Contents

Analysis of Business Results for the Fiscal Year

During the fiscal year ended March 31, 2012, the business environment surrounding the Group remained generally weak in the domestic market with 14% year-on-year decrease of individual stock brokerage trading value. In the overseas market, high economic growth in emerging countries was impeded by the worldwide economic slowdown stemming from the European Sovereign Debt Crisis. Under the circumstances, the Group's consolidated results of operations in the fiscal year ended March 31, 2012 were as follows. Net sales increased 2.8% year-on-year to ¥145,074 million, operating income declined 15.2% to ¥7,575 million, ordinary income rose 37.8% to ¥4,860 million, and net income decreased 29.4% year-on-year to ¥3,200 million.

Asset Management Business

In the Asset Management Business, net sales increased 12.6% year-on-year to ¥34,566 million and operating income rose 48.1% year-on-year to ¥14,183 million. During the fiscal year, the number of new listings was 1,125, decreasing 271 from the previous year across the world, due to the slowdown of IPO markets especially in emerging countries. The domestic market, however, showed a gradual recovery with 37 new listings up 14 from the previous year. Following this trend, the Asset Management Business shifted its focus to the domestic market from overseas markets. As a result, the number of new listings and M&As totaled 14, consisting of 7 domestic companies and 7 overseas companies. Of special notes are share sales of domestic companies, KLab Inc. and VSN, Inc. They contributed ¥11,642 million to operating income. 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, 2012, funds managed by the Group invested ¥57,209 million, and together with direct investments of ¥12,264 million, investments by the Group amounted to a total of ¥69,474 million. The number of investees totaled 180 companies.

Brokerage & Investment Banking Business

In the Brokerage & Investment Banking Business, net sales declined 8.5% from the previous fiscal year to ¥43,783 million and operating income decreased 41.1% year-on-year to ¥3,607 million. The business environment remained harsh with individual stock brokerage trading value continuing to slide. However, SBI SECURITIES Co., Ltd. maintained favorable performance, adding 177,840 new customer accounts during the fiscal year ended March 31, 2012, and the number of accounts totaled 2,387,786 at year-end. The consolidated performance of SBI SECURITIES Co., Ltd. for the fiscal year ended March 31, 2012 resulted in net sales of ¥39,738 million, down 9.8% year-on-year and operating income of ¥7,532 million, down 23.9% 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. 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 and in August 2011. Non-consolidated results of the company for the fiscal year ended March 31, 2012 were operating revenue of ¥9,166 million and operating income of ¥1,905 million.

Financial Services Business

In the Financial Services Business, we recorded higher revenues again, and net sales increased 42.0% year-on-year to ¥43,354 million as a result of SBI Insurance Co., Ltd. achieving high underwriting profit with the growth of auto insurance contracts. However, operating losses in the insurance business (derived from the large increase of policy reserves due to the growth in the number of insurance contracts and end of reinsurance contracts), and the operating losses in the credit card business had a material impact as a result of which the Financial Services Business segment recorded an operating loss of ¥2,640 million.

At SBI Sumishin Net Bank, Ltd., an affiliate accounted for under the equity method, the total deposit balance as at March 31, 2012 was ¥2,282.7 billion and the number of accounts was 1,369,000. The Bank recorded non-consolidated net income of ¥5,165 million, up 46.4% year-on-year.

Housing and Real Estate Business

In the Housing and Real Estate Business, comprised of the real estate business, the financial real estate business and the lifestyle networks business, net sales decreased 4.3% year-on-year to ¥22,466 million and operating income increased 0.4% year-on-year to ¥3,383 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 ¥1,180 billion as of March 31, 2012.

Selling, General and Administrative Expenses

During the consolidated fiscal year ended March 31, 2012, selling, general and administrative expenses amounted to ¥62,747 million, a decrease of 2.9% 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 ended March 31, 2012 amounted to ¥3,796 million, up 220.0% year-on-year. This was primarily share of results of affiliates.

Net Sales by Segment

Segment	Year Ended March 31, 2011 (From April 1, 2010 to March 31, 2011) Millions of Yen	%	Year Ended March 31, 2012 (From April 1, 2011 to March 31, 2012) Millions of Yen	%
Asset Management Business	¥ 30,701	21.8	¥ 34,566	23.8
Investment in Securities	28,475		32,644	
Revenue from Operational Investment Securities	27,127		31,575	
Fees from Funds	1,348		1,068	
Investment Advisory Services Fees and Others	2,225		1,922	
Brokerage & Investment Banking Business	47,873	33.9	43,783	30.2
Financial Services Business	30,530	21.6	43,354	29.9
Marketplace Business	5,699		5,221	
Financial Products Business	9,300		10,253	
Financial Solutions Business	8,309		9,539	
Other Businesses	7,220		18,339	
Housing and Real Estate Business	23,467	16.6	22,466	15.5
Real Estate Business	10,320		9,693	
Financial Real Estate Business	11,646		11,107	
Lifestyle Networks Business	1,500		1,665	
Subtotal	¥132,573	93.9	¥144,169	99.4
Others	15,631	11.1	8,699	6.0
Inter-segment revenues	(7,122)	(5.0)	(7,794)	(5.4)
Net sales	¥141,081	100.0	¥145,074	100.0

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

Non-operating Expenses

Non-operating expenses for the consolidated fiscal year ended March 31, 2012 declined 1.2% year-on-year to ¥6,511 million, consisting primarily of interest expenses.

Extraordinary Income

During the consolidated fiscal year ended March 31, 2012, extraordinary income increased 54.9% year-on-year to ¥15,520 million. This was mainly gains on sales of investment securities.

Extraordinary Expenses

Extraordinary expenses for the consolidated fiscal year ended March 31, 2012 decreased 65.1% year-on-year to ¥2,828 million. This consisted primarily of losses on sales of investment securities.

Cash Flows

As at March 31, 2012, total assets stood at ¥1,663,814 million, up ¥370,208 million from ¥1,293,606 million at the end of the previous consolidated fiscal year ended March 31, 2011. Owing primarily to the issuance of new shares under the listing on the main board of the Hong Kong Stock Exchange and offering of Hong Kong depositary receipts representing the Company's common shares, net assets amounted to ¥468,579 million, up ¥11,596 million from the end of the previous consolidated fiscal year.

Cash and cash equivalents as at March 31, 2012 totaled ¥145,594 million, down ¥3,192 million compared with the balance of ¥148,786 million at the end of the previous consolidated fiscal year. The following is a summary of cash flows and underlying factors.

Net Cash Used in Operating Activities

Net cash used in operating activities for the consolidated fiscal year ended March 31, 2012 totaled ¥4,972 million, compared with net cash used in operating activities of ¥742 million in the previous consolidated fiscal year. This mainly reflected cash outflows of ¥301,000 million for increase in cash segregated as deposits and of ¥19,729 million for decrease in guarantee deposits received, and cash outflow of ¥11,610 million for increase in operational loans receivable despite the cash inflow of ¥312,052 million for increase in deposits from customers and of ¥17,394 million for decrease in margin transaction assets, net.

Net Cash Used in Investing Activities

Net cash used in investing activities for the consolidated fiscal year ended March 31, 2012 totaled ¥27,035 million, compared with net cash used in investing activities of ¥16,642 million in the previous consolidated fiscal year. This was mainly attributable to cash outflows of ¥12,169 million for purchases of investment securities and of ¥6,235 million for purchases of investments in subsidiaries, and cash outflow of ¥7,758 million for proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation. The Company sold all shares of SBI VeriTrans Co., Ltd. ("SBI VeriTrans") in March 2012 and it was excluded from the scope of consolidation, but cash settlement was not made as at March 31, 2012. Cash outflow of ¥7,758 million was mainly attributable to decrease of cash balance held by SBI VeriTrans.

Net Cash from Financing Activities

Net cash from financing activities for the consolidated fiscal year ended March 31, 2012 totaled ¥29,529 million, compared with net cash from financing activities of ¥25,154 million in the previous consolidated fiscal year. This mainly reflected cash inflows of ¥16,716 million for proceeds from stock issuance and of ¥10,009 million for increase in short-term loans payable.

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 in Asia.

The Company became the first listed company in Japan to be listed on the Main Board market of Hong Kong Exchanges and Clearing on April 14, 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 the setting up of 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 will pursue private equity investment by identifying targets and concentrating our investments in growth areas with the aim of contributing 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, with the aim of maximizing synergies within the financial conglomerate, the Company will strengthen collaboration with 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, the PTS (proprietary trading system) of high public nature operated by SBI Japannext Co., Ltd. posted a considerable increase in trading value, taking up 2.8% of total monthly trading value on the first section of the Tokyo Stock Exchange in March 2012. SBI Liquidity Market Co., Ltd., which began operation in November 2008, provides liquidity and market infrastructure for FX transactions to SBI SECURITIES Co., Ltd. and SBI Sumishin Net Bank, Ltd. The firm will make improvements to the transaction environment and enhance liquidity with the aim of further diversifying 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 to 2008 for undertaking new businesses in our aim to build an earning 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 operation of comparison websites such as “InsWeb” and “E-LOAN,” we must continue to expand our service lineups including by 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 the growing asset management needs.

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.

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” is 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. With the aim of giving 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.

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 who 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 already contributing 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.

Note: Forward-looking descriptions provided herein are based on judgments of the Company as of June 28, 2012.

Risk Information

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 these investment decisions. 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 but it is considered as of June 28, 2012.

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 incentivizes management to create value. 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 financial condition and 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 financial condition and results of operations 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 financial condition and 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. Such cases could adversely affect our financial condition and results of operations.

In addition, there are some frauds or fraudulent acts, which use trade names of our Group companies, with our business expansion and increasing our publicity. Therefore, we may be hit hard by rumors even if we have no fault. It could have an adverse affect our financial condition and results of operations.

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 acquisition of one-hundred percent ownership of SBI SECURITIES Co., Ltd., and SBI Futures Co., Ltd. through share exchanges in August 2008 and in August 2009 respectively, the transfer all our shares in SBI AXA Life Insurance Co., Ltd. in February 2010, the acquisition of one-hundred percent ownership of Gomez Consulting Co., Ltd. by Morningstar Japan K.K. through the share exchange in April 2011, the acquisition of one-hundred percent ownership of SBI VeriTrans Co., Ltd. and SBI Net Systems Co., Ltd. through the share exchanges in August 2011 and in February 2012 respectively, the acquisition of Shinsai Partners Inc. in March 2012 and the conclusion of the share transfer contract of all our shares in SBI VeriTrans Co., Ltd. in March 2012, 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.

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. In the event that any such risk arises, it could adversely affect our financial condition and results of operations.

In addition, we may raise working capital through various means, including equity finance in the capital markets, share exchange, loans from financial institutions, and issuances of corporate bonds. Such cases could adversely affect our financial condition and results of operations.

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 the Financial Services Agency (FSA). As a result, we are further strengthening our 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 the FSA, for whatever reason, we may have difficulty conducting business operations, or it could adversely affect our financial condition and results of 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 proved to be ineffective or inadequate, we may be subject to sanctions or penalties and our financial condition, results of operations, 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 have 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 includes 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, such as a board of directors, 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. Such payments could adversely affect our financial condition and results of operations.

15) Reliance on key personnel

Our business operations depend on the leadership of our Representative Director, President 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 individuals 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 out of regulated activities by unauthorized persons could have a number of consequences including the possibility of agreements made in the course of carrying out 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 deferred tax assets

Temporary differences occurring between the financial statements and the tax bases of assets and liabilities are posted to deferred tax assets using the statutory effective tax rate applied when the difference is dissolved.

If there is a tax reform and change in the statutory effective tax rate, we may reduce or increase the deferred tax assets. Such events could have an adverse effect on our financial condition and results of operations.

A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain. Loss carryforwards can be posted as deferred tax assets to the extent of the amount recoverable, and the Group posts deferred tax assets based on the assumption of recoverability.

