

# Interview with New CEO Seiji Nakata

On April 1, 2017, Mr. Seiji Nakata was appointed as the new CEO of Daiwa Securities Group Inc. Further honing its business strategy, as a hybrid securities group that leverages the benefits of being independent, the Group is building a solid reputation as the best partner for customers by offering the highest quality in the industry.

Seiji Nakata  
President and CEO  
Daiwa Securities Group Inc.

With high levels of integrity and specialization,  
we contribute to the betterment of Japanese  
lifestyles and Japan's growth strategy

*Quality No. 1:  
Establish the industry's highest quality*

## How do you evaluate the Daiwa Securities Group's management strategy so far? How can it be improved going forward?

From early on, the Group's management strategy has emphasized growth in stable revenues and the concept of a fixed cost coverage ratio, defined as the percentage of fixed costs that can be offset by stable revenues. The securities business has typically been a volatile one with significant exposure to stock market trends. I believe the strategy to expand stable revenues has been the best one available in an increasingly challenging business environment, marked by the deregulation of brokerage fees during the Financial "Big Bang" in the 2000s. We must continue to advance this strategy going forward. In the next Medium-Term Management Plan to be unveiled in FY2018, we will continue to rely on the basic concept of a coverage ratio for stable revenues to fixed costs.

In FY2016, ROE was 8.4% and the fixed cost coverage ratio was 66%, coming in below the numerical targets for the final fiscal year of the Medium-Term Management Plan for ROE of at least 10% and a fixed cost coverage ratio of at least 75%. Nevertheless, although it depends on market conditions, we will continue working toward these targets.

However, there has always been flow-based revenue that depends heavily on market conditions. Mindful of

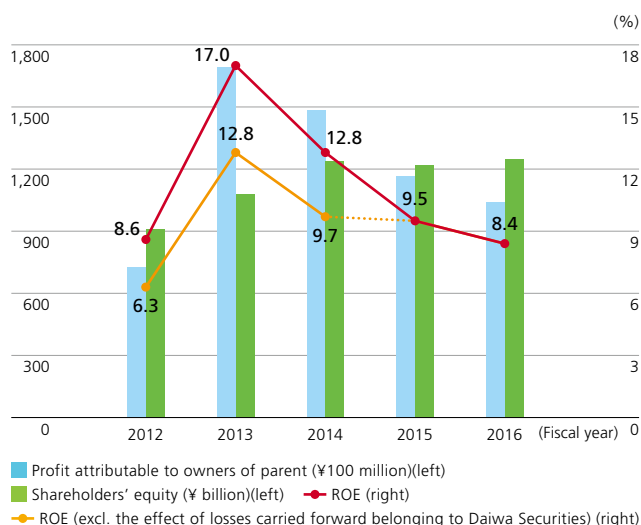
the fact that this type of revenue adds volatility to our earnings, I believe efforts must be made to stabilize flow-based revenue in the future.

This year, the Financial Services Agency issued a guideline titled "Principles for Customer-Oriented Business Conduct," drawing attention to fiduciary duty. In its corporate principles originally drafted in 1998, the Group emphasizes the "building of trust" with customers, financial and capital markets, and society as a whole. In 2008, we came up with the Daiwa Spirit as the code of conduct for employees. Throughout the Group, our employees have consistently taken a customer-oriented approach to conducting business.

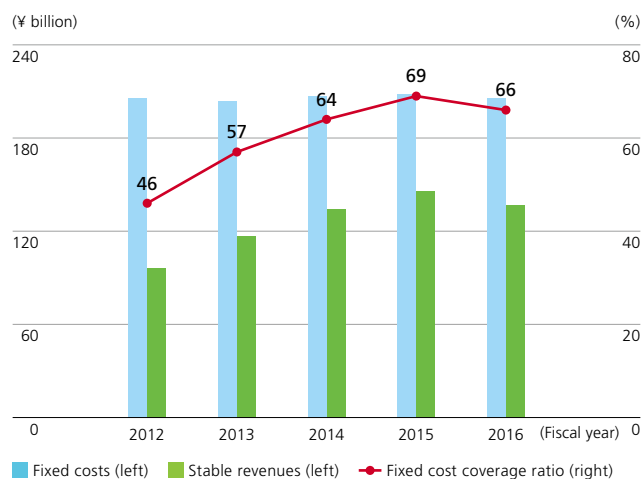
We are well aware that work still needs to be done. In light of the guidelines issued by the Financial Services Agency, the Group has formulated and published its Basic Policy on Customer-first Operations. Through such actions, we intend to always stay one step ahead of the industry and the government in addressing this issue. For example, in FY2017, one of our initiatives entailed abandoning sales targets for each product and establishing a decision-making process driven by sales branches, which are the closest to our customers,

