

## Financial Services Business



### Principal Companies

Intermediate Holding Company: SBI FINANCIAL SERVICES

SBI SECURITIES	SBI Insurance
SBI Japannext	SBI Life Insurance
SBI Liquidity Market	SBI MONEY PLAZA
SBI FXTRADE	Morningstar Japan
SBI Sumishin Net Bank	SBI Holdings (Financial Services Business Division)

The SBI Group has achieved dramatic growth by capturing the major trends, such as the diffusion and evolution of the Internet and financial deregulation, and by providing highly competitive financial products and services. The SBI Group's re-entry into life insurance marks the completion of a financial ecosystem in Japan that encompasses the three core business areas of securities, banking and insurance. With this, the SBI Group will further accelerate its growth by maximizing synergies among these business segments.

### Financial Results for FY2014

Owing to factors such as the recovery of the Nikkei Stock Average to its pre-Lehman Brothers collapse levels, the continued gradual recovery trend of the Japanese stock market and the measures implemented by the individual Group companies to strengthen their earnings performance, operating revenue for the Financial Services Business for FY2014 increased by 10.0% year-on-year to ¥162.6 billion, and profit before income tax expense was 80.5% higher at ¥67.3 billion.

By company, SBI SECURITIES, SBI Japannext, SBI Liquidity Market, SBI FXTRADE, SBI MONEY PLAZA, Morningstar Japan and SBI Sumishin Net Bank all recorded new record highs in their profits, while SBI Insurance and SBI Card dramatically reduced their losses. In this manner, each SBI Group company achieved excellent results.

### Full-year Profit Before Income Tax Expense of Major Financial Services Business Companies (based on IFRSs)

(Millions of yen)

	FY2013	FY2014	YoY change (Rate of change: %)
SBI SECURITIES	33,344	34,828 Record high	+1,484 (+4.5)
SBI Japannext	905	1,081 Record high	+176 (+19.4)
SBI Liquidity Market	1,899	3,046 Record high	+1,147 (+60.4)
SBI FXTRADE	1,261	1,695 Record high	+434 (+34.4)
SBI Insurance	(3,868)	(618) Significant improvement	+3,250 (-)
SBI MONEY PLAZA	1,062	1,496 Record high	+434 (+40.9)
Morningstar Japan*1	1,142	1,147 Record high	+5 (+0.4)
SBI Card	(3,196)	(1,212) Significant improvement	+1,984 (-)
SBI Sumishin Net Bank*2	2,062	5,196 Record high	+3,134 (+152.0)

\*1 Including its subsidiaries, SBI Asset Management and others

\*2 Share of results of associates using the equity method

SBI Sumishin Net Bank records profit/loss on revaluation of securities based on IFRSs, due to the change in the valuation of treasuries held. Therefore the amounts are different from that based on JGAAP.

## SBI証券 [SBI SECURITIES]

Through the Establishment of a  
Solid Income Base,  
Achieved Record High Profits

### Masato Takamura

SBI SECURITIES Co., Ltd.  
Representative Director and President



## Unchallenged Leadership in the Online Securities Industry

SBI SECURITIES recorded historical highs for operating revenue, and all profit categories in its financial results for FY2014 (based on JGAAP). Operating revenue increased by 4.6% year-on-year to ¥77.6 billion, operating income by 5.9% to ¥34.7 billion, and net income by 12.7% to ¥20.1 billion.

Although the Nikkei Stock Average recovered to its pre-Lehman Brothers collapse levels, average daily individual brokerage trading value on the Tokyo and Nagoya markets fell by 23% year-on-year. In contrast with the other four major online securities companies' resulting declines in operating income that was affected by the market trend, SBI SECURITIES recorded historical highs in profits, owing to the increase in margin trading, and the diversification in its revenue sources through the expansion of its services, such as investment trust and foreign exchange, which are less influenced by the stock market conditions.

SBI SECURITIES boasts an overwhelming customer base as compared to its peers, and has moved far ahead of its peers in terms of the size of its customer base. As of March 31, 2015, it had a total of 3.25 million accounts, making it the only Japanese

online securities company to break through the 3 million account barrier. At ¥9.4 trillion, its customer deposit assets are also far greater than any of its competitors. Within the entire securities industry, including major face-to-face securities companies, SBI SECURITIES is ranked a close third behind Daiwa Securities Co. Ltd., in terms of the number of accounts.

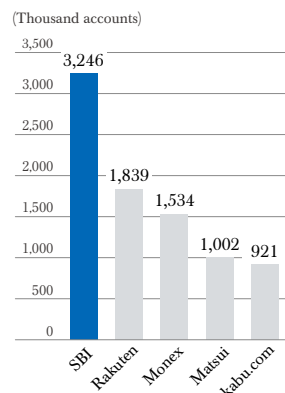
In FY2014, SBI SECURITIES' share of individual stock trading value increased by 2.8 points year-on-year to 38.1%, while the share of brokerage for margin trading by individuals was 2.3 points higher at 40.5%. Both figures are significantly higher than those of its competitors.

As of March 31, 2015, the open interest credit balance was ¥787.3 billion, which is an historical high for a fiscal year-end balance, and the financial revenue of FY2014 increased by 17.8% to ¥28.9 billion. Underwriting, offering and distribution commissions for FY2014 increased by 25.6% to ¥5.4 billion. Similar to FY2013, investment trust balance remained strong, and the balance as of March 31, 2015 was ¥1,155.0 billion, along with investment trust fees for FY2014 amounting to ¥3.8 billion, for a year-on-year increase of 28.3%. Both figures were historical highs. In addition, SBI SECURITIES underwrote 73 initial public offerings (IPOs), which was the highest total for any securities company, and the underwriting share of IPOs in which the company participated was also the highest in the industry at 84.9%.