Each Group company calculates the estimated future recoverable tax amount based on the expected amount of future taxable income. While we presume that it is quite possible to realize the deferred tax assets after valuation allowance, the amount of valuation allowance may fluctuate depending on any changes in the expected amount of future taxable income. Such changes could have an adverse effect on our financial condition and results of operations.

20) 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.

21) 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.

22) 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.

23) Risks relating to our investments, development of our business, funding and legal regulations in overseas operation

We are actively investing and promoting business development in overseas countries. In these cases, we do have risks relating to increasing cost or losses unique to overseas business due to different factors from factors in Japan, such as systems including laws and regulations, business practice, economic status, corporate culture, consumer attitude and others in overseas countries. We implement investments and business development of our operations in overseas countries after careful investigations, examinations and taking countermeasures for these risks. Nevertheless, if some events, which we could not estimate at the beginning, occur, such events could have an adverse effect on our financial condition and results of operations.

In addition, there is an increasing tendency of ratios of foreign shareholders in our shareholders. Therefore, it may be expected that we perform as the result the financing in foreign countries regardless of our intention. As a result, we may be affected by foreign laws and regulations, particularly these for investors protection, and may be caused our expense increase and the restrictions of business. Furthermore, we may increase foreign currency debt finances for the purpose of hedging foreign currency risks by borrowings from the financial institution in overseas countries or by issuances of corporate bonds in overseas countries. Even if we implement these after careful investigations and examinations for these risks, but some events, which we could not estimate at the beginnings, may occur. Such events could have an adverse effect on our financial condition and results of operations.

Recently, in addition to the above, application of laws and regulations in the overseas countries, such as the Bribery Act 2010 in the UK and The Foreign Corrupt Practices Act in the US, might extend into our Group in other countries including Japan. We have responded to a variety of these laws and regulations after careful investigations and examinations of these risks, but some unexpected events may occur. Such events could have an adverse effect on our financial condition and results of operations.

24) 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.

Note: For risks specific to each business segment, please refer to the Securities Report at http://www.sbigroup.co.jp/english/investors/library/filings/.

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

Consolidated Balance Sheets

	Notes	As at 31 March 2011 (millions of Yen)	2012 (millions of Yen)
Assets			
Current assets			
Cash and deposits	VI.4	¥ 150,268	**¥ 146,055**
Notes and accounts receivable—trade	VI.4	10,658	**11,106**
Leases receivable and lease investment assets		16,166	**13,829**
Short-term investment securities		292	**219**
Cash segregated as deposits		347,865	**663,065**
Operational investment securities	VI.1 & 4	141,881	**148,099**
Allowance for investment losses		(9,108)	**(6,156)**
Operational investment securities, net		132,773	**141,943**
Operational loans receivable	VI.4	27,905	**42,281**
Real estate inventories	VI.2 & 4	16,812	**11,699**
Trading instruments	VI.8	2,701	**1,763**
Loans on margin transactions		229,301	**220,270**
Cash collateral pledged for securities borrowings on margin transactions		21,098	**39,777**
Margin transaction assets		250,399	**260,048**
Short-term guarantee deposits		5,235	**16,800**
Deferred tax assets		14,243	**11,425**
Others	VI.4	57,473	**75,830**
Allowance for doubtful accounts		(4,017)	**(3,682)**
Total current assets		1,028,779	**1,392,386**
Non-current assets			
Property and equipment			
Buildings		15,799	**16,205**
Accumulated depreciation		(3,130)	**(3,234)**
Buildings, net	VI.4	12,668	**12,970**
Furniture and fixtures		4,972	**4,014**
Accumulated depreciation		(3,546)	**(2,930)**
Furniture and fixtures, net		1,426	**1,083**
Land	VI.4	10,908	**11,787**
Others		4,825	**5,318**
Accumulated depreciation		(1,397)	**(2,324)**
Others, net		3,427	**2,993**
Total property and equipment		28,431	**28,835**
Intangible assets			
Software		13,378	**13,511**
Goodwill		126,297	**122,410**
Others		567	**1,254**
Total intangible assets		140,244	**137,176**
Investments and other assets			
Investment securities	VI.3 & 4	53,378	**61,403**
Deferred tax assets		12,830	**15,458**
Others		36,108	**26,013**
Allowance for doubtful accounts		(12,066)	**(6,535)**
Total investments and other assets		90,250	**96,338**
Total non-current assets		258,926	**262,349**
Deferred charges			
Stock issuance costs		152	**182**
Bonds issuance costs		32	**142**
Deferred operating costs under Article 113 of the Insurance Business Act		5,715	**8,752**
Total deferred charges		5,900	**9,077**
Total assets		¥1,293,606	**¥1,663,814**

	Notes	2011 (millions of Yen)	2012 (millions of Yen)
		As at 31 March	
Liabilities			
Current liabilities			
Short-term loans payable	VI.4	¥ 97,164	**¥ 103,915**
Current portion of long-term loans payable	VI.4	12,147	**19,888**
Current portion of bonds payable	VI.4	70,060	**60,060**
Accrued income taxes		4,574	**4,875**
Advances received		1,953	**1,941**
Borrowings on margin transactions	VI.4	70,386	**76,007**
Cash received for securities lending on margin transactions		73,370	**94,792**
Margin transaction liabilities		143,757	**170,800**
Loans payable secured by securities		61,797	**76,592**
Guarantee deposits received		309,134	**289,405**
Deposits from customers		37,819	**347,952**
Accrued expenses		3,202	**3,262**
Deferred tax liabilities		3,219	**4,047**
Provision for bonuses		79	**95**
Other provisions		448	**290**
Others		35,237	**36,930**
Total current liabilities		780,597	**1,120,059**
Non-current liabilities			
Bonds payable	VI.4	540	**30,480**
Long-term loans payable	VI.4	31,366	**16,765**
Deferred tax liabilities		424	**357**
Provision for retirement benefits		69	**16**
Other provisions		861	**1,444**
Others		17,567	**21,675**
Total non-current liabilities		50,828	**70,739**
Statutory reserves			
Reserve for financial products transaction liabilities		5,196	**4,436**
Reserve for price fluctuation		0	**0**
Total statutory reserves	VI.9	5,197	**4,436**
Total liabilities		836,623	**1,195,235**
Net assets			
Shareholders' equity			
Capital stock		73,236	**81,664**
Capital surplus		236,920	**249,353**
Retained earnings		88,073	**88,417**
Treasury stock		(246)	**(3,179)**
Total shareholders' equity		397,983	**416,255**
Accumulated other comprehensive income (loss)			
Unrealized losses on available-for-sale securities		(3,902)	**(2,722)**
Deferred gains (losses) on derivatives under hedge accounting		(239)	**(1,889)**
Foreign currency translation adjustments		(3,012)	**(4,711)**
Total accumulated other comprehensive income (loss)		(7,155)	**(9,323)**
Stock acquisition rights		11	**10**
Minority interests		66,142	**61,636**
Total net assets		456,982	**468,579**
Total liabilities and net assets		¥1,293,606	**¥1,663,814**

Consolidated Statements of Operations

	Notes	Year ended 31 March 2011 (millions of Yen)	2012 (millions of Yen)
Net sales	VII.1	¥141,081	**¥145,074**
Cost of sales	VII.2	67,535	**74,750**
Gross profit		73,546	**70,323**
Selling, general and administrative expenses	VII.3 & 4	64,613	**62,747**
Operating income		8,932	**7,575**
Non-operating income			
Interest income		402	**473**
Dividend income		191	**208**
Share of results of affiliates		163	**2,546**
Others		429	**567**
Total non-operating income		1,186	**3,796**
Non-operating expense			
Interest expense		2,705	**2,303**
Amortization of deferred operating costs under Article 113 of the Insurance Business Act		952	**1,750**
Foreign exchange losses		1,349	**509**
Others		1,586	**1,948**
Total non-operating expense		6,593	**6,511**
Ordinary income		3,525	**4,860**
Extraordinary income			
Gains on sales of investment securities		7,584	**14,353**
Reversal of statutory reserves		2,022	**760**
Others		411	**406**
Total extraordinary income		10,018	**15,520**
Extraordinary expense			
Impairment loss	VII.5	861	**233**
Provision of allowance for doubtful accounts		3,848	**—**
Provision of statutory reserves		0	**0**
Losses on sales of investment securities		66	**1,104**
Losses on valuation of investment securities		556	**80**
Losses on disposal of subsidiaries and affiliates		635	**812**
Impact from applying the Accounting Standard of Asset Retirement Obligation		501	**—**
Others		1,642	**598**
Total extraordinary expense		8,113	**2,828**
Income before income taxes		5,430	**17,552**
Income taxes—current		(10,120)	**(9,381)**
Income taxes—deferred		3,028	**(2,537)**
Total income taxes		(7,092)	**(11,918)**
Net income (loss) before minority interests		(1,661)	**5,633**
Minority interests in income (loss)		(6,196)	**2,432**
Net income		¥ 4,534	**¥ 3,200**

Consolidated Statements of Comprehensive Income

	Notes	2011 (millions of Yen)	2012 (millions of Yen)
		Year ended 31 March	
Net income (loss) before minority interests		¥(1,661)	**¥ 5,633**
Other comprehensive income (loss)			
Unrealized gains (losses) on available-for-sale securities		(3,042)	**1,389**
Deferred gains (losses) on derivatives under hedge accounting		(14)	**5**
Foreign currency translation adjustments		(1,219)	**(1,283)**
Share of other comprehensive loss of equity method affiliates		(533)	**(1,981)**
Total other comprehensive loss for the year	VIII	(4,809)	**(1,869)**
Total comprehensive income (loss) for the year		¥(6,471)	**¥ 3,764**
Total comprehensive income (loss) for the year attributable to:			
–Owners of the parent		¥ (364)	**¥ 1,083**
–Minority interests		(6,106)	**2,681**

Consolidated Statements of Changes in Net Assets

	Notes	Year ended 31 March 2011 (millions of Yen)	2012 (millions of Yen)
Shareholders' equity	IX		
Capital stock			
Balance at the end of previous year		¥ 55,284	**¥ 73,236**
Changes during the year			
Issuance of new stock		17,952	**8,428**
Total changes during the year		17,952	**8,428**
Balance at the end of current year		73,236	**81,664**
Capital surplus			
Balance at the end of previous year		218,968	**236,920**
Changes during the year			
Issuance of new stock		17,952	**8,428**
Decrease through share exchanges		—	**4,004**
Disposal of treasury stock		(0)	**—**
Total changes during the year		17,951	**12,432**
Balance at the end of current year		236,920	**249,353**
Retained earnings			
Balance at the end of previous year		87,276	**88,073**
Changes during the year			
Dividends	IX.3	(1,676)	**(2,391)**
Net income		4,534	**3,200**
Decrease through a merger		(224)	**(2)**
Adjustments due to change of scope of consolidation		(1,798)	**(571)**
Adjustments due to change of scope of equity method		(37)	**108**
Total changes during the year		797	**343**
Balance at the end of current year		88,073	**88,417**
Treasury stock			
Balance at the end of previous year		(246)	**(246)**
Changes during the year			
Purchases of treasury stock		—	**(2,938)**
Disposal of treasury stock		—	**5**
Total changes during the year		—	**(2,932)**
Balance at the end of current year		(246)	**(3,179)**
Total shareholders' equity			
Balance at the end of previous year		361,282	**397,983**
Changes during the year			
Issuance of new stock		35,904	**16,856**
Increase through share exchanges		—	**4,004**
Dividends	IX.3	(1,676)	**(2,391)**
Net income		4,534	**3,200**
Decrease through a merger		(224)	**(2)**
Adjustments due to change of scope of consolidation		(1,798)	**(571)**
Adjustments due to change of scope of equity method		(37)	**108**
Purchases of treasury stock		—	**(2,938)**
Disposal of treasury stock		(0)	**5**
Total changes during the year		36,701	**18,271**
Balance at the end of current year		¥397,983	**¥416,255**

