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

	Year Ended March 31, 2011 (From April 1, 2010 to March 31, 2011)		Year Ended March 31, 2012 (From April 1, 2011 to March 31, 2012)	
Segment	Millions of Yen	%	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/.