### Progress of Numerical Targets

#### ROE: 10% or more

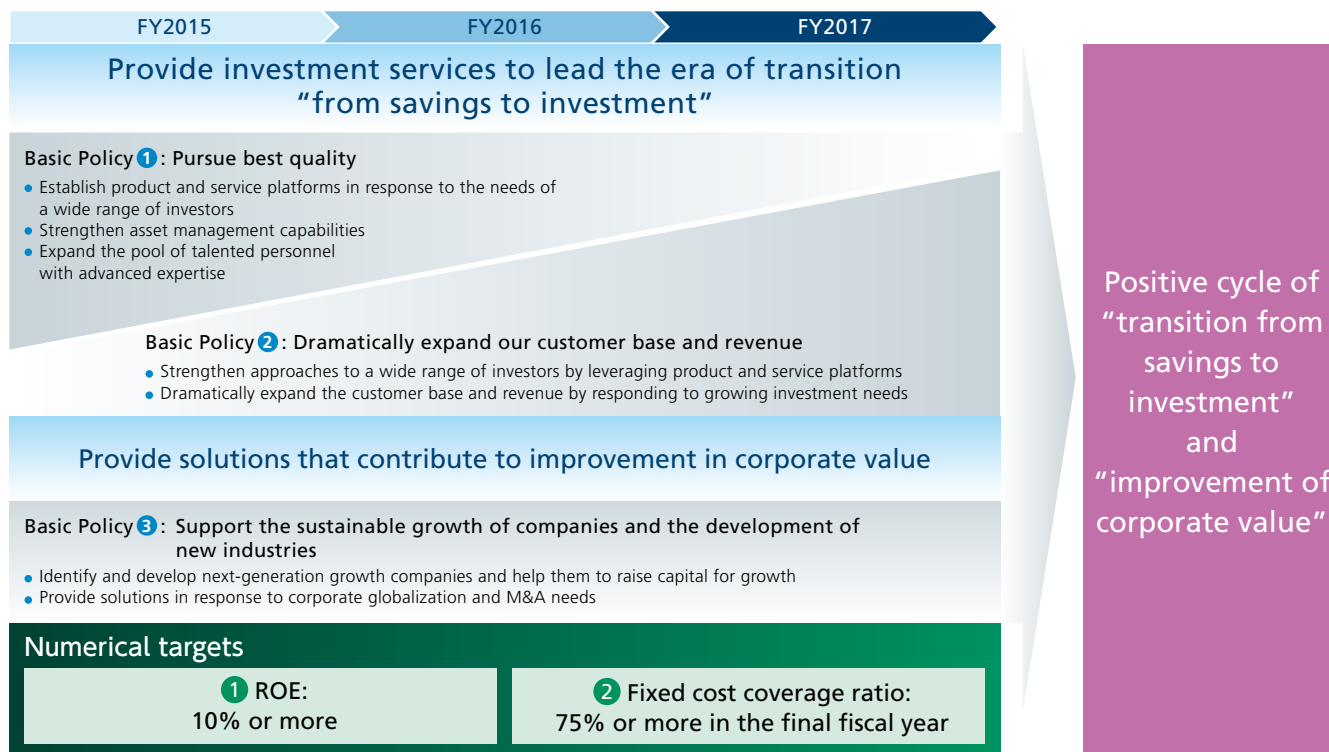


#### Fixed Cost Coverage Ratio: 75% or more in FY2017



## Summary of the 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 highest quality, and become their best partner



thereby putting in place a sales structure that is more attentive to the needs of each customer.

Moreover, in our assessments of sales branches, we have placed greater weight on customer satisfaction

and personnel management, spurring improvements in the quality of sales practices. We are currently considering the introduction of new KPIs for measuring customer satisfaction.

