

Daiwa Securities Group Inc. 1H FY2016 Management Strategy Update

November 8th, 2016

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Daiwa Securities Group Inc.

Daiwa Securities Group

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1H FY2015 Management Strategy Update

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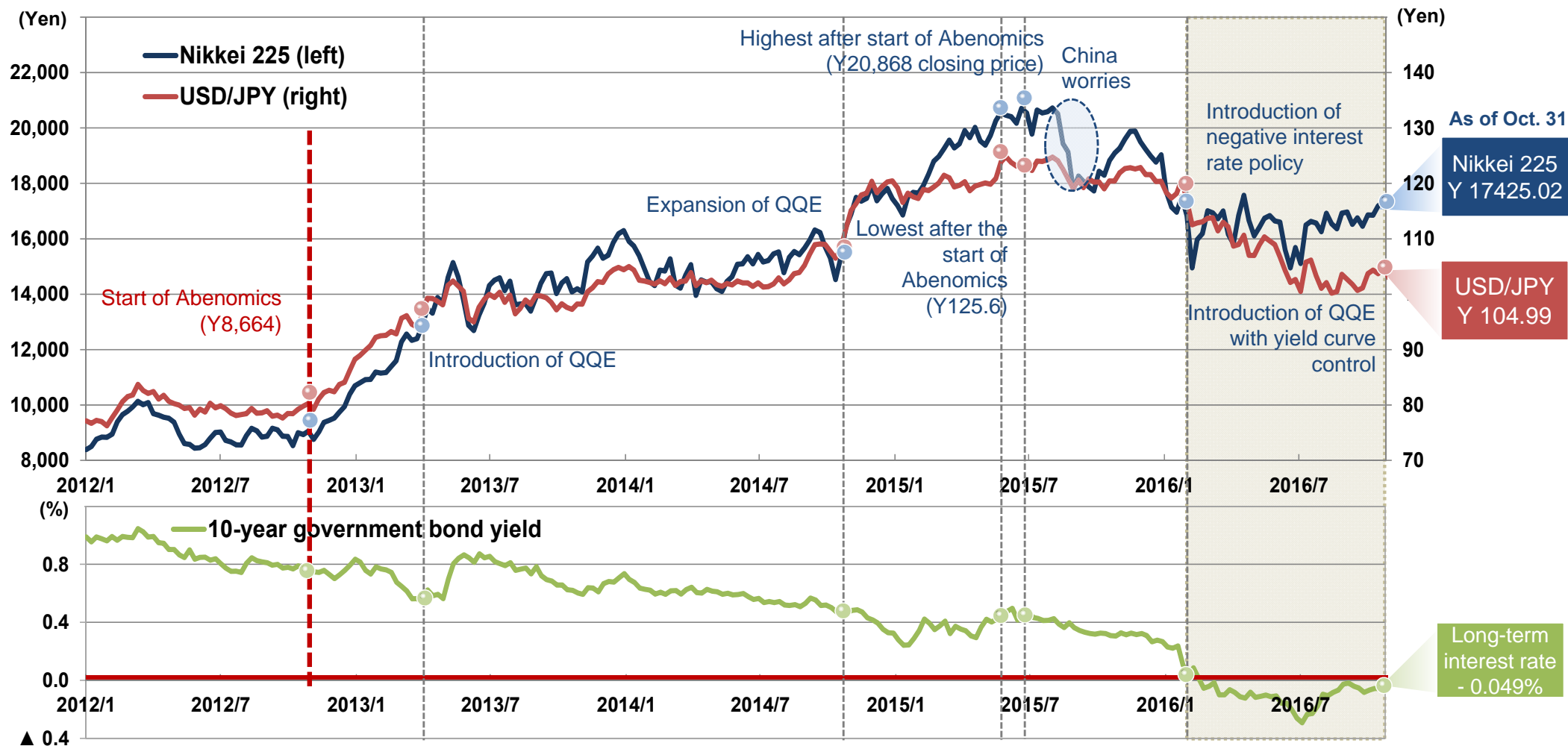
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I - Business Environment

Business Environment ①

- Adjustment phase of equity market continued amid severe environment such as concerns of global economic slow down, strong yen, and unexpected Brexit.

Nikkei 225, USD/JPY (upper chart), 10-year Government Bond Yield (lower chart) (weekly from Jan. 2012)

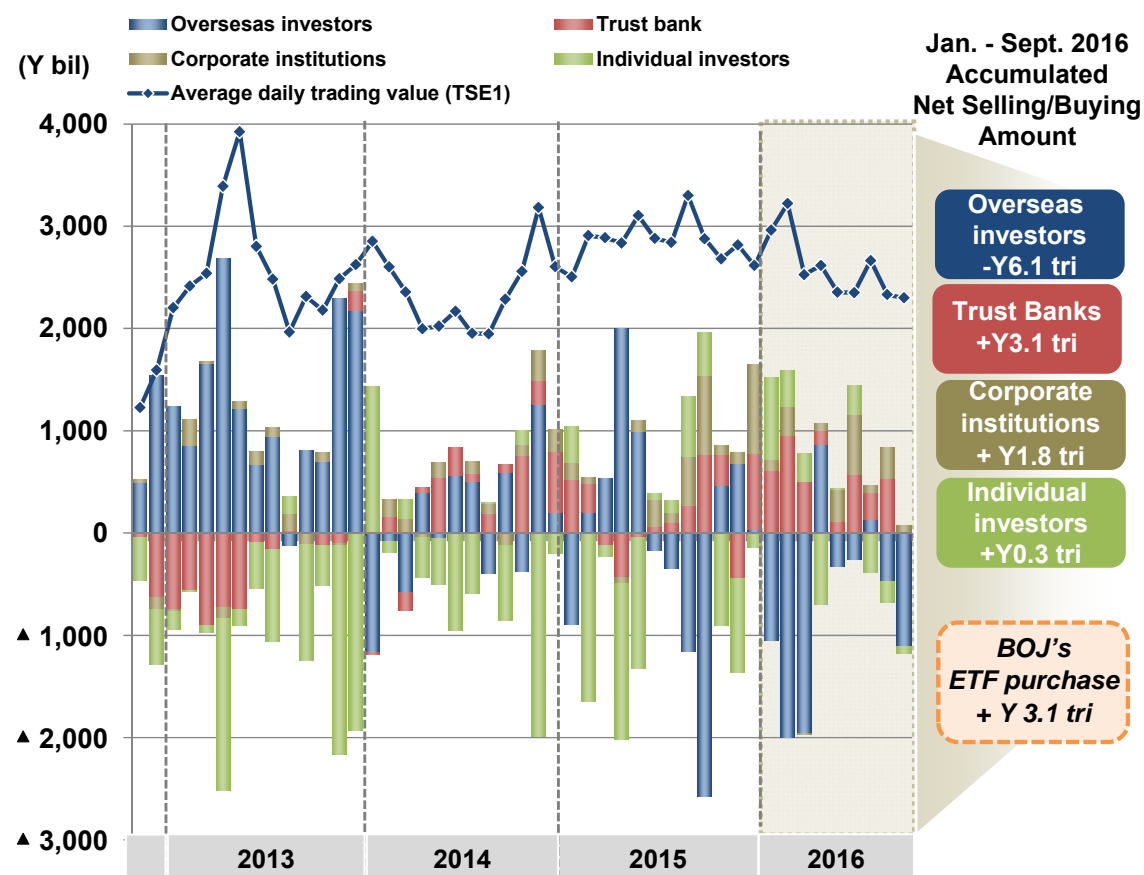


Business Environment ②

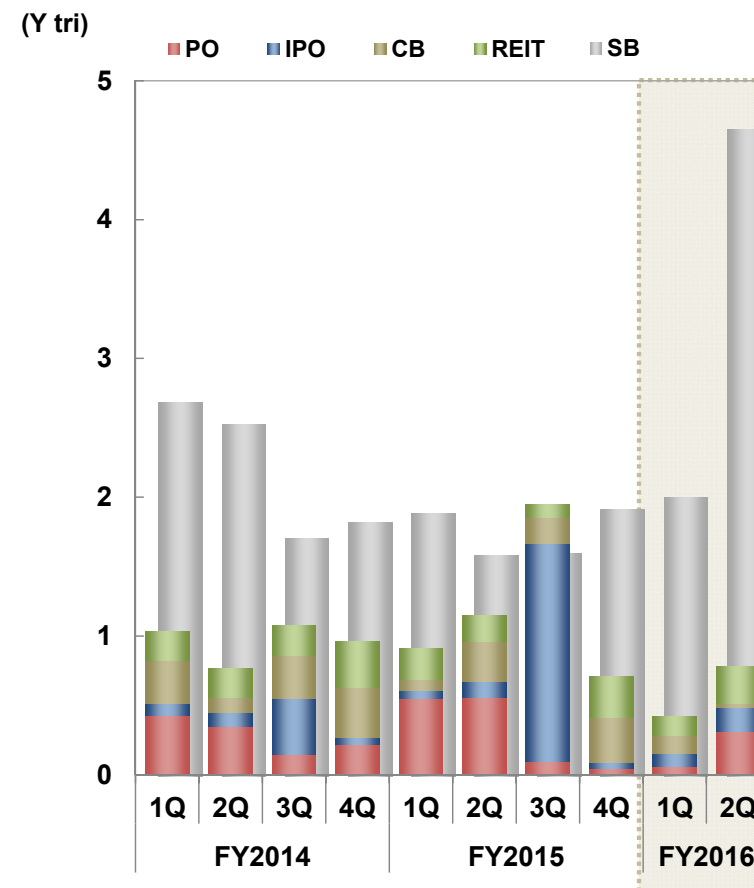
- While overseas investors continued to sell Japanese stocks, BOJ (purchasing ETF), trust bank (pension funds and institutional investors), and corporate institutions (share buyback, etc.) underpinned the stock market.
- Amount of debt issuance is at a historically high level amid the negative interest rate environment; on the other hand, activities in equity capital markets remained at low level.

