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Consolidated Financial Results for the First Nine-Month Period of the Fiscal Year Ending March 31, 2024 (under IFRS)

February 6, 2024

Company name: SBI ARUHI Corporation (the “Company”)
 Listing: Tokyo Stock Exchange
 Securities code: 7198
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 Scheduled date to file interim securities report: February 13, 2024
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on interim financial results: Yes
 Holding of interim financial results presentation meeting: Yes (for analysts)

(Millions of yen with fractional amounts rounded down, unless otherwise noted)

1. Consolidated financial results for the first nine-month period of the fiscal year ending March 31, 2024 (from April 1, 2023 to December 31, 2023)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Operating revenue		Income before tax		Net income		Net income attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine-month period ended								
December 31, 2023	14,562	(17.3)	1,835	(49.9)	1,244	(50.6)	1,265	(50.0)
December 31, 2022	17,612	(10.8)	3,663	(31.8)	2,517	(31.9)	2,530	(31.8)

	Total comprehensive income		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Yen	Yen
Nine-month period ended				
December 31, 2023	1,244	(50.6)	34.61	34.55
December 31, 2022	2,517	(31.9)	71.48	71.19

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent to total assets
	Millions of yen	Millions of yen	Millions of yen	%
As of				
December 31, 2023	183,313	41,700	41,751	22.8
March 31, 2023	148,616	32,735	32,765	22.0

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2023	–	30.00	–	25.00	55.00
Fiscal year ending March 31, 2024	–	20.00	–		
Fiscal year ending March 31, 2024 (Forecast)				20.00	40.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2024 (from April 1, 2023 to March 31, 2024)

(Percentages indicate year-on-year changes.)

	Operating revenue		Income before tax		Net income		Net income attributable to owners of the parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending March 31, 2024	21,000	(7.1)	3,000	(27.2)	2,050	(26.8)	2,050	(27.3)	56.06

- Notes:
1. Revisions to the earnings forecasts most recently announced: None
 2. The forecast of the basic earnings per share is calculated based on the weighted-average number of shares during the nine-month period ended December 31, 2023.

* **Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): Yes

Newly included: 3 companies: SBI Estate Finance Co., Ltd., and its subsidiaries SBI Smile Co., Ltd. and SBI Guarantee Co., Ltd.

Excluded: None

- (2) Changes in accounting policies and changes in accounting estimates

a. Changes in accounting policies required by IFRS: Yes

b. Changes in accounting policies due to other reasons: None

c. Changes in accounting estimates: None

Note: For details, please see “(5) Notes to condensed interim consolidated financial statements” in “2. Condensed interim consolidated financial statements and significant notes thereto” in the attached materials.

- (3) Number of issued shares (ordinary shares)

- a. Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2023	44,712,170 shares
As of March 31, 2023	36,080,600 shares

- b. Number of treasury shares at the end of the period

As of December 31, 2023	445,260 shares
As of March 31, 2023	520,860 shares

- c. Weighted-average number of shares during the period (cumulative from the beginning of the fiscal year)

For the nine-month period ended December 31, 2023	36,569,102 shares
For the nine-month period ended December 31, 2022	35,405,317 shares

* Interim financial results reports are exempt from interim review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

(Caution concerning forward-looking statements)

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. These statements do not purport that the Company pledges to realize such statements. Actual business and other results may differ substantially from these forecasts due to various factors.

Table of Contents of Appendix

1. Qualitative information regarding results for the first nine-month period	2
(1) Explanation of operating results.....	2
(2) Explanation of financial position	2
(3) Explanation of consolidated earnings forecasts and other forward-looking statements.....	2
(4) Explanation regarding making SBI Estate Finance Co., Ltd. a wholly-owned subsidiary	2
2. Condensed interim consolidated financial statements and significant notes thereto	3
(1) Condensed interim consolidated statement of financial position	3
(2) Condensed interim consolidated statement of net income and condensed interim consolidated statement of comprehensive income	4
(3) Condensed interim consolidated statement of changes in equity	7
(4) Condensed interim consolidated statement of cash flows	8
(5) Notes to condensed interim consolidated financial statements	9
(Note on assumption of going concern)	9
(Changes in accounting policies)	9
(Changes in presentation).....	9
(Segment information)	10
(Business Combinations)	11

