

Message from the CEO



Seiji Nakata
President and CEO
Daiwa Securities Group Inc.

**In an increasingly uncertain society,
Daiwa Securities Group plays a role as a financial
and capital market pioneer that creates the future
by providing new value through innovation.**

Progress made on growth in stable revenues, diversification of revenue sources under previous Medium-Term Management Plan

During the previous Medium-Term Management Plan “Passion for the Best” 2017 (the previous Plan), the shift in individual financial assets from savings to investments did not materialize in the absence of a clear exit from deflation, despite favorable performance on markets confluent with Abenomics. Regrettably, Daiwa Securities Group was one step short of achieving numerical targets in the previous Plan, reaching ROE of 8.8% and a fixed cost coverage ratio of 68.5% versus targets for 10% and 75%, respectively, in FY2017, the final fiscal year of the previous Plan. However, the Group steadily expanded stable revenues that are less exposed to market conditions and diversified sources of revenues through business diversification while paying attention to capital efficiency. In this regard, the Group made considerable progress over the past three years.

After becoming president in April 2017, I raised two strategic themes, one for establishing the industry's highest quality, and another for becoming an integrated securities group with a hybrid business model that leverages the benefits of being independent.

In the Retail Division, we introduced a bottom-up sales system and optimized and subdivided sales channels in accordance with customer attributes and life stages, in order to place more emphasis on customer-oriented operations. Our goal of increasing the ratio of stable revenues, which was set under the previous Plan, is a constant theme in the Group's management. In this context, and in accordance with our basic policy as an integrated securities group with a hybrid business model, we launched new businesses outside the traditional securities business, expanded synergies through collaboration with the traditional securities business and diversified sources of revenues.

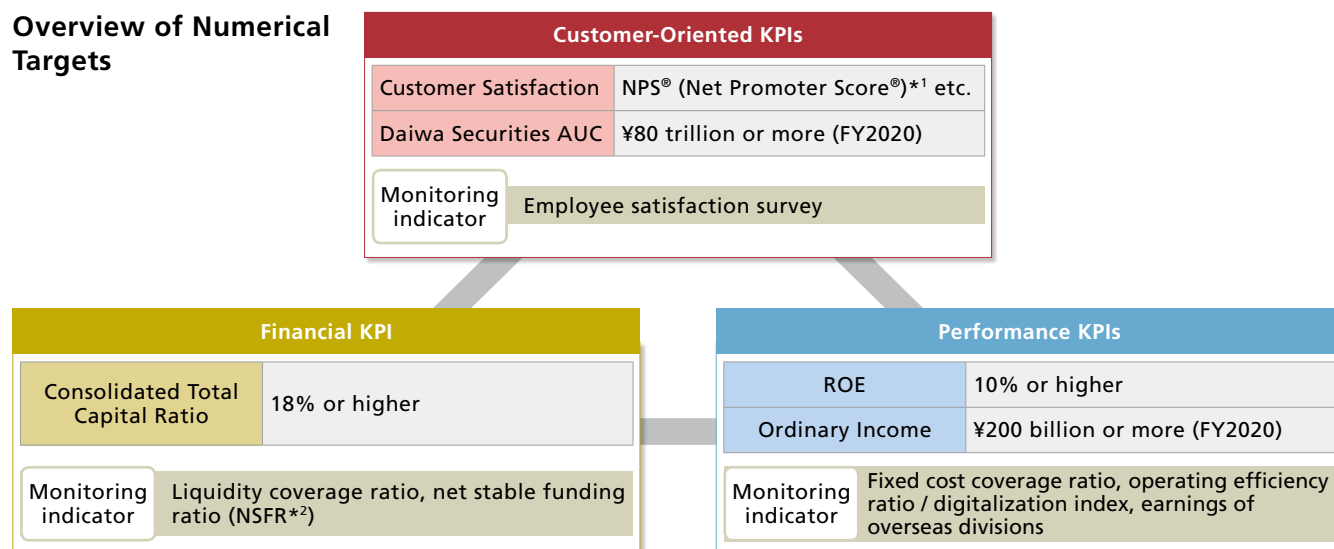
With regard to shareholder returns, the dividend payment policy of Daiwa Securities Group Inc. has been to target a payout ratio of around 40% since FY2015. For FY2017, the Company paid a dividend of ¥28 per share for a payout ratio of 41.9%. As a share repurchase was also implemented, the total payout ratio was 75.2%. For FY2018 onward, management has put in place the policy to increase the targeted dividend payout ratio to 50% or higher.

