



# Daiwa Securities Group Inc. FY2016 Management Strategy

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Takashi Hibino, President and CEO  
Daiwa Securities Group Inc.

Daiwa Securities Group

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## I - Consolidated Results of FY2015

**Daiwa Securities Group**

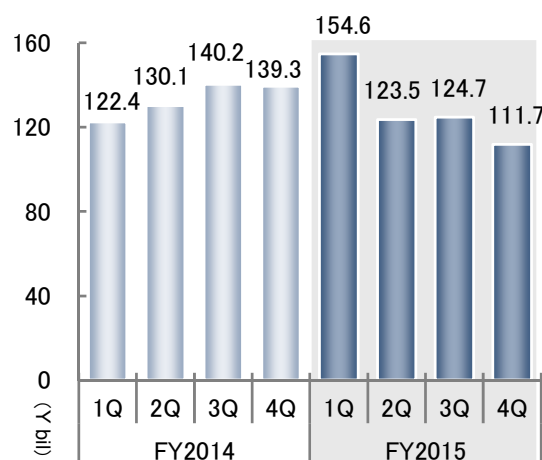
# Consolidated Results of FY2015

- FY2015 Net operating revenues were Y514.8bil, Ordinary income was Y165.1bil, and Net income was Y116.8bil

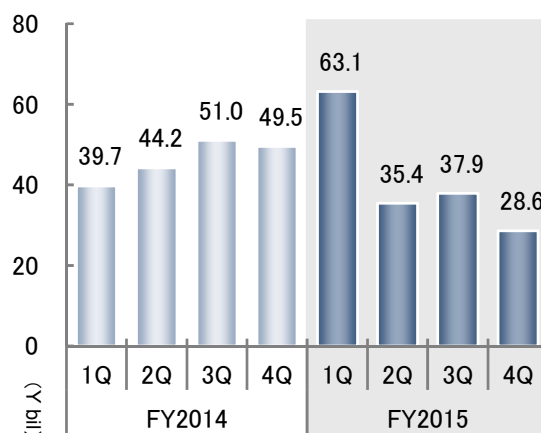
(Y mil)	FY2015				% change VS 3Q/FY15	FY2014	FY2015	% change VS FY2014
	1Q	2Q	3Q	4Q				
Net operating revenues	154,663	123,579	124,799	<b>111,772</b>	-10.4%	532,220	<b>514,815</b>	-3.3%
SG&A	95,574	91,281	89,331	<b>88,329</b>	-1.1%	361,380	<b>364,517</b>	0.9%
Ordinary income	63,113	35,456	37,950	<b>28,628</b>	-24.6%	184,578	<b>165,148</b>	-10.5%
Net income	44,836	24,347	26,354	<b>21,311</b>	-19.1%	148,490	<b>116,848</b>	-21.3%
Shareholders' equity *	1,272,263	1,258,269	1,261,870	<b>1,219,831</b>		1,238,657	<b>1,219,831</b>	
BPS (Y)	744.30	732.15	734.13	<b>720.86</b>		725.27	<b>720.86</b>	

\* Shareholders' equity = Owners' equity + Accumulated other comprehensive income

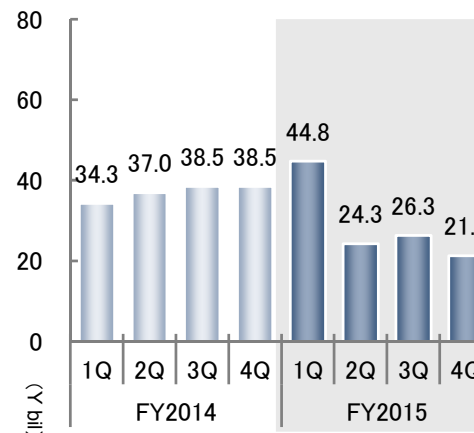
## Net operating revenues



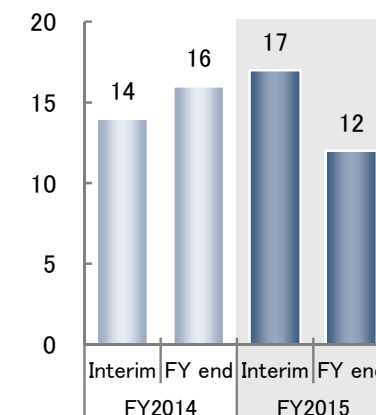
## Ordinary income



## Profit attributable to owners of parent company

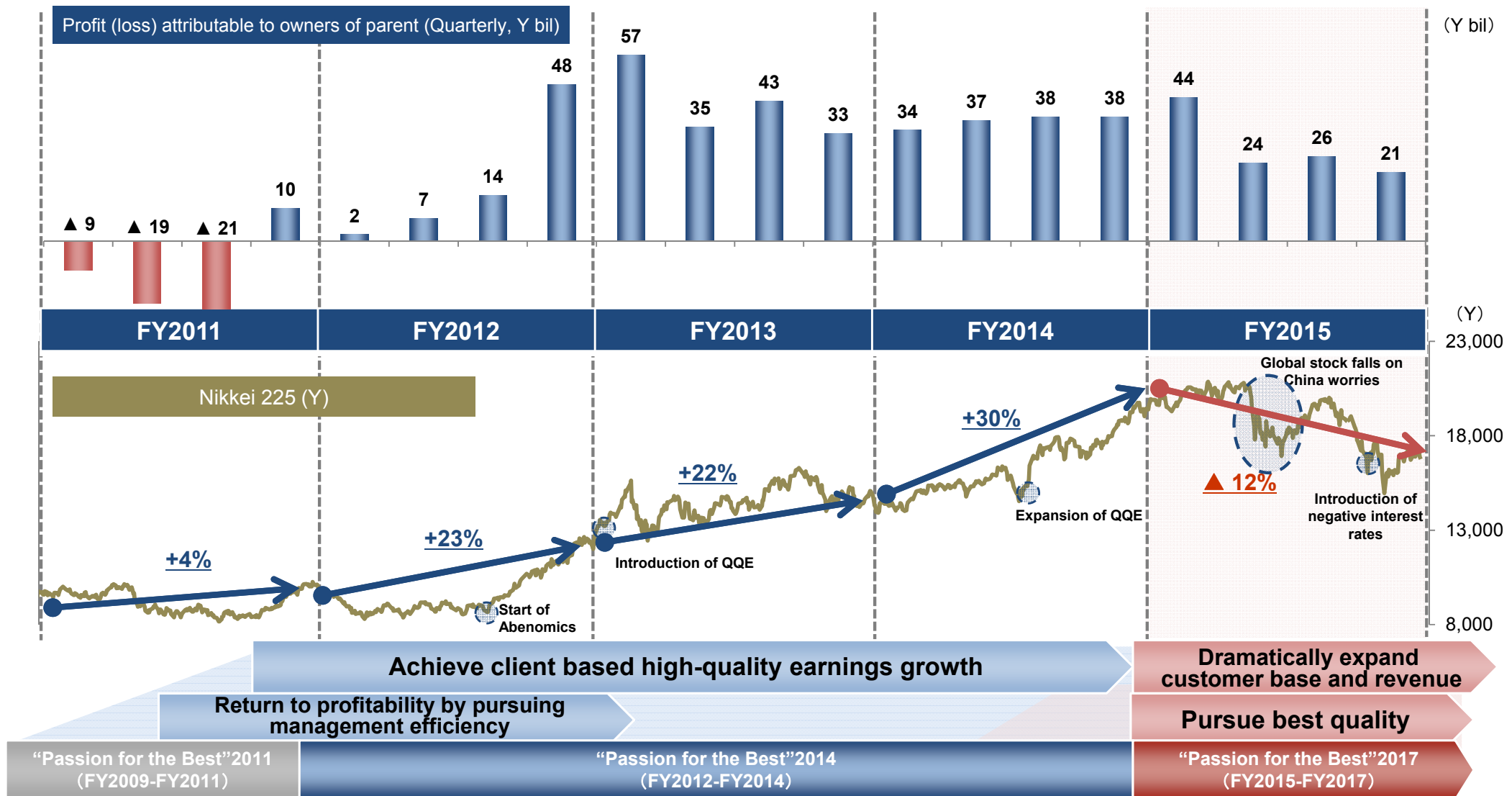


## Dividends (Y)



# Steady Implementation of Management Plan

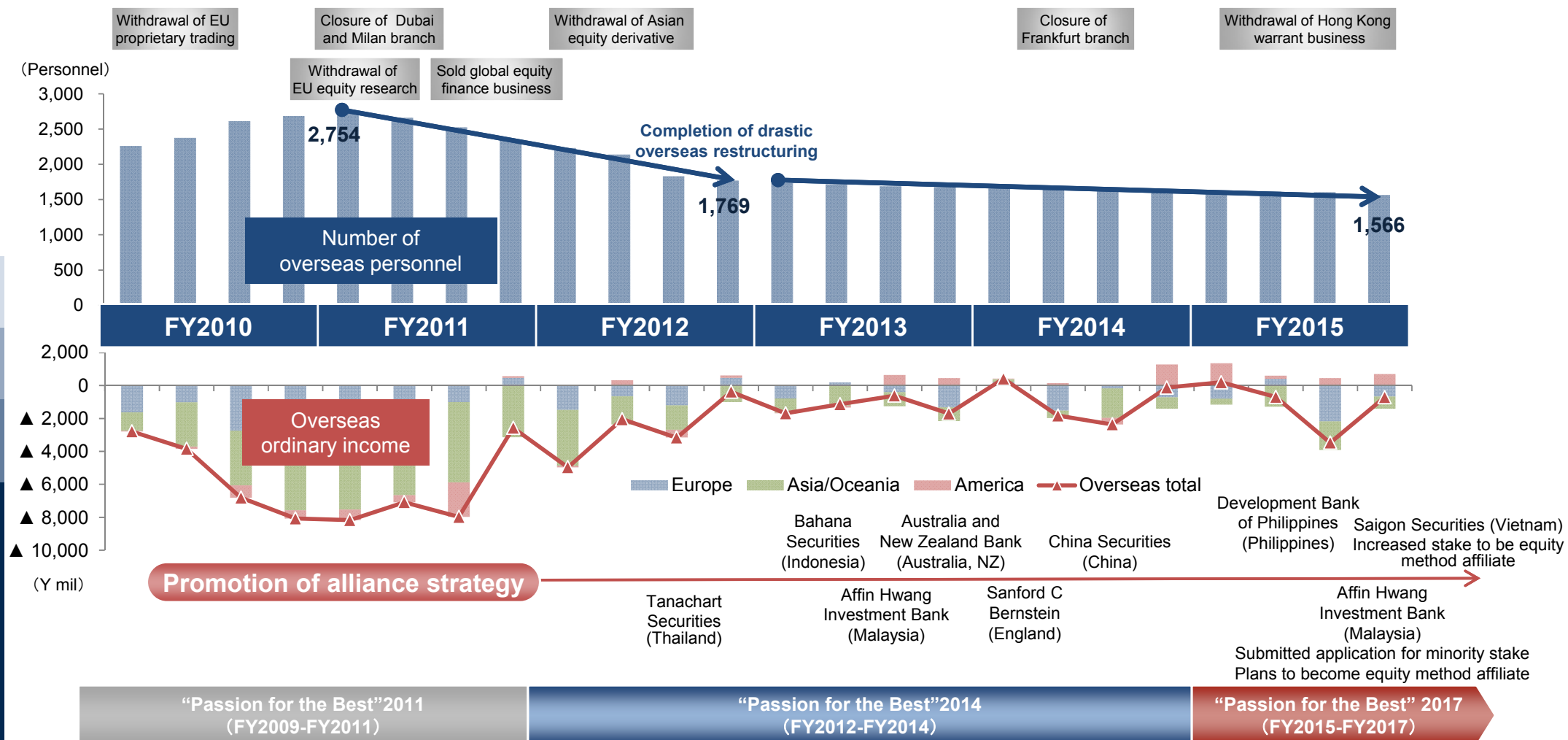
Secured stable profit level even under deteriorated economic condition by sustaining basic management plan of “establish a robust business structure”



