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Creating the Future through Self-Evolution

This year the SBI Group celebrated the 20th anniversary of its founding. Reflecting on the achievements in our three core business areas for the past 20 years, they would include the establishment of an Internet-based financial ecosystem centering on securities, banking and insurance in the Financial Services Business, the creation of global investment and asset management structures in our Asset Management Business and the establishment of global R&D, manufacturing and marketing structures for 5-Aminolevulinic Acid (5-ALA) in the Biotechnology-related Business. I would like to express our gratitude for the support from all of our stakeholders, including shareholders and investors, without which this growth and success would not have been possible. We look forward to your continuing guidance and support, as we continue to take on new challenges as a corporate group dedicated to the creation of our own future, through the processes of self-denial, self-transformation and self-evolution.

KEYWORDS

① Internet revolution:

With the rapid diffusion of the Internet, information has become readily accessible to everyone. This has shifted sovereignty to consumers and transformed financial services.

② Financial Big Bang in Japan:

This is the collective term for major financial system reforms implemented by the government between 1996 and 2001. Changes included the total liberalization of share trading commissions, and approval for the establishment of financial holding companies.

③ Customer-centric Principle:

See page 10.

④ Hegel's law of the transformation of quantity into quality:

The German philosopher Hegel said that individual quantitative changes result in qualitative changes that lead to individual cases with new qualities, which go through new quantitative transformations through the motions of the new qualities.

⑤ Complex systems:

The theory of complex systems is based on two propositions. First, the whole is greater than the sum of its parts. Second, the whole has new qualities that are not found in the parts.

History

The SBI Group Established in 1999

Internet-driven Structural Changes in the Financial Sector

The SBI Group was founded in 1999 as a financial subsidiary of SoftBank (currently SoftBank Group), at a time when Japan's financial industry was about to be transformed by two major trends: the Internet revolution①, and the Financial Big Bang in Japan②. This period would be regarded as the first phase of a process that transformed the financial sector through technological innovation. My decision to establish the SBI Group stemmed from my belief that the Internet would bring a wave of change, and from my awareness of a high degree of affinity between the Internet and the financial sector. Finance is fundamentally an information industry based solely on numbers and transaction data, rather than the movement of physical goods. This characteristic makes finance extremely compatible with the Internet, and I was convinced that the Internet would inevitably transform the financial sector. The diffusion of the Internet has given everyone the ability to gather information without incurring any cost, thereby shifting the advantage from vendors to customers. These historical trends and environmental changes are reflected in the rapid growth of online markets for securities, banking and insurance. The SBI Group has led this market evolution by offering a variety of financial services via the Internet. As I look back over the SBI Group's 20 years, I believe that we can claim to have created our own history by anticipating the needs of our customers, and continually taking up new challenges.

Key Factors Supporting the Growth of the SBI Group

As we moved into this era of consumer sovereignty, we needed to consider what we can offer to optimize the customer experience. Following the liberalization of stock trading commissions as a part of financial deregulation, we decided to make our commission fees as low as possible. This led us to adopt the "Customer-centric Principle"③ as one of the core elements of our approach to business development. For example, when E*TRADE SECURITIES (currently SBI SECURITIES) launched its business, it offered the lowest trading commissions of any other online securities firm. There was some opposition to this approach, but we believed that we could create a virtuous circle, as presented in Hegel's law of the transformation of quantity into quality④, which implies that by offering low commissions to attract a large customer base, it would lead to improvements in customer satisfaction through the continual enhancement of product offerings, as well as an increase in the number of servers to eliminate system downtime.

On the other hand, when we consider the fundamental nature of the financial sector from the perspective of customer asset management, it becomes clear that customers are restructuring their own portfolios according to the level of risks and opportunities at a given point in time. Furthermore, the cost of transferring money has fallen dramatically with the diffusion of the Internet, and customers are now able to create their own financial portfolios through timely transfers of their assets across the barriers that previously were the result of laws or systems to separate the various industries of the financial sector, such as securities, banking and insurance. This new reality led to the concept of business ecosystems encompassing multiple financial services, including securities, banking and insurance. We realized that by creating a financial ecosystem, we would be able to offer services that would result in unprecedented improvements in customer convenience.

