

# Financial Services Business

Through the Completion of the Financial Ecosystem, Continues to Improve the Earning Capacity with the Establishment of a Firm Business Foundation



## Principal Companies

Intermediate Holding Company: SBI FINANCIAL SERVICES

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

## Priority Measures

### > Securities-related Business

- In the securities-related business, centering on SBI SECURITIES, endeavoring the expansion of the corporate business by further enhancing the equity and bond underwriting businesses
- Strengthening the retail business through the initiation of the first self-originated publicly offered structured bonds, and the expansion of the IFA business
- Through an in-house system development by SBI BITS, reducing system costs and improving customer convenience
- The FX-related business is accelerating its Asia deployment through the establishment of SBI FX, an affiliate in Hong Kong

### > Banking-related Business

- At SBI Sumishin Net Bank, will endeavor to take SBI Card, which was incorporated to become a subsidiary in October 2015, to profitability in FY2016, to quickly develop it into a profit pillar
- Embarked on the development of a transaction based lending service as a new revenue source, by leveraging an alliance with FinTech-related companies

### > Insurance-related Business

- SBI Insurance has embarked on the development of fire insurance products with low premiums
- SBI Life Insurance commenced the sales of term life and whole life medical insurance, and will increase sales by maximally utilizing the Group synergies
- In the small-amount, short-term insurance business segment, will expand the business domain and pursue further growth through additional M&A activities of small-amount, short-term insurance companies
- Strengthening the earning capacity of the entire insurance business by entering into the reinsurance business

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

(Millions of yen)

	FY2014	FY2015	YoY change (Rate of change: %)
SBI SECURITIES	34,828	37,850 Record high	3,022 (+8.7)
SBI Liquidity Market	3,046	3,303 Record high	257 (+8.4)
SBI FXTRADE	1,695	1,897 Record high	202 (+11.9)
SBI Japannext	1,081	1,493 Record high	412 (+38.1)
SBI Insurance	(618)	90 Full-year profitability	708 (-)
SBI MONEY PLAZA	1,496	1,751 Record high	255 (+17.0)
SBI Sumishin Net Bank*	5,196	3,385	-1,811 (-34.9)

\* Share of results of associates using the equity method  
Owing to the difference in IFRSs and JGAAP for asset assessment criteria, the profit amount is different from that based on JGAAP



## With a Foundation of an Overwhelming Customer Base and Sales Capacity, Strengthening Measures to Rank among the Major Face-to-face Securities Companies

### Record High Profits for Three Consecutive Fiscal Years

For its FY2015 financial results, SBI SECURITIES achieved record highs in operating revenue and all profit categories for the third consecutive year, with operating revenue up 15.7% year-on-year to ¥89.8 billion, operating income up 15.0% year-on-year to ¥39.9 billion, and net income attributable to owners of the parent up 39.5% year-on-year to ¥28.1 billion.

In April 2015, owing to factors such as a weaker yen versus the dollar in the foreign exchange markets that provided a tailwind, particularly for export-related companies, along with expectations for higher earnings and consequent shareholder returns, the Nikkei Stock Average recovered the ¥20,000 level for the first time in 15 years. However, although the Nikkei Stock Average did somewhat recover after the steep decline in global stock prices at the end of August, it ended trading at the end of March 2016 at ¥16,758, or 12.7% below the level at the end of March 2015.

Under these circumstances, individual stock brokerage trading value on the Tokyo and Nagoya stock exchanges for FY2015

declined 1.7% year-on-year, while that of SBI SECURITIES rose 6.7% year-on-year, and the advancement of the diversification of revenue sources, reflected by a continued increase in the margin trading and investment trust businesses, enabled the achievement of record high profits.

The number of accounts at SBI SECURITIES as of March 31, 2016 increased by 320 thousand year-on-year to 3.56 million, making it the only online securities company to surpass the 3.5 million account barrier, while customer deposit assets reached ¥9.5 trillion, pulling it further away from its competitors, as the company continues to enjoy an overwhelming customer base. As measured by the number of accounts, SBI SECURITIES not only dominates among online securities companies, but it is also ranked third in the industry as a whole, which includes major face-to-face securities companies, trailing second-ranked Daiwa Securities Co. Ltd. by only a small amount.

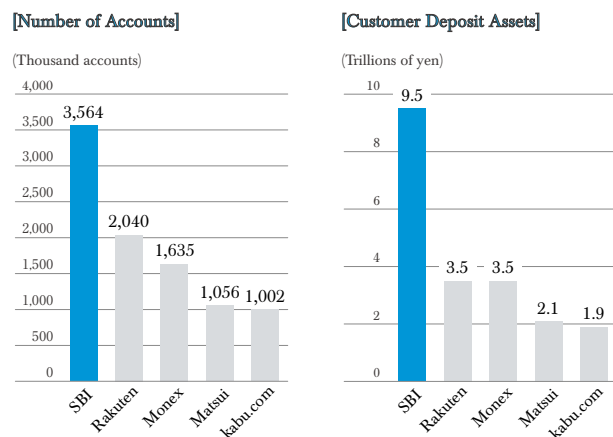
In FY2015, SBI SECURITIES' share of individual stock brokerage trading value rose from 38.1% to 42.0%, while the share of stock brokerage trading value for margin trading by individuals was up from 40.5% to 45.8%, as the company continued its dominant top-rank share within the entire Japanese securities industry, including major face-to-face securities companies.

As of March 31, 2016, the open interest credit balance was ¥678.0 billion, which was at a high level in a volatile stock market, and the financial revenue for the full fiscal year increased 12.5% year-on-year to ¥32.5 billion. Furthermore, underwriting, offering and distribution commissions for FY2015 increased by 1.2% year-on-year to ¥5.5 billion. Investment trust balance remained strong with a balance of ¥1,216.3 billion, or a 5.3% year-on-year increase, while investment trust fees for FY2015 amounted to ¥4.4 billion, for a year-on-year increase of 16.4%. All of these figures indicated high growth.

