

# Boldly Taking Up New Challenges to Maximize Corporate Value

Since our founding in 1999, the SBI Group has adhered to the “Customer-centric Principle” and continuously provided highly competitive products and services that take maximum advantage of the Internet.

As a result, the Group’s customer base has expanded to more than 15 million, and the SBI Group is now in the process of transforming itself from “Japan’s SBI” to the “World’s SBI.”

We will continue to adhere to the “Customer-centric Principle,” as we endeavor to introduce more innovative services and businesses in pursuit of the maximization of corporate value, defined as the sum total of customer value, shareholder value, and human capital value, as we continue to grow as a global company.

Representative Director,  
President & CEO

**Yoshitaka Kitao**

## The Driving Growth Forces

The Group owes its dramatic growth to three fundamental business-building concepts that have become the driving growth forces.

### 1 Tracking the Major Trends

a) Growth acceleration of the Internet finance business driven by the continued evolution and enhancement of the Internet

The SBI Group, founded in 1999, has accelerated its

business growth by identifying and capitalizing on two major trends, the Internet revolution and financial deregulation. SBI SECURITIES is the clear leader amongst Japan’s online securities companies in the number of accounts and customers’ deposit assets, has the highest share of individual stock trading value amongst all Japanese securities companies, and is solidifying its customer base. SBI Sumishin Net Bank is achieving rapid growth, becoming the first Internet bank with a balance of deposits exceeding ¥3.0 trillion in July 2013. SBI Insurance is growing rapidly as well, with the number of auto

insurance contracts topping 500,000 as of the end of December 2012.

#### **b) Concentrated investments into growth industries of the 21st century in a post-industrial society**

For Japanese companies, a major trend crucial to future growth is the transition of Japan's industrial structure to a post-industrial society. To capitalize on this trend, the SBI Group, in its role as a "New Industry Creator," is making concentrated investments in 21st century growth industries, including the Internet, biotechnology and life science, and the environment and alternative energy.

At the same time, the SBI Group itself has founded IT companies in the Internet sector, with a focus on Internet finance, and has entered biotechnology businesses through SBI Biotech, SBI Pharmaceuticals, and SBI ALApromo.

#### **c) Accelerating overseas business development focusing on dramatic Asian growth**

Another major trend crucial to future growth is the rise of emerging countries and the coming of the Asian century. Since the global economic crisis triggered by the collapse of Lehman Brothers in 2008, Asia has become more prominent in the world economy with respect to economic scale and promise for the future. Accordingly, we have set up funds in joint ventures with prominent financial groups, government-affiliated investment institutions, and the investment arms of universities in countries around the world, thereby building a global investment structure covering a wide region with a focus on emerging countries.

In addition, we have acquired equity stakes in overseas financial institutions, namely banks, securities companies, and insurance companies, to engage in overseas financial services businesses, primarily in Asia.

## **2 Formation of a "Business Ecosystem" and the Establishment of "Structural Differentiation"**

Two propositions applicable to complex systems provided an important hint to me at the time of the founding of the SBI Group: "The whole is greater than the sum of the parts" and "The whole has new

qualities that an individual part cannot perceive." These propositions gave me the idea that a business ecosystem, a new form of organization, should be developed in order to realize high growth potential from synergies and mutual evolution that cannot be accomplished by a stand-alone company.

In the Internet era, a single company cannot successfully compete on its own. The development of a business ecosystem is the most effective and powerful means of structural differentiation, and is essential for realizing an overwhelming competitive advantage. Additionally, the formation and development of a business ecosystem promotes positive synergies among the constituent companies. This process also creates a mutual evolution process in each company's market to support rapid growth.

In keeping with this way of thinking, the SBI Group has established a business ecosystem, and become a globally unique Internet-based financial conglomerate. The Group has fully demonstrated the synergies I anticipated, and has achieved dramatic growth. A prime example of this is that the service collaboration between SBI SECURITIES and SBI Sumishin Net Bank is highly appreciated by customers, and accordingly these companies are building overwhelmingly powerful positions in the Internet securities and Internet banking industries, respectively.