# Efficiency of Overseas Operation and Expansion of Global Network

Promoted efficiency of overseas operation and expansion of global network through alliance strategy

Overseas personnel and ordinary income (FY2010 to FY2015, quarterly)



## Ⅱ - Progress of the Medium-Term Management Plan

# Medium-Term Management Plan (“Passion for the Best” 2017)

In response to the full-fledged start of an era of transition from savings to investment, attract customers with the industry’s top quality, and become their best partner

FY 2015

FY 2016

FY 2017

## Provide investment services to lead the era of transition from savings to investment

### Basic Policy 1: Pursue best quality

- Establish product and service platforms in response to the needs of a wide range of investors
- Strengthen asset management abilities
- Expand the pool of talented personnel with advanced expertise

### Basic Policy 2: Dramatically expand the customer base and revenue

- Strengthen approach to a wide range of investors by leveraging product and service platforms
- Dramatically expand the customer base and revenue by responding to growing investment needs

## Provide solutions that contribute to the improvement in corporate value

### Basic Policy 3: Support the sustainable growth of companies and the development of new industries

- Identify and develop next-generation growth companies and help them to raise capital for growth
- Provide solutions in response to corporate globalization and M&A needs

## Numerical targets

1. ROE: 10% or more

2. Fixed cost coverage ratio :  
75% or more in the final fiscal year

Positive cycle of “transition from savings to investment” and “improvement of corporate value”



# Progress of Medium-Term Management Plan (Numerical Targets)

ROE: 10% or more

Fixed Cost Coverage Ratio:  
75% or more in the final fiscal year (FY2017)

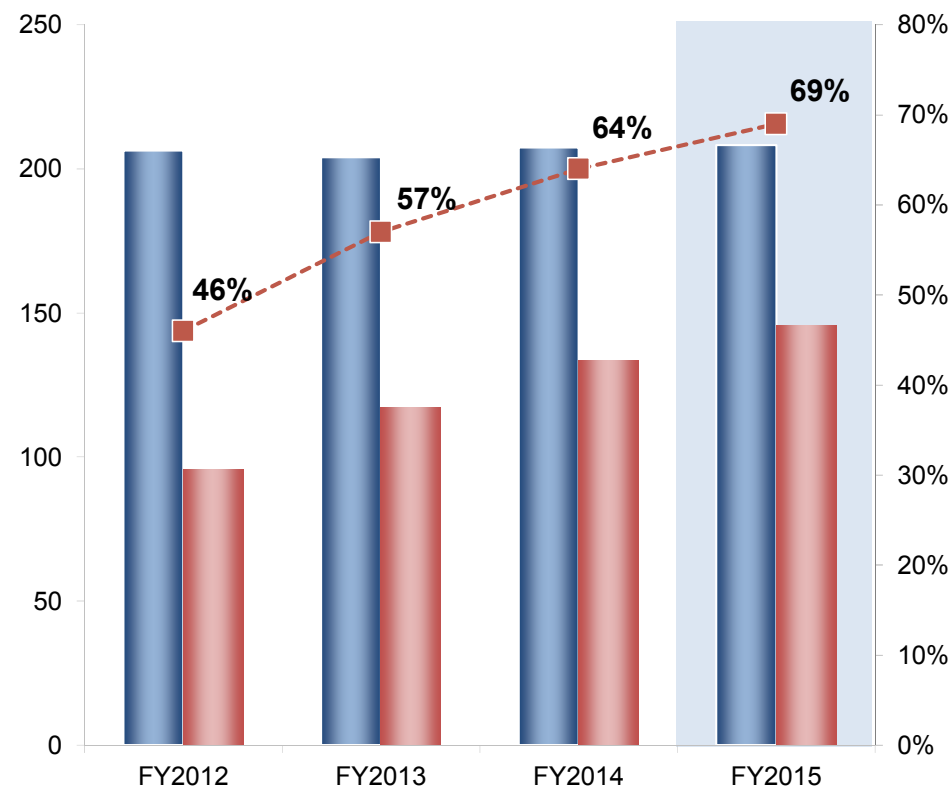
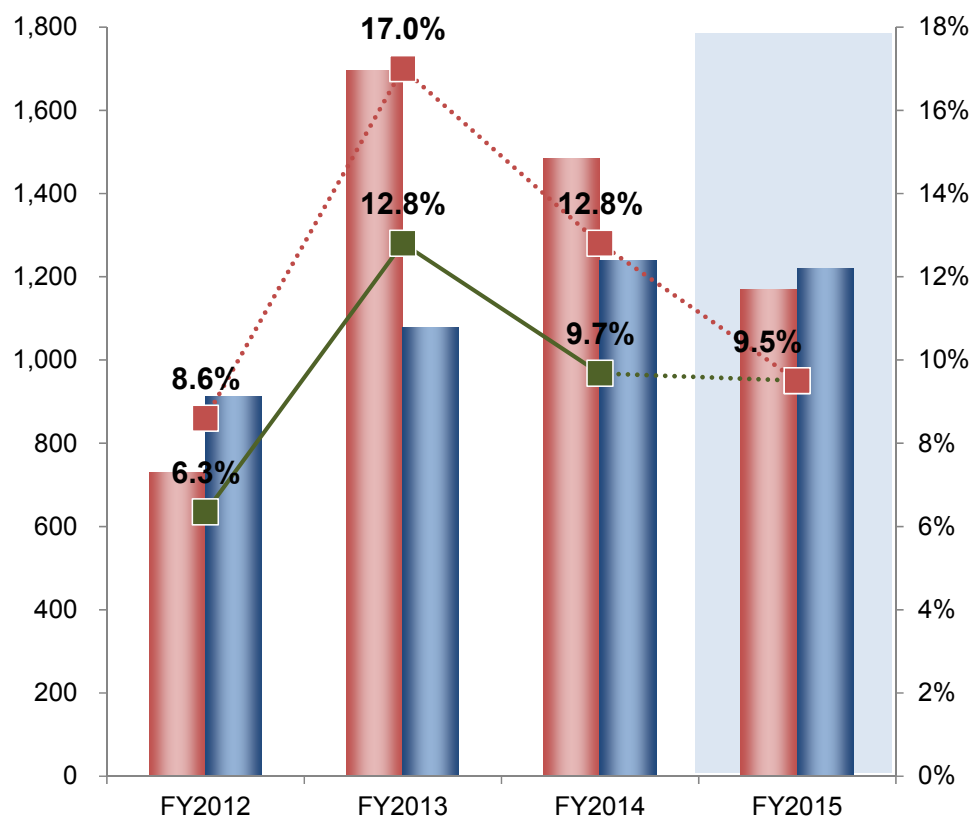
Profit attributable to owners of parent company (Y 100mil) Shareholders' equity (Y bil) ROE ROE (excl. effect of losses carried forward belonging to Daiwa Securities)

Fixed cost (Y bil) Stable revenues (Y bil) Fixed cost coverage ratio

\*Stable revenues consist of :

AM Management fees (including investment advisory fees), agency fees, Daiwa Next Bank profit margins, Daiwa Office Investment net operating revenues, Daiwa Real Estate AM management fees, management fees on SMA/Fund Wrap, interest fees on margin, interest fees on LMS etc.

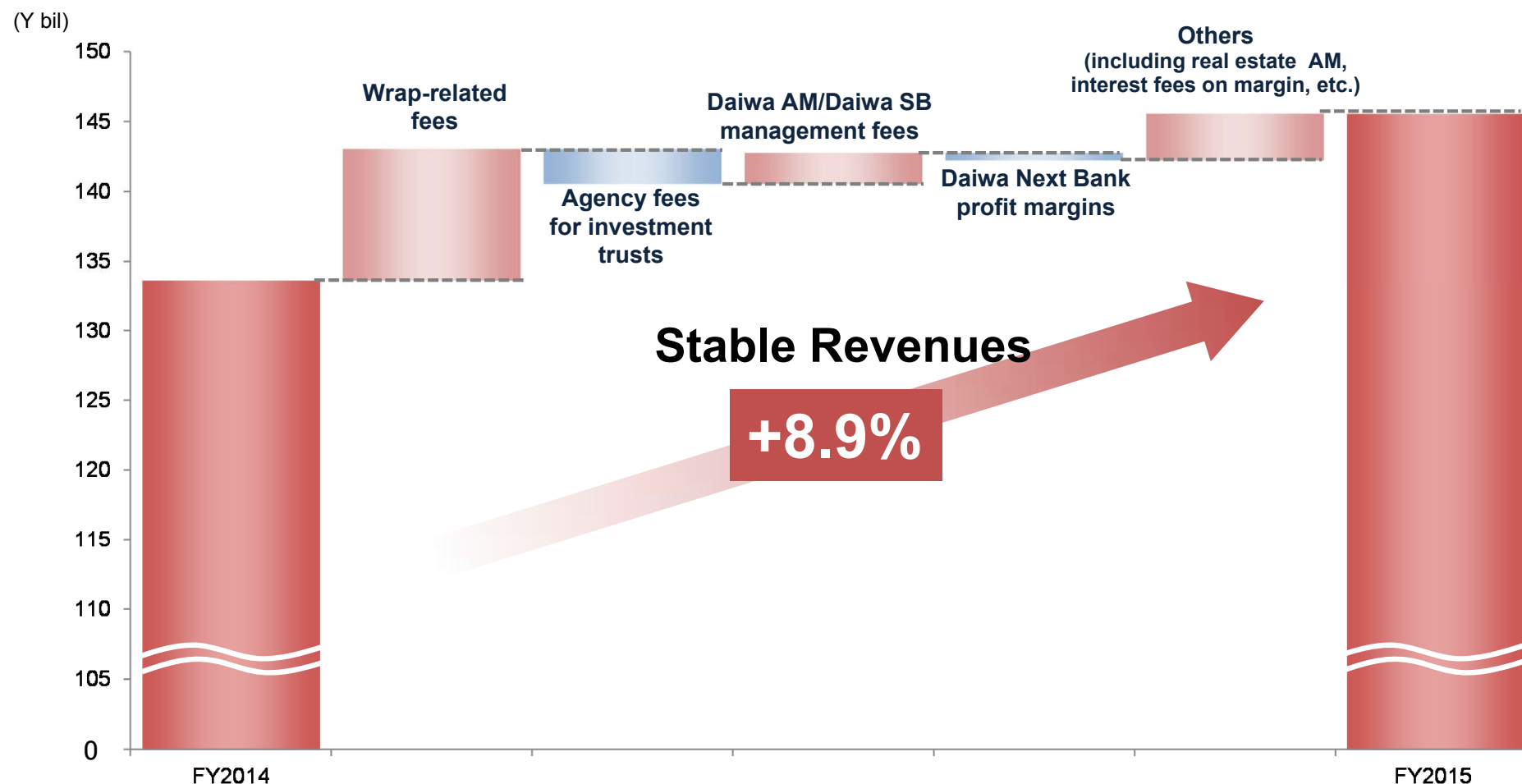
\*Fixed Cost Coverage Ratio was retroactively adjusted as outsourcing commission from Daiwa Asset Management to outside asset managers was reported in fixed cost, while the commission was deducted from stable revenues.



# Expansion of Stable Revenues

- The Group's stable revenues for FY2015 have increased approximately 9% from FY2014, mainly driven by expansion of AUM for wrap accounts.
- The Group will continue to focus on expanding stable revenues centered on wrap accounts and asset management business, while also enhancing the foreign currency deposit business at Daiwa Next Bank.