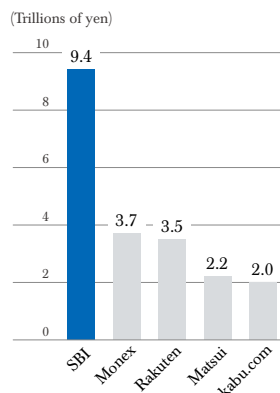
### Number of Accounts and Amount of Customer Deposit Assets at Five Online Securities Companies

(As of March 31, 2015)

#### [Number of Accounts]



#### [Customer Deposit Assets]



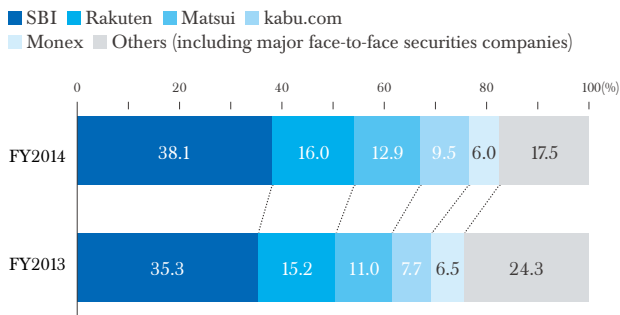
Sources: Compiled by SBI SECURITIES from information on each company's websites

## Attracting New NISA Customers

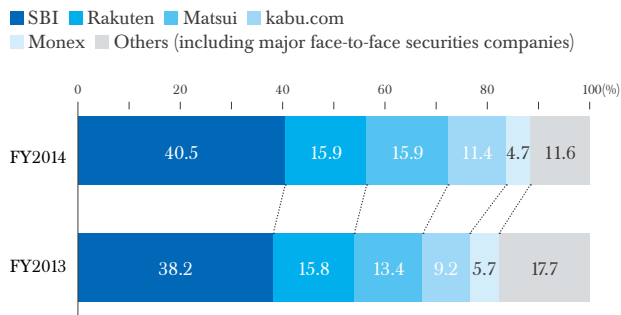
Introduced in January 2014, the Nippon Individual Savings Account (NISA) system provides tax exemption on small investments. As of March 31, 2015, SBI SECURITIES had approximately 640,000 accounts, containing assets totaling ¥272.6 billion. These totals are significantly higher than those of its peers.

An analysis of the attributes of NISA account holders as of March 31, 2015, shows that over 35% are new customers, of whom around 67% have no previous investment experience. These results confirm that SBI SECURITIES has been considerably more successful than its peers in attracting new customers. The fact that about 60% of NISA account holders are in the 20–49 age group is indicative of its success in attracting younger customers who are just starting to build their assets. An active account ratio of 58% is also high as compared with other securities companies that handle NISA accounts.

**Share of Individual Stock Trading Value**



**(of which) Share of Individual Margin Trading Value**



Source: Compiled by SBI SECURITIES based on Tokyo Stock Exchange and JASDAQ materials, and from information on each company's websites.  
 \* The individual stock trading value and individual margin trading value are the sum of the 1st and 2nd sections of the Tokyo and Nagoya Stock Exchange, respectively.

**Strong Performance by Group Companies in the Securities-related Business**

The SBI Group companies that have a strong synergistic relation with the securities business have also realized income growth. Japannext PTS, a Proprietary Trading System (PTS) operated by SBI Japannext, is the second-largest exchange market in Japan after the Tokyo Stock Exchange, and is Japan's largest PTS trading market. In FY2014, Japannext PTS's trading value increased steadily, despite an overall downturn in stock trading value, as compared with the previous fiscal year. As a result, the operating income (based on JGAAP) of SBI Japannext increased by 24.4% year-on-year to ¥1.1 billion.

**Increased Presence in FX trading**

Three SBI Group companies, consisting of SBI SECURITIES, SBI FXTRADE and SBI Sumishin Net Bank, are involved in foreign exchange trading. As of March 31, 2015, these three companies had a total of 610,000 FX trading accounts, and a balance of assets on deposit amounting to ¥173.4 billion. The SBI Group's total number of accounts and the balance of assets on deposit are both far higher than the corresponding figures for the competitors in the foreign exchange industry.

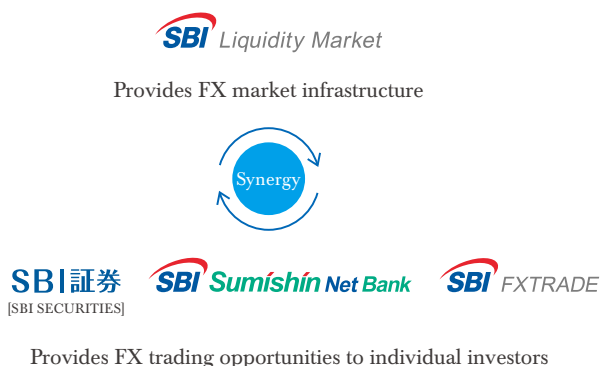
SBI Liquidity Market, which provides market infrastructure for foreign exchange trading, has maintained steady growth in its trading turnover in step with the expansion of trading by customers of SBI SECURITIES, SBI FXTRADE and SBI Sumishin Net Bank, all of which participate in trading. The financial results for SBI Liquidity Market in FY2014 show that operating income, before the proportional allocation of income to the SBI Group companies that participated in trading, increased by 30.1% to a record high of ¥11.1 billion.

Based on the income allocated from SBI Liquidity Market, SBI FXTRADE, which is a pure-play FX trading services provider, recorded an historical high in operating income, with a 33.7% year-on-year growth to ¥1.7 billion (based on JGAAP) in

FY2014. SBI FXTRADE commenced business in May 2012, and despite its status as a latecomer compared with competing companies, it has become highly competitive in this rapidly changing market environment by consistently offering the industry's narrowest spreads on the main currency pairs, and by providing a highly reliable, high-performance trading system.

SBI SECURITIES provides FX trading services primarily to customers with larger sized transactions, while SBI FXTRADE provides services for customers who carry out smaller sized frequent transactions. The presence of SBI Liquidity Market in the SBI Group, as a provider of market infrastructure, has helped the Group to increase its trading turnover at a faster rate than the industry as a whole. By expanding its presence in the area of FX trading, the SBI Group has created a complementing structure that allows it to offer investors investment opportunities based on FX trading during stock market downtrends. This is reflected in the sustained growth in incomes, and in record high results for all of the companies involved.

**Group Synergies Between FX-related Business**





## Consolidated Ordinary Income of ¥15.2 Billion, Signifying an Overwhelming Earnings Capacity Among Pure-play Internet Banks

Noriaki Maruyama

SBI Sumishin Net Bank, Ltd.  
Representative Director and  
President



### Utilizing Group Synergies to Expand the Business Base

SBI Sumishin Net Bank is a 50:50 joint venture between Japan's largest trust bank, Sumitomo Mitsui Trust Bank, and SBI Holdings. It is, by far, Japan's leading pure-play Internet bank in terms of deposits, loan balances and earning capacity. With SBI SECURITIES, SBI Sumishin Net Bank offers the SBI Hybrid Deposit service, which allows securities trading payments and proceeds to be withdrawn or deposited automatically, an example of the strong synergy within the SBI Group. Evidence of the effectiveness of this synergy differentiates the SBI Group from its peers, including the fact that over one million customers uses this system by January 2015.