Introduced in January 2014, the Nippon Individual Savings Account (NISA) system provides tax exemption on small investments. During the fiscal year, SBI SECURITIES attracted many new customers who are also new to investing, with the number of accounts growing significantly from approximately 640 thousand accounts to 820 thousand accounts as of March 31, 2016, ranking the company second in terms of the number of NISA accounts within the industry, including the major face-to-face securities companies. As a result, assets under management pertaining to NISA increased from ¥272.6 billion to ¥424.2 billion over the fiscal year.

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

(As of March 31, 2016)



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

\* Since SBI SECURITIES discloses its financial results on a consolidated basis from FY2015, the year-on-year changes presented above are based on the non-consolidated results for FY2014 for comparison purposes.

## Expanding the Corporate Business while Promoting Product Diversification and Strengthening the Retail Business

SBI SECURITIES will further enhance its corporate business based on an overwhelming customer base and sales capacity in the retail business, and at the same time diversify its retail offerings and expand its unique sales channels.

In its corporate business, SBI SECURITIES was an underwriter for 82 IPOs in FY2015, or for 87.2% of the 94 total IPOs for the year, maintaining the top position in the industry. Moving forward, the company will not only continue to underwrite IPOs, but will also expand and strengthen its participation in secondary public offerings, while also considering the development of a trading business. In the retail business, the company launched the sales in March 2016 of the “Digital Coupon Reverse Convertible (Next Funds Nikkei 225 Leveraged Index Exchange Traded Fund),” the first self-originated publicly offered structured bond. This product development was overseen by SBI Securities (Hong Kong), a Hong Kong subsidiary of the company, as it made full use of the special expertise in financial product development, trading and management possessed by Book Field Capital, which became a subsidiary in April 2015. The in-house development of structured bonds, which was previously purchased from outside financial institutions, has enabled a broader-based and more attractive structured bond offering.

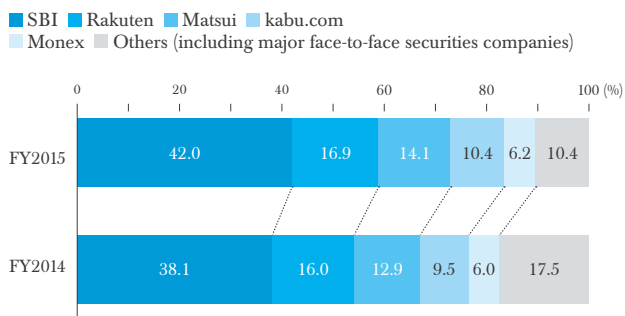
In July 2015, the SBI Group, in pursuit of an internally developed financial system, particularly for the securities business, established SBI BITS, a system development company with 93 of the 150 employees being foreign staff, possessing high technical abilities in engineering that enables a high-level in-house system development (as of March 31, 2016). By sequentially consolidating system development projects that are currently outsourced to various system vendors to SBI BITS, SBI SECURITIES expects to reduce system costs to major outside vendors by 20% over two years. Also, SBI BITS will not just provide its system development to the domestic securities

business, but also eventually expects to provide its services to a broad range of securities businesses overseas, as well as to the banking and insurance businesses.

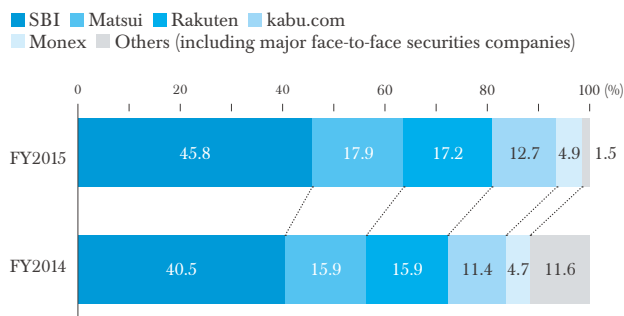
## Establishing a Solid Business Foundation for FX Trading

In foreign exchange trading, SBI SECURITIES, SBI FXTRADE and SBI Sumishin Net Bank have a combined total of 760 thousand FX trading accounts, and a balance of assets on deposit amounting to ¥165.7 billion as of March 31, 2016, both of which far surpasses competitors in the FX industry. Against the backdrop of such a solid business foundation, the trading volume has been high at SBI Liquidity Market, which provides a foreign exchange market function and trading infrastructure, with operating income before the proportional allocation of income to each SBI Group company involved in transactions growing 12.8% year-on-year to a record high ¥12.5 billion (based on JGAAP). Also, at SBI FXTRADE, a pure-play FX transaction services company, operating income based on profit allocated from SBI Liquidity Market rose 11.9% to ¥1.9 billion (based on JGAAP), a record high. The company is also endeavoring to improve customer convenience by offering the industry’s narrowest spreads for major currency pairs, and by launching proprietary services such as the Leveraged Foreign-currency Recurring Trading product in December 2015.

Share of Individual Stock Brokerage Trading Value



(of which) Share of Individual Stock Brokerage Margin Trading Value



Source: Compiled by SBI SECURITIES based on Tokyo Stock Exchange and JASDAQ materials, and from information on each company’s website.

\* The individual stock brokerage trading value and individual stock brokerage margin trading value are the sum of the 1st and 2nd sections of the Tokyo and Nagoya Stock Exchanges, respectively.



## Improving the Earning Capacity through the Diversification of Asset Management Measures and Revenue Sources as the Customer Base Steadily Expands

Noriaki Maruyama

SBI Sumishin Net Bank, Ltd.  
Representative Director and  
President

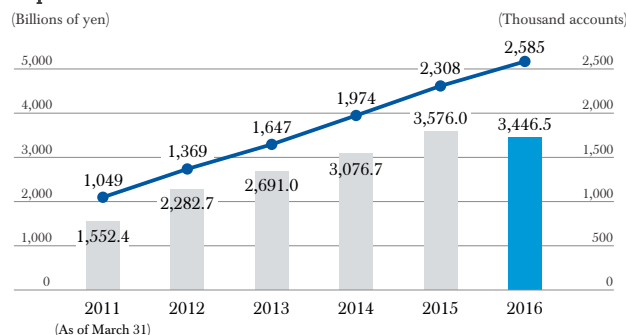


### Starting Full-scale Offering of Flat 35 to Further Broaden the Product Offerings

SBI Sumishin Net Bank is a 50:50 joint venture between SBI Holdings and Sumitomo Mitsui Trust Bank, Limited, Japan's largest trust bank. The bank's business base has steadily expanded since its commencement of business, and during the fiscal year it added 270 thousand new accounts to reach a total of 2.59 million customer accounts, while the deposit balance was ¥3,446.5 billion. In its core housing loans business, SBI Sumishin Net Bank started a full-scale offering of the Flat 35 product in September 2015, which is offered through an alliance of the Japan Housing Finance Agency and private financial institutions, in addition to its principal housing loans products of Internet Exclusive Housing Loans that it provides as an agent for Sumitomo Mitsui Trust Bank, and "MR. Housing Loan REAL," which it offers through SBI MONEY PLAZA and ARUHI (formerly SBI Mortgage). As a result of this offering expansion and the high level of approval from customers, the housing loans balance, including these products, amounted to ¥2.9 trillion as of June 2016.

