MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of Business Results for the Fiscal Year

During the fiscal year ended March 31, 2013, the business environment surrounding the Group continued to be weak in the domestic market, but stock prices started to increase from November 2012. Individual stock brokerage trading value on three major markets, Tokyo, Osaka and Nagoya, in the fourth quarter (from January to March 2013) achieved a high level of 2.4 times that of the third quarter (from October to December 2012) and annual trading value increased 38% since last year.

In overseas markets, while growth recessions in some emerging countries, the U.S. economy's ongoing gradual recovery shows signs of a hopeful future. The Group's consolidated results of operations for the fiscal year ended March 31, 2013 were as follows. Operating revenue declined 13.5% year-on-year to ¥153,476 million, operating income decreased 5.4% to ¥16,577 million, profit before income tax expense declined 8.9% to ¥14,213 million and profit attributable to owners of the Company increased 955.9% to ¥3,202 million.

(Financial Service Business)

Operating revenue in the Financial Service Business rose 3.8% year-on-year to ¥113,340 million, and profit before income tax expense rose 78.5% year-on-year to ¥18,741 million. SBI SECURITIES Co., Ltd. maintained a stable expansion in its customer base with 220,930 new accounts opened during the fiscal year ended March 31, 2013 and the total account number reaching 2,608,716 at year-end. The consolidated financial performance of SBI SECURITIES Co., Ltd. for the fiscal year ended March 31, 2013 (under "JGAAP"*) resulted in operating revenue of ¥43,401 million (a 9.2% year-on-year increase) and operating income of ¥11,478 million (a 52.4% year-on-year increase), which primarily resulted from the growth in commission income due to an increasing trend since December 2012 in individual brokerage fees. SBI Insurance Co., Ltd. continued to achieve growth in the number of contracts for car insurance, which resulted in ordinary revenue of ¥19,164 million (a 37.3% year-on-year increase), though the corresponding increase in provision of statutory reserve still led to an ordinary loss under "JGAAP."

SBI Sumishin Net Bank, Ltd., accounted for using the equity method, achieved a total deposit balance of ¥2,691 billion with the number of accounts reaching 1,647 thousand. The consolidated financial performance of SBI Sumishin Net Bank, Ltd. under JGAAP resulted in ordinary revenue of ¥40,204 million (a 16.1% year-on-year increase), ordinary income of ¥7,903 million (a 36.4% year-on-year increase) and net income of ¥4,779 million (a 7.3% year-on-year decrease), mainly due to growth in income tax expense which resulted from elimination of tax loss carryforwards.

*("JGAAP" refers to accounting principles generally accepted in Japan)

(Asset Management Business)

Operating revenue in the Asset Management Business fell 43.2% year-on-year to ¥32,202 million, and profit before income tax expense fell 69.6% year-on-year to ¥5,450 million. Due to the European sovereign debt problem and stagnation in growth of emerging markets, the number of IPO cases worldwide decreased sharply by 382 to 751 cases for the fiscal year ended March 31, 2013, however, the domestic market continued to show signs of recovery with the number of IPO cases increased by 17 reaching 54 cases, among which the Group was involved in 9 IPO and M&A cases in the domestic market and 3 in the overseas market under its Asset Management Business. Operating revenue and operating income decreased by comparison with those of last year, primarily due to a large gain on sales of stocks of KLab Inc. and VSN, Inc. recorded in the fiscal year ended March 31, 2012, however, with sound improvements in corporate value of promising investees and a significant upturn in the stock market since November 2012, the second half of the year achieved profound improvement in both operating revenue and operating income, compared with the first half, regardless of the large loss recorded on valuation of several unlisted stocks.