1. Qualitative information regarding results for the first nine-month period

(1) Explanation of operating results

Operating revenue for the nine-month period ended December 31, 2023 decreased 17.3% year on year to ¥14,562 million. Despite the increase in the number of variable interest rate loans executed such as bank agency products, the ARUHI Super 40, and the ARUHI Housing loan (MG Hosho) which was launched in August 2023, loan execution revenue decreased 24.8% year on year due to continued weakness in the “Flat 35” loan market against the backdrop of the gap between fixed and variable interest rates. In addition, finance revenue decreased 31.7% year on year due to an increase in the ratio of variable interest rate products. On the other hand, recurring revenue from loan management and collection operations and insurance-related operations increased year on year by 2.3% and 7.5%, respectively. Operating expenses were ¥12,713 million (-8.3% year on year) due to efforts to reduce fixed costs by optimizing personnel assignments, including outsourced operations, and reviewing the outsourcing of operations, despite some expenses arising related to making SBI Estate Finance Co., Ltd. a wholly-owned subsidiary. As a result, income before tax was ¥1,835 million (-49.9% year on year), net income was ¥1,244 million (-50.6% year on year), and net income attributable to owners of the parent was ¥1,265 million (-50.0% year on year). Segment information has been omitted as the SBI ARUHI Group (the “Group”) operates in a single segment, namely, the housing-related finance business.

(2) Explanation of financial position

As of December 31, 2023, total assets were ¥183,313 million, an increase of ¥34,697 million compared with March 31, 2023. This was primarily due to an increase of ¥32,578 million in operating loans receivable as a result of including SBI Estate Finance Co., Ltd. (and its subsidiaries) in the scope of consolidation.

As of December 31, 2023, total liabilities were ¥141,613 million, an increase of ¥25,732 million compared with March 31, 2023. This was primarily due to an increase of ¥23,025 million in borrowings and an increase of ¥2,500 million in bonds payable as a result of including SBI Estate Finance Co., Ltd. (and its subsidiaries) in the scope of consolidation.

As of December 31, 2023, equity was ¥41,700 million, an increase of ¥8,964 million compared with March 31, 2023. This was primarily due to the issuance of new shares associated with SBI Estate Finance Co., Ltd. becoming a wholly-owned subsidiary in a share exchange and the recording of net income of ¥1,244 million, which was offset by a decrease of ¥1,601 million in retained earnings due to dividend payments.

(3) Explanation of consolidated earnings forecasts and other forward-looking statements

There is no revision to the consolidated earnings forecasts for the fiscal year ending March 31, 2024 announced on “Consolidated Financial Results for the Fiscal Year Ended March 31, 2023 (under IFRS)” released on May 11, 2023.

(4) Explanation regarding making SBI Estate Finance Co., Ltd. a wholly-owned subsidiary

As previously announced in a news release as of September 13, 2023 titled, “Notice Regarding Execution of Share Exchange Agreement to Make SBI Estate Finance Co., Ltd. a Wholly-Owned Subsidiary through Share Exchange, and Change in Subsidiaries,” the Company has completed the transaction to acquire all shares in SBI Estate Finance Co., Ltd. (“SBI Estate Finance”), making it a wholly-owned subsidiary of the Company as of December 1, 2023.

For details, please refer to the “Notice Regarding Completion of Making SBI Estate Finance Co., Ltd. a Wholly-Owned Subsidiary through Share Exchange” released on December 1, 2023.

2. Condensed interim consolidated financial statements and significant notes thereto

(1) Condensed interim consolidated statement of financial position

(Millions of yen)

	As of March 31, 2023	As of December 31, 2023
Assets		
Cash and cash equivalents	17,169	15,437
Trade receivables	829	1,253
Operating loans receivable	68,709	101,287
Beneficiary rights	30,848	31,987
Deposits paid	142	143
Accounts receivable	26	236
Other financial assets	1,100	1,255
Other assets	1,415	1,849
Property, plant and equipment	1,209	2,716
Goodwill	24,464	24,464
Intangible assets	2,701	2,525
Deferred tax assets	0	157
Total assets	148,616	183,313
Liabilities		
Deposits received	7,407	5,238
Lease liabilities	830	708
Bonds payable	-	2,500
Borrowings	62,730	85,756
Provisions	209	213
Income taxes payable	7	259
Other financial liabilities	43,094	44,559
Other liabilities	1,228	1,967
Deferred tax liabilities	372	409
Total liabilities	115,881	141,613
Equity		
Share capital	3,471	3,471
Share premium	8,684	17,884
Treasury shares	(838)	(717)
Retained earnings	21,448	21,113
Equity attributable to owners of the parent	32,765	41,751
Non-controlling interests	(30)	(51)
Total equity	32,735	41,700
Total liabilities and equity	148,616	183,313