Another key concept was the theory of complex systems⑤. We conducted that by

developing our business according to this concept and building a corporate group in which companies can interact, we would be able to use strong inter-company links to achieve things that would not be possible for a single company acting alone, and that in such an environment it would be as if one plus one could equal three, or even five. We began to build a business ecosystem based on these concepts, by establishing Group companies one after another over a short period of time. The synergies and mutual evolutions that resulted from this approach allowed our Group companies to make rapid progress toward profitability, thereby strengthening our overall earning power as a Group. These strategies have been reflected in our consolidated financial performance. Our consolidated revenue and profits for the fiscal year ended March 31, 2019 (FY2018) were the highest since the adoption of IFRSs in FY2012.



Innovative Business Development across Industry Boundaries

Long-term Outlook for Sustainable Growth

The SBI Group is evolving into a conglomerate capable of absorbing a wide range of technologies through its investments in core 21st century industries, including fintech, AI, blockchain and quantum computing. We want to transform society for future generations by aiding the adoption of these new technologies beyond the financial sector into a broad spectrum of other industries. The initials “SBI” is an acronym for “Strategic Business Innovator.” This literally symbolizes our vision for the SBI Group as a leading-edge corporate group committed to the continual creation of innovative businesses under the concept of “Focusing on Finance to Transcend Finance.” Outlined below is our overall strategy for the realization of this long-term vision for the SBI Group.

Transition from Fintech 1.5 to 2.0

Since its establishment, the SBI Group has established its own unique IT-based business models in step with the rapid diffusion of the Internet. Our financial ecosystem, which is an ecosystem of the Financial Services Business that was completed in 2016, started with the securities business, and progressively expanded with the addition of other financial services like banking, non-life insurance and life insurance. While traditional financial institutions faced an increasingly harsh business environment, the SBI Group was achieving rapid growth thanks to this financial ecosystem. I refer to this initial phase of fintech evolution as “fintech 1.0.”

The SBI Group is now establishing fintech 1.5 through the utilization of important new innovative technologies, such as AI, big data, the IoT and robotics, as well as blockchain on the completed web-based online financial ecosystem that we completed as fintech 1.0. Of all the technologies I consider fintech, I believe that blockchain has the greatest potential to drive a major social transformation. In the near future, it will be possible to provide innovative financial services through blockchain-based applications. I believe that the emergence of services centered on blockchain technology will signal the advent of the fintech 2.0 era. In preparation for the transition from fintech 1.5 to 2.0, we have established funds to invest in new fields of technology⑥. In addition, SBI Group companies will further diversify their products, and improve the efficiency of their business processes⑦ by adopting fintech and other new technologies from the investee companies.

KEYWORDS

⑥ Funds to invest in new fields of technology:

See page 20.

⑦ Product diversification and improvement of business process efficiency:

See page 33.

KEYWORDS

⑧ Money Tap (company):

The company was established in March 2019 to drive the early development of the Money Tap business. 20 banks, including regional banks, co-participated as shareholders (as of June 30, 2019).

⑨ Money Tap app:

This smartphone app allows funds from bank accounts to be transferred between individuals safely and easily 24 hours a day/365 days a year. Its core technology is the "xCurrent," distributed ledger technology (DLT) developed by the U.S. company Ripple.

⑩ T-Point:

This is a loyalty point system developed by Culture Convenience Club. Partners include retail outlets, such as supermarkets, convenience stores, gas stations and restaurants, as well as Internet services.

Contributing to the Establishment of a Cashless Society with "Money Tap"

The most important technologies in fintech 1.5 and the more advanced fintech 2.0 that is being developed by the SBI Group, are blockchain technology and distributed ledger technology (DLT). The SBI Group's Money Tap (company)⑧ will provide solutions based on these technologies. Money Tap was established in March 2019, to drive the prompt rollout of the DLT-based smartphone money transfer app "Money Tap"⑨, which was launched in October 2018, along with next-generation DLT-based financial infrastructure. DLT is expected to be widely used in both financial and non-financial areas as a low-cost, low-stress alternative to existing centralized systems. As one of the first system to use DLT, the Money Tap app provides commission-free (as of June 2019) money transfers 24 hours a day/365 days a year, by linking directly to the core systems of connected financial institutions. I believe you can say that it is a true next-generation system. Currently, we are working with the financial institutions that are Money Tap shareholders, and our U.S. partner, Ripple, to develop a range of customer-friendly solutions, including QR code-based payment services for affiliated merchants. Through this initiative, we are helping to achieve the Japanese government's goal of expanding the use of cashless settlements.

