



EVOLUTION

2.0

Yoshitaka Kitao

Representative Director,
President & CEO

GROWING OUR SYSTEM TO THRIVE AND TO SERVE

The SBI Group has achieved dramatic growth by taking advantage of the past two major trends of the Internet revolution and deregulation. Currently, two new major trends of “the policy change of the Financial Administration” and “the FinTech Revolution” have begun, and a new major transformative wave is being pressed upon the financial industry. Under these circumstances, the SBI Group is endeavoring to raise its corporate value, and is moving to migrate to a new paradigm, which goes beyond the current framework and value viewpoint. More specifically, the SBI Group will promptly incorporate new technologies, such as FinTech, which is currently a major global trend, into its businesses, to further expand the existing business ecosystem by cooperating with companies outside of the Group, including those involved in the same industry, in order to actualize the Company’s intrinsic corporate value.

Regarding “the policy change of the Financial Administration,” the Financial Services Agency (FSA) has placed corporate and economic growth, along with asset formation as its highest priority, and is directing financial institutions to conduct business in the best interests of the customers (“Customer-oriented business operations” (as a fiduciary duty)), but the SBI Group has always thoroughly extolled the “Customer-centric Principle” since its founding, and has a proven track record of placing the highest priority in the best interests of the customer to provide services that are truly in the benefit of the customer. We will continue to further strengthen and thoroughly implement initiatives based on the “Customer-centric Principle,” in order to take advantage of our accumulated know-how, and to take on the role of leading the Japanese financial institutions.

Now, I would like to explain the basic strategy that we will implement in light of the above.

STRATEGY 01

A Paradigm Shift to FinTech 2.0

Migrating to FinTech 2.0, which Provides Innovative Financial Services

During the 1990s, when I founded the SBI Group, Japan was experiencing two major trends of financial deregulation^①, and the Internet revolution^②.

Considering the high affinity between finance and the Internet, we sequentially entered into the securities, banking and insurance businesses with the Internet as the main channel, and have subsequently provided services with higher economic potential and convenience, by drawing fully on the strength of technology. At the same time, we constructed a financial ecosystem that pursues synergies and mutual development of companies within the SBI Group, which was fully completed with the start of operations of the life insurance business in 2016. The establishment of a financial ecosystem with the Internet as its main channel is the primary factor that brought about a dramatic growth in the SBI Group, which we refer to as FinTech 1.0, or the initial stage of FinTech^③.

Today, using elemental technologies in fields that are drawing attention for their new technological revolutions, including AI, big data, IoT, and robotics, in addition to blockchain, we are advancing the construction of FinTech 1.5 on the established Web-based online financial ecosystem, in a stage where new financial businesses are being created one after another.

In this way, within the technologies we refer to as FinTech, blockchain is a platform that facilitates the exchange of value over the Internet, and safely processes a large variety of digital financing, and holds the promise of incorporating significant social changes. Progress in the development of blockchain will engender the creation of innovative financial services, which will utilize blockchain-based applications, as the era of FinTech 2.0 with blockchain as its core technology approaches closer to reality. The SBI Group will continue to drive its migration process to a complete blockchain financial ecosystem in this FinTech 2.0 era.

KEYWORDS

① Financial deregulation:

The so-called “The Financial Big Bang in Japan” from FY1996 to FY2001, when the government implemented major reforms of the financial system. It is acknowledged to have completely deregulated broker commissions for stocks, and to have removed restrictions to the establishment of the bank holding company.