SBI Sumishin Net Bank's business base continues to expand steadily. As of March 31, 2015, the number of accounts increased by 330,000 to 2.31 million from March 31, 2014, and the deposit balance increased by ¥499.3 billion to ¥3,576 billion. Also, the deposit balance surpassed ¥3.7 trillion in May 2015.

### Product Diversification Paralleled by Sustained Loans Balance Growth

Housing loans, the main loan products of SBI Sumishin Net Bank, can be divided into two products. First is the Internet Exclusive Housing Loans that it provides as an agency for the Sumitomo Mitsui Trust Bank, the second is the "MR. Housing Loan" product that SBI Sumishin Net Bank provides directly to its customers, of which the popularity was enhanced through special interest rate campaigns and other initiatives. The aggregate balance of loans based on these two products reached ¥2,279.6

billion as of March 31, 2015, an increase of ¥502.5 billion from March 31, 2014. By April 2015, the cumulative total of housing loans surpassed ¥2.3 trillion.

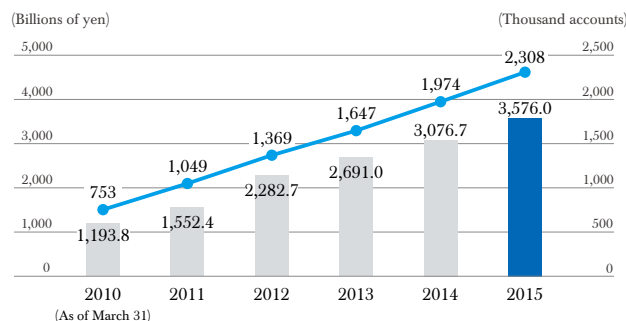
Loan balances have also risen steadily in other product categories, such as card loans and special-purpose loans, resulting in a greater diversity of methods used by SBI Sumishin Net Bank to invest its funds. The interest rate on "MR. Card Loan" products, an updated version of the existing "Net Loan" of unsecured personal loan products, is the lowest in the industry at 1.99%. In addition, the maximum amount that can be borrowed is now ¥10 million. These improvements expanded the balance of card loans provided to ¥79.4 billion as of March 31, 2015. The balance of special-purpose loans, which have been offered since May 2013, increased by a factor of 1.4 as of March 31, 2015, as compared to that of March 31, 2014.

The financial results for FY2014 (based on JGAAP) show that ordinary revenue increased by 21.0% year-on-year to ¥57.2 billion, and ordinary income by 29.6% to ¥15.2 billion. Net income was 40.4% higher at ¥10.0 billion. All of these figures are historical highs.

### Strengthening Security

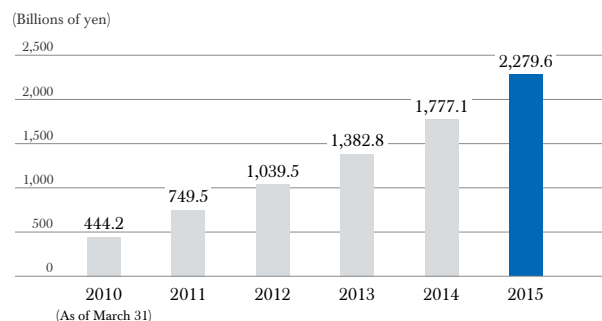
Financial crime on the Internet is rising. There has also been an increase in the use of smartphones to access Internet banking. To maintain an environment in which customers can complete their transactions with confidence, SBI Sumishin Net Bank has prioritized to reinforce its security systems, including the adoption of the "Smart Authentication" system for smartphones. It has also strengthened identity checks to prevent fraudulent access to deposit accounts.

#### Deposits and the Number of Accounts at SBI Sumishin Net Bank



■ Deposits (left axis) ◆ Number of accounts (right axis)  
\* Amounts are rounded to the nearest ¥100 million

#### SBI Sumishin Net Bank's Cumulative Total of Housing Loans\*1



\*1 Cumulative total of new loans

\*2 Amounts are rounded to the nearest ¥100 million



## Major Improvement in the Performance of SBI Insurance, with Expected Profitability in FY2015

**Hiroyoshi Kido**

SBI Insurance Co., Ltd.  
Representative Director and President



### Steady Growth of the SBI Group Insurance Companies

The SBI Group's insurance business fully utilizes the potential of the Internet in minimizing operating costs, so that it can offer low-premium auto insurance through SBI Insurance. Additionally, SBI SSI offers earthquake coverage, while SBI IKIIKI SSI provides medical and death insurance. All are realizing sustained growth in both policy numbers and premiums. In February 2015, a life insurance company, SBI Life Insurance (formerly PCA Life Insurance), also became a member of the SBI Group.

The primary business area for SBI Insurance is auto insurance. Policy numbers remain on a steep upward trend, increasing by 12.9% year-on-year to approximately 730 thousand as of March 31, 2015. This was reflected in continued high growth in earnings in FY2014, with original insurance premium income increasing by 10.5% year-on-year to ¥25.6 billion. The ratio of the insurance incurred losses to insurance premium income, and the ratio of operating expenses, were 76.1%\* and 23.3% respectively, and the sum of the two ratios remained below 100%.

There was continued steady growth in the area of small-amount and short-term insurance. The number of policies held by SBI SSI, which became a consolidated subsidiary in March 2012, increased by 11.6% year-on-year to 13,533 as of March 31, 2015. The number of policies held by SBI IKIIKI SSI, which has been a consolidated subsidiary since March 2013, increased by

19.4% to 38,753 as of March 31, 2015.

In the life insurance business, SBI Life Insurance, which joined the SBI Group as a consolidated subsidiary in February 2015, has a very sound financial structure. Its solvency margin ratio as of March 31, 2015 was 1,120.3%, indicating that the company has ample capacity to meet claims. Also the company's real asset-liability margin, which is an indicator of real shareholders' equity, is also at a satisfactory level of ¥32.2 billion.

