrence and amortization method and period

Goodwill	3,508 millions of Korean Won
Reason of occurrence	The goodwill arises from the excess earning power expected in the future through business expansion.
Amortization method and period	The goodwill is amortized on a straight-line method over 20 years.

(vi) Assets and liabilities recognized at the date of business combination are as follows:

	(millions of Korean Won)
Current assets	21,856
Non-current assets	662
Total assets	22,519
Current liabilities	8,460
Total liabilities	8,460

(vii) The approximate estimated amount of impact to the consolidated statements of operations assuming that the business combination has been completed at the beginning of the current period is as follows:

Net Sales (millions of Yen)	18
Ordinary income (millions of Yen)	(47)
Net income (millions of Yen)	3

The approximate estimated amount of impact to the consolidated statements of operations was calculated as the difference between the financial figures of the newly consolidated subsidiary assuming that the business combination had been completed at the beginning of the current period and the actual financial figures of the subsidiary on the consolidated statements of operations.

The above estimated amounts are out of the scope of audit.

XIX. SEGMENT INFORMATION

The Group applied ASBJ Statement No. 17 issued on 27 March 2009, “Accounting Standard for Segment Information Disclosures,” and ASBJ Guidance No. 20 issued on 21 March 2008, “Guidance on Accounting Standard for Segment Information Disclosures,” after 31 March 2010. Segment Information for the year ended 31 March 2010 set out below is based on ASBJ Statement No. 17 and ASBJ Guidance No. 20.

For the year ended 31 March 2010, we reported our results of operations based on five business segments: asset management, brokerage and investment banking, financial services, housing and real estate, and system solution. From 1 April 2010, we included the system solutions business segment in other businesses segment as a result of application of ASBJ Statement No. 17 and ASBJ Guidance No. 20.

1. Overview of reportable segments

Separate financial information of the Group’s components is available and reviewed regularly by the board of directors for the purposes of allocation of financial resources and performance evaluation.

The Group engages in a wide range of business activities, mainly the financial service business. Based on the similarities of economic characteristics of business or nature of services, “Asset Management Business,” “Brokerage and Investment Banking Business,” “Financial Services Business,” and “Housing and Real Estate Business” are determined as reportable segments.

“Asset Management Business” primarily consists of fund management and investment in internet technology, biotechnology, environment energy and financial-related venture companies.

“Brokerage and Investment Banking Business” primarily consists of financial businesses, such as trustee of securities trading, underwriting and offering for sale of IPO shares, offering for subscription or sale of stocks, foreign currency spot contracts, and other financial instrument trading business.

“Financial Services Business” primarily consists of financial-related businesses, such as property and casualty insurance business, credit card business and the provision of information regarding financial products.

“Housing and Real Estate Business” primarily consists of developing and trading of investment property, financing business related to the granting of mortgage loans, operating web sites related to the provision of intermediate service, comparison and real estate appraisal service.

2. Measurement of reportable segment profits or losses and segment assets

The accounting treatment of reportable segments is same as adopted in preparation of consolidated financial statements.

The segment income is based on operating income. The inter-segment revenue and amounts of transferring to other accounts are based on market price.

3. Information about reportable segments

	Reportable segment						
Year ended 31 March 2010	Asset Management Business (millions of Yen)	Brokerage & Investment Banking Business (millions of Yen)	Financial Services Business (millions of Yen)	Housing and Real Estate Business (millions of Yen)	Sub-total (millions of Yen)	Others (Note) (millions of Yen)	Total (millions of Yen)
Net sales							
Revenue from customers	20,189	46,986	24,441	17,152	108,769	15,772	124,541
Inter-segment revenue	—	3,136	1,164	1	4,302	1,117	5,419
Total	20,189	50,122	25,605	17,153	113,071	16,889	129,961
Segment operating income (loss)	2,543	9,374	206	872	12,998	(2,104)	10,893
Segment assets	198,466	880,834	96,917	109,003	1,285,222	20,985	1,306,207
Other items							
Depreciation	52	2,324	1,003	301	3,681	411	4,093
Amortization of goodwill	184	5,921	385	767	7,260	504	7,764
Investment in subsidiaries and affiliates applying equity-method	82	2,651	14,455	30	17,219	—	17,219
Increase in property and equipment, intangible assets	2,053	7,087	3,916	410	13,469	2,180	15,649

Note: Business segments classified into “Others” are segments not determined as reportable segments which consist of system-related business, drug-discovery business and garment business.