## Factors for Changes in Stable Revenues for FY2015



### Ⅲ- Progress of Individual Strategies for Basic Policies

# Business Opportunities and Basic Policies

—— Business opportunities expected over the medium term: full-fledged start of an era of transition from savings to investment ——

Move away from deflation

Spread of successful  
investment experiences

Government support on  
policies and systems

Enhancement of companies'  
earnings power

## Expected demand

Increase in securities investment needs among all citizens  
and households

Increase in funding demand among growing companies  
Increase in corporate activities including M&As aimed  
at improving ROE

—— Basic policies aimed at achieving the positive cycle of “the transition from savings to investment”  
and “the improvement in corporate value” ——

Basic policies	Provide investment services that lead the era of transition from savings to investment		Provide solutions that contribute to the improvement in corporate value	
	Pursue best quality	Dramatically expand the customer base and revenue	Identify and develop next generation growth companies and help them raise capital to grow	
Key Themes	Establish product and service platforms in response to the needs of a wide range of investors		Identify and develop next generation growth companies and help them raise capital to grow	
	Strengthen asset management abilities		Provide solutions in response to corporate globalization and M&A needs	
Promote alliance strategy actively, mainly in Asia				

## Basic Group Strategies

Finance and Risk management

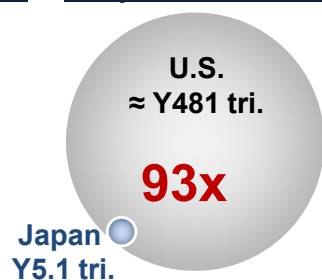
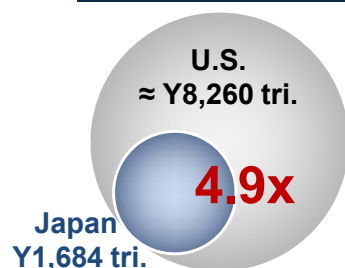
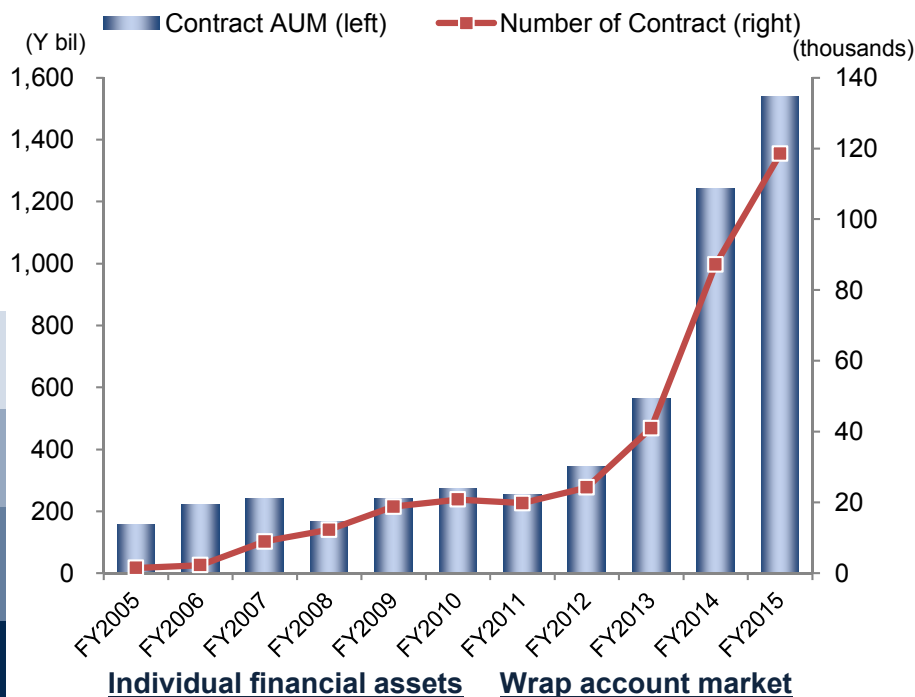
Human resources

IT

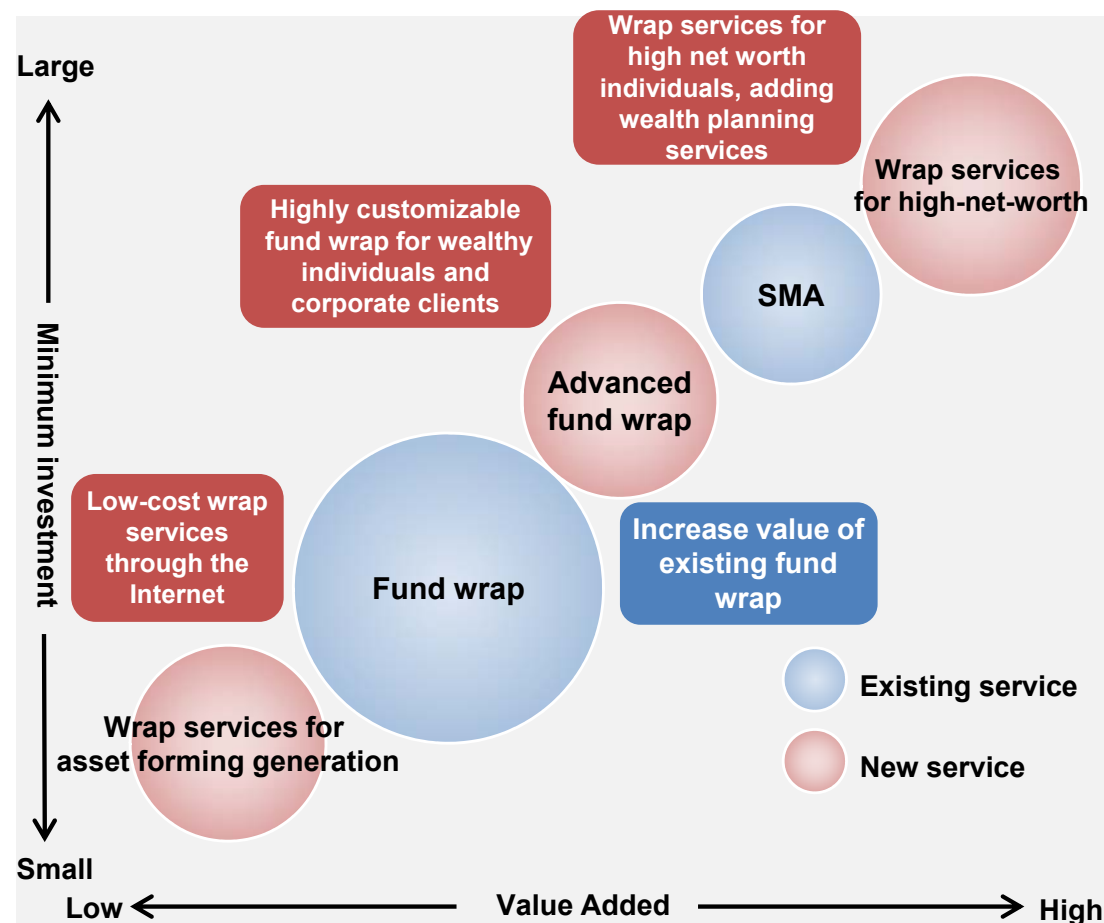
## Expansion of Fee-based Products and Services (Wrap Account Services)

- AUM for wrap account services (SMA and Fund wrap) at Daiwa Securities was Y1.5 tri. (as at the end of Mar. 2016)
- Aim to expand customer base and AUM through various product lineup and by expanding sales channels.

### Change in AUM of Wrap Accounts



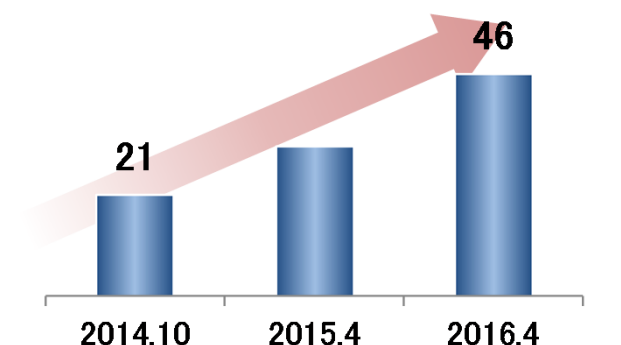
### Future of Daiwa's Wrap Account Services



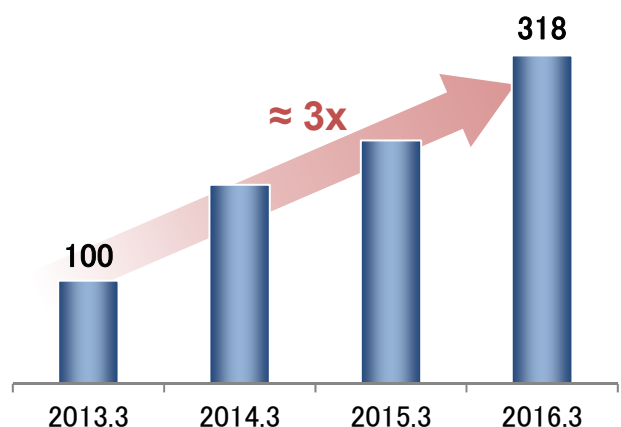
## Expansion of Consulting Services in Quality and Quantity (Inheritance Business)

- The number of sales branches deploying inheritance consultants and application for inheritance total service continues to grow. We will further increase the number of such branches and also enhance solutions provided through inheritance total service.
- Strengthen capability to respond to business succession needs by utilizing private banking services in Asia, M&A, stock ownership succession trust, etc.

Number of Sales Branches with Inheritance Consultants



Cumulative Number of Application for Inheritance Total Service



※Mar. 2013 is indexed as 100



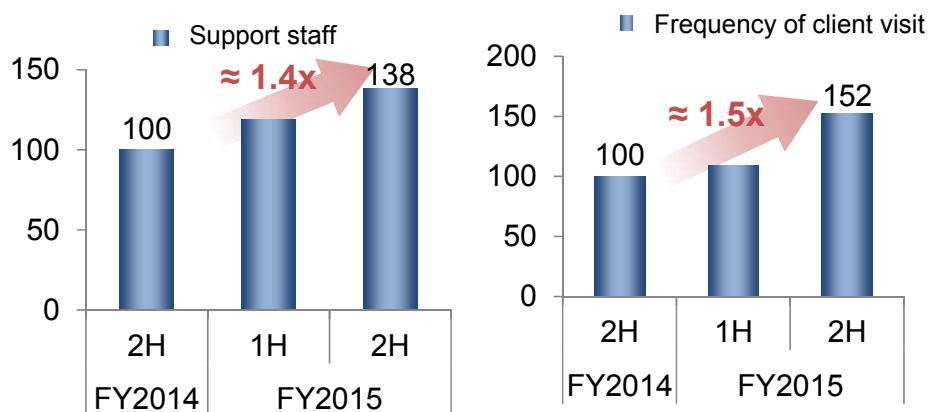
Responding to Business Succession Needs (FY2015)

- April 2015
  - Established Business Succession Consulting Team within Wealth Management Dept.
- June 2015
  - Began joint seminars with Nihon M&A Center Inc.
  - Placed business succession consultants at all sales branches nationwide
- July 2015
  - Began private banking services in Asia
- January 2016
  - Began offering stock ownership succession trust

## Expansion of Consulting Services in Quality and Quantity (Middle Market)

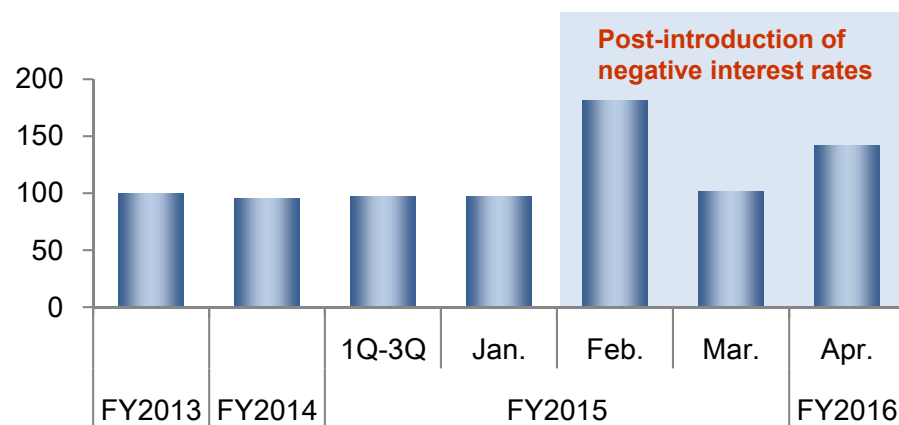
- Strengthen sales capability, through increased interactions with middle market clients by increasing the number of support staff.
- Enhance products and services responding to the growing investment needs of middle market businesses under the negative interest rate environment.