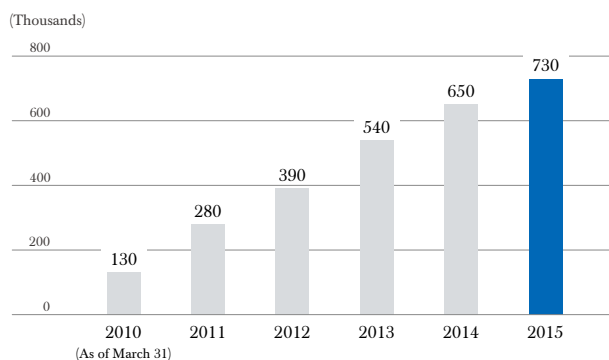
Additionally in FY2014, there was a ¥2.0 billion gain on bargain purchase, which is the difference between net assets and the acquisition price, relating to the acquisition of SBI Life Insurance.

\* This is calculated on a premium-written basis by dividing insurance payments during the period by insurance premium income.

### SBI Insurance on Track to a Positive Income Result in FY2015

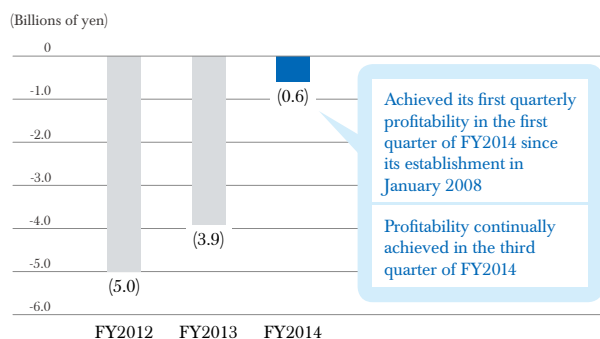
Since 2011, SBI Insurance has continually implemented a range of initiatives to improve its earning capacity, including a comprehensive review of its reinsurance and service outsourcing activities. In the first quarter of FY2014, these efforts resulted in the company's first positive quarterly income result since its establishment in January 2008. At ¥0.6 billion, its loss before income tax expense (based on IFRSs) for the whole of FY2014 was significantly reduced, compared with the previous fiscal year's result of ¥3.3 billion, and yearly income is expected to be in positive figures on an IFRSs basis in FY2015.

**Number of Auto Insurance Policies at SBI Insurance**



\* Completion and receipt of insurance premiums basis, excluding continuing, expired or cancelled policies  
\* Amounts are rounded to the nearest thousands.

**SBI Insurance's Profit before Income Tax Expense (based on IFRSs)**





## Dramatic Growth Achieved as a Common Infrastructure of the Financial Services Business

### Tomohiko Ota

SBI MONEY PLAZA Co., Ltd.  
Representative Director and  
President



## Dramatic Expansion of the Customer Base Reflected in the Results of Revenue and Income Growths

SBI MONEY PLAZA functions as the SBI Group's face-to-face sales channel. It has actively established a nationwide network of primarily franchised shops, as well as a common infrastructure, and these face-to-face shops handle securities, insurance, bank deposits and housing loans.

In FY2014, strategies including closer collaboration with SBI SECURITIES contributed to the 38.2% year-on-year increase in assets on deposit, which reached ¥560.5 billion. As a result, SBI MONEY PLAZA was able to achieve significant growth in both revenue and income for a second year in a row in FY2014. Net sales (based on JGAAP) increased by 17.2% to ¥4.8 billion, and operating income by 49.5% to ¥1.6 billion.

## As a Source of Group Synergies

SBI MONEY PLAZA closed and merged a number of existing shops in FY2014, and the total number of shops at the end of the period was 394. In May 2015, four branches in Osaka, Abeno, Itami and Kashihara were relocated and merged into its Osaka branch located in Umeda, and reopened after refurbishment. The company intends to build a nationwide chain of 500 shops, while continually working to revitalize its business and improve the overall quality of the network by closing or merging

some existing shops. At the same time, SBI MONEY PLAZA is diversifying its income structure, while targeting growth based on balance among its business areas. By strengthening its collaboration with other SBI Group companies, it will continue to create business models to meet the financial needs of a wide spectrum of customers.



SBI MONEY PLAZA Osaka Branch

## To Become Japan's Largest Financial Distributor

There is a growing demand from customers who want to choose the products that best suit their needs, after comparing all financial products available and to seek appropriate advice from experts. SBI MONEY PLAZA seeks to become Japan's largest financial distributor by responding to these needs. Its shops maintain a neutral stance and offer customers both expert advice, and a full range of financial products from both within and outside of the SBI Group.

Meanwhile, SBI MONEY PLAZA is currently making preparations for initial public offering in the near future.

## Other Financial Services

Morningstar Japan provides assessment information about financial products and websites, especially in relation to investment trusts. In FY2014, it set new records for all profit categories, including operating income, ordinary income and net income (based on JGAAP). At the non-consolidated level, Morningstar Japan has achieved profit growth for 11 consecutive years.

In addition, SBI Holdings operates Japan's foremost

comparison and cost estimation sites for financial products, through the InsWeb insurance information site and the E-LOAN site, and these businesses also continue to contribute to earnings as well.

# Asset Management Business



## Principal Companies

Intermediate Holding Company: SBI Capital Management

SBI Investment  
SBI Asset Management  
SBI Ven Capital  
SBI Investment KOREA  
SBI Savings Bank

In the Asset Management Business, the SBI Group has invested intensively in the 21st century core industries, such as IT, biotechnology, environment and energy. Also, in the rapidly growing countries focused on Asia, partnerships with prominent local companies were promoted based on the extensive success, trust and brand reputation that was successfully cultivated. This has contributed to the establishment of a global investment structure, along with the process of establishing a financial ecosystem overseas.

## Financial Results for FY2014

The Asset Management Business consists of the venture capital business, which mainly invests in venture companies in Japan and abroad, and the overseas financial services business, which includes the SBI Savings Bank of South Korea.

In FY2014, losses from the change in fair value and losses from the sales of investment securities totaling ¥4.3 billion were recorded, primarily owing to the decline in prices of listed stocks held in the Group portfolios, as well as valuation losses on the U.S. shale gas-related stocks, owing to the impact of the decline in crude oil prices. However, segment performance was underpinned by the ¥16.7 billion profit before income tax expense achieved by the SBI Savings Bank of South Korea, which made progress toward the recovery of claims, due to a buoyant trend in the real estate market. As a result, segment operating revenue declined by 9.5% year-on-year to ¥65.8 billion, and profit before income tax expense decreased by 9.5% to ¥8.1 billion.

Since this Group segment includes foreign financial institutions, a structure has been established to maintain a steady revenue stream that is linked to the growth of the financial institutions, but there is always the possibility of major fluctuations in financial performance, owing to the effects of stock market trends, and other factors. This especially applies to the investment securities held by the Group, whether listed or unlisted, as they are assessed at fair value every quarter, regardless of whether there has been an actual sale or not, operating revenue is adjusted to reflect any changes in their fair value.