(Biotechnology-related Business)

Operating revenue in the Biotechnology-related business rose 104.3% year-on-year to ¥970 million, and profit before income tax expense was a loss of ¥3,900 million. SBI Pharmaceuticals Co., Ltd. has obtained manufacturing and marketing approval for the orally-administered *in vivo* diagnostic agent "ALAGLIO®" for Malignant Glioma, made using 5-aminolevulinic acid ("5-ALA"), in March 2013, and also finished a Phase III clinical trial for intraoperative diagnosis drug for bladder cancer in its domestic operations. As for overseas, SBI Pharmaceuticals has started a Phase I clinical trial on a formulation for treating anemia caused by cancer chemotherapy in the U.K. and is planning to also start a Phase II clinical trial in the U.S. after the conclusion of the Phase I trial. At the same time, SBI Pharmaceuticals Co., Ltd. worked closely with the government of Bahrain, as its base in the Middle Eastern countries to develop a business framework concerning 5-ALA related clinical research, drug development, manufacturing and exports. SBI Biotech Co., Ltd. acquired the U.S. company, Quark Pharmaceuticals, Inc. as a wholly owned subsidiary in December 2012. The acquisition will strengthen R&D capabilities and improve operating efficiency by producing synergies and integrating management resources, as well as accelerate R&D on promising drug pipelines held by both parties.

Cash Flows

As of March 31, 2013, total assets amounted to ¥2,494,387 million and increased by ¥838,819 million from total assets of ¥1,655,568 million as of March 31, 2012. This increase was attributable primarily to acquisition of shares of Hyundai Swiss Savings Bank in March 2013, which thereafter became a subsidiary. The Group's equity increased ¥8,630 million to ¥360,535 million from the balance as of March 31, 2012. As of March 31, 2013, the Group's cash and cash equivalents amounted to ¥133,362 million a decrease of ¥26,471 million from that of ¥159,833 million as of March 31, 2012. The changes in cash flows for each activity and the reasons for changes are as follows:

(Operating Cash Flows)

Cash flows used in operating activities amounted to ¥36,984 million of net cash outflows (¥9,818 million of net cash inflows for the fiscal year ended March 31, 2012). The net cash outflows were primarily due to ¥72,300 million cash outflows for increase in assets/liabilities related to securities business, despite ¥14,213 million cash inflows for profit before income tax expense, ¥10,614 million cash inflows for decrease in accounts receivables and other receivables and ¥14,167 million cash inflows for increase in operational liabilities and other liabilities.

(Investing Cash Flows)

Cash flows used in investing activities amounted to ¥19,060 million of net cash outflows (¥16,021 million of net cash outflows for the fiscal year ended March 31, 2012). The net cash outflows were primarily due to ¥18,451 million cash outflows for acquisition of subsidiaries, net of cash and cash equivalents acquired.

(Financing Cash Flows)

Cash flows from financing activities amounted to ¥25,699 million of net cash inflows (¥7,387 million of net cash inflows for the fiscal year ended March 31, 2012). The net cash inflows were primarily due to ¥32,305 million cash inflows for increase in short term loans payable and ¥28,437 million cash inflows for proceeds from long-term loans payable despite ¥42,968 million cash outflows for repayment of long-term loans payable.

Material Differences from JGAAP

(1) Reclassification from JGAAP of operating revenue and operating expense

Under IFRSs, no revenue or expense items may be presented as extraordinary items in the statement of income, and items that express the amounts of finance costs and equity in earnings of affiliates must be included in the statement of income.

In addition, the total amount of interest income and expense related to financial assets measured at amortized cost or financial liabilities other than financial liabilities measured at fair value through profit or loss shall be either disclosed in the consolidated statement of income or in the notes.

Furthermore, in order to disclose appropriately the financial performance of the Group, which operates various businesses including the financial business, revenues presented as “Net sales,” “Non-operating income” and “Extraordinary income” under JGAAP, except for the investment gains on equity method, and the financial income that cannot be allocated to certain segments, are reclassified into operating revenue in the consolidated statement of income prepared in accordance with IFRSs (hereinafter “operating revenue under IFRSs”).

Due to these reclassifications, operating revenue under IFRSs for the year ended March 31, 2012 and 2013 increased by ¥16,161 million and ¥10,059 million, respectively, compared to the “Net sales” under JGAAP.

