

# Synergy

## Strengthening the Competitiveness of the Domestic Financial Services Business

### The SBI Group will further accelerate the customer base expansion fueled by the upturn in the stock market

The SBI Group's domestic Financial Services Business has positioned securities, banking and insurance as the three core businesses, and provides highly competitive financial products and services that take maximum advantage of the Internet.

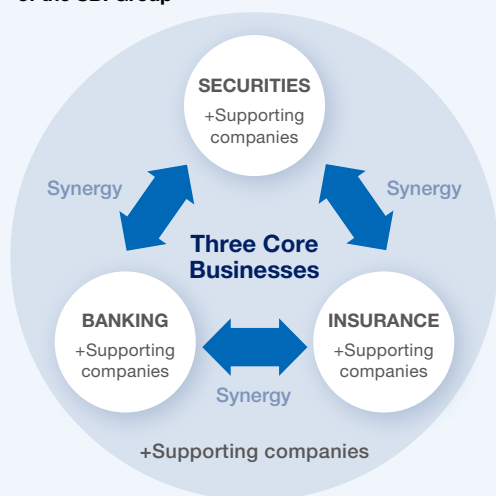
With the continuing evolution of the Internet in the form of higher speed, ubiquitous access and expanding means of expression, the Internet is certain to more deeply penetrate society, even in areas where it was not previously utilized, and may be used for increasingly diverse purposes and occasions.

We will respond to such changes in the business environment and realize dramatic growth at each Group company by steadfastly adhering to the "Customer-centric Principle" that has guided the Group since its founding.

First, SBI SECURITIES has recently increased its customer base significantly, supported by a tailwind from the uptrend in the stock market since the end of 2012 and the easing of margin trading regulations in January of this year. Meanwhile, the number of online brokerage trading accounts in Japan topped 18.16 million at the end of March 2013, increasing at a compound annual growth rate of 35.5%.

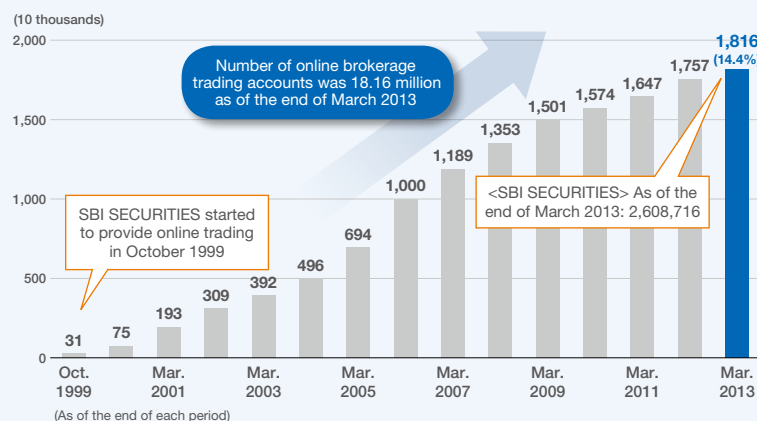
The five major online securities companies accounted for a 71.2% share of total individual stock brokerage trading value in FY2012. SBI SECURITIES alone accounted for a 33.2% share, maintaining its substantial share advantage over its competitors. Although online securities companies handle an overwhelming share of stock trades executed, considerable room remains for their expansion of market share, in terms of deposit assets. Assets of customer accounts of Japan's five major online securities companies totaled ¥14.6 trillion as of the end of March 2013, a mere 19.3% of the shares held by

### Domestic Financial Services Business of the SBI Group



### Number of Online Brokerage Trading Accounts

(October 1999—March 2013)



Source: Japan Securities dealers association, "Survey of Online Trading" (March 2013), records began in October 1999

individuals in Japan, so the online securities companies are likely to strengthen their market presence with respect to deposit assets as well.

An analysis of SBI SECURITIES' customers by age reveals that a high proportion of customers, namely nearly 40%, are younger people in their 20s and 30s, people familiar with the Internet since childhood who are set to begin building their financial assets in earnest. At the same time, IT literacy has recently been increasing among seniors, who account for two-thirds of face-to-face transactions. Investment activity by these seniors, who tend to have spare time and financial assets, is set to increase, and SBI SECURITIES must further develop its business also with this age group.