Ordinary income and customer satisfaction set as KPIs in the new Medium-Term Management Plan, aiming for growth in the next stage of evolution

In the new Medium-Term Management Plan “Passion for the Best” 2020 (the new Plan), Daiwa Securities Group has set clearly defined targets for ROE of 10%, in continuation from the previous Plan, and ordinary income of at least ¥200 billion, in the belief it has put in place a stable revenue base that has allowed it to enter the next stage of major growth. A major change in the new Plan is that it is framed around customer satisfaction as the main objective upon which advances will be made toward customer-oriented operations. We have set “assets under

custody” as a numerical target and indicator of customer satisfaction, as we believe customers will decide to put their assets into the Group when they are truly satisfied with its products and services. Our medium-term management plans to date have been based on three-year timeframes. With a long-term goal of ¥100 trillion in assets under custody in six years, or by the last fiscal year of the next medium-term management plan, we have set the target for assets under custody of at least ¥80 trillion in FY2020 as a midpoint goal within this longer timeframe.

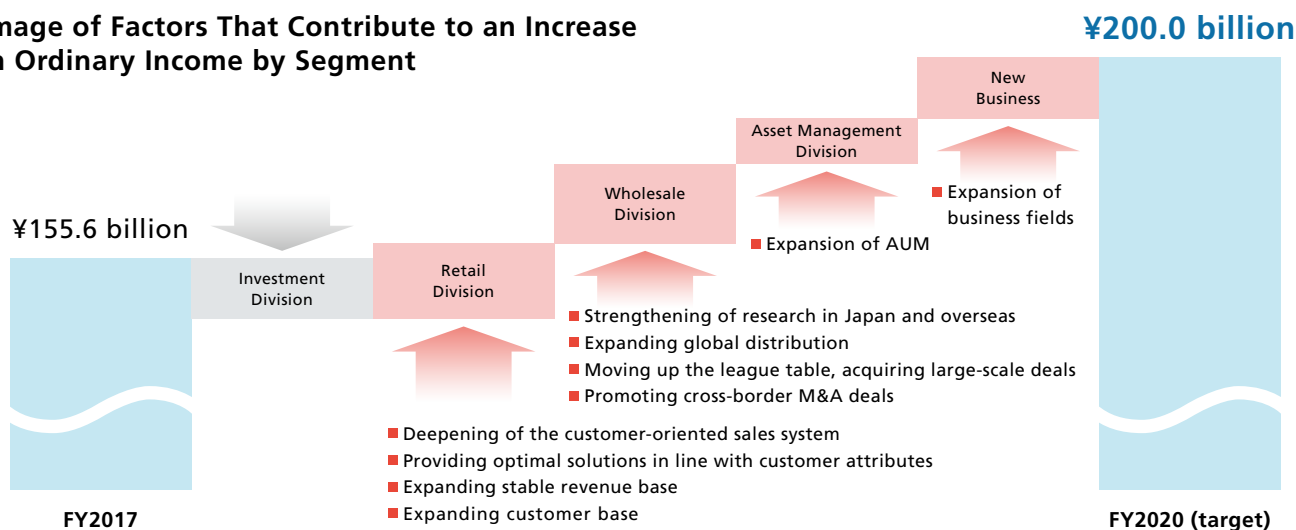
Overview of Numerical Targets



*1 NPS® is a registered trademark of Bain & Company, Fred Reichheld and SatmetrixSystems.