(2) Condensed interim consolidated statement of net income and condensed interim consolidated statement of comprehensive income

Condensed interim consolidated statement of net income

Nine-month period ended December 31, 2023

(Millions of yen)

	Nine-month period ended December 31, 2022	Nine-month period ended December 31, 2023
Operating revenue	17,612	14,562
Operating expenses		
Finance costs	(2,698)	(2,725)
Selling, general and administrative expenses	(10,583)	(9,311)
Other expenses	(584)	(676)
Total operating expenses	(13,866)	(12,713)
Other income and expenses		
Other income	52	82
Other expenses	(134)	(95)
Total other income and expenses	(82)	(12)
Income before tax	3,663	1,835
Income tax expenses	(1,145)	(591)
Net income	2,517	1,244
Net income attributable to:		
Owners of the parent	2,530	1,265
Non-controlling interests	(12)	(21)
Net income	2,517	1,244
Earnings per share (Attributable to owners of the parent)		
Basic earnings per share (Yen)	71.48	34.61
Diluted earnings per share (Yen)	71.19	34.55

Three-month period ended December 31, 2023

(Millions of yen)

	Three-month period ended December 31, 2022	Three-month period ended December 31, 2023
Operating revenue	5,807	5,691
Operating expenses		
Finance costs	(877)	(909)
Selling, general and administrative expenses	(3,647)	(3,396)
Other expenses	(135)	(287)
Total operating expenses	(4,661)	(4,593)
Other income and expenses		
Other income	6	6
Other expenses	(46)	(33)
Total other income and expenses	(40)	(27)
Income before tax	1,105	1,070
Income tax expenses	(350)	(345)
Net income	755	725
Net income attributable to:		
Owners of the parent	760	732
Non-controlling interests	(5)	(6)
Net income	755	725
Earnings per share (Attributable to owners of the parent)		
Basic earnings per share (Yen)	21.43	19.00
Diluted earnings per share (Yen)	21.33	18.97

Condensed interim consolidated statement of comprehensive income

Nine-month period ended December 31, 2023

(Millions of yen)

	Nine-month period ended December 31, 2022	Nine-month period ended December 31, 2023
Net income	2,517	1,244
Comprehensive income	2,517	1,244
Comprehensive income attributable to:		
Owners of the parent	2,530	1,265
Non-controlling interests	(12)	(21)
Comprehensive income	2,517	1,244

Three-month period ended December 31, 2023

(Millions of yen)

	Three-month period ended December 31, 2022	Three-month period ended December 31, 2023
Net income	755	725
Comprehensive income	755	725
Comprehensive income attributable to:		
Owners of the parent	760	732
Non-controlling interests	(5)	(6)
Comprehensive income	755	725

(3) Condensed interim consolidated statement of changes in equity

Nine-month period ended December 31, 2022

(Millions of yen)

	Equity attributable to owners of the parent					Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Retained earnings	Total		
Balance as of April 1, 2022	3,471	8,903	(1,236)	20,750	31,889	(11)	31,877
Net income	–	–	–	2,530	2,530	(12)	2,517
Total comprehensive income	–	–	–	2,530	2,530	(12)	2,517
Disposal of treasury shares	–	(98)	173	–	75	–	75
Dividends	–	–	–	(2,123)	(2,123)	–	(2,123)
Share acquisition rights	–	(0)	–	–	(0)	–	(0)
Restricted share-based remuneration	–	(50)	84	–	33	–	33
Total transactions with owners	–	(149)	258	(2,123)	(2,014)	–	(2,014)
Balance as of December 31, 2022	3,471	8,754	(978)	21,158	32,405	(24)	32,381

Nine-month period ended December 31, 2023

(Millions of yen)

	Equity attributable to owners of the parent					Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Retained earnings	Total		
Balance as of April 1, 2023	3,471	8,684	(838)	21,448	32,765	(30)	32,735
Net income	–	–	–	1,265	1,265	(21)	1,244
Total comprehensive income	–	–	–	1,265	1,265	(21)	1,244
Disposal of treasury shares	–	(34)	58	–	24	–	24
Dividends	–	–	–	(1,601)	(1,601)	–	(1,601)
Share acquisition rights	–	(22)	–	–	(22)	–	(22)
Obtaining of control of subsidiaries	–	9,263	–	–	9,263	–	9,263
Restricted share-based remuneration	–	(7)	62	–	55	–	55
Total transactions with owners	–	9,199	121	(1,601)	7,719	–	7,719
Balance as of December 31, 2023	3,471	17,884	(717)	21,113	41,751	(51)	41,700