In view of the favorable prospects for further expansion of trading volume and the customer base, SBI SECURITIES will further strengthen its business ecosystem by maximizing synergies with the Group companies such as SBI Liquidity Market, which provides market infrastructure for FX trading, SBI Japannext, which operates the largest PTS in Japan, and SBI MONEY PLAZA.

## Online banking grows at a faster pace than online securities

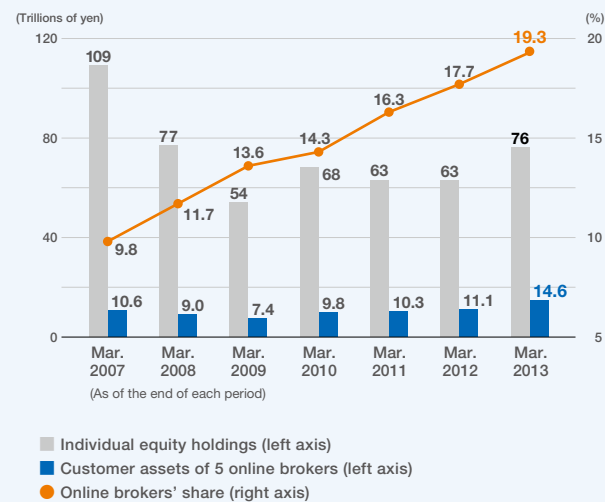
In the online banking business, the number of customer accounts at SBI Sumishin Net Bank is increasing in step with the number of new accounts acquired at SBI SECURITIES, reaching approximately 1.76 million at the end of July 2013, and the balance of deposits has grown to exceed ¥3.0 trillion.

The total number of accounts at the six pure-play Internet banks in Japan exceeded 11.51 million at the end of March 2013, for a compound annual growth rate of 49.8% since 2001, a pace of growth that outstrips that of online securities companies.

The example of developed countries in Europe and North America suggests that the shift in personal banking transactions from branch accounts to the Internet is likely to gain further impetus.

Furthermore, an analysis of SBI Sumishin Net Bank's customers by age reveals that younger people in their 20s and 30s account for nearly half (49%) of all customers. At the same time, the amount of deposits per person dramatically increases with age: on an index with the average amount for people in their 20s as 1, the amount is 2.3 for people in their 30s, 3.1 for people in their 40s and 4.1 for people in their 50s. As the financial assets of customers now in their 20s and 30s grow over time, financial transactions for the purpose of investing those assets can be expected to increase as well.

## The Share of Individual Equity Holdings

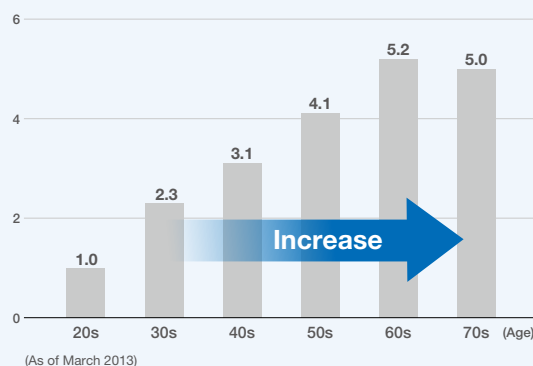


Source: Disclosed data from company websites and Bank of Japan "Flow of Funds"

In view of the anticipated increase in the amount of deposits, SBI Sumishin Net Bank will pursue investment stabilization and diversification by further enhancing and strengthening its business ecosystem. For instance, with regard to loans, in addition to housing loans offered through cooperating real estate companies, since January 2012 the bank has engaged in a fee business involving the sale of housing loans as a banking agency of one of its parent company, Sumitomo Mitsui Trust Bank, which has enabled it to earn stable fee income while reducing risk.

## Deposits per Customer at SBI Sumishin Net Bank

\*Indexed figures assuming a base value of 1 for deposits per retail customer in the 20s.



