

# Strategies by Division

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# Daiwa Securities Group Business Divisions

## Retail Division

Daiwa Securities Co. Ltd.  
Retela Crea Securities Co., Ltd.

- Number of branches and sales offices in Japan\*: **155**
  - Remaining customer cash management service (CMS) accounts\*: **2,989 thousand**
- \* Figure for Daiwa Securities Co., Ltd.

## Wholesale Division

Daiwa Securities Co. Ltd.  
Daiwa Capital Markets Europe Limited  
Daiwa Capital Markets Hong Kong Limited  
Daiwa Capital Markets Singapore Limited  
Daiwa Capital Markets America Inc.

- Offices in: **20 countries and regions**
- Total value of underwriting and distribution: **¥1,379.5 billion (equity)**  
**¥10.2 trillion (bond)**

## Asset Management Division

Daiwa Asset Management Co. Ltd.  
Daiwa SB Investments Ltd.  
Daiwa Real Estate Asset Management Co. Ltd.  
Mi-Casa Asset Management Inc.  
Daiwa Office Investment Corporation

- Assets under management\*: **¥20.5 trillion**
  - Assets under management of real estate AM business: **¥883.2 billion**
- \* Total of Daiwa Asset Management Co. Ltd. (stock investment trusts/bond investment trusts) and Daiwa SB Investments Ltd. (stock investment trusts/investment advisory services)

## Investment Division

Daiwa Corporate Investment Co., Ltd. (DCI)  
Daiwa PI Partners Co. Ltd. (PIP)  
Daiwa Securities SMBC Principal Investments Co. Ltd. (DPI)

- Assets from investment funds\*<sup>1</sup>: **¥417.3 billion from 82 funds**
  - Outstanding principal investment balance\*<sup>2</sup>: **¥120.0 billion**
- \*<sup>1</sup> Investment fund data is presented on a cumulative basis from the commencement of DCI business operations  
\*<sup>2</sup> Principal investment balance is total of PIP and DPI

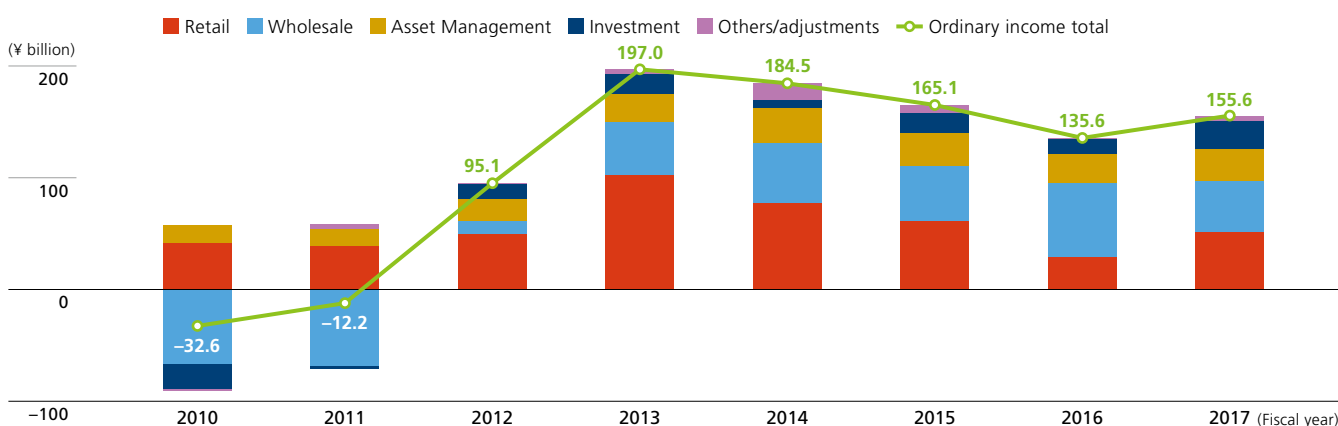
## Other

Daiwa Institute of Research Ltd.  
Daiwa Institute of Research Business Innovation Ltd.  
Daiwa Next Bank, Ltd.  
Daiwa Securities Business Center Co. Ltd.  
Daiwa Property Co., Ltd.

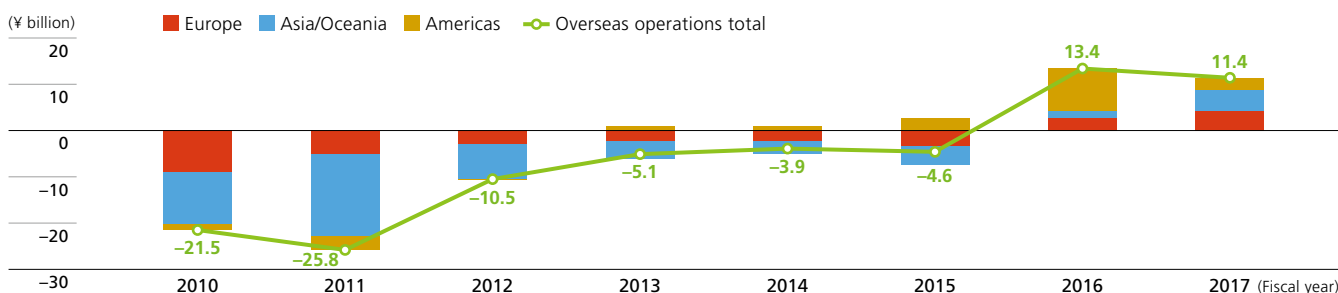
- Balance of deposits\*: **¥3.5 trillion**
  - Number of accounts\*: **1,289 thousand**
- \* Figure for Daiwa Next Bank Ltd.

Note: The number of branches in the Retail Division is current as of August 31, 2018. Other figures are as of March 31, 2018, or from FY2017 results.

## Ordinary Income Trends by Business Division



## Overseas Operations Ordinary Income Trends



# Retail Division

The Retail Division offers customers two courses of service to match various investment needs, allowing Daiwa Securities to deliver a full lineup of products and services to customers. The Daiwa Consulting course offers hands-on service, including high-value-added proposals and investment advice from sales representatives, while the Daiwa Direct course offers superior flexibility and access to Daiwa services through the Internet, or contact centers.

## Seiji Nakata

President and CEO  
Head of Retail  
Daiwa Securities Group Inc.

### Main Sources of Earnings

- Commissions on products and services related to financial asset management

### Key Factors Affecting Earnings

- Financial markets and economic conditions in Japan and overseas
- Product development, sales of underwriting deals and sales strategies that meet customers' needs

### Engagement with Stakeholders

	<b>Customer Attributes:</b>	<ul style="list-style-type: none"> <li>• Individual investors</li> <li>• Corporate investors (business corporations, public corporations, local public organizations, other corporations)</li> </ul>
	<b>Channels:</b>	<ul style="list-style-type: none"> <li>• Head and branch offices, sales offices (sales representatives, client support, etc.)</li> <li>• Daiwa's online trading • Contact centers</li> </ul>
	<b>Main Products and Services:</b>	<ul style="list-style-type: none"> <li>• Equities • Bonds • Investment trusts • Wrap account services</li> <li>• Insurance • Banking services • Inheritance-related services, etc.</li> </ul>
	<b>Social Value:</b>	<ul style="list-style-type: none"> <li>• Supports asset accumulation for people</li> <li>• Supports society through investment on an intermediary basis</li> </ul>

### Awareness of Environment

- Inflation being encouraged by domestic monetary policy
- Growing needs for asset preservation as people live longer
- Beginning of the money shift to the digital native generation, while the current crop of young people has less investment experience
- Emergence of new products and services using new technology, changes in regulations in response

### Strengths

- Network of 155 sales branches/sales offices and a customer base built up over 116 years since its foundation
- Highest number of CFPs in the financial industry
- Ability to develop and recommend products and services in line with customer needs
- Ability to provide products such as foreign equities, IPOs, primary and secondary offerings, foreign currency and time deposits through synergies with the Wholesale Division, Daiwa Next Bank and other divisions

### Business Risks

- Risk of major decline in earnings due to weak demand for securities investment from customers owing to market slump, or investors becoming less inclined to own overall risk assets
- Risk of the necessity of fixed costs, such as real estate-related expenses, personnel expenses, or depreciation on systems investments, for branches, sales representatives, online trading systems, etc.

## Initiatives and Performance in FY2017

In FY2017, Daiwa Securities focused on building a customer-oriented sales system with the aim of achieving the industry's highest quality and augmented its sales branch evaluation system from the standpoint of customer satisfaction. After introducing a bottom-up sales system centered on sales branches, which are the closest to customers, sales representatives have spent more of their time listening to customer needs and proposing ideas more in tune with market trends. As a specific example, the trading volume of foreign equities increased sharply, mainly for U.S. equities in a brisk market environment, leading to record-high levels of foreign equities in assets under custody.

In sales of stock investment trusts, more emphasis was placed on performance-weighted product selection, resulting in a substantial increase in sales and distribution amounts as well as investment trust sales commissions.

In wrap account services, over a year has passed since the introduction of Daiwa Fund Wrap Premium

and Daiwa Fund Wrap Online, and as of the end of FY2017, the contract assets under management for wrap account services reached a record high. In March 2018, Daiwa Securities began offering Daiwa Advance Wrap, which affords more flexibility in making discretionary changes to portfolios depending on trends in the investment climate.

Daiwa Securities has expanded the number of sales branches with Inheritance Consultants, who have advanced knowledge of inheritance-related issues, to 100 branches as of April 2018, in order to strengthen support for customers seeking advice about inheritance procedures.