	Notes	Year ended 31 March 2011 (millions of Yen)	Year ended 31 March 2012 (millions of Yen)
Accumulated other comprehensive (income) loss			
Unrealized losses on available-for-sale securities			
Balance at the end of previous year		¥ (559)	¥ (3,902)
Changes during the year			
Net changes other than shareholders' equity		(3,343)	1,180
Total changes during the year		(3,343)	1,180
Balance at the end of current year		(3,902)	(2,722)
Deferred gains (losses) on derivatives under hedge accounting			
Balance at the end of previous year		14	(239)
Changes during the year			
Net changes other than shareholders' equity		(254)	(1,649)
Total changes during the year		(254)	(1,649)
Balance at the end of current year		(239)	(1,889)
Foreign currency translation adjustments			
Balance at the end of previous year		(1,506)	(3,012)
Changes during the year			
Net changes other than shareholders' equity		(1,505)	(1,698)
Total changes during the year		(1,505)	(1,698)
Balance at the end of current year		(3,012)	(4,711)
Total accumulated other comprehensive (income) loss			
Balance at the end of previous year		(2,051)	(7,155)
Changes during the year			
Net changes other than shareholders' equity		(5,104)	(2,167)
Total changes during the year		(5,104)	(2,167)
Balance at the end of current year		(7,155)	(9,323)
Stock acquisition rights			
Balance at the end of previous year		11	11
Changes during the year			
Net changes other than shareholders' equity		(0)	(1)
Total changes during the year		(0)	(1)
Balance at the end of current year		11	10
Minority interests			
Balance at the end of previous year		69,372	66,142
Changes during the year			
Net changes other than shareholders' equity		(3,229)	(4,506)
Total changes during the year		(3,229)	(4,506)
Balance at the end of current year		66,142	61,636
Total net assets			
Balance at the end of previous year		428,615	456,982
Changes during the year			
Issuance of new stock		35,904	16,856
Increase through share exchanges		—	4,004
Dividends	IX.3	(1,676)	(2,391)
Net income		4,534	3,200
Decrease through a merger		(224)	(2)
Adjustments due to change of scope of consolidation		(1,798)	(571)
Adjustments due to change of scope of equity method		(37)	108
Purchase of treasury stock		—	(2,938)
Disposal of treasury stock		(0)	5
Net changes other than shareholders' equity		(8,333)	(6,675)
Total changes during the year		28,367	11,596
Balance at the end of current year		¥456,982	¥468,579

Consolidated Statements of Cash Flows

	Notes	2011 (millions of Yen)	2012 (millions of Yen)
		Year ended 31 March	
Net cash from (used in) operating activities			
Income before income taxes		¥ 5,430	¥ 17,552
Adjustments for:			
Depreciation and amortization		6,588	8,456
Amortization of goodwill		8,563	7,866
Increase in provision		11,451	6,117
Share of results of affiliates		(163)	(2,546)
Write-down of operational investment securities		1,618	3,952
Equity in earnings of funds		(2,793)	606
Gains on sales of investment securities		(7,517)	(13,248)
Losses on valuation of investment securities		556	80
Foreign exchange losses		3,333	1,429
Interest and dividend income		(16,587)	(15,502)
Interest expense		6,730	6,077
Changes in assets and liabilities:			
Increase in operational investment securities		(35,988)	(12,460)
Decrease (increase) in operational loans receivable		5,755	(11,610)
Decrease in real estate inventories		2,617	3,198
Decrease in notes and accounts receivable-trade		823	1,082
Increase (decrease) in notes and accounts payable-trade		102	(726)
Increase in cash segregated as deposits		(18,000)	(301,000)
(Increase) decrease in trading instruments		(2,326)	1,541
(Increase) decrease in margin transaction assets/liabilities		4,962	17,394
Increase in deposits from customers		6,341	312,052
Increase (decrease) in guarantee deposits received		26,760	(19,729)
(Decrease) increase in loans payable secured by securities		(1,997)	14,807
Decrease in advances received		(890)	(2,682)
Others, net		(4,127)	(28,333)
Subtotal		1,242	(5,625)
Interest and dividend income received		17,168	14,852
Interest expense paid		(6,885)	(5,967)
Income taxes paid		(12,267)	(8,232)
Net cash used in operating activities		¥ (742)	¥ (4,972)

	Notes	Year ended 31 March 2011 (millions of Yen)	2012 (millions of Yen)
Net cash from (used in) investing activities			
Purchases of intangible assets		¥ (4,767)	¥ (5,327)
Purchases of investment securities		(13,621)	(12,169)
Proceeds from sales of investment securities		11,212	1,996
Proceeds from sales of investments in subsidiaries		249	524
Purchases of (proceeds from) investments in subsidiaries resulting in change in scope of consolidation	X.2	(99)	37
Payments for sales of investments in subsidiaries resulting in change of scope of consolidation	X.2	—	(7,758)
Purchases of investments in subsidiaries		(177)	(6,235)
Payments of loans receivable		(22,069)	(22,652)
Collection of loans receivable		15,496	23,957
Payments for lease and guarantee deposits		(1,172)	(986)
Proceeds from collection of lease and guarantee deposits		483	392
Others, net		(2,175)	1,185
Net cash used in investing activities		(16,642)	(27,035)
Net cash from (used in) financing activities			
Increase in short-term loans payable		39,259	10,009
Proceeds from long-term loans payable		9,000	6,020
Repayment of long-term loans payable		(15,849)	(12,879)
Proceeds from issuance of bonds payable		71,019	89,816
Redemption of bonds payable		(113,100)	(70,060)
Proceeds from stock issuance		35,698	16,716
Proceeds from stock issuance to minority interests		1,797	109
Contributions from minority shareholders in consolidated investment funds		4,083	1,790
Cash dividend paid		(1,673)	(2,383)
Cash dividend paid to minority shareholders		(225)	(183)
Distributions to minority shareholders in consolidated investment funds		(3,864)	(5,434)
Proceeds from disposal of treasury stock		—	38
Purchases of treasury stock		(4)	(2,940)
Others, net		(985)	(1,089)
Net cash from financing activities		25,154	29,529
Effect of changes in exchange rate on cash and cash equivalents		(2,893)	(1,655)
Net increase (decrease) in cash and cash equivalents		4,876	(4,133)
Increase in cash and cash equivalents from newly consolidated subsidiaries		1,337	961
Decrease in cash and cash equivalents resulting from deconsolidation of subsidiaries		(28)	(20)
Increase in cash and cash equivalents resulting from merger		19	0
Cash and cash equivalents at beginning of year		142,581	148,786
Cash and cash equivalents at end of year	X.1	¥ 148,786	¥145,594

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 accounting principles generally accepted 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 financial instruments such as certain investments and derivatives, 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 the 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 are not for exercising control but to foster the development of venture capital portfolios.

(d) Basis for not applying the 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 the equity method.

(ii) Venture capital investments are not accounted for using the equity method since the purpose of investments are 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 a 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.

(iii) Leased assets are depreciated by using the straight-line method over the lease terms with a 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) Allowance 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

The Group provided provisions for bonuses to employees based on the estimation of the current year portion of future payments.

(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 simplified method was used and under such method, 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, certain consolidated subsidiaries provide statutory reserve 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

The Group provides statutory reserve against possible losses resulting from stock price fluctuations in accordance with Article 115 of the Insurance Business Act.

(5) Recognition for net sales and cost of sales

Net sales and cost of sales

The Group's net sales primarily consist of fees from funds, revenue from operational investment securities, revenue from real estate business, and revenue from securities transactions. The costs of sales principally consist of the cost of operational investment securities, the related provision of allowance for investment losses, and cost of real estate business.

(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 the 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. The stage of completion is assumed to be the portion of the project's costs incurred to the balance sheet date divided by total estimated costs, "cost-to-cost method." 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 offerings 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.

(6) 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 translation 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.”

(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 a 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 revaluated at fair 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—foreign currency forward contracts
Hedged items—foreign currency denominated receivables and payables and investment securities

(ii) Hedging instruments—interest rate swap contracts
Hedged items—loans and bonds payables

(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 contracts are 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 the hedge effectiveness of foreign currency 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 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 the hedge effectiveness of interest rate swaps which qualify for hedge accounting and meet specific matching criteria.

(9) Accounting for amortization of goodwill

Goodwill is amortized using the straight-line method to allocate the cost over the expected beneficial period, or over 20 years if the beneficial period could not be reasonably estimated. However, goodwill could be recognized as an expense as incurred if the amount is immaterial.

(10) Cash and cash equivalents stated in the consolidated statement of cash flows

Cash and cash equivalents stated in the consolidated statement 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.

2. Other significant accounting policies for consolidated financial statements

(1) Business combination

For the period beginning on 1 April 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 require accounting for such business combinations 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 amortized within 20 years. Under the revised standards, a bargain purchase is 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 obtained 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 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 "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 the straight-line method.

(b) Bond issuance costs

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

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

These 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 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 is measured at the present value.

(10) Borrowings

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

III. NEW AND REVISED ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Revision of Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22) and related Implementation Guidance and Practical Solution (revised on 25 March 2011, the "Revised Standards")

Before the revision of accounting standards, the special purpose company under certain conditions was not presumed to be a subsidiary of the investor or company which transfers its assets to the special purpose company. Under the Revised Standards, only the company which transfers its assets can apply the presumption. The Group plans to apply the Revised Standards from the beginning of fiscal year ending 31 March 2014.

Since no entities have been presumed to be a subsidiary under the current accounting standard, no significant affect on the consolidated financial statements.

IV. CHANGES IN PRESENTATION

The following presentation changes are reflected on respective consolidated statements of operations:

1. "Amortization of stock issuance costs" and "Amortization of bond issuance costs," which were separately presented for the year ended 31 March 2011, were included in "Others" of "Non-operating expense" in the consolidated statements of operations for the year ended 31 March 2012 as the amounts were immaterial. As a result, "Amortization of stock issuance costs" and "Amortization of bond issuance costs" for the year ended 31 March 2011 of ¥50 million and ¥90 million, respectively, were reclassified into "Others" of "Non-operating expense."
2. "Reversal of allowance for doubtful accounts" and "Gains on the changes in interests in consolidated subsidiaries and equity method investees," which were separately presented in the consolidated statements of operations for the year ended 31 March 2011 were included in "Others" of "Extraordinary income" in the consolidated statements of operations for the year ended 31 March 2012 as the amounts were immaterial. As a result, "Reversal of allowance for doubtful accounts" and "Gains on the changes in interests in consolidated subsidiaries and equity method investees" for the year ended 31 March 2011 of ¥68 million and ¥63 million, respectively were reclassified into "Others" of "Extraordinary income."
3. "Losses on the changes in equity interests in consolidated subsidiaries and equity method investees" and "Losses on retirements of non-current assets," which were separately presented in the consolidated statements of operations for the year ended 31 March 2011 were included in "Others" of "Extraordinary expense" in the consolidated statements of operations for the year ended 31 March 2012 as the amounts were immaterial. As a result, "Losses on the changes in equity interests in consolidated subsidiaries and equity method investees" and "Losses on retirements of non-current assets" for the year ended 31 March 2011 of ¥23 million and ¥193 million, respectively, were reclassified into "Others" of "Extraordinary expense."

V. ADDITIONAL INFORMATION

Application of Accounting Standard for Accounting Changes and Error Corrections

The Company has applied "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24 issued on 4 December 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24 issued on 4 December 2009) to the accounting changes and error corrections which have been made after 31 March 2011.

Stock Benefit Trust

At the board meeting held on 29 September 2011, the Directors of the Company resolved to introduce "Stock Benefit Trust (Employee Stockholding Association Purchase-type)" (hereinafter the "Plan" and the "Trust").

The purpose of the Plan is to improve employees' welfare and to increase their motivations for work and awareness of the Company's stock performance through its steady provision of stock to the employee stockholding association and distribution of the profit created by trust property management in order to increase the Company's corporate value.