(4) Condensed interim consolidated statement of cash flows

(Millions of yen)

	Nine-month period ended December 31, 2022	Nine-month period ended December 31, 2023
Cash flows from operating activities		
Income before tax	3,663	1,835
Depreciation and amortization expenses	924	929
Amortization expenses of servicing assets	226	206
Interest income	(168)	(337)
Net gain or loss (gain) arising on financial instruments as at FVTPL	(1,838)	(1,182)
Interest expenses	418	350
Revenue related to liquidation of loans receivable	(2,954)	(1,955)
Decrease (increase) in trade receivables	154	(409)
Decrease (increase) in operating loans receivable	7,636	(622)
Decrease (increase) in beneficiary rights	971	1,713
Decrease (increase) in deposits paid	6	0
Decrease (increase) in accounts receivable	(14)	(6)
Decrease (increase) in other financial assets	(9)	20
Decrease (increase) in other assets	(236)	826
Increase (decrease) in deposits received	(3,757)	(2,171)
Increase (decrease) in provisions	(0)	(0)
Increase (decrease) in other financial liabilities	10	22
Increase (decrease) in other liabilities	(99)	409
Other	34	195
Subtotal	4,969	(173)
Interest received	689	726
Interest paid	(298)	(334)
Income taxes paid	(1,510)	(406)
Net cash provided by (used in) operating activities	3,849	(187)
Cash flows from investing activities		
Purchase of intangible assets	(483)	(539)
Proceeds from obtaining of control of subsidiaries	–	1,208
Other	(89)	(45)
Net cash provided by (used in) investing activities	(572)	624
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(10,900)	1,100
Increase (decrease) in borrowings accompanying the liquidation	(0)	(0)
Proceeds from non-current borrowings	6,500	15,100
Repayments of non-current borrowings	(800)	(16,297)
Repayments of lease liabilities	(496)	(495)
Proceeds from exercise of share options	75	24
Dividends paid	(2,113)	(1,599)
Net cash used in financing activities	(7,735)	(2,167)
Increase (decrease) in cash and cash equivalents	(4,458)	(1,731)
Cash and cash equivalents at beginning of period	22,232	17,169
Cash and cash equivalents at end of period	17,774	15,437

(5) Notes to condensed interim consolidated financial statements

(Note on assumption of going concern)

Not applicable.

(Changes in accounting policies)

The material accounting policies applied to the condensed interim consolidated financial statements are identical to the accounting policies applied to the consolidated financial statements in the previous fiscal year except for the following items. For business combinations in which all combined entities or combined businesses are ultimately controlled by the same parties before and after the business combination and such control is not temporary (common control transactions), the carrying amount of the assets and liabilities of the transferor is transferred to the transferee.

Income tax expenses for the nine-month period ended December 31, 2023, were calculated based on the estimated annual effective tax rate.

IFRS		Outline of new standards and amendments
IAS 1	Presentation of Financial Statements	Amendments to require disclosure of material accounting policies rather than significant accounting policies
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	Clarification of the distinction between accounting policies and accounting estimates
IAS 12	Income Taxes	Clarification of accounting treatment for deferred tax related to leases and disposal obligations Amendments to require disclosure of a company's exposure related to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD)
IFRS 17	Insurance Contracts	Amendments to accounting treatment for insurance contracts Amendments relating to comparative information on initial adoption of IFRS 17 and IFRS 9

The adoption of above standards does not have a significant effect on the condensed interim consolidated financial statements.

(Changes in presentation)

(Condensed interim consolidated statement of financial position)

“Beneficiary rights,” which was included in “Other financial assets” in the previous fiscal year, is presented separately from the first quarter of this fiscal year due to its increased financial materiality and for the purpose of presenting the Group’s financial position more clearly. To reflect this change in the method of presentation, the figures for the previous fiscal year shown in the consolidated financial statements have been restated.

As a result, ¥31,948 million presented in “Other financial assets” in the consolidated statement of financial position as of March 31, 2023, has been reclassified as “Beneficiary rights” of ¥30,848 million and “Other financial assets” of ¥1,100 million.

