

# FINANCIAL SERVICES

## FINANCIAL SERVICES BUSINESS

### Leveraging FinTech and Other New Technologies, to Strengthen Earning Capacity through the Evolution of the Financial Ecosystem

#### Principal Companies

Intermediate Holding Company: SBI FINANCIAL SERVICES

SBI SECURITIES  
 SBI Liquidity Market  
 SBI FXTRADE  
 SBI MONEY PLAZA  
 SBI Benefit Systems  
 SBI BITS  
 SBI Japannext  
 SBI Sumishin Net Bank  
 SBI Insurance Group (Insurance holding company)  
 SBI Insurance  
 SBI Life Insurance  
 SBI Resta SSI  
 SBI IKIIKI SSI  
 Nihon SSI  
 SBI FinTech Solutions (formerly SBI AXES)  
 SBI Remit  
 SBI Social Lending  
 SBI Business Solutions  
 SBI Ripple Asia

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

(Millions of yen)

	FY2015	FY2016
SBI SECURITIES (non-consolidated)	37,850	33,043
FX business (SBI Liquidity Market, SBI FXTRADE)	5,200	5,734
SBI Sumishin Net Bank*	3,385	3,185
Insurance business	265	1,920

\*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

#### Principal Initiatives in FY2016 and Future Priority Measures

##### Securities-related Business

- With the goal of expanding the corporate business, strengthening the stock and bond underwriting businesses, as well as creating a Financial Institutional Sales Dept., in order to deliver a variety of asset management products to financial institutions
- Focusing on business expansion in government-supported NISA and iDeCo fields, as a way to promote the shift "from savings to asset formation"
- Promoting the offering of new asset management services, through alliances with FinTech venture investee companies
- Targeting full-fledged introduction of blockchain into securities operations, by promoting demonstration tests and internal developments
- At SBI Japannext, preparations are underway for the launch of a JGB trading service utilizing the PTS, and trading volume is expected to increase, owing to the removal of margin trading restrictions for stocks on the PTS

##### Banking-related Business

- Continuing to build healthy balances in housing loans, centering on Internet Exclusive Housing Loan
- Enhancing customer convenience by starting an Internet conclusion type application service for group credit life insurance
- In addition to creating highly convenient services resulting from an expansion of the API economy through alliances with FinTech companies in and outside of the Group, moving to full-scale offering of a business loan service that leverages commercial transaction data

##### Insurance-related Business

- Started operations at SBI Insurance Group, an insurance holding company
- In non-life insurance, started sales of fire insurance, and is developing sales initiatives to pursue Group synergy
- In life insurance, developed a new group credit life insurance product, and started providing it to borrowers who take out housing loans at SBI Sumishin Net Bank
- Expanding the small-amount, short-term insurance business through the acquisition of Nihon SSI

## SECURITIES-RELATED BUSINESS

Through the Diversification of Revenue Sources, which We Focused on in the Medium-term, Established a Business Foundation that Ensures a High Level of Profits and is Capable of Withstanding Declines in the Stock Market



Masato Takamura

SBI SECURITIES Co., Ltd.  
Representative Director and President

Tatsuo Shigemitsu

SBI Liquidity Market Co., Ltd.  
Representative Director and President

### Operating Revenue Reaches a Record High, as a Result of Diversifying Revenue Sources

SBI SECURITIES' consolidated financial results (JGAAP) for FY2016 resulted in operating revenue reaching another record high of ¥90.5 billion, up 0.8% year-on-year, with operating income of ¥38.0 billion, down 4.8% year-on-year, and net profit attributable to owners of the Company of ¥27.8 billion, down 1.0% year-on-year.