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## Question

## What is your take on the Group's performance in FY2016?

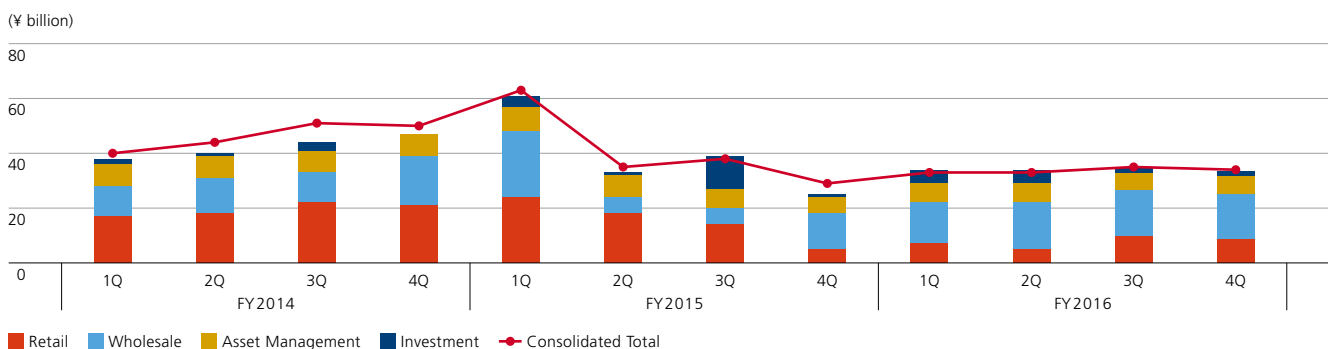
The Retail Division continued to struggle in FY2016 as individual investors avoided risk in the wake of the China Shock in summer 2015. Profits decreased as a result, but this decline in the Retail Division was covered by firm performance in fixed income trading in the Wholesale Division, as we correctly identified changes in the interest rate environment after the introduction of the negative interest rate policy.

Over the past few years, Daiwa Securities Group has

worked to create a balanced profit structure. Now, we are able to maintain profit levels by having the Wholesale Division help out when the Retail Division is struggling, and vice versa.

It should be noted that all of our overseas operations are now profitable. Ordinary income improved sharply to ¥13.4 billion over the course of the year, returning overseas operations to the black for the first time in seven years since FY2009.

## Ordinary Income by Business Segments



Earnings have improved in all regions overseas, with strong performance in the fixed income business in the Americas providing momentum for overall growth. In

Europe, the M&A business (DC Advisory) had a good year, and in Asia/Oceania, Asia Private Banking Services were robust, alongside cost reductions.

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### Question

## How will you encourage Japanese people to shift their personal financial assets “from savings to investments”?

For nearly two decades, the Japanese government has promoted the idea of moving assets “from savings to investments,” but it remains a fact that 52% of the ¥1,800 trillion in individual financial assets are still held in cash or savings accounts. Only 15% of these assets are invested in marketable securities. In contrast, in the United States, approximately 50% of personal financial assets (including pension assets) are invested in marketable securities, and this figure is around 25% in major European countries. I believe Japan’s prolonged deflationary economy is to blame. From the mid-1980s to the early 1990s, the “Core-Core” CPI (CPI excluding energy and food) in Japan rose at a gentle pace of 1-2%, and during these years the ratio of personal assets in marketable securities was 25-30%. The investment behavior of individuals is influenced by a variety of factors, but in terms of the Japanese economy as a whole, I believe it would be correct to say that Japanese people have sought to protect their financial assets by holding onto cash during the period of deflation. If a period of mild inflation were to return, I believe it would incentivize people to move their assets “from savings to investments.”

FY2016 saw several major events that had the effect of increasing uncertainty, such as Britain deciding to leave the European Union (Brexit) and the outcome of the U.S. presidential election. The global outlook is rather unclear. Although geopolitical risks cannot be controlled, turning our attention to economic matters, we note that the U.S. economy has remained strong. The International Monetary Fund (IMF) has also raised its outlook for global GDP growth. In Japan, Abenomics policies have corrected the excessively strong yen, and Japanese corporate earnings have risen to record-setting levels.

Under these circumstances, if a period of mild inflation were to arrive, we would expect people to shift their financial assets “from savings to investments,” and lead to an increase in customers opening up new trading accounts at securities firms. Since the customer decides which securities firm to trust with their life savings, we think it is imperative that we are the customer’s first choice securities group, as stated in our Management Vision. Our success depends on the quality of the services we provide and the quality of the personnel who provide them.