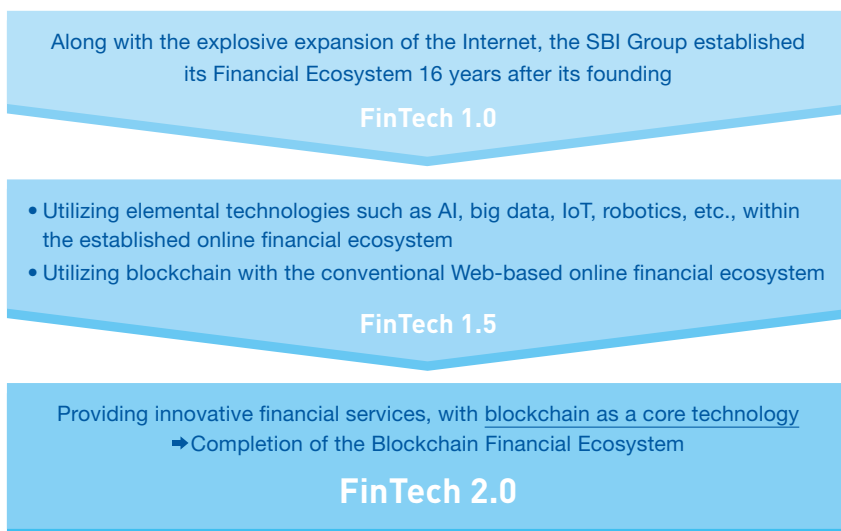
② The Internet revolution:

In conjunction with the rapid spread of the Internet, it established consumer sovereignty and brought about a change in financial services by allowing everyone to have access to information over the Internet.

③ FinTech:

→ See p. 7

The SBI Group's Conceptualization of the Evolution of FinTech



KEYWORDS

1 Robo-advisor:

SBI SECURITIES offers customized robo-advisor services provided by FinTech venture companies, such as WealthNavi Inc. and MONEY DESIGN Co., Ltd. ➔ See p. 26

2 Loan service based on accounting transactions:

Through an alliance with Zeus, a settlement service provider, SBI Sumishin Net Bank offers "Lending 1," a business loan service based on accounting transactions

➔ See p. 27

3 Personalized insurance products:

Through an alliance with FINC Inc., SBI Life Insurance has started provision of a health management app as an initiative for promoting preventive health care to subscribers, and as an incentive for joining an insurance plan. It is also promoting measures for the development of personalized insurance products.

➔ See p. 29

4 Next generation remittance systems:

The SBI Group in May 2016 established SBI Ripple Asia as a joint venture with Ripple of the U.S., which develops a next generation settlements platform.

➔ See p. 14 and 29

5 Distributed ledger technology:

A technology for performing distributed management, and sharing transaction data among multiple parties. DLT has technical characteristics different from the conventional centralized-control type.

6 XRP:

A virtual currency operated and managed by Ripple of the U.S.

7 SBI Point:

A loyalty points program offered by the SBI Group.

Enhancing Alliances with FinTech Venture Companies in Our Portfolio

A large proportion of technical innovation comes from venture companies. In the FinTech field, as a result of the flourishing of technology in blockchain, the core FinTech technology, and in such fields as AI, big data, IoT, and robotics, venture companies have been playing the main role since 2013 in promoting innovation in financial technology. Accordingly, the SBI Group established the FinTech Business Innovation Investment Limited Partnership (FinTech Fund) in December 2015. With a total capital commitment of ¥30 billion, this specialized FinTech Fund is the first such fund in the industry, and has invested heavily in a variety of fields related to FinTech. As of June 30, 2017, investments from the SBI Group have been decided upon for 49 companies at a total value of ¥26 billion (of which ¥15 billion comes from the Fund).

This activity has not been limited to investment alone, as we also introduce technology, ahead of other companies, from the venture companies in our portfolio to the Financial Services Business. Specifically, we are creating new financial businesses, and advancing business efficiency through alliances between venture companies in our portfolio and individual Financial Services Business companies within the Group. This has led to the launch of a robo-advisor¹ service, and a loan service based on accounting transactions², while for the development of new businesses, examples include the development of personalized insurance products³ and the establishment of next generation remittance systems⁴ leveraging blockchain.