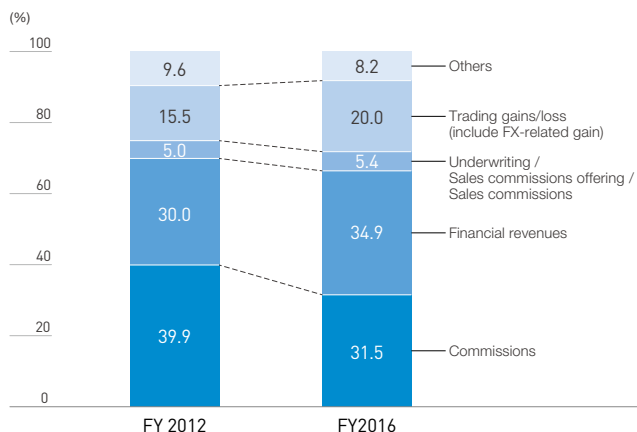
The business environment for the fiscal year was characterized by the continuation of a mild recovery in Japan, while an uncertain outlook hovered over the U.S. and Europe, owing to the political situation. Under these circumstances, the total individual stock brokerage trading value on the Tokyo and Nagoya Exchanges registered a sharp drop of 16.4% year-on-year. Nevertheless, despite the 9.1% year-on-year fall to ¥28.5 billion for SBI SECURITIES' brokerage commission income on individual stock brokerage trading, trading gains were up 37.1% year-on-year to ¥18.1 billion, as the result of increased foreign exchange

trading, which carried operating revenue at SBI SECURITIES to a record high. Accordingly, the diversification of the business' revenue source has lessened the dependency on commissions from individual stock brokerage trading.

The total number of accounts at SBI SECURITIES as of March 31, 2017, grew by 280,000 year-on-year to 3.84 million, while assets on deposit totaled ¥10.8 trillion. The number of accounts was not only the absolute top among online securities, but also ranked third overall in the Japanese securities industry, including face-to-face securities companies. The pace of growth in the number of accounts has been at a high level (a compound annual growth rate of 9.7% between June 30, 2011 and March 31, 2017), resulting in the expectation that SBI SECURITIES' customer accounts will shortly surpass that of second-ranked Daiwa Securities Co., Ltd., who leads by only a few multiples of 10,000.

Our share of the individual stock brokerage trading value at the end of the fiscal year was 34.7%, while the share of individual stock brokerage trading value for margin trading was at 35.9%. As for the margin transaction open balance, it was ¥799.2 billion,

### Changes in SBI SECURITIES' Operating Revenue Structure

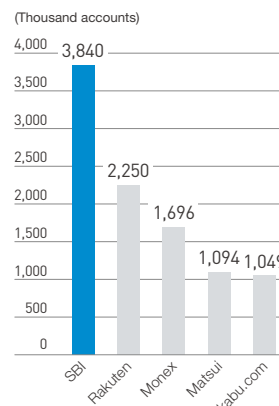


\*Based on JGAAP

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

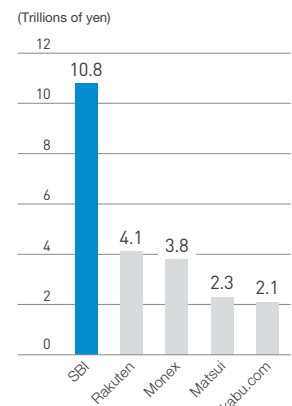
#### [Number of Accounts]

(As of March 31, 2017)



#### [Customer Deposit Assets]

(As of March 31, 2017)



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

a 17.9% increase from the previous fiscal year end, leading to the financial revenue for the fiscal year remaining high at ¥31.5 billion.

As for NISA, a tax-deferred mechanism for small investments introduced in January 2014, and Junior NISA, a program applying to minors that started in April 2016, SBI SECURITIES holds approximately 970,000 accounts as of March 31, 2017, putting it in a second place position overall in the securities business, including the major face-to-face securities companies. Although the NISA program seeks to attract new investment demand, participation at all securities companies from people with no previous investment experience remains below 30%. On the other hand, at SBI SECURITIES, new investors account for nearly 50% of all customers opening a NISA account, with beginner investors making up 66.5% of those new customers, thereby fulfilling the major role as a destination for placing NISA investments. At SBI SECURITIES, 65.3% of all NISA accounts are being used, which is above the industry average of 60.7%, making it a feature point.