The financial results for FY2015 (based on JGAAP) show that ordinary revenue increased by 1.1% year-on-year to ¥57.9 billion, however, as a result of losses on the disposal of some of the bonds held, ordinary income fell 23.1% year-on-year to ¥11.7 billion and profit attributable to owners of the Company fell 15.8% year-on-year to ¥8.4 billion.

### 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

### Full-scale Entry into the Credit Card Business, and the Diversification of Asset Management Measures along with Strengthened Security Measures

One of SBI Sumishin Net Bank's principal measures is to diversify the operating product offerings by focusing on the expansion of card loans and specific purpose loans. "MR. Card Loan," an unsecured loan for individual customers, achieved one of the lowest rates in the industry in July 2014 of 1.99%, while the credit ceiling was raised to ¥10 million. These improvements expanded the balance of card loans as of March 31, 2016 to ¥110.8 billion. In June 2016, the minimum interest rate was lowered to 1.89% in response to diverse customer needs, and to improve services. Additionally, for specific purpose loans, which have been offered since May 2013, the balance increased year-on-year by 1.4 times to ¥13.2 billion as of March 31, 2016.

With the incorporation of SBI Card as a wholly owned subsidiary, it has embarked into the full participation in the credit card business, and since January 2016 it initiated the offering of Visa debit cash cards. Through these efforts, SBI Sumishin Net Bank will expand the settlement business and quickly develop it into a profit pillar. The credit card business will endeavor to achieve profitability in FY2016 by improving its earning structure, through revised offerings and the fundamental overhaul of the business flow. Also, as a new revenue source, the bank is preparing to commence a credit card merchant acquiring business (a credit card member store service) and a transaction based lending service (a loan service for credit card member stores) through collaborations with settlement agencies.

In addition, security measures are being strengthened in light of the increase in financial crimes on the Internet. Efforts are focused on ensuring a safe transaction environment through such actions as encouraging the use of Smart Authentication, a smartphone-based authentication service that uses a proprietary app with patent approval, or an e-mail service for electronic account transfers and a strict customer verification to prevent improper use of bank accounts.





## Developing a Fire Insurance Product with Low Insurance Premiums through the Maximization of Group Synergies

Hiroyoshi Kido

SBI Insurance Co., Ltd.  
Representative Director and  
President



### SBI Insurance Achieves a Full-year Profit for the First Time since Its Establishment

The SBI Group insurance business, which originated in non-life insurance centered on auto insurance, has expanded its business into small-amount, short-term insurance that deals with earthquake indemnity insurance, medical insurance and mortality insurance, and in February 2015, SBI Life Insurance (formerly PCA Life Insurance) was incorporated as a subsidiary, which allowed the business to establish a foundation to offer a more comprehensive set of insurance services. SBI Insurance, which oversees the core of the Group's insurance business, has achieved its first full-year profit in the ninth fiscal year since its commencement of operations, with FY2015 profit before income tax expense of ¥0.1 billion (based on IFRSs), aided by a strong buildup in insurance policies, particularly in auto insurance, and a thorough set of cost reductions. SBI Insurance conducts a low-cost operation that maximally utilizes the Internet to minimize auto insurance premiums, and so has received the support of many customers. As of March 31, 2016, the number of insurance policies increased 12.1% year-on-year to 820 thousand, while net premiums on direct insurance maintained its high growth with a 12.2% increase year-on-year to ¥28.7 billion, and the combined ratio (direct insurance basis) fell 3.9 points from FY2014 to 95.5%. Additionally, the cost ratio for direct insurance remained at a low level of 20.8%, and the increase in selling, general and administrative expenses, including advertising costs were controlled, while new insurance policies were efficiently acquired, all contributing to the profitability achieved.

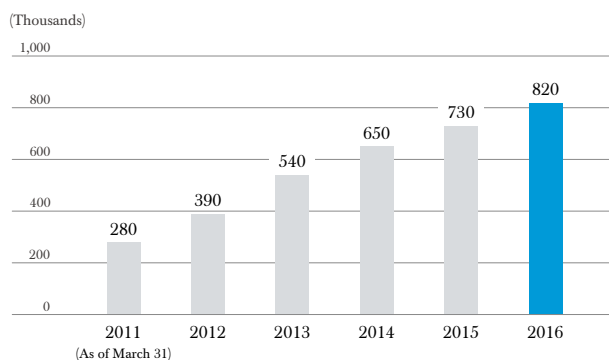
As a new strategy, SBI Insurance is developing a fire insurance product with affordable premiums. The business also plans to bring down selling costs through a thorough pursuit of synergies with SBI

Sumishin Net Bank and ARUHI (formerly SBI Mortgage), which handles a large volume of housing loans, as well as SBI MONEY PLAZA.