Accounting for the Trust is based upon the assumption that the Company and the Trust are inseparable. The Company's stock held by the Trust is accounted for as treasury stock while the Trust's assets and liabilities as well as its income and expenses are included in the Group's consolidated financial statements. The number of the stocks held by the Trust is included in the number of treasury stock and not included in the number of shares outstanding for the calculation of per share information. The number of treasury stock held by the Trust as at 31 March 2012 was 70,604 shares.

Adoption of the Consolidation Tax Fillings

The Company and certain subsidiaries made an application for the consolidation tax fillings to the tax authority in December 2011. The application was approved, and the consolidation tax fillings will be adopted from the fiscal year beginning on 1 April 2012. Preparing for the adoption, the financial statements for this fiscal year are presented in accordance with "Tentative Solution for the Deferred Tax Accounting on Application of Tax Consolidation (part 1)" (Practical Issues Task Force No. 5 revised on 18 March 2011) and "Tentative Solution for the Deferred Tax Accounting on Application of Tax Consolidation (part 2)" (Practical Issues Task Force No. 7, 30 June 2010).

VI. NOTES TO CONSOLIDATED BALANCE SHEETS

1. Operational investment securities

As at 31 March 2011 and 2012, 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	
	2011	2012
	(millions of Yen)	(millions of Yen)
New Horizon Capital, L.P	17,041	**9,237**
NEW HORIZON FUND, L.P	5,231	**4,713**
New Horizon Capital III, L.P	2,069	**3,080**
SBI & BDJB CHINA FUND, L.P	2,370	**2,885**
Jefferies SBI USA Fund L.P.	795	**1,631**
SBI BB MEDIA INVESTMENT LIMITED PARTNERSHIP	1,217	**1,195**
LC Fund III, L.P.	1,029	**1,039**
Others	1,989	**4,161**
Subtotal (Investments in funds)	31,746	**27,944**
Direct investments	110,135	**120,155**
Total	141,881	**148,099**

2. Real estate inventories

Real estate inventories consisted of the following:

	As at 31 March	
	2011	2012
	(millions of Yen)	(millions of Yen)
Real estate for sale	7,505	**3,866**
Real estate for sale in progress	7,083	**6,430**
Real estate for development	1,403	**1,403**
Beneficial interest in real estate investment trust	821	**—**
Total	16,812	**11,699**

3. Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates are as follows:

	As at 31 March	
	2011	2012
	(millions of Yen)	(millions of Yen)
Investment securities	43,463	**51,087**

The above investment securities include investments in jointly controlled entities of ¥20,763 million and ¥23,816 million as at 31 March 2011 and 2012, respectively.

4. Pledged assets

Pledged assets consisted of the following:

	As at 31 March	
	2011	2012
	(millions of Yen)	(millions of Yen)
Cash and deposits	521	**1**
Notes and accounts receivable—trade	2,126	**417**
Operational investment securities	420	**1,291**
Operational loans receivable	3,206	**3,047**
Real estate inventories	747	**537**
Others—current assets	4,593	**3,407**
Buildings	4,570	**4,391**
Land	5,063	**5,475**
Investment securities	1,937	**1,314**
Total	23,188	**19,883**
The assets were pledged as collateral for:		
Short-term loans payable	9,038	**1,318**
Current portion of long-term loans payable	1,291	**1,402**
Current portion of bonds payable	60	**60**
Long-term loans payable	8,269	**12,040**
Bonds payable	540	**480**

Besides the above, securities received as collateral for financing from broker's own capital of ¥1,163 million and ¥7,422 million were pledged as collateral for borrowings on margin transactions as at 31 March 2011 and 2012, respectively.

5. Contingent liabilities

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

	As at 31 March	
	2011	2012
	(millions of Yen)	(millions of Yen)
Guarantee of bank loans	18,234	**47,169**

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	
	2011	2012
	(millions of Yen)	(millions of Yen)
Securities loaned on margin transactions	73,267	**101,846**
Securities pledged for borrowings on margin transactions	71,241	**75,482**
Substitute securities for pledged margin transactions (except those related to customer's direct deposit)	39,118	**27,365**
Substitute securities for guarantee money paid	41,234	**42,910**
Securities loaned under loan agreements	60,481	**79,211**

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	
	2011	2012
	(millions of Yen)	(millions of Yen)
Securities pledged for loans on margin transactions	211,846	**213,600**
Securities borrowings on margin transactions	20,976	**39,360**
Substitute securities for guarantee money received, which were agreed on as collateral for other transactions	250,092	**243,550**
Substitute securities for margin money received, which were agreed on as collateral for other transactions	100	**100**
Securities borrowed under loan agreements other than margin transactions	71,880	**79,073**

8. Trading instruments

Trading instruments consisted of the following:

	As at 31 March	
	2011	2012
	(millions of Yen)	(millions of Yen)
Equity securities	28	—
Debt securities	188	326
Others	4	4
Subtotal	222	331
Derivatives	2,479	1,431
Total	2,701	1,763

9. Statutory reserves

As at 31 March 2011 and 2012, a reserve for the financial products transaction liabilities was provided in accordance with Article 46-5 of the 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.

10. 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 as at March 31 2011 and 2012 are as follows:

	As at 31 March	
	2011	2012
	(millions of Yen)	(millions of Yen)
Credit facilities	5,986	6,634
Utilized	2,928	3,879
Unused portion	3,057	2,754

It is noted that the 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.

11. Lines of credit from financial institutions

To ensure an efficient operating funds procurement, the Group entered into overdraft facilities with 21 banks as at 31 March 2012. Unused overdraft facilities as at March 31 2011 and 2012 are as follows:

	As at 31 March	
	2011	2012
	(millions of Yen)	(millions of Yen)
Lines of credit	160,700	191,030
Used balance	84,424	80,006
Unused portion	76,276	111,023

VII. NOTES TO CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended 31 March					
	2011			2012		
	(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	14	0	14	23	0	23
Debt securities	1,307	(23)	1,284	1,003	12	1,016
Others	8,984	1,628	10,613	8,634	1,167	9,801
Total	10,306	1,605	11,911	9,660	1,179	10,840

The above trading gains (losses) included gains (losses) on certain businesses other than securities-related business of ¥55 million and ¥6 million for the years ended 31 March 2011 and 2012, respectively.

2. Cost of sales consisted of the following:

	Year ended 31 March 2011 (millions of Yen)	Year ended 31 March 2012 (millions of Yen)
Cost of sales arising from operational investment securities	7,031	**13,026**
Provision of allowance for operational investment securities losses	5,957	**375**
Financial charges	3,872	**3,612**
Cost of sales arising from real estate inventories	5,465	**6,113**
Others	45,208	**51,623**
Total	67,535	**74,750**

Cost of sales arising from operational investment securities includes valuation losses of ¥1,652 million and ¥4,044 million for the years ended 31 March 2011and 2012, respectively. Others included financial costs and payrolls related to net sales.

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

	Year ended 31 March 2011 (millions of Yen)	Year ended 31 March 2012 (millions of Yen)
Payroll and bonuses	10,552	**10,830**
Provision of allowance for doubtful accounts	2,407	**1,694**
Provision of bonuses	61	**97**
Outsourcing fees	11,188	**11,361**
Amortization of goodwill	7,889	**7,866**

4. Research and development costs included in selling, general and administrative expenses

	Year ended 31 March 2011 (millions of Yen)	Year ended 31 March 2012 (millions of Yen)
Research and development costs included in selling, general and administrative expenses	542	**1,156**

5. 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 online 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, etc.	360

(1) Grouping of assets

The grouping of assets was generally based on the smallest cash-generating unit that generates cash inflows that are independent of the cash inflows from other groups. The grouping of lease property and unutilized assets was based on individual assets.

(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 the 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 Healthcare-related Business, the difference between the recoverable amount and the carrying amount of assets used for healthcare operations 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 the recoverable amount

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

For the year ended 31 March 2012

Business	Category	Items	Location	Impairment loss amount (Millions of yen)
Financial Services Business	Assets for credit card business, etc.	Buildings, furniture and fixtures and software, etc.	Tokyo	105
Housing and Real Estate Business	Lease property	Buildings and land, etc.	Aichi, Fukuoka	128

(1) Grouping of assets

The grouping of assets was generally based on the smallest cash-generating unit that generates cash inflows that are independent of the cash inflows from other groups. The grouping of lease property and unutilized assets was based on individual assets.

(2) Background to recognize impairment loss

In the Financial Services Business, the difference between the recoverable amount and the carrying amount of assets used for the credit card business, etc was recognized as an impairment loss due to no expectation of initially expected profits. The amounts of the impairment losses for buildings, furniture and fixtures, software and other assets were ¥2 million, ¥14 million, ¥78 million and ¥9 million, respectively.

In the Housing and Real Estate Business, the difference between the recoverable amount and the carrying amount of assets was recognized as an impairment loss due to the significant decrease in the price of lease property. The amounts of impairment losses for buildings and land were ¥47 million and ¥80 million, respectively.

(3) Calculation of the recoverable amount

For lease property, the recoverable amount is calculated with the net sales value by using real estate valuation. For the other assets, the recoverable amount is calculated with the value in use based on the future cash flow.

VIII. NOTES TO CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Reclassification adjustment and income tax effect on other comprehensive income for the year ended 31 March 2012 is as follows:

	(millions of Yen)
Unrealized losses on available-for-sale securities:	
Gains arising during the year	3,480
Reclassification adjustments to profit or loss	(3,645)
Amount before income tax effect	(164)
Income tax effect	1,554
Total	1,389
Deferred gains (losses) on derivatives under hedge accounting:	
Gains arising during the year	(3)
Reclassification adjustments to profit or loss	4
Amount before income tax effect	0
Income tax effect	4
Total	5
Foreign currency translation adjustment:	
Adjustments arising during the year	(1,438)
Reclassification adjustments to profit or loss	155
Total	(1,283)
Share of other comprehensive income in associates:	
Gains arising during the year	(2,218)
Reclassification adjustments to profit or loss	237
Total	(1,981)
Total other comprehensive income	(1,869)

IX. NOTES TO CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

1. Outstanding number of capital stock and treasury stock

Year ended 31 March 2011	As at 31 March 2010 (shares)	Increase (shares)	Decrease (shares)	As at 31 March 2011 (shares)
Outstanding capital stock				
Common shares (Note)	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 shares consisted of newly issued 3,112,000 shares of which the settlement date was 23 June 2010, and increase in 49,727 shares by the exercise of stock acquisition rights.

Year ended 31 March 2012	As at 31 March 2011 (shares)	Increase (shares)	Decrease (shares)	As at 31 March 2012 (shares)
Outstanding capital stock				
Common shares (Note 1)	19,944,018	2,507,285	—	22,451,303
Treasury stock				
Common shares (Notes 2, 3 and 4)	14,621	508,125	80,653	442,093

Notes: 1. The increase in common shares of 2,507,285 shares consisted of newly issued 2,000,000 shares through an offering of Hong Kong Depositary Receipts, 432,216 shares and 74,709 shares, respectively for the acquisition of SBI VeriTrans Co., Ltd. and SBI Net Systems Co., Ltd. becoming wholly owned subsidiaries through share exchanges and 360 shares by the exercise of stock acquisition rights.

2. As stated in "V. ADDITIONAL INFORMATION," accounting treatment for the Trust is based upon the assumption that the Company and the Trust are inseparable, thus shares held by the Trust were included in the above movement of treasury stock—common shares.

3. The increase of 508,125 common shares in treasury stock consisted of 321,373 shares acquired as treasury stock subject to Article 156 (replacement of the third paragraph of Article 165) of the Companies Act; 60,000 shares acquired in response to the share purchase demand related to the share exchange to make SBI VeriTrans Co., Ltd. a wholly owned subsidiary in accordance with the first paragraph of Article 797 of the Companies Act; 50,116 shares acquired by a subsidiary related to the acquisition of SBI Net Systems Co., Ltd., to become a wholly owned subsidiary through share exchange and the remaining 76,636 shares acquired by the Trust.

4. The decrease of 80,653 common shares in treasury stock consists of reissuance of 74,621 shares to acquire the remaining share of SBI Net Systems Co., Ltd. to make it a wholly owned subsidiary of the Company and 6,032 shares sold by the Trust to the employee stockholding association.