*2 Net Stable Funding Ratio

Image of Factors That Contribute to an Increase in Ordinary Income by Segment



Although our target levels are not low, we do not have a rosy outlook for the business environment over the next three years. With the understanding that the global economy and Japanese economy are growing steadily and moderately, our base scenario takes an extension of current conditions and adds our own efforts to grow. Over the next three years of the new Plan, we anticipate the beginnings of a moderate shift in investment from savings to investments, and a gentle flow into asset building through marketable securities. However, our projections do not assume this shift, from savings to investment, will be major and dramatic.

The Group targets a consolidated total capital ratio of at least 18%. A change in how the total capital ratio is calculated as regulations are tightened is likely to push it

down by a maximum of approximately 4 percentage points in 2022. We have therefore set this target at a level so that the total capital ratio is unlikely to dip below the warning level of 14%. We came up with the warning level of 14% by starting with the minimum required level of 11% and adding a buffer based on the outcome of stress tests.

In order to quantitatively evaluate our business strategy, we have defined monitoring indicators in addition to the Group's numerical targets. During the new Plan, the Group continues to monitor benchmarks, such as the fixed cost coverage ratio which was a numerical target in the previous Plan, employee satisfaction surveys to guide work style reforms and job satisfaction innovation, indicators of operating efficiency and digitalization, and earnings of overseas operations as a measure of global presence.

Customer satisfaction as the result of efforts to unearth customer needs will be a wellspring for long-term competitiveness

Customer satisfaction, the most important KPI in the new Plan, is the result of truly understanding the needs of each and every customer, more so than short-term gains for the customer or lower commissions than rivals, in a changing business environment with finely divided customer needs and fierce competition. We believe customer satisfaction is the wellspring of the Group's competitiveness over the long run.

We are introducing Daiwa NPS® as a well-defined quantitative indicator of customer satisfaction. Based on customer questionnaires, NPS® measures loyalty for Daiwa Securities by subtracting the percentage of detractors from the percentage of promoters.

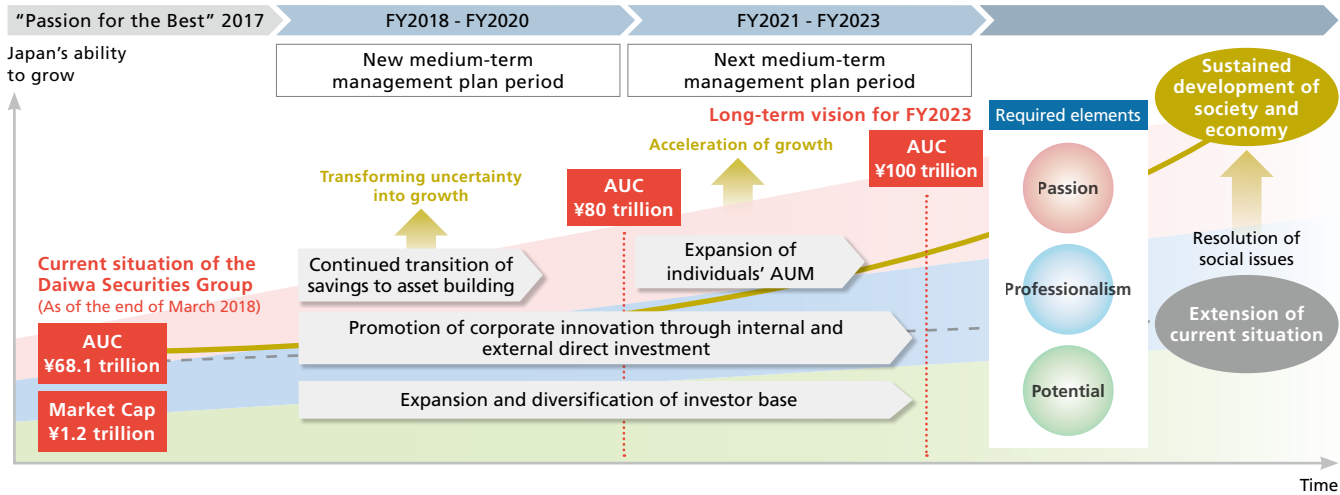
It has been proven that improvement in NPS® scores has a correlation to growth in corporate earnings. After rolling out the NPS® system to all branches in the Retail Division, we will endeavor to continuously improve our NPS® score.