### Favorable Trends in All Group Insurance Businesses

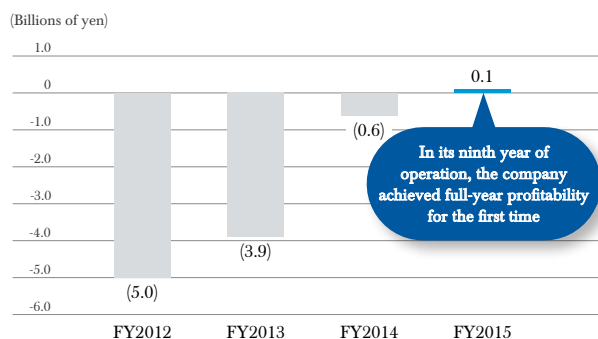
SBI Life Insurance, a new addition to the Group, started sales of new products for term life insurance and whole life medical insurance in February 2016. Even for these products, the Group's synergies will be maximized to expand sales through the online channels, as well as the "face-to-face channels" of face-to-face insurance shops and call centers. In the small-amount, short-term insurance business, the number of such policies in force at SBI SSI rose 21.3% from the previous fiscal year to 16,414 policies, while SBI IKIIKI SSI's policies in this area increased 20.1% year-on-year to 46,546. Since joining the SBI Group, the two companies have experienced dramatic growth in the number of policies in force. In June 2016, the SBI Group announced that Nihon Small Amount & Short Term Insurance, which mainly sells home contents insurance to rental tenants, would become a subsidiary, subject to an authorization granted from the relevant authorities in Japan, to promote a sales collaboration between the three SBI Group companies in this business, in order to achieve higher growth. In addition, the Group embarked into the reinsurance business through the acquirement of a relevant reinsurance license in May 2016. The reinsurance operations will commence in the first half of FY2016, and SBI Insurance and SBI Life Insurance will transfer a portion of their insurance policies that are currently ceded externally, as these moves will strengthen the plans to improve the earning capacity of the entire insurance business by controlling insurance fees and other costs that are paid to outside vendors.

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)



## Advancing the Diversification of the Business Domain to Establish a Stable Revenue Base

Tomohiko Ota

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



### Achieved Increases in Both Revenue and Profit for Three Consecutive Years

SBI MONEY PLAZA, which is the common infrastructure of the Financial Services Business, is undertaking a nationwide expansion of its face-to-face shops, which handles securities, insurance, bank deposits and housing loans, as the face-to-face sales channel of the SBI Group. The SBI MONEY PLAZA shops are operated primarily through a franchise system. Among these shops, the flagship Shinjuku Chuo Branch had a renewal opening in May 2016. With the benefit of having the sales capability which is an advantage of a face-to-face operation, in its role as a consultation office for asset management and housing loans products of SBI Sumishin Net Bank and other services, it is offering products from both within and outside of the Group on a neutral basis through an one-stop approach.

As a result of efforts to strengthen its alliance with SBI SECURITIES, SBI MONEY PLAZA's assets on deposit as of March 31, 2016, totaled ¥698.4 billion, a sizeable year-on-year increase of 24.6%. Also, with the additional success in diversifying its revenue source, FY2015 financial results for the business (based on JGAAP) recorded a 13.5% year-on-year increase in revenue to ¥5.4 billion, and an 11.3% year-on-year increase in operating income to ¥1.8 billion, achieving significant increases in revenue and profit for three consecutive years.

### Strengthening Sales Capacity through an Expansion of the Partner Network

SBI MONEY PLAZA, which has been reorganizing and integrating existing branches, in order to advance the efficiency of shop operations, had 380 locations (20 directly operated) as of March 31, 2016, and plans to build a nationwide system of 500 locations by capitalizing on its partner network with large accounting offices and regional banks. Looking ahead, the business is considering the opening of directly operated shops in major urban centers, and is active in alliances with new partner companies as it strengthens its sales capacity through added efficiency and an expanded network.

Additionally, SBI MONEY PLAZA in January 2016 completed its registration as a Type II Financial Instrument Business Operator under Japanese securities law, enabling an agile provision of financial products. Moving forward, through an enrichment of its product offerings, SBI MONEY PLAZA will also be expanding its business domain.



SBI MONEY PLAZA,  
Shinjuku Chuo Branch

## Other Financial Services Businesses

### Record High Profits in a Variety of Other Financial Services Businesses

SBI Remit, which operates an international remittance business, is expanding globally through an alliances with Moneygram, a major U.S. international remittance service provider, as well as financial institutions in South America and Asia. In FY2015, the company achieved its first full-year profit since its establishment in 2010, as a result of dramatic increases in the amount of remittance for Vietnam and China, as well as firm

results in remittances to the Philippines.

In addition, SBI Holdings' division operating Japan's foremost comparison and cost estimation websites for financial products through InsWeb insurance marketplace and the E-Loan website achieved record high profits. Furthermore, SBI Benefit Systems, which provides operation management services for defined contribution pension plans, also achieved record high profit, and going forward, the Group's Financial Services Business companies will target further growth by engaging in developing new services by leveraging FinTech technologies.

# Asset Management Business

In Addition to Investments into High Growth Fields such as FinTech, Focusing Efforts on Strengthening Asset Management Capabilities



## Principal Companies

Intermediate Holding Company: SBI Capital Management

SBI Investment  
SBI VEN CAPITAL  
SBI Investment KOREA  
SBI SAVINGS BANK

Intermediate Holding Company: SBI GLOBAL ASSET MANAGEMENT

Morningstar Japan  
SBI Asset Management  
SBI Bond Investment Management

## Priority Measures

### ▶ Venture Capital Business

- SBI Investment established the FinTech Fund, to increase investments into FinTech and other new technologies
- Pursuing planned establishment of a new fund that will increase the corporate value of regional financial institutions through the support of FinTech introduction to those institutions
- Utilizing the SBI Group's global network to support the overseas expansion of FinTech investee companies

### ▶ Asset Management Services Business

- Internal restructuring to strengthen the Group's asset management structure by establishing SBI GLOBAL ASSET MANAGEMENT, as an intermediate holding company
- Established SBI Bond Investment Management with PIMCO, an asset management company, to start the management of bond funds
- Promoting global asset allocation through alliances with domestic and international asset management companies, and conducting arbitrage to benefit from the interest rate differentials between Japan and abroad
- With the continued uncertainties in the world economies, planning the offering of a real-time gold trade service as a safe harbor asset

### ▶ SBI SAVINGS BANK

- SBI SAVINGS BANK of South Korea steadily increased performing loans in the retail field
- Endeavor to improve the delinquency rates by eliminating bad debt to further strengthen earning capacity