Creating a New Finance Business Leveraging Blockchain

While various initiatives to leverage blockchain in the financial business are advancing throughout the world, in order for the SBI Group and Japanese corporations to heighten their global presence, we must enter new businesses while at the same time participate in globally advanced frameworks. Specifically, we have invested in U.S. FinTech companies, such as Ripple and R3, which hold advantages in distributed ledger technology (DLT)⁵, which is a technology related to blockchain. With Ripple, we have established SBI Ripple Asia, which is a joint venture. Ripple is drawing worldwide attention for its success in all parts of the globe in practical testing, using the Interledger Protocol (ILP) platform which was developed proprietarily. The SBI Group, who is the largest outside shareholder of R3, also participates in a consortium led by the company. This consortium includes over 80 participating financial institutions from countries around the world, and operates on the highest global scale as a working group engaged in raising market efficiency, by making use of distributed ledger technology. In November 2016, it completed a pilot implementation for the commercialization of Corda, a distributed ledger technology for financial institutions that has moved to open source. The SBI Group, along with the world's major financial institutions, who are also members of other groups, will endeavor to make ILP and Corda the global standard in finance.

Also, SBI Virtual Currencies, established in November 2016, promotes alliances with virtual currency exchanges in Japan and abroad, which are included as investment targets in the FinTech Fund of the SBI Group, and participates in trading exchange operations that handle a variety of virtual currencies, such as bitcoin and XRP⁶. This currency exchange is scheduled to commence operations in the summer of 2017, and will be handling trading services such as exchange with local tokens that serve as scrip money, claim tickets and gift certificates that circulate in the local region. Outside of this, we plan to develop SBI Coin (tentative name) within the Group. Our goal is to use SBI Coin as a bridge currency for mediation of inter-company settlements, and all types of digital assets through exchange with various crypto-currencies, cash, SBI Points⁷ and gold bullion.

STRATEGY 02

Expanding the Corporate Ecosystem by Strengthening Cooperation with Companies Outside of the Group

Collaborations with Companies Outside of the Group in the Online and Face-to-face Realms

The SBI Group not only provides services through the Internet, but in order to provide the most optimal financial products for each customer, is buttressing the operations of SBI MONEY PLAZA, a face-to-face franchise shop (approximately 400 bases), which has enabled the SBI Group to organically supply its financial services, both on an online and face-to-face basis, to receive high customer satisfaction feedback. Going forward, I believe that it will become necessary to strengthen alliances with companies outside of the Group, on both an online and face-to-face basis, regardless of whether they are involved in the same or different industries.

In the past, we had provided a high level of customer convenience through a comprehensive provision of information, finance and services, on an intra-Group basis, but by strengthening our alliances with companies outside of the Group, we will be able to greatly expand the breadth of products and services that we will be able to provide. Taking the securities-related business as an example, we are flexibly and strategically rolling out the defined contribution pension plans (iDeCo) services, by partnering with the Daiwa Securities Group in iDeCo, by merging both companies' corporate resources. By taking advantage of the external company's resources, such as the sales force and the customer base in this case, along with our efforts to develop and provide products and services with high customer benefits, we will be positioned to continue to expand our corporate ecosystem by developing various such business domains in the future.

Speeding up the Diffusion of FinTech Open Innovation and the API Economy

The SBI Group is developing new financial services, one after another, through alliances with companies outside of the Group, but the key to accelerating the diffusion of FinTech are an open innovation^⑧ and the API^⑨ economy.

Even with venture companies that boast superior elemental technology, it is rare that an individual company can deliver a complete range of products and services using only the technologies that it possesses. Instead, we believe that additional attractive products and services can be created through a combination of these elemental technologies, and that it is important to reduce the cost of introducing these new technologies. An effective means of bringing this to reality is to lower the cost per individual company, by sharing the cost burden of technology introduction and product development with our many strategic partners, as well as promoting joint development. By using this type of an open innovation method, the SBI Group will conclude strategic partnerships with numerous regional financial institutions.