### Strengthening Sales Capability Targeting Middle Market Clients



※2H/FY2014, when Corporate Support Section was established, is indexed as 100

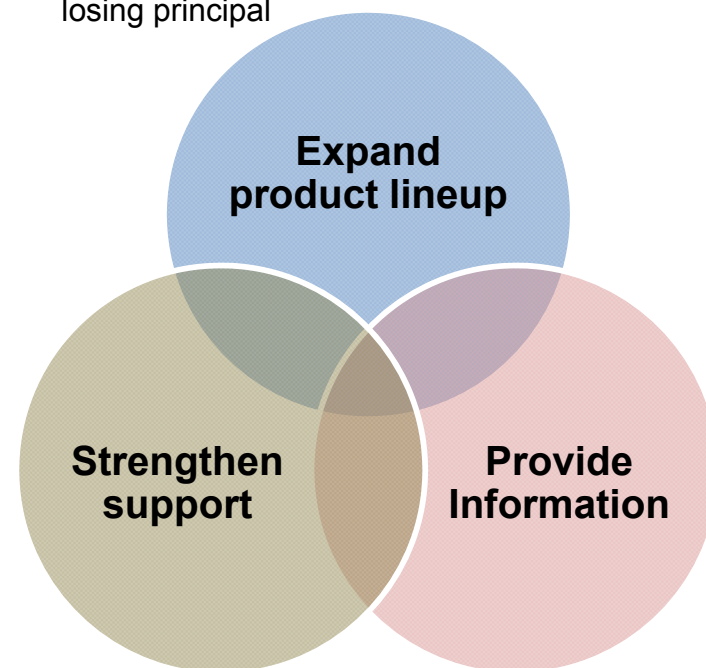
### Fixed Income Revenues of Regional Financial Institutions



※Above figures from FY2013 to 1-3Q/FY2015 are monthly average. FY2013 is indexed as 100.

### Enhancing Products and Services Required in the New Market Environment

- Enhance products and sales capability regarding foreign bonds
- Expand product lineup which can reduce a risk of losing principal



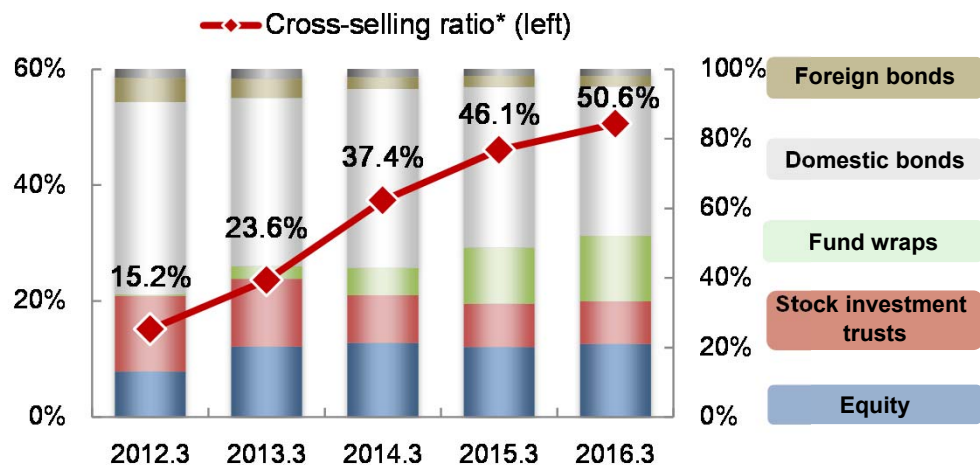
- Provide solutions responding investment needs
- Close communication with sales branches and offer attractive products
- Hold various seminars and events
- Distribute reports on investment strategy given the negative interest rate environment



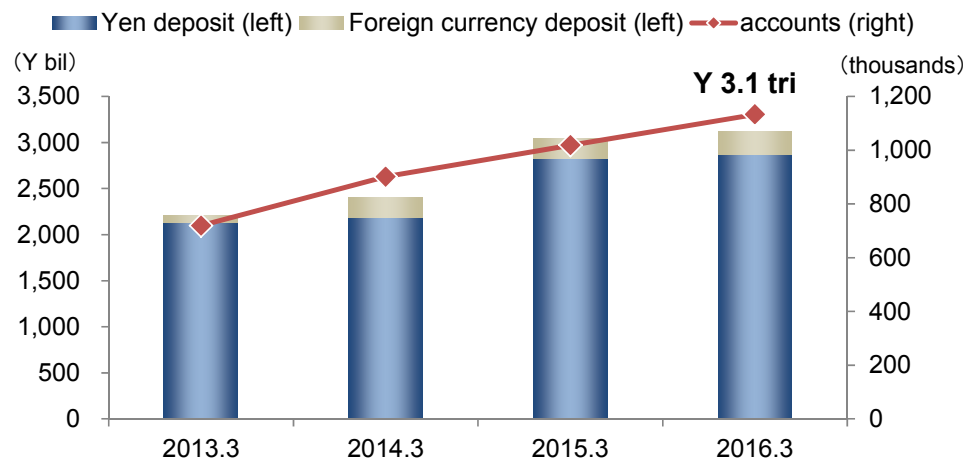
## Further Development of the Combined Securities-Banking Business Model

- Cross-selling ratio\*, the ratio of new time deposit customers initiating securities transaction, has exceeded 50%, indicating that the shift from savings to investments is steadily progressing within the Daiwa Group.
- Continue to enhance the convenience of services in order to expand foreign currency deposit balance.

### Cross-selling Ratio\* and Purchased Products (Total)

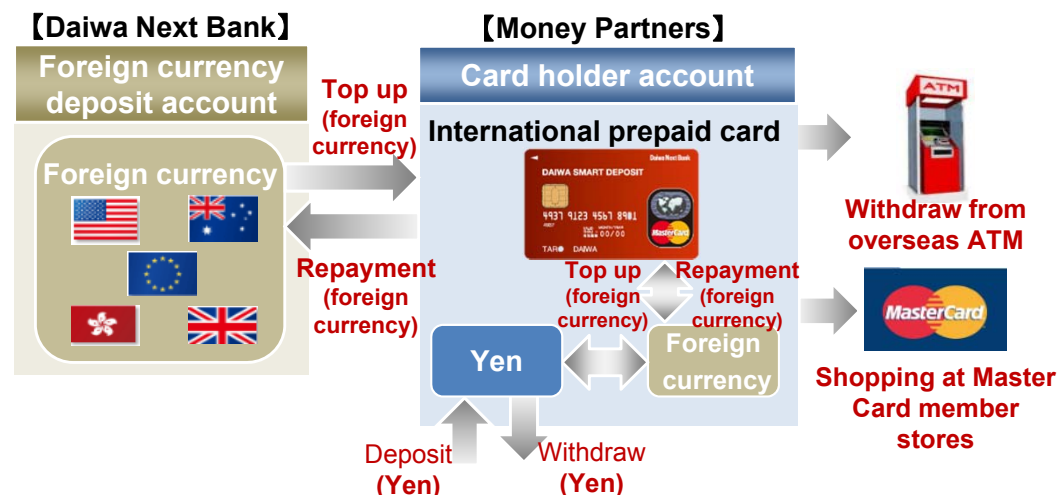


### Daiwa Next Bank: Deposit Balance and Number of Accounts

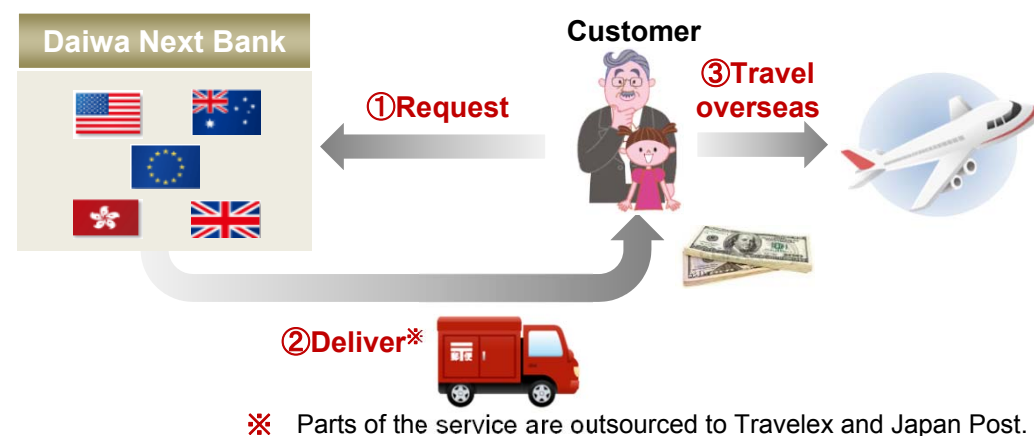


Daiwa Securities Group

### Introduction of International Prepaid Card (DAIWA SMART DEPOSIT)



### Foreign Currency Delivery Service



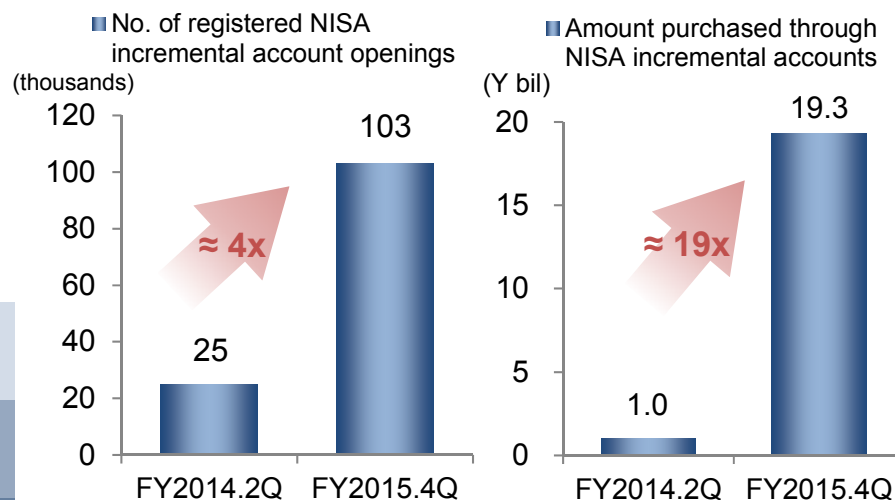
\* Cross-selling ratio: accumulated total accounts of cross-selling to accumulated total accounts of newly-opened time deposits  
Newly-opened time deposits: yen denominated time deposits that have been placed within three months since opening time deposit accounts



# Expand New Client Base Centered on Inbound-Type Clients

- Number of registered NISA incremental account openings has expanded approx. 4 times since the launch of the service online (Sept. 2014), and amount of securities products purchased through the account has expanded approx. 19 times.
- Started to offer no-load index funds, which are popular with a wide range of investors, to expand new client base.
- Promote business collaboration with GMO CLICK Holdings which has young customer base.