Attracting Younger Users to Develop Future Customer Asset Formation

The founding of the SBI Group coincided with a period of rapid growth in computer ownership, and at that time, the main tool for accessing the Internet was the PC. Today, devices that allow easy access anywhere, such as smartphones and tablets, are used more than PCs, especially among those in their twenties and thirties. By expanding the range of financial transactions within our financial services that can be performed using mobile devices, the SBI Group is strengthening its ability to attract younger users with the potential to become a source of future asset formation.

In October 2018, SBI SECURITIES established SBI NEOMOBILE SECURITIES jointly with CCC Marketing, which conducts a marketing platform business based on lifestyle data from the "T-Point"⑩ shared loyalty point service. SBI NEOMOBILE SECURITIES, which commenced business in April 2019, specializes in smartphone-based stock trading in Japanese shares, as well as other transactions. Customers in their twenties and thirties make up 40% of SBI NEOMOBILE SECURITIES' customer base, and the percentage of customers in their twenties is high compared with the customer profiles of other SBI Group companies. SBI NEOMOBILE SECURITIES will maximize its ability to attract investment novices and young customers by pursuing synergies, including the reciprocal introduction of customers via the T-Point customer system with other financial service providers in the SBI Group, such as SBI VC Trade (formerly SBI Virtual Currencies), which operates exchanges for crypto-assets (cryptocurrencies), SBI FXTRADE and Money Tap, which operates the money transfer app for smartphones.

Financial Sector Unbundling and the Shift to Neo-banks

In the past, banks engaged primarily in the traditional business areas of deposits, loans and foreign exchange. However, with the advent of fintech and the development of legal infrastructure in various jurisdictions, there has been an accelerating influx of new players from other industries into these areas. As banking functions are increasingly unbundled, the banking business model is entering a transitional phase. SBI Sumishin Net Bank is adapting to this new environment by promoting the neo-bank initiatives, and in October 2018 it established the Neo-bank Department. Under the neo-banking concept, banking functions are provided to various business operators as financial platforms, in order to create new services that banks alone would not be able to provide. Since launching

Japan's first application programming interface (API) (see "Glossary" on p. 107) collaboration in 2016, we have provided banking functions to the service users of external companies. In November 2018 we established JAL Payment Port^⑪ in partnership with Japan Airlines, and began to issue the Mastercard-branded JAL Global WALLET^⑫ prepaid travel card. We are currently in negotiations with several other major companies, including the Recruit Group and Asahi Kasei Homes Group. By forming alliances with various business operators, we will create new services that cannot be created by banks alone.

Co-creation with Regional Financial Institutions

Regional financial institutions face short-term, medium-term and long-term challenges in their business environment, including the continuation of the Bank of Japan's negative interest rate policy, financial innovation driven by fintech and Japan's shift into an aging society. The SBI Group is helping to revitalize regional financial institutions by providing management resources. We are also working through various initiatives to contribute to the regional revitalization (see "Glossary" on p. 107), which has become a national strategy in Japan.

As the first phase of these initiatives, we are enhancing the products and services that our Group companies can provide to regional financial institutions. For example, SBI SECURITIES offers a financial instruments intermediary service that helps regional financial institutions to meet the asset formation needs of their local customers. As of June 30, 2019, SBI SECURITIES has formed alliances with 34 companies. Meanwhile, SBI MONEY PLAZA is helping regional financial institutions to market a wide range of financial products through face-to-face consultation with their customers at co-managed branches established with partner financial institutions. As of June 30, 2019, it has opened six of these branches.

We are also responding to asset management needs through SBI Regional Revitalization Asset Management. It was established through joint investments with regional financial institutions, and as of March 31, 2019, 35 regional financial institutions have invested in the company. Through the company, the SBI Group provides resources including asset management know-how and fund information gathered through global networks. SBI Regional Revitalization Asset Management supports regional financial institutions, both in managing assets entrusted by their customers and in managing the financial institutions' own capital. It also assists in such areas as human resource development.

As the second phase of our initiatives, we are helping regional financial institutions to restructure their technology resources through the use of new technologies and other resources provided mainly by SBI FinTech Incubation^⑬, which we established jointly with IBM Japan, SoftBank Group and Toppan Printing, and through SBI NEO FINANCIAL SERVICES^⑭. SBI FinTech Incubation has created a fintech platform to facilitate the adoption of fintech systems. It also helps regional financial institutions to introduce new services and other fintech-related innovations. This platform provides API infrastructure to support the introduction of services and systems created by fintech startup companies. By using this platform, financial institutions can minimize the cost of adopting advanced technology.