Year ended 31 March 2011	Reportable segment: Asset Management Business (millions of Yen)	Brokerage & Investment Banking Business (millions of Yen)	Financial Services Business (millions of Yen)	Housing and Real Estate Business (millions of Yen)	Sub-total (millions of Yen)	Others (Note) (millions of Yen)	Total (millions of Yen)
Net sales							
Revenue from customers	30,699	45,374	28,364	23,464	127,903	13,178	141,081
Inter-segment revenue	1	2,498	2,165	3	4,669	2,453	7,122
Total	30,701	47,873	30,530	23,467	132,573	15,631	148,204
Segment operating income (loss)	9,577	6,123	(536)	3,370	18,534	(1,832)	16,702
Segment assets	222,364	909,176	122,716	104,821	1,359,078	16,793	1,375,872
Other items							
Depreciation	50	2,734	1,277	439	4,502	479	4,982
Amortization of goodwill	274	5,851	526	728	7,381	508	7,889
Investment in subsidiaries and affiliates applying equity-method	4,146	2,062	25,661	—	31,870	238	32,109
Increase in property and equipment, intangible assets	685	3,196	4,020	538	8,440	482	8,923

Note: Business segments classified into “Others” are segments not determined as reportable segments which consist of system-related business, drug-discovery business and garment business.

4. Reconciliation of the differences between the total amount of reportable segments and the total amount recorded in the consolidated financial statements:

Net sales	For the year ended 31 March 2010 (millions of Yen)	2011 (millions of Yen)
Total of reportable segments	113,071	132,573
Net sales of “Others”	16,889	15,631
Elimination among segments	(5,419)	(7,122)
Net sales of consolidated financial statements	124,541	141,081

Operating income	For the year ended 31 March 2010 (millions of Yen)	2011 (millions of Yen)
Total of reportable segments	12,998	18,534
Losses of “Others”	(2,104)	(1,832)
Elimination among segments	(2,479)	(1,765)
Headquarters expenses (Note)	(4,982)	(6,004)
Operating income of consolidated financial statements	3,431	8,932

Note: Headquarters expenses are general administrative expenses which are not attributable to reportable segments.

Assets	As at 31 March 2010 (millions of Yen)	2011 (millions of Yen)
Total of reportable segments	1,285,222	1,359,078
Assets of “Others”	20,985	16,793
Elimination among segments	(94,550)	(94,348)
Headquarters assets (Note)	18,282	12,082
Assets of consolidated financial statements	1,229,939	1,293,606

Note: Headquarters assets are principally cash and deposits.

For the year ended 31 March

	2010				2011			
	(millions of Yen)				(millions of Yen)			
Other item	Total of reportable segments	Others	Amount of adjustment	Total of consolidated financial statements	Total of reportable segments	Others	Amount of adjustments	Total of consolidated financial statements
Depreciation	3,681	411	475	4,568	4,502	479	399	5,381
Amortization of goodwill	7,260	504	—	7,764	7,381	508	—	7,889
Investment in subsidiaries and affiliates applying equity-method	17,219	—	—	17,219	31,870	238	—	32,109
Increase in property and equipment, intangible assets	13,469	2,180	154	15,803	8,440	482	202	9,125

5. Impairment losses in each reportable segment for the year ended 31 March 2011:

Impairment losses	(millions of Yen)
Asset Management Business	—
Brokerage & Investment Banking Business	350
Financial Services Business	150
Housing and Real Estate Business	—
Others (Note)	360
Headquarters expenses and elimination among segment	—
Total	861

Note: "Others" consists of health care related business.

