

Toward a New Evolutionary Process

Strategic Business Innovator



**Yoshitaka Kitao**  
Representative Director & CEO

As we further advance our “customer-centric principle,” the point of origin of our founding, the SBIH Group is striving to attain significant growth to become a comprehensive corporate group that transcends the finance domain.

**Question Q1**

The SBIH Group announced a new corporate vision in April 2008. Please explain why a new corporate vision is needed at this time, and how you plan to accomplish the objectives set forth by this vision.

**1) The SBIH Group’s accomplishments and changes in the operating environment since the establishment of the initial corporate vision**

SBI Holdings transitioned to a holding company structure in July 2005, and following this reorganization, the company formulated overall strategies based on our management philosophy and corporate vision.

Upon this basis, we have endeavored to build a business portfolio that maximizes various synergies that ultimately establishes a powerful comprehensive finance group structure, which is in line with the market trend toward the establishment of financial conglomerates.

**Initial Vision of the SBIH Group (Formulated in July 2005)**

- Maximize corporate value through the synergies between customer value, which is the basis of our company, as well as the value created by shareholders and our own intrinsic human capital value.
- Increase the aggregate market capitalization of listed group companies from the current ¥1.0 trillion to ¥3.0 trillion in three years and ¥5.0 trillion in five years.
- Become not just a “strong company”, but a “strong and respected company”

Since announcing the corporate vision in 2005, there have been substantial changes in the SBIH Group’s operating environment, as well as in the Japanese economy. To reflect the realities of today’s market conditions, we decided to replace the 2005 vision with a new corporate vision. In today’s rapidly changing business environment, a corporate vision should be considered to have a medium-term duration, while a management philosophy is of a more long-term and universal nature, and should not be changed easily because of shifts in top management, or changes in business circumstances.

Precisely because we live in a world of rapid changes and uncertainties, the leaders of nations or corporations alike have the important role of presenting in a concrete manner an intriguing picture of what the nation or corporation will be like in the future; in other words, its vision. When a current leader steps down, such vision may be revised - or should be revised, in my opinion - in accordance with the changes in circumstances, or the prospect for such changes at that time.

We started by asking ourselves how we should transform our corporate vision in response to ongoing events that are reshaping our business environment. Japan is falling behind other countries in restructuring its industries. At the same time, emerging economies are growing rapidly, primarily in the BRIC countries. Having recognized these trends early on, we have been increasing our overseas investments since 2005. This has greatly expanded our overseas operations to the point where they account for 17.9% of our consolidated operating revenues.

**Growth in Overseas Operating Revenues at SBI Holdings**

Years ended March 31	2005	2008
Operating revenues	81.5	222.5
Overseas operating revenues	3.0	39.9
Pct. of operating revenues	3.7	17.9

The SBIH Group started out with 55 employees and no revenues. Today, we have a workforce of 2,666 employees and consolidated operating revenues of ¥222.5 billion (year ended March 2008). Advancing our “customer-centric principle” has been crucial to our success. Our customer base, which is the foundation for growth of the SBIH Group’s corporate value, has grown to include about 6.8 million customers. The result of increased customer value is clearly demonstrated by the growth of our customer base.

**Progress of the SBIH Group Following the 2005 Corporate Vision Announcement**

Growth since the SBIH Group’s inception

	1999 (start of the SBIH Group)	End March 2005	End March 2008
Customer base	0	About 1.7 million	About 6.8 million Up 300%
Employees (consolidated)	55	1,374	2,666 Up 94%
Operating revenues (consolidated)	0	¥81.5 billion	¥222.5 billion Up 173% (FY2007)
Consolidated subsidiaries in number	0	36	74 Up 106% (including funds)
Publicly owned group companies in number	0	6 (including Softbank Investment currently SBIH)	11 Up 83% (including SBIH)
Paid-in capital	¥50 million	¥34.7 billion	¥55.1 billion Up 59%

Major group companies & divisions		March 2005	March 2008
SBI SECURITIES (formerly SBI E+TRADE)	(number of accounts)	590,000	1.66 million Up 181%
InsWeb	(cumulative users performing transactions)	690,000	2.4 million Up 1.71 million
E-LOAN	(cumulative users performing transactions)	140,000	570,000 Up 430 k
SBI Mortgage	(loans outstanding)	¥68.1 billion	¥365.1 billion Up 436%
SBI Sumishin Net Bank	(deposits)	(Started Sep.'07)	¥400 billion (as of Aug. 2008)
SBI VeriTrans	(stores using this service)	1,010	2,500 Up 148%
SBI Card	(cards issued)	(Started Nov.'06)	32,000
Morningstar Japan	(new portfolio registrations)	(Started fall '06)	31,000
Lifestyle related comparison websites	(cumulative users performing transactions)	50,000	720,000 Up 670 k
MoneyLook	(number of users)	300,000	620,000 Up 320 k
Autoc one	(number of service users)		2.12 million (FY07)

\*Overlapping users are eliminated in cases where, due to the nature of each service site, unique users may be counted more than once when conducting more than one transaction using these sites. However, users who use services of more than one group company are counted twice.

How did we become such a large group in such a short time? I think one key factor was our superior organizational structure. Our strategy is to assemble a group that functions as an ecosystem. That means every company helps each other grow while benefiting from mutual synergies. Additionally, I have repeatedly stressed the theme of "to utilize finance as the nucleus to go beyond the financial sector." Outside of the finance domain, we have created ecosystems for housing and real estate and for information systems. Both are now beginning to grow.

We will work to reduce the contribution from the Asset Management and Brokerage and Investment Banking Businesses, which are easily affected by the volatility of the stock markets, to two-thirds of operating income. Conversely, we will work to increase the contribution from our other businesses that are minimally affected by the volatility of the stock markets, to one-third of our operating income. To accomplish this, we plan to further expand our three ecosystems: Housing and Real Estate, Lifestyle Networks, and Information Systems. Increasing earnings from financial services and other businesses that are minimally affected by stock market volatility will help to stabilize our earnings going forward.

**Transform the SBIH Group into a global organization that earns half of its operating income outside of Japan by the year ending March 2013.**

We are expanding our sources of earnings outside of Japan in order to transform our organization from a domestic Japanese entity into a truly global organization.

Years ending March 31	2008 (actual)	2013 (goal)
Asset Management	16.5	66.6
Brokerage & Investment Banking	20.5	
Financial Services	0.8	
Housing and Real Estate	8.1	33.4
<b>Total</b>	<b>42.6</b>	<b>100.0</b>

**Growth of 134.7%**

**Minimum target for operating income in year ending March 2013**  
 ➔ **¥100 billion**

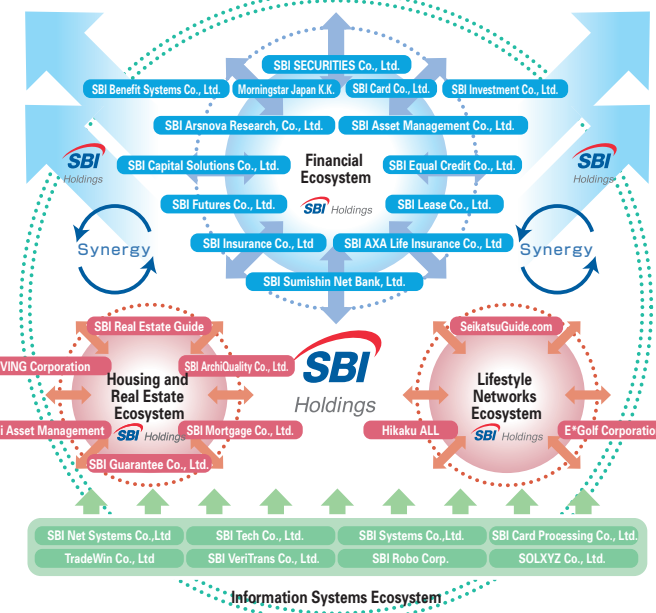
Note: Eliminations for consolidation and corporate expenses have been apportioned to each business.