Net Share Transaction by Investor Group*

*Cash stock trading on 1st and 2nd sections of Tokyo and Nagoya stock exchanges for selected investor groups



Domestic Primary Market

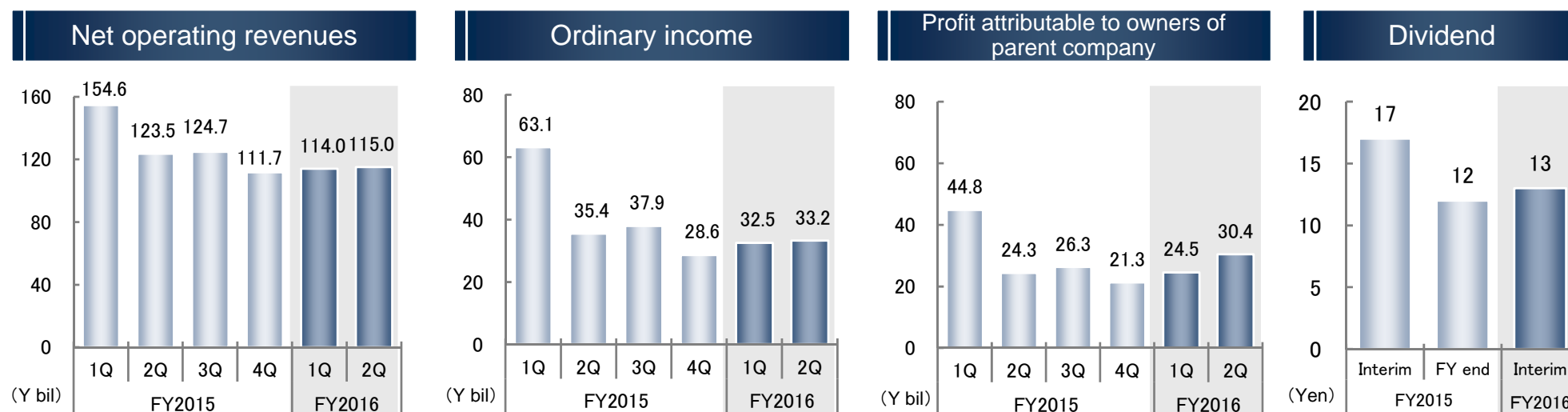


II - 1H FY2016 Overview

1H FY2016 Consolidated Results

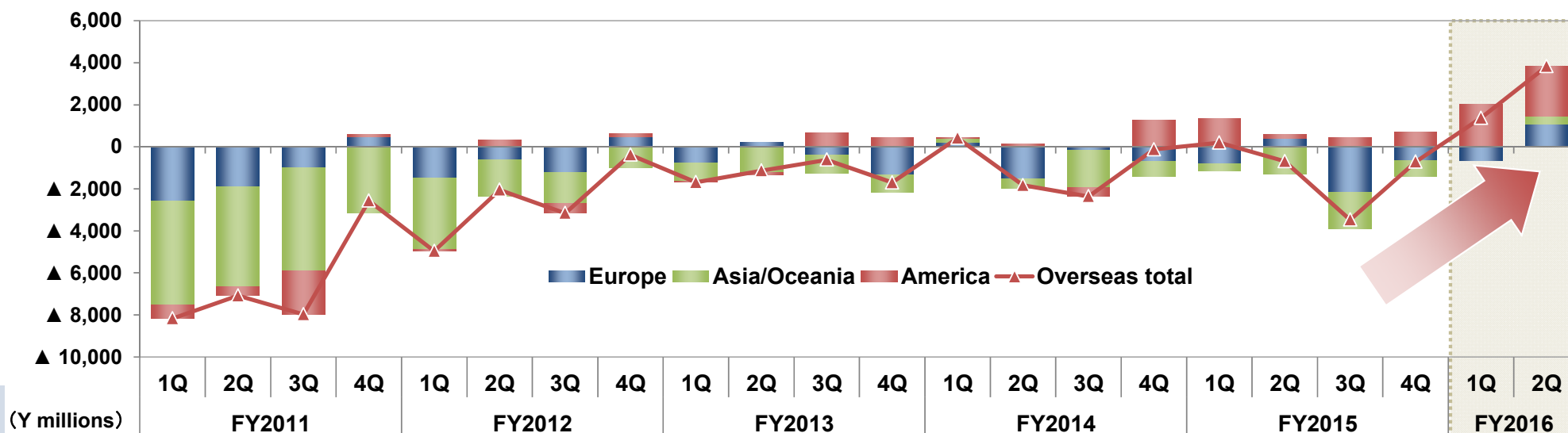
- Consolidated net operating revenues: Y229.1bil, Ordinary income: Y65.7bil, Profit attributable to owners of parent company: Y55.0bil in 1H FY2016.

(Y mil)	Net operating revenues			Ordinary income			Profit attributable to owners of parent company		
	FY2015 (2H)	FY2016 (1H)	% change vs 2H FY2015	FY2015 (2H)	FY2016 (1H)	% change vs 2H FY2015	FY2015 (2H)	FY2016 (1H)	% change vs 2H FY2015
Retail	96,210	88,734	-7.8%	18,874	11,163	-40.9%			
Wholesale	82,372	89,333	8.5%	19,263	32,101	66.6%			
Global Markets	66,479	72,394	8.9%	20,258	28,671	41.5%			
Global Investment Banking	15,892	16,939	6.6%	-995	3,269	-			
Asset Management	22,965	23,052	0.4%	13,192	13,421	1.7%			
Investments	13,783	10,681	-22.5%	12,557	9,597	-23.6%			
Consolidated total	236,572	229,145	-3.1%	66,579	65,794	-1.2%	47,665	55,014	15.4%



Improvement of Overseas Operation

Overseas Ordinary Income - turning into the black and contributed to consolidated results -



Americas

- FICC business continued to be a main revenue driver as it was in last fiscal year.
- Expansion of U.S. equity traders by Japanese individual investors pushed up equity revenues.

Europe

- Increase of client activity and efficient position management contributed to FICC revenue growth.
- DC Advisory continued to perform strongly. Pipeline of cross-border deals with Asia increased.

Asia / Oceania

- Turned into the black for the first time in eight quarters owing to cost cutting efforts and revenues from private banking business in Asia.
- Increased investment in Saigon Securities (Vietnam) and it became equity method affiliated company. Closed a joint M&A deal with Saigon Securities for the first time.
- A third company was listed on the Yangon Stock Exchange in August, following the first company listed in March (Daiwa acted as a lead manager for both companies).

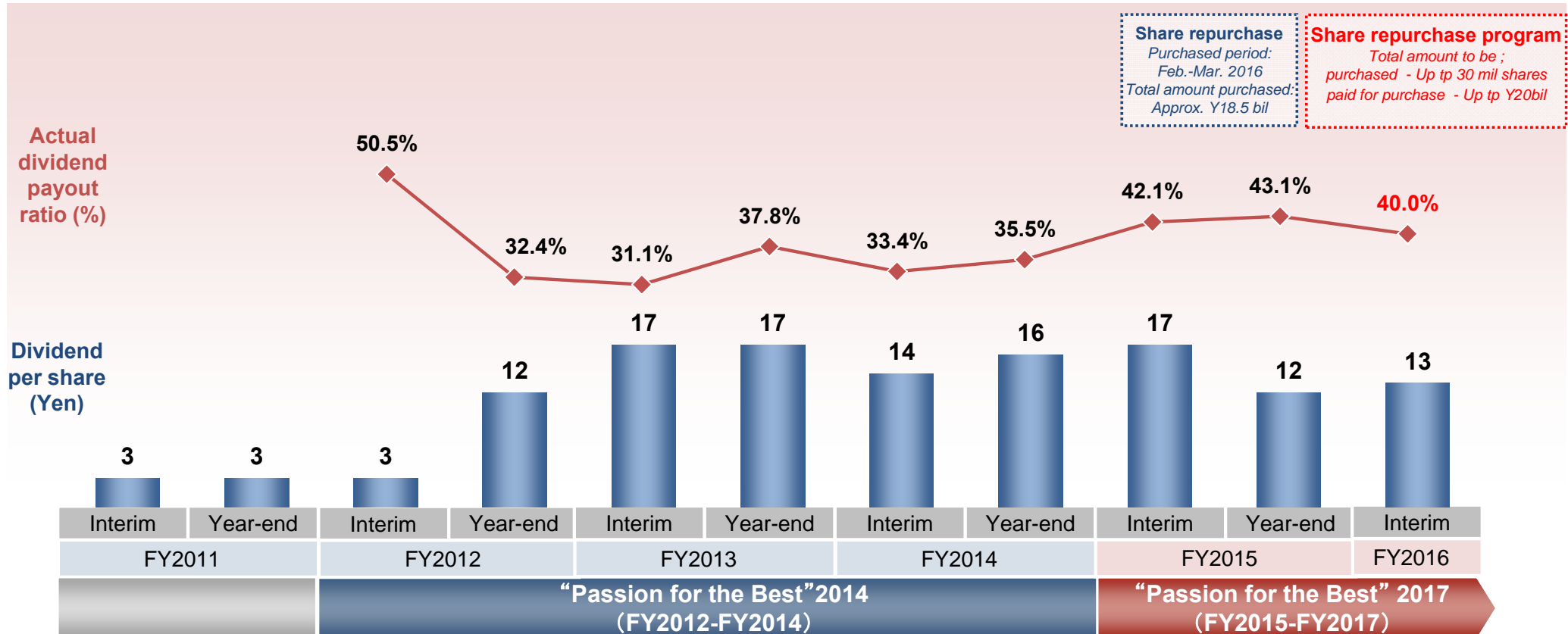
Shareholder Returns

Interim Dividend

- FY2016 interim dividend: Y13, dividend payout ratio: 40%

Share Repurchase Program

- Date of resolution: October 28, 2016
- Total number of shares to be purchased: Up to 30 mil, 1.77% of total shares outstanding (excluding treasury stock).
- Total amount to be paid for repurchase: Y20 bil






Progress of Medium-Term Management Plan (Numerical Targets)

ROE: 10% or more

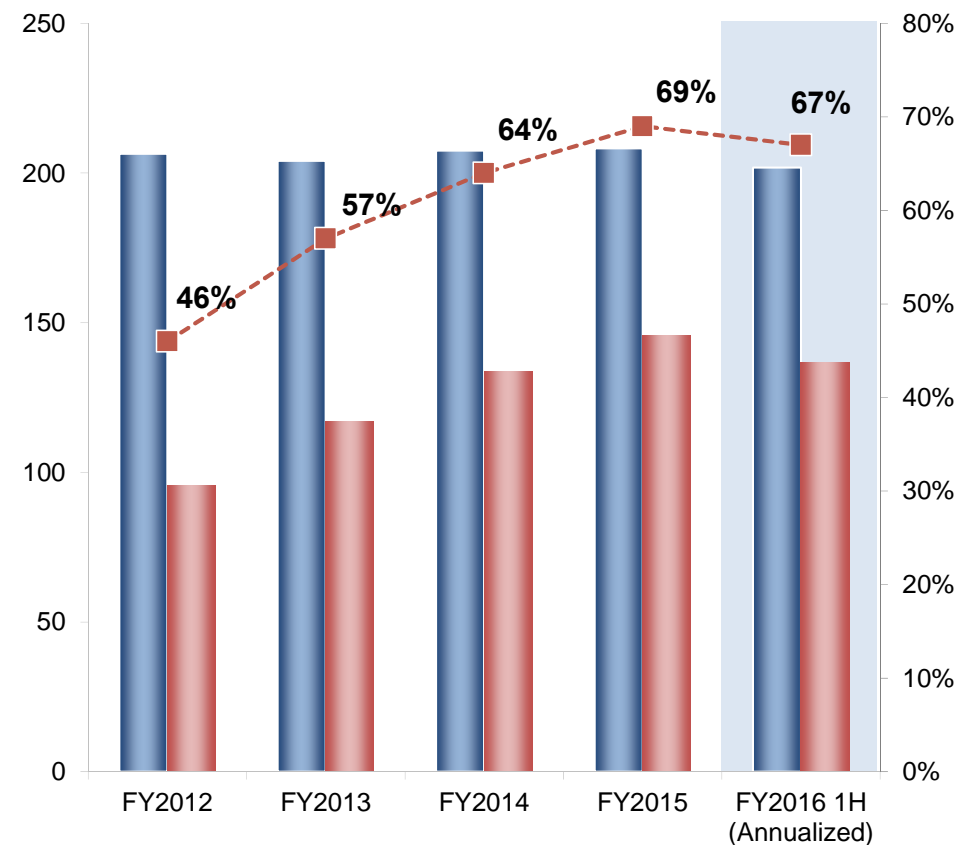
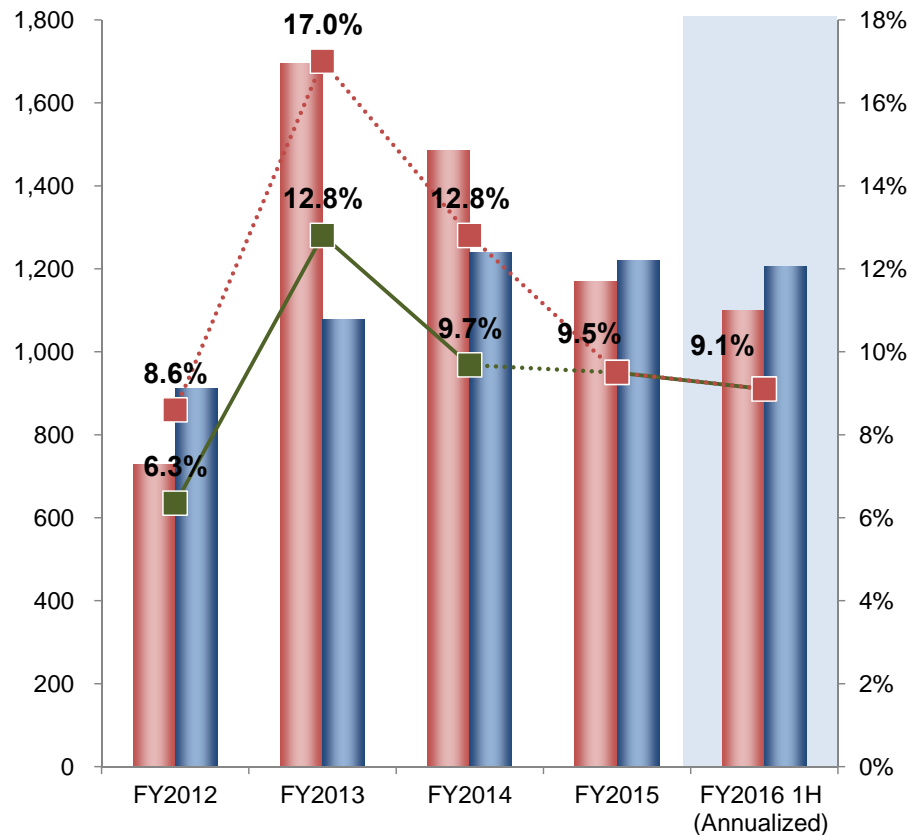
Fixed Cost Coverage Ratio:
75% or more in the final fiscal year (FY2017)

