


OPEN INNOVATION *to* OPEN ALLIANCE

A portrait of Yoshitaka Kitao, the Representative Director, President & CEO of SBI Holdings. He is an older man with dark hair, wearing a dark suit, white shirt, and a patterned tie. He is smiling slightly and looking towards the camera. The background is a soft-focus indoor setting.

**Maximizing Our
Corporate Value through
Self-evolution and
Co-creation**

Yoshitaka Kitao

Representative Director,
President & CEO

In the two decades since its founding in 1999, the SBI Group has created and nurtured core industries of the 21st century through self-evolution. The Financial Services Business is based on the world's first Internet-based financial ecosystem, and undertakes a broad range of financial services, including securities, banking and insurance. At the Asset Management Business, we conduct investments into and incubation of startup companies, and through the Biotechnology-related Business, we are undertaking the R&D and manufacturing of pharmaceuticals, health foods and other products. Moving forward, we will pursue business growth by actively promoting the "Open Alliance" initiative, to develop win-win relationships with companies that have advanced technologies in such areas as fintech, AI, blockchain and quantum computing, along with companies in different industries. Our goal is to sustainably increase the corporate value and social value of the SBI Group through self-evolution and co-creation of value with a wide range of companies.

KEYWORDS

① Internet revolution:

With the rapid diffusion of the Internet, information has become readily accessible to everyone, and 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 stock 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.

Capturing Current Trends to Achieve Sustainable Growth

Three Key Attributes for Business Managers

On a global scale, society, the economy and other aspects are changing at an accelerating pace. This is the environment in which businesses must consistently achieve growth while contributing to the preservation and development of society. To achieve this, I feel that management executives need to show greater foresight than ever before. Ever since the founding of the SBI Group, I have continually thought about what our customers need, where demand lies and how to meet those demands. A management executive must have the perceptiveness to identify these factors. In other words, they need foresight. For myself, I embrace the three words from the wisdom of Chinese classics to define the attributes needed by management executives. They are 幾, 期, and 機, all of which are pronounced as “ki” in Japanese. The first character, 幾, means “signs,” as things do not change suddenly one day, and there are always signs. The ability to perceive those signs is extremely important, as we try to anticipate what lies ahead. The second character, 期, means “timing.” It is vital to determine exactly when things will happen. For example, a new business or service will obviously not be accepted by consumers if we launch it too late or too early. The third character, 機, means the “crucial point.” In business, when we consider a project, we need to be able to identify the pivotal points that define the real nature of that project.

To elaborate, at the time of its founding, the SBI Group sensed that the two major trends in Japan—the Internet revolution ①, and the Japanese Financial Big Bang ②—were “signs” or 幾 that marked transitions to new eras. So, we entered into the online securities business in the second half of the 1990s, when we foresaw the “timing” or 期 to be perfect, since it was the dawn of Internet finance. The SBI Group was then able to achieve growth since we took appropriate actions. For example, we saw that the dramatic reduction of stock trading commissions was a “crucial point” or 機 for the online securities business.

Strategies to Place the SBI Group on a Growth Track

The SBI Group was established at a time when competitive advantages were being transformed by the advent of the Internet era, and a shift to consumer sovereignty. We wondered at that time what we should offer in order to provide the greatest benefits to customers. The answer we found was to adhere to the “Customer-centric Principle ③”, as our core management principle. Deregulation and the total liberalization of stock trading commissions gave us the opportunity to reduce our commissions dramatically through a process that might be described as price destruction. We set the lowest commissions of any online securities company established in that period. Some people were opposed to this strategy. However, by reducing commissions we were able to attract large numbers of customers, which subsequently led to the expansion in our product offerings to enhance customer satisfaction, and added more servers to prevent system crashes. As stated in Hegel's law of the transformation of quantity into quality ④, quantitative growth was accompanied by qualitative improvements in our services. This created a virtuous circle, in which improvements in service quality brought further quantitative growth.

Another important aspect is the creation of a



corporate group in which members can interact. Unlike business development by an individual company, it is to create a business ecosystem ⑤ based on the science of complex systems ⑥, in the sense that the sum of the group will expand. The SBI Group has been able to achieve sustainable growth because we worked strategically under this concept to build a financial ecosystem encompassing a wide spectrum of financial services, including securities, banking and insurance, enabling both individual Group companies and the Group as a whole to strengthen their earning power through synergies and co-evolution.