**The SBIH Group's Target for Operating Income**

	Asset Management	Brokerage & Investment Banking	Financial Services, Housing and Real Estate, System Solution
Year ended March 2008 (%)	36.2	45.1	18.7
Within 5 years	2/3		1/3

	Japan	Overseas
Year ended March 2008 (%)	54.9	45.1*
Within 3 Years	2/3	1/3
Within 5 years	1/2	1/2

\* Note: Sum of operating income from sales of overseas assets and from E\*TRADE Korea.



**2) Sustaining growth of operating income – one of the goals of the new vision**

The SBIH Group now has a new corporate vision that is consistent with the changes in the operating environment that I shall now discuss.

**Targeting operating income of ¥100 billion in five years (year ending March 2013)**

Thereafter, we are targeting a long-term annual operating income growth greater than 15%.

This goal can be accomplished through internal growth, as opposed to a market capitalization goal which greatly depends on the course of the stock markets.

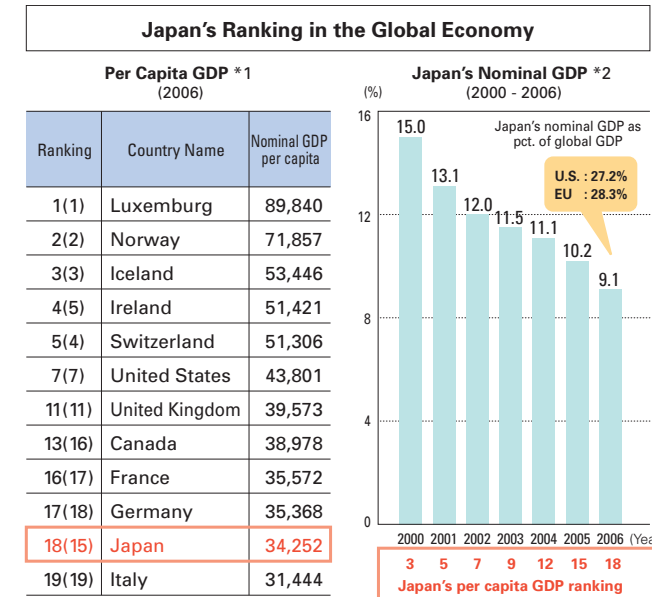
**Expand Asset Management and Brokerage & Investment Banking Business to two-thirds of operating income by year ending March 2013, with all other businesses accounting for the remaining one-third.**

**Question Q2**

**Please discuss your strategy for growth outside of Japan, in the midst of large changes in the global economy.**

**1) Why do we need to grow overseas?**

Japan's income balance surpassed its trade balance for the first time in 2005. This was an undeniable signal that Japan's days as an export-based economy was over. Unfortunately, this signal was ignored. Japan should have been moving away from an economy centered on manufacturing, but this structural change was delayed by a weakening yen and China's strong demand for Japanese manufactured goods. As a result, while countries making progress towards the post industrial society have been raising their per capita GDP, Japan has dropped from the world's highest per capita GDP in 1993 to 18th in 2006, clearly indicating Japan's weakening economic position in the world.



\*Unit: Dollar based on OECD  
 \*1 From Nihon Keizai Shimbun, December 27, 2007  
 \*2 Japanese Economy Report, Cabinet Office

As Japan's economy weakened, foreign investors have shifted their attention to other countries. During 2007, stock prices in China rose 95.5%, the biggest increase in the world. Stocks in India were up 45.0%, ranking second, U.S. stocks rose 7.1%, ranking eleventh, and British stocks rose 3.0%, ranking sixteenth. However, stock prices in Japan fell 11.1% in 2007, putting Japan in twentieth place, a clear sign that the Japanese stock market is falling behind the growth of equity markets in other countries.

The emergence of the subprime loan problem in July 2007 has led to a global credit crunch, along with a capital crunch for many financial companies. Shortages of credit and capital are largely responsible for the subsequent downturn in the stock markets, as well as their continuing volatility.

In the wake of the Livedoor scandal that broke in January 2006, the performance of Japan's small company stock markets has been weaker than the Nikkei Average. For the year that ended in March 2008, the TSE Mothers market index fell 39% and the OSE Hercules market index dropped 43%, while the Nikkei Average declined 26%.

Slumping prices of small company stocks caused Japan's IPO market to shrink rapidly. There were only 99 IPOs during the year to March 2008, which was 47% less than a year earlier, and the fewest number of IPOs in five years.

**Stock Prices in Japan Lagged Behind Other Major Markets in 2007**

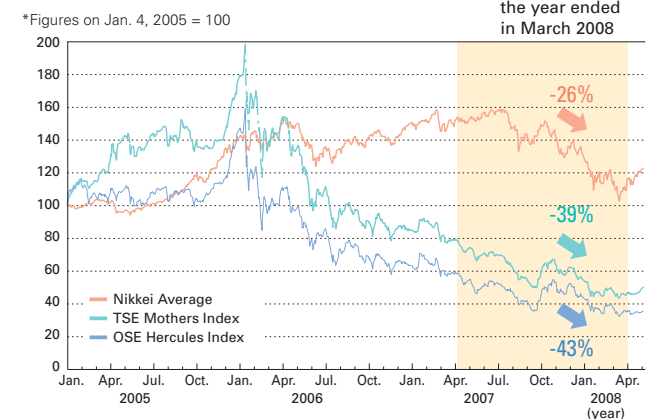
Japanese stocks down 11.1% in 2007, ranking 20th in the world  
 Up-down ratio of major world's markets from Jan. to Dec. 2007 (%)

Ranking	Country	Up-down ratio	Ranking	Country	Up-down ratio
1	China	95.5	11	United States	7.1
2	India	45.0	12	Spain	6.2
3	Brazil	40.5	13	Canada	5.8
4	Hong Kong	37.1	14	Taiwan	5.0
5	South Korea	33.0	15	Netherlands	3.1
6	Germany	20.3	16	United Kingdom	3.0
7	South Africa	18.7	17	France	0.2
8	Singapore	14.5	18	Switzerland	-4.5
9	Australia	13.8	19	Italy	-8.7
10	Mexico	11.2	20	Japan	-11.1

Source: Nihon Keizai Shimbun, December 28, 2007

**Major Stock Indexes in Japan**

The Nikkei Average dropped 26% between the year ended in March 2008 as the yen appreciated. The Mothers market fell 39% and Hercules was down 43%.



**2) Accelerate overseas businesses, primarily in the Asset Management Business**

Recent trends make it clear that the SBIH Group must establish a high-return asset management framework that is no longer centered on Japan's small company stock markets. This is why our new corporate vision includes an ambitious goal for overseas operations. We plan to transform ourselves into a global organization that earns half of its operating income from outside of Japan by the fiscal year ending in March 2013.

Our Singapore subsidiary, SBI VEN CAPITAL PTE. LTD., started operations in May 2007 to take advantage of the business opportunities that are present in the rapidly expanding Asian economies, in countries such as China and India. Largely owing to the 20% withholding tax for foreign investors into Japanese venture capital funds, Japan is not a favorite venture capital investment country for foreign investors. This onerous tax is a major impediment to the country becoming a Financial Services Nation. In Singapore, foreign investors are able to avoid the Japanese withholding tax, enabling us to offer investment funds with a more equitable and attractive tax structure. Our strategy is to use these funds to purchase equity in privately owned companies involved in information technology, as well as other business fields.

Personal relationships are extremely important to the success of investment activities outside of Japan. This is why we operate many funds in partnership with well-known overseas companies, universities and other organizations.

In India, we have an alliance with The State Bank of India, which is that nation's largest commercial bank. Using this alliance, we established the India Japan Fund in April 2008. With commitments for contributions totaling US\$100 million, the fund targets in promising unlisted companies in India.

In Vietnam, we have an alliance with The Corporation for Financing and Promoting Technology (FPT), that country's largest information technology group. With FPT, we established and began operating The Vietnam Japan Fund in April 2008. The fund is denominated in the Vietnamese Dong (VND), and started operations with contribution commitments totaling US\$100 million.