## **Strengthening Systems and Product Marketability for Further Diversification of Revenue Sources**

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While taking advantage of the overwhelming customer base and sales capability that was established in the retail business, SBI SECURITIES is endeavoring to achieve higher growth through diversification of its product offerings, as well as through the expansion of its proprietary sales channels. Specifically with regard to iDeCo, an individual defined contribution pension plan whose market scale is expected to undergo a significant expansion through a general broadening in 2017 of almost all active working generations that are eligible to participate in the national pension plan, is being placed along with NISA as a major strategic product and a catalyst backed by the government's promotion of the shift "from savings to asset formation." In order to expand its iDeCo business, the SBI Group has formed a capital and business alliance with the Daiwa Securities Group, which has a wide-reaching sales system that includes a network of retail premises covering the entire country. In order to encourage more individual investors to take advantage of iDeCo, in May 2017, SBI SECURITIES changed its management fees for iDeCo to completely free of charge. Also, in June 2017, it incorporated SBI MONEY PLAZA as a subsidiary, a company that operates franchising of face-to-face shops covering the entire country. Among the financial intermediaries of SBI SECURITIES, SBI MONEY PLAZA boasts the largest scale of operations. In the future, while increasing synergies with SBI MONEY PLAZA, SBI SECURITIES will accelerate its business expansion with the goal of becoming a comprehensive securities company.

On the other hand, the corporate business, while seeking to expand its stock and bond underwriting, in an effort to increase its revenue, will start sales of various asset management products covering domestic and foreign bonds, as well as investment trusts. These products will be directed at financial institutions through the newly created Financial Institutional Sales Dept. In our business for financial institutions, as the first alliance case of securities intermediaries with regional banks, SBI SECURITIES

started a financial instruments intermediary service with The Shimizu Bank, Ltd., in March 2017. The company will be actively expanding its alliance relationships with regional financial institutions, and cultivating local clients. In addition, in terms of IPO underwriting, SBI SECURITIES was involved in the underwriting of 77 companies out of the 87 companies that listed on the Japanese stock exchanges during the fiscal year, accounting for an 88.5% participation ratio that kept it in the top position within the industry. Going forward, we plan to bolster our corporate business, not only through IPOs, but also through secondary public offerings of already listed companies.

On top of this, SBI SECURITIES will be creating new financial businesses as part of our aggressive activities to put new technology to use. In October 2016, an agreement was concluded for a business alliance with WealthNavi Inc., a FinTech venture and a SBI Group investee company. In January 2017, the alliance started to offer a customized robo-advisor service called "WealthNavi for SBI SECURITIES." Together with other alliances, including one with MONEY DESIGN Co., Ltd., we are establishing a support system for asset formation by neophyte investors. We are also moving forward on demonstration tests and internal developments, with an eye on full-scale introduction of blockchain in the securities business. In order to further develop the results of the demonstration tests, we have initiated the examination of a finance platform service to be designed along a collaborative eco-system model with other financial institutions.

With respect to the securities-related group company outside of SBI SECURITIES, SBI Japannext, the operator of a PTS (Proprietary Trading System), a unique system that offers after-hours and daytime trading in the Japanese stock market, plans to provide JGB trading through its PTS by the fall of 2017, and if regulations on margin trading of stocks are lifted on the PTS in the future, then we would expect an increased utility of the PTS that would lead to a further expansion of the trading volume.

## **Foreign Exchange Trading at the SBI Group Remains Healthy**

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In foreign exchange trading, the total foreign exchange trading accounts among SBI SECURITIES, SBI FXTRADE and SBI Sumishin Net Bank at the end of the fiscal year was 910 thousand, with total assets on deposit of ¥171.4 billion, a result that greatly surpassed all competitors. Against the backdrop of this overwhelming business foundation, the trading value has been strong at SBI Liquidity Market, which provides a foreign exchange market function and trading infrastructure. Operating income before allocation (JGAAP) to each of the SBI Group companies involved in trading grew 3.9% year-on-year, to a record high of ¥13.0 billion in FY2016. SBI FX, which was established as a Hong Kong overseas affiliated company in 2015, started a business for corporate clients in February 2017. By promoting expansion related to foreign exchange in Asia, SBI Liquidity Market has greatly improved the liquidity of foreign exchange trading in its business. Our goal is to establish an OTC market that boasts the world's highest liquidity.

