Message from the Executive Officer in Charge of Accounting and Finance

Accelerating the SBI Group's Growth to Achieve its New Medium-Term Vision and Strengthening Risk Management Systems

Hideyuki Katsuchi
SBI Holdings
Executive Officer in Charge of
Accounting and Finance

Impact from the Protracted COVID-19 Pandemic and the Situation in FY2020

I feel that FY2020 was a year in which the competitive advantages of the SBI Group materialized because of our online-focused business, given the acceleration of changes in the way we live due to the COVID-19 pandemic. I recognize that people increasing the time spent at home due to the pandemic helped us in many ways to utilize our strengths, especially in the Financial Services Business. Of course, we faced a challenging situation around Spring 2020 when COVID-19 began spreading, but in the end, our core businesses in banking, securities, and insurance performed extremely well. In terms of the domestic equity market, the average daily individual brokerage trading value on the two major domestic markets*1 increased 52.2% year-over-year, boosting commissions at SBI SECURITIES 41.7% year-over-year. Trading revenues from the FX business, trading in crypto assets, and the sales of foreign bonds also increased 41.7% year-over-year, and as a result, the profit for the period of SBI SECURITIES achieved a record high of ¥46.1 billion. Return on invested capital by SBI Sumishin Net Bank recorded a high of ¥7.2 billion based on IFRS, due in large part to the continued strong performance of the housing loans business. In the insurance business, both sales and profits rose in FY2020 owing to the steady increase in the total number of in-force contracts, resulting in ¥700 million profit for the year attributable to owner of the Company for the period.

In the Asset Management Business, principal funds, including the Fintech Fund and SBI AI&Blockchain Fund, invested large amounts into companies with businesses geared toward changes in lifestyles due to COVID-19, and as a result, profit/loss from the change in fair value and profit/loss on sales of investment securities contributed to positive business results. Several portfolio companies, including several that were unlisted at the end of FY2019, executed an IPO in FY2020, and the change into a public listing contributed as valuation profit from listed securities totaled ¥53.7 billion. In the next fiscal year, more companies are slated to go public than in FY2020, and as a result, we anticipate strong earnings to continue. SBI SAVINGS BANK in South Korea, which has become a stable revenue source of this segment over the past several years, steadily increased performing loans despite COVID-19 and further increased underlying earnings, achieving record-high in earnings and contributing to profits at the second largest pace following SBI SECURITIES.

In the Biotechnology, Healthcare & Medical Informatics Business (renamed from the Biotechnology-related Business from the third quarter of FY2020), the deficit of the segment improved due to decreased losses in Quark Pharmaceuticals and an increase in sales of 5-ALA products driven by the current rise in health consciousness. Furthermore, despite the unfortunate results of failure in the final pipeline of Quark Pharmaceuticals, the company actively moved ahead with cost reductions thereafter and has already begun negotiations with multiple buyers for its potential sale. The impact this will have on FY2021 is believed to be limited.

In addition, a loss of approximately ¥14.5 billion was booked due to the start of measures to redeem an amount equivalent to unpaid redemption amounts for certain funds handled by SBI Social Lending, but on a consolidated performance (IFRS), revenue increased 47% year-over-year to ¥541.1 billion, profit before income tax expense increased 113.3% to ¥140.4 billion, and profit for the period attributable to owners of the Company increased 116.3% to ¥81.1 billion. In each case, these figures were record highs since the founding of the Company.

Impact due to the COVID-19 pandemic will likely ease as more people become vaccinated. However, people's lifestyles will likely not fully return to the way they were before the pandemic. The online preference for financial services among customers and investors will likely continue going forward, and we believe there is still room for growth by crypto assets, which have garnered attention during the pandemic. Although inflation and interest rate hikes in the U.S. pose a concern, online finance is a field where the Group can harness its strengths more than ever before.

At the same time, the size of individual investment deals and business scale is growing following the SBI Group's expanding business footprint, and the past year reinforced the need for raising awareness about risks more than ever before. Following the issues at SBI Social Lending, we have reviewed management systems among Group companies to prevent the recurrence of a similar event. While utilizing the Group's strengths of speed in decision-making and business expansion, we also need self-discipline. Therefore, we will seek to reinforce the entire Group's risk monitoring system and strengthen the internal control functions.