2. Stock acquisition rights

Year ended 31 March 2011

Entity	Details of stock acquisition rights	Type of share	Number of shares for stock acquisition rights (shares): As at 31 March 2010	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.

Year ended 31 March 2012

Entity	Details of stock acquisition rights	Type of share	Number of shares for stock acquisition rights (shares): As at 31 March 2011	Increase	Decrease	As at 31 March 2012	As at 31 March 2012 (millions of Yen)
Reporting entity (the Company)	Stock acquisition rights (Notes 1, 2 and 3)	Common shares	253,918.24	3,404.10	15,234.16	242,088.18	—
Consolidated subsidiaries	—	—	—	—	—	—	10
Total	—	—	—	—	—	—	10

Notes: 1. Stock acquisition rights were exercisable during the year ended 31 March 2012.

2. The increase in stock acquisition rights was due to the adjustment of the number of shares for the issuance of new shares through offering of Hong Kong Depositary Receipts.

3. The decrease in stock acquisition rights was due to the exercise and expiration of the rights.

3. Dividends

Dividends paid

Year ended 31 March 2011

Resolution	Type of share	Dividend amount (millions of Yen)	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

Year ended 31 March 2012

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

Dividend whose declared date fell in the year ended 31 March 2012, and whose effective date will be in the year ended 31 March 2013

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 April 2012	Common shares	2,207	Retained earnings	100	31 March 2012	7 June 2012

X. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

1. Cash and cash equivalents reconciliation

	Year ended 31 March	
	2011	2012
	(millions of Yen)	(millions of Yen)
Cash and deposits	150,268	**146,055**
Time deposits with original maturity of more than three months	(1,623)	**(629)**
Money Market Fund (MMF) included in trading instruments	142	**168**
Deposit included in others (current assets)	0	**—**
Cash and cash equivalents	148,786	**145,594**

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

For the year ended 31 March 2011

The followings are details of the business combination, acquisition of SBI Global Investment Co., Ltd.:

	millions of Yen
Current assets	1,562
Non-current assets	47
Goodwill	281
Current liabilities	(604)
Minority interests	(601)
Consideration paid for stocks of SBI Global Investment Co., Ltd.	685
Carrying value of previously held equity interest	(493)
Loss arising from remeasurement of the previously held equity interest	189
Cash and cash equivalents of SBI Global investment Co., Ltd.	(133)
Difference: Net cash paid in acquisition of SBI Global investment Co., Ltd.	248

For the year ended 31 March 2012

The followings are details of the sale of stock of SBI VeriTrans Co., Ltd., a former subsidiary:

	millions of Yen
Current assets	**9,139**
Non-current assets	**970**
Goodwill	**1,576**
Current liabilities	**(7,225)**
Non-current liabilities	**(11)**
Minority interests	**(69)**
Gains arising from selling stocks	**8,618**
Consideration to be received from sales of stocks of SBI VeriTrans Co., Ltd.	**13,000**
Accounts receivable—others	**(13,000)**
Cash and cash equivalents of SBI VeriTrans Co., Ltd.	**(7,493)**
Difference: Cash paid from sales of investment in SBI VeriTrans Co. Ltd.	**(7,493)**

XI. NOTES TO LEASE TRANSACTIONS

LESSEE

1. Finance lease

Finance lease transactions commenced before 31 March 2008 that did not transfer ownership are accounted for 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 2011 and 2012

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

As at 31 March 2012	Acquisition costs (millions of Yen)	Accumulated depreciation (millions of Yen)	Carrying amount (millions of Yen)
Buildings	**660**	**608**	**52**
Furniture and fixtures	**193**	**173**	**20**
Software	**0**	**0**	**0**
Total	**855**	**782**	**73**

(b) Obligation balances under finance leases

	As at 31 March	
	2011 (millions of Yen)	**2012** (millions of Yen)
Due within one year	213	**76**
Due after one year	125	**49**
Total	339	**125**

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	
	2011 (millions of Yen)	**2012** (millions of Yen)
Lease payments	1,076	**226**
Reversal of accumulated impairment losses	295	**—**
Depreciation	976	**182**
Interest expenses	27	**11**
Impairment losses	295	**—**

(d) Depreciation method

Leased assets were depreciated by using the straight-line method over the lease terms with a 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	
	2011 (millions of Yen)	**2012** (millions of Yen)
Due within one year	0	**—**
Due after one year	—	**—**
Total	0	**—**

LESSOR

1. Net investments in leases

	As at 31 March	
	2011	**2012**
	(millions of Yen)	(millions of Yen)
Leases receivable	9,373	**5,188**
Estimated residual values	14	**—**
Unearned interest income	(413)	**(172)**
Investment in leases, current	8,974	**5,016**

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

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

As at 31 March 2012	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)	**2,933**	**2,270**	**1,912**	**1,430**	**604**	**—**
Investments in leases (millions of Yen)	**1,607**	**1,418**	**1,294**	**823**	**45**	**—**

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

	As at 31 March	
	2011	**2012**
	(millions of Yen)	(millions of Yen)
Within one year	0	**—**
Over one year	—	**—**
Total	0	**—**

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

(a) Leases receivable and lease investment assets

	As at 31 March	
	2011	**2012**
	(millions of Yen)	(millions of Yen)
Current assets	5,665	**2,770**

(b) Lease obligation

	As at 31 March	
	2011	**2012**
	(millions of Yen)	(millions of Yen)
Current liabilities	1,167	**723**
Non-current liabilities	3,984	**1,990**

XII. FINANCIAL INSTRUMENTS

1. Details of the financial instruments

(1) Group Policy for Financial Instruments

The Group engages in a wide range of finance-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 transactions 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 the size of their transactions. Index futures were mainly for daily trading under limited trading scales. Foreign currency spot contracts were entered into for managing the exposures on foreign currency brokerage transactions. The transactions were 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 the 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 security financing companies and their investment strategy. The Group exercises control by matching the financing with the related security 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 of 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 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's 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 the quoted market price. If the 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 details 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 2011 and 2012.

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 2011			As at 31 March 2012		
	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	150,268	150,268	—	146,055	146,055	—
(2) Notes and accounts receivable—trade	10,658	10,549	(108)	11,106	11,038	(68)
(3) Leases receivable and lease investment assets	16,166	16,300	134	13,829	13,903	73
(4) Short-term investment securities, operational investment securities and investment securities						
Available-for-sale securities	60,546	60,546	—	58,918	58,918	—
Securities in affiliates	5,068	3,314	(1,753)	5,165	3,417	(1,747)
(5) Cash segregated as deposits	347,865	347,865	—	663,065	663,065	—
(6) Operational loans receivable	27,905			42,281		
Allowance for doubtful accounts (*1)	(896)			(548)		
	27,009	28,322	1,312	41,732	42,754	1,021
(7) Trading instruments						
Trading securities	222	222	—	296	296	—
(8) Margin transaction assets	250,399	250,399	—	260,048	260,048	—
(9) Short-term guarantee deposits	5,235	5,235	—	16,800	16,800	—
Assets, total	873,441	873,025	(415)	1,217,019	1,216,298	(720)
(1) Short-term loans payable	97,164	97,164	—	103,915	103,915	—
(2) Accrued income taxes	4,574	4,574	—	4,875	4,875	—
(3) Margin transaction liabilities	143,757	143,757	—	170,800	170,800	—
(4) Loans payable secured by securities	61,797	61,797	—	76,592	76,592	—
(5) Guarantee deposits received	309,134	309,134	—	289,405	289,405	—
(6) Deposits from customers	37,819	37,819	—	347,952	347,952	—
(7) Bonds payable (*2)	70,600	70,600	—	90,540	91,038	498
(8) Long-term loans payable (*3)	43,514	43,537	22	36,654	36,491	(163)
Liabilities, total	768,362	768,385	22	1,120,736	1,121,072	335
Derivatives (*4)	2,367	2,367	—	1,191	1,191	—

Notes: (*1) Includes general reserve and specific reserve for operational loans receivable.
(*2) Includes current-portion of bonds payable.
(*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 periods 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 of 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 rates 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 dates 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 borrowings on margin transactions, the fair values are measured at the carrying value because of their short maturities.

(b) Liabilities

The fair values of liabilities other than (7) Bonds payable and (8) Long-term loans payable are measured at the carrying values as they approximate the carrying values because of their short maturities.

(i) (7) Bonds payable

With respect to bonds 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 condition of companies that obtained the debt are not expected to change significantly.

With respect to bonds payable with fixed interest rates, the fair values are measured at the present value of the future cash outflows considering the remaining periods and the discount rate adjusted with credit risks.

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

(ii) (8) 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 interest rates, 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.

(c) Derivatives

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

As at 31 March 2012

Classification	Carrying amount (millions of Yen)
Available-for-sale securities	
Non-fair valued equity securities (*1)	**89,670**
Non-fair valued bonds	
Convertible bonds with stock acquisition rights (*2)	**1,941**
Investments in funds (*3)	**7,161**
Stock acquisition rights (*2)	**943**
Total	**99,716**
Investments in subsidiaries and affiliates	
Unlisted equity securities (*1)	**45,554**
Investments in funds (*3)	**366**
Total	**45,921**

(*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 2011	Within one 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 dates						
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

(millions of Yen)

As at 31 March 2012	Within one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Cash and deposits	146,055	—	—	—	—	—
Notes and accounts receivable—trade	8,798	989	541	327	168	281
Short-term investment securities, operational investment securities and investment securities with maturity dates						
Debt securities (corporate bonds)	262	276	1,408	—	—	—
Cash segregated as deposits	663,065	—	—	—	—	—
Operational loans receivable	34,350	2,272	1,331	938	896	2,491
Margin transaction assets	260,048	—	—	—	—	—
Short-term guarantee deposits	16,800	—	—	—	—	—
Total	1,129,382	3,538	3,280	1,265	1,064	2,772

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

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

(millions of Yen)

As at 31 March 2011	Within one 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	—	—	—	—	—
Margin transaction liabilities						
Borrowings on margin transactions	70,386	—	—	—	—	—
Bonds payable (including current portion)	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

(millions of Yen)

As at 31 March 2012	Within one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Short-term loans payable	103,915	—	—	—	—	—
Margin transaction liabilities						
Borrowings on margin transactions	76,007	—	—	—	—	—
Bonds payable (including current portion)	60,060	60	30,060	60	60	240
Long-term loans payable	19,888	2,936	6,161	6,970	697	—
Total	259,871	2,996	36,221	7,030	757	240

XIII. SECURITIES

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 values

	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

As 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.

For the year ended 31 March 2012

1. Trading instruments

Valuation gains of ¥12 million were included in income for the year ended 31 March 2012.

2. Available-for-sale securities with fair values

	Type	Carrying amount (millions of Yen)	Acquisition costs (millions of Yen)	Difference (millions of Yen)
Carrying amount exceeds acquisition cost	(1) Equity securities	3,835	2,336	1,498
	(2) Debt securities			
	Corporate bonds	50	50	0
	(3) Others	11,731	8,029	3,701
	Sub-total	15,617	10,416	5,200
Carrying amount does not exceed acquisition cost	(1) Equity securities	117,678	119,754	(2,075)
	(2) Debt securities			
	Corporate bonds	3,837	3,838	(1)
	(3) Others	21,501	22,586	(1,084)
	Sub-total	143,017	146,179	(3,162)
Total		158,634	156,595	2,038

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	30,234	19,648	1,902
(2) Debt securities			
Corporate bonds	664	—	28
Others	—	—	—
(3) Others	848	1	—
Total	31,748	19,649	1,931

4. Impairment loss on securities

As impairment loss on equity securities of ¥4,032 million (¥4,032 million on available-for-sale securities) was recorded during the year 2012.