6. Balance of goodwill in each segment as at 31 March 2011:

Goodwill	(millions of Yen)
Asset Management Business	4,603
Brokerage & Investment Banking Business	97,878
Financial Services Business	6,144
Housing and Real Estate Business	10,953
Others (Note)	6,717
Headquarters expenses and elimination among segment	—
Total	126,297

Note: "Others" consists of system-related business, drug-discovery business and garment business.

7. Geographical information

(1) Net sales

FOR THE YEAR ENDED 31 MARCH 2011

Japan	Asia	Others	Total
(millions of Yen)	(millions of Yen)	(millions of Yen)	(millions of Yen)
117,237	22,984	859	141,081

Note: Net sales were classified into countries or regions according to customer location.

Net sales of the Company and consolidated domestic subsidiaries exceeded 90% of the total net sales for the year ended 31 March 2010. Therefore, geographical information regarding net sales for the year ended 31 March 2010 is not presented herein.

(2) Property and equipment

Property and equipment of the Company and consolidated domestic subsidiaries exceeded 90% of the total assets as at 31 March 2011 in the consolidated balance sheets. Therefore, geographical segment information is not presented herein.

8. Information of major customers

There was no major customer which accounted for more than 10% of the total net sales.

XX. RELATED PARTY TRANSACTIONS

"Accounting standard for the disclosure of Related Party Transactions" (ASBJ No. 11, 17 October 2006) and Implementation Guidance No. 13, "Guidance on the disclosure of Related Party Transactions" (ASBJ No. 13, 17 October 2006) were applied starting from the year ended 31 March 2009.

1. Transactions with the executives and main individual shareholders of the Group

FOR THE YEAR ENDED 31 MARCH 2010

Type	Name	Address	Capital (millions of Yen)	Business or position	Ownership (%)	Transaction description	Contents	Amounts (millions of Yen)	Account name	Balance (millions of Yen)
Director	Yoshitaka Kitao	—	—	The Company's Representative and CEO	(Ownership by the related party) Direct 1.8	Sales of equity securities	Sales of operational investment securities	2,975	Current assets (Accrued revenue)	2,975

Note: Terms of transactions and policy for the terms

(1) The sale price was based on the contract of sales of investment securities, which occurred in the year ended 31 March 2009 and it was determined in consideration of the price of transaction with independent third party. The payment term was cash disbursement at one time.

FOR THE YEAR ENDED 31 MARCH 2011

Type	Name	Address	Capital (millions of Yen)	Business or position	Ownership (%)	Transaction description	Contents	Amounts (millions of Yen)	Account name	Balance (millions of Yen)
Director	Yoshitaka Kitao	—	—	The Company's Representative and CEO	(Ownership by the related party) Direct 1.6	Sales of equity securities	Sales of investment securities	999	—	—

Note: Terms of transactions and policy for the terms

(1) The sale price was determined in consideration of the price of transaction with independent third party. The payment term was cash disbursement at one time.

2. Significant affiliate information

Summarized financial information of SBI Sumishin Net Bank, Ltd. which was a significant affiliate for the years ended 31 March 2010 and 2011 is as follows:

	As at 31 March	
	2010	2011
	(millions of Yen)	(millions of Yen)
Total assets	1,248,640	**1,696,189**
Total liabilities	1,222,011	**1,654,961**
Net assets	26,628	**41,227**
Ordinary income	20,738	**29,054**
Income before income taxes	2,322	**3,534**
Net income	2,316	**3,528**

XXI. NOTES TO PER SHARE INFORMATION

	Year ended 31 March	
	2010	2011
	(Yen)	(Yen)
Net assets per share	21,424.02	**19,610.64**
Net income per share	140.30	**236.09**
Diluted net income per share	116.84	**225.74**

Notes:

1. Basis of calculation of the net assets per share

	Year ended 31 March 2010 (millions of Yen)	2011 (millions of Yen)
Total net assets	428,615	**456,982**
Total deducted amount from net asset	(69,384)	**(66,154)**
Details		
– Stock acquisition rights	(11)	**(11)**
– Minority interest	(69,372)	**(66,142)**
Net assets attributable to common shareholders at the end of the year	359,230	**390,828**
The number of common shares outstanding at the end of the year	16,767,670	**19,929,397**