 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 :

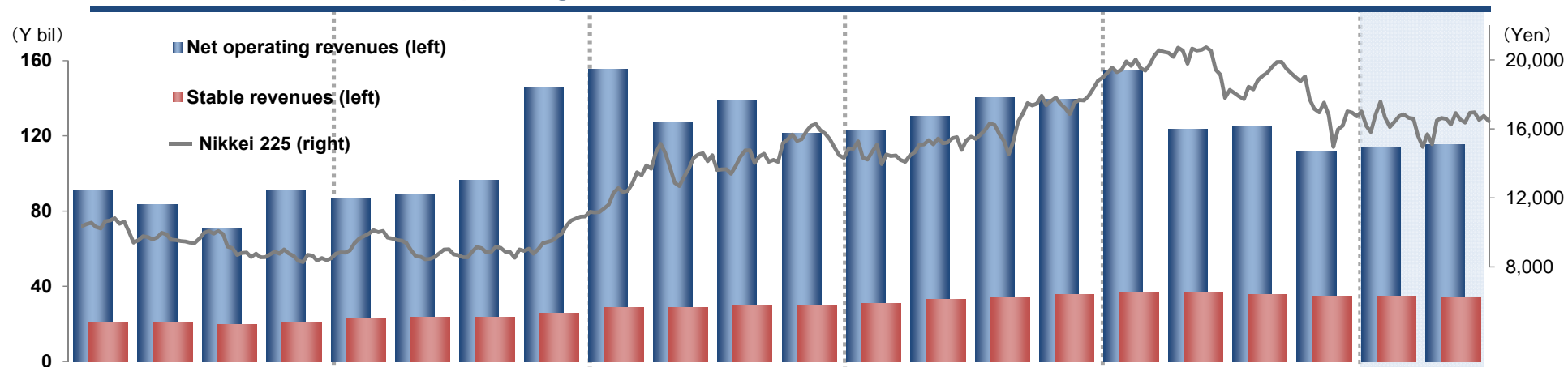
AM Management fees (including investment advisory fees), agency fees, Daiwa Next Bank profit margins, Daiwa Office Investment net operating revenues, Daiwa Real Estate AM management fees, management fees on SMA/Fund Wrap, interest fees on margin, interest fees on LMS etc.



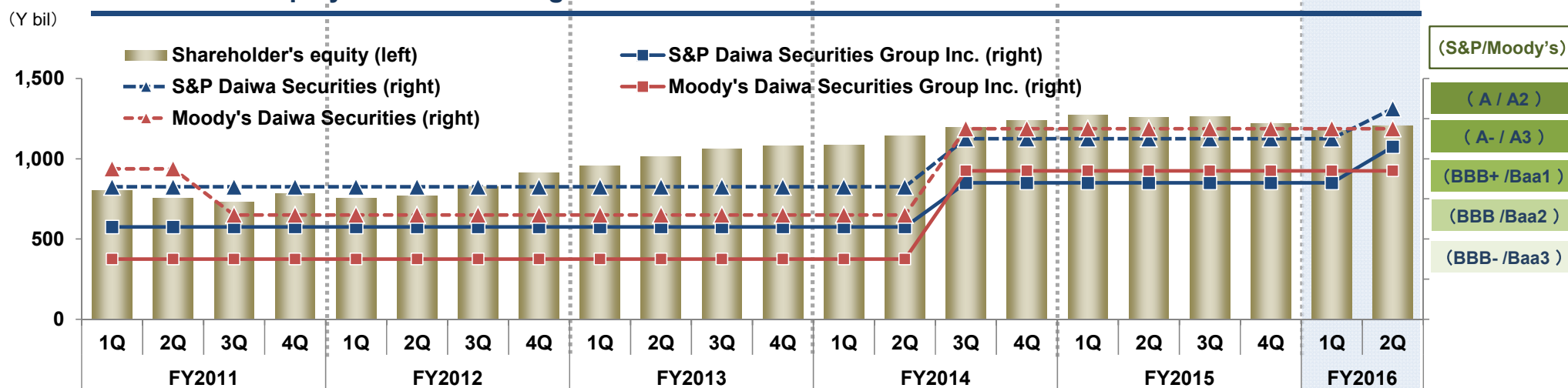
Establish a Further Robust Business Structure

Established a business structure that can avoid drastic revenue fall even under deteriorated market condition
Credit rating by S&P was upgraded to the A zone for the first time since moving to holding company structure

FY2011.1Q – FY2016.2Q Net operating revenues and stable revenues



Shareholder's equity and Credit ratings

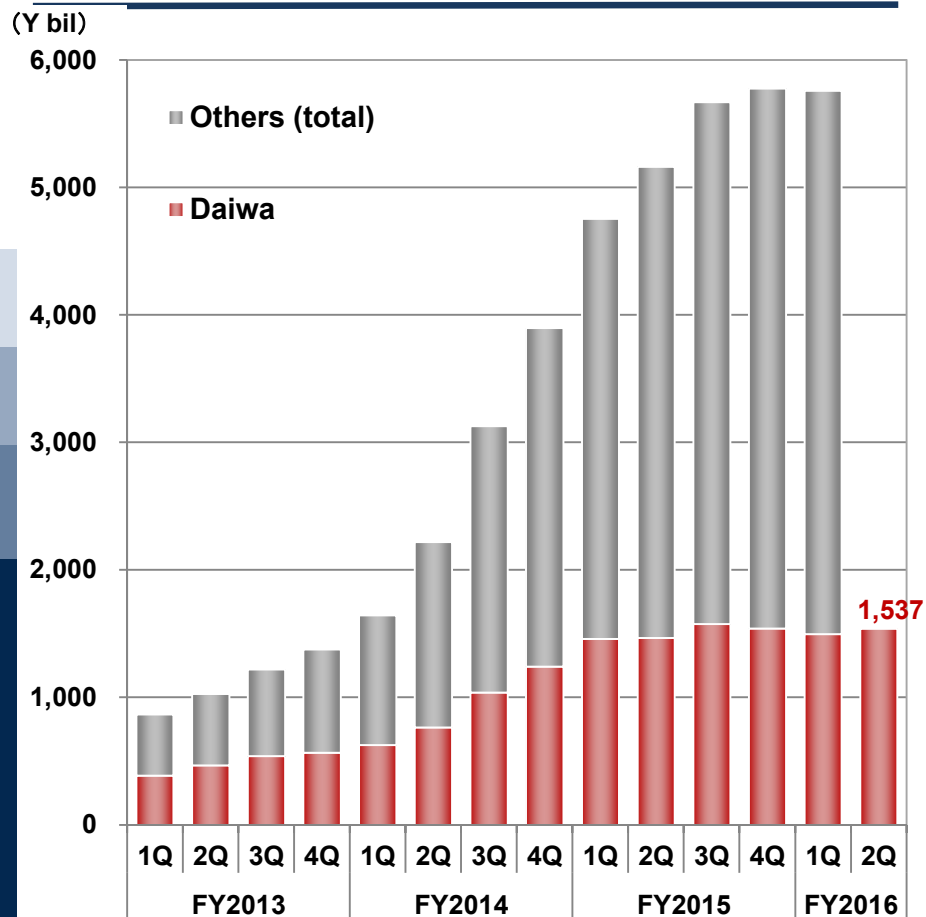


Ⅲ - Progress of Individual Strategies

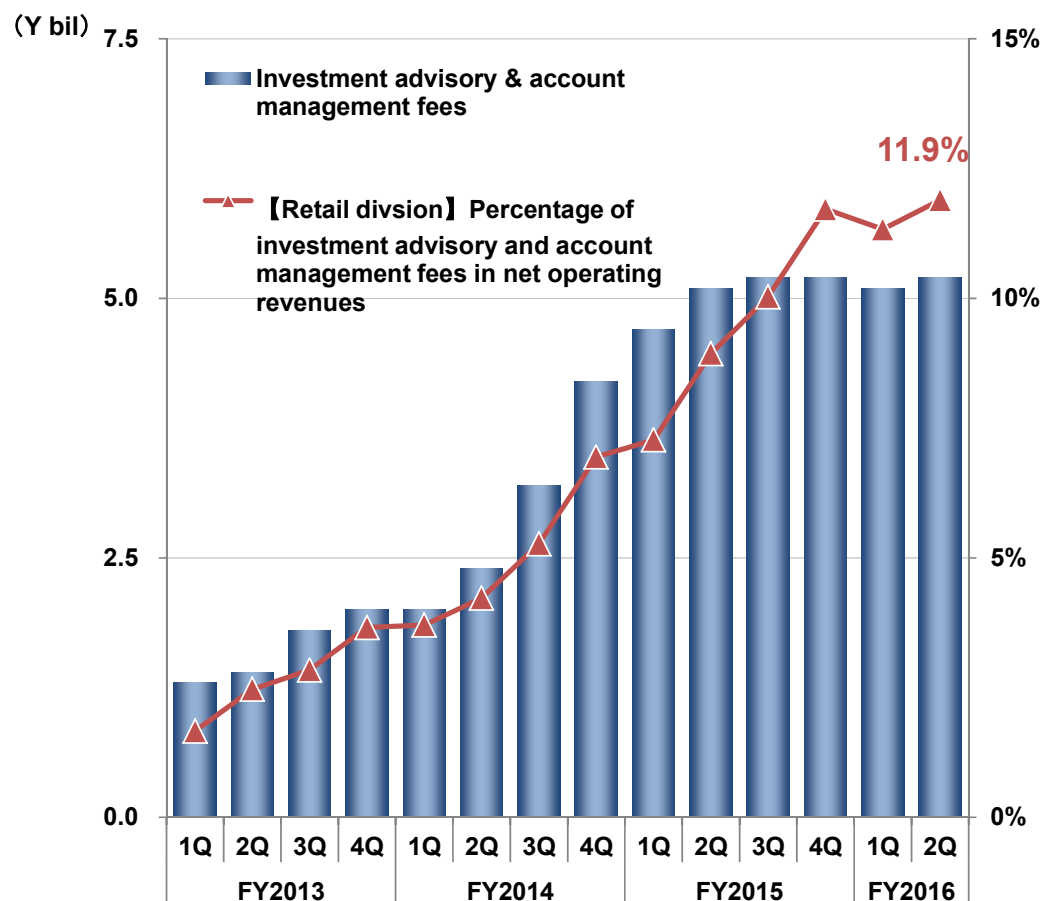
Expansion of Stable Revenue Base by Wrap Account Service