In the area of auto loans, SBI Holdings sold its entire shareholding in SBI Credit (currently Premium Financial Services) to an investment fund managed by a subsidiary of Marubeni Corporation, a general trading company. This move is expected to facilitate SBI Credit's business expansion into areas beyond auto loans, and to contribute to the diversification of investment alternatives at SBI Sumishin Net Bank.

### SBI Insurance sets its sights on an IPO in FY2016.

In the insurance business, SBI Insurance has successfully expanded its operations. Since SBI Insurance became capable of solely assuming underwriting risk, owing to an increase in the number of insurance contracts, the company terminated its reinsurance agreement with Aioi Insurance (currently Aioi Nissay Dowa Insurance) at the end of March 2011, as well as the outsourcing agreement covering call center operations at the end of March 2012. As a result, the operating expense ratio dramatically decreased.

The advisory rate that insurance companies use as a guideline when deciding insurance premiums was revised in 2012 against a backdrop of factors, such as higher accident rates, and there is a growing trend to increase premiums among nonlife insurers. Accordingly, SBI Insurance raised its premiums by an average of 1% beginning April 2013, while maintaining price competitiveness. In addition, auto insurance product revisions in areas such as the suspension of the zero-100,000 yen self-payment (a payment method for a car accident of zero deductible for the first time, and 100,000 yen for the second time and thereafter) and covenants for comprehensive and collision insurance

are expected to bring further improvement in the loss ratio.

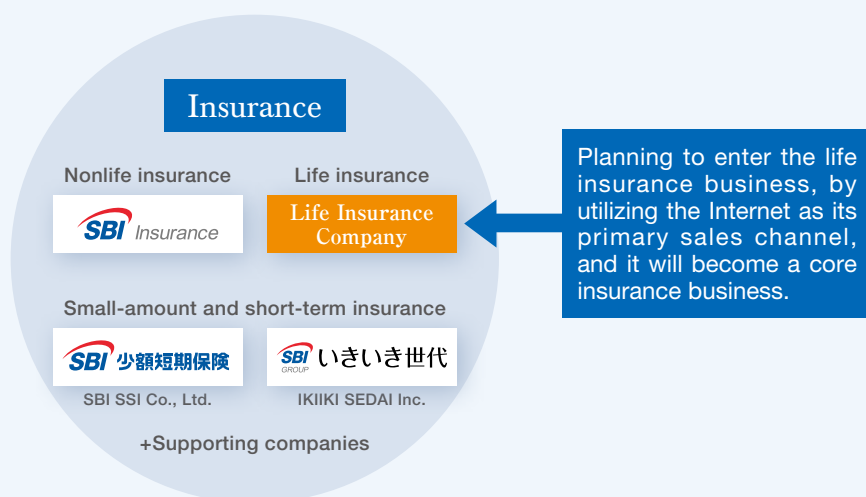
The combined ratio, the ratio of the sum of insurance premium payment and expense to insurance premium income, is ordinarily used as a measure of the profitability of nonlife insurers. As a result of a series of measures implemented to improve business expenses and the loss ratio, the combined ratio of SBI Insurance has come within range to be below 100% from FY2013 onward.

Furthermore, SBI Insurance has worked to enhance its product offering and strengthen its own line of insurance products, by introducing cancer insurance for medical treatments in August 2012, and a bicycle accident compensation covenant for auto insurance in April 2013, as well as offering fire insurance, earthquake compensation insurance and overseas travel insurance products from partner companies. SBI Insurance will work to increase the sales of its own auto insurance and cancer insurance products by utilizing SBI MONEY PLAZA's face-to-face sales channels.

By implementing these activities, SBI Insurance targets the achievement of an effective profitability on a quarterly basis (IFRSs consolidated basis) in FY2013, a full-year profitability in FY2015 and a FY2016 IPO.

In the insurance business, the Company has acquired all shares of IKI IKI SEDAI, a small-amount short-term insurance company that offers life insurance, and in July 2013, subject to the authorizations and such to be granted by the relevant authorities in Japan, the Company decided to acquire an 100% equity interest in PCA Life Insurance, a Japanese arm of Prudential plc. of the U.K. and convert it into a consolidated subsidiary. With this acquisition, the SBI Group will make a full-scale re-entry into the life insurance business.