XIV. DERIVATIVE CONTRACTS

As at 31 March 2011 and 2012

1. Derivatives not subject to hedge accounting policy

(1) Foreign currency related

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

As at 31 March 2012

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	59	—	0	0
	Long	138	—	(0)	(0)
	Foreign currency spot contracts				
	Short	276,916	—	(226)	(226)
	Long	275,697	—	1,422	1,422
Total		—	—	1,195	1,195

The fair value of foreign currency forward contracts was stated based on the future exchange rate at the balance sheet date, whereas the fair value of foreign currency spot contracts was based on the spot rate at the balance sheet date.

(2) Securities related

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)
Market transactions	Index futures				
	Short	68	—	(0)	(0)

As at 31 March 2012

Type	Transaction	Contractual amounts (millions of Yen)	Over 1 year (millions of Yen)	Fair value (millions of Yen)	Valuation gains (losses) (millions of Yen)
Market transactions	Index futures				
	Short	4	—	1	1
Transactions outside market	Option transaction				
	Long	27	—	7	7
Total		—	—	9	9

The fair value of index futures was based on the market closing price at the balance sheet date in each stock market.

2. Derivatives subject to hedge accounting

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)

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 2012		
Deferred method of interest rate swap	Interest rate swaps Variable receipt fixed payment	Bonds payable	**540**	**480**	**(13)**
Interest rate swap	Interest rate swaps Variable receipt fixed payment	Long-term loans payable	**6,660**	**4,268**	**(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 plans, non-contributory funded defined pension plans and either a contributory funded defined benefit pension plan or a defined contribution pension plan for the employee's 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

	As at 31 March 2010 (millions of Yen)	As at 31 March **2011** (millions of Yen)
Plan assets	161,054	**171,944**
Benefit obligation	159,998	**172,108**
Difference	1,055	**(163)**

Note: The latest available information one year before the closing date is presented above.

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

	(As at 31 March 2010)	(As at 31 March 2011)
Kanto IT Software Health Insurance Society	1.10%	1.23%

Note: The latest available information one year before the closing date is presented above.

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.

	As at 31 March 2011 (millions of Yen)	As at 31 March **2012** (millions of Yen)
(a) Projected benefit obligations	(118)	**(19)**
(b) Fair value of plan assets	48	**2**
(c) Provision for retirement benefits ((a) + (b))	(69)	**(16)**

3. Retirement benefit expense

	Year ended 31 March	
	2011	2012
	(millions of Yen)	(millions of Yen)
Contribution to pension funds (Note 1)	122	131
Service cost (Note 2)	41	12
Contributions to the defined contribution pension plan (Note 3)	292	303
Total	456	447

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

4. Basis for calculation of retirement benefit obligation

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

XVI. STOCK OPTION PLAN

Outlines and details of the stock option plan

Stock Option	Number of Options Outstanding	Date of Grant	Exercise Price	Exercise Period
2001 Stock Option	—	2002.2.1	¥19,117*1	From 20 December 2003 to 19 December 2011
2002 Stock Option (1)	12,427.44 shares	2002.12.20	¥ 5,502*1	From 20 December 2004 to 19 December 2012
2003 Stock Option (1)	21,025.04 shares	2003.9.25	¥16,436*1	From 20 December 2004 to 19 December 2012
2003 Stock Option (2)	59,137.81 shares	2003.9.25	¥16,436*1	From 24 June 2005 to 23 June 2013
2003 Stock Option (3)	16,618.77 shares	2003.10.23	¥25,422*1	From 24 June 2005 to 23 June 2013
2005 Stock Option (1)	22,984 shares	2005.7.28	¥32,246*1	From 28 July 2005 to 29 June 2013

*1 Due to the new stock issuance through an offering of Hong Kong Depositary Receipts, the exercise price and the number of objective stock were 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	49,657.86 shares	2002.7.1	¥11,104*1	From 21 June 2004 to 20 June 2012
SBI HOME Planner Co., LTD. 2003 Stock Option	535.86 shares	2004.4.15	¥20,170*1	From 28 June 2005 to 27 June 2013
SBI Partners Co., Inc. 2005 Stock Option	596.20 shares	2005.11.29	¥34,080*1	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	5,080 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	¥15,989*1	From 1 July 2005 to 26 June 2013
WORLD NICHIEI FRONTIER Securities Co., LTD. 2004 Stock Option	18,667.95 shares	2004.6.29	¥46,122*1	From 30 June 2006 to 29 June 2014
WORLD NICHIEI FRONTIER Securities Co., LTD. 2004 Stock Option	34.50 shares	2004.12.22	¥29,338*1	From 30 June 2006 to 29 June 2014
SBI Securities Co., Ltd. 2005 Stock Option	18,211.40 shares	2005.7.4	¥43,164*1	From 30 June 2007 to 29 June 2015
SBIH (3) Stock Option	13,432.77 shares	2008.8.1	¥44,388*1	From 1 August 2008 to 23 June 2013
SBIH (4) Stock Option	1,666.08 shares	2008.8.1	¥51,954*1	From 1 August 2008 to 23 June 2013
Total	242,088.18 shares			

*1 Due to the new stock issuance through an offering of Hong Kong Depositary Receipts, 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)	47,000 shares (47,000 shares)	2005.5.25	¥ 750*2	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*3
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 (536 shares)	2002.10.15	¥ 5,000	From 15 October 2004 to 31 August 2012
Stock Option (5)	90 shares (90 shares)	2005.9.28	¥175,000	From 29 September 2005 to 30 August 2015
Total	1,246 shares (1,246 shares)			
SBI VeriTrans Co., Ltd.				
2004 Stock Option	—	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	—	2003.3.15	¥ 44,250	From 15 March 2005 to 14 March 2013
2005 Stock Option	—	2005.6.15	¥100,000	From 3 June 2007 to 2 June 2015
Total	—			
HOMEOSTYLE, Inc.*4				
Warrant (1)	—	2002.4.5	¥ 9,636	From 1 June 2002 to 12 March 2012
Warrant (2)	—	2004.8.24	¥ 9,636	From 1 June 2002 to 12 March 2012
TK International Co., Ltd.				
Stock Option (the stock option which was taken over by HOMEOSTYLE, Inc. due to the M&A)	—	2004.7.2	¥ 11,903	From 6 July 2006 to 30 June 2014
Stock Option (3)	—	2005.2.28	¥ 16,000	From 1 March 2007 to 24 February 2015
Stock Option (4)	—	2006.3.31	¥ 19,000	From 1 April 2008 to 25 March 2016
Total	—			

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 (5,850 shares)	2002.12.27	¥ 10,000	From 1 November 2004 to 30 September 2012
Stock Option (3)	1,200 shares (1,200 shares)	2004.10.29	¥ 50,000	From 1 August 2006 to 31 May 2014
Stock Option (4)	200 shares (200 shares)	2005.2.25	¥ 50,000	From 1 August 2006 to 31 May 2014
Stock Option (5)	100 shares (100 shares)	2005.4.20	¥ 50,000	From 1 August 2006 to 31 May 2014
Stock Option (6)	50 shares (50 shares)	2005.4.20	¥ 50,000	From 1 August 2006 to 31 May 2014
Stock Option (7)	990 shares (990 shares)	2006.4.20	¥ 50,000	From 28 June 2007 to 27 June 2015
Stock Option (8)	10 shares (10 shares)	2008.3.28	¥ 60,000	From 29 June 2010 to 28 June 2017
Total	8,400 shares (8,400 shares)			
SBI Trade Win Tech Co., Ltd.				
Warrant (2)	1,000 shares (1,000 shares)	2000.10.20	¥ 50,000	From 1 January 2001 to 16 April 2012
Warrant (3)	320 shares (320 shares)	2002.4.17	¥460,000	From 18 April 2002 to 16 April 2012
Total	1,320 shares (1,320 shares)			
Shinsai Partners Inc.				
Stock Option (1)	674 shares (674 shares)	2006.8.1	¥ 50,000	From 2 August 2008 to 15 July 2016
Stock Option (2)	20 shares (20 shares)	2006.9.30	¥ 50,000	From 1 October 2008 to 15 July 2016
Stock Option (3)	90 shares (90 shares)	2006.9.30	¥ 50,000	From 1 October 2008 to 18 September 2016
Total	784 shares (784 shares)			

*2 The exercise price is adjusted to those after 1 for 10 stock split as at 30 June 2011.

*3 The exercise period is adjusted to 31 March 2016 in accordance with the board resolution on 22 June 2012.

*4 All the shares of HOMEOSTYLE, Inc. held by the Company have been sold during the year ended 31 March 2012.

The stock option activity for the years ended 31 March 2011 and 2012 was as follows:

	SBI Holdings, Inc. (Shares)	SBI Mortgage Co., Ltd. (Shares)	SBI Life Living Co., Ltd. (Shares)	SBI Biotech Co., Ltd. (Shares)
Year Ended 31 March 2011				
Non-vested:				
31 March 2010—outstanding		47,000*2		1,246
Granted				
Cancelled				
Vested				
31 March 2011—outstanding		47,000*2		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	
Year Ended 31 March 2012				
Non-vested:				
31 March 2011—outstanding		47,000*2		1,246
Granted				
Cancelled				
Vested				
31 March 2012—outstanding		**47,000***2		**1,246**
Vested:				
31 March 2011—outstanding	257,322.34*1		979	
Vested				
Exercised	**360.00**			
Cancelled	**14,874.16**			
31 March 2012—outstanding	**242,088.18**		**979**	

*1 Due to the new stock issuance through an offering of Hong Kong Depositary Receipts, the number of objective stock were adjusted, therefore, the adjustments were reflected in the number at the beginning balance of the period ended 31 March 2012.

*2 The number of options outstanding is adjusted to that after 1 for 10 stock split as at 30 June 2011.

	SBI VeriTrans Co., Ltd. (Shares)	Morningstar Japan K.K. (Shares)	Gomez Consulting Co., Ltd. (Shares)	HOMEOSTYLE, Inc.*3 (Shares)
Year Ended 31 March 2011				
Non-vested:				
31 March 2010—outstanding				18,864
Granted				
Cancelled				607
Vested				
31 March 2011—outstanding				18,257
Vested:				
31 March 2010—outstanding	516	2,954	704	
Vested				
Exercised	180		370	
Cancelled		336		
31 March 2011—outstanding	336	2,618	334	
Year Ended 31 March 2012				
Non-vested:				
31 March 2011—outstanding				18,257
Granted				
Cancelled				**1,107**
Vested				
31 March 2012—outstanding				**—***3
Vested:				
31 March 2011—outstanding	336	2,618	334	
Vested				
Exercised	**336**		**40**	
Cancelled			**294**	
31 March 2012—outstanding	**—**	**2,618**	**—**	

*3 All the shares of HOMEOSTYLE, Inc. held by the Company have been sold during the year ended 31 March 2012.

	Autoc one K.K. (Shares)	SBI Trade Win Tech Co., Ltd. (Shares)	Shinsai Partners Inc.*4 (Shares)
Year Ended 31 March 2011			
Non-vested:			
31 March 2010—outstanding	8,800	1,320	
Granted			
Cancelled	320		
Vested			
31 March 2011—outstanding	8,480	1,320	
Vested:			
31 March 2010—outstanding			
Vested			
Exercised			
Cancelled			
31 March 2011—outstanding			
Year Ended 31 March 2012			
Non-vested:			
31 March 2011—outstanding	8,480	1,320	—
Granted			
Cancelled	**80**		
Vested			
31 March 2012—outstanding	**8,400**	**1,320**	**784***4
Vested:			
31 March 2011—outstanding			
Vested			
Exercised			
Cancelled			
31 March 2012—outstanding			

*4 Shinsai Partners Inc. has been included in the scope of consolidation from the year ended 31 March 2012.