We are also progressively expanding our services through the establishment of joint ventures and the formation of business alliances to enable financial institutions within and outside of our Group to adopt advanced solutions from overseas fintech companies. Examples include SBI EVERSPIN, which we established as a joint venture with the South Korean security firm EVERSPIN in November 2018, as well as SBI wefox Asia, which we launched in January 2019 to provide support for insurance sales and consultation using AI and big data solutions developed by wefox Germany.

As the third phase, we are working toward the creation of integrated management systems (including the development and adoption of common know-your-customer (KYC) and anti-money laundering (AML) systems (see "Glossary" on p. 107), and shared financing

KEYWORDS

⑪ JAL Payment Port:

This joint venture was established by SBI Sumishin Net Bank, Japan Airlines (JAL) and JAL SBI Fintech, which is a joint venture between SBI Holdings and JAL.

⑫ JAL Global WALLET:

Service operated by JAL Payment Port for members of the JAL Mileage Bank (JMB). This card combines the basic functions of a JMB card with Mastercard prepaid settlement functions.

⑬ SBI FinTech Incubation:

See page 49.

⑭ SBI NEO FINANCIAL SERVICES:

The role of this intermediate holding company is to localize the latest technologies and services of Japan and overseas, to provide these technologies and services primarily to regional financial institutions. It achieves this mainly by capitalizing on the vast online financing experience of the SBI Group, to establish joint ventures with overseas companies that possess innovative technologies.

KEYWORDS

15 CoVenture Holding Company:

This boutique asset management company specializes in investment in emerging asset classes. It has achieved excellent performance with venture investments and direct loan funds. Participants in the company include investors and advisors with advanced knowledge of crypto-assets.

16 SBI Mining Chip:

Through this company, the SBI Group has expanded into the area of chip manufacturing specialized for mining and mining system development. The company is developing the SBI Group's mining business in partnership with a major U.S. semiconductor manufacturer that has a track record in this field.

17 Corda:

This inter-company trading platform uses distributed ledger technology (DLT) developed by the U.S. company R3.



opportunities in Japan and abroad) as part of building a seamless structure for the regional financial institutions. In preparation for the nationwide rollout of these systems, we will establish a joint holding company with the full support of the SBI Group.

Establishing an Ecosystem Based on Digital Assets

The SBI Group is currently creating an ecosystem based on digital assets as one of our growth strategies. Speculative demand drove a rapid increase in the aggregate market value of crypto-assets, which soared to a peak in January 2018 before shifting to a steep downward trend. However, I believe that crypto-assets will evolve from mainly speculative demand toward a new stage of growth based on real demand, real uses and investment, and that our digital asset-related businesses will start to contribute to the earnings of the SBI Group.

Companies affiliated with the digital asset-related businesses currently include SBI VC Trade, which is involved in the crypto-asset exchange business, SBI Alpha Trading, the crypto-asset market maker, SBI Crypto, which specializes in crypto-asset mining, and SBI Crypto Investment, which invests in digital asset startup companies. SBI Holdings, SBI Investment and SBI Crypto Investment are further strengthening this ecosystem by investing in startup companies with advanced technologies relating to crypto-assets.

SBI VC Trade was registered for the crypto-asset exchange and trading business in September 2017. In June 2018, it launched "VCTRADER," a crypto-asset spot trading service, to investors who had submitted prior account registration applications. It started to accept general applications for new accounts in July 2018, and has since progressively expanded its services, while always giving first priority to the security of customer assets. We established SBI CoVenture Asset Management jointly with the U.S. investment company CoVenture Holding Company¹⁵, to develop a business based on funds that include crypto-assets. It has completed preparations for its fund business, and plans to commence operations when new regulations relating to crypto-assets are enforced (see "Glossary" on p. 107). After starting its business, SBI CoVenture Asset Management will invest in crypto-assets from the funds that it raises and manages, while building its business by capitalizing on synergies with other Group companies.

In March 2019, we established SBI Mining Chip¹⁶, to manufacture crypto-asset mining chips and develop mining systems. The SBI Group is already involved in crypto-asset mining, especially in overseas countries. With the establishment of SBI Mining Chip, we will also expand into the manufacture of specialized mining chips, and the development of mining systems.