#### The SBI Group's Insurance Business



## SBI MONEY PLAZA further expands its shop network

SBI MONEY PLAZA expanded its network of face-to-face shops that offer securities, insurance and housing loans to 350 shops nationwide as of the end of June 2013. The addition of Insurance Clinic and Mitsubachi Insurance Farm shops operated by SBI Group investee companies brings the total to over

600 shops, far surpassing the number of shops operated by competitors in Japan. Sequential conversion of directly operated Insurance Clinic and Mitsubachi Insurance Farm shops to SBI MONEY PLAZA shops is planned.

SBI MONEY PLAZA will continue to expand its shop network to strengthen its sales capabilities.

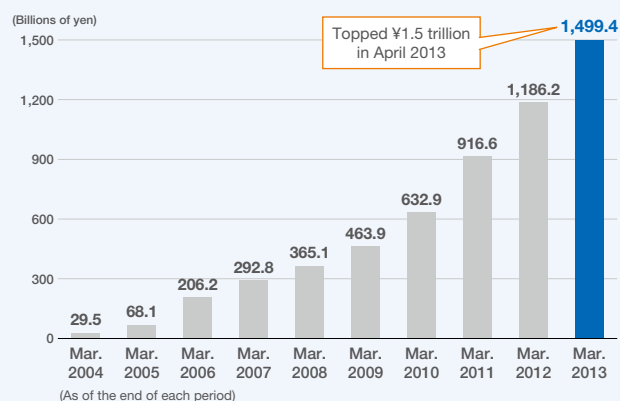
## SBI Mortgage boosts its competitive strength through product diversification

SBI Mortgage was founded in 2001 as Japan's first mortgage bank, a financial institution specializing in housing loans using securitization as a financing instrument, and has achieved rapid growth by continuing to offer "Flat 35" long-term, fixed-rate housing loans in cooperation with the Japan Housing Finance Agency, at the industry's lowest interest rates.

To meet the diverse needs of customers, the company is focusing on developing its own products to complement "Flat 35" and seeks to further boost its competitive advantage by diversifying its product range.

SBI Mortgage became the first Japanese company to list its shares on the KOSPI Market of the Korea Exchange in April 2012, and is currently endeavoring to set up the first mortgage bank in South Korea.

### SBI Mortgage's Outstanding Balance of Housing Loans



### VOICE



**Minami Egusa**

SBI MONEY PLAZA  
Financial Advisory Department

I previously handled customer inquiries concerning asset management at SBI SECURITIES, and was transferred to SBI MONEY PLAZA upon its launch. At the branch where I was initially assigned, I responded to inquiries from customers concerning insurance and asset management. Since insurance consultation is much more closely connected to customers' life planning than asset management, I felt a heavy burden of responsibility, and have become keenly aware that knowledge of a wide-range of products, not only asset management, is required to meet customers' needs. I am currently working in the Financial Advisory Department, visiting customers to offer proposals concerning asset management and insurance. When I receive a telephone call from a previous customer who wants to continue buying products from me, I feel joy and satisfaction that is unique to face-to-face sales.

# New Growth

## The Overseas Business Has Entered a New Growth Stage

### The SBI Group pursues globalization as it transitions into the “World’s SBI”

Through the establishment of joint venture funds in collaboration with prominent overseas financial groups, government-affiliated investment institutions and the investment arms of universities, the SBI Group has nearly completed the building of a global investment structure covering widespread regions, with a principal focus on emerging countries. We will now transition from the first phase of overseas business development, the establishment of funds through joint investments with these overseas local partners, to the second phase, the establishment of large funds through the recruitment of outside investors.

To accomplish this, we will strengthen the framework to recruit outside investors for new funds by assigning fund solicitation specialists to each overseas business site, and in Japan by taking full advantage of the domestic corporate network established by SBI Investment, SBI SECURITIES, and SBI MONEY PLAZA.