2. Basis of calculation for the net income (loss) and diluted net income per share

	Year ended 31 March 2010 (millions of Yen)	2011 (millions of Yen)
Net income per share		
Net income for the year	2,350	**4,534**
Net income not attributable to common shareholders	—	**—**
Net income attributable to common shareholders	2,350	**4,534**
Average number of common shares outstanding during the year	16,750,591	**19,207,974**
Diluted net income per share		
Adjustment on net income for the year	(387)	**(194)**
Effect of dilutive shares issued by consolidated subsidiaries	(387)	**(194)**
Increased number of common shares	49,358	**20,501**
Increased by exercising acquisition right	49,358	**20,501**

3. Overview of stocks with potential dilutive effect excluded from the calculation

For the year ended 31 March 2010: Stock acquisition right issued by the stock option plan (Potential shares: 182,637 shares)

For the year ended 31 March 2011: Stock acquisition right issued by the stock option plan (Potential shares: 184,464 shares)

XXII. INFORMATION FOR THE SCOPE OF CONSOLIDATION

FOR THE YEAR ENDED 31 MARCH 2010

(1) Number of consolidated subsidiaries: 103

As compared with the year ended 31 March 2009, there were 33 additions to and 12 exclusion from the scope of consolidation.

Additions—19 entities were newly established or acquired

— SBI Trans-Science Co., Ltd.

— SBI Selective Target Investment LPS

— SBI Innovation Fund No. 1

— Metropolitan Enterprise Revitalization Fund, Limited Liability Investment Partnership No. 2

— SBI European Fund

— SBI Zhaoxin L.P. and 13 other entities

Additions—11 entities were newly consolidated due to the Group’s ability to exercise control

— SBI-HIKARI PE Co., Ltd.

— SHENTON STRUCTURED PROJECTS PTE. LTD.

— Elan SBI Capital Partners Fund Management Private Limited Company

— SBI Zhaoxin Advisor Limited

— SBI Servicer Co., Ltd.

— SBI Receipt Co., Ltd.

— SBI Business Support Co., Ltd.

— SBI Property Advisors Co., Ltd. and 3 other entities

Deconsolidations—6 entities were deconsolidated as a result of mergers

— SBI Equal Credit Co., Ltd.

— Partners Investments Co., Ltd.

— SBI Land Design Co., Ltd.

— SBI Tech Co., Ltd. and 2 other entities

Deconsolidations—1 entity was deconsolidated due to liquidation
— SBI CDI Corporate Incubation
Deconsolidations—2 entities were deconsolidated due to loss of control
— SBI Global Seguros Holdings Limited and 1 other entity
Deconsolidations—3 entities were deconsolidated due to disposal
— SBI AXA Life Insurance Co., Ltd.
— SBI Card Processing Co., Ltd.
— SBI Robo Corp.

Additions—3 entities were reclassified from "Operational investment securities" to non-consolidated subsidiaries and reported as "Investment securities" due to the application of ASBJ Guidance No. 22 issued on 13 May 2008

(2) Name of major non-consolidated subsidiaries (small size entities):
— SBI ALApromo Co., Ltd.
— SBI VEN CAPITAL PTE. LTD.
— Searchina Co., Ltd.

(3) Name and number of entities not classified as subsidiaries despite the ownership of 50 percent or more of the voting power of the investees (venture capital investments):
— NARUMIYA INTERNATIONAL Co., Ltd. and 13 other entities.

FOR THE YEAR ENDED 31 MARCH 2011

(1) Number of consolidated subsidiaries: 112

Name of major consolidated subsidiaries are listed in Section of Corporate Information, "The SBI Group (Principle Group Companies)."

As compared with the year ended 31 March 2010, there were 15 additions to and 6 exclusions from the scope of consolidation.