Management Strategies that Anticipate Future Social Changes

Management Decision-making Criteria

The most important factor driving the continuous growth of the SBI Group has been management decision-making based on sensitivity to changing trends. To make management decisions, we need to understand the criteria for decision-making. Without such criteria, we cannot reach timely and appropriate conclusions. My criteria for decision-making is based on three ethical values—trust, justice and benevolence. The word “trust” expresses my determination never to lose the trust of society. “Justice” represents my determination to act in ways that are correct from a social justice perspective, and I define “benevolence” as the ability to think about things from other people’s viewpoints. By constantly comparing our actions to the principles of trust, justice and benevolence, I can ensure that we will not deviate from the correct path.

The SBI Group’s strategy for achieving further growth and success in a world affected by various social issues and trends that are occurring today, is to apply my decision-making criteria to areas in which the SBI Group can help to solve issues and areas that offer opportunities for growth. The overall strategy of the SBI Group will be explained in the following sections.

Proactively Contribute to Regional Revitalization, through Co-creation of Value with Major Regional Economic Entities See Special Feature on Page 20

The SBI Group is contributing to Japan’s national strategy of regional revitalization ⑦ through various initiatives. For example, SBI Group companies have been supporting the strengthening of the profitability of the regional financial institutions, which have been impacted by the Bank of Japan’s negative interest rate policy, population decline and other factors ⑧.

However, to achieve regional revitalization, we need to consider regional economies in a broader context. We see regional economies as consisting of four economic entities: regional financial institutions, local residents, local industries and local governments. Only by revitalizing all of these entities can we achieve the goals of Japan’s regional revitalization strategy.

The concept of Regional Revitalization Partners ⑨ goes beyond measures implemented in the past, which have focused primarily on regional financial institutions, by targeting all regional economic entities. Together with multiple partner companies that share our commitment to regional revitalization, we will establish Regional Revitalization Partners to coordinate provisions of strategic guidelines, and formulate plans to drive regional revitalization. We will also establish SBI Regional Revitalization Services ⑩, which will provide functions that contribute to regional revitalization, and SBI Regional Revitalization Investment and Loan ⑪, which will invest in and provide finance to companies that contribute to regional revitalization. The SBI Group will initially own over 51% of the shares in these three companies, in order to create a solid foundation under our leadership, and to ensure that the companies have a firm strategic direction. Regional Revitalization Partners will invite one person from each partner investing company to be appointed as directors, and will be managed democratically as a kind of public good. SBI Regional Revitalization Services will provide a shared system to regional financial institutions, and will strengthen their earning capacity through support in the area of asset management. It will also work with partner companies, focusing on investee

KEYWORDS

⑤ Business ecosystem:

→ See page 10.

⑥ 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.

⑦ Regional revitalization:

→ See page 109.

⑧ Status of alliances with regional financial institutions:

→ See page 57.

⑨ Regional Revitalization Partners, SBI Regional Revitalization Services, and SBI Regional Revitalization Investment and Loan:

→ See page 21.

KEYWORDS

⑩ SBI Regional Bank Holdings:

→ See page 22.

⑪ Money Tap (company):

The company was established in March 2019 to drive the early development of the Money Tap business. Thirty-five banks, including regional banks, co-participated as shareholders (as of April 31, 2020).

⑫ Corda:

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

startup companies of the SBI Group, to energize local industries and local economies. SBI Regional Revitalization Investment and Loan will provide investment and lending to local startup companies, and other entities with the potential to contribute to regional revitalization. Other activities will include the discovery of high-yield investment and lending projects in Japan and abroad, introduce them to regional financial institutions, and manage such projects. Each of the companies will accept investment from new partners in various industries, such as city banks, regional banks, life and non-life insurance companies, overseas investors and real estate companies. Our founding philosophy that public benefit leads to private benefit is reflected in this concept, and we want to contribute both to the participating companies and to local economies.

On the other hand, the SBI Group has also established SBI Regional Bank Holdings ⑩, which is wholly owned by the SBI Group. This holding company will create a more efficient and effective support structure for regional financial institutions with which the SBI Group has formed capital alliances. Shareholdings in four banks with which SBI Holdings has already formed capital alliances will be transferred to SBI Regional Bank Holdings. We plan to increase the number of regional financial institutions with which we have capital alliances to around 10, and SBI Regional Bank Holdings will be the hub for these relationships, by working closely with the aforementioned SBI Regional Revitalization Services and SBI Regional Revitalization Investment and Loan, to provide the support that will lead to improvements in the corporate value of regional financial institutions. Moving forward, the SBI Group will make decisions on the percentage of shares that it will hold in regional financial institutions based on the wishes of those financial institutions. In principle, and with the consent of the financial institutions concerned, we will either, accept third-party allotments of new shares, acquire shares from existing shareholders, or acquire the number of shares agreed by using both of these methods above. We will continue to expand the scale of this business by actively forming business alliances with credit unions and credit associations that have close relationships with small businesses.