## Full-year Performance of the Asset Management Business by Major Business Lines (based on IFRSs)

### Private Equity Investment

SBI Investment and funds under its aegis (Billions of yen)

	FY2014	FY2015
Revenue	(0.1)	18.8
Profit before income tax expense	(7.4)	11.7

### Overseas Financial Services Business

SBI SAVINGS BANK and other overseas companies (Billions of yen)

	FY2014	FY2015
Revenue	41.7	43.2
Profit before income tax expense	14.3	4.6

### Asset Management Services Business

Morningstar Japan and other companies (Billions of yen)

	FY2014	FY2015
Revenue	3.6	4.1
Profit before income tax expense	1.2	1.4



## Promoting Venture Investments in Japan and Abroad, and Increasing the Value of Investee Companies through Effective Incubation Capabilities

Katsuya Kawashima

SBI Investment Co., Ltd.  
Representative Director and  
President



### The SBI Group's Assets Under Management (As of March 31, 2016)

Private equity, etc. **¥266.3 billion**

(Including ¥83.0 billion of both cash and commitment amount to be paid in\*)

(Billions of yen)

Breakdown by industry		Breakdown by region	
IT / Internet	26.2	Japan	73.9
Biotechnology / Health / Medical	56.8	China	22.3
Services	9.0	Korea	26.7
Materials / Chemicals	2.5	Taiwan	1.6
Environmental / Energy	19.8	Southeast Asia	5.8
Retail / Food	13.5	India	5.2
Construction / Real estate	2.1	U.S.	43.9
Machine / Automobile	4.5	Others	3.8
Finance	37.2		
Others	11.4		
<b>Total</b>	<b>183.3</b>	<b>Total</b>	<b>183.3</b>

Investment trust, etc. **¥259.0 billion**\*4

(Billions of yen)

Investment trusts	180.6
Investment advisories	74.4
Investment companies	4.0

\*1 Calculated by the exchange rate as of the end of March 2016.

\*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 ¥26.6 billion.

### Active Venture Investments Domestically and Abroad

As a "New Industry Creator," SBI Investment is a core company in the Asset Management Business, and manages venture capital funds under 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. The SBI Group, since its establishment in 1999, has expanded its venture investments in IT and biotechnology, which are positioned as the core industries of the 21st century, and as of March 31, 2016, the SBI Group had invested in a cumulative total of 1,132 companies in Japan and abroad. Of these, 200 companies either completed an IPO or completed M&A deals, to result in a high performance exit ratio of 17.7%. Among these, those that SBI Investment itself was responsible for the investment and management totaled 688 companies, with an exit for 138 companies, resulting in an exit ratio of 20.1%, as of March 31, 2016.

In FY2015, the SBI Group executed investments totaling ¥27.9 billion in 92 companies, and of these investments, ¥18.5 billion went to 48 companies in IT and biotechnology, or in the financial sector which fundamentally has a close affinity to the Internet. Additionally, SBI Investment established the FinTech Fund, to proactively invest in IT-related financial services companies and IT-related FinTech companies.

The Group's assets under management, including private equity, amounted to ¥183.3 billion (excluding both cash and commitment amount to be paid in), as of March 31, 2016. By region, assets under management in Japan totaled ¥73.9 billion, followed by the U.S. with ¥43.9 billion, South Korea with ¥26.7 billion, and China with ¥22.3 billion, as approximately 60% was invested overseas, particularly in Asia, which is a special unseen advantage that is not found at other Japanese venture capital companies. This is based on a global investment structure, with collaborations with about 20 prominent local partners, established to facilitate the early discovery of promising overseas investee companies.



## Value Enhancement of Investee Companies Supported by the Entire Group

SBI Investment has established an effective support system for investee companies, whereupon after an investment it takes a full hands-on approach to help develop that company, through proposals of strategies appropriate to their business stage, helping build internal controls and by dispatching executives as directors.

When an investee company reaches the IPO stage, SBI Investment leverages SBI SECURITIES and SBI MONEY PLAZA with their overwhelming customer base, and for overseas expansion it will call upon the Group's overseas offices and network of prominent local partners, to proactively assist in the

value enhancement of the investee company, through to its public offering stage. Within the FinTech field, the SBI FinTech Consortium was established for collaboration purposes between the Group companies and the FinTech investee companies, as well as to implement an active matching between the investee companies and the fund's investors, who are financial institutions and operating companies, in order to enhance the value of the investee FinTech companies.

Although it is a latecomer to the business, through such a proprietary system, SBI Investment commands a significant presence. In FY2015, the number of IPOs or M&A deals involving investee companies of the SBI Group totaled 16, with 5 in Japan and 11 in South Korea and Taiwan. For FY2016, the total number of IPOs and M&A deals is expected to total 24.

### Results of IPO and M&A Deals on Investee Companies in FY2015

Number of companies	Date	Company	IPO / M&A	Business	Head office
Japan: 5 companies Overseas: 11 companies	April 2015	SanBio Co., Ltd.	IPO (TSE Mothers)	Research, development, manufacture and sales of regenerative cell pharmaceuticals	Japan
	April 2015	CRE, Inc.	IPO (TSE 2nd Section)	Comprehensive services for commercial real estate, focusing on logistics facilities (real estate leasing, management, brokerage, development, effective utilization, construction, asset management)	Japan
	May 2015	GenoFocus, Inc.	IPO (KOSDAQ)	Development of industrial enzymes	Korea
	June 2015	Corestem, Inc.	IPO (KOSDAQ)	Research and development of stem cell therapies	Korea
	June 2015	Biocore Co., Inc.	IPO (KONEX)	CRO (analysis, vitality, clinical) services, dielectric analysis, and development of dielectric analysis products	Korea
	June 2015	U-Tech Co., Ltd.	IPO (KOSDAQ)	Mobile device light guide plates and mold frames for BLU (Black Light Unit)	Korea
	July 2015	Natural FNP, Inc.	IPO (KONEX)	Wholesale distribution of processed foods	Korea
	July 2015	Plumbline Life Sciences, Inc.	IPO (KONEX)	Manufacture of veterinary drugs	Korea
	August 2015	Fine-tech Co., Ltd.	IPO (KOSDAQ)	BLU (Back Light Unit), TSP (Touch Screen Panel), and LCD modules for mobile phones	Korea
	September 2015	Boditechmed, Inc.	IPO (KOSDAQ)	In vitro diagnostic systems	Korea
	September 2015	Brangista Inc.	IPO (TSE Mothers)	Electronic magazines business and solutions for e-commerce operators	Japan
	November 2015	MG MED, Inc.	IPO (KOSDAQ)	Molecular diagnostic services using gene chips and manufacture of diagnostic reagents	Korea
	December 2015	Vision Inc.	IPO (TSE Mothers)	Sale of office equipment and communications equipment, and overseas WiFi router rental service	Japan
	December 2015	Egis Technology Inc.	IPO (TPEX)	Development and manufacture of fingerprint authentication security products	Taiwan
	December 2015	SOCIALWIRE CO., LTD.	IPO (TSE Mothers)	Press release distribution business and rental office business	Japan
	February 2016	Qurient Co., Ltd.	IPO (KOSDAQ)	Pharmaceutical research and development	Korea