To prevent improving NPS® scores from becoming the only target, we are putting into place systems that encourage sales representatives to focus on identifying the genuine needs of customers from their perspective. The Group has newly created the CCO (Chief Customer Officer) position and also set up the Retail Business Reform Office, which has more than 30 people on staff to advance reforms to the sales structure, including the introduction of NPS®, and provide close support for each individual branch. During the first year of the new Plan, we are focusing foremost on making sure the sales structure is working for customers by introducing NPS® at all branches and raising awareness of it among all employees.

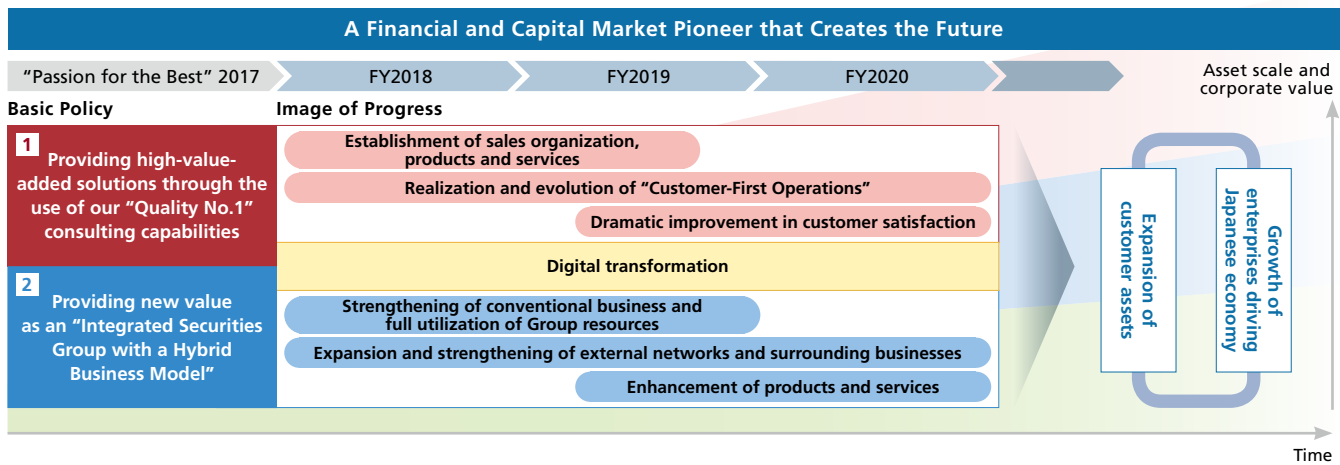
After contemplating what customer satisfaction truly means in the businesses of each division, The Group has identified KPIs for each division that will drive improvements in quality and customer satisfaction.

New Medium-Term Management Plan “Passion for the Best” 2020

Direction for the Future



Framework of the New Medium-Term Management Plan



Basic Policy and Key Themes for Each Business Line

	Retail	Wholesale	Asset Management	Banks	Think Tank
Basic Policy	Value-added solutions through the use of “Quality No.1” consulting capabilities	Creation of a customer-oriented sales system Promotion of the shift by companies to achieve higher corporate value Provision of products and services that identify customers’ needs	Realization of an abundant society and life for the Japanese people through asset management		Comprehensive think tank for the future
	New value as an “Integrated Securities Group with a Hybrid Business Model”	Utilization of external channel resources and the creation of new business lines Collaboration with Group companies	Support for business and Japanese industry structure transformation Collaboration with the Investment Division	Expansion of alternative investment products	Combined securities-banking business model 2.0
	Creation of business through the diversification of financing methods and expansion of business areas				
	Provision of Asian growth results and strengthening of the global M&A network				
Basic Group Strategy	Finance and capital ■ Execution of growth investment ■ Improvement of capital efficiency ■ Maintenance of financial soundness ■ Strengthening of shareholder returns	Human resources ■ Employees’ productivity No.1 ■ Employees’ participation No.1 ■ Employees’ satisfaction No.1	IT ■ Business process reform and productivity improvement ■ Creation of next-generation office infrastructure ■ Creation of an information platform	Risk management ■ Response to global financial regulations ■ Cybersecurity countermeasures ■ Money laundering countermeasures	
	Digital transformation		Business reform and productivity improvement		
<Foundation supporting strategies> Highly transparent and objective governance system					