A consequence of the COVID-19 crisis is the possible social shift from concentration in large cities to regional decentralization, which is an important opportunity for people to think about approaches to regional revitalization. Evidence of growing national interest in regional revitalization includes the passage of the amended National Strategic Special Zones Law. The SBI Group will use the additional momentum provided by these social and political changes to intensify its regional revitalization efforts.

Proactive Promotion of “Open Alliance” [See Special Feature on Page 23](#)

The SBI Group has achieved growth by pursuing synergies in its business ecosystem, and by using open innovation to drive innovative research and development, combining the knowledge and technology of the SBI Group and other companies. I believe that we need to go beyond this approach, and develop an even broader framework based on the concept of “Open Alliance.” Under this concept, we will actualize win-win relationships by forming alliances with numerous non-Group companies across a wide spectrum of industries. By using these open alliances to provide comprehensive services to meet a variety of customer needs, we will be able to expand the SBI Group’s customer base. This is not something that can be achieved by a single company, and the SBI Group will proactively pursue collaboration with companies that have the potential to form win-win relationships.

In April 2020, we formed a strategic capital and business alliance with Sumitomo Mitsui Financial Group (SMBC Group), one of the leading megabanks in Japan. This relationship is based on the concept of “Open Alliance.” As for the SMBC Group, along with its capital participation, in Money Tap ⑪, it is also considering capital contribution in SBI R3 Japan. Moreover the SMBC Group is also participating in the Marco Polo Project, which uses the Corda ⑫ platform provided by R3 and the British company TradelX. And by participating in this project, the SMBC Group is focusing on the early adoption and spread of distributed ledger technology (DLT) platforms in the trade finance area. Through the strategic capital and business alliance with the SMBC Group, we will endeavor to build a cooperative relationship based on the use of the strengths of both groups in various business fields, including face-to-face and digital

operations. We are considering the collaborative provision of financial services for novice investors, such as young people accessing securities markets via smartphones, as well as face-to-face securities business at regional financial institutions. There are plans for collaborations across a wide range of business areas. In the investment area, for example, the SMBC Group is considering an investment in a new fund scheduled to be established by the SBI Group, while in the regional revitalization area, it plans to invest in SBI Regional Revitalization Services.

The “Open Alliance” concept is also leading to the realization of Neo-bank and Neo-securities initiatives, which the SBI Group has been promoting for some time.

First, I would like to share my idea of the Neo-bank initiative. Today, banking functions are being unbundled while companies in other industries, such as IT companies and retailers, start to use banking functions to offer services that were traditionally provided only by banks, such as deposits, loans and foreign exchange (FX), in order to expand the scope of their business operations. Corresponding to this development, SBI Sumishin Net Bank has been providing these banking functions to various external partners as a platform. We are promoting the Neo-bank initiative as a way of working with these partner companies to collaboratively build mechanisms that will enable the partner companies’ customers to access financial services smoothly and easily. In this regard, in October 2018, SBI Sumishin Net Bank established the Neo-Bank Department.

SBI Sumishin Net Bank has been providing banking functions to the customers of external companies since it launched Japan’s first API ¹³ alliance in 2016. In September 2017, the formation of a partnership with Japan Airlines (JAL) resulted in the establishment of JAL Payment Port ¹⁴ as a joint venture. In 2019, SBI Sumishin Net Bank signed banking agency outsourcing agreements with several major companies, including the Recruit Holding Group and the Asahi Kasei Group. It has reached the stage at which it can start to create new services based on the Neo-bank initiative. For example, it has started to collaborate with the Hikari Tsushin Group on the creation of new businesses targeting its customer base in the small and medium enterprise sector. In addition, Japan Net Bank, a member of the Z Holdings Group, is in preparation to provide Flat 35 ¹⁵ housing loans handled by SBI Sumishin Net Bank.

SBI Sumishin Net Bank is currently preparing for an initial public offering, and has selected Nomura Securities as one of its lead managers.