In China, we have alliances with Tsinghua Holdings, which is affiliated with Beijing-based Tsinghua University, and with Beida Jade Bird, the strategic investment arm of Peking University, to invest in new companies originating from universities. Further, we reached an agreement in principle in June 2008 to form an investment fund and fund management company with China Merchants Securities Company Limited, Resource Capital China Limited and China CITIC Bank Corporation Limited.

For our real estate operations in April 2007, we signed a memorandum of understanding with the city of Weifang, in China's Shandong province, as the first step in forging a comprehensive alliance with this city, which then led to the March 2008 opening of a representative office in Weifang. By submitting bids, we plan to participate in real estate developments jointly with an investment company operated by

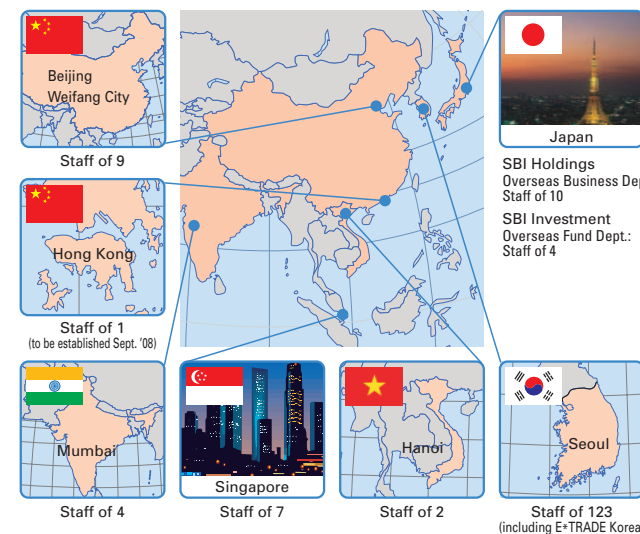
Weifang and with local general contractors. Additionally in April 2008, we signed a strategic memorandum of understanding with China-Singapore Suzhou Industrial Park Land Co., Ltd., which obtains indirect financing from the Chinese and Singaporean governments. Under this agreement, the goal will be joint investments in projects planned at the Suzhou Industrial Park, and the establishment of joint ventures associated with these projects.

In addition, we are actively in discussions about new businesses in various countries and areas such as the Middle East, Brunei and Malaysia. Also, we are currently preparing to start operations in Cambodia with a Korean partner. Under the current circumstances where stock prices are dropping in Asian countries, we are examining investment in publicly listed stocks, not just unlisted stocks, in order to enjoy all types of income opportunities.

We are currently considering investment operations in Eastern Europe. I believe this region is on the verge of significant growth that will produce an enormous market. For example, Japanese automakers are building plants in Poland, where labor costs are comparatively low. Growth in jobs in Eastern Europe will transform this region into a large market for consumer products. In this sense, inclusion of Eastern European countries in the EU is beginning to produce substantial benefits.

**The SBIH Group's Overseas Network is Centered in Asia**

The SBIH Group's overseas bases have continuously expanded since the establishment of its subsidiary in Singapore in May 2007, and now covers the greater part of the Asian emerging countries. The overseas workforce will continue to grow as the SBIH Group increases the number of overseas investment funds that will target Asia's potentially high investment returns.



Thus by partnerships with financial institutions, universities, companies and governments, we are accelerating the pace of overseas growth, primarily in venture capital investments. Capital gains are not our only objective, as we also examine various other possibilities, such as acting as an intermediary for mergers and acquisitions for our portfolio companies, and transplanting our online securities and other business models into other countries.

**3) New Horizon Fund holds the potential of producing significant returns**

We established the New Horizon Fund, which had an initial fund investment of US\$100 million, in May 2005 with Temasek Holdings, the principal investment arm of the Singaporean government. The fund has invested in a portfolio of promising Chinese companies by way of our Beijing representative office, which we opened in September 2005. Currently, the New Horizon Fund has investments in 10 promising companies in China. Of these, six are now publicly listed with unrealized capital gains already far above the fund's original investment. The other four portfolio companies are planning an IPO either later this year, or in 2009. Sales of some of the holdings resulted in realized capital gains of ¥3.6 billion in the fiscal year that ended in March 2008. Prospects are excellent for a continuation in the fund's outstanding performance.

**New Horizon Fund Performance**

Since the start of operations in May 2005, six of the fund's 10 portfolio companies have undergone an IPO. Sales of a portion of the stocks produced a gain of ¥3.6 billion in the year ended March 2008.

(Unit : US\$ million)

Portfolio companies	Investment	Category	IPO (planned)	Capital gain		
				End Mar.07	End Mar.08	As of Jul. 29, 2008
Sichuan Meifeng Chemical Industry	14.8	A-Class share		30.5	63.7	37.4
Changsha Zoomlion Heavy Industry Science & Technology Development	10.2	A-Class share		35.6	144.6	97.3
China Printing & Dyeing Holding	3.4	IPO		1.0	0.2	-1.1
Yingli Green Energy Holding	0.2	IPO		Pre-IPO	4.5	0.6
Kingsoft	9.4	IPO		Pre-IPO	2.3	4.7
Goldwind Science and Technology	4.1	IPO		Pre-IPO	124.9	97.7
Cathay Industrial Biotech	12.0	Pre-IPO	2008		79.1	79.1
China Stem Cells Holdings	4.1	Pre-IPO	2008		17.6	17.6
Jiangsu Ealong Biotech	2.5	Pre-IPO	2008		5.6	5.6
Shineway Group	20.4	Pre-IPO	2009		15.0	15.0
<b>Total</b>	<b>81.1</b>			<b>67.1*</b>	<b>457.5</b>	<b>353.9</b>

\* The figures of capital gain (end Mar. '07) were included three companies which completed IPO as of March 31, 2007

(Approx. ¥45.8 billion)  
(Approx. ¥35.4 billion)

**[Estimated Dividend (tentative)]**

FY2008 US\$ 66 million (¥6.6 billion)  
 FY2009 US\$ 85 million (¥8.5 billion)  
 FY2010 US\$ 83 million (¥8.3 billion) Total dividend (tentative) US\$234million (¥23.4 billion)