*1 Japanese stocks listed on Tokyo Stock Exchange and Nagoya Stock Exchange (Including TSE Mothers, JASDAQ, and NSE Centrex)

New Medium-Term Vision

In April 2018, we released our vision containing five financial goals. Of these, we were able to achieve three of our targets: consolidated profit before income tax expense, ROE, and annual dividend. Now, we have formulated a new medium-term vision for the SBI Group over the next three to five years. Our target is

Progress in Achieving the Vision Established in April 2018

Develop the three business segments, Financial Services, Asset Management, and Biotechnology, Healthcare & Medical Informatics Business, so that the profit before income tax expense composition by segment in **three years will be 5:4:1, while in five years, it will be 5:3:2, respectively.**

Consolidated profit before income tax expense (IFRS) by segment for the past three fiscal years (JPY billion)

	Financial Services Business	Asset Management Business	Biotechnology, Healthcare & Medical Informatics Business
FY2018	66.6 (share: 68%)	51.1 (share: 52%)	(19.2) (share: (20%))
FY2019	53.4 (share: 69%)	35.2 (share: 46%)	(11.4) (share: (15%))
FY2020	85.8 (share: 53%)	84.9 (share: 52%)	(8.6) (share: (5%))

Targeting consolidated profit before income tax expenses of **over ¥100 billion** within the next 1 to 2 years.

FY2018	FY2019	FY2020
¥83.0 billion	¥65.8 billion	¥140.4 billion

Maintain ROE **above 10%**

FY2018	FY2019	FY2020
11.9%	8.3%	16.0%

Annual dividend to the level of **¥100 per share**

FY2018	FY2019	FY2020
¥100 (including a ¥5 per share of commemorative dividend)	¥100	¥120

Will endeavor to achieve a market cap of **¥1 trillion**, by realizing intrinsic corporate value.

Peak: ¥812.6 billion
(Closing price of ¥3,335, as of Mar. 19, 2021)

to constantly maintain consolidated profit before income tax expense of more than ¥300 billion, with the total amount of profit before income tax expense of new businesses at approximately 20% of the total, and an ROE of 10% or higher. Although each of these are ambitious targets, we will strive to make progress toward these targets using M&A and other means in addition to organic growth. We cannot deny there are risks associated with new investments and businesses, but we will carefully scrutinize risk levels on an individual level as the case may be, closely examining progress in terms of achievement and gaps from the goal, in order to expand the scale of the business without losing our bold venture spirit unique to the Company.

In terms of ROE, we will strive to maintain it to be above 10%, which is same level as before. However, we will not merely focus on the ups and downs of ROE, but instead, carefully manage our financial position by striking a balance with other areas, to ensure, for example, that leverage does not become too high.

The key to achieving these growth targets will be whether we can secure robust external financing sources as part of our financial initiatives. Fortunately, we have maintained stable and solid relationships of trust with our partner banks and bond investors. Nevertheless, we will need to further develop these relationships to help drive our business growth forward in the future.

Both the Fintech Fund, established in December 2015, and SBI AI&Blockchain Fund, established in January 2018, ended the investment phase and have moved to the harvest phase. Utilizing internal reserves from the monetization of these existing assets together with funds procured externally, we would like to financially support a well-balanced growth trajectory.

Future Investment Targets

There is no change in our plan to continue investing in the target areas of fintech, crypto assets, FX, and asset management, as well as to actively deploy capital for business growth.

In terms of investments, "SBI 4+5 Fund," one of the largest venture fund which began operating on a scale of ¥100 billion in April 2021, targets innovative technologies and services in broad industries including fintech, AI, blockchain, and core technologies such as IoT and 5G, which contribute to the realization of "Society 5.0 for SDGs[*2]," as well as robotics and the fields of healthcare and infrastructure industries to advance "Industry 4.0."