We are also working to expand the use of DLT, which is one of the main technologies utilized for crypto-assets. We believe that the technologies closest to becoming world standards are those held by the U.S. companies Ripple, to which I referred earlier, and R3, which provides Corda¹⁷. The SBI Group is collaborating with both of these companies as their biggest outside shareholder, and we continue to strengthen these partnerships. For example, in 2016, we established SBI Ripple Asia as a joint venture with Ripple, and in January 2019, we established SBI R3 Japan as a joint venture with R3. We believe that the solutions developed by these two companies are likely to become global standards for a wide range of financial businesses, including not only crypto-assets, but also international money transfers and trade finance. We are determined to expand our range of financial services, including the creation of remittance and settlement systems based on our alliances with Ripple and R3.

Actualization of Intrinsic Corporate Value

Some institutional investors comment that it is difficult to understand the overall picture of

SBI Holdings, since we are involved in such a wide range of business fields. Others are concerned about the effect of a possible conglomerate discount. In response to these views, we are working to make the intrinsic corporate value of the SBI Group more apparent, such as by implementing initial public offerings (IPOs) for Group subsidiaries. After establishing a basic policy⑩ for deliberations and actions under this IPO strategy for Group subsidiaries, we proceeded in September 2018 to list SBI Insurance Group, an intermediate holding company for SBI Group companies of the insurance sector, on the TSE Mothers market. At the time of the IPO, SBI Insurance Group had a market capitalization of ¥50 billion. In addition to actualizing the corporate value of our insurance-related businesses, the IPO also yielded capitals that have helped to strengthen the financial base of our insurance-related companies, especially SBI Insurance.

We are also preparing for an IPO for Quark Pharmaceuticals, an SBI Group subsidiary in the U.S. Quark Pharmaceuticals is a bio-venture with advanced technology relating to small interfering RNA (siRNA). In addition to pipeline products for which it is negotiating with the U.S. Food and Drug Administration (FDA) in preparation for the start of new drug application procedures, Quark Pharmaceuticals is also making good progress with Phase III clinical research for products in its drug development pipeline. Another field of biotechnology that is expected to become a major source of earnings in the future is 5-ALA-related products. Our intermediate holding company, SBI ALApharma, is establishing a global business structure, and has started to restructure its organization in preparation for an IPO in two to three years' time.

Morningstar Japan, which is already listed on the TSE JASDAQ market, plans to transfer its listing to the TSE First Section. We will further strengthen Morningstar Japan's asset management capabilities in preparation for the centralization of the SBI Group's asset management services under that company. We are also considering IPOs for SBI Leasing Services, an operating lease company, for SBI Capital Management, an intermediate holding company for the asset management business, and for SBI Biotech, a pharmaceutical R&D company.

Passing on Our Ideals

The ability to anticipate change is vital to our continuing ability to build our own future, and in a sense, achieve "Jiga Sakko." We also need to maintain our traditions of self-denial, self-transformation and self-evolution. This means we must continually ask ourselves whether the status quo is acceptable, and whether we should transition in anticipation of changes in society. I believe that a continuous commitment to these ideals is our path to prosperity. We formulated a management philosophy when we established the SBI Group that as an organization involved in finance, our most important priority is to maintain "Sound Ethical Values." By sharing our ideals with those who become a part of our Group, we will work to make sure that the SBI Group will continue to be essential to society, and remain committed to the benefit of people and society.

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KEYWORDS

⑩ Basic policy on initial public offerings (IPOs) for Group subsidiaries:

IPOs are implemented in the following cases.

1. If the corporate value of the company concerned is almost unrecognized by the market and its value can be made apparent, leading to an increase in the corporate value of the SBI Group
2. If the company concerned needs large amounts of operating capital to support essential, ongoing, large-scale capital expenditure, especially for systems, and a capital increase is necessary for business expansion
3. If the company concerned needs to establish a flexible business structure in order to maintain its management freedom under Japanese laws and systems, when developing a banking or insurance business in Japan through a subsidiary
4. When the business of the company concerned requires neutrality
5. When there is little synergy between the company concerned and other Group companies, and it is preferable from the perspective of the Group's business portfolio to actualize shareholder value through a share offering, or when there has been a decline in strategic importance of the company concerned in the context of Group strategy