## Full-year Financial Results of the Asset Management Business (based on IFRSs)

(Billions of yen)

	FY2013	FY2014
Operating revenue	72.7	65.8
Profit before income tax expense	9.0	8.1
Profit/loss from the change in fair value and profit/loss on sales of investment securities	9.4	(4.3) *
SBI Savings Bank	4.0	16.7
Others (SG&A, profit/loss accounted for using equity method)	(4.4)	(4.3)

\* Details of profit/loss from the change in fair value and profit/loss on sales of investment securities  
 • Unlisted Securities' total profit of ¥0.7 billion including loss of ¥3.4 billion on the U.S. shale gas-related securities  
 • Listed Securities loss was ¥5.0 billion (unrealized gains of ¥2.9 billion versus acquisition cost)



## Active Investments Continue in Japan and Abroad, with a Steady Increase in Exits

### Katsuya Kawashima

SBI Investment Co., Ltd.  
Representative Director and  
President



## A Leader in the Japanese Venture Capital Industry

SBI Investment is the core company of the SBI Group's Asset Management Business, whose investments and management of venture capital funds is guided by a corporate philosophy that calls for it to play a leading role in the development of the industry through the creation and incubation of new core industries of the 21st century, as a "New Industry Creator," and as one of Japan's leading venture capital companies.

Since its establishment in 1999, as of March 31, 2015, the SBI Group had invested in a cumulative total of 1,043 companies in Japan and abroad, with exits based on IPOs or M&A of 184 of those companies, resulting in a high exit ratio of 17.6%.

When considering venture funds for which SBI Investment itself was responsible for the investment and management since its establishment in 1999, as of March 31, 2015, on a cumulative total basis, 661 companies were invested in with an exit for 134 companies, resulting in an exit ratio of 20.3%.

## Active Investments in Growth Industries, as well as Overseas

In FY2014, the SBI Group's investments totaled ¥19.6 billion in 75 companies. Of this, 66 companies were core industry companies of the 21st century, including IT, biotechnology, environment and energy, and also in the financial sector, which possesses a fundamentally close affinity to the Internet, for a total of ¥16.5 billion, or 84.0% of the total invested. Additionally, overseas investments were active, as well as investments in Japanese companies, with a total of approximately ¥13.5 billion, or 68.7% of the total investments being made into 47 companies overseas, primarily in Asia.

The Group's assets under management, including private equity, amounted to ¥191.6 billion (excluding both cash and commitment amount to be paid in), as of March 31, 2015. By region, assets under management in Japan totaled ¥88.7 billion, compared with ¥102.9 billion overseas, reflecting a higher overseas investment ratio that centers primarily in Asia. This reflects the development of a global investment structure that allows the SBI Group to discover promising overseas investment targets in collaboration with approximately 20 prominent local partners overseas, which is a feature that is not found in other Japanese venture capital companies.

### The SBI Group's Assets Under Management

(As of March 31, 2015)

Private equity		¥ 294.7 billion	
(Including ¥103.1 billion of both cash and commitment amount to be paid in) (*3) (Billions of yen)			
Breakdown by industry		Breakdown by region	
IT / Internet	25.8	Japan	88.7
Biotechnology / Health / Medical	45.2	China	29.3
Services	18.6	Korea	25.2
Materials / Chemicals	2.2	Taiwan	2.0
Environmental / Energy	20.6	Southeast Asia	11.5
Retail / Food	16.1	India	2.8
Construction / Real estate	1.6	U.S.	28.8
Machine / Automobile	8.3	Others	3.3
Finance	36.3		
Others	16.7		
<b>Total</b>	<b>191.6</b>	<b>Total</b>	<b>191.6</b>

Investment trust etc.		¥ 230.6 billion*4	
(Billions of yen)			
Investment trusts		128.0	
Investment advisory		98.8	
Investment companies		3.8	

\*1 Calculated by the exchange rate as of the end of March 2015.

\*2 Amounts are rounded to the nearest ¥100 million.

\*3 Composed of cash in funds and unpaid capital, which is to be paid on a capital call.

\*4 As for the funds that SBI Asset Management provides investment instruction to, if Morningstar Asset Management provides investment advisory services, assets are recorded in both "Investment trusts" and "Investment advisory," respectively, and such overlapping amounts totaled ¥24 billion.

## Increasing the Value of Investee Companies through Powerful Incubation Capabilities

After investing in a company, SBI Investment takes a full hands-on approach in incubating that company, by proposing strategies linked to its business stage and by dispatching executives, as well as supporting the development of internal control systems. By deliberately keeping the number of investee companies in Japan per employee low, compared with other venture capital companies, SBI Investment has created a structure that allows for a deeper focus on improving the value of the companies in which it invests.



Another unparalleled feature that sets SBI Investment apart from other venture capital companies is its integrated support structure, which encompasses not only an active involvement in efforts to improve the value of investee companies, but also to support the public share offering process. When an investee company reaches the IPO stage, SBI Investment is able to utilize a highly effective support mechanism based on the resources of the entire SBI Group, including the extremely large customer bases of SBI SECURITIES and SBI MONEY PLAZA, as well as a network of overseas SBI Group offices and overseas partner companies, in the case of overseas investments.

This commitment to maximizing the value of investee companies is reflected in a larger IPO size per company, compared to other venture capital companies, and although a latecomer to

the venture capital business, SBI Investment is steadily building itself a position of superiority.

### Achieved Fourteen IPOs or M&A Deals

In FY2014, the Japanese IPO market continuously expanded for the fifth consecutive year, resulting in the number of companies implementing IPOs to 86, for an increase of 33 companies year-on-year.

The SBI Group arranged IPOs or M&A deals for 14 investee companies in FY2014. There were six IPOs in Japan and four overseas, with four negotiated M&A deals. In FY2015, the total number of IPOs and M&A deals is expected to increase by six to 20.