## Asset Management Services Business

### Enhancement of the Asset Management-related Services to Strengthen Earning Capacity

As part of an internal restructuring to enhance the entire Group's asset management structure, the asset management services business was formed within the Asset Management Business in November 2015, with SBI GLOBAL ASSET MANAGEMENT as an intermediate holding company.

Toward the enhancement of the asset management-related services, SBI Bond Investment Management was established as a joint venture with PIMCO of the U.S., one of the largest bond management companies, in December 2015. The joint venture commenced operations in April 2016, as it started the discretionary management of SBI Life Insurance's portfolio. Furthermore, in June 2016 the joint venture initiated the operation of a publicly offered investment trust, SBI-PIMCO Japan Better Income Fund (short name: Beta-In). Beta-In is a low-risk, low-cost actively managed bond fund developed by the synergy between PIMCO's high-level capability in actively managed bond funds and the SBI Group's Internet financial expertise, and by controlling foreign exchange risk, the fund invests in foreign-currency-denominated bonds issued by Japanese corporations with high creditworthiness.

In May 2016, the SBI Group reached a basic agreement on establishing a joint venture with SYZ Asset Management of Switzerland, a company with strengths in global asset allocation. Through this joint venture, the Group's asset management companies will have access to asset allocation advisory services that are necessary to develop investment products through optimal risk diversification, and products that will be developed for individual and institutional investors in Japan will be distributed through sales companies, such as SBI SECURITIES.

In addition, amidst the mounting uncertainty regarding the world economies, the demand for gold is rising as an asset without credit risk. The SBI Group has teamed up with Gold Bullion International of the U.S., which deals in real-time trading of gold, to conclude a memorandum of understanding on forming a joint venture offering a platform for real-time 24-hour spot physical gold trading for individual and institutional investors in Japan. This action expands the Group's asset management offering beyond that of simply stocks and bonds.

Morningstar Japan, which was transferred from the Financial Services Business to the Asset Management Business in FY2015, achieved significantly higher revenue and profits, including record highs in operating income, ordinary income and net income.

## SBI SAVINGS BANK

### Acquisition of New Loans is Steadily Increasing, and the Quality of Loans Held Continues to Improve

SBI SAVINGS BANK of South Korea, which became a consolidated subsidiary in FY2012, is expanding its savings bank business with individuals, self-proprietors, and small- to medium-size enterprises as its main customers. In October 2014, SBI SAVINGS BANK merged with three banks of its affiliate companies to become the largest savings bank in South Korea by assets today.

Shortly after becoming a subsidiary, the bank was impacted by non-performing loans acquired before its consolidation, however it has completed a revitalization process, and its earn-

ing capacity is now steadily improving. SBI SAVINGS BANK's performing loans are steadily increasing, particularly in the retail area, while retail credit acquisition has been growing in value at a rate of 10–20% per quarter, and with the Retail Mobile Credit Loan Product "Cyder" being introduced in January 2016, it has made a large contribution to the acquisition of new credit.

Furthermore, the soundness of the bank's credit-holdings has been on an improving trend. The delinquency rates as of March 31, 2016, was 16.2% overall, and for retail credit it improved to 8.5%. The bank's goal is to bring the overall rate under 10% by the end of 2016, and by clearing away non-performing loans during the current fiscal year ending in December 2016, the bank intends to achieve profits of 60 to 70 billion Korean won in the following fiscal year.

# Biotechnology-related Business

Accelerating Business Expansion by Streamlining the System for Early Profitability



### Principal Companies

Intermediate Holding Company: SBI ALA Hong Kong

- SBI Biotech
- SBI Pharmaceuticals
- SBI ALApromo

### Priority Measures

#### > SBI Biotech

- Steady progress on multiple drug development pipelines, including those in Phase III of SBI Biotech and its wholly owned subsidiary Quark Pharmaceuticals of the U.S.
- SBI Biotech is endeavoring to achieve full-year profitability on a non-consolidated basis by advancing the earning capacity of the drug development pipeline through an out-licensing (including joint R&D) measure
- Advancing into the development of a cancer immunotherapy agent by applying its proprietary drug platform “pDC (plasmacytoid Dendritic Cell) Modulation”

#### > SBI Pharmaceuticals

- Streamlining the business structure for 5-ALA-related business and establishing an exclusive global R&D system, upon the incorporation of photonamic as a wholly owned subsidiary of SBI ALA Hong Kong in January 2016
- Enhancing the sales structure of pharmaceuticals overseas by leveraging the global sales channel of photonamic, in over 25 countries centered on Europe, which has been cultivated through its existing sales partners
- Advance toward early profitability by driving rigorous distinctions of research and development pipelines, from the standpoint of importance based on medical needs and the progress in R&D, in order to thoroughly reduce cost

#### > SBA ALApromo

- Launched sales of ALAplus Tou (Sugar) Down, the first food with function claims which contains 5-ALA in December 2015
- Aggressive implementation of efficient promotions of products, including the full-fledged start of joint promotions with the RIZAP GROUP
- Promoting the development of new foods with function claims that follows ALAplus Tou (Sugar) Down