## BANKING-RELATED BUSINESS

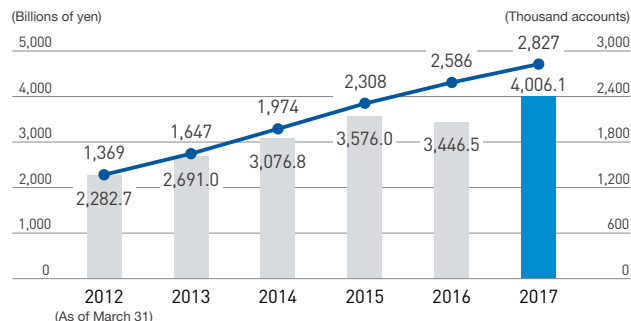
### The Mainstay Housing Loans Product Continues to Perform Well, Surpassing Competitors' Performance, while FinTech Based New Revenue Sources are being Created

#### Overwhelms the Competitors with a Deposit Balance that Exceeds ¥4 Trillion

SBI Sumishin Net Bank is a 50:50 joint venture between SBI Holdings and Sumitomo Mitsui Trust Bank, Limited, the largest trust bank in Japan. Since the commencement of its business, the bank's business base has steadily expanded. During the fiscal year, it added 240 thousand new accounts to reach a total of 2.83 million customer accounts, while the deposit balance grew ¥559.7 billion to ¥4,006.1 billion, as of March 31, 2017.

SBI Sumishin Net Bank is diversifying its asset management in response to the increase in the deposit balance. For its core product of housing loans, its principal offerings are the Internet Exclusive Housing Loan, which it provides as an agent for Sumitomo Mitsui Trust Bank, Limited, and MR. Housing Loan REAL, a banking agency specialized product. The bank also started a full-scale offering of the Flat 35 product in September 2015, through an alliance with the Japan Housing Finance Agency. In this way, SBI Sumishin Net Bank has expanded its product offering, and now provides an Internet conclusion type application service for group credit life insurance, covering customers applying for an Internet Exclusive Housing Loan. As a result of progress on initiatives with high customer utility, the bank has received strong support from its customers, and the housing loans balance surpassed ¥3.6 trillion in June 2017.

#### 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

#### Noriaki Maruyama

SBI Sumishin Net Bank, Ltd.  
Representative Director  
and President



As loans for retail customers, particularly housing loans, continued their solid trend and revenue rose from market-related transactions, SBI Sumishin Net Bank's financial results for the FY2016 (JGAAP) were favorable, resulting in ordinary revenue maintaining the same level as the previous fiscal year at ¥57.9 billion, ordinary income increasing 25.6% year-on-year to ¥14.7 billion, and profit attributable to owners of the Company rising 17.3% year-on-year to ¥9.9 billion. SBI Holding's equity in earnings of SBI Sumishin Net Bank (IFRSs) amounted to ¥3.2 billion for the fiscal year.

#### Launching New Products and Services through API Connection

A major policy of the banking-related business is to expand the API economy by forming alliances with investee companies of the SBI Group. As part of this policy, the business started its first alliance using Japan's first upgraded API\* with finbee in December 2016, an automatic savings service offered by NestEgg, Inc. Also, in February 2017 it started providing "WealthNavi for SBI Sumishin Net Bank," a customized robo-advisor service offered by WealthNavi, Inc. This service is the first domestic initiative to achieve a reference API intended for using an identity confirmation. Then, in March 2017, it launched the first service in Japan involving an API connection to a transfer linked function, as well as business loans with an alliance with Money Forward, Inc. Thereafter, in April 2017, it started an API connection to a transfer linked function with freee, cloud-based accounting software offered by freee K.K.

Business loan services, a promising new source of revenue, leverages FinTech by using commercial transaction data. In October 2016, the bank started offering the Lending 1 service for the 7,591 member credit card merchants (as of March 31, 2017) that use the credit card payment service of Zeus, a wholly owned subsidiary of SBI FinTech Solutions (formerly SBI AXES). Lending 1 enables loans to be executed in the shortest processing time of one day from application to execution, providing a prompt response to the aggressive financing needs arising from credit card merchants.