• Additions—11 entities were newly established or acquired
— SBI Global Investment Co., Ltd.
— SBI - Jefferies Strategic Investments Asia Ltd.
— SBI - Jefferies Asia Fund L.P.
— SBI Ven Holdings Korea Co., Ltd.
— SBI Ven Capital Korea Co., Ltd.
— SBIH UK Limited
— SBI Credit Co., Ltd. (G-One Credit Service Co., Ltd. changed its company name to SBI Credit Co., Ltd. on 1 October 2010.) and 4 other entities
• Additions—4 entities were newly consolidated due to the Group's ability to exercise control
— SBI ALApromo Co., Ltd.
— SBI VEN CAPITAL PTE. LTD. and 2 other entities
• Deconsolidations—2 entities were deconsolidated as a result of mergers
— E*GOLF Corporation
— SBI Futures Co., Ltd.
• Deconsolidations—3 entities were deconsolidated due to liquidation
— SBI & TH (Beijing) Investment Advisory Co., Ltd.
— SBI Incubation Advisory Co., Ltd. and 1 other entity
• Deconsolidations—1 entity was deconsolidated due to the adoption of the specific exemption for the small size entities.

(2) Name of major non-consolidated subsidiaries (small size entities):
— Searchina Co., Ltd.
— SBI Remit Co., Ltd.
— SBI Phnom Penh Securities Co., Ltd.

(3) Name and number of entities not classified as subsidiaries despite the ownership of 50 percent or more of the voting power of the investees (venture capital investments):
— NARUMIYA INTERNATIONAL Co., Ltd.
— VSN, Inc. and 11 other entities.

XXIII. INFORMATION FOR THE SCOPE OF EQUITY METHOD APPLICATION

FOR THE YEAR ENDED 31 MARCH 2010

(1) Number of non-consolidated subsidiaries subject to equity method: 1

Name of the entity:
— SBI Japannext Co., Ltd.

(2) Number of affiliates accounted for using equity method: 5

Name of major entities:
— SBI Sumishin Net Bank, Ltd.
— SOLXYZ Co., Ltd.

As compared with the year ended 31 March 2009, there were 2 exclusions from the scope of application of equity method, such as Broadmedia Corporation which was no longer an affiliate due to the decrease in voting power after selling off its stocks.

(3) Names of major non-consolidated subsidiaries and affiliates that are not accounted for using equity method (small size entities):

— SBI ALApromo Co., Ltd.
— SBI VEN CAPITAL PTE. LTD.
— NEW HORIZON PARTNERS LTD.

(4) Names of entities not classified as affiliates despite the ownership of 20 percent or more of the voting power of the investee but below 50 percent (venture capital investments):

— Venture Revitalize Investment, Inc.
— VSN, INC. and 44 other entities

FOR THE YEAR ENDED 31 MARCH 2011

(1) Number of non-consolidated subsidiaries subject to equity method: 1

Name of the entity:
— SBI Japannext Co., Ltd.

(2) Number of affiliates accounted for using equity method: 8

Name of major entities:
— SBI Sumishin Net Bank, Ltd.
— SOLXYZ Co., Ltd.
— SBI Investment Korea Co., Ltd. (KOREA TECHNOLOGY INVESTMENT CORPORATION changed its company name to SBI Investment Korea Co., Ltd. on 29 March 2011.)

As compared with the year ended 31 March 2010, there were 4 additions to and 1 exclusion from the scope of affiliates accounted for using equity method.

• 4 additions due to the increased influence
— SBI Investment Korea Co., Ltd. and 3 other entities
• 1 exclusion due to the decrease in voting power after selling off its stocks
— Tozai Asset Management Co., Ltd.

(3) Name of major non-consolidated subsidiaries and affiliates that are not accounted for using equity method (small size entities):

— Searchina Co., Ltd.
— SBI Remit Co.,Ltd.
— NEW HORIZON PARTNERS LTD.