- Despite challenging market condition, Y1.5 tri of a total contract assets was maintained by net inflow.
- Contribution by wrap related revenues (investment advisory & account management fees) to the net operating revenues of Retail Division increased to 11.9%.
- As customer needs became more diversified and sophisticated amid expanding domestic wrap account market, we introduced “Daiwa Fund Wrap Premium” from October 3rd, with the highest functionality in the industry.

Contract Assets of Wrap Account Service



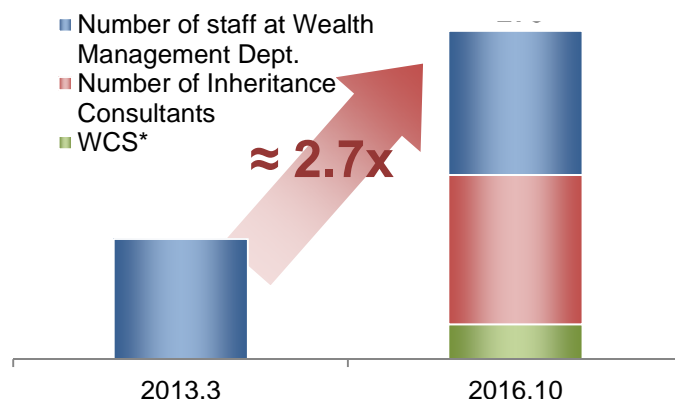
Contribution of Wrap Related Revenues (investment advisory & account management fees) to Net Operating Revenues



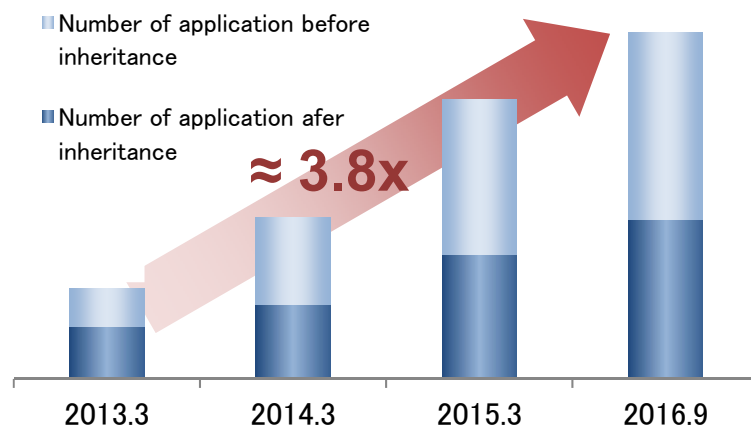
Strengthening Inheritance Related Business

- Target to capture more client assets through inheritance consulting and cater to business succession needs by adding more professionals to inheritance related business.

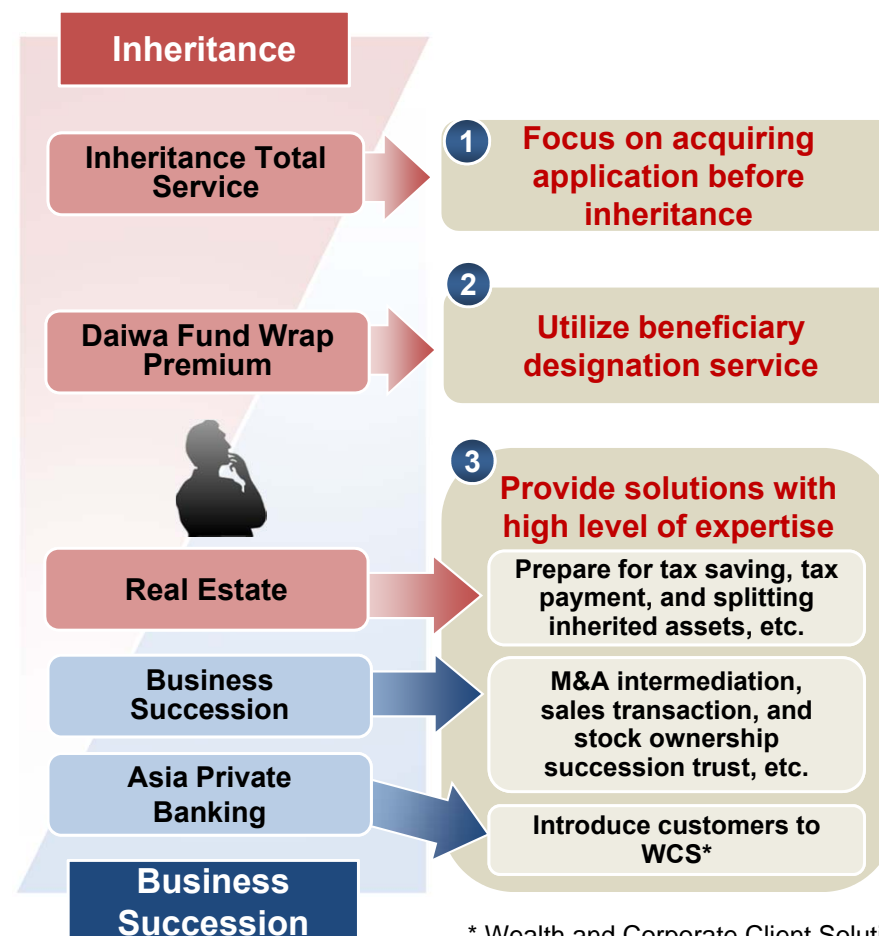
Inheritance Business Related Personnel



Cumulative Number of Use of Inheritance Total Service



Areas to Strengthen in Inheritance Related Business

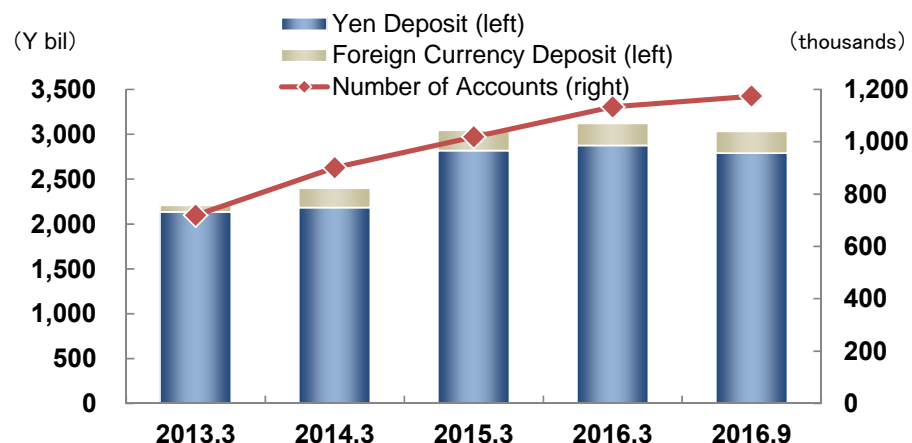


* Wealth and Corporate Client Solutions
Based in Singapore, Hong Kong, Thailand

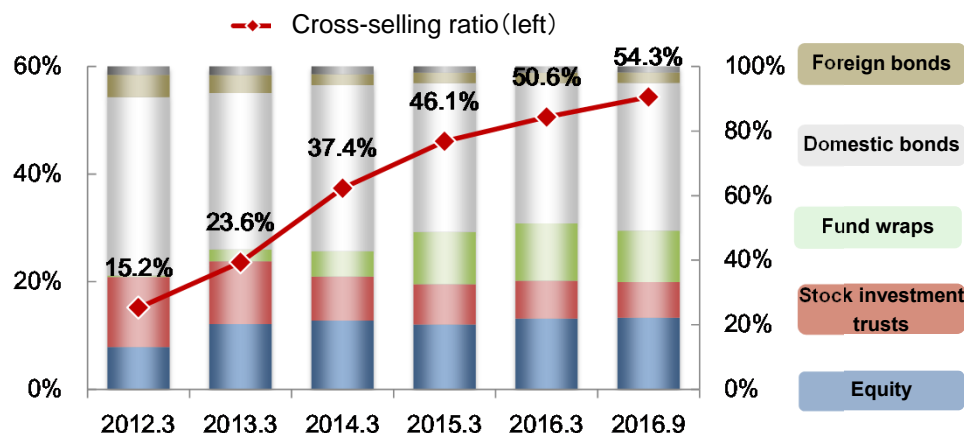
Further Development of the Combined Securities-Banking Business Model

- Cross-selling ratio* rose to 54.3%, while yen deposit balance remained flat under negative interest rate environment.
- Focus on expanding foreign currency deposit balance through strategic use of special-offer rate.

Daiwa Next Bank: Deposit Balance and Number of Accounts



Cross-selling Ratio* and Purchased Products (Total)



Expand Foreign Currency Deposit Balance

Introduction of new foreign currency service

- Daiwa Smart Deposit
- Foreign Currency Delivery Service

Offer special-offer rate through campaigns

Enhanced convenience

- Online account openings

ダイワのネットde 外貨預金キャンペーン

★キャンペーン期間★
平成28年9月26日(月)～12月30日(金)

〇プレゼント条件〇
「特典①」平成28年9月26日(月)以降に外貨預金口座を開き、キャンペーン期間中にインターネット経由で外貨定期預金(6ヶ月・1年)※をお預入れいただいた個人のお客さま全員にプレゼント!

「特典②」さらに、特典①の条件を満たすお預入れが、最低預入率※の10倍以上のお客さま全員にプレゼント!

※最大5,000円プレゼント!

特典① もれなく 1,000円プレゼント

特典② さらに 4,000円プレゼント

※1: 外貨定期預金(6ヶ月・1年)の申し込みは、インターネット経由での申し込みが可能です。
※2: 最低預入率: 6ヶ月・1年: 100万円以上(100万円未満は、ネット経由での申し込みはできません)

2016秋のスマホポキャンペーン

★キャンペーン期間★
平成28年10月11日(土)～12月30日(金)

〇プレゼント条件〇
キャンペーン期間中にスマホポを申し込み、平成29年1月16日(月)までにカードを発行されたお客さま全員にプレゼント!