## NISA Accounts with Accumulative Services (as at the end of Mar.)

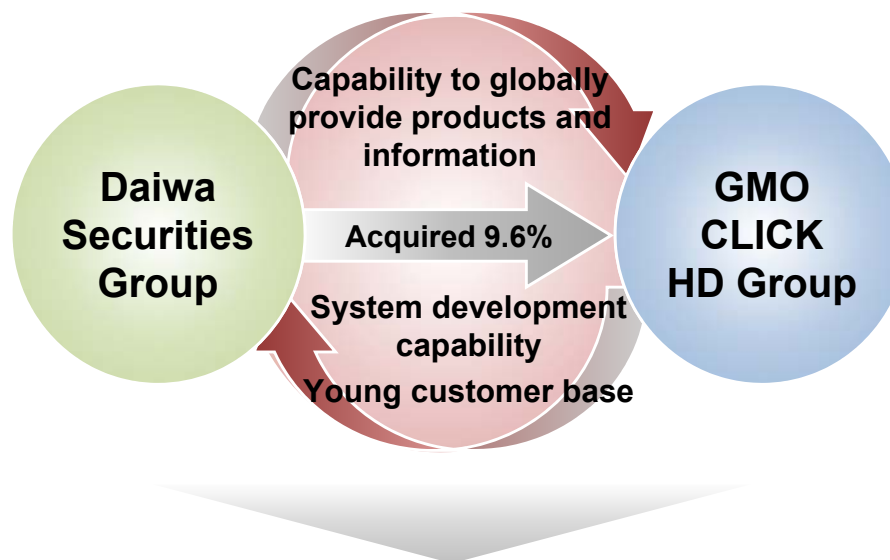


## No-Load Funds for Direct Course Service

- Expanded the product lineup since December 9, 2015 (currently offers 10 funds)

① Daiwa No-Load Nikkei 225	② Daiwa No-Load J-REIT
③ Daiwa No-Load TOPIX	④ Daiwa No-Load JPX Nikkei 400
⑤ Daiwa No-Load Domestic Bonds	⑥ Daiwa No-Load Foreign Stocks
⑦ Daiwa No-Load Foreign Bonds	⑧ Daiwa No-Load Global REIT
⑨ Daiwa No-Load Emerging Stocks	⑩ Daiwa No-Load Emerging Bonds

## Business Collaboration with GMO CLICK Holdings (press released on Apr. 26<sup>th</sup>, 2016)



Provision and joint production of contents such as videos

Knowledge sharing of web marketing

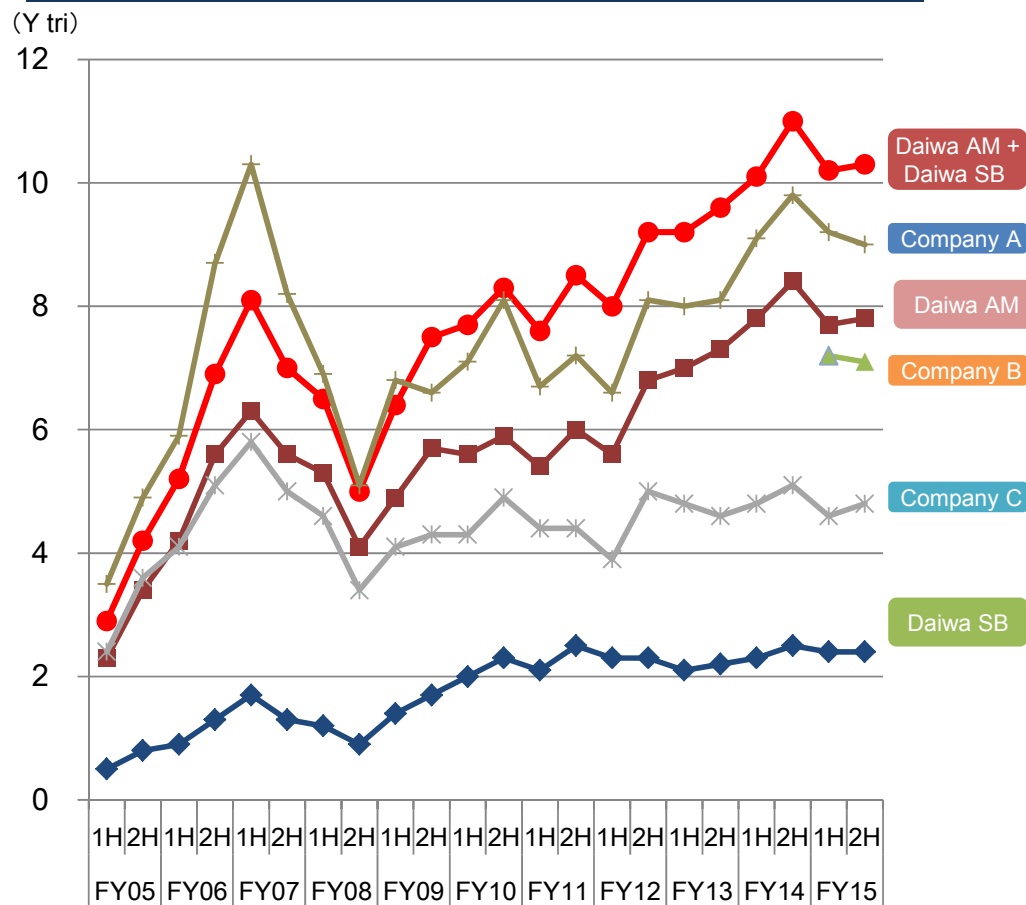
Stock lending transactions

# Improvement of Asset Management Abilities (Investment Trusts)

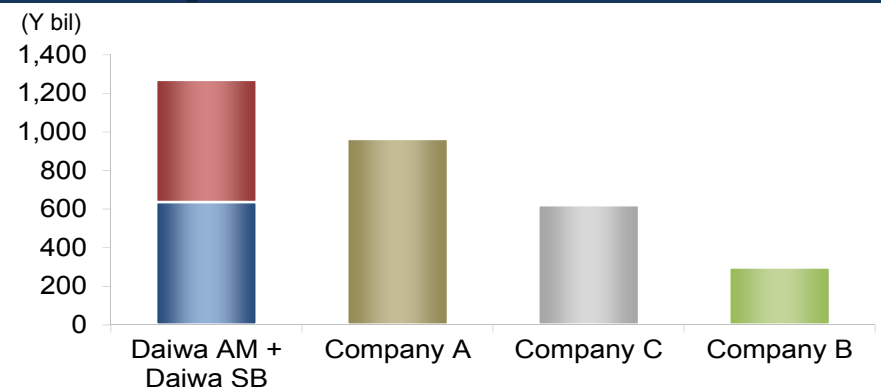
- Total AUM of stock investment trusts (excluding ETFs) for the two asset management companies (Daiwa Asset Management and Daiwa SB Investments) have maintained the largest share in the industry.
- Asset inflow of stock investment trusts for the two asset management companies in FY2015 exceeded Y 1.2 tri, which is the highest in the industry.
- Aim for consistent asset inflow by improving product developing ability which meet customer needs

Apr. 2005 to Mar. 2016

## AUM of Investment Trusts (excluding ETF)



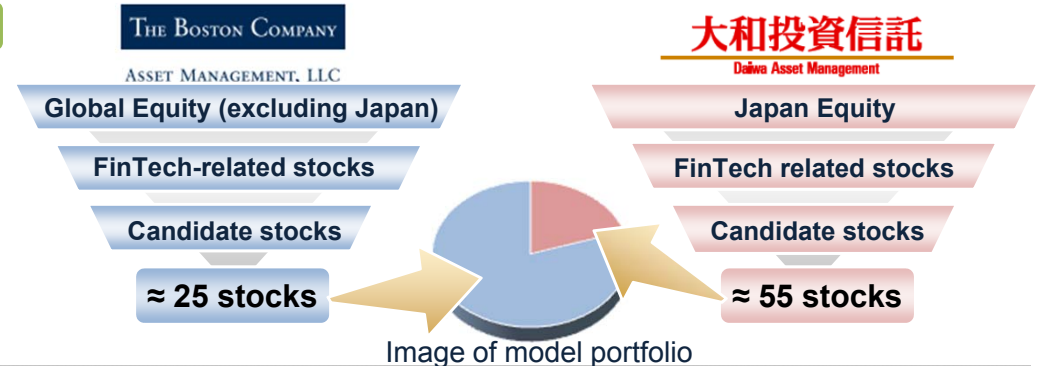
## FY2015 Net Asset Inflow of Investment Trusts (excluding ETF)



## New Fund Launched by Daiwa Asset Management and Overseas Asset Management Company

- Improve product developing ability utilizing outside companies with outstanding management methods