(4) Name of entities not classified as affiliates despite the ownership of 20 percent or more of the voting power of the investee but below 50 percent (venture capital investments):

— Venture Revitalize Investment, Inc. and 49 other entities

XXIV. INFORMATION FOR DIFFERENT BALANCE SHEET DATE OF CONSOLIDATED SUBSIDIARIES

FOR THE YEAR ENDED 31 MARCH 2010

Consolidated subsidiaries whose balance sheet dates differ from that of reporting entity were as follows:

Consolidated subsidiaries whose balance sheet date is 31 December
— SBI Investment Co., Ltd. and 37 other entities

Consolidated subsidiaries whose balance sheet date is 30 November
— SBI Value Up Fund No. 1 Limited Partnership and 4 other entities
Consolidated subsidiaries whose balance sheet date is 30 September
— Softbank Internet Fund and 3 other entities
Consolidated subsidiaries whose balance sheet date is 31 August
— SBI BROADBAND CAPITAL Co., Ltd. and 1 entity
Consolidated subsidiaries whose balance sheet date is 30 June
— E*GOLF Corporation and 2 other entities
Consolidated subsidiaries whose balance sheet date is 31 January
— SBI Mezzanine Fund No. 1 and 6 other entities

Consolidated financial statements are prepared using the financial information of these companies prepared for the purpose of consolidation as at the balance sheet date of the Group.

FOR THE YEAR ENDED 31 MARCH 2011

Consolidated subsidiaries whose balance sheet dates differ from that of reporting entity were as follows:
Consolidated subsidiaries whose balance sheet date is 31 December
— SBI Investment Co., Ltd. and 46 other entities
Consolidated subsidiaries whose balance sheet date is 30 November
— SBI Value Up Fund No. 1 Limited Partnership and 4 other entities
Consolidated subsidiaries whose balance sheet date is 30 September
— Softbank Internet Fund and 2 other entities
Consolidated subsidiaries whose balance sheet date is 31 August
— SBI BROADBAND CAPITAL Co., Ltd. and 2 other entities
Consolidated subsidiaries whose balance sheet date is 30 June
— SBI BROADBAND FUND No. 1 LIMITED PARTNERSHIP and 1 entity
Consolidated subsidiaries whose balance sheet date is 31 January
— SBI Mezzanine Fund No. 1 and 5 other entities

Consolidated financial statements are prepared using the financial information of these companies prepared for the purpose of consolidation as at the balance sheet date of the Group.

XXV. EVENTS AFTER THE REPORTING PERIOD

On 25 March 2011, the board of directors of the Company, in preparation for the Company's listing on the main board of the Hong Kong Stock Exchange, approved an offering of depository receipts representing the Company's common shares (the "HDRs") in Hong Kong and certain other overseas markets excluding the United States and Canada (the "HDR offering"), the issuance and offering (the "Underlying Share Offering") of common shares of the Company to be represented by the HDRs excluding common shares for the over-allotment (the "underlying original shares"), and the issuance and offering of common shares up to the number of shares (the "underlying shares") represented by the over-allotment portion of the HDR offering (the "Over-allotment option").

The outline of HDR offering and Underlying Share Offering are as stated below. Subsequently on 12 April 2011, the related capital payment of Underlying Share Offering was completed.

1. Method of offering

The underlying original shares will be issued to Daiwa Capital Markets Hong Kong Limited through a third-party allocation of 1,750,000 shares.

Daiwa Capital Markets Hong Kong Limited will then deliver these shares immediately to JPMorgan Chase Bank, N.A. (the "Depository Bank")'s account which is the depository bank for the HDR offering. The shares will be held by the depositary bank as the underlying assets of the HDR offering. The issue price (offering price) of the underlying original shares is to be the same as the price to be paid for the shares, which is 10 times the price to be paid in for HDRs.

2. Class and number of underlying shares offered (Number of HDR offered)

1,750,000 common shares

(17,500,000 HDRs. Investors will receive HDRs in place of the underlying original shares. 1 HDR represents 1/10 of a common share.

Furthermore, accompanied by the HDR offering, depending on the level of demand for the offering, the Company offers an over-allotment of up to 2,500,000 additional HDRs representing shares borrowed by Daiwa Capital Markets Hong Kong Limited from the Company's shareholder through Daiwa Securities Capital Markets Co. Ltd. In connection with this over-allotment, the Company issues to Daiwa Capital Markets Hong Kong Limited up to 250,000 common shares through a third-party allocation.)