As a new initiative in the asset-building field, Daiwa Securities Group entered into a capital and business alliance\* with KDDI Corporation, establishing the joint venture called KDDI Asset Management Company, Limited in February 2018, while preparing to launch services such as iDeCo (defined-contribution pension plans for individuals).

\*  See page 16 for details.

### Action Plan for FY2018

- 1 Building a sales structure based on customer satisfaction**
- 2 Provide best service solutions for customer attributes that match the customer's various needs**
- 3 Sustainable expansion of a stable revenue base**
- 4 Expand the business by utilizing external channels and resources**

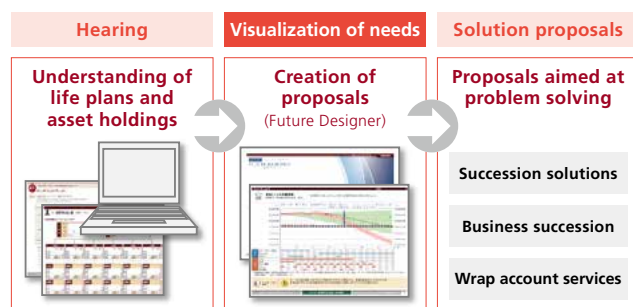
## Strategy 1

### Creation of a Customer-Oriented Sales System

From FY2018, Daiwa Securities will roll out Daiwa NPS® (Net Promoter Score) as an indicator for measuring customer loyalty, which will allow for a more efficient and consistent visualization of customer satisfaction. NPS® has been proven to have a strong correlation to improvement in customer satisfaction and growth potential in corporate earnings. Our aim is to firstly introduce NPS® in all branches of the Retail Division and then work to continuously improve scores toward offering the industry's highest quality.

In April 2018, Daiwa Securities created the CCO (Chief Customer Officer) position and the Retail Business Reform Office. Daiwa Securities is building a companywide customer-oriented sales system that more closely connects the head office to local offices, while introducing and improving NPS® and promoting a goal-based approach in consulting.

#### Visualization of Customer Needs Using a Goal-Based Approach



## Strategy 2

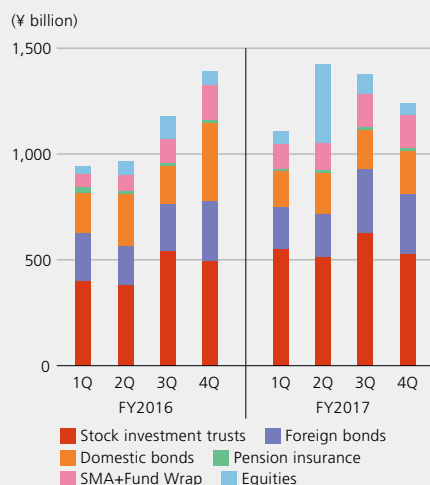
### Expanding Customer Contact and Optimizing Channels

In order to increase interactions with customers and more accurately understand their diverse needs, Daiwa Securities has focused on a sales branch strategy since 2012 that emphasizes the opening of low-cost, small-scale sales offices without back office functions. These sales offices have contributed to growth in the customer base with high levels of new account openings and asset inflows. Daiwa Securities plans to open more sales offices in light of their growth potential.

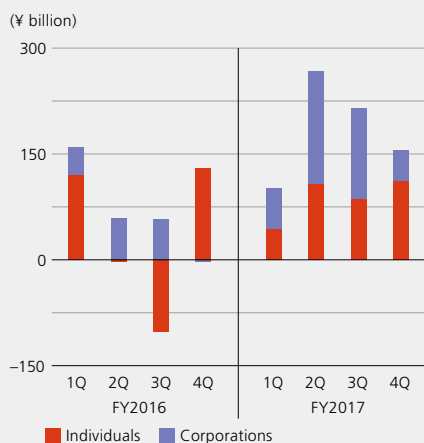
In May 2018, two major branches in Nagoya were merged together, with the aim of increasing efficiency by integrating branches in major cities while expanding agile sales office area coverage.

Moreover, Daiwa Securities aims to optimize and subdivide sales channels in accordance with customer attributes and life stages. In the second half of FY2017, we began to set up Anshin Planners, who provide comprehensive consulting for the needs of elderly customers, and Financial Consultants, who are in charge of asset building customers in their 20s, 30s and 40s. Plans call for all branches to have both channels by the end of FY2020. As a result of this initiative, we will be able to offer better consulting services and proposals that are more aligned with the needs of customers who we tended to have few

#### Sales and Distribution Amount by Product (Daiwa Securities)

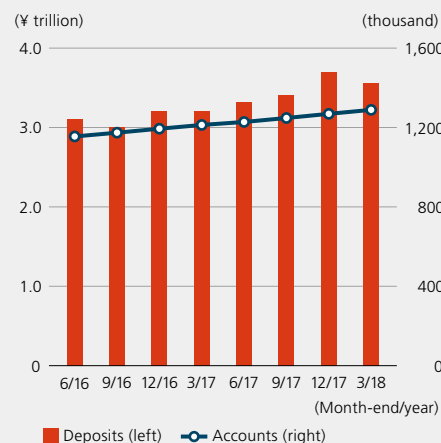


#### Net Inflow of Assets (Daiwa Securities' Retail Division)



[Reference]

#### Balance of Deposits and Number of Accounts at Daiwa Next Bank

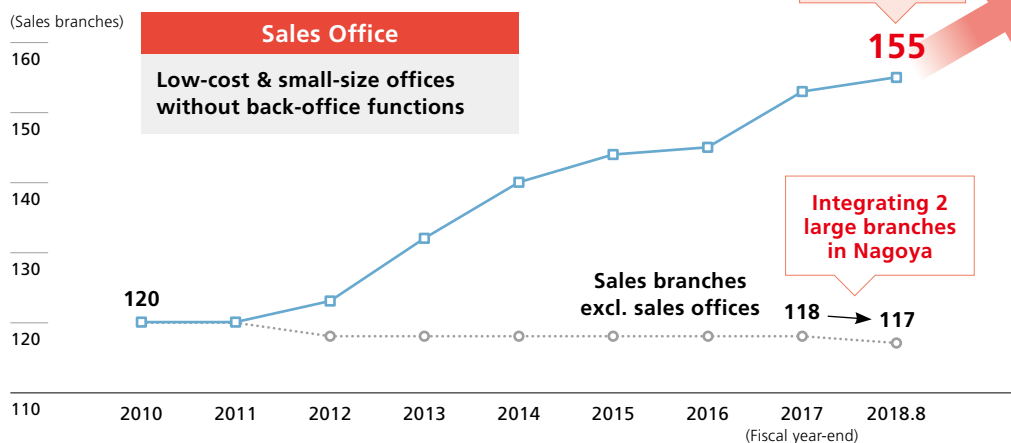


interactions with in the past.

There are currently about 100 branches with Inheritance Consultants, and while aiming to

improve quality further, we plan to have Inheritance Consultants at all of our branches as soon as possible.

### Number of Sales Branches



### Optimizing Sales Channels

#### Subdivision of customers' attributes and life stages to optimize sales channels (introduced to 17 branches since Oct. 2017)

<b>Affluent</b>	<b>Wealth Consultant</b>	Providing high-value-added and comprehensive consulting to affluent and unlisted companies
<b>Elderly customers</b>	<b>Anshin Planner</b>	Providing comprehensive consulting including services that meet the needs of elderly customers
<b>Asset building customers</b>	<b>Financial Consultant</b>	Approaching asset building customers and direct customers and leading customers to relevant channels according to their life stages and changes in investing plans
	<b>Client Support</b>	

### Operational Data

	Billions of yen (Except as otherwise specified)			
	FY2014	FY2015	FY2016	FY2017
<b>Daiwa Securities</b>				
Customer assets*	54,678	51,000	53,678	68,100
Equities	32,574	30,119	32,971	46,310
Bonds	12,248	11,854	12,065	13,045
Investment trusts	8,590	7,764	7,500	7,573
Others	1,265	1,262	1,140	1,170
Sales of core products				
Stock investment trusts	2,236	2,317	1,811	2,215
Foreign bonds and others	1,306	1,243	922	982
Net inflow of retail assets	1,067	662	299	739
Individuals	707	335	145	347
Unlisted corporations, etc.	359	327	154	392
Remaining customer cash management service (CMS) accounts* (thousands)	2,910	2,973	2,974	2,989
Online trading accounts* (thousands)	2,904	3,040	3,127	3,214

\* As of the end of the fiscal year; includes the Wholesale Division

### Strategy 3

## Provision of Products and Services That Identify Customers' Needs

Daiwa Securities is working to expand its lineup of attractive products while improving functions and services in order to satisfy the advanced needs of customers. When adopting investment trusts, Daiwa Securities follows guidelines and a highly transparent process for selecting products. On the sales front, we continue to propose the best funds to customers after listening carefully to their needs. In FY2017, of the 17 investment trusts that were newly lined up for customers, including on a sub advisory\* basis, 13 investment trusts (about 80%) were structured by management companies outside the Daiwa Securities Group, in line with the selection of excellent

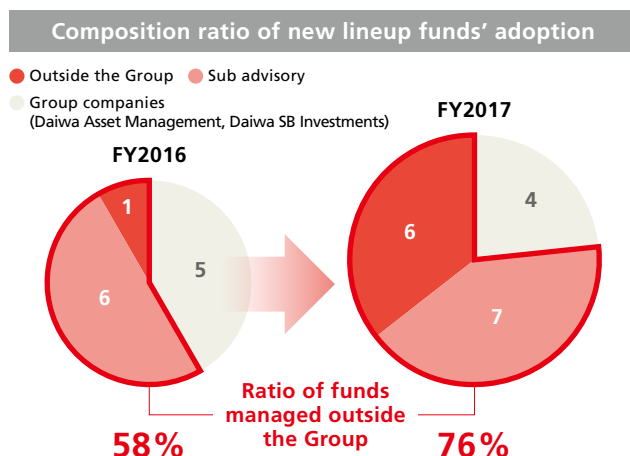
investment trusts under an open architecture.