In addition, expenses presented as “Cost of sales,” “Selling, general and administrative expenses,” “Non-operating expense” and “Extraordinary expense” under JGAAP except for the investment losses on equity method and the financial expenses which cannot be allocated to certain segments are reclassified into operating expense in the consolidated statement of income prepared in accordance with IFRSs (hereinafter “operating expense under IFRSs”).

Due to these reclassifications, operating expense under IFRSs for the year ended March 31, 2012 and 2013 increased by ¥6,830 million and ¥5,456 million, respectively, compared to the total amount of “Cost of sales” and “Selling, general and administrative expenses” under JGAAP (hereinafter, “operating expense under JGAAP”).

(2) GAAP difference of operating revenue other than reclassification

(a) Scope of consolidation

Under JGAAP, when investment companies such as venture capital companies invest operationally to stock or equity of other companies to acquire capital gains through corporate revitalization and business development even if controlling the organization for decision making of the other company, the company may not be recognized as a subsidiary. On the other hand, under the same conditions, IFRSs requires investment companies to include the other company within the scope of consolidation when controlling the other company.

Due to the scope of consolidation being expanded under IFRSs, operating revenue under IFRSs for the year ended March 31, 2012 and 2013 increased by ¥34,600 million and ¥23,840 million, respectively.

(b) Profit or loss regarding evaluation of financial instruments

Under JGAAP, listed available-for-sale securities were 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, while unlisted available-for-sale securities were principally stated at cost less impairment, determined by the moving average cost method.

Thus, except for the case of significant decline in fair value, no valuation loss is recorded.

In addition, the Group provided allowance for investment losses for operational investment securities and investment securities based on the estimated losses of the investments considering the financial condition of the investees. Substantially, only the downside of the valuation difference was evaluated and the related losses were recorded.

As a result of the application of IFRS 9, financial instruments are measured at fair value through profit or loss except for the financial instruments designated as financial instruments at FVTOCI at initial recognition, and the valuation gain or loss of equity securities including unlisted securities are recorded in the operating revenue.

(c) Changes in ownership interests in subsidiaries without losing control

Under IFRSs, changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control are accounted for as capital transactions, with no recognition of gain or loss.

(d) Approximate amount of GAAP difference between operating revenue under IFRSs and net sales under JGAAP other than reclassification

Except for the impact from reclassification discussed in (1), due to the GAAP differences including (2) (a) to (c) operating revenue under IFRSs for the year ended March 31, 2012 and 2013 increased by ¥16,174 million and ¥26,823 million, respectively, compared to the "Net sales" under JGAAP.

(3) GAAP difference of operating expense other than reclassification

(a) Scope of consolidation

As described in (2) (a), due to the scope of consolidation being expanded under IFRSs, operating expense under IFRSs for the year ended March 31, 2012 and 2013 increased by ¥34,991 million and ¥24,004 million, respectively.

(b) Impairment and amortization of goodwill and negative goodwill

Under JGAAP, goodwill is generally amortized over an estimated useful life of up to 20 years and shall be tested for impairment if there is an indication that the asset may be impaired, and consequently not required to be tested for impairment every fiscal year.

Under IFRSs, goodwill is required to be tested for impairment regardless of an indication of impairment, instead of no periodical amortization.

(c) Insurance contract

Under JGAAP, an insurance company newly established may defer the business expenditure incurred within 5 years after establishment, recorded as deferred assets, which can be amortized within 10 years through profit or loss in conformity with Article 113 of Insurance Business Act. Under IFRSs, those business expenditures do not meet the recognition criteria. Thus, no deferred assets are recorded and those expenditures will be recognized as expense at the time of occurrence.

(d) Approximate effect amount of GAAP difference between operating expense under IFRSs and JGAAP other than reclassification

Except for the impact from reclassification discussed in (1), operating expense under IFRSs for the year ended March 31, 2012 and 2013 increased by ¥15,777 million and decreased by ¥881 million, respectively, compared to the operating expense under JGAAP.

(4) Income tax expense

(a) Scope of consolidation

As discussed in (2) (a), due to the scope of consolidation being expanded under IFRSs, income tax expense under IFRSs for the year ended March 31, 2012 and 2013 increased by ¥415 million and ¥306 million, respectively, compared to the amount under JGAAP.