Through these initiatives, we will build an investment structure that can cope with the recovery and anticipated further growth of markets around the world.

### Redoubling efforts to expand the financial services business overseas

The SBI Group is proceeding with the overseas expansion of the Financial Services Business through investments in overseas financial institutions. As of June 30, 2013, the Group held an 89.4% stake in Hyundai Swiss Savings Bank of South Korea, a 50.0% stake in YAR Bank of Russia (formerly Obibank), and a 19.9% stake in Tien Phong Bank of Vietnam. In addition, upon approval from the financial authorities in Cambodia we plan to increase our current 47.6% stake in Phnom Penh Commercial Bank to an approximate 90% stake.

As for securities companies, the Group holds an 81.6% stake in SBI Royal Securities, the only Japanese-affiliated full-line securities company in Cambodia, established through the merger of a securities subsidiary of the Royal Group of Cambodia and a local subsidiary of SBI Holdings. The Group also owns a 25.0% stake in BNI Securities, an affiliate of a major Indonesian bank, and a 20.0% stake in FPT Securities of Vietnam.

Additionally, we hold a 3.0% stake in Tianan Insurance, a nonlife insurance company in China.

#### VOICE



Tan Kian Hwa

SBI VEN CAPITAL (Singapore)

**I**n the SBI Group’s overseas investment division, I am involved in business processes from fundraising and discovery of excellent Asia-focused investment opportunities, to post-investment development and divestment. I have the opportunity to interact with different business owners and intermediaries, and understand a variety of business models. The job is extremely challenging as it demands many skill sets, such as leveraging different contacts, assimilating diverse perspectives, and most importantly, intuition and judgment calls. Each day is an exciting day!

Since we are also responsible for expanding the Group’s ecosystems outside of Japan, I am also working on a few key strategic initiatives. One most recent assignment was to expand SBI Pharmaceuticals’ footprint in Indonesia. The key to both PE and a strategic project is the combined wisdom and teamwork that we have in place, to achieve the best outcome.



We will contribute to the enhancement of the corporate value of these investee companies by introducing Internet financial service expertise developed in Japan. For instance, in Russia, where Internet use has achieved critical mass, YAR Bank, a commercial bank affiliated with the METROPOL Group, a leading integrated financial group in Russia, is launching an online banking business. The systems requirement definition has been completed, and development is proceeding steadily in preparation for the start of an offering of

Internet banking services in October 2013.

In addition, the Group has dispatched personnel with experience gained in Japan, to BNI Securities, a subsidiary of Bank Negara Indonesia, the fourth largest national bank in Indonesia, to streamline operations and improve the Internet trading system. Connecting with BNI Securities has made real-time trading in Indonesian stocks at SBI SECURITIES possible since April 2012.

#### Capital Investment in Overseas Financial Institutions Centered on Asian Region (as of June 30, 2013)



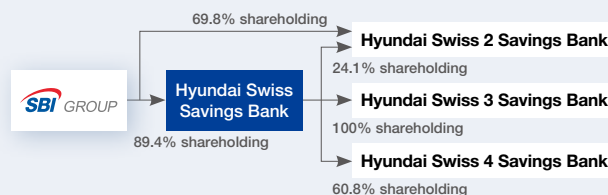
### Hyundai Swiss Savings Bank, the largest savings bank in South Korea, becomes a subsidiary

In March 2013, the SBI Group acquired new shares issued by Hyundai Swiss Savings Bank, the largest savings bank in South Korea, and made it a consolidated subsidiary. Whereas the bank has heretofore focused on the expansion of real estate-collateralized loans for businesses and real estate project financing, it will now implement a business strategy shift to reduce bad debt risk through an exhaustive effort to reduce the size of its personal and business loans, as well as to launch an online service. To that end, the SBI Group has already dispatched directors to the bank, is recruiting high-caliber management personnel in South Korea, and has begun to strengthen risk management through strict asset assessment.