## **3 Adherence to the "Customer-centric Principle"**

Since its founding, the SBI Group has adhered to the "Customer-centric Principle," and exhaustively pursued services truly grounded in the customer's perspective, such as the provision of services with more favorable fees and interest rates, at a glance comparison of financial products, attractive investment opportunities, highly safe and reliable services, and a wealth of high-quality financial content.

As a result, SBI SECURITIES, SBI Sumishin Net Bank, and SBI Insurance have all received high ratings in customer satisfaction surveys conducted by third-party evaluation organizations, which has contributed to the establishment of the Group customer base of more than 15 million.

# Rapid Recovery in the Second Half of FY2012

The bold monetary easing launched at the end of 2012 by Japan's new government and other factors have led to the correction of the extreme appreciation of the yen, and an upturn in stock prices and heightened expectations for an economic recovery. In the Japanese stock market, total individual stock brokerage trading value of the three major markets (Tokyo, Osaka, and Nagoya) in the fourth quarter (January to March 2013) was 2.4 times the level of the third quarter (October to December 2012), partly as a result of the easing of margin trading regulations in January 2013.

## Performance Improvement in FY2012

For the FY2012 consolidated business results, when the Company adopted International Financial Reporting Standards (IFRSs), operating revenues decreased 13.5% year-on-year to ¥153.5 billion, operating income decreased 5.4% to ¥16.6 billion, and profit before income tax expense decreased 8.9% to ¥14.2 billion, while profit attributable to owners of the Company increased 955.9% to ¥3.2 billion.

Comparing the financial results by segment in the first half (April to September 2012) and the second half (October 2012 to March 2013) of FY2012 shows rapid recovery in results in the Financial Services Business and Asset Management Business, accompanying the recovery in the market environment since the end of 2012. Profit before income tax expense in the second half was ¥14.9 billion, 283.2% higher than in the first half, for the Financial Services Business, and ¥5.0 billion or 938.8% higher, in the Asset Management Business. In the Biotechnology-related Business, loss before income tax expense in the second half was ¥2.7 billion, compared to a loss of ¥1.2 billion in the first half. Profit before income

tax expense from other businesses was ¥1.0 billion in the second half, up 56.7% from the first half.

## Organizational Restructuring to Realize the “World’s SBI”

In FY2012, we implemented a reorganization of the Group. We clearly delineated the Asset Management Business, which may experience greater fluctuations in periodic profit and loss following the adoption of IFRSs, from the other businesses. In addition, we put in place a more efficient operating structure by integrating the former Brokerage & Investment Banking Business and Financial Services Business, previously classified as separate segments, to form the Financial Services Business.

Furthermore, we have positioned the Biotechnology-related Business as a core business, which is expected to become a future income source. As a result, from FY2012 the SBI Group organized its business segments into the Financial Services Business, the Asset Management Business and the Biotechnology-related Business.

In the Financial Services Business we will thoroughly pursue synergies among the three core businesses of securities, banking, and insurance. In the Asset Management Business, we will take maximum advantage of the network developed in the process of building a global investment structure, to pursue further globalization which is necessary for the transition to become the “World’s SBI.”

“ In the Asset Management Business,  
we will pursue further globalization to  
become the ‘World’s SBI.’ ”

## The SBI Group's Future Vision and Business Strategy

The SBI Group implemented a reorganization in FY2012 to advance the goal of becoming the “World’s SBI,” and is pursuing stable earnings growth by enhancing earnings capabilities and upgrading businesses in its three major businesses, the Financial Services Business, the Asset Management Business and the Biotechnology-related Business.

To realize long-term earnings growth, we will proceed with the diversification of revenue sources through the development and provision of new products and services, thereby developing a business structure less susceptible to stock market conditions. For the overseas business development, we will tap into the growth of the Asian markets, while making investments in advanced sectors in Europe and North America to pursue high performance and regional risk diversification.

In the Financial Services Business, to complete and further strengthen the financial ecosystem consisting of the core securities, banking and insurance businesses, we will make a full-scale entry into the life insurance business.

The SBI Group’s vision for the future is as follows.