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

	FY2014	FY2015
Biotechnology-related Business	(7,310)	(6,572)
SBI Biotech	(637)	(297)
Quark Pharmaceuticals	(1,436)	(2,572)
SBI Pharmaceuticals	(1,220)	(1,425)
SBI ALApromo	(426)	(587)

(Millions of yen)

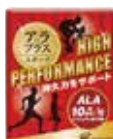
### 5-ALA-related products



ALAplus / ALAplus Gold



ALAplus CoQ10



ALAplus Sports High-performance



ALAplus Tou (Sugar) Down



ALAplus Cosmetic Series



Takeshi Irie

SBI Biotech Co., Ltd.  
Representative Director and  
President



## Favorable Progress on the Drug Development Pipeline, Including the Start of Two Phase III Clinical Trials at SBI Biotech's Subsidiary Quark Pharmaceuticals

### Monetization of the Drug Development Pipeline

SBI Biotech is a bio-venture engaged in the development of medical treatments and innovative new drugs for intractable diseases, such as cancer and autoimmune disorders.

The company has multiple promising drugs in the pipeline in addition to the Anti-ILT7 antibody, which is a molecularly targeted drug for autoimmune disorders licensed to MedImmune LLC of the U.S., a member of the AstraZeneca Group of the U.K. Through the out-licensing of these drugs, including joint R&D, SBI Biotech advances the earning capacity of its pipeline as it endeavors to make a full-year profit on a non-consolidated basis.

SBI Biotech's proprietary drug platform, pDC (plasmacytoid Dendritic Cell) modulation, can be applied to agents for cancer immunotherapy, which is a drug in the spotlight these days. The pDC technology consists of cells that modulate the suppression and activation of immune reactions. Cancer treatments are believed to be possible by activating the immune reaction through its action on pDC, and which until now has been cultivated in the treatment of autoimmune disorders. SBI Biotech plans to capture the growth potential that revolves around cancer immunotherapy agents through the activation of pDC.

### Two New Drug Candidates Progressed towards Phase III Clinical Trials at Quark Pharmaceuticals of the U.S.

Quark Pharmaceuticals, Inc., a wholly owned subsidiary of SBI Biotech, holds superior technology in the field of small interfering RNA (siRNA) and has made sound progress on its multiple drugs in the development pipeline. One drug in the pipeline is QPI-1002 (licensed to Novartis International AG of Switzerland), which is proceeding to Phase III clinical trials as a preventive agent for the failure of kidney function following an organ transplant (delayed graft function), and has Phase II clinical trials under way for acute kidney injury.

Phase II/III clinical trials have also started for QPI-1007 (licensed to Biocon of India) for non-arteritic anterior ischemic optic neuropathy as an indication. Furthermore, Phase II clinical trials in the U.S., Vietnam and Singapore for application to acute angle-closure glaucoma ended in June 2015, and the final results are scheduled to be reported this summer. Going forward, Quark will be migrating to the clinical stage of the next generation drug development pipeline, in accordance with generating a revenue source such as royalty income levied against the value of sales as the result of Phase III drug development pipeline being placed on the market.

#### Major Drug Pipelines Researched and Developed by SBI Biotech

Pipeline (Licensing partner)	Adaptation disease	Progress	
Anti-ILT7 antibody (MedImmune, Inc. of the U.S.*1)	Autoimmune disorders	Pre-clinical (Completion)	MedImmune will initiate Phase I clinical trial during the second quarter of FY2016. After the start of the clinical trial, receipt of a predetermined amount of milestone payments is expected.
GNKS356 (Independently)	Psoriasis / Systemic Lupus Erythematosus (SLE)	Pre-clinical	Selected as Japan Agency for Medical Research and Development's (AMED) pre-designation review as an orphan drug commercialization candidate for their project promoting support for drug discovery (from FY2015 to FY2017) (Maximum subsidy: ¥200 million per fiscal year)
SBI 3150/9674 (Independently)	Autoimmune disorders	Non-public	Considering out-licensing
Cdc7 inhibitor (Carna Biosciences, Inc.)	Cancers	*2	Intellectual property rights assigned to Carna Biosciences in June 2014. → In accordance with Carna Biosciences entering into an out-licensing agreement with ProNai Therapeutics, as announced in May 2016, a partial milestone payment is expected at an early date. Further receipt of milestone payments due to development progress of Cdc7 is also expected.

\*1 Subsidiary of AstraZeneca PLC of the U.K.

\*2 Carna Biosciences initiates R&D





Endeavoring to Become the World's "One and Only Company" in the 5-ALA-related Business

Satofumi Kawata

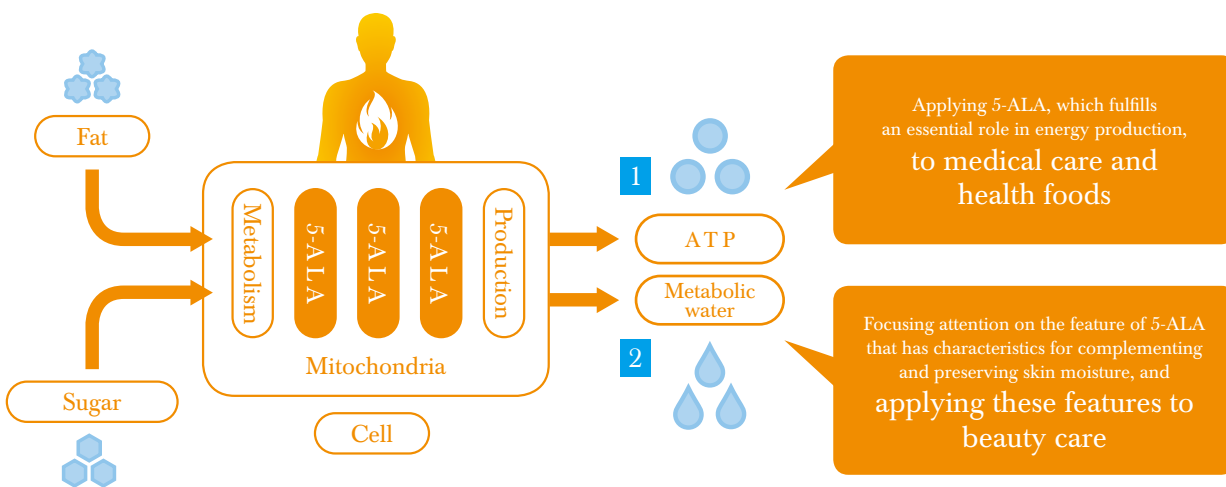
SBI Pharmaceuticals Co., Ltd.  
Representative Director,  
Senior Executive Vice President



What is 5-ALA (5-Aminolevulinic Acid)?