The SBI Group is also working to advance the Neo-securities initiative. Based on our vision of a next-generation approach to the securities business, we are endeavoring to eliminate commissions on online trading in Japanese stocks, as well as some of the other costs that are currently borne by investors. We have already started to realize Neo-securities initiatives, beginning with measures that have a minimal impact on profit. The next step will be to eliminate commissions on stock trading and other transactions through SBI NEOMOBILE SECURITIES. We then plan to move forward in a phased manner with the elimination of commissions for online spot and margin trading of Japanese stocks. In the fiscal year ended March 31, 2020, commissions for online domestic stock trading accounted for 17% of the operating revenues of SBI SECURITIES. In preparation for this final phase, we are endeavoring to reduce this to 5% or lower.

To reduce our reliance on commissions from online trading of Japanese stocks, we will need to achieve further improvements in our positioning in the retail business, which is already far superior to that of our competitors. We will also need to develop a business structure that does not depend on stock commissions. Specifically, we will step up our efforts to diversify our revenue streams. For example, we will focus on primary and secondary underwriting of stocks and bonds, and businesses relating to M&A, while also expanding our brokerage business with customer financial institutions through the Financial Institutional Sales Department, and further strengthening our corporate businesses through the reinforcement of the Business Corporation Division, and other measures.

We are already making progress toward the diversification of our revenue streams, thanks to sustained growth in FX revenues and other trading revenues. We anticipate that these trends will continue to contribute to improvement in the earning power of SBI SECURITIES.

KEYWORDS

¹³ Application programming interface (API):

An API is a protocol to enable the managing of data and software functions from an outside program source. As a result of the enactment of the Act for Partial Revision of the Banking Act in May 2017, banks are obliged to make efforts to promote open APIs (publicly available APIs), which will ensure safe data communication with outside businesses. Also, collaborations with businesses other than financial institutions will lead to the creation of innovative financial services.

¹⁴ 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.

¹⁵ Flat 35:

Flat 35 is the name of a long-term, fixed-rate housing loan with a repayment period of up to 35 years. The Japan Housing Finance Agency handles this loan in partnership with more than 300 financial institutions nationwide.

KEYWORDS

16 Rheos Capital Works:

An asset management company managing investment trusts such as the “Hifumi Tōshin,” which has earned high evaluations from individual investors.

17 Digital transformation (DX):

DX is a concept proposed in 2004 by Professor Erik Stolterman at the Umeå University in Sweden. It proposes that companies are responding to drastic changes in the business environment, and are utilizing data and digital technologies in order to transform their products, services and business models to fit the needs of its customers and society. At the same time, companies are transforming their operations, organization, processes and corporate culture to establish a competitive advantage.

18 Security token offering (STO):

→ See page 109.

19 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 “RippleNet,” DLT developed by the U.S. company Ripple.

FX-related business is the main source of trading revenues. We expect this area of business to expand further as more and more domestic and overseas companies participate in the SBI Group's OTC market. Our trading revenues also include revenues relating to trading in crypto-assets. SBI VC Trade, which was registered to engage in the crypto-asset exchange business in September 2017, has been offering exchange services since July 2019. Under the new legislation, including the amended Payment Services Act that took effect in May 2020, it began to expand its business in collaboration with SBI FXTRADE. We expect the revenue contribution from crypto-asset trading to expand in the future.

As part of the Neo-securities initiatives, we will also explore opportunities for M&As in Japan and abroad in business areas that will lead to reductions in our reliance on online domestic stock trading commissions. The target areas that we have selected for M&As include FX and crypto-asset businesses, M&A brokers, as well as asset management companies. One example of this approach is our acquisition of shares in Rheos Capital Works 16, which became a consolidated subsidiary in June 2020. Through this acquisition, we strive to develop new customers and to increase trust fees by expanding the balance of assets under management.

Organized Response to Accelerated

Digital Transformation (DX) 17 See Special Feature on Page 27

The SBI Group has achieved rapid growth in step with the expansion of the Internet by creating its own business model in the form of a financial ecosystem based on IT. Currently, companies in the financial sector and various other industries are introducing advanced technologies, especially AI, blockchain/DLT, as well as other technologies with a strong affinity to these areas, such as big data, IoT and robotics. The SBI Group will continue to focus actively on investment and partnership with promising companies in these fields of advanced technology. In addition, financial service companies in the SBI Group will increase their efforts to develop new services and products, and create new financial businesses based on these leading-edge technologies.