Also, the rapid expansion of the API economy is regarded as an example of an advanced initiative that strengthens a SBI Group alliance. Through the release of a bank's API, to connect it with a FinTech venture company, breakthrough services formerly unavailable are now realized. In this context, customers will be able to safely and accurately retrieve their own bank account balance or account activity statements, as well as conduct actual transfer of funds through means such as bank transfer, through the services supplied by FinTech venture companies.

Towards the expansion of the API economy, SBI Sumishin Net Bank is proactively working towards an API connection with technology development ventures in accounting, asset management and operations.



KEYWORDS

⑧ Open innovation:

One of an innovation methodology. To promote open innovation, we have established SBI FinTech Incubation, a joint venture with IBM Japan, Ltd. ➔ See p. 14

⑨ API (Application Programming Interface):

A mechanism to enable the managing of data and software functions from an outside program source. ➔ See p. 27

Contributing to Regional Revitalization by Rejuvenating Regional Financial Institutions

Leveraging the New Fund to Strengthen Relationships with Regional Financial Institutions

The SBI Group has a big picture in mind for bringing about social change through the utilization of FinTech's new technologies. The current situation, in which the regional financial institutions are placed, is that their profits are being squeezed in the short term, owing to the impact of the negative interest rate policy. Over the medium- to long-term, a contraction is expected in the regional economies, so providing a foundation for businesses that can address the issue of an aging society and shrinking population promptly, through solutions such as the incorporation of financial innovations utilizing FinTech, is becoming a necessity. In order to provide such solutions, we are endeavoring to strengthen our relationships with the regional financial institutions.

The SBI Group has already allied itself with numerous regional financial institutions, but in order to further strengthen these relationships, the Group plans to establish the "SBI Regional Bank Value Creation Fund (tentative name)," a new ¥100 billion fund to raise the corporate value of regional financial institutions. In this fund, we will invest in the regional financial institutions that are expected to improve their corporate governance and corporate value, through the support of introduction of FinTech that will be provided by the SBI Group. Additionally, the SBI Group will encourage the renovation of the regional financial institutions through our investments, by making maximal use of the corporate resources of the Group, and assist in the elimination of a wide range of issues confronting the regional financial institutions, as well as contribute to the realization of the "regional revitalization" strategy of

the Japanese government. In addition, through the utilization of the Fund, we expect that it will become possible to resolve the share cross-holdings between banks, which is regarded as a problem within the banking industry.

Revitalizing the Regional Financial Institutions by Leveraging the SBI Group's Corporate Resources

As a specific measure to revitalize the regional financial institutions, initiatives for alliances with FinTech venture companies within the FinTech Fund portfolio are being encouraged. Also, SBI FinTech Incubation was established as a joint venture with IBM Japan, Ltd., to build a FinTech platform for the purpose of packaging the services and systems of the FinTech venture companies. As a result of these measures, introduction costs at regional financial institutions will be minimized.

In addition, the SBI Group is promoting the construction of a next-generation cloud-based domestic and overseas remittance system that enables a large reduction in remittance costs, and a 24-hour real-time settlement. We are moving toward a full-fledged commercial use of this remittance system by the regional financial institutions. Specifically, demonstration tests of RC Cloud, a payments platform that handles the central provision of domestic exchange services (in addition to foreign currency exchange), has been completed at "The Japan Bank Consortium." Also, SBI Ripple Asia, a joint venture established with Ripple, a U.S. company, serves as the organizer of the consortium. These services are expected to start commercial use within 2017, and as of July 2017, a combined total of 43 regional banks and second-tier regional banks (61 banks, if other city banks and online banks are included) have joined the consortium.

In addition to this, in a move towards the goal of "pursuing a customer-oriented business operations," the SBI Group will jointly establish an asset management company that leverages the asset management expertise held by the SBI Group, in order to provide support to enhance the asset management capability of regional financial institutions. Furthermore, as the SBI Group is building a global investment framework centered on Asia, we would like to capitalize on this network to offer foreign investment opportunities to the regional financial institutions.