In wrap account services, we began offering Daiwa Advance Wrap, which permits the addition of Core Investments that seek higher returns through flexible changes in portfolios in reaction to changes in the market environment, and Satellite Investments that align with customer preferences and periodic market themes.

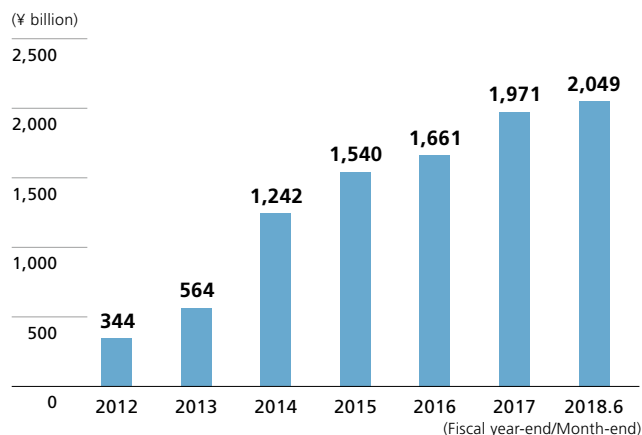
As of March 31, 2018, the balance of contract assets under management for wrap account services increased to ¥1,971.3 billion, a record high, and as of the end of June, the balance exceeded ¥2 trillion.

\* Asset management companies set up investment trusts and contract sub advisors (subcontracted external asset management companies) to select marketable securities for investments and trade these marketable securities. By adopting sub advisory through investment trusts, it is possible to provide customers in Japan a broader range of asset management models from around the world, including access to asset management with strengths in specific markets and marketable securities, as well as asset management with excellent track records.

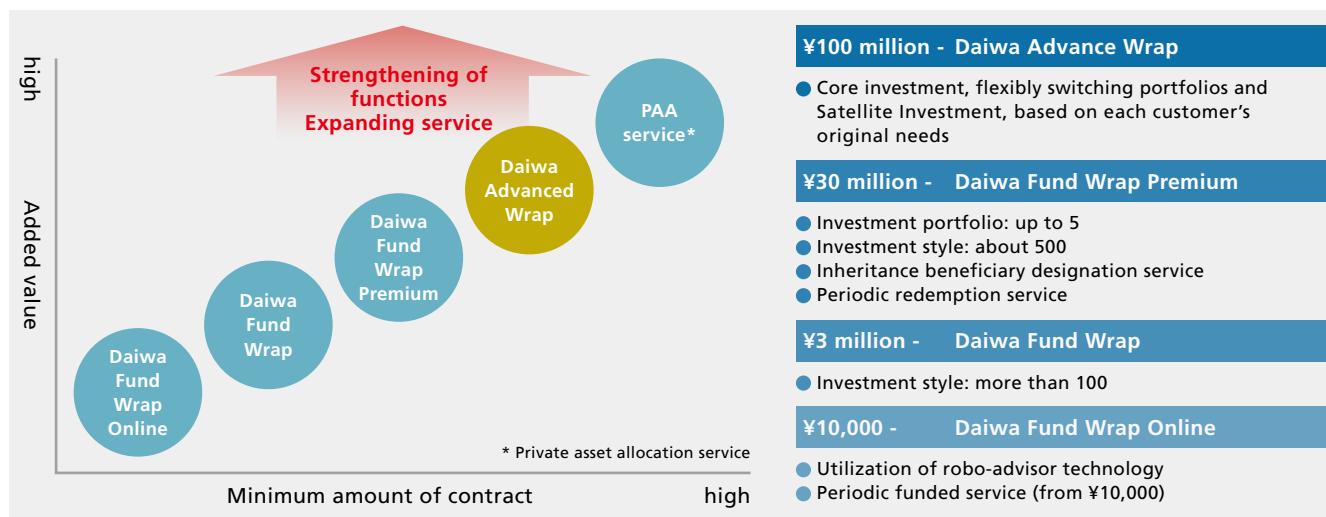
### Selection of Investment Trusts by Open Architecture



### Contract AUM for Wrap Account Services



### Further Evolution of Wrap Account Services



# Wholesale Division



**Toshihiro Matsui**  
Deputy President and COO  
Head of Wholesale  
Daiwa Securities Group Inc.

The Wholesale Division covers Global Markets and Global Investment Banking. The Global Markets business provides sales and trading services of equities, bonds, foreign exchange and derivative products to customers, mainly institutional investors and corporations, while providing financial products to the Retail Division. Global Investment Banking offers underwriting services for equities and bonds, IPOs, and M&A advisory services.

GM: Global Markets GIB: Global Investment Banking

## Main Sources of Earnings

- GM** • Trading commissions from the buying and selling of marketable securities for institutional investors, trading income  
**GIB** • Underwriting commissions from underwriting business, M&A commissions from M&A advisory services

## Key Factors Affecting Earnings

- GM** • Fluctuations on financial markets and changes in customers' trading behavior, in reaction to international geopolitical risk and economic conditions  
**GIB** • Economic conditions inside and outside Japan that affect customer decisions regarding fund raising methods and demand for M&A  
• Whether Daiwa Securities can seize corporate demand and be assigned to deals

## Engagement with Stakeholders

	<b>Customer Attributes:</b>	<ul style="list-style-type: none"> <li>• Institutional investors in Japan and overseas</li> <li>• Corporations • Financial institutions • Public entities</li> </ul>
	<b>Channels:</b>	<p><b>GM</b> • Sales • Analysts • Dealers <b>GIB</b> • Corporate client sales (RM and sector coverage) • Institutional sales (brokerage)</p>
	<b>Main Products and Services:</b>	<p><b>GM</b> • Equities • Bonds and foreign exchange • Derivatives <b>GIB</b> • Primary and secondary equity underwriting • Bond underwriting • M&amp;A advisory services • Consulting for share listings</p>
	<b>Social Value:</b>	<p><b>GM</b> • Ensure healthy markets • Provide global investment opportunities to investors in Japan and overseas <b>GIB</b> • Support industrial development • Identify and support new growing industries • Assist raising funds for public projects with high social significance, such as Impact Investments</p>

## Awareness of Environment

- GM** • Ongoing recovery in world economy  
• Greater uncertainties in outlook for world economy due to trends in monetary and trade policies in each country  
• Increase in geopolitical risk around the world • Tighter regulations and changes in competitive landscape as companies enter from other sectors  
• Increase in ESG investing and dialogue with issuers due to greater emphasis on responsible investing among institutional investors  
**GIB** • Changes in industrial structures due to technological innovation • Assistance for venture firms initiated by the government  
• British exit from the EU • Relaxation of restrictions on foreign investment in China's financial markets

## Strengths

- GM** • Ability to provide products and information across Japan and overseas utilizing the network of overseas bases  
• Robust and advanced execution platform for equities and bonds • Analyst coverage of major Japanese companies  
**GIB** • Sales network in Japan and overseas • Utilize personnel with experience of the secondary market  
• Cross-border M&A network • RM structure that covers all listed companies and unlisted companies in Japan

## Business Risks

- GM** • In trading services, the risk earnings will deteriorate owing to weaker transaction demand from customers due to market trends or changes in taxation and accounting systems; the risk of losses materializing as a result of sudden, large-scale changes in market conditions that are detrimental to the market value of positions held by dealers; and the risk of losses materializing from an inability to sell in reaction to changes in market conditions due to the holding of low-liquidity positions  
• In brokerage services, the risk of a significant decline in earnings if a slump in market conditions weakens demand for securities investment at customers, leading to risk-averse investment behavior on Japan's securities markets and investors who are more reluctant to own risk assets  
• System investment risk on large-scale trading systems, risk of system failure  
**GIB** • In underwriting and M&A advisory services for corporate customer needs on the financial and management strategy fronts, the risk of sudden changes in transaction scale and volume due to securities market conditions  
• In underwriting deals, the risk of losses on underwritten securities held, caused by a fall in market prices in the event that the securities cannot be smoothly sold to investors for reasons such as a decline in the market



## Initiatives and Performance in FY2017

The Global Markets business got off to a tough start as customer flow lost momentum at the beginning of the year due to growing geopolitical risk and other factors, while volatility remained low on financial markets. However, overall earnings were driven by an increase in customer flow in both Japanese and foreign equities, by accurately identifying customer needs amid robust equity markets in Japan and overseas. Our analysts moved up in the Nikkei Veritas rankings to third place, the first time since 2012, as a result of efforts put into training new graduates, hiring externally, and better performance overall.

In Global Investment Banking, underwriting deals included, for Japanese companies, serving as joint global coordinator in secondary equity offerings for Japan Post and Renesas Electronics, IPO for SG

Holdings, as well as follow-on offerings for Idemitsu Kosan and Daiwa House REIT Investment. Overseas, Global Investment Banking operations lead managed the issuance of benchmark bonds for the Japan Bank for International Cooperation (JBIC). In the DealWatch Awards 2017, Daiwa Securities won the House of the Year 2017 award for the first time since FY2012.