(b) Tax effect related to unrealized gain or loss

Since unrealized gains or losses arising from intercompany transactions are eliminated in consolidation, a temporary difference between book value for accounting purposes and book value for tax purposes occurs.

Under JGAAP, tax effects in relation to elimination of intragroup unrealized gain are recognized as deferred tax assets paid by the seller, and the tax effects in relation to elimination of intragroup unrealized loss, which is deducted in the calculation of taxable income, are recognized as deferred tax liabilities by the seller.

On the other hand, under IFRSs, tax effects in relation to elimination of intragroup unrealized gain are recognized as deferred tax assets by the buyer considering the recoverability and calculated using the buyer's tax rate. Tax effects in relation to intragroup unrealized loss shall be recognized as deferred tax liabilities with some exceptions.

(c) GAAP difference between IFRSs and JGAAP related to income tax expense

Due to the GAAP differences including (4) (a) and (b), income tax expense under IFRSs for the year ended March 31, 2012 and 2013 increased by ¥920 million and ¥6,273 million, respectively, compared to the amount under JGAAP.

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 the 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 Financial Services 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 lineup and strengthen foreign exchange transactions in order to achieve diversification of revenue sources and further enhance its call center operations that receive high recognition from evaluating agencies in heightening its service level even more. SBI Liquidity Market Co., Ltd., which began its operation in November 2008, provides not only liquidity but convenient and competitive market infrastructure for FX transactions to SBI SECURITIES Co., Ltd., SBI Sumishin Net Bank, Ltd., and SBI FXTRADE Co., Ltd., which started operations in May 2012. The firm will make improvements to the transaction environment, enhance liquidity, and focus on building further cost-effective, secure and safe FX transaction environment with a view to providing its services to overseas private investors. We also established

SBI Sumishin Net Bank, Ltd. and SBI Insurance Co., Ltd. during 2007 to 2008 for undertaking new businesses in our aim to build an earning structure that does not depend solely on the stock markets. It is our key objective to further develop these businesses by provoking stronger synergistic effects among the Group companies. For certain financial products, online sales alone are not sufficient, and there is a need for face-to-face consultations to explain the products to the customer directly. SBI MONEY PLAZA Co., Ltd., which provides a one-stop response to all customers needs for asset management, insurance and housing loans, will take the lead in developing the operation of the SBI Group's face-to-face channels.

In the Asset Management Business, we recognize that a high priority lies in expanding our investments in emerging countries, primarily in Asia, and establishing an effective investment system. The Company will pursue setting up funds jointly with our leading local partners while monitoring the economic conditions of such countries as we continue to push establishment and penetration of our global network. We pursue private equity investment by identifying targets and concentrating our investments in growth areas with the aim to contribute in developing industries while benefiting from high investment performance. The Group will continue to invest in four key areas of IT, biotechnology, environment and energy, and finance going ahead. In the financial sectors, we will transfer the know-how of the Group and pursue direct investment in overseas financial institutions by which we can expect to enhance the value of corporations we invest in. The Group will also invest in promising domestic small and medium-sized corporations through operating buy-out 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 Biotechnology-related Business which was determined as a new reportable segment from the beginning of this fiscal year, the Group conducts sales of health foods and cosmetics that contain 5-aminolevulinic acid (5-ALA), and SBI Pharmaceuticals Co., Ltd. carries out research and development of pharmaceutical products using 5-ALA. Research activities have recently been extended in domestic and foreign universities and research institutes to discover new applications of 5-ALA, and we strive to develop the products that serve customer's healthy and enjoyable life focusing on 5-ALA with possible applications in a wider range of fields. SBI Biotech Co., Ltd. dedicates its efforts to developing new pharmaceutical products using the most advanced biotechnology in collaboration with leading research institutes around the world.