## Since becoming CEO, you have stressed the Highest Quality as a strategic theme. What is this about?

Daiwa Securities Group has positioned human resources at the core of its business model, and from an early stage has undertaken various measures and reforms to make it easier for all employees to fully engage in their work, by creating workplaces that facilitate work, promoting an advanced level of work-life balance, and encouraging diversity in human resources. Daiwa Securities Group has been selected for three years in succession as a “Nadeshiko Brand” and a “Health and Productivity Stock Selection” jointly by the Ministry of Economy, Trade and Industry and Tokyo Stock Exchange, Inc. We are one of only six listed companies in Japan to have received this honor for three years in a row.

Through training programs, we have endeavored to improve the quality of our employees. As a result, Group employees who are Certified Financial Planners (CFP) now number about 680 people\*, the most in the industry.

In order to realize the Highest Quality, however, I believe we must further enhance the skills of our employees. I think it is especially important to train employees in their 20s on the fundamentals of being a responsible member of society. For these employees, we have created an education program called Q-Road, as in the road to reaching the Highest Quality, for the first five years of their employment with Daiwa Securities Group.

The Group’s new graduate hires are enrolled in a training system that receives the full commitment of the entire company to refine and improve their quality over the first five years of their career.

I believe employee quality is the sum of three elements. The first element is “knowledge,” or a highly specialized knowledge of finance, the second element is “skill & technique,” which refers to the ability to leverage this knowledge and offer the best solutions for the customer, and “mindset,” comprising the basis for everything else. Only when these three

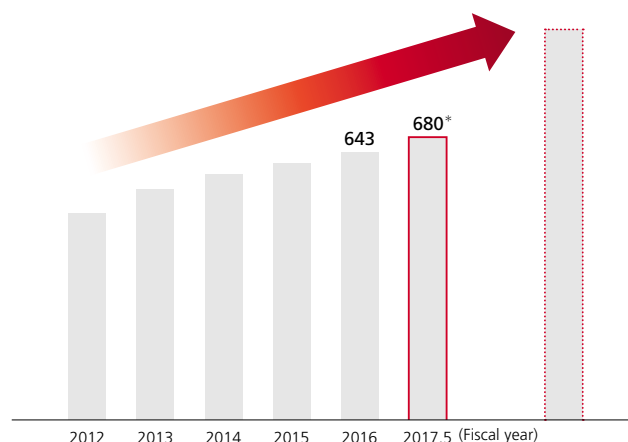
elements come together, can high quality be attained for the first time. Of the three elements, mindset makes the biggest difference, in my opinion. Without the proper mindset, value cannot be derived from knowledge or skill & technique.

Moreover, there are three types of mindsets: a customer mindset that always puts the customer first, a legal mindset that complies with all statutory and regulatory requirements as a matter of course and steers decisions based on correct ethical values, and a self-aware mindset that challenges people to set high goals and achieve them.

Our aim is for customers to hold Daiwa Securities Group in the highest regard in terms of quality, as Group employees engage in business as high-quality professionals with the proper mindsets through Q-Road training.

Daiwa Management Academy is a training program for line managers at the Group. On a personal note, in FY2016, I began taking charge of the Daiwa Spirit course that covers the mindsets required for success.

### The Number of CFP Holders



\* Includes the number of employees who have passed all six subjects and are in the process of applying for certification. (As of May 2017)

## What services are being strengthened in order to achieve the Highest Quality?

**We intend to always stay one step ahead of the industry in customer-first operations.**



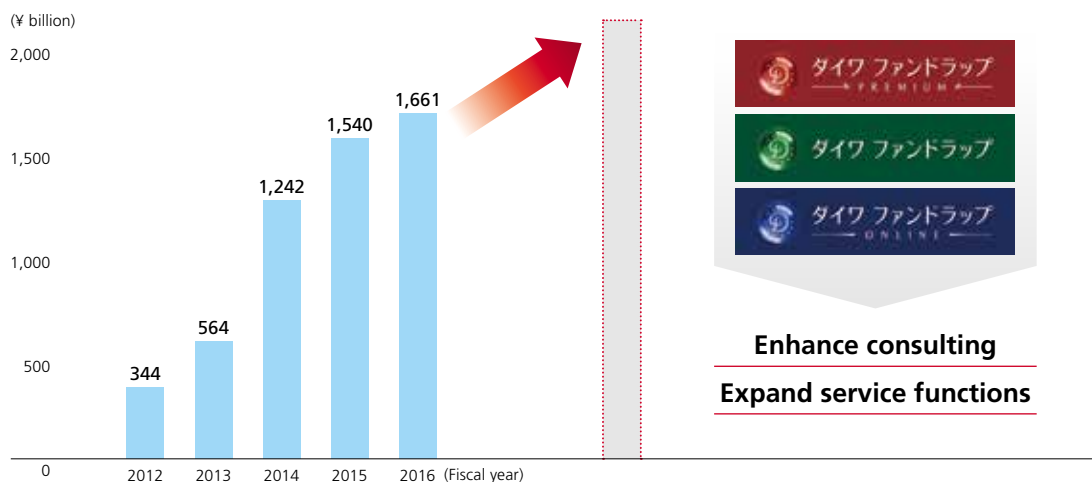
Now, more than ever, it is crucial that we expand our offerings of products and services from a customer perspective.