Savings banks in South Korea occupy a market position

between commercial banks and consumer finance companies, an attractive market sector in which loans are made at interest rates from 8% to 30%. Accordingly, with the objective of increasing the loan-deposit interest margin and improving earnings, the bank is currently increasing the lending of uncollateralized personal loans at interest rates between 20–30%, while at the same time reducing deposit funding costs (average 4.3%) by lowering interest rates on new time deposits.

#### Depiction of Hyundai Swiss Savings Bank Group after Absorption through Underwriting Additional Shares (Total amount: approx. ¥20.2 billion)



# Innovation

## Accelerating Overseas Development for the 5-ALA Related Business

### 5-ALA is attracting attention at academic conferences

SBI Pharmaceuticals engages in the development of pharmaceuticals, health foods and other products utilizing the amino acid, 5-aminolevulinic acid (5-ALA). Various research projects concerning 5-ALA are being conducted at more than 90 universities and hospitals in Japan and abroad, and the company plans to continue expanding this research network.

Examples of research and development involving 5-ALA include research on malaria at the University of Tokyo and the U.K.'s National Institute for Medical Research, research on metabolism improvers and diabetes at Kyoto Prefectural University and the University of Hawaii, and research on cancer diagnosis at the Tokyo Institute of Technology.

5-ALA is also attracting attention at academic conferences. The 5-ALA and Porphyrin Research Society, an organization founded in May 2011 by researchers of porphyrin and 5-ALA, whose chairman is Professor Emeritus Ichiro Okura of the Tokyo Institute of Technology, has already held three symposiums.

In addition, a session concerning 5-ALA was held at the 7th World Congress on Prevention of Diabetes and Its Complications, held in November 2012 in Madrid, Spain.

In the Middle East, SBI Pharmaceuticals has made Bahrain its base of operations and plans sequential development of 5-ALA related businesses, such as drug creation, clinical research, manufacturing, and exporting. The reason for the emphasis on the Middle East is that Bahrain and other countries in the Middle East have an extremely high prevalence of diabetes patients, of three to four times that of Japan.

For this reason, diabetes treatment is a pressing issue, and in clinical research into diabetes involving 5-ALA, SBI Pharmaceuticals plans to begin multiple clinical research projects in collaboration with medical and research institutions, including the Bahrain Defense Force Royal Medical Service Hospital and Arabian Gulf University. The company is also cooperating with the Royal College of Surgeons in Ireland - Medical University of Bahrain and KING HAMAD UNIVERSITY HOSPITAL, concerning clinical research into photodynamic diagnosis of colorectal cancer using 5-ALA.

### Projects in the pharmaceutical sector are underway in countries around the world

A number of projects are underway in the pharmaceutical sector in countries outside the Middle East as well, including development of a therapeutic agent for anemia in the U.K. and the U.S., contracted out to a contract research organization (CRO). In Phase I clinical testing (a safety trial) in the U.K., an administration trial has been completed and a report is being prepared. In Phase II clinical testing, scheduled to begin in the third quarter of FY2013, the company is considering applications for clinical trials for development as a pharmaceutical agent in multiple fields, including as a therapeutic agent for

anemia. Once Phase II testing begins in the U.K., the company plans to begin clinical testing in the U.S., starting with a Phase II trial.