Note : The above figures are not confirmed

**Question Q3**

**As the SBIH Group accelerates its overseas expansion, what is your strategy for future investments in Japan?**

**1) Set up funds that match today's market trends**

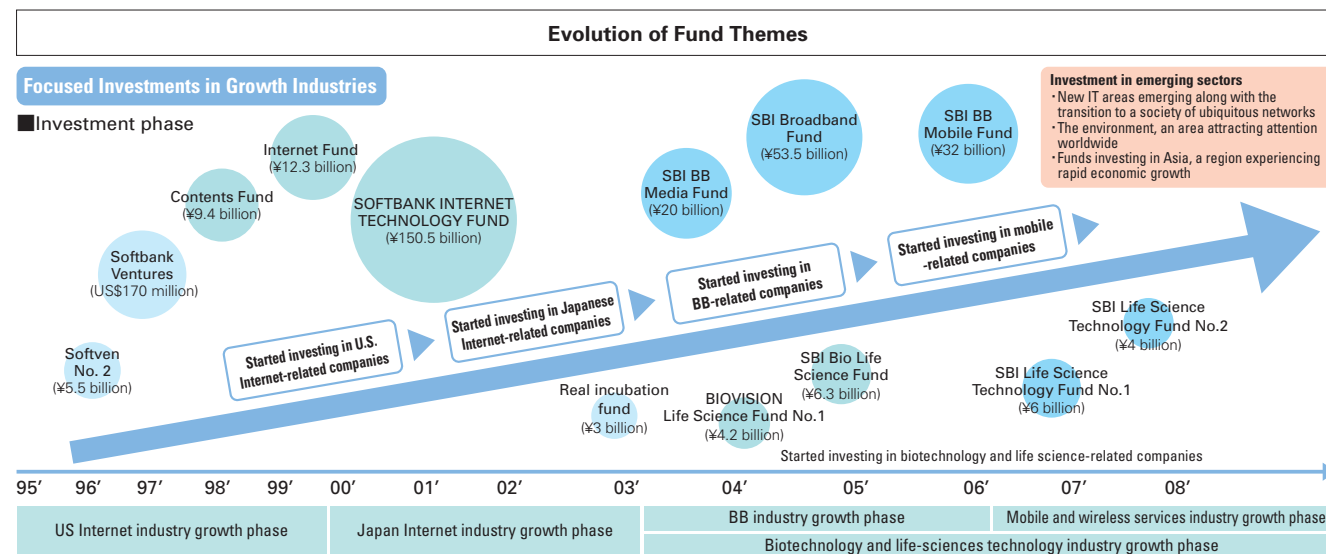
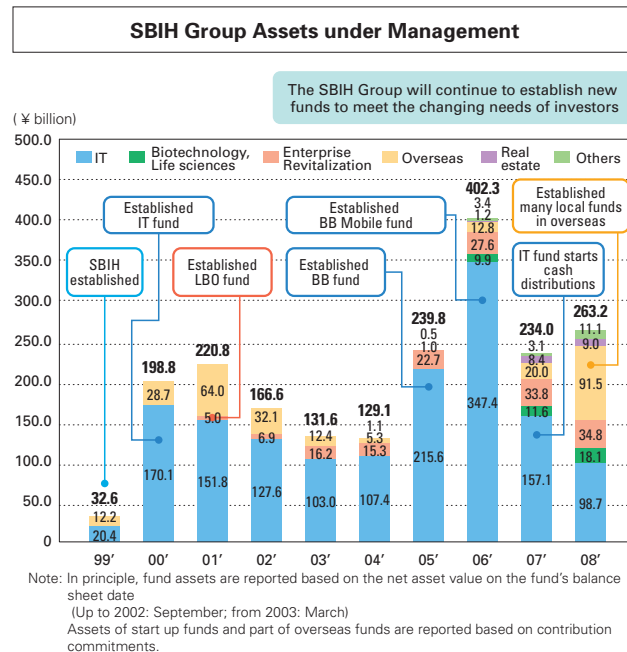
We have become the leader in the Japanese venture capital industry after only eight years since the start of operations (based on the amount of new investment for FY2007, using IR materials of competitors). At the end of March 2008, the SBIH Group had ¥627.1 billion in assets under management, including assets in the housing and real estate business, investment trusts, the investment advisory category, and others. Assets in the private equity sector totaled ¥279.6 billion, even after the redemption of our flagship fund that had assets of ¥150.5 billion.

Although a number of venture capital firms in Japan have been operating longer than we have, SBIH became number one by following a clear investment strategy. That is, concentrating investments in growing industries and giving portfolio companies hands-on support, while holding a large percentage of their equity. It is based on this strategy that we identified the Internet and biotechnology as two key growth industries for the 21st century, and have been focusing our investments on these two sectors.

As such, we established our flagship "SOFTBANK INTERNET TECHNOLOGY FUND" in 2000, with an initial contribution of ¥150.5 billion. By investing mainly in companies associated with the Internet, the fund has performed very well. Since then, we have established many other funds. Targeted industries include mobile communications and media, biotechnology and life sciences, including drug discovery and intellectual property, and environment and energy.

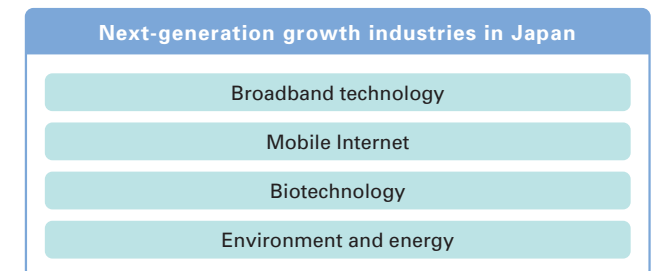
**2) Major growth industries in Japan**

The SBIH Group has invested in a large number of promising companies, primarily in the information technology field, and helped these companies to grow. In addition to IT, we believe that "biotechnology", "environment and energy", "broadband technology" and "mobile Internet" have the greatest growth potential in Japan. We have already launched venture capital funds that target these industries.



As our next core fund, we are in preparations for the launch of the SBI·NEO TECHNOLOGY FUND. The new fund will benefit from two SBIH Group strengths. First is our extensive knowledge of the IT and environmental fields. Second is our venture capital expertise, which is evident in fund performances that place us far ahead of our competitors. Privately owned Japanese companies with excellent growth prospects in the "next-generation information technology," such as ubiquitous information technology and "environment and energy" will be the main components of this venture capital fund, as there is a rising worldwide demand for companies in these two sectors. The fund's portfolio will also incorporate listed Japanese companies and companies in countries with emerging economies, by utilizing the established wide network of relationships with our local partners in Asia.

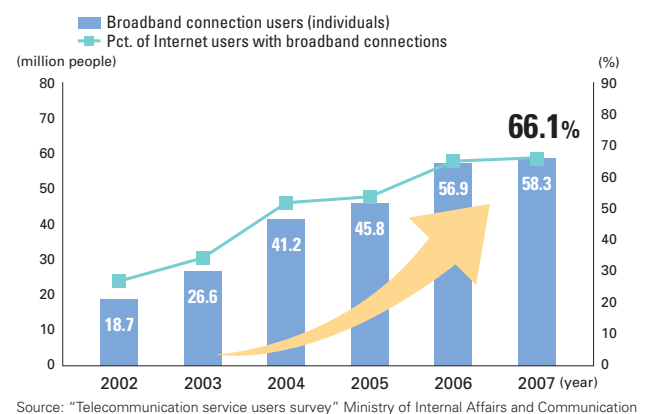
In accordance with the SBIH Group's management philosophy, including the goals of being a "financial innovator" and a "new industry creator," we are endeavoring to make direct contributions to the Japanese society by investing in and supporting the growth of companies that can become the country's next generation of industry leaders.



Operation of biotechnology funds	The SBIH Group currently manages biotechnology funds with aggregate assets of ¥20.5 billion*.
SBI Biotech Co., Ltd.	Preparing to start U.S. clinical trials using a nucleic acid pharmaceutical pipeline from alliance partner, Changchun Huapu Biotechnology Co., Ltd. of China.
SBI ALApromo Co., Ltd.	Established in April 2008 to prepare for the planning, development and marketing of pharmaceuticals, health food and beauty care products that use "5-aminolevulinic acid (5-ALA)" (bioactive substance).
Operation of fund investing in environment and energy fields	Established an investment in September 2007 with assets of ¥7.5 billion and is now making investments.

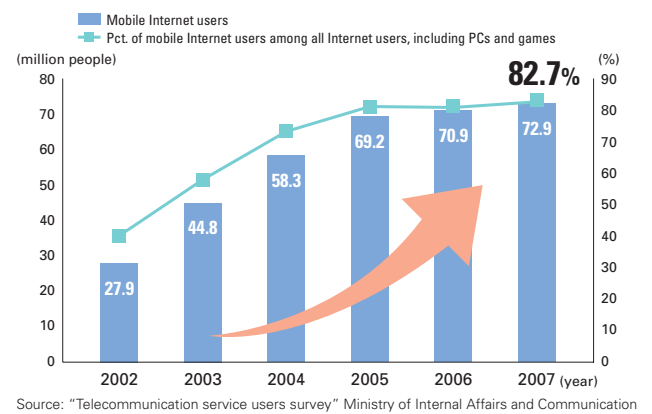
\* based on contribution commitments

**Japan's Broadband Market Advances to a New Stage**  
66.1% of Japan's Internet users have a broadband connection.  
Fiber-optic connections (31.3%) are more widely used than DSL (18.9%). Information and communication technology is advancing to a new stage due to the emergence and development of NGN (Next Generation Network) and digital broadcasts.