### Daiwa Global FinTech-related Equity Fund

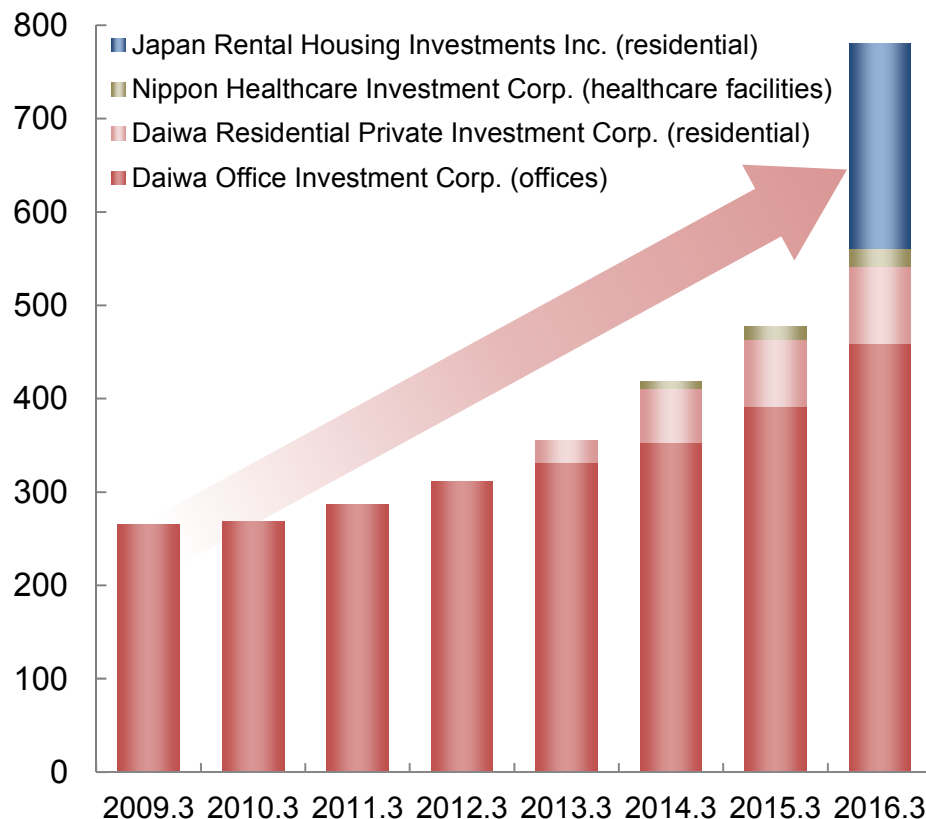


## Expansion of Asset Management Business (Real Estate and Infrastructure)

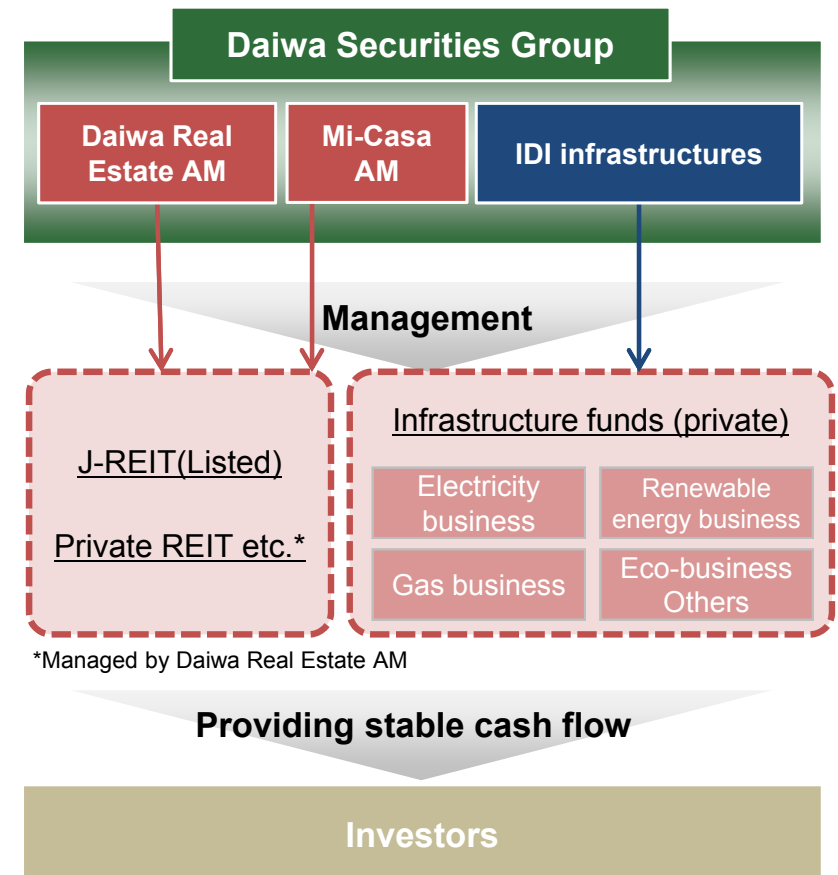
- Since the asset management company of Japan Rental Housing Investments, Mi-Casa Asset Management, became a consolidated subsidiary, assets under management for the 4 real estate investment trusts have exceeded Y780 bil.
- In Infrastructure business area, IDI infrastructures Inc., has become a subsidiary.
- Aim to expand asset management business in real estate and infrastructure, including adding inorganic investments.

### AUM of Real Estate Asset Management Business

(Y bil)



### Business Structure of Real Estate and Infrastructure Asset Management



## Provide Solutions Contributing to Increase in Corporate Value (GIB)

- Lead managed symbolic deals including large-scale private equity backed IPO. On the league table, we moved up for IPO and maintained top position for municipal bonds for two consecutive years.
- Won mandates for a number of cross-border M&A deals including large-scale deals through our global network.

## FY2015 League Table

Equity	FY2014	FY2015
PO	2 <sup>nd</sup>	2 <sup>nd</sup> →
Domestic CB	—	4 <sup>th</sup> →
Overseas CB	2 <sup>nd</sup>	4 <sup>th</sup> →
IPO	5 <sup>th</sup>	3 <sup>rd</sup> →
REIT	4 <sup>th</sup>	4 <sup>th</sup> →

Debt (excl. family bonds)	FY2014	FY2015
Straight bonds	3 <sup>rd</sup>	5 <sup>th</sup> →
Agency bonds	5 <sup>th</sup>	4 <sup>th</sup> →
Municipal bonds	1 <sup>st</sup>	1 <sup>st</sup> →
Samurai bonds	1 <sup>st</sup>	2 <sup>nd</sup> →
RMBS	4 <sup>th</sup>	2 <sup>nd</sup> →

## FY2015 Selected Deals in GIB (lead managed or deals Daiwa acted as financial advisor)

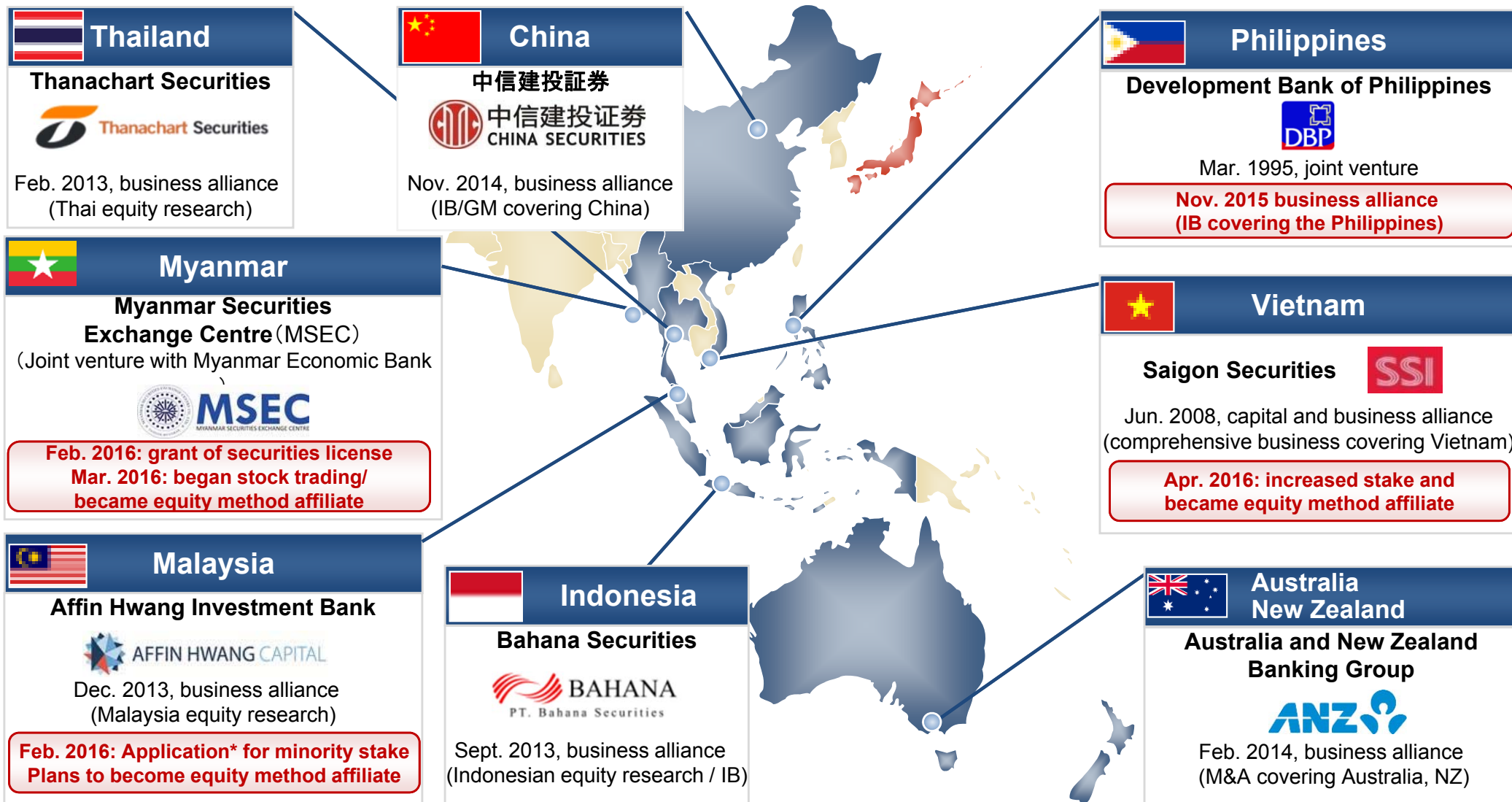
Equity		
■ Rakuten, Inc.	Global PO	Y189.8 bil (sole GC)
■ 3 Japan Post Group companies	Global IPO	total Y1.43 tri (JLM in Domestic Tranche)
■ Dexerials Corporation	Global IPO	Y86.5 bil (JGC)
※GC: Global Coordinator, LM: Lead Manager		

Debt	
■ Mitsui Sumitomo Insurance Company	60yrs subordinated SB total Y150.0 bil (JLM)
■ Softbank Group	Straight Bond for retail investors total Y470.0 bil (JLM)
■ Lead managed 16 deals of Benchmark foreign bonds	

M&A	
■ Japan / Europe (DCA):	Acquisition of DeLclima (Italy) by Mitsubishi Electric Corporation
■ Japan / Asia / Europe (DCA):	Acquisition of MIMS Group (Singapore) by SMS Co., Ltd. and Mitsui & Co., Ltd.
■ Japan:	Merger of MITSUMI ELECTRIC CO., LTD. and MINEBEA CO., LTD Business and capital alliance between SG HOLDINGS CO., LTD and Hitachi Transport System Ltd. Acquisition of Asahi Security Co. Ltd., by SECOM Co., Ltd.
■ Asia (joint effort with Affin Hwan Investment Bank):	Brahim's Holdings (Malaysia)'s sale of its subsidiary

# Alliance Strategy Focusing on Asia

- Enhance business network in Asia through expanding alliance with leading Asian financial institutions.



\* Waiting approval from Bank Negara Malaysia

## IV- Capital Policy and HR Strategy



# Capital Policy Aimed at the Sustainable Increase in Corporate Value

- Strive for an optimum balance between “maintenance of financial soundness”, “improvement of capital efficiency” and “strengthening of shareholder returns”, and ultimately aim for sustainable increase in corporate value.

## Maintenance of Financial Soundness

- Secure capital and liquidity capable of responding to tighter international financial regulations
- Establish a financial base for maintaining and improving credit rating
- Secure financial flexibility that enables agile investments for growth under any environment
- Continue strict risk control

Increase Daiwa's sustainable corporate value

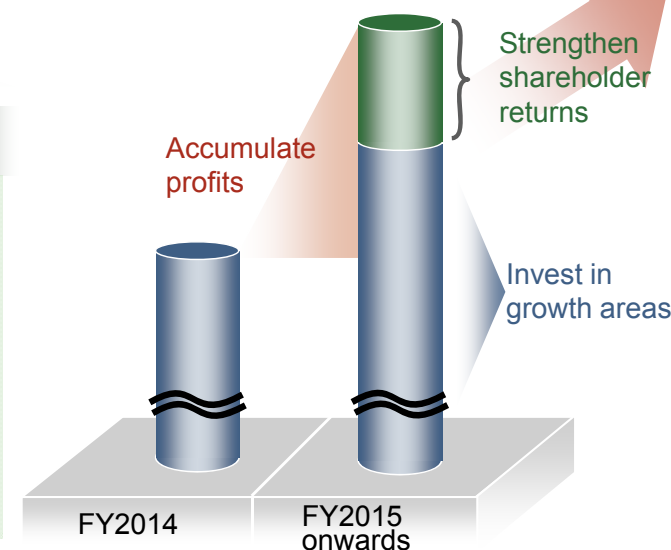
## Improvement of Capital Efficiency

- Invest management resources appropriately in business areas with high growth and profit potential in Japan and overseas with a focus on capital efficiency (ROE)
- Aim to reduce capital cost by diversifying risks through expansion of the business portfolio

## Image of Capital

## Strengthen Shareholder Returns

- Aim for stable dividend growth by continuously improving earning power
- Feasibility of share buyback will be reviewed by taking a comprehensive look at factors including the business environment, financial conditions, regulatory requirements, and level of stock price