Growing uncertainty in society is an opportunity for Daiwa Securities Group to provide new value

A major paradigm shift is underway in the economic and social environment surrounding Daiwa Securities Group. This wave of change will only become bigger as time passes. In Japan, society is aging amid declining birthrates, and people are living longer on average in an era where more people live to the age of 100. Japanese people are becoming more aware of the need to prepare for their golden years. Across generations, needs are increasing for asset building and asset management to fund living needs after retirement. At the same time, individuals who own financial assets are becoming more diverse. Not only a wider income gap, but also a larger gap among individuals with access to information, has led to the subdivision of individual needs for asset management.

Change has been even more dramatic in Asia. The contribution of Asian countries to global GDP continues to increase every year. In contrast to Japan's mature economy, the wealthy and the middle class have grown sharply in Asia, especially in China. While this has increased inbound demand, Japanese companies are being buffeted by tougher competition as markets in Asia become more integrated.

On a global basis, advances in technology have given rise to an IoT society where everything is connected over the Internet, bringing about a digital transformation with

technological innovations in AI, Big Data and robots. As a result, productivity is improving by leaps and bounds, and fundamental change is beginning to crack open industrial structures and employment models. In the financial industry, the competitive landscape is primed for rapid change with the emergence of FinTech companies and companies entering the fray from other sectors.

In such an environment, the world is becoming more convenient while people's lifestyles are also changing in various ways, such as employment models and how they access information. As customer needs diversify in accordance with their age, gender and lifestyle, uniform service models are unlikely to serve these needs well. Meanwhile, companies face increasingly tough competitive conditions around the world. Governments also address numerous social issues with dwindling public finances amid declining birthrates, an aging populace and greater regional disparities. As a consequence, it has become essential to address changes in the industry structure, strengthen global competitiveness, and nurture industries that help solve social issues.

We view these increasing uncertainties in a changing society as business opportunities, and aim to contribute to the creation of a better society in the future.

Essential to expand access to the asset building generation regarded as digital-natives

As an example, Daiwa Securities Group's core customer base prefers face-to-face transactions over online transactions, while AI and FinTech will certainly have an impact on its business. In the next 20-30 years, the digital-native generation, who are familiar with the latest technologies, will come to own the most financial assets, making it imperative that we have access to this young generation. While we must respond to such circumstances, we do not necessarily intend to build trading platforms on our own at great cost. We believe it will be important for the Group to have name recognition when this young generation begins in earnest to manage their assets. With this in mind, we will aggressively pursue partnerships with external companies, and if we identify future potential in a new type of trading platform we do

not have, we will jump on board without hesitation in order to expand access.

In February 2018, Daiwa Securities Group Inc. entered into a capital and business alliance with KDDI Corporation, a major telecommunications service provider in Japan, to establish KDDI Asset Management. KDDI Asset Management will develop financial services that can be conveniently accessed via smartphone apps in a bid to encourage customers to start asset building. KDDI Asset Management offers asset management and iDeCo (defined-contribution pension plans for individuals) management services, and plans to offer Daiwa Securities Group products for customers with even more diverse needs for asset management. KDDI has over 25 million customer accounts*, interacts with customers via



smartphones, and possesses digital technology. Combining this with the Group's know-how in investment management and iDeCo business, we aim to provide attractive products to younger generations of potential customers.