3. Issue price

HKD 777.20 per share

4. Total issue amount
HKD 1,360,100,000 (¥14,815 million)

5. Total issue amount transferred to capital
Capital stock 7,407 millions of yen

6. Purpose
The total amount raised through the Underlying Share Offering and the third-party allocation will go towards direct investment in growing companies in and out of Japan, funds established with partners in developing countries mainly in Asia and funds in Japan as self investment fund. The rest will be invested in financial subsidiaries which use the internet as their main channel (and related subsidiaries), as well as provided to overseas financial institutions in the form of investment and financing (including investment and financing made through subsidiaries.)

Notes: Conversion from Hong Kong dollars to Japanese yen is made at the exchange rate on the payment date.

The outline of the Over-allotment option is as follows:

1. Class and number of shares offered
250,000 common shares

2. Issue price
HKD 777.20 per share

3. Total issue amount
HKD 194,300,000 (¥2,039 million)

4. Total issue amount transferred to capital
Capital stock 1,019 millions of yen

5. Allotee
Daiwa Capital Markets Hong Kong Limited

6. Purpose
As stated "6. Purpose" in the "Outline of HDR offering and Underlying Share Offering"

Notes: Payment for the Over-allotment option was completed by Daiwa Capital Markets Hong Kong Limited on 9 may 2011.

XXVI. CONSOLIDATED SUPPLEMENTARY SCHEDULES

FOR THE YEAR ENDED 31 MARCH 2011

1. Supplementary schedules of bonds

Company name	Description	Issuance date	Balance as at prior year end (millions of Yen)	Balance as at current year end (millions of Yen)	Interest rate (%)	Collateral	Redemption date
SBI Holdings, Inc.	Japanese yen straight bond (note 2)	April 2009 to January 2011	110,000	70,000 (70,000)	1.84–1.96	None	April 2010 to January 2012
CEM Corporation	No. 2 straight bond	10 July 2007	300	—	1.7	Secured	9 July 2010
e-Research Inc.	No. 13 Unsecured straight bond	31 March 2010	2,300	—	2.3	None	30 September 2010
SBI Life Living Co., Ltd.	No. 1 Unsecured straight bond (Note 3)	30 December 2010	—	600 (60)	TIBOR +0.1	Bank guarantee	30 December 2020
Total	—	—	112,600	70,600 (70,060)	—	—	—

Notes:

(1) Amounts in brackets represent redemption amounts within one year from balance sheet date.

(2) Total amounts of straight bond in Japanese Yen issued based on Euro medium term note program are stated above.
(3) Collateral is provided for the bank guarantee.
(4) Annual maturities of long-term loans payable as at 31 March 2011 for the next five years are as follows:

Within one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
(millions of Yen)	(millions of Yen)	(millions of Yen)	(millions of Yen)	(millions of Yen)
70,060	60	60	60	60

2. Supplementary schedules of loans and others

Description	Balance as at prior year end	Balance as at current year end	Average interest rate	Repayment date
	(millions of Yen)	(millions of Yen)	(%)	
Short-term loans payable	55,614	97,164	1.30	—
Current portion of long-term loans payable	13,368	12,147	1.37	—
Current portion of lease obligation	2,405	2,114	—	—
Long-term loans payable (excluding current-portion)	27,620	31,366	1.46	March 2012 to January 2033
Lease obligation (excluding current-portion)	8,324	6,506	—	March 2013 to April 2016
Other interest bearing debt				
Borrowings on margin transactions	48,813	70,386	0.77	—
Total	156,145	219,685	—	

Notes:
(1) Average interest rates were calculated using the weighted-average interest rate based on year-end borrowing balances.
(2) Average interest rate on lease obligation are not stated since the part of lease obligation on balance sheet includes interest portion of minimum lease payments.
(3) Annual maturities of long-term borrowings and lease obligation, excluding current-portion, as at 31 March 2011 for the next five years are as follows:

	1 to 2 years (millions of Yen)	2 to 3 years (millions of Yen)	3 to 4 years (millions of Yen)	4 to 5 years (millions of Yen)
Long-term borrowings	18,315	4,918	1,065	6,700
Lease obligation	2,007	1,991	1,634	868

Management's Report on Internal Control Over Financial Reporting

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

1. Matters relating to the basic framework for internal control over financial reporting

Management, with the participation of Yoshitaka Kitao, Representative Director, and Yasutaro Sawada, Chief Financial Officer, are responsible for the design and operation of the internal control over financial reporting prepared by SBI Holdings, Inc. (the "Company"). The Company's internal control over financial reporting of the consolidated financial statements is designed and operated effectively in accordance with the basic framework of internal control set forth in the report "On the Setting of the Standards and Practice Standards for Management Assessment and Audit Concerning Internal Control Over Financial Reporting (Council Opinions)" issued by the Business Accounting Council.