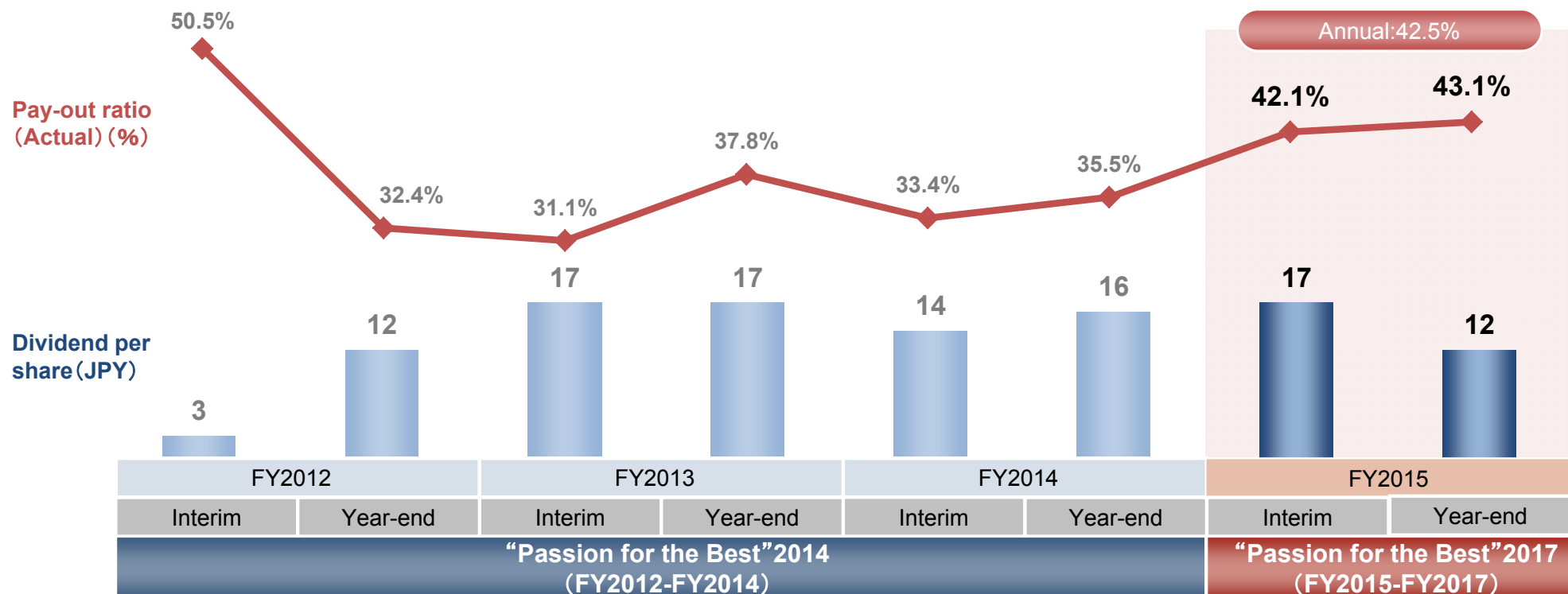
# Expand Shareholder Returns

## Raised dividend pay-out ratio

- In order to strengthen shareholder returns, our dividend pay-out ratio was raised from 30% to 40% last fiscal year.
- Aim to maintain an upward trend of dividends by continuously improving our earnings power.

## Share repurchase program

- Aim to strengthen shareholder returns through increased capital efficiency.
  - Period of Share Repurchase: Feb.17 to Mar. 9, 2016
  - Total numbers of shares repurchased: 27 mil shares, 1.57% of total shares outstanding (excluding treasury stock).
  - Total amount repurchased: ¥18.5 bil



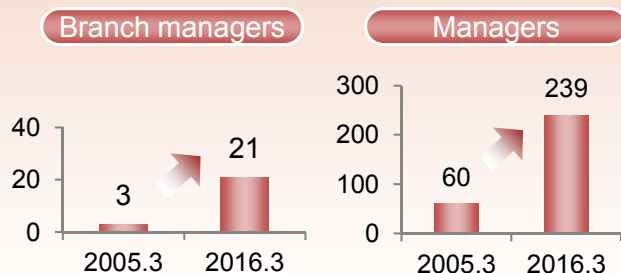


# HR Strategy

- In order to become the “customers’ first choice” securities group, we believe that employees are the most valuable asset for the Group. By strategic allocation of human resources and training of personnel, we aim to strengthen organizational capabilities.

## Supporting the Success of “Female Employees”

Increase in number of female branch managers and managers (Daiwa Securities)



## Supporting the Success of “Young Employees”

Improve “Daiwa Basic Program” (Basic education for the first two years)

- Clarify what to master within two years from joining a company.
- Strengthen support for acquiring expert knowledge and skills.
- Establish a base to be a securities business professional.

## Supporting the Engagement of “Veteran Employees”

“License Certification System” 『Advanced Skill-building Program』

Established an incentive system to create a corporate culture in which employees are eager to continue growing as professionals regardless of age.

Support system to manage both work and care for elderly

- Changed the system to take family care leave multiple times.
- Establish paid leave system for preparation for family care.
- Establish an environment that enables employees to work actively without feeling anxious about future.

## Selected as “Health and Productivity Companies”, “Nadeshiko Brand” and “Platinum Kurumin”



25 companies selected  
(14 companies selected for two consecutive years)



45 companies selected  
(23 companies selected for two consecutive years)



53 companies selected

## Raised the salary level

### Raised the salary level

- Raised the salary level for all employees.
- Raised the starting salary to 245,000 yen for newly hired employees in FY2017 and after.

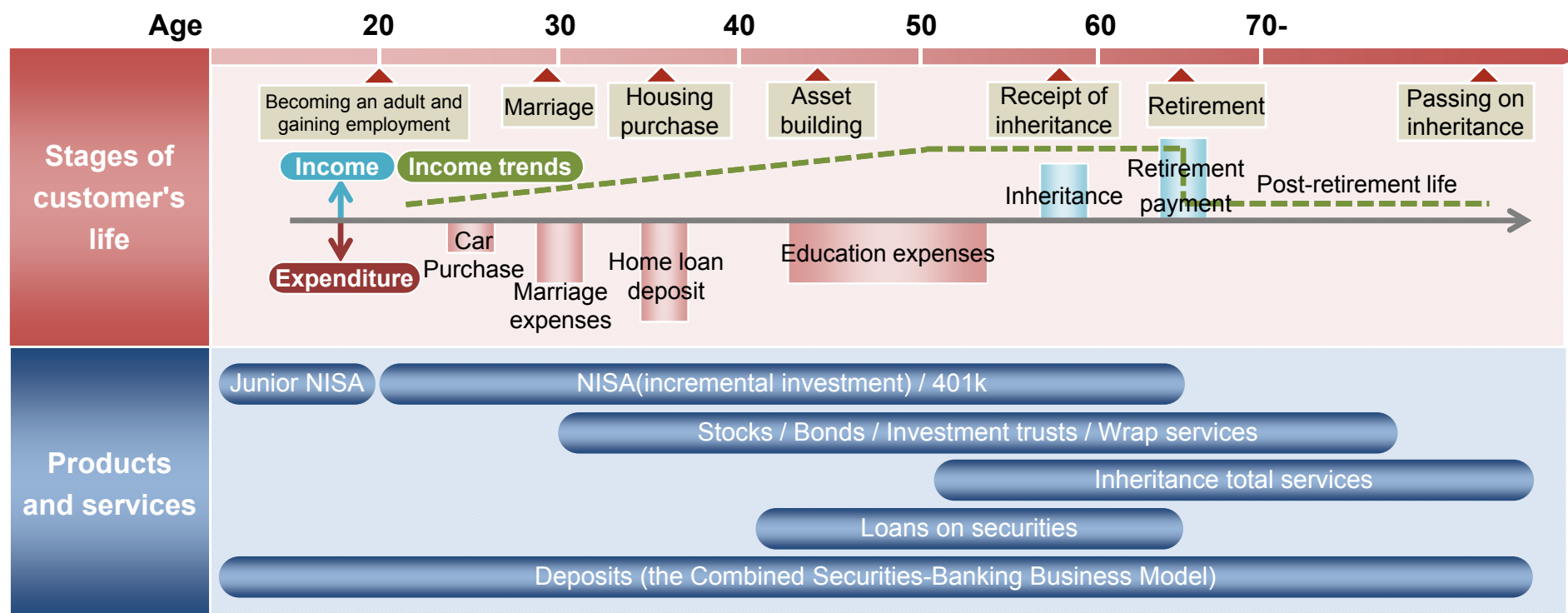
### Raised the amount of child care allowances

- Raised the amount and expanded criteria of child care allowance to support the child-rearing generation.