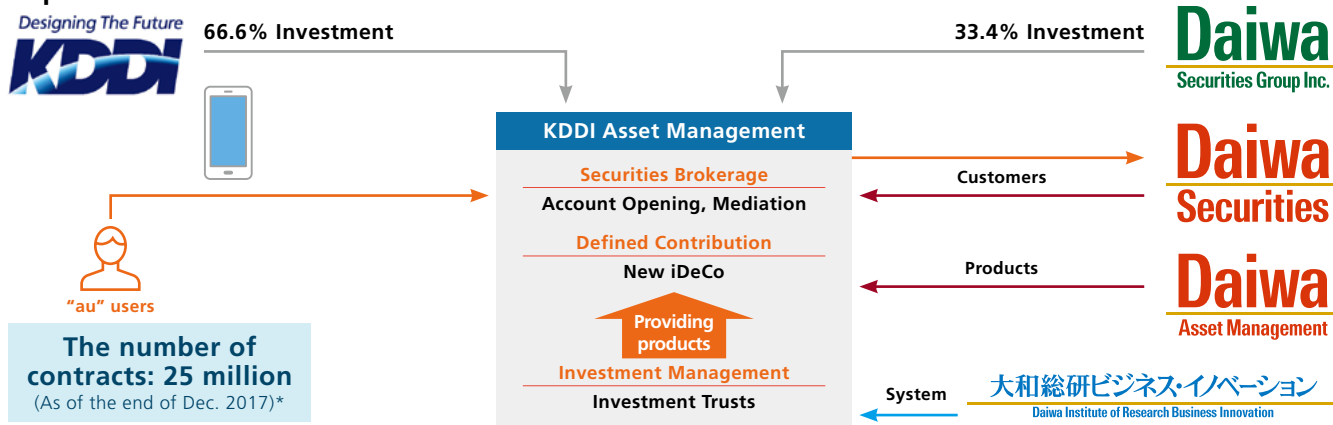
In November 2017, Daiwa Securities Group Inc. signed an agreement to collaborate with Finatext Ltd. and its subsidiary Smartplus Ltd. on the establishment of a next-generation securities platform. STREAM is the name of the social network app created by Smartplus that allows users to exchange information about stock trading and conduct stock trades without the need to pay conventional transaction management fees. The service is already fully up and running.

Through initiatives like these, we are able to access a broad range of customers by providing external companies with the Group's financial products, services and securities platforms.

In the FinTech field, we established a new company called Fintertech. With an organization able to flexibly adapt to digital transformation, Fintertech will examine next-generation financial services for digital-native customers that are a departure from traditional securities and financial businesses.