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

The Group recognizes that continuous enhancement of human resources is an essential group-wide initiative. It has become increasingly important to secure highly competent individuals that support the rapid expansion of our businesses and to continue developing the skills of our employees. For this purpose, we have been exerting greater efforts in hiring excellent individuals who are willing to share the management philosophy of the Group as well as recruiting university graduates to secure human capital for passing on the Group's unique corporate culture from one generation of employees to the next. The Group started recruiting university graduates in April 2006, and they already play an active role in various business fields and are expected to be one of the future leaders of the Group. 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.

Forward-looking statements provided herein are based on judgments of the Company as of June 27, 2013.

Risk

The following principal categories of business risks and other risks affecting our Group's business may have a material impact on your 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 content about the future but it is considered as of June 27, 2013.

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 the Financial Services Business, Asset Management Business, Biotechnology-related Business and other businesses. Our Group also comprises 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 annual general meeting 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 materialise

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 customers 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 customers 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 rumours even if we have no fault. It could have an adverse effect 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 business restructurings including acquisitions of one-hundred percent ownership through the share exchange, we intend to aggressively pursue business expansion, including mergers and acquisitions of businesses that we believe offer favourable synergies with our core businesses. We face the risk that our restructurings 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 acquisitions candidates. Even if we do identify suitable investment opportunities, partners or acquisitions 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 other 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.

Furthermore, on March 2013, we acquired additional shares of Hyundai Swiss Savings Bank which we held as investment for income/capital gain. In the meantime, we acquired shares of Hyundai Swiss 2 Savings Bank, subsidiary of Hyundai Swiss Savings Bank, on March 2013. So, Hyundai Swiss Savings Bank and its subsidiaries (the Hyundai Swiss Group) have become subsidiaries of our Group. We subscribed capital increases of the two banks when they were required to enhance governance and improve capital adequacy ratios under government-led tightening of regulations and promotions of restructurings in Korean savings bank business.

We are now preceding enhancement of governance, such as dispatch of responsibility person. We plan to improve business valuation of Hyundai Swiss Group by increasing earning capacity through business alliances with our Group, but Hyundai Swiss Group is exposed to several risks for banking business in Korea, such as condition of real estate market or economic trend in Korea. Therefore, if enhancement of governance and increasing of earning capacity are unable to perform as expected, it could have an adverse effect on our financial condition and results of operations. In addition, we may be required to invest into Hyundai Swiss Group additionally for keeping their capital adequacy ratios properly through strengthening their assets prudentially. Therefore, it could have an adverse effect on 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 Financial Services Agency (FSA). As a result, we are further strengthening its risk management and compliance systems in order to maintain financial soundness, and to conduct business activities properly. However, if we are subject to an administrative action or other punishment by FSA, for whatever reason, we may have difficulty conducting its 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 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 on-going basis. While we cannot predict the outcome of any pending or future litigation, given the inherent unpredictability of litigation, it is possible that an adverse outcome in any one or more matters could have an adverse effect on our financial condition and results of operations.

11) Risk relating to risk management and internal control

We have established risk management and internal control systems and procedures. Certain areas within our risk management and internal control systems may require constant monitoring, maintenance and continual improvements by our senior management and staff. If our efforts to maintain these systems are provided to be ineffective or inadequate, we may be subject to sanctions or penalties and our 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 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 favourable 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 honour 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 dividends 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 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 operating our businesses, such event could adversely affect our financial condition and results of operations. Any remedial action adopted by management to deal with a loss of key personnel may not take effect immediately or at all.

16) Risks relating to employees

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

17) Risks relating to trademarks and other intellectual property rights

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

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

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

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

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

19) Risks relating to 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 the portion of recorded deferred tax assets in respect of temporary differences and losses carried forward that is more likely than not to remain unrealized. Loss carried forward can be posted as deferred tax assets to the extent of the amount recoverable, and our 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 honoured 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 total equity is 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, in addition to foreign currency risks, we also 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 those for investor protection, and may incur increased expenses or restrictions on our business to comply with those laws and regulations. In addition, fund-raising by means such as borrowing from overseas financial institutions or the issuance of corporate bonds overseas for the purpose of hedging foreign exchange risk may increase. 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 above, application of laws and regulations in overseas countries, such as Bribery Act 2010 in UK and The Foreign Corrupt Practices Act in 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 for 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.

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