#### Results of IPO and M&A Deals on Investee Companies in FY2014

Number of companies	Date	Company	IPO / M&A	Business	Head office
Japan: 9 companies Overseas: 5 companies	April 2014	Smart Navi Co., Ltd.	M&A	Provision of solutions, such as sales support, customer management and sales promotion using tablets	Japan
	June 2014	NEWTON FINANCIAL CONSULTING, Inc.	IPO (TSE JASDAQ)	Insurance agency and temporary staffing businesses	Japan
	July 2014	NIPPON VIEW HOTEL CO., LTD.	IPO (TSE 2nd Section)	Operation, guidance of operation, or franchise development of hotels and other lodging facilities, and amusement park operations	Japan
	August 2014	WH Group Limited	IPO (HKEx Main Board)	One of the world's largest pork processing companies	China
	August 2014	Pandora TV Co., Ltd	IPO (KONEX)	Operation of Pandora.TV, one of the largest video sharing websites in Korea	Korea
	September 2014	GCS HOLDINGS, INC.	IPO (TPEX, former GTSM)	A long-distance, high-speed communications semiconductor foundry	U.S.
	September 2014	RIBOMIC Inc.	IPO (TSE Mothers)	Research and development of molecular targeted pharmaceutical drugs using RNA aptamers by means of the RiboART System drug discovery platform	Japan
	October 2014	YAPPA Corporation	M&A	Development of graphics technology, development and sale of e-books	Japan
	October 2014	Kakao Corp	M&A	Provision of a mobile messenger platform (KakaoTalk)	Korea
	October 2014	CERES INC.	IPO (TSE Mothers)	Design and operation of smartphone media etc.	Japan
	December 2014	TOKYO BOARD INDUSTRIES CO., LTD.	IPO (TSE 2nd Section)	Manufacture and sale of particle board	Japan
	December 2014	Yest Co., Ltd.	IPO (KONEX)	Manufacture of semiconductor manufacturing machines	Korea
	January 2015	UPHills, Inc.	M&A	Support for shops listed on the "Kamimado," beauty and hair salon reservation site, and sale of advertising space	Japan
	March 2015	Mobile Factory, Inc.	IPO (TSE Mothers)	Social app and mobile content businesses	Japan



## With Business Revitalization Completed, Moving Forward to a New Rapid Growth Phase Toward an Early IPO

### Hideo Nakamura

SBI Savings Bank  
Representative Director,  
President & CEO



### Positive Income Results Based on KGAAP, with Business Revitalization Completed

SBI Savings Bank, which became a consolidated subsidiary in March 2013, provides savings bank services in South Korea primarily to individual customers, self-employed individuals, and small and medium-sized enterprises. In October 2014, SBI Savings Bank merged with three of its affiliate companies to become the largest savings bank in South Korea.

The South Korean government's efforts to revitalize real estate trading have been successful, and housing prices continue to recover rapidly. SBI Savings Bank responded to this buoyant trend in the real estate market by resolutely working to recover non-performing project finance and consumer loan assets. The amount recovered exceeded the book value of the assets, with the result that the bank's financial results for FY2014 showed substantial growth based on IFRSs, with operating revenue recorded at 13.7% higher year-on-year at ¥41.6 billion, while profit before income tax expense increased by a factor of approximately 4.2 times to ¥16.7 billion.

Even on a KGAAP basis, of which performances were affected by the write-off of non-performing loans dating from before its acquisition as a consolidated subsidiary, SBI Savings Bank achieved positive quarterly income results in the third quarter of the year ending June 2015 (January–March 2015), following the previous quarter which was also positive, and it achieved profitability for the nine month period for the corresponding fiscal year (July 2014–March 2015). These results indicate that the bank has completed its revitalization process, and has emerged as South Korea's number one savings bank in both name and reality.

### Major Improvement in Financial Soundness

SBI Savings Bank has dramatically improved the soundness of its assets, as its capital adequacy ratio as of March 31, 2015 was 11.3% (based on KGAAP).

The bank's performing loans have been increasing since 2014, and its delinquency ratio as of March 31, 2015 was 26.8%, a reduction of 19.9 percentage points compared with March 31, 2014.

### Strategies for Further Growth

Having completed its corporate revitalization, SBI Savings Bank is preparing for an early IPO by taking active steps to expand its business activities, including further reinforcement of its corporate investment and loan business, and loan services for individual customers, while also continuing to dispose of non-performing loans. The Bank is also steadily diversifying its product offering, as it became the first bank in South Korea to offer housing collateralized loans via the Internet, as well as offering auto loans to its customers. Furthermore, by capturing future moves toward deregulation, SBI Savings Bank is actively promoting to launch an online banking business.



Filming a TV commercial with new employees (Myeongdong Branch)

#### 9 Month Ended March 31, 2015 Results (based on KGAAP)

(Billions of KRW)

	1Q* (July–Sept. 2014)	2Q* (Oct.–Dec. 2014)	3Q (Jan.–Mar. 2015)	9 Months (July 2014–Mar. 2015)
Operating Revenue	111.3	110.0	116.1	337.5
Operating Income	(16.1)	14.5	24.0	22.4
Profit before income tax expense	(19.9)	10.1	27.4	17.6

\* Results for the four-month period from July to October are the sum of the pre-merger non-consolidated results of the former SBI 1 Savings Bank and three affiliated banks, which is adjusted by eliminating the equity method profit/loss among the banks. In the results announced separately from SBI Savings Bank, the above mentioned results for the four-month period from July to October are the non-consolidated results of the former SBI 1 Savings Bank.

## Biotechnology-related Business



The SBI Group considers the Biotechnology-related Business to be one of its three core businesses, and is conducting business operations through SBI Biotech, SBI Pharmaceuticals and SBI ALApromo. Particularly important is the 5-aminolevulinic acid (5-ALA)-related business, which is based on the development and sale of pharmaceuticals, health foods and cosmetics containing 5-ALA, which is expected to become the most significant growth area for the Group, and for which the pace of global expansion has been accelerated.

### Financial Results for FY2014

Operating revenue for the Biotechnology-related Business declined by 0.6% year-on-year to ¥2.2 billion in FY2014, with a ¥7.3 billion loss before income tax expense recorded, versus a ¥2.4 billion loss in FY2013. The increased loss was mainly attributable to the fact that the results for FY2014 no longer benefited from a special factor relating to the sale of pharmaceutical development seeds to another company by the U.S. bio-venture company Quark Pharmaceuticals, Inc., a wholly owned subsidiary of SBI Biotech, in FY2013. Another factor was an error in the trial population secured by the contract research organization (CRO) in the clinical trial on a product in Quark's pharmaceutical development pipeline, which was subsequently determined to be statistically insignificant. This necessitated the revaluation of assets, resulting in a one-time loss of approximately ¥3.8 billion.