### Investment Trusts and Wrap Account Services

In investment trusts, we are arranging a lineup of the best products for customers, based on a quantitative analysis of publicly offered funds using a variety of parameters such as management performance, cash flow and ratings.

Daiwa Securities Group has been a driving force behind the spread of wrap account services in Japan, and is now transitioning to a stage where the aim is to differentiate by enhancing service offerings. In addition to Daiwa Fund Wrap, we have diversified our wrap account services to include the new Daiwa Fund Wrap Premium, a highly customizable service, and the new Daiwa Fund Wrap Online, which allows small investments at low cost with robo-advisor functions. Our lineup now has products for every customer need depending on their life stage, from asset accumulation to wealth management and retirement.

### Contract AUM for Wrap Account Services





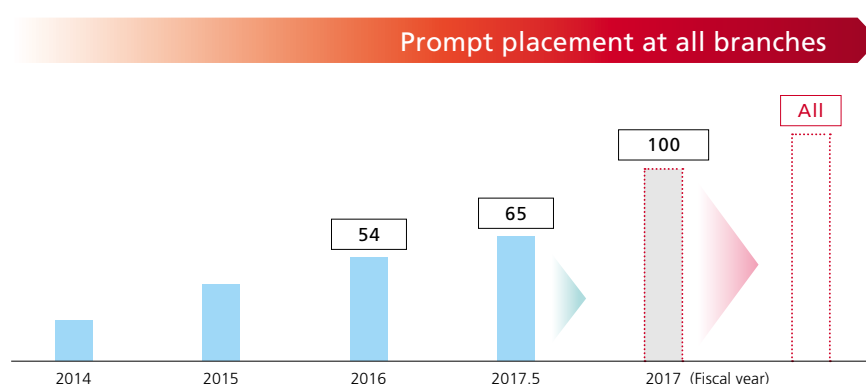
### Inheritance-related Business

With an aging population in Japan, the inheritance-related business and wealth management services require sophisticated solutions and broad, specialized knowledge. Daiwa Securities Group has expanded the number of sales branches with Inheritance Consultants to 65 branches as of May 2017. Our Inheritance Consultants are CFPs who have also passed a stringent selection process that requires a passing grade in our internal training program that focuses on inheritance issues. They are a factor that sets us apart from the competition with other

securities firms in terms of quality. Daiwa Securities Group plans to expand the number of sales branches with Inheritance Consultants to 100 branches by the end of FY2017, with the aim of assigning one to each sales branch as soon as possible.

Daiwa Fund Wrap Premium offers inheritance-related services, such as an inheritance beneficiary designation service and a service for cashing out the inheritance. As a result of these services appealing to customers, the percentage of new contracts was about 25% as of March 2017.

Number of Sales Branches with Inheritance Consultants



### Private Banking Services in Asia

In wealth management services, Daiwa Securities Group has offered Asia Private Banking Services since July 2015 to meet increasing needs overseas for asset management, business development and relocation, by leveraging the Group's offices in Asia, centered on Singapore, and its network of Asian financial institution alliance partners. Both assets under management and revenues have been steadily increasing. The Group expects further growth as it addresses the needs of high-net-worth individuals for business development overseas, relocating overseas and investing in overseas assets through its network of overseas alliance partners.

### Promotion of Investment for Savings

It is important that we improve our responsiveness to customers with asset formation needs.

Since NISA (Japan's individual savings account system) became available in 2014, the total amount of

investments made in NISA and Junior NISA accounts has been climbing steadily. Daiwa Securities Group is augmenting its products and services to further align with customer needs ahead of the launch of the Monthly Investment-type NISA in January 2018. In the defined contribution pension plan business for individuals, iDeCo, Daiwa Securities Group entered into a capital and business alliance with SBI Group and invested in SBI Benefit Systems Co., Ltd. Based on this alliance, Daiwa Securities Group launched Daiwa iDeCo New Plan in April 2017 with the most competitive fee structure and the most attractive product lineup in the industry (as of May 2017).