Source: "Telecommunication service users survey" Ministry of Internal Affairs and Communication

**Mobile Internet Drives Growth of the IT Industry**  
More than 70 million people use the mobile Internet, which is more than 80% of all people who use the Internet.  
Activities involving mobile technologies will greatly affect further development of the IT industry.



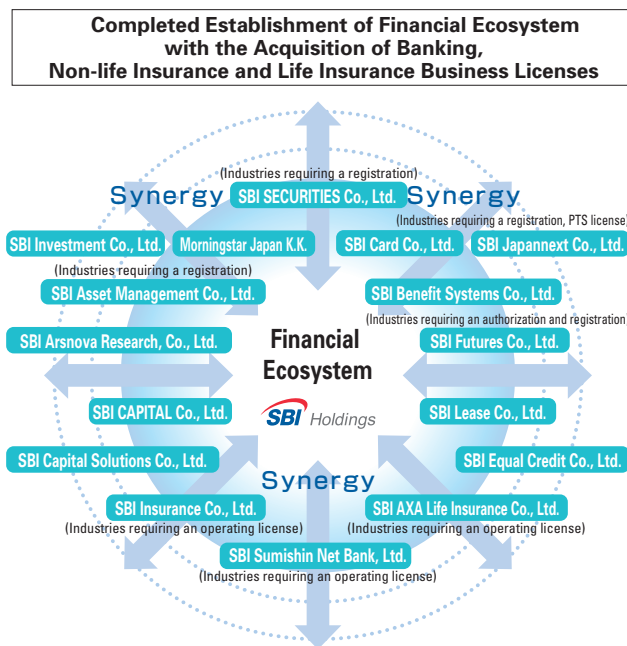
Source: "Telecommunication service users survey" Ministry of Internal Affairs and Communication

**Question Q4**

With the start of operations of an Internet bank, Internet nonlife insurer and Internet life insurer, the SBIH Group has finally completed its financial ecosystem. This creates the "Internet Financial Conglomerate" that the group has been planning since its inception. Please explain your strategies for making these three new core businesses profitable, including expected synergies with other group companies.

**1) The final pieces of the financial ecosystem**

Our financial ecosystem is now in place. The final events were the start of operations of SBI Sumishin Net Bank in September 2007, SBI Insurance in January 2008 and SBI AXA Life Insurance in April 2008. From the outset, the SBIH Group planned to build a growing financial ecosystem by establishing a variety of companies, which includes joint companies with prominent partners in the financial domain. With our bank and insurance companies operating, we have established a globally unique Internet-based financial conglomerate.



Since the inception of the SBIH Group in 1999, we have regarded banking as an essential and central component of our efforts to become a comprehensive financial group. The U.S. experienced a banking system crisis in the 1980s, and Japan's banks struggled with impaired loans during the 1990s. We were thus well aware of the difficulties of operating a bank. The biggest question was when to launch our bank. We decided to start our bank now because the SBIH Group's business ecosystem is largely in place. We therefore have many opportunities for capturing synergies between our bank and other group companies. Another reason is the trend toward universal banking as Japan's Financial System Council considers lowering barriers separating banks and securities companies. Establishing an Internet bank is essential to preparing for this trend. Once barriers separating the banking and securities sectors are gone, we can capture significant synergies between Internet banking and

Internet securities operations. Furthermore, if we do not act quickly, we may fall behind our competitors.

**2) Progress at the three new core businesses**

The SBIH Group has three new core businesses: banking, nonlife insurance and life insurance. In all three fields, we will take full advantage of our expertise to expand the Internet financial businesses, especially from the experience that we gained from operating Internet-based businesses, primarily in the securities field.

**Internet bank**

SBI Sumishin Net Bank is Japan's first Internet bank that offers full banking services covering deposits, loans and the settlement of accounts. Since the start of operations, the bank has been steadily increasing the number of customers. One advantage is a lineup of distinctive benefits as an Internet bank. Examples include highly competitive interest rates, free ATM transactions for individual customers and foreign currency deposits that permit placing orders at specific exchange rates. High-profile marketing campaigns have also helped attract new customers. SBI Sumishin Net Bank is dedicated to providing products and services that enhance convenience for its customers. For example, the "SBI Hybrid Deposit" provides a link to SBI SECURITIES, which has more than 1.7 million customer accounts. Even though other Internet banks in Japan started their operations earlier, SBI Sumishin Net Bank exceeded ¥400 billion in deposits after only 320 days and continues to increase the volume of its deposits.

**SBI Sumishin Net Bank Ltd. SBI Sumishin Net Bank**

**Business plan at start of operations (September 24, 2007)**

- Customer accounts Third year : about 400,000 Fifth year : about 600,000
- Deposits Third year : about ¥700 billion Fifth year : about ¥1,000 billion
- Earnings Third year : profitable on single-year basis Fifth year : net income of about ¥5 billion and elimination of accumulated losses

**Progress report**

- Customer accounts 200,907 (August 10, 2008)
- Deposits ¥403 billion (August 10, 2008) (Surpassed ¥400 billion on 320th day of operations, fastest of any Internet bank in Japan)

I believe the success of our new Internet bank and two Internet insurance companies will depend greatly on our ability to achieve an integration of online and conventional (face-to-face) services in various ways.

I think that the banking business is well suited to combining Internet and conventional channels. Banks can use the Internet to gather deposits, and use conventional channels for investing those funds. In other words, we need to take full advantage of the

Internet for increasing the volume of deposits, and at the same time, to invest these deposits productively while receiving the assistance of the many SBIH Group companies that have expertise in conventional asset management.

For housing loans, it is basically difficult to achieve growth by solely depending on the Internet. Increasing the volume of these loans requires forming ties with many real estate and housing companies. Consequently, we need to examine more closely the banking business from all of these perspectives in order to achieve an effective integration of online and face-to-face operations.

**Days Needed by Internet Banks to Surpass ¥400 Billion in Deposits**

	Start of operations	Surpassed 100 billion yen in deposits (*1)	Days after start of operations	Surpassed 400 billion yen in deposits (*1)	Days after start of operations	Deposits (billion yen) (*2)
eBANK	2001/07/23	2003/10/1 ~2004/3/31	801-983 days	2006/11/1 ~2006/11/30	1,928-1,957 days	802
Japan Net Bank	2000/10/12	2002/10/1 ~2003/3/31	720-901 days	2007/10/1 ~2007/12/31	2,546-2,637 days	434
Sony Bank	2001/6/11	2002/3/1 ~2002/3/31	264-294 days	2004/6/1 ~2004/6/30	1,087-1,116 days	1,241
<b>SBI Sumishin Net Bank</b>	<b>2007/9/24</b>	<b>2007/11/19</b>	<b>57 days</b>	<b>2008/8/8</b>	<b>320 days</b>	<b>403</b>

\*1 Term during which the amount of deposits surpassed respective amount based on information announced by each bank.  
\*2 SBI Sumishin Net Bank : as of Aug. 11, 2008 Others : as of Jun. 30, 2008

**Internet nonlife insurance**

Our policy for nonlife insurance is to offer our customers policies at the lowest possible premiums. This is similar to the successful strategy of SBI SECURITIES, which offers very low brokerage commissions. I believe SBI Insurance can also attract customers through a similar approach, and we must also combine this business with conventional marketing and service channels. To be competitive, automobile insurance is an extremely important part of our strategy. If we can become a leader in this enormous market, I believe that our nonlife insurance business will be very successful.

Consequently, we plan to gain a competitive advantage in the nonlife insurance market by establishing a variety of alliances with companies in the new and used car industry. Success in the nonlife insurance business will require that we combine the Internet and conventional channels from the very beginning.