\* A method of connection, which enables service providers to transfer between primary accounts and sub-accounts, without holding a login ID, password, or personal information of a user.

## INSURANCE-RELATED BUSINESS

### Reorganizing the Group's Insurance Business, while Preparing for a Public Listing



### Consolidating the Group's Insurance Businesses under an Insurance Holding Company

The SBI Group had been endeavoring to reorganize the insurance business under an insurance holding company, and in March 2017, upon receiving approval from the relevant authorities, the preparatory company began operations as SBI Insurance Group.

Insurance company reorganizations and mergers are proliferating in the Japanese insurance industry, owing to the shrinking of the insurance market amidst a declining population, and the changing needs of consumers. In response, insurance products and sales channels are expected to diversify or develop into hybrid structures. The current reorganization places six companies that operate insurance businesses, namely SBI Insurance, SBI Life Insurance, SBI SSI Holdings, SBI Resta SSI, SBI IKIIKI SSI, and Nihon SSI, within SBI Insurance Group. The purpose of this move is to lift corporate value by reducing costs and exploiting synergies through the consolidation of management functions, in light of the outlook. SBI Insurance Group intends to establish an insurance group for the new era, which develops and offers insurance products and services that provide greater benefit to customers by conducting integrated business operations within SBI Insurance Group, by promoting corporate alliances outside of the Group, and applying FinTech. In addition,

discussions are currently underway that will lead to a stock exchange listing of SBI Insurance Group.

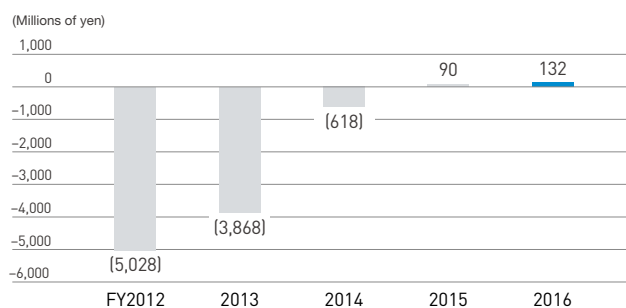
### Steadily Expanding the Business Scale of Non-life Insurance, Life Insurance and SSI Companies

With regard to the status of the insurance businesses at the end of the fiscal year ended March 31, 2017, SBI Insurance's auto insurance, in terms of the number of outstanding policies, grew 11% as compared to that of March 31, 2016, to 910 thousand policies, while insurance premium income was maintained at a high growth rate of 12% year-on-year, to ¥32.2 billion. The combined ratio, on a direct insurance basis, fell 4.4 percentage points to 91.2%, allowing the company to sustain a position to more comfortably generate profits.

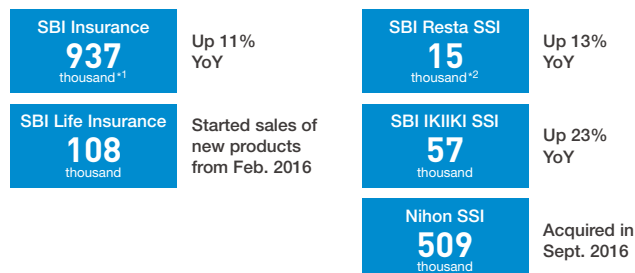
By continuing to maintain its double-digit growth in the number of policies, SBI Insurance must include a corresponding policy reserve in its financial reporting. Nevertheless, the company was able to extend its positive figure in profit before income tax expense (IFRSs) that was first achieved in FY2015, after nine years of operation, to ¥132 million, a 46.7% year-on-year increase.

Moreover, as a core support for new revenue, the company developed a fire insurance product that keeps premium costs down by reducing sales costs, and it has started sales with

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



#### Number of Contracts of the Group's Insurance Companies (As of March 31, 2017)



\*1 Including number of auto insurance policies at SBI Insurance  
\*2 Number of Earthquake Indemnity Insurance Resta

SBI Sumishin Net Bank, which handles a large volume of housing loans.