Selling, general and administrative expenses for the 5-ALA-related business increased owing to SBI ALApromo's extensive marketing campaigns for the ALAPlus series of health foods. However, the campaigns were successful, resulting in a steady growth in shipment volumes and the number of consulting pharmacies, drugstores and other outlets handling products containing 5-ALA.

#### Principal Companies

Intermediate Holding Company: SBI ALA Hong Kong

SBI Biotech

SBI Pharmaceuticals

SBI ALApromo

#### Full-year Profit before Income Tax Expense of the Biotechnology-related Business (based on IFRSs)

(Millions of yen)

	FY2013	FY2014
Biotechnology-related Business	(2,432)	(7,310)
SBI Biotech	(611)	(637)
Quark Pharmaceuticals	(721)	(1,436)
Partial write-down of Quark's pipeline	—	(3,793)
SBI Pharmaceuticals	(1,083)	(1,220)
SBI ALApromo	(176)	(426)



## Attains Multiple Drug Pipeline, and the IPO Preparations are Resumed

### Takeshi Irie

SBI Biotech Co., Ltd.  
Representative Director and  
President



### Development and Sales Rights Granted to the U.S. Company MedImmune

SBI Biotech has focused primarily on R&D relating to drugs for the treatment of cancer and autoimmune disease, in partnership with bio-ventures and research organizations in Japan and abroad, but it is now reviewing its portfolio through the application of the selection and concentration strategy to its drug development projects, and currently, the company is developing revolutionary new drugs with a particular focus on antibodies used to control plascytoid dendritic cells (pDC), and functional RNA.

One of the products to result from this research is the Anti-ILT7 antibody, a molecular targeted drug developed for use in the treatment of autoimmune disease. A development and sales license has been granted to MedImmune LLC, a member of the AstraZeneca Group, which has already gained an international reputation as a developer of antibody drugs.

### Progress on Drug Pipelines through Quark Pharmaceuticals

Quark Pharmaceuticals, a wholly owned subsidiary of SBI Biotech, has advanced technology relating to short-interfering RNA (siRNA), which is attracting intense interest at a time when progress in low-molecular drug discovery is waning.

Quark Pharmaceuticals has several promising candidate drugs, and has already concluded licensing and other agreements with Pfizer Inc. and Novartis International AG.

Quark Pharmaceuticals has agreed with Novartis to grant an option to obtain license covering QPI-1002, which is currently undergoing Phase II and Phase III trials as a candidate for use in the treatment of acute kidney failure, and delayed graft function after kidney transplant surgery for which there is still no promising therapeutic agent. Phase II trials as a candidate drug for the treatment of delayed graft function have been completed, and comments have been obtained from the U.S. Food and Drug Administration (FDA) concerning the design for Phase III trials, including the primary endpoint and the number of subjects. Based on the results, the option agreement with Novartis will be renewed, allowing Phase III trials to begin by the autumn of 2015 at the latest.

The terms of a licensing agreement concluded with Pfizer concerning PF-655 include milestone payments and royalty payments. Also, a valuation loss was incurred on a pipeline asset, a drug for use in the treatment of diabetic macular edema, due to an error by the CRO. However, Phase IIa clinical trials have been completed, and R&D work is continuing. PF-655 could also be developed as a candidate drug for the treatment of glaucoma, and preparations for developments are already in progress.

#### Main Drug Pipeline Research and Development by SBI Biotech

Pipeline (Licensing partner)	Adaptation disease	Pre-clinical	Phase I	Phase II	Phase III
① QPI-1002 (Novartis International AG)	Kidney transplantation (DGF)				Planning to start at the latest by the autumn of 2015
	Acute kidney injury (AKI)			Planning to start Phase II in this year	
② PF-655 (Pfizer Inc.)	Diabetic macular edema (DME)	Compensation for damages sought from the CRO, and partial damages already collected. R&D to continue		Completed Phase IIa	
	Glaucoma			Start of Phase IIa protocol finalization	
③ Anti-ILT7 antibody (MedImmune, Inc.*)	Autoimmune diseases	Pre-clinical			

\* Subsidiary of AstraZeneca



Progress on Commercialization of Pharmaceuticals, as well as Health Foods and Cosmetics Containing 5-ALA Continues

Satofumi Kawata

SBI Pharmaceuticals Co., Ltd.  
Representative Director and  
COO



5-Aminolevulinic Acid (5-ALA) that is Essential to Human Life

The existence of 5-ALA as a natural amino acid has been known for many years. In recent years, however, it has become the focus of intense interest as an extremely important substance needed to support life functions, such as respiration and energy production. Scientists have also discovered that 5-ALA production within the body declines with age, and that supplementation is important to maintain good health.

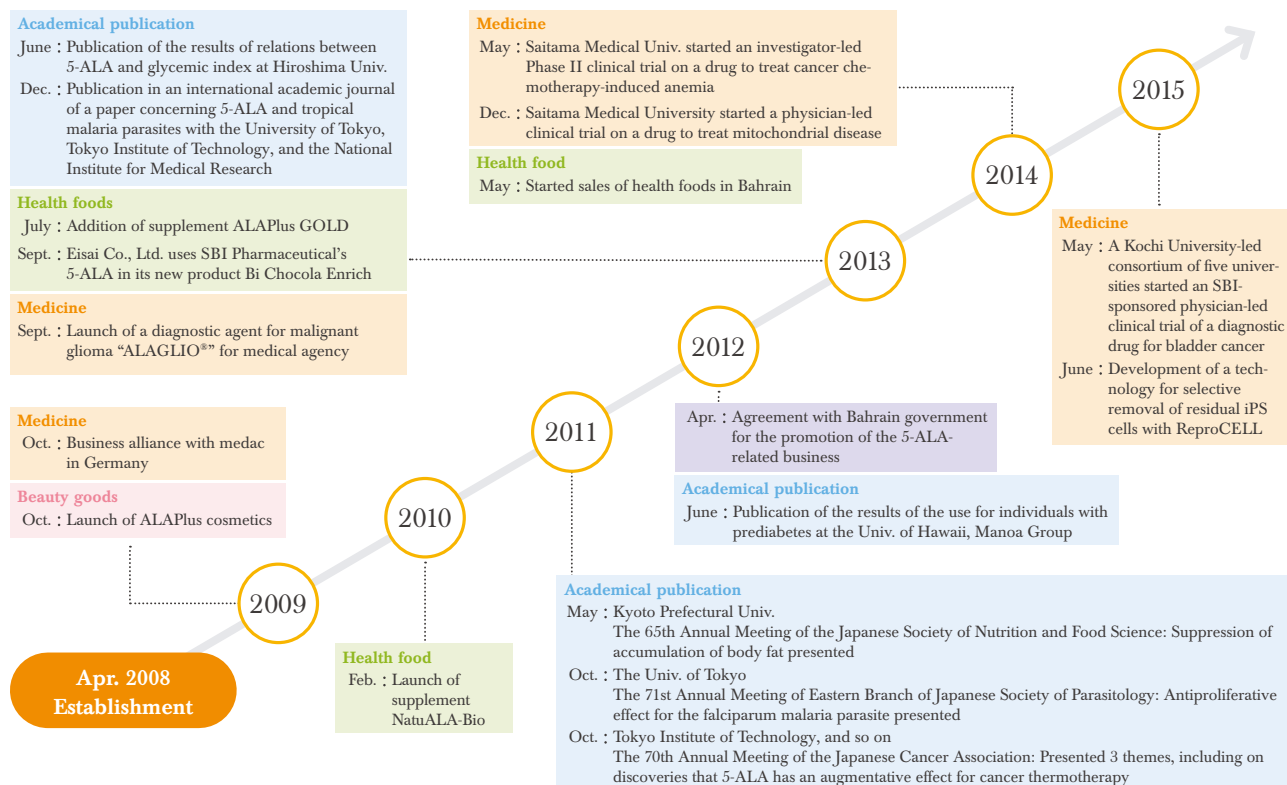
Collaboration with Global Research Institutions