**SBI Insurance Co., Ltd. SBI Insurance**

**Business plan at start of operations (January 16, 2008)**

- Number of policies Fifth year : about 300,000
- Earnings Fifth year : profitable on single-year basis Tenth year : premium income of ¥25-¥30 billion

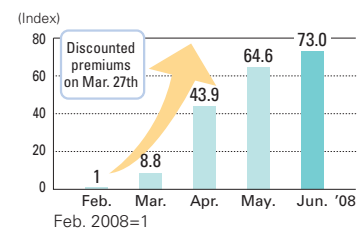
**Highlights of fiscal year ended March 2008**

- Dec. 26, '07 Received nonlife insurance business license from the Financial Services Agency
- Jan. 16, '08 SBI Insurance started operations
- Shareholders: SBI Holdings 61.6%, Aioi Insurance 33.4%, SOFTBANK 5.0%

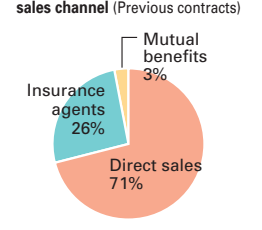
**Progress report**

- Number of policies Steady growth in number of policies since March 2008 reduction in premiums
- Development of sales channels Established alliance in May 2008 with the "Autoc one" auto purchasing support website Creates a new sales channel by allowing SBI Insurance to target car buyers at the comparison and estimate stage, a point where Internet insurers have not yet been able to market their policies effectively.

**Growth in SBI Insurance automobile policies**



**SBI Insurance policyholders by sales channel (Previous contracts)**



**Internet life insurance**

SBI AXA Life Insurance started operations in April 2008 as Japan's first Internet life insurance company. Just as with the Internet nonlife insurance business, our goal is to establish a competitive edge by offering the lowest possible premiums.

**SBI AXA Life Insurance Co., Ltd.**

**Business plan at start of operations (April 7, 2008)**

- Number of policies First year : about 20,000 Fifth year : about 200,000
- Earnings Fifth year : profitable on single-year basis

**Highlights leading up to start of operations**

- Dec. 7, '07 Application to Financial Services Agency for preliminary examination for insurance business license
- Apr. 2, '08 Received life insurance business license from the Financial Services Agency
- Apr. 7, '08 SBI AXA Life Insurance started operations
- Shareholders: SBI Holdings 55.0%, AXA Japan Holding 40.0%, SOFTBANK 5.0%

**Progress report**

- Page views steady growth April: 390,000 May: 410,000 June:680,000
- Development of sales channels Started marketing and selling policies through insurance agents on June 19
- High-profile PR activities Since start of operations, SBI AXA Life Insurance has been mentioned in articles and programs of four TV networks and 133 newspapers and magazines.

SBI AXA Life Insurance is the pioneer in Japan's Internet life insurance sector. When SBI AXA Life Insurance started its operations, the online life insurance market had not yet been established. This is in contrast to the Internet nonlife insurance market, where competitors such as Mitsui Direct already sold exclusively over the Internet, prior to SBI Insurance's entree into that market. In Japan's Internet life insurance sector, we need to be a source of innovations that will help to enlarge the entire life insurance market. In that sense, we welcome the emergence of competitor online life insurers. In fact, I believe it is a necessary condition for this market to grow.

With the start of operations, one of our most difficult but important tasks is to find ways to encourage policy holders of other life insurers, particularly those using conventional marketing channels, to switch to SBI AXA Life Insurance. This is the most difficult task with regard to creating a market for Internet life insurance. SBI AXA Life Insurance is currently exploring numerous ways to strengthen its marketing activities, including the expansion of sales through insurance agents.

**Premiums of SBI AXA Life Insurance and Competitors**

**Monthly premiums for term life insurance**

(Death/serious injury benefit of ¥10 million (no riders) for male policyholder, term of 10 years)

Age at start of policy	SBI AXA Life Insurance*1	Major Japanese life insurer A (policy sold directly)*2	Major foreign life insurer B (policy sold directly)*2
20	1,310	1,848	2,230
30	1,530	2,119	2,380
40	2,690	3,385	3,770
50	5,620	6,507	7,470

**Monthly premiums for medical insurance**

(¥10,000/day payment for hospital stay for male, monthly premiums for 10 years)

Age at start of policy	SBI AXA Life Insurance*1	Major Japanese insurer A (policy sold directly)*2	Major foreign insurer B (policy sold directly)*2
20	1,280	1,559	1,777
30	1,600	1,813	2,304
40	1,840	2,215	3,093
50	2,850	3,464	5,073

\*1: As of April 7, 2008  
\*2: Average monthly premium for 10 years (date prepared by SBI Holdings on December 14, 2007)

**3) Build a framework to pursue greater synergies within the SBIH Group to accelerate the profitability of the three new core businesses**

Obviously, the success of these three new core businesses will depend on our ability to create marketing and other related channels. Let me give you examples of the kinds of channels that we must build.

**Collaboration with SBI SECURITIES**

Customers of SBI SECURITIES are able to open an account at SBI Sumishin Net Bank very easily through its website, which serves as an agent for banking services. In fact, since the bank started its operations, SBI SECURITIES' customers have accounted for about half of all new accounts. Furthermore, there is a close link between the accounts of these two companies. For example, bank customers using the "SBI Hybrid Deposit", which has a higher interest rate than ordinary deposits, will have their bank deposit balances automatically included in their funds available for purchases at SBI SECURITIES. By offering this type of seamless link between banking and securities,

we make it possible for customers to utilize a "one-stop" convenience for the centralized management of their funds, while providing them with higher returns.

**Pursuing synergies between the three new core businesses and the automotive market**

We have been making steady progress in establishing relationships and capabilities needed to quickly develop our Internet banking and insurance businesses into core businesses. In particular, we are strengthening equity relationships with various companies that have the potential for producing substantial synergies with the three new core businesses and our other financial businesses. We have made several investments in the auto-related field, which we view as an especially attractive source of new customers.

SBI Holdings invested in a variety of companies associated with automobiles, all of which is expected to yield valuable synergies. We own 87.5% of SBI Auto Finance, which offers car trade finance, 53.4% of Autoc one, which offers Internet auto purchasing services, 50.57% (through an SBIH-managed fund) of Auto Server, a bidding agent for used car auctions, 35.58% (through an SBIH-managed fund) of IKE-Autobus, 19.9% of Financial Agency, and 3.97% of IRRC Corporation.

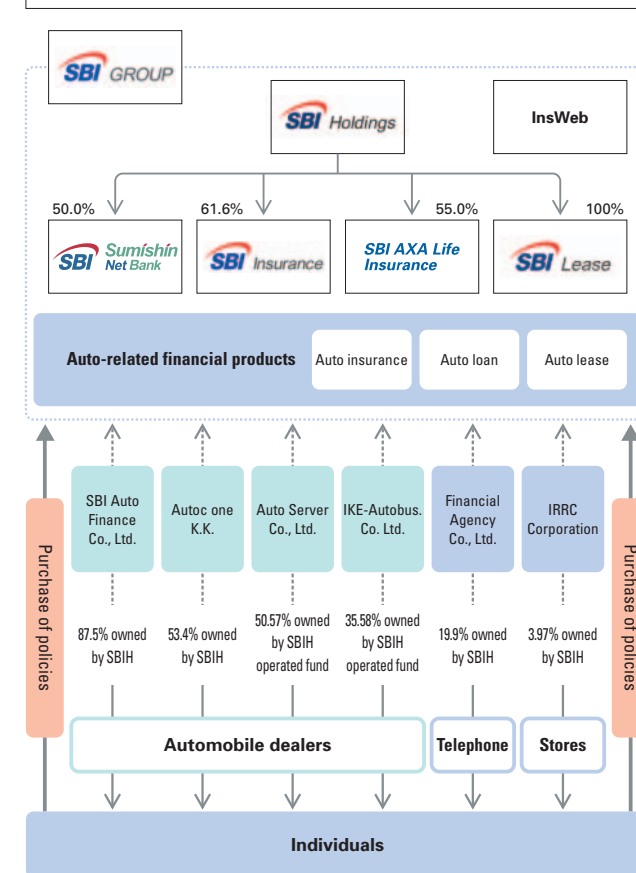
At Autoc one, 2.12 million people have used this company's new car estimate and intermediary service. We will also pursue other synergies with our three new core businesses, such as distributing information about SBI Insurance to users through the website of Autoc one. I am confident that these synergies will produce many new sources of earnings for our financial businesses.