At SBI Life Insurance, reduced costs and stable investment management have made up for the rising costs accompanying new product sales, and ordinary income (JGAAP) for the fiscal year therefore rose 8% year-on-year to ¥1.6 billion. The company developed a new group credit life insurance product as a crucial future strategy, and it has begun full-scale marketing of this product to borrowers who take out housing loans with SBI Sumishin Net Bank, and has also started mutual sales with SBI Insurance as it develops measures in pursuit of Group synergies. SBI Life Insurance is also actively supporting FinTech applications. Examples include a tie-up with FINC Inc., a healthtech venture, on developing personal insurance products to suit individual customers' risks and characteristics, and the launch of health management products that cover self-insured policyholders.

In the small-amount, short-term insurance (SSI) business,

through the acquisition in September 2016 of Nihon SSI, which sells home content insurance to renters and insurance for motorcycles and bicycles, the business has turned into an SSI group that handles a wide variety of insurance products, from the first to the third sector. In the SSI field, the related Group companies all expanded steadily during the fiscal year. SBI Resta SSI, which provides earthquake indemnity insurance, increased its number of policies in this market by 13% year-on-year to 15 thousand, SBI IKIKI SSI, which offers mortality insurance and medical insurance, grew its policy count by 23% year-on-year to 57 thousand, and Nihon SSI had a 7% annual growth in policies to 509 thousand contracts. Also, the SSI business will continue to expand its product offering, such as pet insurance, which SBI IKIKI SSI is proceeding to develop, conditioned on approval by the relevant authorities, along with strengthening sales capabilities by such activities as mutual cross-selling among the three SSI companies.

## OTHER FINANCIAL SERVICES BUSINESS

### The Group's FinTech-related Companies Pushes Ahead on Business Expansion

SBI FinTech Solutions (formerly SBI AXES), which has been expanding its payments business since the dawn of the Internet era, is a holding company with general payment services providers Zeus and AXES Payment under its aegis. As a result of the high affinity between these e-commerce businesses and FinTech, the SBI Group conducted a restructuring in April 2017, in which the three FinTech-related businesses of SBI Remit, SBI Social Lending and SBI Business Solutions were reorganized into subsidiaries of SBI FinTech Solutions. The dual purpose of this move was to accelerate growth by focusing on the existing e-commerce payment business together with FinTech-related businesses, and to enhance corporate value by rolling out services with high utility to customers.

SBI Remit, which operates an international remittance business, newly under SBI FinTech Solutions, is able to transfer money to over 200 countries and regions in 10 minutes at the earliest. It maintains alliances with MoneyGram International, Inc., a major international remittance provider in the U.S., and major financial institutions located throughout Asia. The money transfer services between SBI Remit and The Siam Commercial Bank Public Company Limited, the largest private bank in Thailand, makes use of the next generation settlements platform (Ripple Solution) from Ripple of the U.S., to provide international remittance services founded on distributed ledger technology, with plans to employ virtual currencies in settlements.

SBI Social Lending provides social lending services that connect investors to borrowers through the Internet. Its activities include construction finance for renewable energy generating facilities, and finance for lesser-developed countries, such as the Philippines. A balance is maintained between these social activities and social contributions, with an expected operating return of roughly 6% to 7% and an achievement of social return. As a result, the operating loan balance at the end of the fiscal year ended March 31, 2017, surpassed ¥10 billion to reach ¥11.2 billion, resulting in its first full-year profitability since its establishment. Furthermore, all subsidiaries in the Financial Service Business are profitable, except for those subsidiaries established in the past two years.

SBI Ripple Asia is a joint venture with Ripple of the U.S., an investee company of the SBI Group that develops a next generation settlement platform. This venture is promoting the building of domestic and next generation international remittance systems that enable a large reduction in remittance costs, and facilitates a 24-hour real-time payment system. SBI Ripple Asia serves as the organizer of the "The Japan Bank Consortium" composed of 61 participating financial institutions in Japan (as of July 2017). The consortium has completed demonstration tests of a settlement platform (RC Cloud) that can centrally manage domestic exchange, in addition to foreign exchange services. This is a Japan-originated and world-first initiative, which implements the next generation payments platform in the cloud, namely "Ripple Solution," which is scheduled to initiate commercial use before the end of 2017.