外貨預金からチャージして使える
海外アプリ決済もOK!

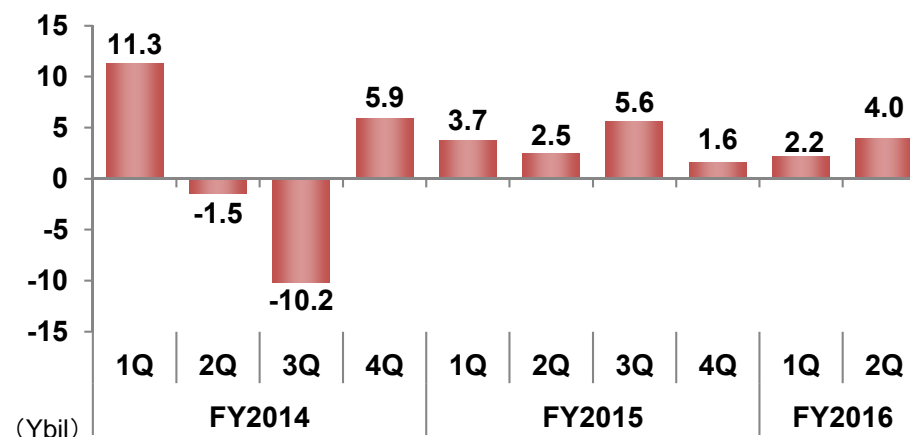
DAIWA SMART DEPOSIT スマホポ

もれなく 10米ドルプレゼント

※「DAIWA SMART DEPOSIT」(運用・決済)は株式会社 Daiwa Next Bank 提供です。
以下、スマートフォンアプリをインストールする必要があります。

Net Increase of Foreign Currency Deposit

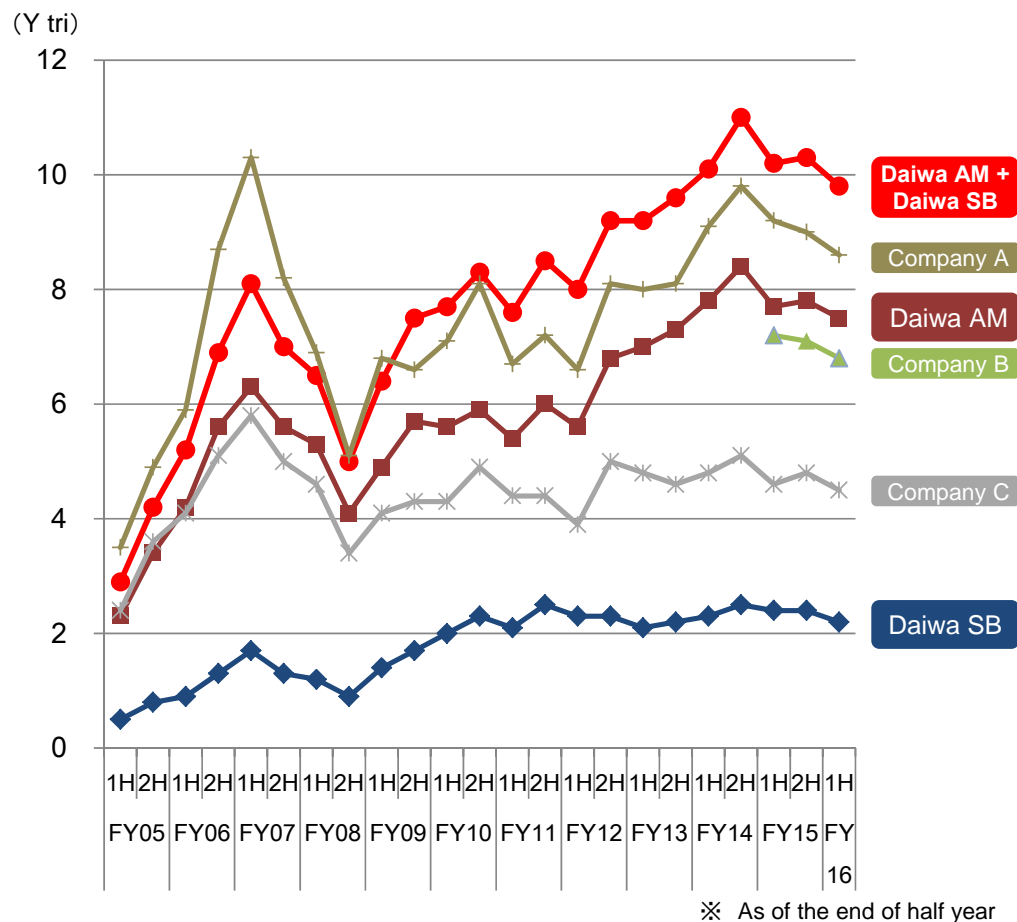
(Retail Division of Daiwa Securities, monthly average)



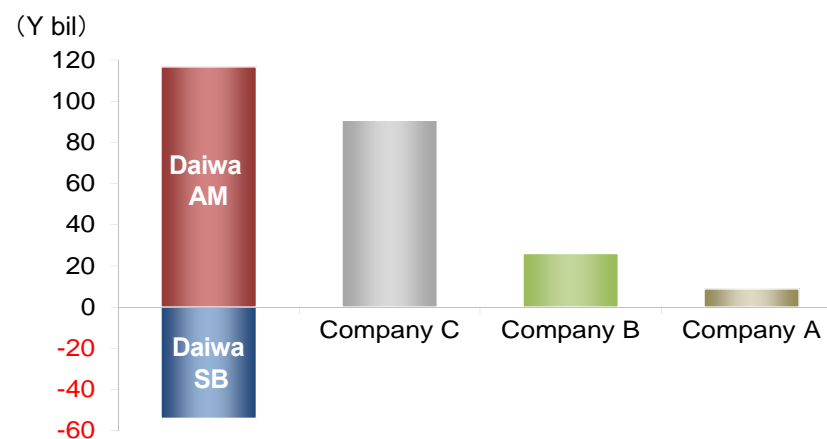
Improvement of Asset Management Abilities (Investment Trusts)

- Total AUM of publicly offered 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 amid difficult market conditions.
- Daiwa AM set up MSCI Japan Human and Physical Investment Index ETF in order to expand investors base and to provide product suitable for long-term asset building.

September 2005 to September 2016
AUM of Publicly Offered Stock Investment Trusts
(excluding ETF)



April to September 2016
Net Asset Inflow of Publicly Offered Stock Investment Trusts
(excluding ETF)



MSCI Japan Human and Physical Investment Index ETFs

Name of the Fund	Net asset balance (as of Oct. 31, 2016)
Daiwa ETF MSCI Japan Human and Physical Investment Index	Y68.8 bil
DIAM ETF JPX/S&P CAPEX & Human Capital Index	Y65.3 bil
NEXT FUNDS Nomura Enterprise Value Allocation Index Exchange Traded	Y9.5 bil
iShares JPX/S&P CAPEX & Human Capital ETF	Y8.1 bil
MAXIS JAPAN Proactive Investment in Physical and Human Capital 200 Index ETF	Y3.8 bil
Listed Index Fund Japanese Economy Contributor Stocks	Y2.9 bil

Improvement of Asset Management Abilities (Real Estate and Infrastructure)

- IDI infrastructures launched the 3rd Fund, which is expected to become the largest fund that focuses on energy infrastructure sector in Japan (equity size: Y48.4bil as of the end of Sept.).
- AUM of real estate and infrastructure asset management business exceeded Y800bil as of the end of September through expansion of investment into offices, residences, health care facilities, and logistics facilities.

Japan's Largest Energy/Infrastructure Fund

IDI IDI infrastructures

IDI infrastructure #3 Limited Liability Partnership

Corporations, financial institutions, and pension funds, etc.

Financial institutions

Equity
Y48.4 bil

Loan

Investment
(few hundred bil yen size)

Investment and loan towards energy business etc. in Japan and Asian region



Hydroelectric power plant



Gas fired power plant

※Photographs shown are investments of existing funds, not of the new fund.

Reference:

IDI infrastructures #1 Limited Liability Partnership

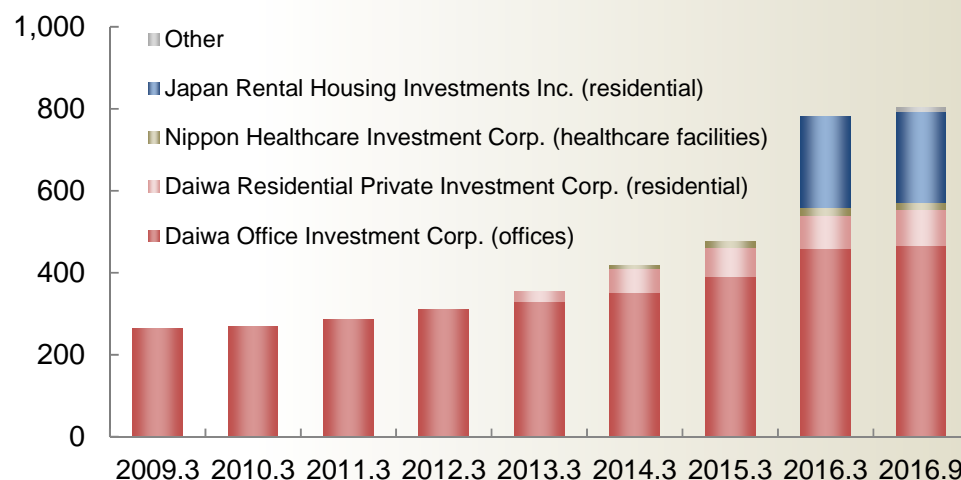
Fund size: Y4.04 bil, Year launched: 2008

IDI infrastructures #2 Limited Liability Partnership

Fund size: Y16.77 bil, Year launched: 2011

AUM of Real Estate and Infrastructure AM Business

(Y bil)



Expansion of AUM

Office (J-REIT)

Residence (Private REIT)

大和リアル・エステート・アセット・マネジメント

Daiwa Real Estate Asset Management

Healthcare facility (J-REIT)

Logistics
(Private Fund)

Residence (J-REIT)