> In the Financial Services Business, we will complete the development of an ecosystem that generates stable earnings for the SBI Group, as a financial conglomerate with securities, banking and insurance as its core businesses.

> In the Asset Management Business, we will expand the overseas asset management activities with the objective of becoming a global private equity firm that engages in investment businesses in Japan and overseas.

> In the Biotechnology-related Business, one of the 21st century’s growth industries, we will pursue the development of this business into a new core business of the Group, by developing and marketing pharmaceuticals, health foods, and cosmetics in Japan and overseas.

## More Rigorous Selection and Concentration

In July 2010, the SBI Group launched the “Brilliant Cut Initiative” to shift to a management strategy that prioritizes profitability rather than business scale

“ By ‘selection and concentration’ in the Financial Services Business, a conversion to the earnings-oriented management is accelerating. ”

expansion, as in the past. In March 2012, we entered the third phase of the “Brilliant Cut Initiative,” in which the Financial Services Business, applying a rigorous business selection and concentration that involves the examination of the strengths of synergies with the core securities, banking and insurance businesses, proceeded to concentrate enterprise resources on businesses that offer prospects for powerful synergies.

In accordance with this policy, we sold all shares in SBI VeriTrans (currently VeriTrans), transferred our entire stake in Wall Street Journal Japan to Dow Jones & Company, Inc., transferred all shares in SBI Capital Solutions and the Group’s equity interest in funds managed by it, and transferred our entire stake in SBI Credit (currently Premium Financial Services) to the Marubeni Group. Through these transactions, we have recovered approximately ¥20.0 billion since March 2012. We have also actively launched IPOs of subsidiaries that are not expected to generate strong synergies with the three core businesses, listing SBI Mortgage on the KOSPI Market of the Korea Exchange in April 2012, and SBI AXES on the KOSDAQ Market of the Korea Exchange in December 2012. We will allocate the funds obtained from these business divestitures and IPOs to the strengthening of the three core businesses of the Financial Services Business.

At the same time, we are implementing a Group reorganization to integrally operate closely-related businesses. For instance, we have reorganized the face-to-face sales business operated principally by SBI MONEY PLAZA; SBI Searchina and SBI Asset Management have been made subsidiaries of Morningstar Japan; and SBI Card has taken over SBI Point Union’s rewards point program business in an absorption-type split.

Furthermore, in March 2013 the Company acquired all shares of IKIIKI SEDAI, a small-amount short-term insurance company that offers medical insurance and life insurance, and made it a consolidated subsidiary. We will endeavor to expand IKIIKI SEDAI’s small-amount short-term insurance business together with that of SBI SSI.

# An Aggressive Management Approach in All Businesses in FY2013

Until November 2012, Japan was enveloped in a prolonged, powerful sense of uncertainty about the future, and the stock market was mired in a slump. In this difficult business environment, we have steadily made strategic moves to strengthen the SBI Group, including a Group reorganization and business selection and concentration.

In 2013, now that the business environment has improved, we will adopt an aggressive management approach in all of our businesses.

## Financial Services Business

### Measures to Further Improve Earnings

To accommodate further increases in trading volume and the customer base, SBI SECURITIES will augment its systems and call center staff. To meet the diverse needs of individual investors, it will further expand and enhance its product offerings through collaborations with other Group companies. By strengthening a collaboration with SBI MONEY PLAZA and bolstering its corporate customer sales force, the company will step up efforts to develop relationships with affluent customers.

To cope with a rapid increase in the balance of deposits, SBI Sumishin Net Bank will seek stabilization and diversification of funds management through housing loans, auto loans, Internet loans (uncollateralized personal loans), and other types of loans.

SBI Insurance is expanding and enhancing its product offerings, having launched its own cancer insurance as a new product in August 2012, as well as offering insurance products from alliance partners. It will increase sales of its own auto insurance and cancer insurance products, by taking maximum advantage of SBI MONEY PLAZA's face-to-face sales channels. In July 2013, in step with their business expansion, SBI Insurance and SBI Business Support jointly opened the SBI Insurance Kyushu Contact Center in Tosu, Saga Prefecture.