Internal control may not necessarily respond to unexpected changes in internal or external environments when controls were designed for non-routine transactions. Internal control cannot provide absolute assurance with respect to the achievement of objectives, which can prevent or detect misstatements, due to the following inherent limitations, but it aims at achieving the objectives to a reasonable extent with the organized and integrated function of individual components as a whole

2. Matters relating to the scope of assessment, the basic date of assessment and the assessment procedures

The assessment of internal control over financial reporting was performed as of March 31, 2011,which is the end of this fiscal year. The assessment was performed in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In conducting this assessment, we evaluated internal controls which may have a material impact on our entire financial reporting in a consolidation ("company-level controls"). Based on that, we appropriately selected business processes to be evaluated. When we assessed internal controls of the selected business processes, we analyzed them and identified key controls that may have a material impact on the reliability of the Company's financial reporting, and assessed the design and operation of these key controls. These procedures have allowed us to evaluate the effectiveness of the internal controls of the Company.

The scope of evaluation for internal control over financial reporting was adequately set from the perspective of the degree of quantitative and qualitative impact on the reliability of financial reporting presentation and disclosure. Therefore, based on the results of assessment of company-level controls of 42 subsidiaries and affiliates (including 21 funds and 2 equity –method affiliates) which represent all the significant locations or business units, in principle, management determined the reasonable scope of assessment. Management eliminate subsidiaries or affiliates from the scope of assessment that are found to have little relevance of the degree of quantitative and qualitative impact on the reliability of financial reporting.

When evaluating process-level controls, based on the effectiveness of company-level controls, we selected significant locations or business units. Specifically, locations or business units are selected in descending order of total assets until their combined amount reaches approximately two-thirds of the total consolidated assets. In the locations and business units selected, all business processes which impact the accounts that are closely associated with the Company's business objectives are included in the scope. Further, not only at selected significant locations and business units but also at other locations and business units, we added to the scope of assessment, as business processes having greater materiality considering their impact on the financial reporting. The accounts within the scope are "operating revenues," "operating costs, " "cash required to be segregated under regulation and other," "operational investment securities," "real estate inventory," "trading assets" "margin transaction assets," "investment securities," "customer's deposits for securities transactions," "margin transaction liabilities, " and "guarantee deposits received".

3. Matters relating to the results of the assessment

As a result of the assessment described above, we concluded that the Company's internal control over financial reporting was effective as of the end of this fiscal year.

4. Supplementary Information

Not applicable

5. Special Information

Not applicable

北尾 吉孝

Representative Director and Chief Executive Officer

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
SBI Holdings, Inc.:

We have audited the accompanying consolidated financial statements of SBI Holdings, Inc. (the "Company") and its consolidated subsidiaries (collectively referred to as the "Group") which comprise the consolidated balance sheets as at 31 March 2010 and 2011, and the consolidated statements of operations for the years then ended, the consolidated statement of comprehensive income for the year ended 31 March 2011, the consolidated statements of changes in net assets, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 March 2010 and 2011, and their financial performance and their cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion we draw attention to Note XXV to the consolidated financial statements which describes the events after the reporting period related to the secondary listing of the Company's Hong Kong Depositary Receipts on the Main Board of The Stock Exchange of Hong Kong Limited. At the meeting held on 25 March 2011, the Board of Directors approved new share issuances and related offering of common shares associated with such secondary listing. The new share issuances through the offering were completed on 12 April 2011 and 9 May 2011.

Deloitte Touche Tohmatsu LLC

29 June 2011