5-ALA is a type of natural amino acid contained in living cells of plants and animals. 5-ALA works to aid photosynthesis in plants, as well as to preserve energy production and moisture retention in humans and animals that plays an essential role in preserving health. Recent research confirms its usefulness in a variety of fields including beauty care, health and medical care, which results from a well-balanced ingestion of 5-ALA and minerals such as iron (Fe).

Action of 5-ALA in mitochondria, the "energy factory" of cells

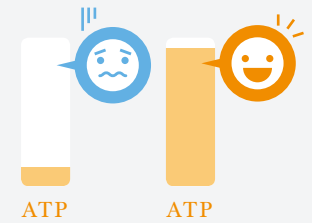


**1** Inside the mitochondria, sugar and fat are metabolized and energy is produced in the form of ATP, which is indispensable to maintaining good health.

**2** As a result of ATP production, metabolic water is produced for the crucial role in retaining the body's moisture.

ATP (Adenosine Triphosphate), a Health Barometer

ATP production efficiency is believed to atrophy as people age and their metabolism slows down. Fatigue and low activity will then occur as a result. In order to remain healthy, it is absolutely essential to maintain the mitochondrial function of producing ATP.



Favorable Progress in R&D through Alliances with Domestic and Overseas Research Institutions

SBI Pharmaceuticals has been proactively cooperating with over 90 domestic and overseas research organizations, and is conducting research and forming business alliances in a broad range of fields including pharmaceuticals, health foods and cosmetics. ALAGLIO®, the first drug launched by SBI Pharmaceuticals, started sales in September 2013 for use in surgery to remove

malignant glioma, a type of brain tumor. As a drug for these tumors, this product is being sold domestically as Japan's first orally administered intraoperative diagnostic agent. Also, photonamic GmbH & Co. KG of Germany, a wholly owned subsidiary of the SBI Group, obtained approval for a similar product in 2007 from the European Medicines Agency (EMA). Through its sales partner, medac GmbH (also of Germany), the company is selling the product under the name of Gliolan in over 25 countries in Europe, including Germany and the U.K. In line with its future goal of selling in the U.S., photonamic is preparing to submit an application for approval to marketing this drug there.

New drug development continues on the heels of ALA-GLIO®. One prospective drug in the R&D pipeline is an intraoperative diagnostic agent for use during surgery for carcinoma vesicae. Following investigator-led clinical trials at Kochi University and four other universities, SBI Pharmaceuticals also completed company-led Phase III clinical trials and plans to apply for approval during FY2016. Moreover, investigator-led trials at Saitama Medical University for a drug to treat cancer chemotherapy-induced anemia have been completed, and it will now enter company-led Phase II clinical trials. In other areas, the company is getting favorable results with investigator-led trials regarding an intraoperative diagnostic agent for peritoneal dissemination of gastric cancer at Osaka University and other medical institutions, and also a drug to treat mitochondrial diseases at Saitama Medical University. Furthermore, SBI Pharmaceuticals is preparing for Phase II clinical trials regarding preventive agent for cardiac ischemia-reperfusion injury at Oxford University of the U.K.

## Strengthening the Business Foundation with an Eye on the Future

SBI Pharmaceuticals has obtained numerous Japanese patents in a range of fields including anti-malaria drugs and prophylactic/therapeutic agent for influenza virus infection. The current count comes to 36 patents. The number of obtained patents increased in FY2015 in particular with 11 patents registered, including an immune tolerance inducer, a prophylactic/therapeutic agent for veisalgia, and an agent for treating and preventing cancer anemia. Of the patents granted in Japan, 16 have also received approval in foreign countries. The company is continuously moving ahead with a global vision of patent strategy, while also endeavoring to determine development areas that will carry into the future.

SBI Pharmaceuticals has broadened its alliances with foreign research institutions and corporations from the aspects of R&D and business expansion. At foreign universities and national hospitals, it has confirmed the safety and effectiveness of 5-ALA through conducting and collecting clinical data in 5-ALA food intervention trials of a several dozen research participants that mainly cover metabolic diseases. In January 2016, the SBI Group incorporated photonamic, a former member of medac GmbH of Germany, as a wholly owned subsidiary. Accordingly it enables the Group to establish an exclusive global R&D system, as well as to strengthen the overseas pharmaceuticals sales structure leveraged by the global sales channel of photonamic.

### R&D Pipelines Sponsored by SBI Pharmaceuticals

	Phase I	Phase II	Phase III	
1 Diagnostic agent for cancer treatment (Brain tumor) *Designated as an orphan drug				ALAGLIO® (Launched in Sept. 2013)
2 Diagnostic agent for cancer treatment (Carcinoma vesicae) *Designated as an orphan drug			Completion of an SBI corporate trial at the same five universities conducting the investigator-led trial	Planning to submit for approval in FY2016
3 Diagnostic agent for cancer treatment (Peritoneal dissemination of gastric cancer)		Investigator-led trial by Osaka Univ. (Providing drugs and funds) (from Nov. 2015)		Scheduled to conduct corporate trial
4 Drug to treat cancer chemotherapy-induced anemia (Saitama Medical Univ.) ARO: Kitasato Academic Research Organization		Investigator-led trial by Saitama Medical Univ., as the medical institution completed the clinical trial (Providing drugs and funds)		
5 Preventive agent for cardiac ischemia-reperfusion injury (The Univ. of Oxford in the U.K.) 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 jointly implemented in University Hospitals Birmingham in the U.K.)		
6 Drug to treat mitochondrial diseases *Planning to file for grant as an orphan drug (Saitama Medical Univ.)		Investigator-led trial by Saitama Medical Univ. (Providing drugs)		Phase II is in progress, and the explorative trial result is in the process of being analyzed