SBI Pharmaceuticals has commercialized health foods and

cosmetics containing 5-ALA in Japan, and is now also actively researching 5-ALA in pharmaceuticals. In September 2013, it launched its first 5-ALA pharmaceutical products, ALAGLIO®. ALAGLIO® as Japan’s first orally administered intraoperative diagnostic agent, is for use during surgery to remove malignant gliomas, which is a form of brain tumor.

SBI Pharmaceuticals has built a global research network of over 90 research organizations in Japan and abroad, to carry out basic research and clinical trials involving the use of 5-ALA to treat a number of diseases. In Japan, for example, there is an R&D project relating to an intraoperative diagnostic agent for use during bladder cancer surgery. The product has been classified as an “orphan drug,” which is a drug used to treat rare diseases. For this drug, physician-led clinical trials have been carried out at Kochi University and four other universities, and

The 5-ALA-related Business is Progressing Steadily, Boosted by a Tailwind from Academic Papers



in May 2015 SBI Pharmaceuticals commenced a company-led Phase III clinical trial.

An investigational new drug (IND) supplied by SBI Pharmaceuticals is being used in a physician-led clinical trial that commenced in December 2014 by a nationwide pediatric network centering on Saitama Medical University, for clinical trials relating to mitochondrial disease. In addition, SBI Pharmaceuticals is working with Oxford University in the United Kingdom on the development of a 5-ALA drug to prevent post-operative ischemia-reperfusion injury, which can cause a reduction in the amount of blood flow per heartbeat in coronary bypass patients. Physician-led Phase II clinical trials will be carried out at multiple universities in the United Kingdom.

### Patent Held by SBI Pharmaceuticals Increases to 21 in Japan

SBI Pharmaceuticals currently holds 21 patents in Japan, covering drugs developed for use in the prevention or alleviation of cancer and adult diseases with 5-ALA as their main constituent, and ten of these patents have also been patented overseas. SBI Pharmaceuticals will continue to obtain patents domestically and abroad for products using 5-ALA. Recently, it has obtained patents for a number of products, including drugs used to prevent or alleviate adult diseases, as well as for the treatment of malaria. Moreover, SBI Pharmaceuticals and ReproCELL Inc. have jointly applied for a patent covering technology for the use of 5-ALA in the selective removal technique on residual iPS cells, which can cause tumors, from iPS-derived differentiated cells.

### 5-ALA-related Business in the Middle East

SBI Pharmaceuticals is working closely with the government of Bahrain to build the 5-ALA-related business in Bahrain and the Gulf Cooperation Council (GCC) region. Bahrain has become a key center for the 5-ALA-related business in the Middle East, and clinical trials and other activities are being implemented with a variety of partner organizations.

With the approval of Bahrain's National Health Regulatory Authority (NHRA), clinical research relating to diabetes is being carried out at the Bahrain Defense Force Medical Service Hospital. Clinical research has been initiated concerning the use of 5-ALA to treat type-2 diabetes, and a food intervention trial is in progress. Diabetes-related research is also being carried out in collaboration with Arabian Gulf University (AGU) Hospital and the RCSI-Bahrain School of Medicine.

Clinical research concerning the use of 5-ALA in photodynamic diagnosis is being carried out at AGU Hospital. This work resulted in the world's first successful surgery to remove bladder cancer using 5-ALA as an intraoperative diagnostic agent in conjunction with a newly developed medical light source. To date, 11 successful operations have been completed, including that carried out at King Hamad University Hospital. Preparations are now being made at AGU Hospital for clinical research concerning surgery for the removal of prostate cancer.

Permission has been obtained for the sale of 5-ALA health foods in the United Arab Emirates, as well as Bahrain, and SBI Pharmaceuticals also expects to receive similar approval from the government of Jordan. This expansion of sales areas in the Middle East will further strengthen the health food business.

### R&D Pipeline Sponsored by SBI Pharmaceuticals

	Phase I	Phase II	Phase III	Marketing
① Diagnostic Agent for Cancer Treatment (Brain tumor)				ALAGLIO* (from Sept. 2013)
② Diagnostic Agent for Cancer Treatment (Carcinoma vesicae) *Designated as an orphan drug			SBI corporate trial at the same five universities that conducted the physician-led trial (Started in May 2015)	Endeavor to increase the indications
③ A Drug to Treat Cancer Chemotherapy-induced Anemia (Saitama Medical Univ.) ARO: Kitasato Academic Research Organization		Investigator-led trial by Saitama Medical University, as the medical institution conducting the clinical trial (Providing drugs and funds)		
④ Preventing Cardiac Ischemia-reperfusion Injury (The Univ. of Oxford) Planning to jointly submit a test plan to the Medicines and Healthcare Products Regulatory Agency (MHRA) soon		Investigator-led trial by Professor Houman, the Univ. of Oxford, (Providing drugs and funds) (Phase II clinical trial will be implemented in several university hospitals in the U.K.)		
⑤ A Drug to Treat Mitochondrial Diseases (Saitama Medical Univ.)		Investigator-led trial led by Saitama Medical University (Providing funds) (Started in December 2014)		