In M&A advisory services, Daiwa Securities served as advisor to MBK Partners in its buyout deal for Kuroda Electric through an investment fund managed by MBK Partners. Additionally, Daiwa Securities and DC Advisory collaborated together and served as advisor to the investment fund Cinven for the sale of Northgate Public Services, an IT service provider in the U.K., to NEC Corporation. Daiwa Securities Group companies worked together on several other M&A deals.

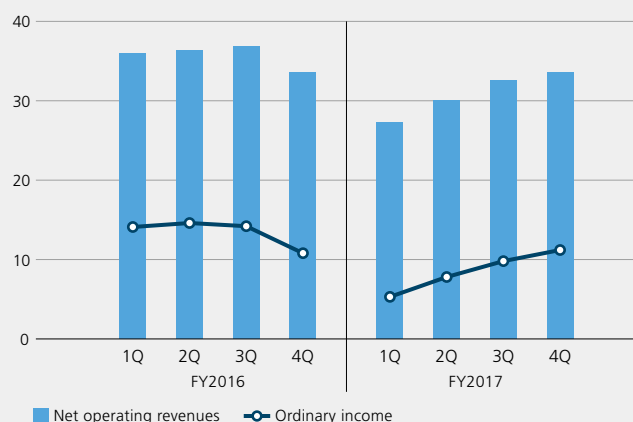
In order to strengthen M&A advisory services

## Major Lead-Managed Deals and Publicly Announced M&A Advisory Activities in FY2017 (Including Participation as a Joint Bookrunner)

Primary and secondary equity offerings	JAPAN POST HOLDINGS Co., Ltd.	Global PO	¥1,308.9 billion
	Renesas Electronics Corporation	Global PO	¥348.5 billion
	Yakult Honsha Co., Ltd.	Global PO	¥140.0 billion
	Idemitsu Kosan Co., Ltd.	Global PO	¥124.8 billion
	Daiwa House REIT Investment Corporation	REIT global PO	¥56.8 billion
	SBI Holdings, Inc.	Euro yen CB	Total ¥50.0 billion
IPO	SG Holdings Co., Ltd.	Global IPO	¥127.6 billion
	KATITAS Co., Ltd.	Global IPO	¥37.8 billion
Bond	Japan Bank for International Cooperation (JBIC)	Benchmark bonds (2 issues)	Total US\$9.5 billion
	Asahi Group Holdings, Ltd.	Straight bond	Total ¥280.0 billion
	Crédit Agricole S.A.	Samurai bond	Total ¥203.9 billion
	Mitsui Sumitomo Insurance Company, Ltd.	Subordinated bond	Total ¥130.0 billion
M&A	<ul style="list-style-type: none"> <li>■ Sale of CPA Global (UK) to Leonard Green &amp; Partners, L.P. (US)</li> <li>■ MBO of Kuroda Electric Co., Ltd. by MBK Partners JC IV, L.P.</li> <li>■ Sale of Northgate Public Services (UK) by Cinven to NEC</li> <li>■ Acquisition of shares of H.C. Starck Tantalum and Niobium (Germany) by JX Nippon Mining &amp; Metals Corporation</li> </ul>		

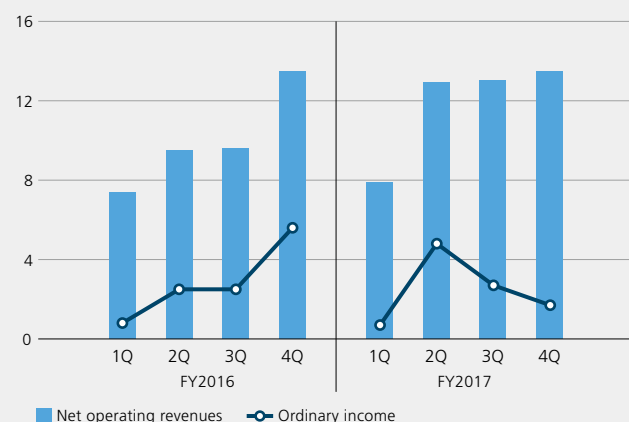
## Quarterly Earnings Trends Global Markets

(¥ billion)



## Global Investment Banking

(¥ billion)



globally, especially in North America, Daiwa Securities Group turned business alliance partner Sagent Holdings, Inc., in which it had made an investment, into a wholly owned subsidiary. After acquiring Signal Hill Holdings LLC separately, the Group merged it with Sagent Holdings to form the Group's wholly

owned subsidiary DCS Advisory Holdings, Inc. Through collaboration with overseas bases, Daiwa Securities Group has put into place a structure for handling cross-border deals with Japan, which are likely to increase, and deals between Europe and the U.S., a huge market.

## Action Plan for FY2018

- 1 Promote the company's shift to achieve higher corporate value
- 2 Provide products and services that capture customer needs
- 3 Support transformation in business structure and in Japan's industrial structure
- 4 Provide pan-Asian business supports as a regional Asian brokerage firm

### Strategy

1

### Promotion of High-Value-Added Solutions for Corporations

Global Investment Banking provides sophisticated solutions that help solve management problems at corporations. In particular, Daiwa Securities Group aims to strengthen the M&A business by leveraging its expanded global network in Japan, Europe, the U.S. and now China as well.

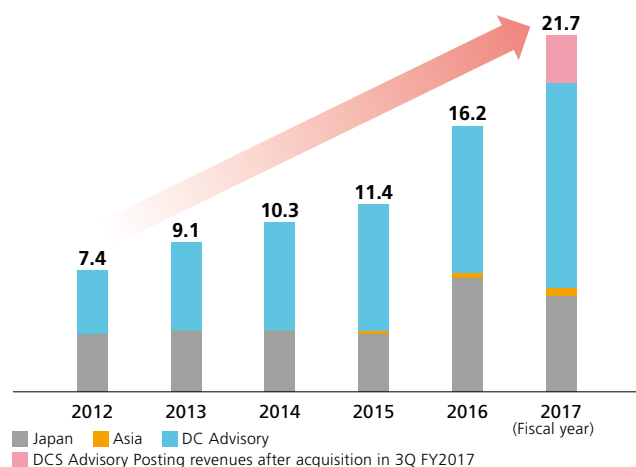
In Europe, DC Advisory ranked second in 2016 and third in 2017 on the M&A league tables for European mid-caps (valued below €500 million, excluding accounting-related firms), putting it within reach of the top spot. In North America, Sagent Advisors and Signal Hill, which is strong in the TMT\* sector, were merged to form DCS Advisory, strengthening our ability to make deals between Europe and the U.S., a huge market.

In Japan, Daiwa Securities aims to more than double its earnings by improving productivity and expanding personnel in the M&A business by roughly 1.7x over the next six years. The Daiwa Securities Group intends to establish a position as a top global player in the mid-cap M&A market through effective collaboration between regions, including Japan and Asia.

\* Technology, Media and Telecommunication

### Consolidated Group M&A-related Commission

(¥ billion)



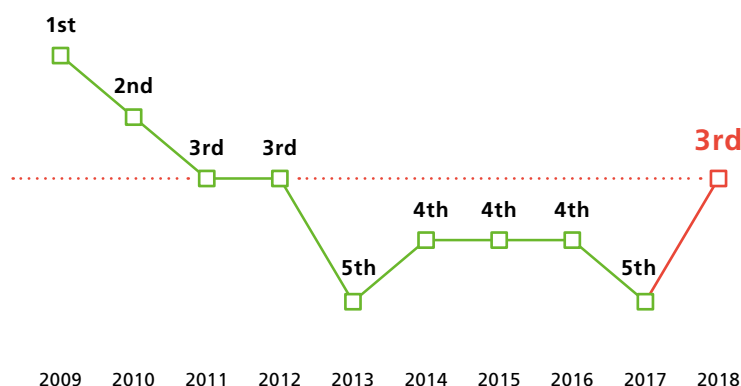
COO Matsui visited the San Francisco branch of DCS Advisory in May 2018.

## Strategy 2

### Provision of Products and Services That Identify Customer Needs

In order to provide products and services that identify customer needs, Global Markets is enhancing its research in Japan and overseas and aims to establish a structure that keeps analysts in one of the top three slots for Nikkei Veritas

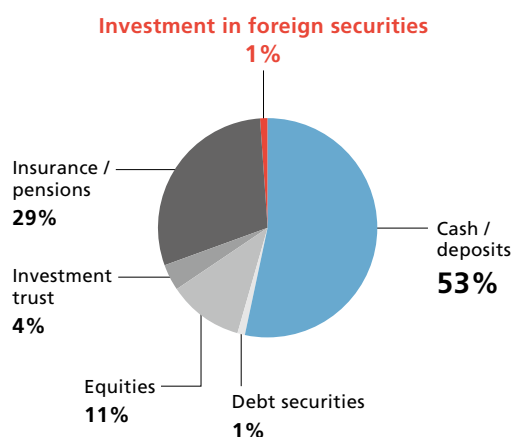
Nikkei Veritas Analyst Ranking



Source: Overall ranking by company, equity research ranking

rankings. In Japan, our focus is on providing easy-to-understand information about foreign equities and bonds to individuals in an attempt to promote diversification in their financial asset portfolios, while providing foreign currency-denominated and other various products to help customers accumulate assets.