Katsuya Kawashima

Representative Director,
Senior Executive Vice
President & Co-CEO



STRATEGY 03

Establishing a Framework for the Independence of Each Company of the Biotechnology-related Business

Establishing a Business Structure that Realizes Sustainable Growth in the Biotechnology-related Business

In the Biotechnology-related Business, which I view as one of the core industries of the 21st century, SBI Pharmaceuticals and SBI Biotech both achieved their first full-year profitability since their founding, and the other companies of the Biotechnology-related Business are all establishing a structure that will position them to generate a profit. Going forward, through the expansion of pharmaceutical out-licensing^①, and the boosting of the sales of health foods with function claims, the major companies within the Biotechnology-related Business will move toward an IPO, and a structure will be established that will enable each of the companies to operate independently.

In anticipation of the medium- to long-term growth, a stringent selection of the R&D pipeline in the 5-Aminolevulinic Acid (5-ALA)^② business, which is the core pillar of the Biotechnology-related Business, will be made, while planning the expansion of the R&D domain into related areas. For example, in the case of an intraoperative diagnostic agent (PDD: photodynamic diagnosis), in addition to that which is already on the market for malignant glioma, we have moved into the clinical phase for bladder cancer and peritoneal dissemination of gastric cancer, as we seek to expand the application to other strains of cancer, and for a therapeutic agent for mitochondrial diseases, which is similarly in the clinical phase, we are endeavoring to expand the development domain to apply it to the development of a remedy for Parkinson's disease and Alzheimer's disease.

STRATEGY 04

Actualizing the Corporate Value and Increasing Shareholder Returns

Actualizing the Company's Intrinsic Corporate Value by Listing the Group's Subsidiaries

The SBI Group will continue to focus on actualizing the Company's intrinsic corporate value. Some of our institutional investors have been voicing concerns about how difficult it is to understand the wide range of fields in which the SBI Group conducts its business, with some also claiming that a conglomerate discount might arise from operating such a diverse number of businesses. In response, we are promoting the IPOs of the Group companies, which we expect will clarify their business value, and help actualize the corporate value^③ of the entire SBI Group.

With regard to the public offerings of the Group subsidiaries, we are currently considering the listing of six subsidiaries. For example, SBI FinTech Solutions (formerly SBI AXES) is already listed on the KOSDAQ market in South Korea, and operates a payments-related business that has an affinity with FinTech. For the purpose of accelerating growth and raising the corporate value even further, three FinTech-related Group companies were consolidated under SBI FinTech Solutions, which will put FinTech at the center of its business. In the insurance business, six companies that operates insurance businesses within the Group were placed under SBI Insurance Group^④, an insurance holding company that started operations in March 2017, with the intent of listing it as an insurance holding company. In this way, we are enhancing shareholder value by reorganizing individual Group companies, and by manifesting the latent corporate value through public stock offerings.

KEYWORDS

① Out-licensing track record:

- SBI Biotech has concluded an out-licensing agreement of its drug pipeline with Kyowa Hakko Kirin Co., Ltd. ➔ See p. 35
- SBI Pharmaceuticals has out-licensed its diabetes and malaria therapeutic drug pipeline, as well as provided exclusive marketing rights to Chugai Pharmaceutical Co., Ltd. of its "ALAGLIO® Granule 1.5g" bladder cancer therapeutic agent. ➔ See p. 36

② 5-Aminolevulinic Acid (5-ALA):

- ➔ See p. 6 and 38

③ Actualization of corporate value:

The listings of the following six subsidiaries are considered.