We aim to facilitate the shift from savings to asset formation by raising awareness of investment for savings as a vehicle for small investments over the long term through promotions and seminars for asset forming generations, and by approaching local public organizations.

## What are Daiwa Securities Group's unique qualities that differentiate it from rival securities firms?

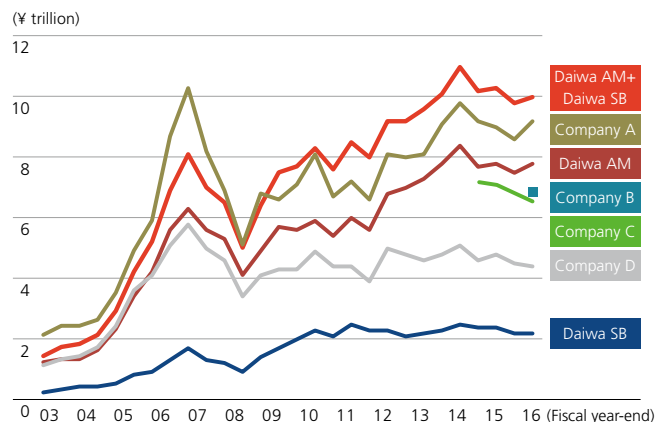
Along with the Highest Quality, another strategic key word in FY2017 is Hybrid Securities Group, which entails combining the traditional securities business with a diversified business portfolio. This is a key part of our strategy to differentiate us from our peers. The competitive landscape is dotted with independent securities firms like Daiwa Securities Group, bank-affiliated securities firms, and pure online securities brokerages. Bank-affiliated securities firms as defined by the Banking Act are heavily regulated businesses. Wholesale-centered business models have large balance sheets but face restrictions on the business risks they can take due to Basel capital adequacy regulations and high earnings volatility. However, Daiwa Securities Group is an independent securities group, a financial institution with a stable, highly efficient earnings foundation and robust financial health. I believe we are in a very advantageous position from the standpoint of freedom in our strategic options.

### Image of Hybrid Securities Group

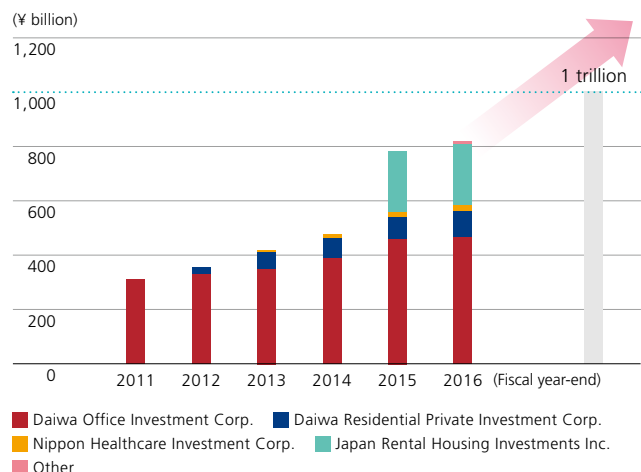


For example, the Group's online bank, Daiwa Next Bank, Ltd., has a successful business model as a gateway to the shift "from savings to investments." Our real estate asset management business, which began with the acquisition of a REIT management company, has grown from ¥260 billion in assets under management, centered on office buildings, to ¥820 billion today, while diversifying into residential assets and healthcare facilities as well. IDI Infrastructures, Inc., a company we acquired in 2016, has already formed its third investment fund (total equity of ¥69.2 billion) for investing in energy projects and other fields in Japan and other Asian countries.

### AUM of Publicly Offered Stock Investment Trusts (excluding ETFs)



### AUM of Real Estate AM Business





## How is Daiwa Securities Group diversifying its sources of earnings?

### IPO Business

One area of focus is strengthening our ability to obtain IPO mandates. The Group scaled back its IPO business during the 2008 global financial crisis, but then began to increase IPO personnel again in stages from 2013. In FY2016, Daiwa Securities Group returned to third position on the IPO League Table as a result of lead-managing major fund-related deals and concentrating on the J-REIT and real estate-related business.

To expand the IPO business further, we changed the name of our business matching events, which bring together large corporations and venture companies, to Daiwa Innovation Network in a bid to increase the quality and quantity of business matching.