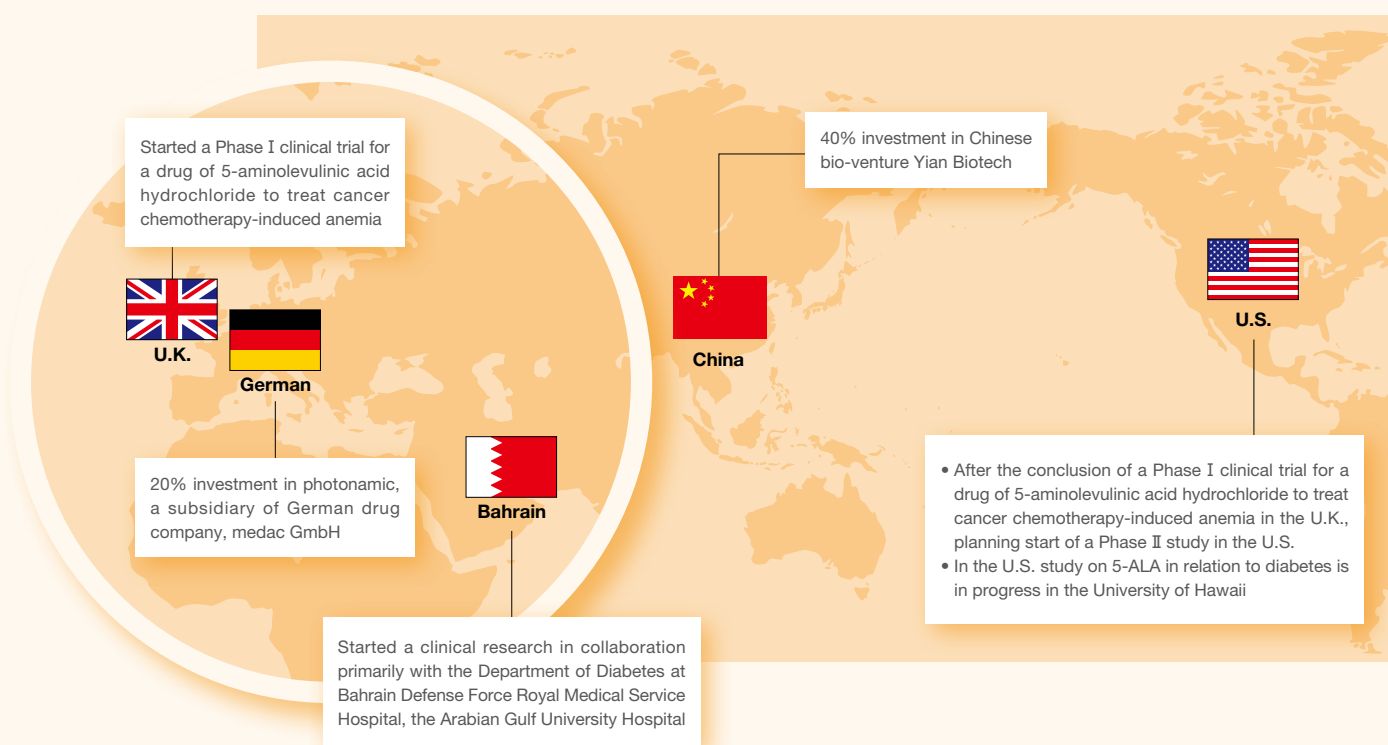
SBI Pharmaceuticals is also making steady progress in obtaining approval from the regulatory authorities in a number of countries for health foods containing 5-ALA, in preparation for sales channel expansion.

Approval has been obtained for the sale of the health food NatuALA ONE from the local authorities in Bahrain and the UAE. Preparations are underway for the establishment of a joint venture company to sell 5-ALA products with Dawani Group Holdings, a major local distributor in Bahrain, as well as developing a sales structure in the UAE.

SBI Pharmaceuticals plans to accelerate business development in Asia as well as the Middle East. In the Philippines, it has obtained a certificate of product registration for NatuALA ONE from the local authorities with plans to begin sales within 2013, with a local partner that has a network of physicians. Preparations are proceeding to establish a joint

venture company to sell 5-ALA products in China, and discussions are underway for the development of the 5-ALA business with major local pharmaceutical companies in South Korea, Malaysia, India and Indonesia.

#### Worldwide Status of Pharmaceutical Projects and Activities



#### VOICE



**Yusuke Asama**

SBI Pharmaceuticals  
Bahrain Representative Office

**S**BI Pharmaceuticals' Bahrain Representative Office was established in October 2012 to develop the sales of 5-ALA related products in the Middle East, conduct clinical trials in cooperation with universities, and eventually establish a 5-ALA production base. Although merely leading an ordinary life in an Islamic country, where the culture and lifestyle is completely different from Japan, can be challenging, in the office, which consists of local employees with different work experiences and expatriate Japanese, all work together with the shared aspiration of popularizing 5-ALA in the Middle East, and this is highly stimulating. In such an environment, I hope to make some small individual contribution to the entire effort.