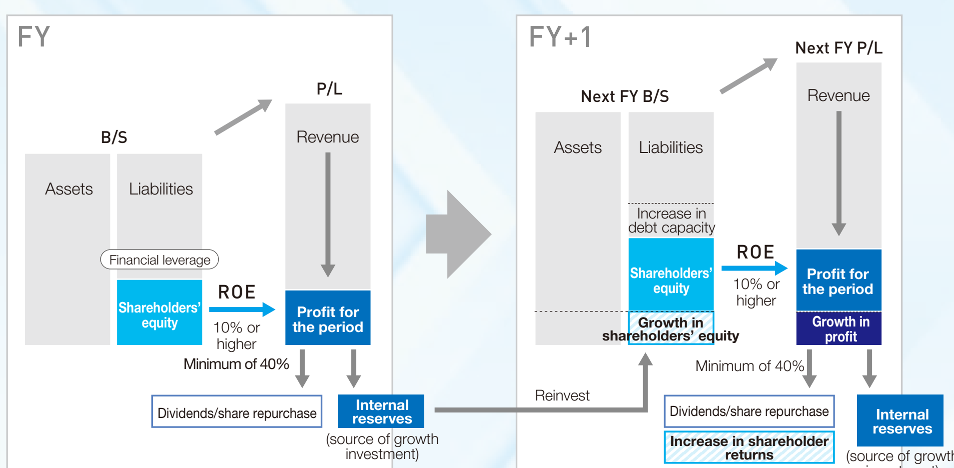
In terms of business, it will be important how we can pursue synergies with our existing businesses. We were able to quickly generate synergies between our existing businesses and Rheos Capital Works Inc. and B2C2 of the U.K., both of which we acquired last year. Starting from the selection stage, we will more closely examine targets in terms of the synergies with existing businesses and possible returns. Even after a company becomes a subsidiary, we will continue to monitor to ensure that suitable solutions are used in case of a problem where progress does not proceed as expected. The thorough use of the plan-do-check-act (PDCA) cycle will ensure disciplined business growth.

*2 Action plans in which the Keidanren (Japanese Business Federation) proposes to resolve various social issues such as the achievement of SDGs through the realization of Society 5.0.

Stance on Shareholder Returns and Growth Investments

The Company secures a stable supply of funds through sustained business growth, and accumulates internal reserves to make further investments in growth fields, while returning a portion of these funds to its shareholders.

By coordinating invested capital to attain ROE that exceeds shareholders' expected return ratio (the cost of shareholders' equity), we accomplish profit growth, dividend increases and an increase in capital in preparation for further growth investments.



Shareholder Returns and Future Investor Relations (IR) Engagement

In April 2018, we established a policy on total shareholder return ratio calculated by using the total amount for dividends and share repurchase whereby (1) the minimum total shareholder return ratio shall be at least 40% and (2) the inclusion of an adjustment to the return ratio for deducting the fair value through profit and loss (FVTPL) of operating investment securities from consolidated profit before income tax expense, which is separate from cash flows. Such an adjustment is made according to the level of consolidated profit before income tax expense accounted for by the total amount of FVTPL. In FY2020, profit before income tax expense was at a record high, while the ratio of FVTPL to profit before income tax expense remained elevated at around 55%. Considering this, we decided to apply rule (2). As a result, the ordinary dividend per share at year-end was increased by ¥20 from the previous year to ¥100 and added to the interim dividend of ¥20, the annual dividend amounted to ¥120 per share for a total shareholder return ratio of 36.2%. Our underlying principle of determining dividend amount based on earnings performance remains unchanged. We will engage in financial operations using a well-balanced approach for business growth and shareholder return.

I feel that the fact that we fell short of our target market cap of ¥1 trillion in our previous vision provided an opportunity to look back on our approaches to IR activities. I understand that the Company is not in a position to comment on market cap, but I am convinced that we have ample potential.

Meanwhile, I believe that the Company still has areas of improvement in terms of deepening shareholder and investor understanding about the Company. Needless to say, the Group's business areas span a truly wide range, from the Financial Services Business to the Asset Management Business and furthermore to Biotechnology, Healthcare & Medical Informatics Business. We also have an active corporate culture in which we make quicker decisions than other companies to enter new business areas. Specific examples of this include our entry into the crypto asset business and alliances with regional financial institutions. Some stakeholders may worry that we have changed our profit structure to one overly linked to the price of crypto assets or that the business structure itself is too complicated to understand. While these new businesses are beginning to produce results and I do not think these worries are warranted. To ease such concerns, we will further strive to provide detailed explanations to stakeholders and engage in proactive dialogue. Once the situation abates, we will restart face-to-face explanations for shareholders and investors, which has been postponed due to the COVID-19 pandemic.

IR Activities (FY2020)

Activity	Times	Activity content
Financial results briefing for institutional investors and analysts	4	Financial results briefing held quarterly focused on financial performance and outlook
IR conferences for overseas institutional investors	3	Conducted online meetings with overseas institutional investors during IR conferences hosted by securities companies
Current Management Information Briefing for shareholders	1	Briefing held shortly after the General Meeting of Shareholders every June
Individual meetings for institutional investors and analysts	As required	Meetings held as needed upon request from domestic and overseas institutional investors and analysts
Uploading of IR materials and videos to the Company website	As required	Posting of timely disclosure materials including financial results, press releases, videos, and information on CSR activities

Note: Meetings for individual investors and small meetings for domestic institutional investors, which are normally held every year, were canceled for FY2020 due to COVID-19 pandemic.