- SBI FinTech Solutions (already listed on South Korea's KOSDAQ market)
- SBI Insurance Group
- SBI Capital Management
- SBI Biotech
- Quark Pharmaceuticals
- SBI ALA Hong Kong

④ Insurance holding company SBI Insurance Group:

- ➔ See p. 28



Yoshitaka Kitao

Representative Director,
President & CEO

We, the SBI Group, believe that the creation of customer value is the foundation of corporate value, and that customer value, shareholder value and human capital value are mutually interconnected and increase over time in a virtuous cycle. Increasing customer value through close adherence to the “Customer-centric Principle” on a group-wide basis contributes to improvements in business performance, and an increase in shareholder value. This makes it possible to recruit and retain talented personnel, which leads to an increase in human capital value. The Group believes that if talented personnel can be secured, then the Group can produce better goods and services, which leads to substantially higher customer value, and produces the conditions for a virtuous cycle.

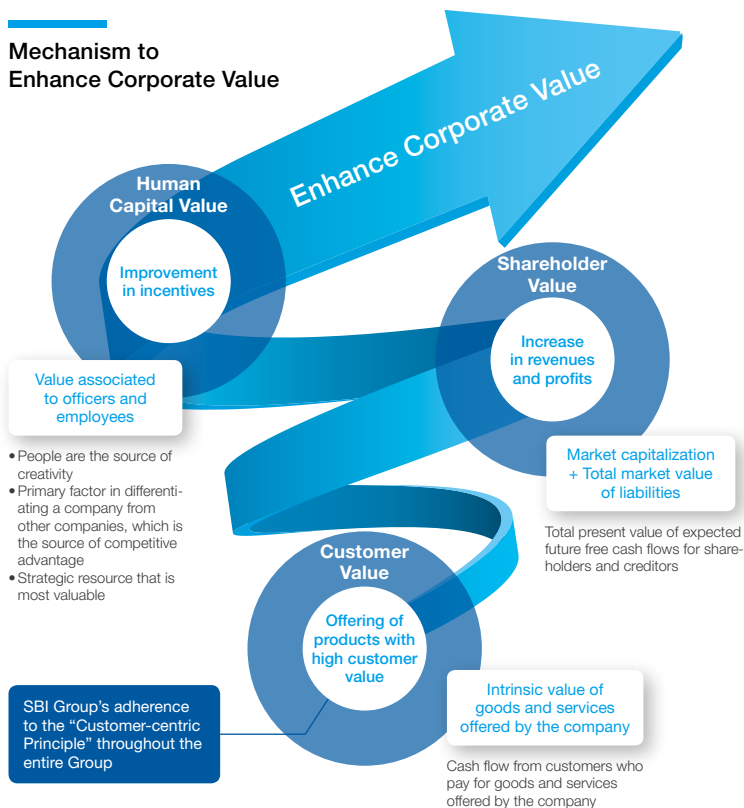
Continuing a High Level of Shareholder Returns Linked to Profits

For shareholder returns, we set our basic policy on dividends as paying a minimum annual dividend of ¥10 per share. When, in our judgment, more profits can be returned to shareholders after giving overall consideration to the appropriate level of retained earnings for sustained growth and our current outlook for earnings, we will raise the dividend. Regarding the total shareholder return ratio, calculated as the sum of dividend payments and share repurchases, the Company intends to return to shareholders a minimum of 40% of profit for the year attributable to the owners of the Company.

For FY2016, in light of the favorable trend in earnings and stock market conditions, we paid an interim dividend of ¥10 per share and a year-end dividend of ¥40 per share, for a total annual dividend of ¥50 per share, which was an increase of ¥5 per share from the previous fiscal year. This was the fourth consecutive fiscal year in which we increased our dividend payments. Also, between August and September 2016, the Company repurchased shares worth approximately ¥8.0 billion, and as a result, total shareholder returns, including dividend payments and share repurchases, were approximately ¥18.2 billion, and the total shareholder return ratio was 55.9%. The Company will continue to set its total shareholder return ratio to a minimum of 40%.

With the SBI Group embarking on a new growth phase, the continued support of all shareholders will be greatly appreciated.