Breakdown of Financial Assets Held by Households in Japan (As of March 31, 2018)



Source: Bank of Japan, The Investment Trust Association

## Strategy 3

### Strengthen IPO Business

In the IPO business, Daiwa Securities is working to win deals in the IT sector, which is expected to grow, and establish a structure that keeps it in the top three in league tables while moving toward the top position during the new medium-term management plan. Daiwa Securities Group intends to increase personnel in IPO-related departments by 1.5x over the next six years. At the same time, Daiwa Securities will help issuer companies increase their value by improving the quality of deals on which Daiwa Securities is the lead manager.

IPO League Table (FY2017)

Rank* <sup>1</sup>	Company	Share* <sup>2</sup>
1 (1)	Nomura	26.7%
2 (3)	Daiwa	26.0%
3 (2)	Mitsubishi UFJMS	13.6%
4 (4)	Mizuho	12.0%
5 (5)	SMBC Nikko	11.8%

\*1 ( ): FY2016 results

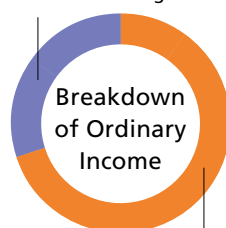
\*2 Percentage of amount taken in league tables

Source: Daiwa Securities (due date of payment basis, proportional to underwriting amount among lead managers)

# Asset Management Division

The Asset Management Division consists mainly of the following companies: Daiwa Asset Management Co. Ltd. focuses on the establishment and management of investment trusts mainly for individual investors and financial institutions; Daiwa SB Investments Ltd. (an equity-method affiliate) offers investment advisory services to pension funds and other institutional investors; and Daiwa Real Estate Asset Management Co. Ltd. manages assets for J-REITs, including Daiwa Office Investment Corporation (an equity-method affiliate).

Real estate asset management



Daiwa Asset Management /  
Daiwa SB Investments



**Nobuyuki Iwamoto**

Deputy President  
Head of Asset Management  
Daiwa Securities Group Inc.

Note: Daiwa SB Investments and Daiwa Office Investment Corporation are equity-method affiliates, so their revenues are recorded in ordinary income.

AM: Asset Management

## Main Sources of Earnings

**AM** • Commissions for structuring and managing investment trusts, and for investment advisory operations (a set percentage of the balance of assets under management, or performance-based compensation)

**Real Estate AM** • Real estate investment income

## Key Factors Affecting Earnings

**AM** • Changes in demand from customers for investment trusts and investment advisory services depending on market conditions

• Investment performance of funds relative to market conditions, appeal of products which capture customers' interest

**Real Estate AM** • Trends in the domestic real estate market and demand for office space

## Engagement with Stakeholders



Customer Attributes:

• Individual investors • Institutional investors • Financial institutions • Government agencies



Channels:

• Distribution companies including Daiwa Securities (securities companies, registered financial institutions), etc.



Main Products and Services:

• Various investment trust products (structuring and managing) • Investment advisory services  
• Support for customers and distribution companies



Social Value:

• Fulfillment of stewardship duties • Helping people accumulate assets  
• Proactive use of ESG information in investment decisions

## Awareness of Environment

- Mergers and restructuring among major asset management firms around the world
- Use of AI technology in investment processes
- Increasing prominence of ESG investment and fiduciary duty amid spread of Principles for Responsible Investment (PRI)
- Investment difficulties caused by low interest rates, diversification of investor needs
- Growing needs for asset accumulation on own initiative

## Strengths

- Product development capabilities to match diverse customer needs
- Marketing capabilities and support structure for sales network inside and outside the Group
- Top-class balance of net assets in investment trusts in Japan
- Research and management capability backed by many years of experience and track record

## Business Risks

**AM** • Risk of a drop in earnings from a decline in assets under management due to a decrease in the appraised value of assets under management or change in asset management behavior of customers (including stronger inclinations toward safe investments such as deposits) due to market fluctuations or an increase in cancellations as a result of the Group's investments underperforming in comparison to competitors

**Real Estate AM** • Risk of weaker earnings due to valuation losses or inability to receive rental and divestiture income at anticipated levels and times, owing to fluctuations in real estate market conditions, changes in fund procurement interest rates, or various other circumstances affecting real estate investments

## Initiatives and Performance in FY2017

Daiwa Asset Management endeavored to strengthen its asset management capabilities, and several funds performed strongly enough to qualify for the R&I Fund Award, as sales of the “Robot Technology Related Equity Fund” brought in new cash flow of ¥248.8 billion, and the “Daiwa Global IoT\*<sup>1</sup> Related Equity Fund,” which was created with a focus on potential growth in IoT amid technological advances, attracted a total net inflow of ¥146.6 billion. The main contributory factor being investment inflow into listed investment trusts (ETFs), Daiwa Asset Management’s publicly offered stock investment trusts brought in an increase in the amount of ¥1,411.8 billion in FY2017, expanding assets under management to ¥14,123.5 billion by the end of FY2017.

Daiwa SB Investments focused efforts on improving its skills in investment advisory operations for pension funds in Japan and overseas. In the investment trust business, the “Global EV Revolution Fund,” which

focuses on long-term growth, brought in cash inflow of ¥154.7 billion, and the company worked to expand global business, such as by creating Japanese equity funds in the EU and other places overseas, resulting in an increase of 6.1% in the balance of its assets under management, to ¥4.9 trillion.

In the real estate asset management field, investment companies managed by Daiwa Real Estate Asset Management and Mi-Casa Asset Management worked to improve their portfolio yields by acquiring new properties and shuffling assets, while aiming to increase the value of existing properties. In aggregate for both companies, assets under management totaled ¥822.0 billion at the end of FY2017.

In February 2018, Daiwa Securities Group acquired 33% of the shares of Samty Asset Management Co., Ltd., the management company for the listed REIT\*<sup>2</sup> Samty Residential Investment Corporation, making it an equity-method affiliate.

\*1 Internet of Things: Things that connect and work together over the Internet

\*2 Real Estate Investment Trust

## Action Plan for FY2018

- 1 Pursue customer profits by strengthening and enhancing investment capabilities**
- 2 Strengthen product development capabilities that capture a wide range of customer needs**
- 3 Enhance product lineups contributing to the customers' financial asset management and strengthen the communication of information and support capabilities**
- 4 Expand alternative investment product lineups, centered around real estate**

## Strategy 1

# Realization of an Abundant Society and Life through Asset Management

The Asset Management Division has set its core focus on the realization of an abundant society and life through asset management. From the basic philosophy of “pursuing customers’ benefits,” we

## Efforts to Pursue Customer Benefits



## Strategy 2

# Reorganization of Asset Management

Since commencing operations in 1999, Daiwa SB Investments has doubled its assets under management over the past two decades, from ¥3 trillion to ¥6 trillion, growing into one of only a few asset management firms in Japan that has attracted widespread attention investing primarily in domestic stocks. Further increasing the competitiveness of asset management companies, however, requires heavy investment in systems in addition to excellent capabilities in product development, fund management and marketing, making it imperative to expand to a scale that can justify these investments.

Following extensive negotiations with Sumitomo Mitsui Financial Group, the partner in joint venture Daiwa SB Investments, an agreement was reached to merge the businesses of Sumitomo Mitsui Asset Management and Daiwa SB Investments.

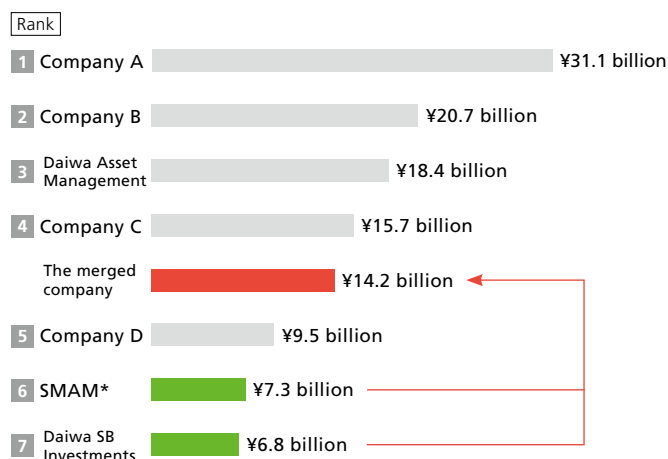
The shareholders of Sumitomo Mitsui Asset Management, namely Sumitomo Mitsui Financial Group, Mitsui Sumitomo Insurance, Sumitomo Life

will contribute to expansion in assets under management for customers by providing products and services in line with their stage of asset building and investment needs.

We aim to increase investment performance by using AI technology, and improve product information through direct distribution by fund managers themselves.

Insurance and Daiwa Securities Group, have joined forces in support of this merger as leading players in the financial industry. Looking ahead, the company will become a stronger asset management firm with best-in-class investment abilities and competitiveness that always places customers first. The post-merger company is expected to contribute even more to the profits of Daiwa Securities Group, as it will remain an equity-method affiliate of the Group.