We have great expectations for these new channels. At our Internet bank, the most crucial issue is how to manage the deposits received from our customers in order to earn a proper margin. One way is through a large increase in the volume of auto loans. These loans have an enormous advantage, which is the use of automobiles as collateral. This reduces the possibility of problems involving the repayment of these loans.

The July 2008 establishment of SBI AutoSupport Co., Ltd. is one more way that we are supporting our Internet bank and insurance companies. This new company is 70% owned by SBI Holdings and 30% owned by JAA, a used car auction company. The objective is to provide support for the provision of automotive financial services. JAA is one of Japan's largest operators of automobile auctions, with more than 14,000 registered companies. By drawing on JAA's knowledge, we seek to use SBI AutoSupport as a platform that will substantially reinforce the automobile insurance, automobile loan and other automotive financial services.

Our strategy is unique within Japan's financial services sector. Very few financial services companies have adopted a growth strategy that uses so many investments and alliances involving companies in other industries. As a part of this strategy, I want the SBIH Group to offer a diverse range of financial services associated with the automobile industry, which is still the twenty-first century's largest industry in Japan.

**A Diversified Ownership Structure to Support the Three New Core Businesses**



**Preparing for Links to Many Automotive Related Companies**

SBI Auto Finance Co., Ltd.	Activities: Guarantees for short-term loans and payment processing agency service for vehicle purchases by auto auction members Number of member auto sales companies: 345 Affiliated used car auction sites: 35
Autoc one K.K.	Activities: Uses Internet to assist individuals purchase automobiles Member automobile dealers: 849 (March 31, 2008) Users of new car estimate intermediary service: 2.12 million (March 31, 2008)
Auto Server Co., Ltd.	Activities: Bidding agency service for Internet used car auctions Member companies: 32,000 Winning bids per year: 124,000 vehicles (FY2007) Vehicles submitted: Covers about 77% of vehicles submitted at all auction sites
IKE-Autobus Co., Ltd.	Activities: Retail and wholesale automobile sales, guarantees for residual value of automobiles
Financial Agency Co., Ltd.	Call center operator with expertise in building customer relationships using a unique direct telemarketing method
IRRC Corporation	Insurance agent that operates 97 "Insurance Clinic" real shops throughout Japan (June 30, 2008)

**4) Reinforcing the Information Systems Ecosystem for supporting online financial services**

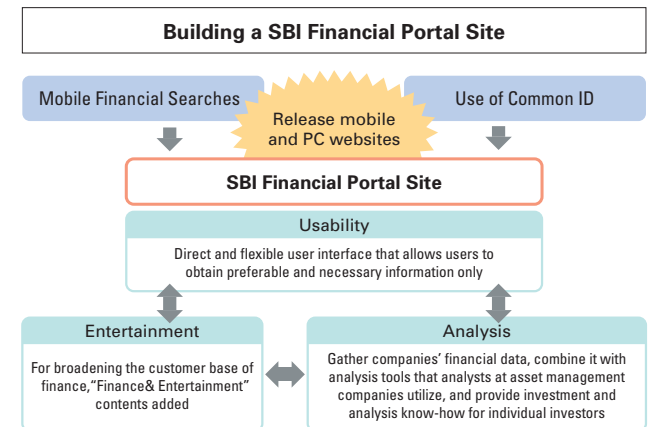
We are returning to the basics of an organization that does business on the Internet. This means that we will make extensive use of marketing that employs blogs, social network systems and other Web 2.0 tools. At the same time, we must act quickly to make the three new core businesses profitable by building the required support systems for each business.

SBI Holdings established the "Web Finance Department", which reports directly to me, in February 2008. Furthermore, I am the general manager of this department with the CEO of SBI Robo serving as my deputy. Why create this division now? Because of my strong belief that using Web services to differentiate ourselves will be the key to advancing the SBIH Group to the next phase of growth. This department is responsible for conceiving differentiation strategies and developing the necessary tools.

Initially, the Web Finance Department will focus on building a central financial portal site for the entire SBIH Group by using the latest advances in Web technology. Search engine optimization (SEO) and search engine marketing (SEM) techniques will be fully utilized by the site. By raising the number of unique users and page views, we aim to heighten the market profile of the entire SBIH Group. All group companies will use the portal site to grow, mainly by attracting new customers and enabling customers to move among the SBIH Group websites with ease, which will lead to an increase in service transactions. I believe this process has the potential to become a major growth driver. Once this portal site is functioning, the division will turn its attention to creating a website for cell phones, as Internet use from cell phones is increasing. Every service of the SBIH Group must have a website that is compatible with these phones.

With this new department, the SBIH Group has started its preparations to offer its customers a full-scale of Web services.

To review, I foresee our Internet banking and insurance businesses yielding enormous synergies by interacting with other group companies. These three new businesses will benefit from the diverse customer and operating bases of the group companies, as well as from our accumulated knowledge. Pursuing synergies is vital to making these new core businesses profitable quickly. In other words, I believe that synergies are essential to enabling the three new businesses to positively contribute to the SBIH Group's earnings.



Question Q5

**SBI SECURITIES (formerly SBI E\*TRADE SECURITIES) became a wholly owned subsidiary of SBI Holdings in August 2008. What are the reasons for this action? Also, please explain your strategic objectives for this company.**

SBI SECURITIES has been extremely successful as an online securities company. Now this company is preparing for even greater success as a comprehensive securities company. This is why SBI E\*TRADE SECURITIES (currently SBI SECURITIES) merged with the former SBI Securities in October 2007. Combining these companies produced a fully integrated online and conventional (face-to-face) securities operations. We have thus created Japan's first "Internet-based real securities company" that has the strengths of both online and conventional operations. As an Internet securities company, SBI SECURITIES has a low cost structure, the ability to attract many customers, a dominant share of stock brokerage trading value, and other strengths. As a conventional securities company, SBI SECURITIES has strong regional roots, the ability to combine sales activities with consulting services and other strengths. Through the combination of these resources, we will position ourselves to better serve the needs of our customers.

Taking one step further, we made SBI SECURITIES a wholly owned subsidiary on August 1, 2008 for the purpose of enabling SBI SECURITIES to compete on an equal footing with Japan's major securities companies. This is essential for advancing to the next stage of growth.

Originating as an online securities company, SBI SECURITIES succeeded in establishing a powerful base of operations. Today, this company is Japan's preeminent Internet securities firm with a significant lead over all competitors. Amongst all Japanese securities companies, SBI SECURITIES ranked in the top five in terms of operating income, ordinary income and net income for the fiscal year that ended in March 2008.

Operating revenues at SBI SECURITIES, the equivalent of sales, are far less than at Nomura, Daiwa and Nikko Cordial. Raising revenues to the same level as at these securities companies is impossible as long as online brokerage remains the only business of SBI SECURITIES. By combining our online securities company with the former SBI Securities, which has 27 branches we have significantly expanded our securities operations, which enables us to be a full-service securities company with activities that go far beyond the online brokerage business alone.

Our plans also include establishing an overseas office network, strengthening investment banking operations, and taking many other actions to grow in the conventional securities company domain.

This is why I decided to place SBI SECURITIES under the direct control of SBI Holdings. In brokerage services, investment banking, overseas operations and other business categories, SBI SECURITIES must grow within an extremely short period of time.

Universal banking is another key factor. As Japan's financial services industry moves closer to universal banking, we need to integrate operations to become a true financial conglomerate. Rather than having the securities business remaining with no ties to our other financial services, operating as a conglomerate puts us in a much better position to maximize synergies across the SBIH Group.