Mechanism to Enhance Corporate Value

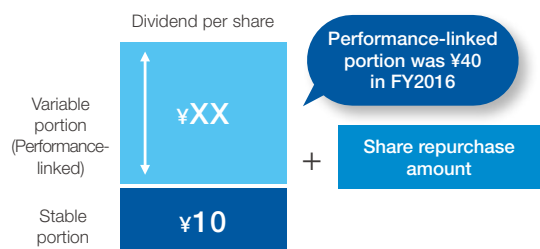


Basic Concept of Shareholder Returns

Basic Policies

- Pay a minimum annual dividend of ¥10 per share.
- Conduct shareholder returns with a target of achieving a total shareholder return ratio, as calculated by the sum of dividend payouts and share repurchase costs, of 40% as a minimum

Schematic of Shareholder Returns



Target total shareholder return ratio of 40%, as a minimum, of profit for the year attributable to owners of the Company.

SPOTLIGHT

Human Capital Value Enhancement will be Our Competitive Strength

Human Capital is the Most Valuable Strategic Resource

In our Corporate Governance Principles, the Company has defined corporate value as the sum of customer value, shareholder value and human capital value. However, it is human resources that forms the foundation for increasing customer value, which is the intrinsic value of goods and services a company provides to its customers, and for increasing shareholder value through sales and profit growth. This is because we consider people to be the source of creativity and the primary drivers of differentiation, which is the source of competitive advantage. It would be correct to say that human capital is the most valuable strategic resource of the SBI Group.

Human resource development is an important theme in raising human capital value. In the fiscal year ended March 31, 2010, the Company instituted a company MBA course at the SBI Graduate School, which is fully supported by the SBI Group. To date, approximately 120 persons (including graduates) have participated in this system, and many SBI Group employees have taken advantage of the School as a place of learning, and to acquire the necessary knowledge for management purposes.

In addition, we are focusing on promoting diversity in the workforce. For the SBI Group, which is expanding its businesses globally to transition “from Japan’s SBI to the World’s SBI,” neither gender nor nationality matter in our hiring process. Even in the hiring of new graduates, we have endeavored toward diversity, as evidenced by our recruiting activities from two years ago, when we initiated the local recruitment of new graduates in China, South Korea and Vietnam, to become head office employees.

and passing on SBI’s corporate culture and ethos. At the same time, in the rapidly expanding SBI Group, mid-career hires, who are able to contribute immediately, account for more than 90% of employees. We believe that a systematic response is necessary to convey SBI’s unique corporate culture to these mid-career hires who have come from diverse corporate cultures, so in April 2015, we instituted the SBI Group Senior Manager Training Program, which requires employees who aspire to become senior managers to take compulsory courses on humanities and corporate ethics, offered by the SBI Graduate School. In addition, we continuously provide training to employees already in senior management positions to ensure that they are capable of considering group-wide synergies, and do not take a shortsighted view limited only to their respective organizations. In this way, we are endeavoring to develop valuable human resources who understand and will practice the SBI Group’s corporate philosophy. We believe that this will contribute to the indoctrination of the corporate culture throughout the SBI Group as it continues to expand.

The business environment is dramatically and rapidly changing, and the needs of workers are diversifying as well. Initiatives to increase efficiency and improve productivity, such as replacing workers with robots to perform simple, standardized tasks are likely to continue to advance. In order to be in step with such outside changes, we believe that we must also gradually transition our human resource management, through measures such as promoting work-life balance and enhancing employee incentives.

Creating a Corporate Culture for Sustainable Development

We are also endeavoring to foster a unique SBI corporate culture. The Company began hiring new graduates in 2006, and has since hired more than 350 graduates. Some of these employees have already been singled out for promotion to Group company director positions, and others are experiencing success as mid-level employees at their respective companies. It is these men and women who will play a significant role in fostering



Takashi Nakagawa

Representative Director,
Senior Executive Vice
President & Co-COO