We are forging alliances outside the Group in addition to using investment companies within the Group. As a business-academic cooperative project, for example, Daiwa Securities Group has set up the Hongo Tech Garage with the University of Tokyo with the aim of nurturing the next generation of entrepreneurs. The Group also invests in funds created by World Innovation Lab (WiL), one of the largest independent venture capital funds in Japan. Moreover, Daiwa Securities Group and Digital Garage, Inc. have together launched the DG Lab Fund, a venture capital fund. In addition, the Group aims to support venture firms through fund investments with SBI Group.

### Global Business Development

In FY2017, we aim to diversify not only our products, but also our regional exposure. For example, we intend to enhance our presence as a comprehensive securities group in Asia by expanding REIT and other real estate asset management operations throughout the region.

The U.S. market cannot be ignored for its economic scale and growth potential under the Trump administration. However, Daiwa Securities Group does not intend to compete against securities firms on their home turf using similar business models. The Group's principal field of operations is the domestic market.

Accordingly, we will look to reinforce the functions required to meet the needs of customers in Japan, and are concentrating on the M&A business in particular. As Japanese companies are increasingly expected to improve their profitability under the Corporate Governance Code, cross-border M&A has been brisk as Japanese companies seek an effective means of using their retained earnings, which is said to total ¥390 trillion, including unlisted companies. Led by DC Advisory, Daiwa Securities Group has a global network that includes a 27% stake in Sagent Advisors, LLC in the U.S. in its M&A business. The Group is considering its options for M&A, business alliances, and dispatching personnel with the objective of strengthening the business in the U.S. market.

We continue to forge new alliances with overseas financial institutions. In April 2017, Daiwa Securities Group acquired a 14.9% stake in COL Financial Group, Inc. the largest online securities brokerage in the Philippines, where the retail securities market is expected to grow over the long term.

In the overseas business, we aim to be a comprehensive securities group that leads Asia from our home base in Japan, diversifying into a wide range of business domains with our eye on earnings growth for the longer run, while supplementing the services we provide in Japan and controlling costs.

### FinTech

Daiwa Securities Group is also actively engaged in FinTech, which has been a major theme of the industry. In April 2016, the Group set up the Financial Innovation Committee to prepare for the practical application of FinTech.

One of our initiatives is to develop a stock price prediction model. In this project, Daiwa Institute of Research Ltd. developed an AI-based system to pick stocks that are likely to increase modestly. In May 2017, the Group began offering its customers information about investments and asset management based on the output of this stock price prediction model.

Moreover, the Group is working to improve operational efficiency in its Compliance Division and contact centers by deploying AI and other cutting-edge technologies, such as curation technology that augments in-house e-mail

distribution services and knowledge sharing sites, and chatbot services, which are programs that automate conversations in chat windows on websites. We are also conducting experiments with blockchain technology.

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## Question

**Even on capital markets, expectations have grown higher for companies to be good corporate citizens through ESG\* investments and other activities. What do you think a “good securities company” should be like?**

The Group has received high marks for ESG from several external organizations as a result of extensive efforts made over many years. For three years in a row, we have been selected as a “Nadeshiko Brand” and also in the “Health and Productivity Stock Selection” by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange Inc. Daiwa Securities Group has been a composite stock in the DJSI Asia/Pacific Index for seven years running and the FTSE4Good Index for eleven consecutive years. We have obtained the Platinum Kurumin Mark certification for providing superior childcare support from the Ministry of Health, Labour and Welfare. In 2017, Daiwa Securities Group was included in the Bloomberg Gender-Equality Index.

I have always been keen on the concept of what I refer to as “the most excellent firm.” The definition of the most excellent firm goes beyond the size of the company and profits. My definition has three elements. First, all employees must have integrity and sincerity, and be trusted without a doubt and respected by their customers, company, coworkers and their coworkers’ families. Second, the company consistently generates healthy profits. Third, these profits are properly distributed to shareholders and other stakeholders.

In my opinion, Daiwa Securities Group has not yet become one of the most excellent firms. We must refine our mindsets further in order to become one.