Diversification of investment class

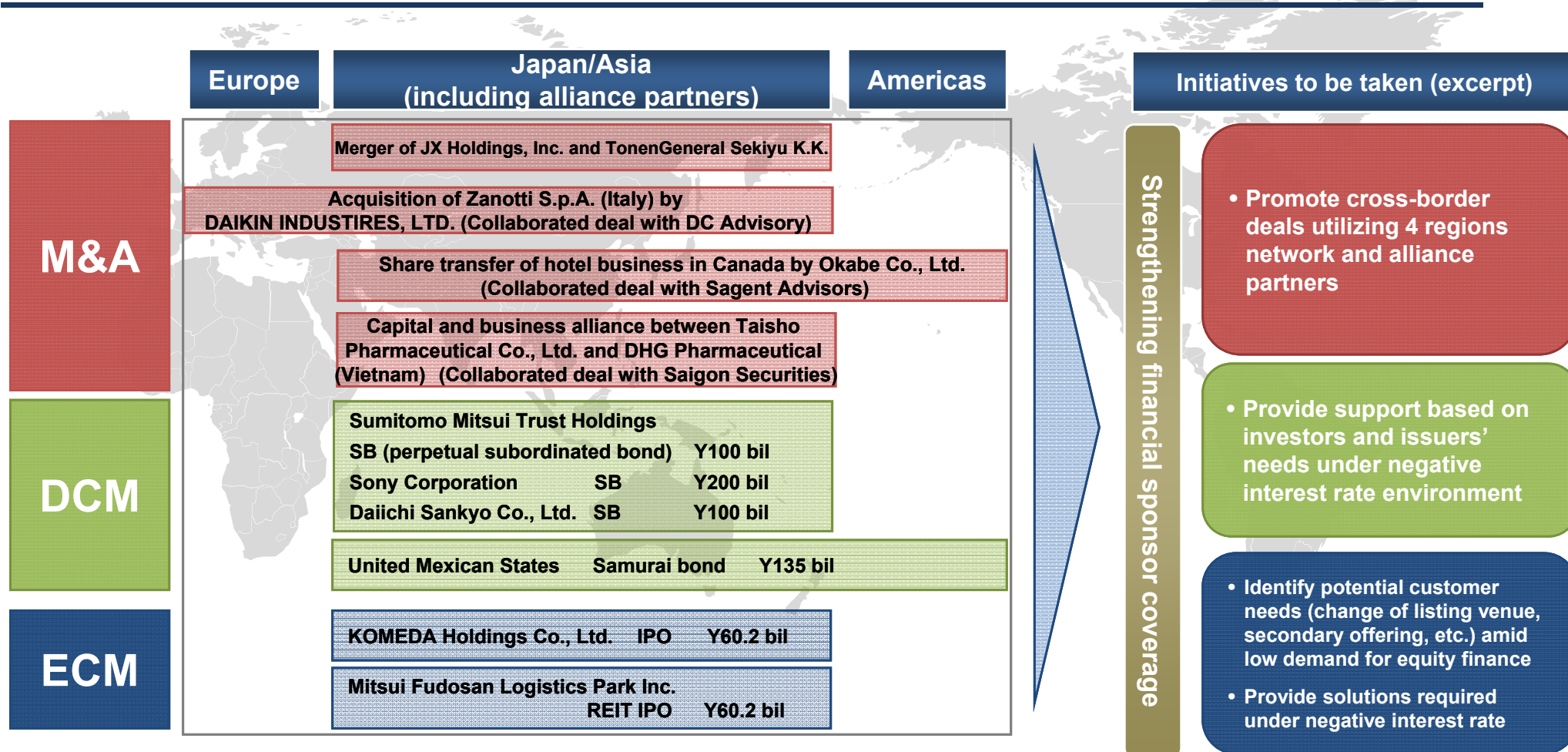


株式会社ミカサ・アセット・マネジメント
Mi-Casa Asset Management Inc.

Identify and Develop Next Generation Companies and Provide Financial Support for Growth ①

- Executed cross-border M&A deals by joint efforts with overseas offices and alliance partners.
- DCM lead managed a large-scale deal by providing proposals based on investors and issuers' needs under negative interest rate environment. As for ECM, flows of IPO and REIT deals were steady.

1H FY2016 Selected Deals in Global Investment Bank

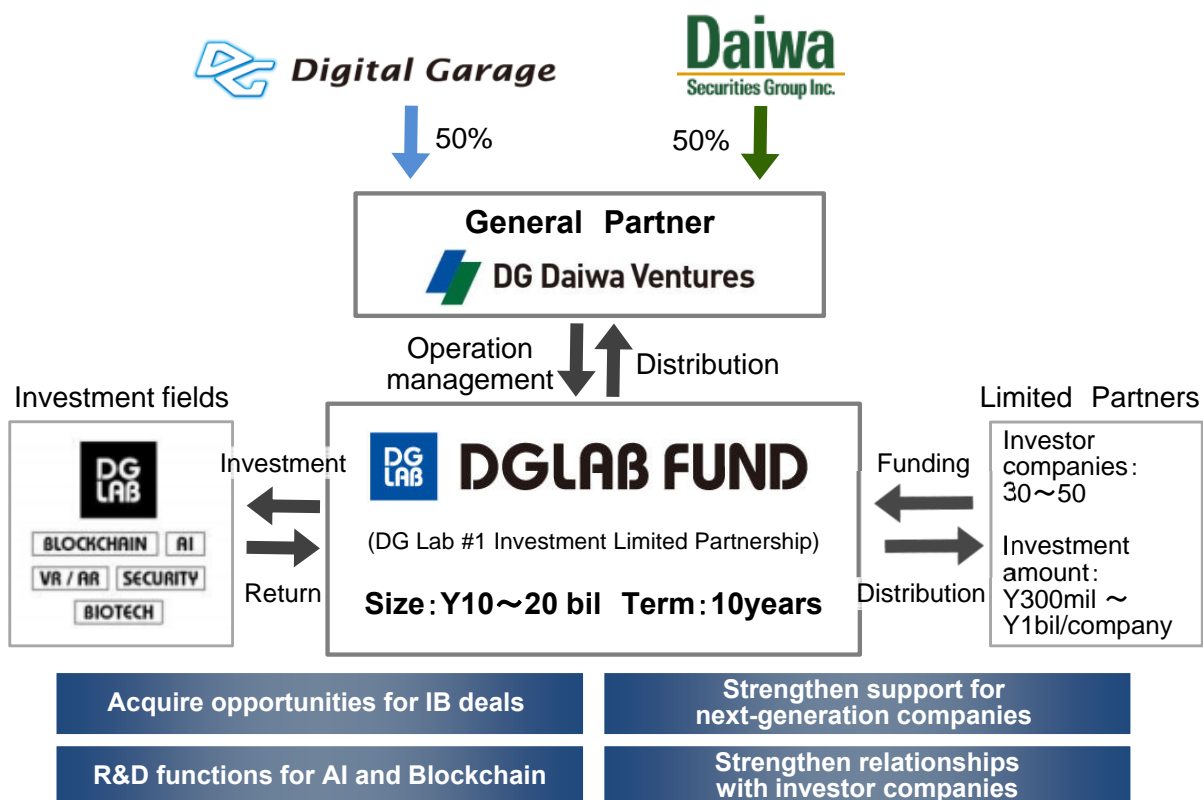


Identify and Develop Next Generation Companies and Provide Financial Support for Growth ②

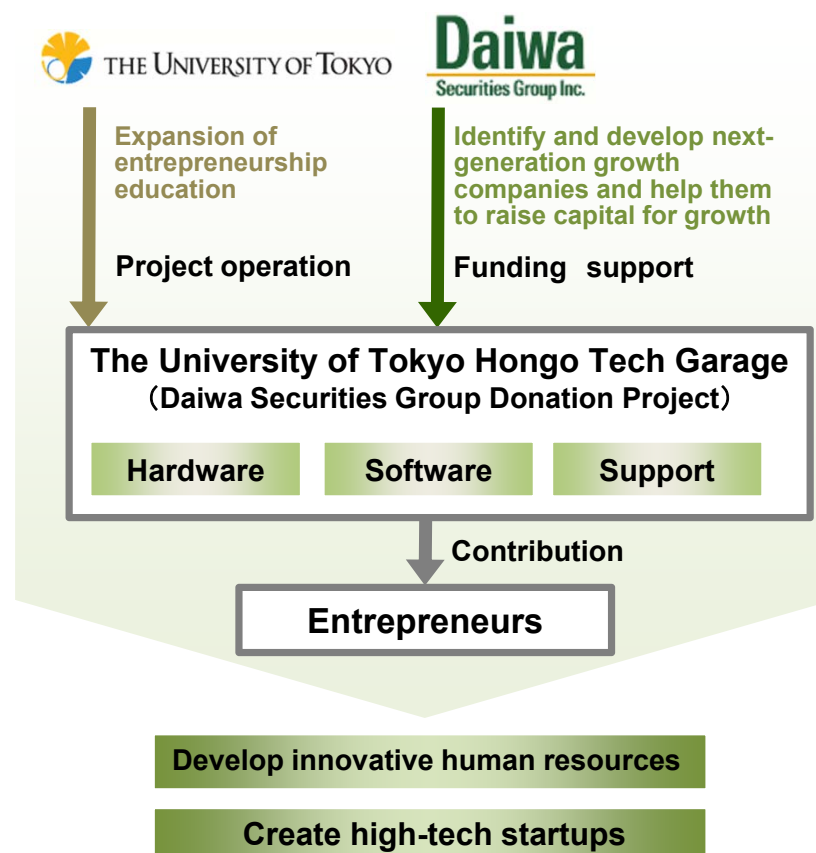
- Established “DG Daiwa Ventures (DGDV)”, an operation company for DG Lab Fund, with Digital Garage in July 2016.
- DGDV will coordinate with DG Lab, an open innovation-based R&D organization, and establish “DG Lab Fund I” which focuses on its domestic/overseas investments based on DG Lab’s five investment themes.
- Collaborated with University of Tokyo to setup industry-university cooperation project for the purpose of startups development.

Established “DG Daiwa Ventures (DGDV)”

- Five themes: Blockchain, AI, VR/AR, Security, and Biotechnology



Setup an Industry-University Cooperation Project with the University of Tokyo



IV- Strategic Themes and Approaches

Environment Surrounding Securities Industry

Low growth era

Prolonged negative
interest rate
environment

Aging society
combined with
low birth rate

Limit of
Public Pension

**Increasing needs for asset building and
wealth management through securities market**

Asset building age groups	The Wealthy / Retirees	Seniors
<ul style="list-style-type: none"> Secure income necessary for life after retirement by long term asset building as public pension is not enough to live on. 	<ul style="list-style-type: none"> Needs for designing investment portfolio based on risk tolerance (conservative to aggressive). Needs for investment overseas 	<ul style="list-style-type: none"> Needs for wealth transfer between generations through inheritance Needs for support related to inheritance procedures Wealth management needs

**From Savings to
Asset Building**
*Penetration of
“Investment for savings”*

**Wealth
Management
Business**
*Fund wrap goes
to 2nd stage*

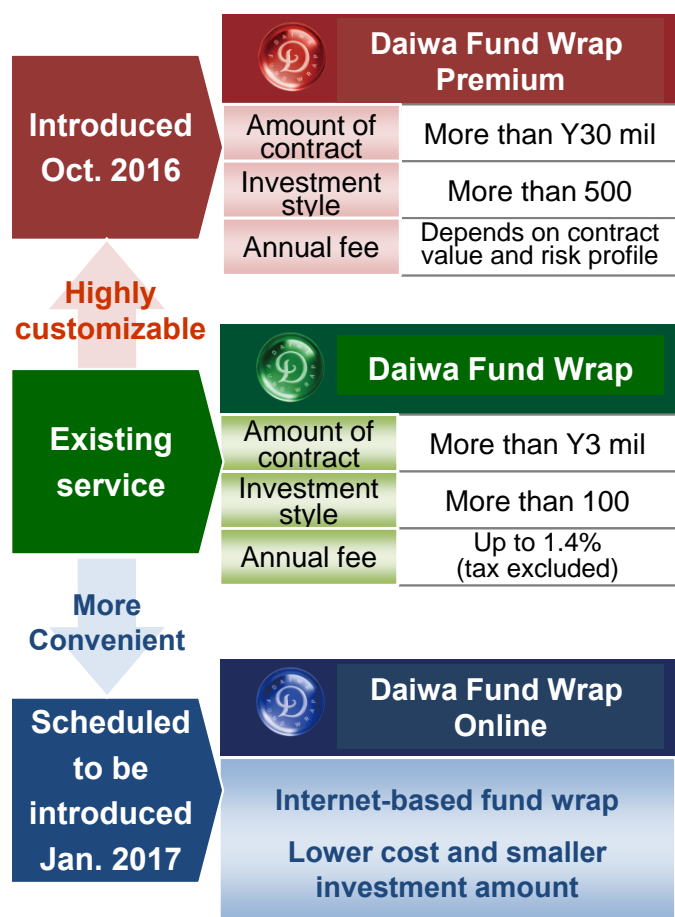
**Development
of Wealth
Management
Business
in Asia**