(Condensed interim consolidated statements of cash flows)

“Decrease (increase) in beneficiary rights,” was included in “Decrease (increase) in other financial assets” in the “Cash flows from operating activities” section in the nine-month period ended December 31, 2022. This is presented separately from the three-month period ended June 30, 2023 due to its increased financial materiality and for the purpose of presenting the Group’s financial position more clearly. In order to reflect this change in presentation, the condensed interim consolidated financial statements for the nine-month period ended December 31, 2022 have been reclassified.

As a result, in the condensed interim consolidated statement of cash flows for the nine-month period ended December 31, 2022, the amount of ¥962 million that was presented in “Decrease (increase) in other financial assets” under “Cash flows from operating activities” has been reclassified into “Decrease (increase) in beneficiary rights” of ¥971 million and “Decrease (increase) in other financial assets” of ¥(9) million.

(Segment information)

(1) General information

The Group's housing-related finance business consists of the execution and collection of long-term and fixed rate housing loans such as "Flat 35," floating rate or fixed and floating rate mixed-type housing loans, and the sale of insurance products incidental to these loans, etc. As such, the Group has a single reportable segment since there are no separable operating segments.

(2) Information about services

	(Millions of yen)	
	Nine-month period ended December 31, 2022	Nine-month period ended December 31, 2023
Loan execution operations	6,897	5,185
Financing operations	5,097	3,481
Loan management and collection operations	2,285	2,337
Insurance-related operations	2,507	2,695
Other operations	825	862
Total operating revenue	<u>17,612</u>	<u>14,562</u>

(Business Combinations)

The Company implemented a share exchange with SBI Estate Finance Co., Ltd. (“SBI Estate Finance”), which is a wholly-owned subsidiary of the Company’s parent SBI Nonbank Holdings Co., Ltd. (“SBI Nonbank Holdings”), with the effective date of December 1, 2023, as a result of which the Company will be the wholly-owning parent company and SBI Estate Finance will be a wholly-owned subsidiary (the “Share Exchange”). The outline of the Share Exchange is as follows.

- (1) Name and description of the company that became a wholly-owned subsidiary in the Share Exchange
Company name: SBI Estate Finance
Description of business: Money lending, guarantees, sale, purchase, and lease of real estate, and intermediation of the foregoing
- (2) Effective date of share exchange
December 1, 2023
- (3) Shares and number of shares acquired through the share exchange
Common stock of SBI Estate Finance Co., Ltd., 2,235 shares
- (4) Method of payment acquisition
Share exchange
- (5) Purpose of business combination
In order to work with swift and decisive action to further expand our business amid rapid changes in the market environment and intensifying competition in the housing-related industry, the Company has made SBI Estate Finance a wholly-owned subsidiary. This move is aimed at attracting customers through addressing their needs by leveraging the functions and services possessed by SBI Estate Finance. Additionally, it aims to diversify our sources of revenue by incorporating business revenues from real estate collateralized loans, real estate leaseback, and rent guarantee conducted by SBI Estate Finance and its subsidiaries.
- (6) Method of the Share Exchange, details of share allotment in the Share Exchange, amounts of assets acquired and liabilities assumed as of the effective date of the Share Exchange
 - (i) Method of the Share Exchange

A share exchange in which the Company becomes the wholly-owning parent company and SBI Estate Finance becomes a wholly-owned subsidiary. New common stock of the Company was issued and allotted to SBI Nonbank Holdings, the shareholders of SBI Estate Finance, as consideration for the Share Exchange.

- (ii) Details of share allotment in the Share Exchange

	The Company (Company to be wholly-owning parent through the Share Exchange)	SBI Estate Finance (Company to be wholly-owned subsidiary through the Share Exchange)
Share allotment ratio in the Share Exchange	1	3,862
Number of shares to be delivered in the share exchange	The Company’s common stock: 8,631,570 shares	

- (iii) Calculation method for the share exchange ratio
The Company repeatedly held deliberate discussions on a potential share exchange ratio with SBI Estate Finance with reference to the calculation result from an independent third-party calculation agent and by taking into account all relevant factors, including the following: the financial and asset statuses of the Company and SBI Estate Finance and future outlook of their business activities; a written opinion obtained

from a special committee comprising members who do not have any interest in SBI Estate Finance or SBI Nonbank Holdings; and legal advice from a legal advisor. As a result, the Company ultimately decided that the Share Exchange ratio is within the scope of the share exchange ratio calculated by the independent third-party calculation agent and would not be disadvantageous to the Company's shareholders.