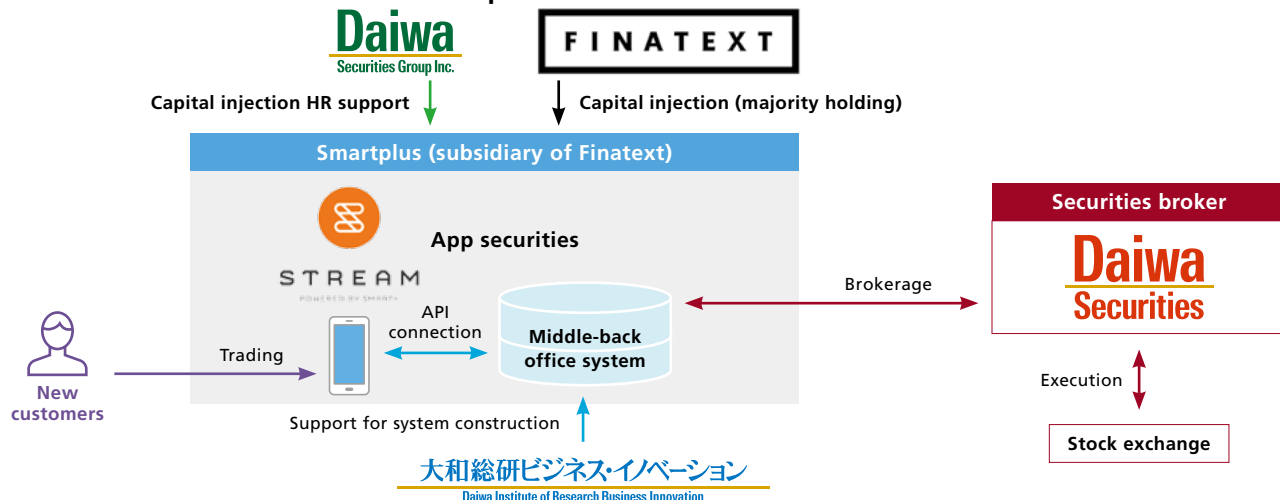
* As of the end of December 2017

Capital and Business Alliance with KDDI



* Source: KDDI Corporation Financial Results for the 3Q FY2017

Collaboration with Finatext and Smartplus



Innovation leads the Group's potential to progress

The DNA of Daiwa Securities Group entails “Passion” that has filled the Group over time and “Professionalism” that harnesses advanced specialist knowledge with the aim of achieving the industry's highest quality. With the addition of “Potential” in the current operating environment, we list these three elements as latent strengths. Adding “Innovation” allows the Group to aim for more growth. “Innovation” implies change with something new, and companies aiming for sustained growth should recognize that change is constant. We must always aim higher in order to avoid becoming complacent with current

conditions and coming to a standstill. During a paradigm shift, maintaining the status quo is to accept eventual decline. Instead of taking a top-down approach to moving the company forward, it is important for each employee to reassess his or her work and continue to improve efficiency in order for the company as a whole to increase productivity. Employees must build on momentum for growth by taking on new challenges, even small ones. To this end, management has fostered an environment where employees are not afraid to fail, enabling bottom-up changes to thrive.

Vision of the Daiwa Securities Group



Passion

- A strong ambition and sense of mission to contribute to the development of society and the economy through the financial and capital markets
- A passion for realizing the corporate principles of building trust, placing importance on personnel, contributing to society, and securing healthy earnings

Professionalism

- Quality No.1 with high-level integrity and expertise
- A diversified business portfolio aimed at being an integrated securities group with a hybrid business model

Potential

- The emergence of the 100-year life span: Expanding investment and asset succession needs
- Expansion and diversification of investment needs of the asset-formation generation through progress on digitalization
- Advancement of industrialization and rapid economic growth in Asia



Innovation

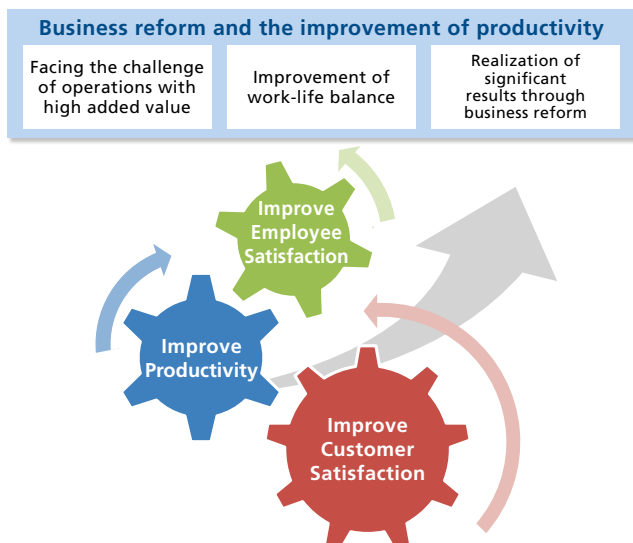
Question stereotypes and prioritize change

For example, are regular staff meetings and liaison committees truly necessary? For what reason are some documents updated on a daily basis? We have already begun work reviewing what is truly necessary, taking a close look at each kind of work. Work that has been identified as unnecessary must be ceased as a drastic measure. Employees that had performed this work without doubting its necessity may put up some initial resistance. Though it depends on the situation, employees who were instructed to stop unnecessary work and reassigned to more productive work should become more motivated and incentivized while doing their new work, which may be guided under the responsibility of top management.