## V - FY2016 Management Policies

# Wealth Management Business Model

Become a close partner for the customer's financial life



Human resources with  
advanced expertise

Global products and  
information

Service platform utilizing  
the advanced ICT

大和証券  
Daiwa Securities

Daiwa  
Capital Markets

大和投資信託  
Daiwa Asset Management

大和住銀投信投資顧問  
Daiwa SB Investments

大和ネクスト銀行  
Daiwa Next Bank

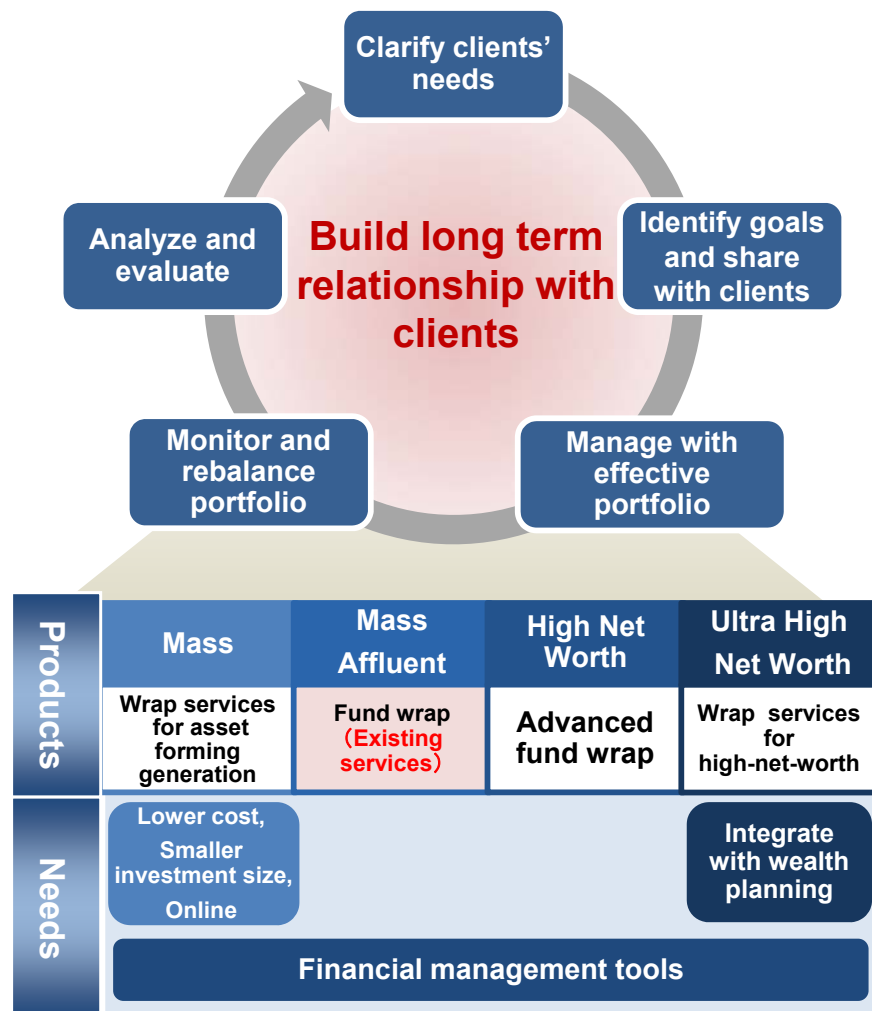
大和総研  
Daiwa Institute of Research

大和総研ビジネスイノベーション  
Daiwa Institute of Research Business Innovation

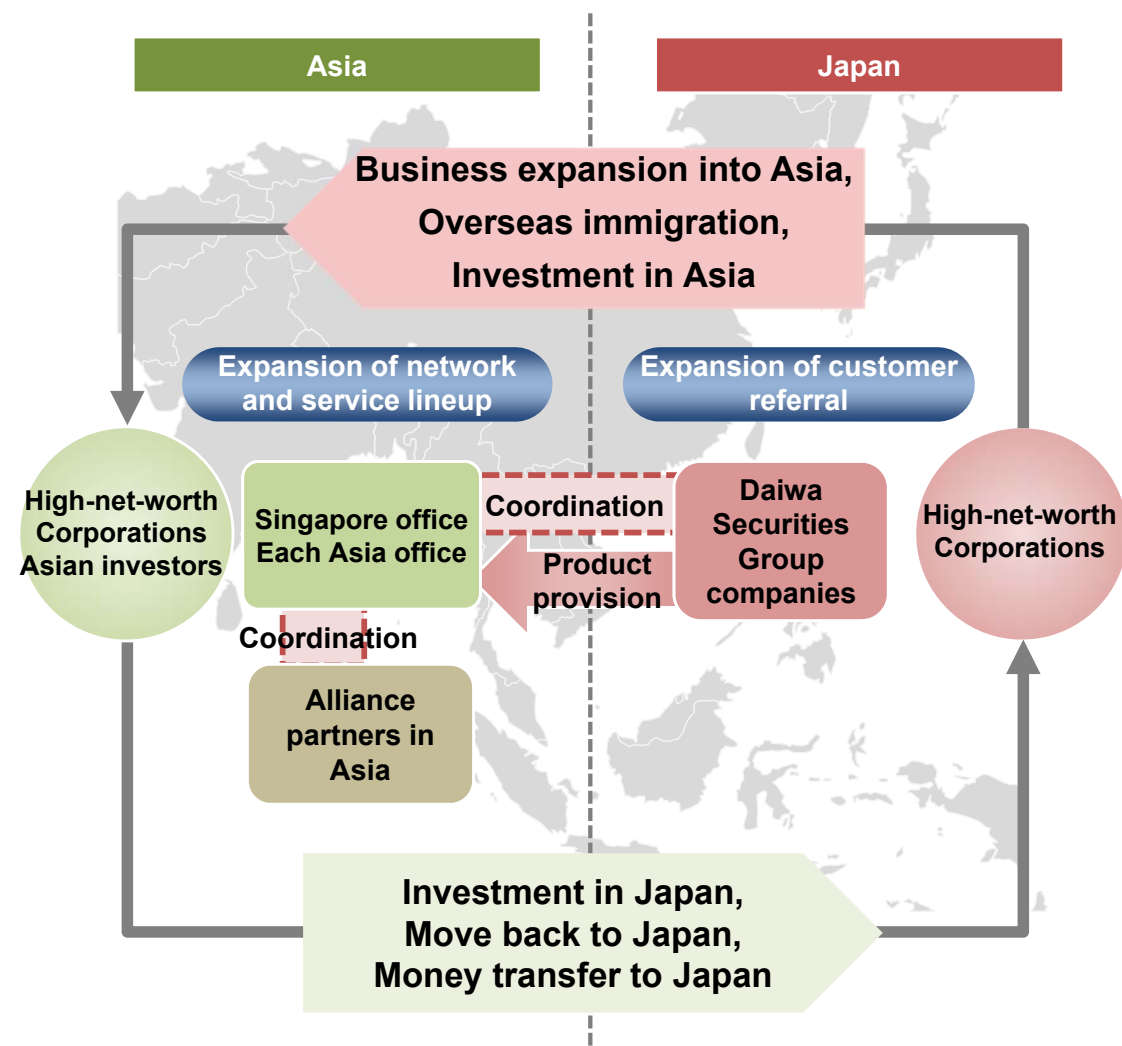
大和ファンド・コンサルティング  
Daiwa Fund Consulting

# Foundation for Establishing Wealth Management Business

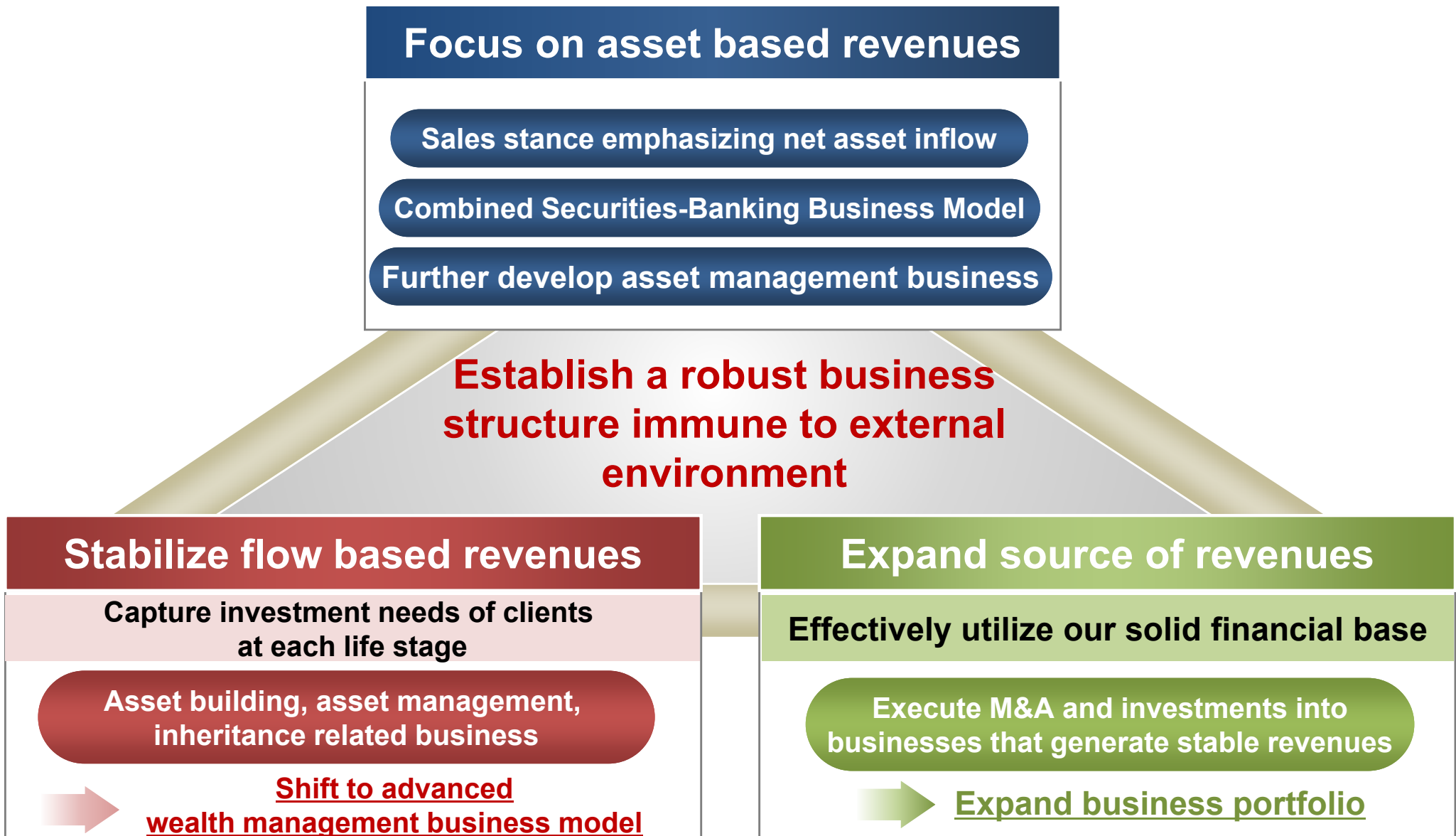
## Expansion of Wrap Account Services



## Utilizing Our Global Network (Asia Private Banking Service)



# Our Aimed Profit Structure



## Appendix

# Further Enhancement of the Corporate Governance Structure

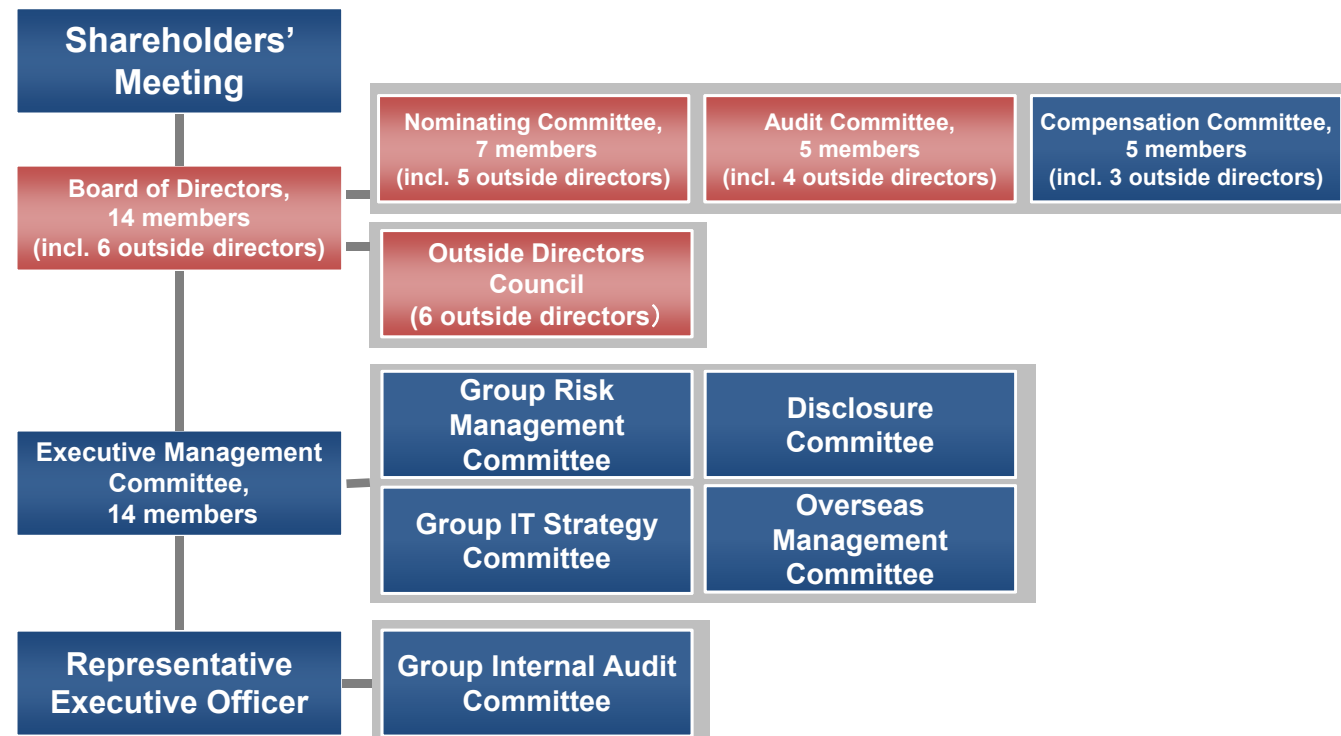
## History of Daiwa's Corporate Governance

June 1998	Elected Outside Auditors
April 1999	Became the first listed Japanese company to adopt a holding company structure
	Established Advisory Board
June 2000	Established Group Management Committee
	Established Compensation Committee
June 2002	Elected outside directors
June 2002	Shortened director's term of office from 2 years to 1 year
July 2003	Established Internal Control Committee
June 2004	Shifted to a Committee System (currently, a company with "Three Committees System")
October 2015	<b>Complied to the Corporate Governance Code</b>
	<b>Established Outside Directors Council</b>

## Enhancement of Corporate Governance Structure after FY2015

- Established "Outside Directors Council" in October 2015 for the purpose of increased communication amongst outside directors
- Decided that for Board of Directors, more than 2 members and more than one-third of the members should be independent outside directors.
- For FY2016, plans to elect one additional outside director and 6 out of 14 board of director candidates as outside directors.

## Proposed Corporate Governance Structure for FY2016





**Daiwa Securities Group Inc.**

**Investors Relations**

**TEL: +81-3-5555-1300 FAX: +81-3-5555-0661**

**E-mail: [ir-section@daiwa.co.jp](mailto:ir-section@daiwa.co.jp)**

**URL: <http://www.daiwa-grp.jp/ir/english>**