## Operating Income of Major Asset Management Companies in 2017



\* Sumitomo Mitsui Asset Management  
Source: Disclosure materials

### Strategy 3

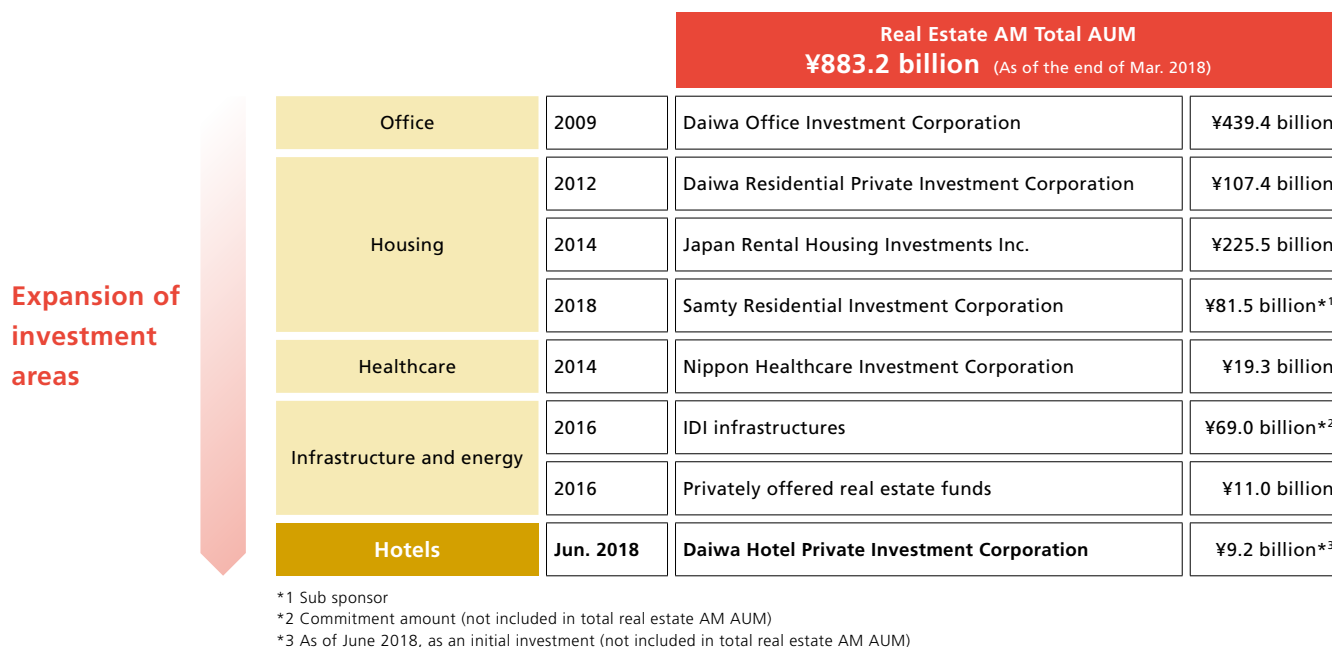
## Expansion of Alternative Investment Products

The real estate asset management business plays a central role in expanding alternative investment products as a part of the core theme of “new value” in the new Medium-Term Management Plan. The business is nearing ¥1 trillion in its balance of assets

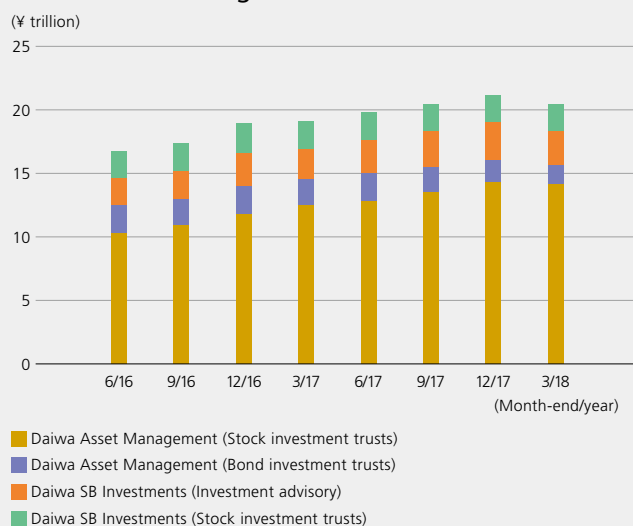
under management.

As key initiatives in FY2017, roughly 30% of the shares of Samty Residential Investment Corporation and Samty Asset Management were acquired, with the business intending to diversify into other investment fields such as infrastructure, logistics, hotels, etc. As a specific example, Daiwa Hotel Private Investment Corporation was established in March and began operations in June 2018.

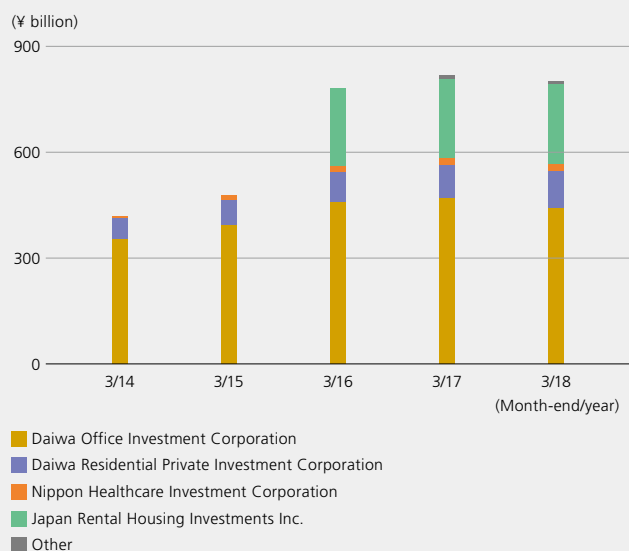
### Expansion of Real Estate and Infrastructure AM Assets



### Balance of Major Assets under Management at the Asset Management Division



### Assets under Management of Real Estate AM Business







# Investment Division

The Investment Division of the Daiwa Securities Group encompasses primarily two companies: Daiwa Corporate Investment Co., Ltd., which manages venture capital and private equity investment funds raised from third-party investors; and Daiwa PI Partners Co. Ltd., which uses the Group's own capital to make direct investments. Both companies invest in a wide range of assets, such as venture investments, domestic and overseas private equity investments, corporate loan investments, and energy investments.

## Action Plan for FY2018

- 1 Contribute to business ecosystem by discovering and developing new industries through investment
- 2 Expand investment in Asian countries
- 3 Develop socially responsible investments
- 4 Pursue returns through further evolution of investment skills and technology

## Initiatives and Performance in FY2017

### Daiwa Corporate Investment Co., Ltd.

Following the global financial crisis in 2008, Daiwa Corporate Investment (DCI) has established and managed a reconstruction and growth support fund for the Great East Japan Earthquake disaster, a manufacturing industry support fund targeting globally competitive manufacturers that create new technologies and markets, Japan's largest biotech-dedicated fund, and several Asian funds that are jointly managed with prominent local partners in Asia. Falling birthrates, an aging society, a revolution in technologies such as AI and IoT, and other changes which Japan is facing today are stimulating an industrial revolution impact on many industrial sectors. These impacts serve as tremendous opportunities for many start-up companies to create and grow new businesses and services. DCI is currently raising funds to establish a new general venture capital fund to provide growth capital to start-ups in Japan to support new business creation and economic revitalization.

DCI continues to invest in promising start-up companies in various industrial sectors and stages. In the field of drug discovery, DCI Partners, its biotech fund management subsidiary, adopted a unique investment structure by creating biotech start-ups by itself and acquiring intellectual property and development rights of drug seeds. DCI Partners manages such start-up biotech ventures together with external experts in drug development and intellectual property.

DCI plays an important role in linking the needs of entrepreneurs and start-up companies with those of investors in aiming to enhance the benefits and reputation among society for both parties. Through fund management activities, DCI supports and contributes new business creation and sustainable economic vitalization.

### Daiwa PI Partners Co. Ltd.

Daiwa PI Partners (DPI) conducts private debt and equity investments in Japan and overseas, particularly in Asia. It also invests in alternative energy-related businesses.

Private debt investments focus mainly on purchasing loan portfolios from financial institutions and providing debt-collection services. In addition to this secondary debt investment, DPI also offers a variety of debt finance schemes tailored to various needs, including the provision of new loans using real estate as collateral in Japan and the United Kingdom.

DPI's private equity activities this year include new investments in two companies in Myanmar (FRONTiIR Pte. Ltd., an Internet service provider, and OWAY Pte. Ltd., a provider of online travel booking and taxi-hailing services), while DPI divested its shares in OPTORUN Co., Ltd., one of DPI's existing investments.

In terms of energy-related investment, DPI completed development of a biomass power generation facility in Yonezawa, Yamagata Prefecture, and invested in a solar power generation facility in Tomakomai, Hokkaido. In addition, DPI started development and construction of a biomass power generation facility in Kamitonda, located in the Nishimuro District of Wakayama Prefecture, and invested in Biomass Fuel Co., Ltd., which stocks, produces, and sells biomass fuels.

DPI is committed to supporting the sustainable growth of companies and the development of new industries by providing growth capital and other financial expertise by utilizing Daiwa Securities Group's network.



# Other

The Daiwa Securities Group's "Other" businesses include research and consulting activities, information systems and other support functions, which are overseen by the Daiwa Institute of Research Group, and banking operations, which are overseen by Daiwa Next Bank.

## Daiwa Institute of Research Group

### Action Plan for FY2018

- 1 Contribute to the strengthening of the business by collaborating with the Group as the think tank of the integrated securities group with hybrid business model
- 2 Communicate information appropriate to the times, and centered on the economy and finance, in a timely manner
- 3 Contribute to the business customers engage, providing competitive solutions speedily
- 4 Expand the business through the creation of "new value" by utilizing advanced technology

### Initiatives and Performance in FY2017

As part of its research operations, the Daiwa Institute of Research Ltd. (DIR) contributed toward raising the profile and enhancing the reputation of Daiwa Securities Group. Providing policy advice to the councils and committees of government agencies, DIR co-sponsored seminars with overseas research institutions and undertook various activities, based on its surveys in the economic and financial fields, about economic trends in Japan and overseas through a wide range of channels, including TV programs and newspapers. With regard to the consulting business, DIR engaged in projects that were specific to think tanks. In addition to accepting consulting projects targeted at regional financial institutions in Japan, outside Japan DIR undertook projects from countries throughout Asia, with a focus on Myanmar.