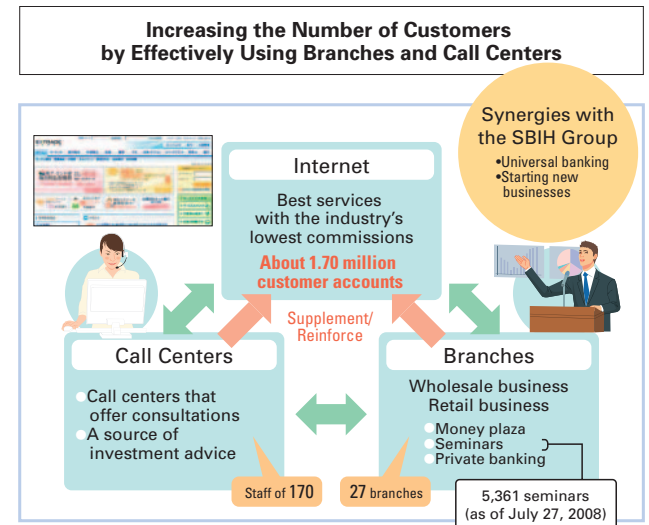
Barriers in Japan separating banks and securities companies are becoming lower each year. To grow, SBI Sumishin Net Bank, SBI SECURITIES, SBI Insurance, and SBI AXA Life Insurance must

operate in a unified manner. The days when we could treat securities as an operation independent of other group businesses are behind us. In Japan, banks are already selling investment trusts and insurance policies at their branches. With all four of these financial services in our group, we will have more opportunities to grow as financial service companies enter each other's domains. The conclusion is clear; the securities business must also function as an integral part of our financial service business.

The SBIH Group is endeavoring to fully utilize the Internet and other networks to create a "one-stop" financial services destination for customers to fulfill every possible financial need. This will allow the SBIH Group companies to share their customer bases, naturally with the customers' consent, and expanding cooperation among group companies will create a seamless lineup of financial services. SBI SECURITIES' customers, for instance, will have Internet access to payment settlement services, asset management products, loans, insurance policies, and other products and services.

Securities companies and banks serve different customer segments. People who have accounts at online securities companies have a high level of IT and financial literacy. However, people who use online banks and life insurers generally are not as knowledgeable about financial matters. In the future, I hope that we can improve the financial literacy of our online bank customers by offering a diverse lineup of financial services and providing information about financial products. This process will further increase the customer segment for the securities companies by transforming online bank customers into financially literate investors.

The primary reason for making SBI SECURITIES a wholly owned subsidiary of SBI Holdings is to increase synergies by using this company's more than 1.7 million customers to benefit the entire SBIH Group. Another reason is the rising concerns about



companies that have publicly owned subsidiaries. Managing a corporate group in a more unified manner creates the possibility of conflicts of interest between shareholders of the parent company and its subsidiaries. By making SBI SECURITIES a wholly owned subsidiary, we can avoid this potential problem.

Another important development in the securities business is our ability to start operations outside of Japan. Until recently, our trademark licensing agreement with E\*TRADE FINANCIAL Corp. in the United States prevented us from operating a securities business outside Japan. Now that this agreement has terminated, we plan to set up online securities companies outside of Japan. We will primarily target countries with emerging economies, where we already have relationships with well-known local partners through our asset management business.

**SBI SECURITIES' Ranking in the Securities Industry (Income - FY2007)**

Ranking by Operating Income (100 million yen)			Ranking by Ordinary Income (100 million yen)			Ranking by Net Income (100 million yen)		
1	Daiwa	836	1	Daiwa	901	1	Daiwa	464
2	Nikko *1	421	2	Nikko *1	436	2	Nikko *1	171
3	SBI SECURITIES	228	3	SBI SECURITIES	224	3	Matsui	128
4	Matsui	207	4	Matsui	207	4	SBI SECURITIES	119
5	SMBC Friend	191	5	SMBC Friend	198	5	SMBC Friend	113
6	Tokai Tokyo	141	6	Tokai Tokyo	149	6	Shinko	94
7	Monex	130	7	Okasan	148	7	Tokai Tokyo	90
8	Shinko	122	8	Shinko	146	8	Mitsubishi UFJ	81
9	Okasan	119	9	Monex	128	9	Monex	72
10	Kabu.com *2	99	10	Mitsubishi UFJ	110	10	Kabu.com *2	60
11	Mizuho Investors	73	11	Kabu.com *2	100	11	Okasan	56
12	Toyo	62	12	Mizuho Investors	77	12	Mizuho Investors	53
13	Rakuten	61	13	Rakuten	68	13	Toyo	32
14	Mitsubishi UFJ	46	14	Toyo	66	14	Ichiyoshi	11
15	Ichiyoshi	19	15	Ichiyoshi	19	15	Rakuten	3
16	Cosmo	-35	16	Cosmo	-33	16	Cosmo	-49
17	Nomura *3	-646	17	Nomura *3	-646	17	Nomura	-678
18	Mizuho	-4,303	18	Mizuho	-4,337	18	Mizuho	-4,187

(Source: Compiled by SBIH from information disclosed by each company)  
\*1 Nikko includes the total of Nikko Cordial Securities and Nikko Citigroup  
\*2 Non-consolidated basis \*3 Pre-tax income

(Source: Compiled by SBIH from information disclosed by each company)

(Source: Compiled by SBIH based on information of May 1, 2008 Nikkei Shimibun)  
Consolidated accounting  
Amounts are rounded to nearest 100 million yen

**SBI SECURITIES' Ranking in the Securities Industry (Customer Base and Revenues - FY2007)**

Ranking by Customer Accounts (number of accounts)			Ranking by Assets in Customer Accounts (100 million yen)			Ranking by Operating Revenues (100 million yen)		
1	Nomura *1	4,165,000	1	Nomura	722,104	1	Nomura *4	15,937
2	Daiwa	3,022,000	2	Daiwa	470,911	2	Daiwa	8,254
3	Nikko *2	2,360,000	3	Nikko *2	409,741	3	Mitsubishi UFJ	5,341
4	SBI SECURITIES	1,662,051	4	Mitsubishi UFJ	236,737	4	Nikko*2	3,531
5	Mitsubishi UFJ *1, 3	1,207,000	5	Mizuho	190,468	5	Mizuho	2,237
6	Shinko	1,033,000	6	Shinko	127,715	6	Shinko	1,465
7	Monex	834,931	7	Mizuho Investors	66,098	7	Okasan	723
8	Rakuten	779,787	8	SMBC Friend	40,607	8	SBI SECURITIES	645
9	Matsui	729,394	9	Tokai Tokyo	39,002	9	Mizuho Investors	641
10	Kabu.com	622,422	10	Okasan	38,490	10	Tokai Tokyo	632
11	Okasan	431,364	11	SBI SECURITIES	37,549	11	SMBC Friend	606
12	Monex	17,520	12	Monex	17,520	12	Matsui	399
13	Marusan	17,299	13	Marusan	17,299	13	Monex	305
14	Cosmo	16,737	14	Cosmo	16,737	14	Rakuten	287
15	Ichiyoshi	15,902	15	Ichiyoshi	15,902	15	Toyo	230
16	Matsui	12,763	16	Matsui	12,763	16	Cosmo	222
17	Toyo	12,406	17	Toyo	12,406	17	Ichiyoshi	215
18	Rakuten	11,663	18	Rakuten	11,663	18	Kabu.com *5	207
19	Kabu.com	10,211	19	Kabu.com	10,211			

(Source: Compiled by SBIH based on available information)  
\*1 Outstanding balance, number of accounts  
\*2 Nikko includes the total of Nikko Cordial Securities and Nikko Citigroup, but the customer accounts are that of Nikko Cordial Securities  
\*3 As of the end of June 2007 \*4 Total Revenues \*5 Non-consolidated basis

(Source: Compiled by SBIH based on information in May 2, 2008 Nikkan Kogyo Shimibun and May 11, 2008 Nikkei Veritas)

(Source: Compiled by SBIH based on information in May 1, 2008 Nikkei Shimibun)  
Consolidated accounting  
Amounts are rounded to nearest 100 million yen