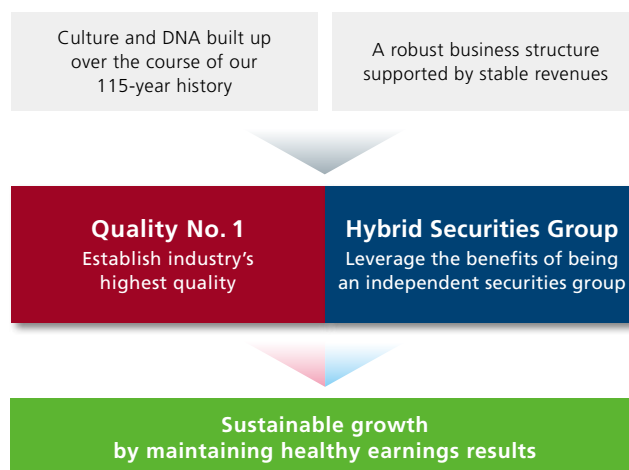
Only when the value of our services is truly understood for the first time by our customers, will we be able to generate a healthy profit by providing value-

added services like consulting to customers. For Daiwa Securities Group to become one of the most excellent firms, we must continue to improve quality.

We make concerted efforts to create work environments that allow all employees, regardless of age, to continue working throughout their careers with high levels of motivation. After extending the length of employment for sales positions to 70 years of age, Daiwa Securities Group took one step further by abandoning the 70-year mark as the maximum age eligible for rehiring. This can be viewed as an evolved form of work style reforms under way at the Group, and I believe it is an extremely effective strategy considering the business environment surrounding the Company, namely an increasingly elderly society in Japan.

\* ESG stands for “Environment,” “Social,” and “Governance.”

### For Sustainable Growth





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Question

## What is management's policy on shareholder returns?

The Group's basic dividend policy is to target a payout ratio of 40%. In FY2016, Daiwa Securities Group paid a full year dividend of ¥26 for a payout ratio of 42.3%. The Group also bought back about ¥19 billion of its own shares for a total return ratio of 60.4%. The Company cancelled 50 million shares (2.86% of shares outstanding before cancellation).

The consolidated total capital ratio is at a high level of 22.6%, giving us the option of investing for growth in the future, but first we will examine investments in business fields that need to be strengthened and expanded. If we are unable to identify any promising investment candidates, and surplus capital is clearly strong, we will consider additional share buybacks while taking into account market conditions and share price levels.

## Please explain Daiwa Securities Group's approach to corporate governance.

In 1999, Daiwa Securities Group became the first listed company in Japan to move to a holding company structure. The Group then adopted a company with committees structure that included three committees—the Nominating Committee, the Audit Committee, and the Compensation Committee. In FY2016, the Group created the Outside Directors Council. From FY2017, an outside director started to chair the Nominating Committee and as a result all three committees are now chaired by outside directors.

However, I believe both Japanese companies and foreign firms have not discovered the ideal format for corporate governance yet.

For example, the Chairman and CEO of Daiwa Securities Group Inc. hold concurrent positions as the

Chairman and President, respectively, of Daiwa Securities Co. Ltd. The Chairman of the holding company performs a supervisory role by chairing the Board of Directors, while also fulfilling the responsibilities of a representative director at Daiwa Securities Co. Ltd., an operating company. At other major financial groups, there are cases where different people hold the positions of president at the holding company and operating companies. Since company backgrounds and business scales differ by company, the ideal format for corporate governance differs by company. Daiwa Securities Group constantly thinks about whether its current governance structure is the ideal one for the Company, and will continue to pursue an optimal structure unique to the Group.

## You were appointed as CEO the year Daiwa Securities Group celebrated its 115th anniversary. On this occasion, what are your thoughts on the Daiwa Securities Group?

During my first 20 years here, I mainly built up a career in investment banking operations in the Wholesale Division. I was directly and indirectly involved in hundreds of financing deals. There were many complicated deals, but through this, I was able to gain experience that is hard to come by. When I was in charge of corporate planning and human resources, I was involved in the creation of Daiwa Spirit, our code of conduct for employees that expresses our uniqueness, based on the corporate principles of the Group. Around the same time, I was in charge of unwinding joint operations with Sumitomo Mitsui Financial Group, and then I assumed responsibility for the Corporate Business Division. Having dissolved its

alliance with a megabank group, Daiwa Securities Group embarked on the Wholesale Business by itself, a move that has been criticized and pessimistically viewed by some, but we have rebuilt operations to their strong position today and our employees have worked together to overcome tough times, experiences that have benefitted the Group culture, which is a wonderful achievement in my opinion.

When I first joined Daiwa Securities, I had no idea how many years I would work here. My career of 34 years so far has been a cornerstone in the foundation of my own life. In gratitude for this opportunity to lead a fulfilling life, it is now my turn to give back to our customers and Daiwa Securities Group.