The objective is to upgrade the customer service level by opening a center for the handling of customer inquiries and business processing, such as product information inquiry and insurance application processing.

SBI Mortgage continues to grow steadily, with a balance of housing loans exceeding ¥1.5 trillion at the end of April 2013. In April 2012, SBI Mortgage became the first Japanese company to be listed on the KOSPI Market of the Korea Exchange. It then established a subsidiary in South Korea in October 2012, which is preparing to start its operations in Korea.

Meanwhile, the Japanese version of the U.K.'s tax-exempt individual savings account system, called NISA, will be introduced in January 2014. The introduction of this system for exempting from taxes up to a million yen in dividends, distributions, or capital gains obtained from securities investments, is expected to fuel a further increase in trading of stocks and investment trusts for long-term investment purposes.

The SBI Group will endeavor to acquire new customers by being quick to respond to the impending introduction of NISA, as SBI SECURITIES began accepting advance applications to open NISA accounts on March 29, 2013. In addition, SBI MONEY PLAZA has begun holding frequent NISA seminars, and Morningstar Japan opened a NISA portal site on May 20.

## Overseas Business

## To the Next Growth Stage

The Group is endeavoring to develop and further strengthen its overseas investment businesses, as well as to provide overseas investee financial institutions with advanced expertise in Internet financial services, which the Group developed in Japan, to become a comprehensive financial group that is capable of making a global contribution, especially in Asia.

In the overseas investment businesses, we are shifting from the first phase of development, in which we established investment funds through joint investments with local partners, to the second phase, in which we will expand the size of our funds by enlisting outside investors. To this end, we will enhance the structure to enlist outside investors.

In the overseas financial services business, we will seek further enhancement of overseas financial services businesses by actively providing Japanese expertise through means such as assistance for the introduction of online banking at YAR Bank of Russia (formerly Obibank), and the streamlining of operations at BNI Securities of Indonesia and the improvement of its Internet trading systems in collaboration with SBI SECURITIES.

## Biotechnology-related Business

## From a Promising Budding Business to a Business in Full Bloom

In the Biotechnology-related Business, which became a core business in FY2012, SBI Pharmaceuticals engages in the research and development of pharmaceuticals related to the amino acid, 5-aminolevulinic acid (5-ALA), whereas SBI Biotech is developing new drugs that utilize biotechnology in partnership with prominent overseas research institutes.

In March 2013, SBI Pharmaceuticals received manufacture and marketing approval in Japan for the first pharmaceutical agent made containing 5-ALA. In addition, the company is accelerating overseas development of the business through means such as an agreement with the government of Bahrain to promote the 5-ALA business.

SBI Biotech, which is preparing for a 2014 IPO, made the U.S. bio-venture company Quark Pharmaceuticals (“Quark”) a wholly owned

“ In the Biotechnology-related Business, we are achieving steady results through partnership with prominent overseas research institutes. ”

subsidiary in December 2012. Quark has multiple pipelines (new drug candidates) in clinical testing for which it expects to receive contingency fees under milestone agreements with global mega-pharmaceutical companies. The Quark acquisition directly contributes to the enhancement of SBI Biotech’s corporate value.

## Seeking Further Corporate Value Enhancement

The SBI Group is near completion of a business structure in Japan as a comprehensive financial group, whose core business is Internet-based financial services, and is currently working at a rapid pace to expand its investment businesses and develop an overseas operating structure in high-growth countries, primarily in Asia. We are in the midst of accomplishing our planned transition from “Japan’s SBI” to the “World’s SBI.”

In April 2011, SBI Holdings became the first company headquartered in Japan to be listed on the main board of the Hong Kong Stock Exchange. We will take full advantage of the increased creditworthiness and name recognition that comes with the Hong Kong listing, to ensure the SBI Group’s continued business development in Asia. In Japan as well, we will further increase synergies among our businesses and accelerate growth by providing low-cost, high-quality financial products and services.

FY2013 is the year we adopt an aggressive management approach, and will also be the year of endeavoring to further increase corporate value. I invite you to have high expectations for the SBI Group as we boldly take up new challenges.

**Yoshitaka Kitao**

Representative Director, President & CEO