In the DIR Group's IT systems business, we steadily respond to large-scale institutional projects, such as global financial regulation compliance, while also further raising cost efficiency through ongoing automation and improvements in the efficiency of development and management operations. Moreover, we have driven new customer development in order to further expand the customer base. In the field of advanced technology, we are energizing movements toward applying advanced technology in actual business situations, for example by taking the lead in executing the proof of concept testing for the technology involved in applying blockchain technology to post-trade processing of securities. This action was part of a project that was executed through the Tokyo Stock Exchange consortium framework.

## Daiwa Next Bank

### Action Plan for FY2018


- 1 Develop customer-oriented products and services by utilizing securities-banking business model
- 2 Establish mechanisms of building the future revenue base which contributes to the entire Group
- 3 Pursue portfolio management strategy that can adapt to changes in market environments in a timely manner
- 4 Sustainable growth achieved by securing healthy earning results

### Initiatives and Performance in FY2017

As the banking subsidiary of Daiwa Securities Group, Daiwa Next Bank's mission is to deliver products and services that meet the needs of our customers amid the trending shift "from savings to asset formation." In cooperation with Daiwa Securities, which serves as the banking agent, Daiwa Next Bank introduced many promotional offers in FY2017, as in the previous year. As of the end of FY2017, the bank has 1.28 million accounts, and the balance of total deposits (including CDs) reached ¥3,556 billion.\*

Since November 2017, Daiwa Next Bank has been offering "*Eraberu Yokin*," a service that delivers advantages beyond just interest rates to our customers. *Eraberu Yokin* consists of "*Ouen Time Deposits*," which incorporate the joy of supporting somebody, "*Present Time Deposits*," which incorporate the fun of receiving a present, and "*Kensho Time Deposits*," which incorporate the excitement of forecasting the market. *Ouen Time Deposits* serve as one of the initiatives through which Daiwa Securities Group business is meeting the SDGs (Sustainable Development Goals) adopted by the United Nations.

Daiwa Next Bank does not have any of its own ATMs or branch offices, nor does it issue cash cards or passbooks. This low overhead operation helps to save operating costs, which allows the bank to offer customers more attractive interest rates.

\* For details on the number of deposit accounts and the total account balance,  please refer to page 50.

## Special Dialogue

# The Securities Business of the Future and Innovation

It is said that FinTech will change financial industry practices from now on. In order to explore opportunities within the securities industry in the future, Daiwa Securities Group has, for example, invested in the venture capital firm, WiL, LLC (WiL), located in Silicon Valley, the creative hub for state-of-the-art technologies. Gen Isayama, CEO of WiL, and Toshihiro Matsui, COO of Daiwa Securities Group Inc., exchanged opinions on the future of the securities industry.

## FinTech, the Great Business Opportunity

**It is said that the rise of FinTech will greatly change the way business is conducted by financial institutions or the methods of interaction between people and money. What is going on in society now, and how will the world change in the years to come?**

**Isayama:** From our point of view, FinTech is not simply something to be talked about, but in a broad sense, a new technology that will have a tremendous impact on society. A characteristic of technology is that it does not develop linearly and spread sequentially. Even if technologies are separately in existence, a set will at a certain point in time satisfy the requirements for social insertion and suddenly manifest itself. It is difficult to predict when this will happen. Artificial intelligence and machine learning are not in themselves new, having been studied in academia for a long time. When certain conditions, such as faster telecommunication and improved semiconductor performance, are met, they are rapidly implemented in society. As a result, even the intellectual work performed

by humans can be replaced by software and robots, and it is becoming a force for promoting social efficiency at a furious pace. Amid these major trends, the concept of connecting these technologies and finance is represented by the word FinTech.

In the same way as other industries, the financial industry has also automated a range of services and lowered costs by means of new technologies, and the impact this is having on the management of financial institutions is becoming ever greater. In extreme terms, startups that commence financial services with new technology may be more competitive than traditional financial institutions that hold existing cost structures. Of course the reality is not that simple. Finance is a regulated industry and, above all, relationships of trust with clients are the biggest factor in the business, so the industry will not be immediately replaced by a startup that has just come into the financial industry. However, considering that large-scale cost cuts are already being carried out at financial institutions, including in the United States, the managements of Japanese financial institutions also need to reconsider their cost structures.

**Toshihiro Matsui**

Deputy President and COO  
Daiwa Securities Group Inc.



**Gen Isayama**

CEO  
WiL, LLC

**Matsui:** Daiwa Securities Group stands on the side of the challenger in the sense that we do not possess a big legacy system in the settlement field. Moreover, due to the advances in technology that have resulted in the automation of simple tasks, in terms of being able to transfer the valuable time of our talented employees to more productive work, I think that FinTech will have a positive impact from the perspective of our Group's costs.

Having internally established a Business Reform and Productivity Improvement Committee, we are conducting a thorough review of current operations to create the time to perform higher value-added tasks.

**Isayama:** Another important aspect of technological development is to create better services and new revenue-earning opportunities through new technologies. For example, if technologies such as ICO\* become more widespread as a means of procuring funds, Daiwa Securities Group needs to consider the commercialization of new capital financing that utilizes ICOs. In accordance with the changes that technology brings to society, I think that it will come down to companies discussing improvements to their organizational structures.

**Matsui:** It does not mean that I am not convinced that ICOs will grow into an important means of procuring funds, but at least that possibility cannot be ignored, and I think that it will be impossible for us not to respond at all. We will invest certain management resources in this field, and we will not rule out the possibility of conducting ICOs ourselves.

**Isayama:** I think that the most important thing is to make the choice as to whether to feel such things as this kind of change or facing competition as a threat or an opportunity. In the United States, you often hear people use the phrase "your choice," but how you ascertain the impact of things is only each person's choice. In Japan, European and U.S. IT companies, such as Google and Apple, are often spoken about in negative terms as a threat, but considering the influence that they have exerted on Japanese society, I regard the current situation, in the run-up to the full-fledged implementation of FinTech, as presenting a very interesting opportunity. It seems that we are reaching the stage where maintaining the status quo would be the worst option.

**Matsui:** My favorite saying is that of the professional *shogi* player, Yoshiharu Habu: "I'm not optimistic, much less pessimistic, just downright calm." This leads us to your stance on choice. Changes in the situation always have threat and opportunity sides to them, and it is important for managers to identify them without being biased toward either. You have to see both sides to see how to take measures against tough situations and how to grab opportunities. There are many people who say that Japanese tend to be biased toward negative thinking and are not good at positive thinking, but I would like to voice a different opinion to the trend that only supports optimism. However, having been thoroughly anxious, there is no doubt there will be no next development unless you take the necessary risks.

\* Initial Coin Offering: A kind of fund raising method by which a company issues a token similar to a stock certificate in a virtual currency and procures business funds such as a virtual currency from investors.

## The Future Role of Financial Services

**In an era when all industries are being automated, will the *raison d'être* of financial services requiring human intervention continue in the future?**

**Isayama:** Nowadays, in what is said to be an era in which people are living for 100 years, the Japanese traditional life model of "saving by working hard and living on your pension after retirement" is becoming impractical. It is a time when life after retirement can prove difficult without asset management. However, there are not many people who are fully aware of such a change. Despite the ever greater role and significance of financial services for individuals, in Japan the awareness that "money is something you earn through working" remains strong and, compared with the West, I think that financial literacy with regard to individual financial transactions and asset management remains low. A major role for financial institutions is the imparting of financial knowledge and educational activities.

**Matsui:** I think that it is not always true that the financial literacy of Japanese is low when compared with other countries. Mathematics grades are high even among the leading industrialized countries. However, successful investment experience is decidedly lacking. In that sense, I feel that consulting sales will increase in importance going forward.



#### **Gen Isayama**

Co-founder and CEO of WiL, LLC

Born in 1973 and originally from Tokyo. In 1997, after graduating from The University of Tokyo, he joined The Industrial Bank of Japan (currently Mizuho Financial Group). After working at the major U.S. venture capital firm DCM, he founded WiL in 2013.

**Isayama:** With regard to corporate business, companies need to grow globally in order to survive, and the importance of cross-border projects will increase. The M&A business in Europe and the United States, which Daiwa Securities Group is promoting by leveraging its global network, holds great hopes for Japanese companies.

**Matsui:** The influence of the Corporate Governance Code and the Stewardship Code is gradually becoming more widespread, and the behavior of Japanese companies is beginning to change. Many Private Equity funds are seizing the opportunities presented by the change in the behavior of Japanese companies and are strengthening their bases in Japan. It is also true that our company has strengthened its global M&A network with the aim of meeting the changing needs of Japanese companies. On the other hand, the market size of cross-border M&A per year is ¥1.6 trillion between Japan and Europe, ¥2.3 trillion between Japan and the United States, and ¥35.0 trillion between Europe and the United States\*<sup>1</sup>. We aim to improve our profitability by providing M&A services globally to clients around the world, not just for Japanese companies.

**Isayama:** From my experiences in having seen many venture firms, I feel that vulnerability in the back office is their biggest weakness. Venture firms with limited capital tend to neglect middle and back offices because they give priority to hiring employees who easily produce results, such as sales staff and engineers, which can also be a contributory factor in losses in corporate value. Avoiding the situation where the number of venture firms in Japan does not increase going forward, in this regard too, financial institutions, including securities firms, will play a major role, and you will need to actively discover business opportunities to support back office functions in venture firms.