XVII. NOTES TO INCOME TAXES

1. Major components of the deferred tax assets and liabilities

	Year ended 31 March	
	2011	2012
	(millions of Yen)	(millions of Yen)
Deferred tax assets—Current		
Losses on valuation of investment securities (current assets)	2,807	**1,305**
Provision of allowance for investment losses (current assets)	1,809	**1,094**
Tax loss carried forward	1,523	**3,296**
Accrued enterprise taxes	471	**457**
Elimination of unrealized profit	8,550	**2,406**
Others	459	**2,159**
Subtotal	15,622	**10,720**
Valuation allowance	(1,284)	**(1,623)**
Total deferred tax assets—Current	14,337	**9,097**
Deferred tax assets (investment and other assets)		
Tax loss carried forward	16,644	**17,337**
Provision of allowance for doubtful accounts	1,799	**1,733**
Losses on valuation of investment securities (non-current assets)	4,034	**3,433**
Statutory reserve for financial products transaction liabilities	2,209	**1,931**
Elimination of unrealized profit	743	**8,302**
Others	1,985	**2,282**
Subtotal	27,415	**35,021**
Valuation allowance	(13,837)	**(19,455)**
Total deferred tax assets (investment and other assets)	13,578	**15,566**
Total deferred tax assets	27,916	**24,663**
Deferred tax liabilities—Current		
Unrealized gains on available-for-sale securities	(3,313)	**(1,719)**
Total deferred tax liabilities—Current	(3,313)	**(1,719)**
Deferred tax liabilities—Non-current		
Unrealized gains on available-for-sale securities	(998)	**(345)**
Others	(173)	**(119)**
Total deferred tax liabilities—Non-current	(1,172)	**(464)**
Total deferred tax liabilities	(4,486)	**(2,184)**
Net deferred tax assets	23,429	**22,479**

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

	Year ended 31 March	
	2011	2012
Normal effective tax rate	40.69%	**40.69%**
Expenses not deductible for income taxes purposes (Entertainment expenses, etc.)	1.49%	**3.03%**
Amortization of goodwill	64.17%	**18.24%**
Minority interests in fund, etc.	(39.43)%	**(7.46)%**
Income of the equity method	(1.23)%	**(5.90)%**
Consolidated adjustments of loss on sale of consolidated subsidiaries	(33.05)%	**(6.80)%**
Change in valuation allowance	96.03%	**10.53%**
Decrease of net deferred tax assets due to the change of the future tax rate	—	**12.88%**
Others—net	1.93%	**2.70%**
Actual effective tax rate	130.60%	**67.91%**

3. Impact from the change of the income tax rate

"Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and "Act on Special Measures for Securing the Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011) were newly promulgated on 2 December 2011. These reform acts reduce the effective tax rate used for the calculation of deferred tax assets and liabilities from 40.69% to 38.01% and 35.64% for those temporary differences expected to reverse within the three fiscal years beginning on or after 1 April 2012 and for the fiscal years beginning on or after 1 April 2015, respectively. The Tax Reform also sets a ceiling on annual deductions for unused tax carry-forward losses to 80% of annual taxable income for the consolidated fiscal years beginning on or after 1 April 2012.

These changes lead to a decrease in net deferred tax assets of ¥2,265 million and an increase in income tax deferred of ¥2,260 million.

XVIII. BUSINESS COMBINATIONS

For the year ended 31 March 2012

Transaction under common control

Additional acquisition of stocks of SBI Net Systems Co., Ltd. (to becoming wholly owned subsidiary through a share exchange)

1. Overview of the transaction

(i) Name and business of the targeted company
Name of the targeted company: SBI Net Systems Co., Ltd.
Business nature: System development

(ii) Date of the business combination
1 February 2012

(iii) Details of legal form
SBI Net Systems Co., Ltd. will become a wholly owned subsidiary of the Company after the business combination through a stock exchange.

(iv) Company's name after business combination
No change occurred to the name of the company.

(v) Objective and outline of the transaction
After SBI Net Systems Co., Ltd. becomes a wholly owned subsidiary, the Group could highly improve the effectiveness and efficiency of its operation both domestically and overseas through integration of the subsidiary's know-how on system development. The share exchange was implemented as the business combination is believed to bring synergy in intensifying the Group's profitability and maximizing value of the whole group, so that all the shareholders, clients and business partners would benefit.

2. Applied accounting standard

The transaction was treated as a business combination under common control in accordance with the Accounting Standard for Business Divestitures (ASBJ Statement No. 21, 26 December 2008) and Guidance on Accounting Standard for Business Combination and Divestitures (ASBJ Guidance No. 10, 26 December 2008).

3. Additional acquisition of stocks of subsidiary

(i) Consideration and details

Consideration of acquisition	The Company's common shares	¥592 million
Direct acquisition cost	Advisory fee	¥ 2 million
Total consideration		¥594 million

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

Share exchange ratio	Type of shares: Common shares
The Company 1: SBI Net Systems 1.25	
Computation basis	The valuations were conducted by KPMG FAS Co., Ltd. on the Company's side and conducted by HIBIYA & Co. on SBI Net Systems Co., Ltd.'s side as independent sources for the share exchange. The share exchange ratio was determined based on the valuation reports from both parties.
Exchanged shares	149,330 shares (the Company allotted 74,621 shares of treasury stocks it owns and newly issued shares for the rest)

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

Amount of goodwill recognized	¥424 million
Reason of occurrence	The Company recorded the difference between the consideration and decreasing amount of minority interests as goodwill.
Amortization method and period	Amortized over 20 years by using the straight-line method

Business transfer

Sale of Shares of SBI VeriTrans

(1) Summary of business transfer

(i) Name of the company to which the Company sold investments
Wheel, Inc. (Consolidated subsidiary of Digital Garage Inc.)

(ii) Business of company to which the Company sold investments
Settlement services, etc.
(iii) Date of business transfer
30 March 2012
(iv) Reason of business transfer
A main business segment of Digital Garage Inc. and its consolidated subsidiary (hereinafter referred to as "Digital Garage Group") is the integration of advertising/promotion functions with settlement services. In order for Digital Garage Group to further expand this core business (settlement function), the Group realized that the best option was to make SBI VeriTrans Co., Ltd. (which has an expanding settlement service business both in Japan and the rest of Asia), one of its subsidiaries, thus the Group transferred all its interest in SBI VeriTrans Co., Ltd. to Digital Garage Group.
(v) Other matters including the legal structure of the business separation
Transfer of shares by cash as consideration

(2) Summary of accounting treatment

(i) Gains or losses on the business transfer
Gains on sales of investment securities is ¥8,618 million.
(ii) Assets and liabilities in relation to the business transfer are as follows:

	(millions of Yen)
Current assets	9,139
Non-current assets	970
Total assets	10,110
Current liabilities	7,225
Non-current liabilities	11
Total liabilities	7,237

(iii) Reportable segment including business separated:
Financial service business
(iv) The approximate estimated amount of gain and loss recorded in the consolidated statements of operations of the current fiscal year related to the transferred business are as follows:

Net Sales (millions of Yen)	7,069
Ordinary income (millions of Yen)	895

XIX. SEGMENT INFORMATION

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 the "Asset Management Business," "Brokerage and Investment Banking Business," "Financial Services Business," and "Housing and Real Estate Business" are determined as reportable segments.

The "Asset Management Business" primarily consists of fund management and investment in internet technology, biotechnology, environment energy and finance-related venture companies.

The "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 businesses.

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

The "Housing and Real Estate Business" primarily consists of developing and trading of investment property, financing business related to the granting of mortgage loans, operating websites 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 the same as that adopted in preparation of the consolidated financial statements.

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

3. Information about reportable segments

Year ended 31 March 2011	Reportable segment: Asset Management Business (millions of Yen)	Reportable segment: Brokerage & Investment Banking Business (millions of Yen)	Reportable segment: Financial Services Business (millions of Yen)	Reportable segment: 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 the 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 segment not determined as reportable segments which consist of system-related business, drug discovery business and garment business.

Year ended 31 March 2012	Reportable segment: Asset Management Business (millions of Yen)	Reportable segment: Brokerage & Investment Banking Business (millions of Yen)	Reportable segment: Financial Services Business (millions of Yen)	Reportable segment: 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	34,566	41,485	41,001	22,463	139,517	5,557	145,074
Inter-segment revenue	0	2,297	2,352	2	4,652	3,142	7,794
Total	34,566	43,783	43,354	22,466	144,169	8,699	152,869
Segment operating income (loss)	14,183	3,607	(2,640)	3,383	18,533	(3,348)	15,185
Segment assets	244,449	1,220,172	133,623	118,400	1,716,646	20,429	1,737,075
Other items							
Depreciation	54	3,464	1,444	587	5,550	559	6,109
Amortization of goodwill	251	5,851	517	741	7,361	505	7,866
Investment in subsidiaries and affiliates applying the equity method	4,623	4,829	30,671	—	40,124	121	40,246
Increase in property and equipment, intangible assets	61	4,043	3,882	601	8,588	7,302	15,890

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

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

Net sales	For the years ended 31 March 2011 (millions of Yen)	2012 (millions of Yen)
Total of reportable segments	132,573	**144,169**
Net sales of "Others"	15,631	**8,699**
Elimination among segments	(7,122)	**(7,794)**
Net sales on the consolidated financial statements	141,081	**145,074**

Operating income	For the years ended 31 March 2011 (millions of Yen)	2012 (millions of Yen)
Total of reportable segments	18,534	**18,533**
Losses of "Others"	(1,832)	**(3,348)**
Elimination among segments	(1,765)	**(1,728)**
Headquarters expenses (Note)	(6,004)	**(5,881)**
Operating income on the consolidated financial statements	8,932	**7,575**

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

Assets	For the years ended 31 March 2011 (millions of Yen)	2012 (millions of Yen)
Total of reportable segments	1,359,078	**1,716,646**
Assets of "Others"	16,793	**20,429**
Elimination among segments	(94,348)	**(90,694)**
Headquarters assets (Note)	12,082	**17,433**
Assets on the consolidated financial statements	1,293,606	**1,663,814**

Note: Headquarters assets are principally cash and deposits.

	For the years ended 31 March 2011 (millions of Yen)				2012 (millions of Yen)			
Other items	Total of reportable segments	Others	Amount of adjustment	Total on the consolidated financial statements	Total of reportable segments	Others	Amount of adjustment	Total on the consolidated financial statements
Depreciation	4,502	479	399	5,381	**5,550**	**559**	**346**	**6,456**
Amortization of goodwill	7,381	508	—	7,889	**7,361**	**505**	**—**	**7,866**
Investment in subsidiaries and affiliates applying the equity method	31,870	238	—	32,109	**40,124**	**121**	**—**	**40,246**
Increase in property and equipment, intangible assets	8,440	482	202	9,125	**8,588**	**7,302**	**832**	**16,723**

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

Impairment losses	2011 (millions of Yen)	2012 (millions of Yen)
Asset Management Business	—	**—**
Brokerage & Investment Banking Business	350	**—**
Financial Services Business	150	**105**
Housing and Real Estate Business	—	**128**
Others (Note)	360	**—**
Headquarters expenses and elimination among segments	—	**—**
Total	861	**233**

Note: "Others" consists of healthcare related business.

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

Goodwill	2011 (millions of Yen)	2012 (millions of Yen)
Asset Management Business	4,603	**4,342**
Brokerage & Investment Banking Business	97,878	**91,777**
Financial Services Business	6,144	**6,087**
Housing and Real Estate Business	10,953	**10,629**
Others (Note)	6,717	**9,574**
Headquarters expenses and elimination among segments	—	**—**
Total	126,297	**122,410**

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

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

For the year ended 31 March 2012

Net sales of the Company and consolidated domestic subsidiaries exceeded 90% of the total net sales for the year ended 31 March 2012. Therefore, geographical information regarding net sales for the year ended 31 March 2012 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 and 2012 in the consolidated balance sheet. 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

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

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 director 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 sales price was determined in consideration of the price of transaction with an independent third party. The payment term was a one-time cash disbursement.

For the year ended 31 March 2012

There were no transactions with the executives and main individual shareholders of the Group in the year ended 31 March 2012.