Particularly at a time when the shift from analog to digital processes, known as DX, is accelerating significantly, we will further expand the SBI Group's activities in digital asset fields through the use of blockchain/DLT, and other technologies. Specifically, we are building a global organizational structure centering on SBI Digital Asset Holdings as the basis for an organizational response in step with the DX era. A key focus for the SBI Group, as we work to increase the use of DLT, is the security token offering (STO) 18 method of procuring finance electronically. In October 2019, the Japan Security Token Offering Association was established to support the healthy development of the industry, and to formulate a self-regulatory system. As of July 2020, 10 securities companies are participating as full members, while 23 companies that support STO issues have joined as supporting members. As a result of a law amendment in May 2019, which has become effective from May 2020, STO transactions that involve the use of tokens to procure finance have been regulated to be covered by the Financial Instruments and Exchange Act. Going forward, we will gather wide-ranging knowledge from companies participating in the Japan Security Token Offering Association, and explore opportunities for STO-related business that combines robust compliance with Japanese laws and regulations, together with effective protection for investors.

As I believe that the DLT of the U.S. companies Ripple Labs and R3, which provides the Corda platform, are the closest to becoming global standards for international remittances, trade finance and other various financial businesses, we have been collaborating with both companies. While the SBI Group is the largest external shareholder in both Ripple Labs and R3, we have further strengthened our relationship with both companies, including the establishment of SBI Ripple Asia as a joint venture with Ripple Labs in 2016, and SBI R3 Japan as a joint venture with R3 in January 2019.

We are rapidly rolling out next-generation financial infrastructure based on DLT. For example, in October 2018 we began to distribute a DLT-based smartphone money transfer app “Money Tap” 19, which was jointly developed with Ripple Labs to provide secure, low-cost remittance and payment services. Currently, we have started to establish links with

prepaid charge providers that would enable the commencement of full-scale services supporting easy and low-cost connection, compared to existing infrastructure, for both banks and prepaid charge providers.

Continue to be Essential to Society

Outlook for the Post-COVID-19 Era

The global spread of the COVID-19 pandemic is causing losses and lifestyle changes on an enormous scale. I believe this crisis will trigger major social changes. Particular social changes relevant to the business activities of the SBI Group are likely to include a shift to cashless payments as a way of reducing contact and infection risks, and the evolution of services based on highly reliable and transparent blockchain technology. Apart from this, increased security needs arising from the development of remote working environments and DX are also likely to be seen. These changes will provide a positive impetus for the SBI Group's focused business and service areas. While there is a risk that the COVID-19 crisis will affect our business performance, this transitional phase is also likely to lead to the spread of new technologies and structures. As a company that has always taken up the challenge of creating innovative businesses and providing new services, we see this as an opportunity for business growth.

Furthermore, we have responded to growing interest in infection countermeasures by accelerating our investment in startup companies in the areas of biotechnology and healthcare. We will support the creation of new businesses in related areas, such as healthcare, medical treatment and health management. In addition, the SBI Group is determined to ensure that the present transition results in outcomes that are positive from a long-term perspective, by using IT, including robotic process automation (RPA) ²⁰, to reengineer our internal structures and rationalize our business processes.

Human Virtue and Corporate Virtue

I will conclude with a few words about my management philosophy. I have been thinking about the proper role for companies ever since I graduated from university and entered the world of business. In so doing, I have discovered valuable insights in the Chinese classics, which I had been familiarized with since childhood. Over the years, I became aware that companies, like people, can have virtue. A company that has a strong sense of virtue will succeed in business and earn the respect of society. To harmonize corporate management with society, we need to enhance our corporate virtue by recognizing our social role and earning the trust of society. The COVID-19 pandemic will have an enormous social and economic impact, but there are ways in which the SBI Group can contribute in this situation. While pursuing our overall Group strategies, we are also working to find solutions to social issues through our core business activities. We will continue to contribute to the maintenance and development of society.

As stated in our management philosophy, the maintenance of sound ethical values is especially important for us because of our involvement in the financial sector. We will continue to endeavor as a corporate Group that is enduringly beneficial to the world, as well as to the people, and is essential to society.

Yoshitaka Kitao

Representative Director,
President & CEO

KEYWORDS

²⁰ Robotic process automation (RPA):

The use of artificial intelligence (AI) or machine learning, is a technology by which AI learns through repetition, for the purpose of performing primarily back-office, white-collar tasks.