Strategic Themes and Approaches

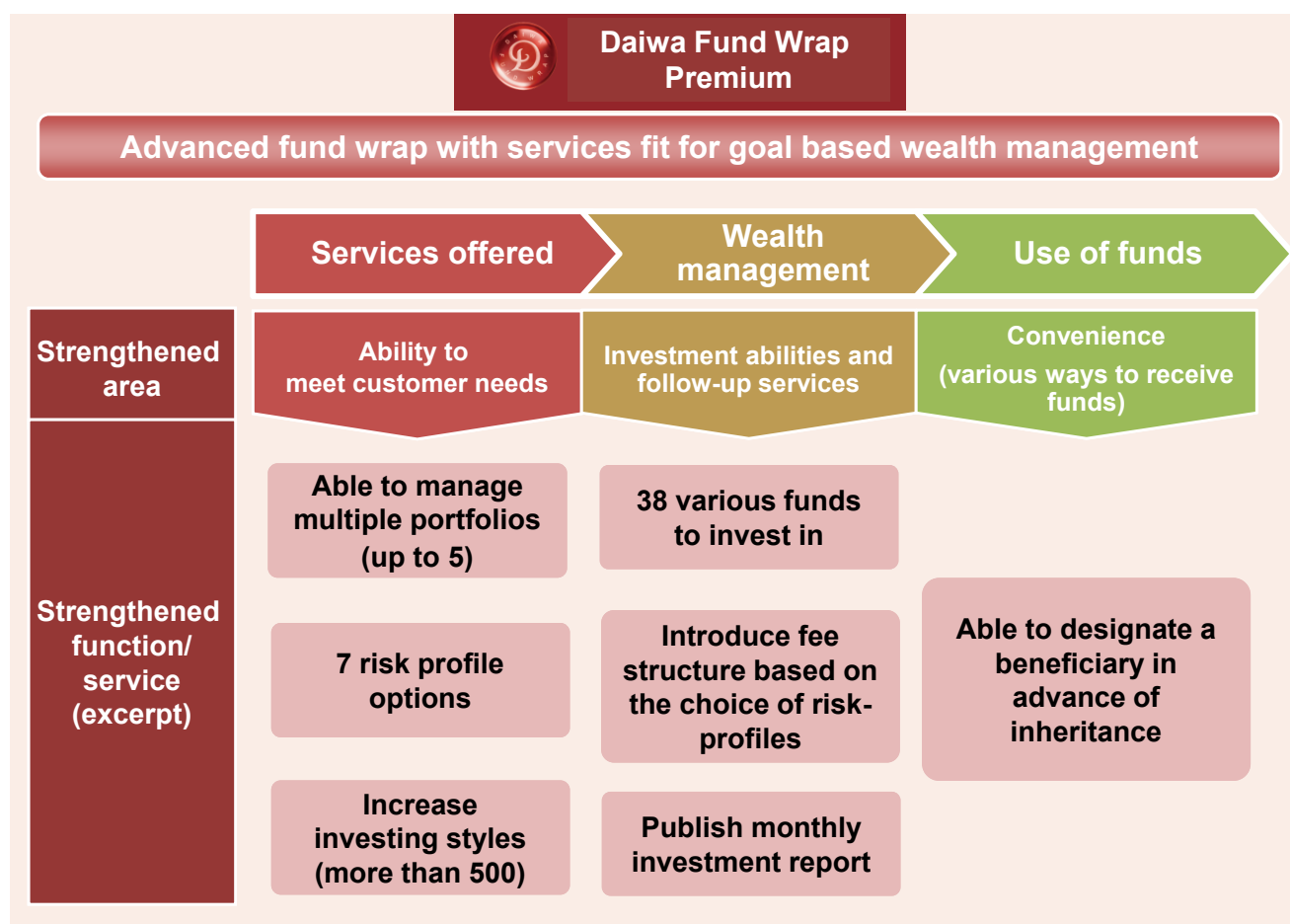
Wealth Management Business *Fund wrap goes to 2nd stage*

- Provide goal-based wealth management solutions by introducing Daiwa Fund Wrap Premium, a new function/service added product.
- Scheduled to introduce Daiwa Fund Wrap Online in Jan. 2017, which is an internet-based fund wrap service utilizing FinTech, allowing customers to invest with smaller amount.

Lineup of Fund Wrap Services

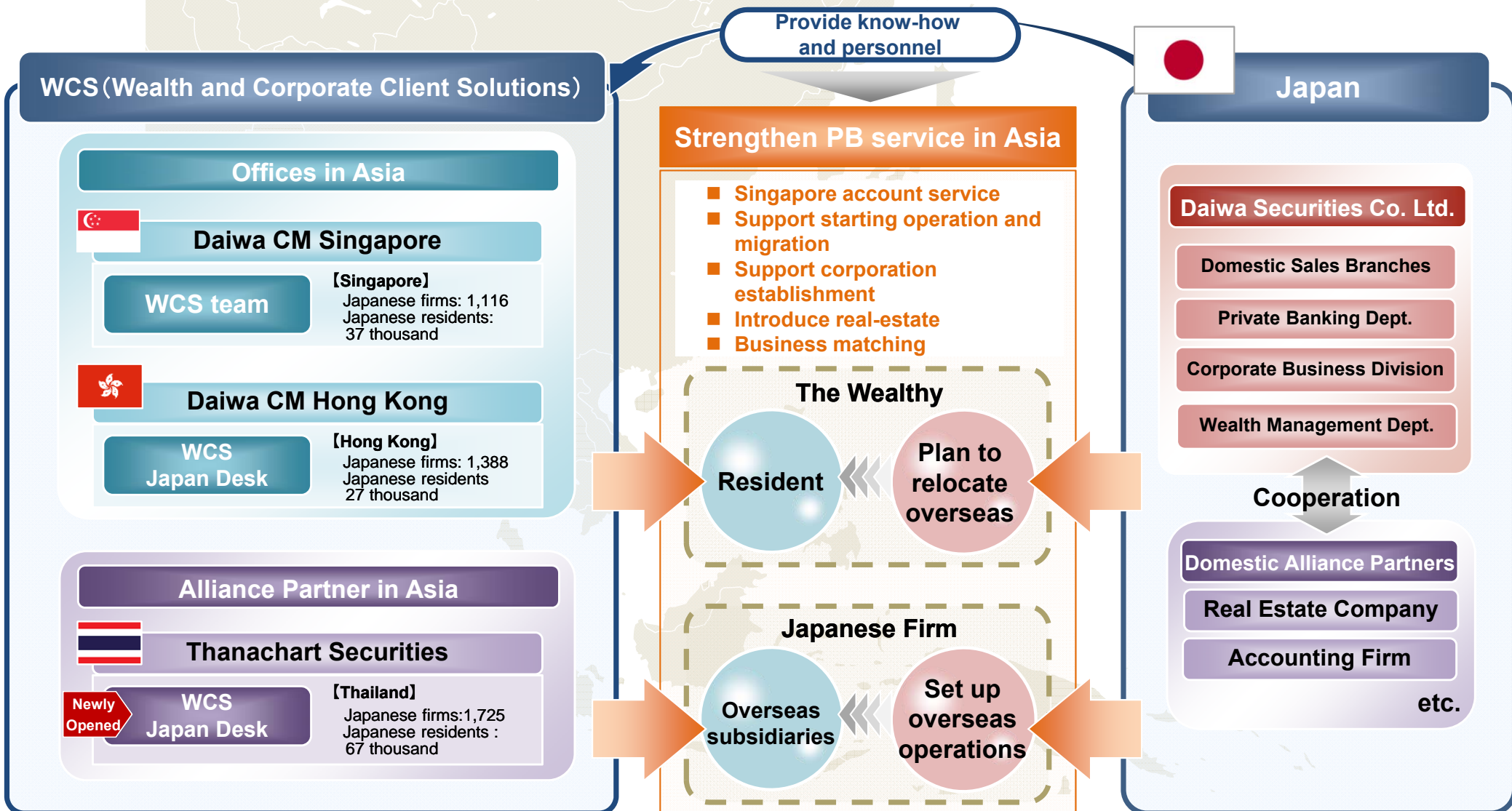


Features of Daiwa Fund Wrap Premium



Strengthen PB Service in Asia by Expanding Offices and Alliances

Accelerate expansion of consulting for the wealthy in Asia,
by applying the expertise developed in Japan



From Savings to Asset Building *Penetration of “investment for savings”*

- Defined Contribution (DC) has considerable tax benefits, but restricts withdrawal before the age 60. As for NISA (Japanese version of ISA), account can be liquidated anytime.
- Combination of DC and NISA allows investors to build assets through advantageous investments and to prepare funds for life events at the same time.

Utilizing Tax Benefits

Defined Contribution (DC)

Tax	◎	Various deduction + tax free for gain on investment
Liquidity	△	Restricts withdrawal before the age 60
Amount limit	△	Y144 thousand to Y816 thousand ※ per year

+ ※ For Individual DC (from Jan. 2017 for civil service workers etc.)

Nippon Individual Savings Account (NISA)

Tax	○	Tax free for gain on investment
Liquidity	◎	Can be liquidated at anytime
Amount limit	○	Y1.2 mil per year

※ Certain conditions may apply.