2. Significant affiliate information

Summarized financial information of SBI Sumishin Net Bank, Ltd., which was a significant affiliate for the years ended 31 March 2011 and 2012, is as follows:

	As at 31 March	
	2011	2012
	(millions of Yen)	(millions of Yen)
Total assets	1,696,189	**2,378,386**
Total liabilities	1,654,961	**2,334,983**
Net assets	41,227	**43,403**
Ordinary income	29,054	**34,616**
Income before income taxes	3,534	**5,611**
Net income	3,528	**5,165**

XXI. NOTES TO PER SHARE INFORMATION

	Year ended 31 March	
	2011	2012
	(Yen)	(Yen)
Net assets per share	19,610.64	**18,489.18**
Net income per share	236.09	**145.58**
Diluted net income per share	225.74	**140.64**

Notes:

1. Basis of calculation for net assets per share

	Year ended 31 March	
	2011	2012
	(millions of Yen)	(millions of Yen)
Total net assets	456,982	**468,579**
– Stock acquisition rights	(11)	**(10)**
– Minority interest	(66,142)	**(61,636)**
Total deducted amount from net assets	(66,154)	**(61,646)**
Net assets attributable to common shareholders at the end of the year	390,828	**406,932**
The number of common shares outstanding at the end of the year	19,929,397	**22,009,210**

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

	Year ended 31 March	
	2011	2012
	(millions of Yen)	(millions of Yen)
Net income per share		
Net income for the year	4,534	**3,200**
Net income not attributable to common shareholders	—	**—**
Net income attributable to common shareholders	4,534	**3,200**
Average number of common shares outstanding during the year	19,207,974	**21,986,056**
Diluted net income per share		
Adjustment to net income for the year	(194)	**(107)**
Effect of dilutive shares issued by consolidated subsidiaries	(194)	**(107)**
Increase in number of common shares	20,501	**5,247**
Increased by exercising acquisition right	20,501	**5,247**

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

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

For the year ended 31 March 2012: Stock acquisition rights issued by the stock option plan (Potential shares: 222,740 shares)

XXII. INFORMATION FOR THE SCOPE OF CONSOLIDATION

For the year ended 31 March 2012

(1) Number of consolidated subsidiaries: 118

Names of main consolidated subsidiaries are listed in Section of Corporate Information

As compared with the year ended 31 March 2011, there were 29 additions to and 23 exclusions from the scope of consolidation.

- Additions—20 entities were newly established or acquired

—SBI China Co., Ltd.
—SBI-R&D Investment LPS
—SBI PHOENIX No. 1 Investment LPS
—SBI Value Up Fund No. 2 Investment Limited Partnership
—Shinsai Partners Inc. and 15 other entities

- Additions—9 entities were newly consolidated due to the increased significance of the respective entities

—SBI Hong Kong Holdings Co., Limited (SBI Hong Kong Co., Limited changed its name to SBI Hong Kong Holdings Co., Limited on 9 March 2012.)
—SBI Royal Securities Plc. (SBI Phnom Penh Securities Co., Ltd. changed its name to SBI Phnom Penh Securities Plc. on 17 November 2011, and changed its name to SBI Royal Securities Plc. on 16 January 2012.)
—SBI Fund Bank Co., Ltd.
—SBI Remit Co., Ltd. and 5 other entities

- Exclusions—10 entities were deconsolidated due to mergers including:

—SBI Property Advisors Co., Ltd. and 9 other entities

- Exclusions—10 entities were deconsolidated due to share sales including:

—SBI VeriTrans Co., Ltd.
—HOMEOSTYLE, Inc. and 8 other entities

- Exclusions—3 entities were deconsolidated due to liquidations including:

—SBI Mezzanine Fund No. 1 LIMITED PARTNERSHIP and 2 other entities

(2) Name of main non-consolidated subsidiary and basis for exclusion from scope of consolidation

- Name of main non-consolidated subsidiary:

—Searchina Co., Ltd.

- Basis for exclusion from scope of consolidation

  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.

(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) and basis for exclusion from scope of consolidation:

- Name of the entities:

—NARUMIYA INTERNATIONAL Co., Ltd. and 4 other entities.

- Basis for exclusion from scope of consolidation

  These investments were made with the purpose of fostering venture capital portfolio companies and the Group has no intention to control the entities.

XXIII. INFORMATION FOR THE SCOPE OF EQUITY METHOD APPLICATION

For the year ended 31 March 2012

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

Name of the entity:

—SBI Japannext Co., Ltd.

(2) Number of affiliates accounted for using the equity method: 20

Name of main entities:

—SBI Sumishin Net Bank, Ltd.
—SOLXYZ Co., Ltd.
—SBI Investment KOREA Co., Ltd.

As compared with the year ended 31 March 2011, there were 13 additions to 1 exclusions from the scope of equity method application.

- Additions—Main affiliates for which the equity method is newly applied are as follows: They were newly incorporated or acquired during the current year.

—FPT Securities Joint Stock Company

—Commercial Bank <<Ob’edinennyi Investitsionnyi Bank>> (limited liability company)

—PT BNI SECURITIES

—CSJ-SBI Financial Media Co., Ltd.

—KLab Ventures Co., Ltd. (Startup Laboratory Co., Ltd. changed its company name to KLab Ventures Co., Ltd. on 15 February 2012.)

• Exclusion—1 affiliate of SBI VeriTrans Co., Ltd. was excluded from the scope of equity method application due to the share sales of SBI VeriTrans Co., Ltd.

(3) Name of main non-consolidated subsidiaries and affiliates that are not accounted for using the equity method and basis for not applying the equity method:

• Name of the entities:

—Searchina Co., Ltd.

—NEW HORIZON PARTNERS LTD.

• Basis for not applying the equity method

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 the equity method.

(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) and basis for not applying the equity method:

• Name of main entities:

—Venture Revitalize Investment, Inc. and other 50 entities

• Basis for not applying the equity method

These investments were made with the purpose of fostering venture capital portfolio companies and the Group has no intention to exert influence over the entities.

XXIV. INFORMATION FOR DIFFERENT BALANCE SHEET DATES OF CONSOLIDATED SUBSIDIARIES

For the year ended 31 March 2012

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

Consolidated subsidiaries whose balance sheet date is 31 December

—SBI Hong Kong Holdings Co., Limited. and 55 other entities (47 entities in 2011)

Consolidated subsidiaries whose balance sheet date is 30 November

—SBI Value Up Fund No. 1 Limited Partnership and 4 other entities (5 entities in 2011)

Consolidated subsidiaries whose balance sheet date is 30 September

—Softbank Internet Fund and 2 other entities (3 entities in 2011)

Consolidated subsidiaries whose balance sheet date is 31 August

—SBI BROADBAND CAPITAL Co., Ltd. and 1 other entity (3 entities in 2011)

Consolidated subsidiaries whose balance sheet date is 30 June

—SBI BROADBAND FUND No. 1 LIMITED PARTNERSHIP (2 entities in 2011)

Consolidated subsidiaries whose balance sheet date is 31 January

—SBI Mezzanine Fund No. 2 and 4 other entities (6 entities in 2011)

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 reporting entity.

XXV. EVENTS AFTER THE REPORTING PERIOD

Stock split, adoption of share unit system and partial amendment to the articles of incorporation

At the Company’s 14th business year’s shareholders meeting held on 28 June 2012, the adoption of a share unit system and partial amendment to the articles of incorporation were resolved.

In addition, at the Board of Directors’ meeting held on 26 April 2012, the implementation of a stock split was resolved subject to the above shareholder’s approval on the partial amendment to the articles of incorporation.

1. The purpose of the stock split, adoption of a share unit system and the partial amendment to the articles of incorporation

Based on the requests from the Japanese Stock Exchanges Conference to define the trading unit at 100 or 1,000 shares, the Company determined to adopt a share unit system and prescribed the share unit as 100 shares.

Since the Tokyo Stock Exchange set the preferable range of investment at ¥50,000 or more and less than ¥500,000 in accordance with Article 445 of the Listing Rule, the Company determined to conduct a 10 for 1 stock split to meet the aforementioned range considering the recent stock price.

2. The outline of the stock split

The stock split will be conducted at the rate of 10 shares for each outstanding share based on the shareholders registered as at 30 September 2012.

3. The adoption of a share unit system

Share units will be prescribed as 100 shares.

The adoption of a share unit and stock split would result in holders of shares with less than a unit. The Company will establish a system to enable shareholders with less than one share to demand the Company to purchase their shares that are less than one unit or to sell the shares to make the shares into a unit effective from on or after 1 October 2012.

4. The effective date of the stock split and the adoption of the share unit

The effective date of the stock split and the adoption of the share unit will be on 1 October 2012.

If the above stock split was conducted at the beginning of the year ended 31 March 2011, the per share information for the year ended 31 March 2011 and 2012 would have been as follows:

	Year ended 31 March	
	2011 (Yen)	**2012 (Yen)**
Net assets per share	1,961.06	**1,848.92**
Net income per share	23.61	**14.56**
Diluted net income per share	22.57	**14.06**

XXVI. CONSOLIDATED SUPPLEMENTARY SCHEDULES

For the year ended 31 March 2012

1. Supplementary schedules of bonds payable

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)	May 2010 to December 2011	70,000	60,000 (60,000)	1.66–1.90	None	May 2011 to December 2012
SBI Holdings, Inc.	No. 4 Unsecured straight bond	30 January 2012	—	30,000	2.16	None	30 January 2015
SBI Life Living Co., Ltd.	No. 1 Unsecured straight bond (Note 3)	30 December 2010	600	540 (60)	TIBOR +0.1	Bank guarantee	30 December 2020
Total			70,600	90,540 (60,060)			

Notes:

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

(2) Total amounts of straight bond in Japanese Yen issued based on the Euro medium-term note program are stated above.

(3) Collateral is provided for the bank guarantee.

(4) Annual maturities of long-term bonds payable including the current portion as at 31 March 2012 for the next five years are as follows:

Within one year (millions of Yen)	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)
60,060	**60**	**30,060**	**60**	**60**

2. Supplementary schedules of loans payable and others

Description	Balance as at prior year end (millions of Yen)	Balance as at current year end (millions of Yen)	Average interest rate (%)	Repayment date
Short-term loans payable	97,164	103,915	1.18	—
Current portion of long-term loans payable	12,147	19,888	1.41	—
Current portion of lease obligation	2,114	1,799	—	—
Long-term loans payable (excluding current portion)	31,366	16,765	2.02	March 2013 to February 2017
Lease obligation (excluding current portion)	6,506	4,185	—	May 2013 to August 2017
Other interest bearing debt				
Borrowings on margin transactions	70,386	76,007	0.77	—
Total	219,685	222,562		

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 is not stated since the part of lease obligation on the balance sheet includes interest portion of minimum lease payments.
(3) Annual maturities of long-term loans payable and lease obligation, excluding the current portion, as at 31 March 2012 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 loans payable	2,936	6,161	6,970	697
Lease obligation	1,784	1,447	812	137

3. Supplementary schedules of the asset retirement obligation

As the amounts of the asset retirement obligation as at 31 March 2011 and 2012 were less than 1% of total liabilities and net assets, the breakdown of the asset retirement obligation was omitted in accordance with Article 92–2 of the Consolidated Financial Statements Rule.

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

Management, with the participation of Yoshitaka Kitao, Representative Director, and Shumpei Morita, Chief Financial Officer, is 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 Revision 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, 2012, 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 30 subsidiaries and affiliates (including 1 equity-method affiliate) which represent all the significant locations or business units, in principle, management determined the reasonable scope of assessment. Management eliminated subsidiaries or affiliates from the scope of assessment that were 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, the significant 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 significant 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 "Net sales," "Cost of sales," "Cash segregated as deposits," "Operational investment securities," "Real estate inventories," "Trading instruments," "Margin transaction assets," "Investment securities," "Deposits from customers," "Margin transaction liabilities," "Guarantee deposits received," and so on.

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

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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. and its consolidated subsidiaries (collectively referred to as the "Group") which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year 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 audit. We conducted our audit 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 March 31, 2012, and their financial performance and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Deloitte Touche Tohmatsu LLC

June 28, 2012

Member of
Deloitte Touche Tohmatsu Limited