With the aim of achieving the industry's highest quality and improving customer satisfaction, we must ensure that our employees are professionals with high motivation in their roles. Moreover, we believe that motivation

corresponds to employee satisfaction. Under the new Plan, we are keen to create a positively reinforcing cycle for employee productivity, level of participation and job satisfaction. While advancing work style reforms, we will implement job satisfaction reforms that aim to increase employee satisfaction by allowing employees to try high-value-added work and contribute more to customers and society. For example, Daiwa Securities Group has introduced a scholarship support system as a new initiative. Moreover, we will monitor employee satisfaction as a KPI. We will continue efforts to brush up the “knowledge,” “skill & technique” and “mindset” of each employee through Q-Road and CQ1* meetings that began in 2017.

In December 2017, the Group created the Business Reform and Productivity Improvement Committee. Based on surveys of work that have already been conducted, preliminary estimates indicate that reducing 30% of the



work performed in management and operations at the head office departments of Daiwa Securities Group would free up time equivalent to roughly 10% of the total hours worked by personnel at the head office. Daiwa Securities Group is working to automate administrative work through Robotic Process Automation (RPA), and the time freed up as a result will be spent on higher-value-added work and work that contributes to customers and society. In turn, this will lead to work environments that allow employees to focus more on the creation of innovation. We have set internal KPIs for improving work efficiency, including digitalization, and monitor targets for reducing inefficiencies.

* Clients first, Quality No. 1

Focusing on the effectiveness of measures aimed at addressing SDGs and promoting activities to solve social issues while carrying out our mission as a securities company

In the new Plan, in accordance with a long-term vision of its future, Daiwa Securities Group has clarified its stance on SDGs with “Passion for SDGs 2018 —Daiwa Securities Group’s SDGs Declaration—,” as we believe that solving social issues will drive growth at the Group and lead to the further development of society and the economy in Japan. Just as the Group has to date identified contributing to society as a part of its corporate principles, steps have been taken to contribute to the development of society and the economy through such business activities as impact investments and SRI investment trusts. In order to make progress on the SDGs aim of “no one will be left behind,” we believe we can work harder to solve social issues. In a bid to more effectively balance social value with economic value, we announced in February 2018 the establishment of the SDGs Promotion Committee. To reinforce management’s commitment, I serve as head of the committee, which also has three outside experts as members in order to proactively incorporate objective opinions from outside the Group. Through workshops and internal bulletins, we will encourage each and every employee to consider SDGs in their daily work.

For the 17 goals of the SDGs, first we have to find the areas where we can make a contribution, and then undertake the execution of initiatives. At this juncture, the Group is examining four major themes, comprising finance, technology, local community and life in general.

With regard to finance, we intend to incorporate SDG concepts in our core securities business and take initiatives one by one. On the technology front, we are considering initiatives outside existing business lines, beginning with the use of FinTech.

Regarding the local community, the Group has a network

of branches spread across the nation, and has benefited strongly from the development of regional economies. We have already started activities, such as event support, and will collaborate with local governments, regional financial institutions and local companies to provide more support for meeting local needs. As far as life in general is concerned, we have already initiated support measures aimed at addressing child poverty. We are also looking to undertake various other activities including a review of measures designed to further promote work-life balance.

The most important mission for a securities company is to ensure the smooth and proper functioning of capital markets, a crucial piece of infrastructure that supports market economies in not only Japan but around the world as well. In my opinion, the very fact that the Group continues as a going concern today reflects society’s recognition that we have successfully fulfilled this important mission over the course of our 116-year history since foundation. If securities companies did not function properly, market economies would no longer function, halting the development of both companies and countries. For that reason, people involved in the securities industry must be aware of their role in fulfilling this great social responsibility.

At the Group, positive steps can be taken to generate healthy earnings and to return these profits to society by ensuring that employees are fully aware of their mission and the demands placed on securities companies by society in the conduct of their business activities. In addition, we believe that realizing our sustainable growth in concert with society is of the utmost importance. With this in mind, it is vital that we create both social and economic value at a high level.