Receive tax benefits and ensure liquidity for life events with “DC + NISA”

Initiatives Taken for Accelerating Investor's Asset Building

A web site informing accumulative service
<http://www.daiwa.jp/tsumitate/>

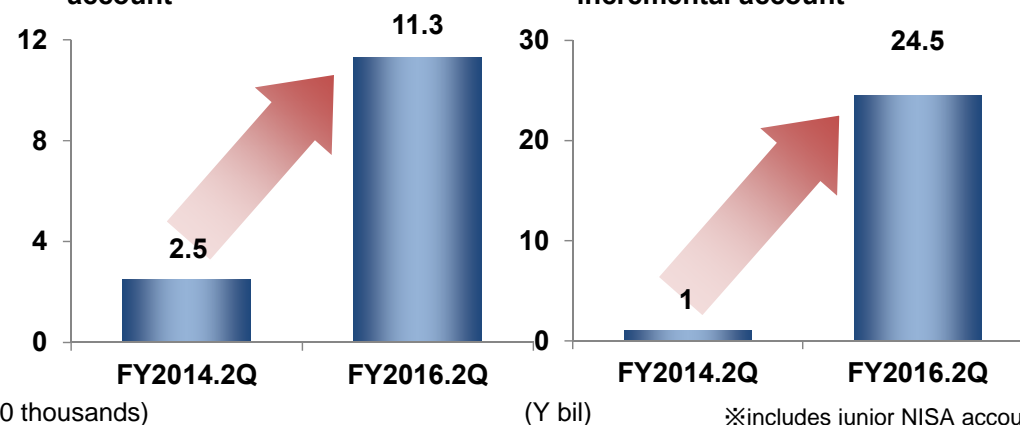


A web site informing life events that require money
—SODATTE—
<http://www.daiwa.jp/sodatte/>



NISA Accounts with Accumulative Service

■ No. of registered NISA incremental account ■ Amount purchased through NISA incremental account



Appendix

FinTech ~Expand Usage for Securities Business~

Improvement of Accessibility

Usage of Biometrics Authentication

- Log-in
- Check account balance



Fingerprint authentication



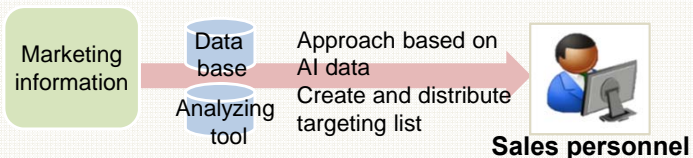
Customer

- Considering of applying fingerprint authentication on smart phones for Daiwa Next Bank

Time saving for identity verification

Provide Attractive Products

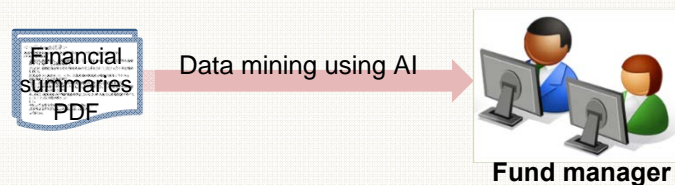
Utilize Big-Data for Marketing and Aftercare



- Started test marketing at branches

Improve proposal and customer satisfaction

Utilize AI for Investment Management



- Started industry-university cooperation project

Improve investment efficiency and performance



Lowering Transaction Cost

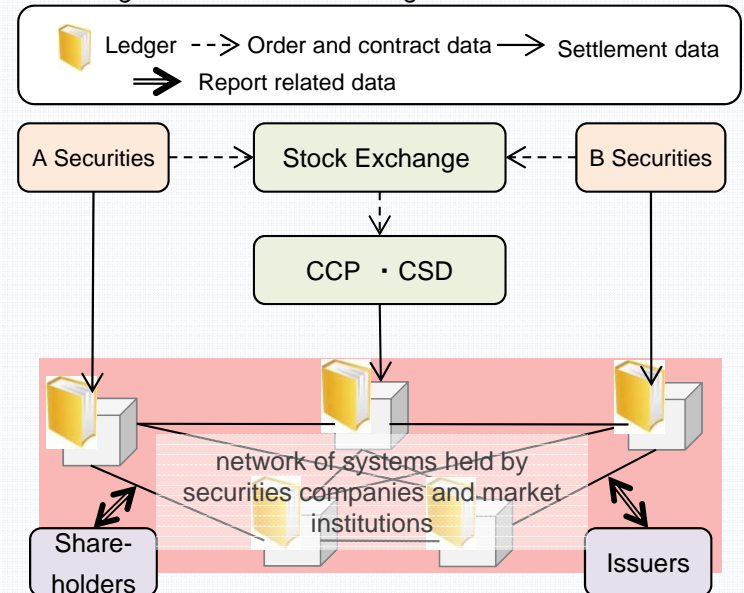
Consider Utilizing Blockchain in Securities Market



World's first to demonstrate advantage in the emerging countries' stock market by completing experiment of securities settlement in YSE (Yangon Stock Exchange).

Image after applying blockchain

※moving securities and CSD ledgers to blockchain



HR Strategy

- Continue initiatives to create a working environment allowing every employee to work with high motivations.

Supporting the Success of Young Employees

Provide an education system to build a solid foundation for becoming a securities business professionals.

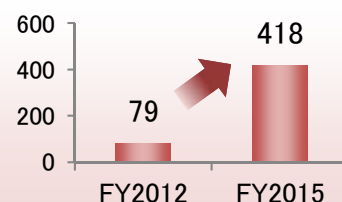
- Implementation of online tool to support on-the-job training
- Expansion of support to earn certifications such as Financial Planner, Securities Analyst, etc.
- Enhancement of e-learning programs

Supporting the Success of Female Employees

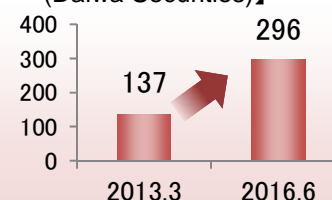
Not only offer business skill training programs, but also provide opportunities for female employees to envision their career paths.

- “Daiwa Woman’s Forum” (female employee career support training initiative) etc.

【Female Employees Participating in Business Skill Training Programs】



【Female Employees in Management Positions (Daiwa Securities)】



Supporting the Engagement of Veteran Employees

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

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

Create a workplace in which all employees can carry out their duties free from any anxiety regarding their future.

- Supporting Employees Balancing Work and Family Nursing Care
 - An employee may take family nursing care leave up to 4 times (statutory requirement is 1 time)
 - Created annual leave system to prepare for family nursing care

Latest Topics

“Ikumen Enterprise Award 2016”

Awarded an honorable mention in “Ikumen Enterprise Award 2016” hosted by the Ministry of Health, Labour and Welfare, as a company that actively promotes male workers to balance work and childcare.

Implementation of Nanny Service

In order to support employees balancing work and childcare, the company implemented a nanny service provided by the largest nanny service provider in Japan. (From September 2016)

Promotion of Health Management

Further promote health awareness of all employees, including younger employees who tend to be impassive about their health. (From November 2016)

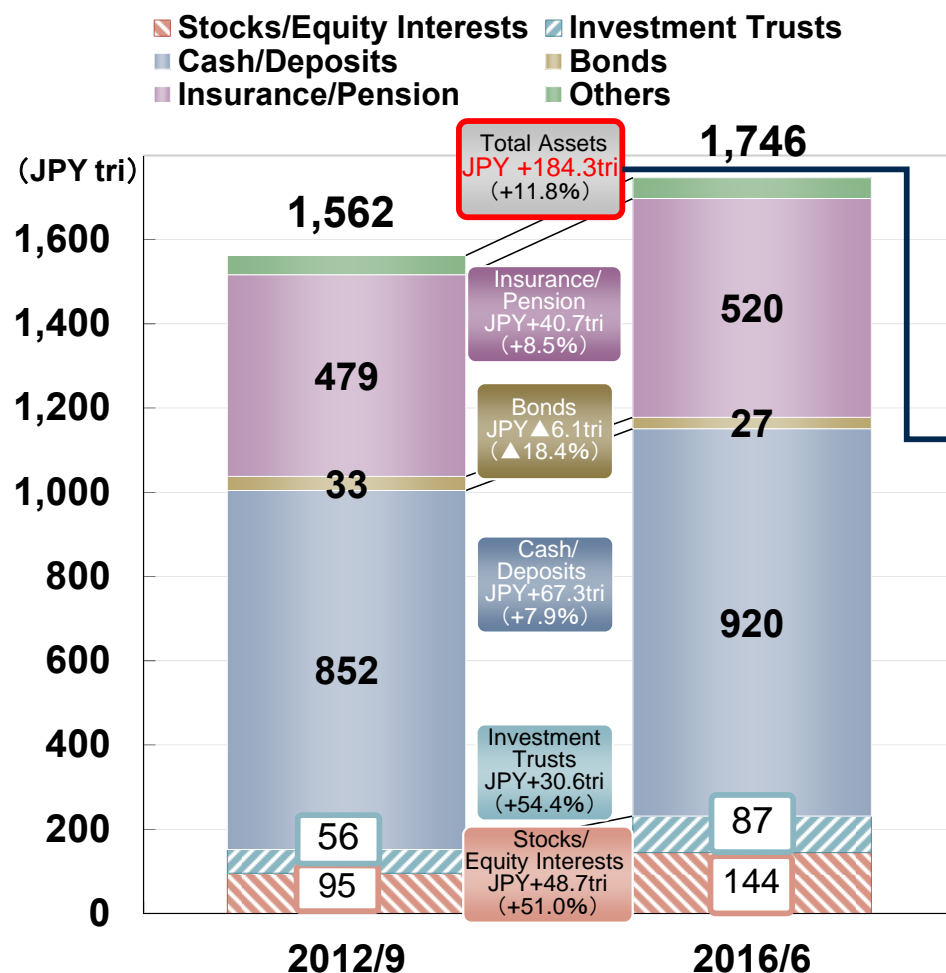
『KA・RA・DA Iki Iki Project ~Healthy Lifestyle ~』

- Incentive points are given when an employee participates in the designated health promotion events, study programs, or accomplish health goals.

The Shift of Household Financial Assets Through Abenomics

- Since the start of Abenomics, Financial assets held by Japanese household increased to Y184tri which includes the valuation gain of Y106tri.
- Investment trusts recorded a net inflow of Y20tri, while stocks recorded a net outflow of Y19tri.

Household Financial Assets (Sept. 2012 vs. Jun. 2016)

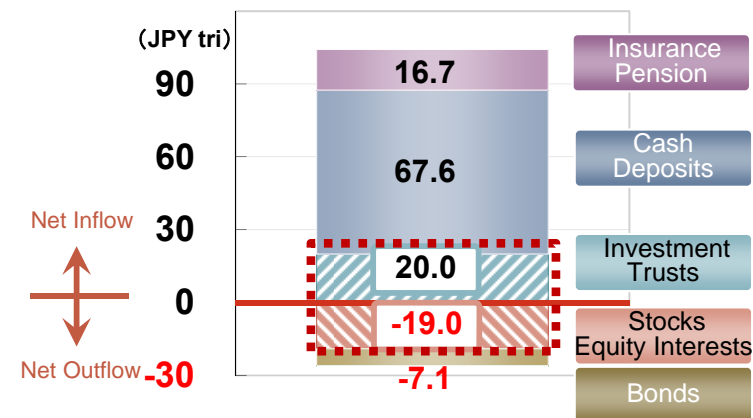


Transaction Factor
JPY 78.1tri
(42.4%)

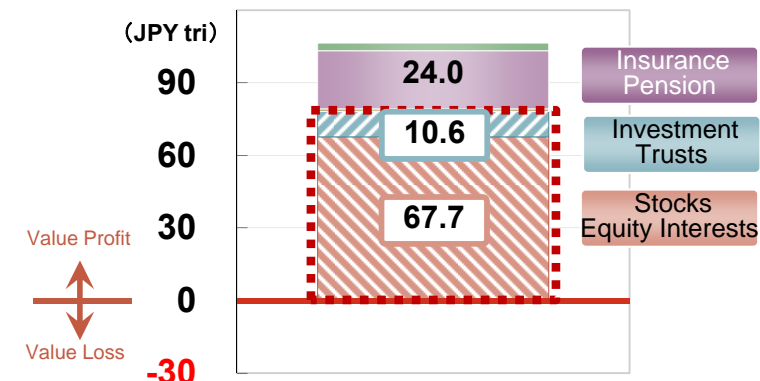
Factor Analysis

Market Factor
JPY 106.3tri
(57.6%)

Transaction Factor (In/Outflow of Assets)



Market Factor (Market Value Adjustment)



(Source) Compiled by Daiwa Securities Group Inc. based on the Bank of Japan's Flow of Funds Account



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