There is also the phenomenon that the value of face-to-face services are said to increase as tasks become more automated. Daiwa Securities Group has the wealth of human capital cultivated up to now and the ability to directly seek out customer needs. In the case of providing just conventional products and services, however, the value of face-to-face services will go down. While cutting business costs, it is important to shift employees to higher value-added projects.

**Matsui:** In comparison with companies in the West, I think that Japanese companies are good at shifting employees. In general, the method of hiring in a form in which all employees are generalists enables reorganization by dynamically shifting and relocating personnel. In European and U.S. financial institutions, the shifting of personnel between retail and wholesale divisions is almost never undertaken, but at our Group this is conducted in a flexible manner. For example, utilizing the knowledge they have built up at our company, employees in the IB\*<sup>2</sup> Division are able to work not only in the middle and back offices of venture companies but also in other fields, such as in investment or in management advisory services. Not limited to the IB Division, employees in every department of our company have a range of possibilities. For that reason, we are able to respond flexibly in effectively utilizing personnel in accordance with management efficiency. I think that Daiwa Securities Group has survived for 116 years because of its history of having flexibly responded to change. I feel that this flexibility is our strength.

\*1 Thomson Reuters Full Year 2017 Mergers & Acquisitions Review

\*2 Investment Banking





## Innovative Minds

Is it possible for companies to intentionally bring about innovation by their own resolve?

**Matsui:** Mr. Isayama, you are always saying that there is not enough “fertile ground for innovation” in Japan, but what do you sense is needed to bring about innovation in Daiwa Securities Group?

**Isayama:** As the term “innovation” refers to the value added by chemical reactions that thus far have never happened, there will eventually be large parts left over that cannot be explained by logic or processes. That is to say that, inevitably, there is always uncertainty and risk involved in innovation. Since the decision making of large Japanese corporations involves a mechanism based on the premise that everyone will be logically persuaded by an approval document, I think that the culture makes it difficult for innovation to take place. What forms the basis of innovation is not an idea upon which the majority is in agreement, but rather an idea with value that is not apparent and of the kind to which everyone is opposed. For example, when Mercari arrived on the scene, services such as Yahoo! Auction and eBay already existed in the CtoC market. Looked at with common sense, it appeared that there was no opportunity in an area where first movers were already present, but Mercari restricted their services only to smartphones, and succeeded by thoroughly bringing about improvements in each user’s experience, thereby surprising society. Even though it might seem to be a low-feasibility idea, the ability to judge and say “let’s give it a try” is important. In the end, since the amount of enthusiasm the decision makers had was important, I think that there was no science involved in this case.

**Matsui:** Sometimes it is necessary to ignore the voices from the outfield. However, allocating a budget must bring with it responsibility. Although the majority are opposed, the person who drafted the budget in earnest intends to win. However, with regard to projects to which the majority are opposed, under what criteria do you think management should issue a GO order?

**Isayama:** Put simply, the key is whether or not to allocate budgets taking into account such factors as buffers and discretion. In the United States, there are companies that grant employees who have ideas a certain amount of discretion in terms of their R&D expenses. Even in Japan, there are systems in place, including in corporate venture capital, but actually I think the approval document culture is fraught with problems. In the case of the German company SAP, they established a subsidiary in Silicon Valley and started a new business that later grew into a companywide majority.

**Matsui:** In the case of IBM and others, however, instead of innovation occurring in-house, it seems as if portfolio managers repeatedly sold and acquired businesses and rapidly changed IBM’s business portfolio. There are doubts as to whether large corporations in the United States are necessarily innovative.

**Isayama:** Certainly, many excellent businesses of such companies as Google, Facebook and Apple have started out with acquisitions. We should not simply look at such companies as “having acquired new technologies and markets through M&A.” As a common point among these companies, we should focus on the accumulation of enormous amounts of R&D and the liberal climate that made these acquisitions possible.



**Matsui:** Daiwa Securities Group is also beginning a variety of initiatives to explore new business sectors. We are collaborating with companies in many different types of industries and with securities businesses, including the capital and business alliance with KDDI announced in February 2018. I think that the one purpose of these acquisitions is to obtain technology. Also, from now on, I think there will be less fear toward the cannibalization of existing businesses and new businesses, and the importance of not sparing investment to bring about innovation in the securities industry will increase. Daiwa Securities Group was also greatly affected at the time of the emergence of Internet securities whose operational costs are dramatically low. However, in times when much lower costs are required from now on, there is a possibility that Internet securities with an existing management fee system may be in a disadvantageous position. Rather, it may be our Group that devises the new securities services in the years to come.

**Isayama:** If the first step was creating an organization that can try new ideas, the second step would be creating a mechanism that allows you to quickly judge when to cut your losses when it fails. Japanese companies tend to increase losses because they are indecisive regarding opting out of projects once started, and this causes them not to make subsequent investments. Whether these two steps can be successfully introduced into the organization or not will be the next agenda.

To directly connect the sense of crisis as to how the company will survive with innovation, the senior management of the organization should proactively take care of risk-takers in the company. As a result, new ideas will be ambitiously proposed and they can put in place a culture that is capable of quickly making decisions on

withdrawals from projects.

Soon after WiL was founded, when there was no historical track record of business, I received such encouraging words from Daiwa Securities Group as “we were an organization that supports the seeds of change from behind.” Actually, through our communications, I have on many occasions seen the bold and swift decision making of management, which is clearly an indication to try new things. CEO Nakata and other members of Daiwa’s management team have an extremely open and liberal way of thinking. Daiwa Securities Group already possesses the culture that will bring innovative ideas to fruition, and I think that by having more exchanges with outside people like us, the original functions at your disposal will become more active.

**Matsui:** Actually, in the process of drafting new projects as an executive officer in charge of corporate planning, there were many occasions where I felt that our decision making on investment is faster than other companies. CEO Nakata says that “Innovation is the best result granted only to those who have repeatedly had many failures.” I am convinced that we will be able to bring about more original Daiwa innovation than ever before.

**Isayama:** Stanford University, which is sacred ground for engineers, is located in Silicon Valley. The area has also seen an accumulation of radar and semiconductor technologies since the old days. This history has become a magnetic force for attracting innovative talent. It was not artificially created by an administration, but is a culture that was naturally grown over time. So it runs against the argument for making the same thing in Japan. Instead, I think Japanese companies should actually visit Silicon Valley, learn its culture and use it well. Next month,\* Daiwa Securities Group will conduct an Executive Management Committee meeting in Silicon Valley, and I believe this is extremely meaningful.

\* From the time of dialogue

**Matsui:** I hope that the top management team will come up with implications for corporate management through company visits and on-site workshops in Silicon Valley, a rapidly changing city producing cutting-edge technologies and startups. Mr. Isayama, you will also be attending that Executive Management Committee meeting. In a more open environment, I am looking forward to seeing a new form of discussion that differs from the conventional. The times have become more interesting.



# Strategic IT Utilization and Cybersecurity Initiatives



## Masahisa Nakagawa

Senior Executive Managing Director and CIO  
Daiwa Securities Group Inc.

Daiwa Securities Group is working to improve each customer's experience, develop innovative services, and revolutionize business processes through the strategic use of IT. Moreover, we are working to strengthen our cybersecurity management systems in order to gain the trust of our customers and fulfill our social responsibility as a leader of financial and capital markets.

## Strategic IT Utilization

Against the recent backdrop of evolving technology and progressing digitalization, the roles played by IT have broadened from expanding existing businesses and increasing the efficiency of operations to creating new businesses and revolutionizing business models. Moreover, with the arrival of voice recognition, artificial intelligence (AI), and robotic process automation\* (RPA) technologies on a practical level, the ability to improve operational efficiency over a broader range has expanded. Daiwa Securities Group is digitalizing its all-round operations; developing flexible, agile alliances with outside companies and services, as well as cooperation within the Group; and improving operational efficiency through the use of advanced technology in order to provide our employees with the time to tackle operations that deliver greater added value. By creating an environment in which all of our employees can engage energetically, we are aiming to establish a virtuous cycle that improves customer satisfaction and resolves social issues, thereby leading to greater corporate value.

In fact, Daiwa Securities Group Inc. was selected as a 2018 Competitive IT Strategy Company in May 2018 in recognition of our initiatives for strategic IT use based on this way of thinking. The new Medium-Term Management Plan "Passion for the Best" 2020, which kicked-off in FY2018, accelerates these initiatives in order to promote improved customer service, the development of innovative services, and a revolution in business processes.

\* Technologies and systems that automate office work through the use of AI and other technologies.

## Cybersecurity

Although the evolution of technology and progression of digitalization has expanded the range of possibilities, it has also led to a growing threat from cyberattacks around the world. As Japan looks forward to holding the Tokyo Olympic and Paralympic Games in 2020, in particular, the government and corporations are faced with raising a collective effort to strengthen countermeasures. In this light, Daiwa Securities Group has for a long time maintained a Group-wide cybersecurity management system that includes its overseas operations. Through this system, we are working harder than ever to protect information assets and provide reliable services to our customers as a means of gaining the trust of our customers and fulfilling our social responsibility as a company that is active in the financial and capital markets. Specifically, we have established Daiwa-CSIRT\*, a Group-wide cross-sectional specialist organization, which coordinates with external institutions in order to collect and analyze the latest information on cyberattack methods and vulnerabilities. In addition, we have worked to combine a number of layers of technological countermeasures that can detect and defend against attacks that slip past one countermeasure and to create an analysis environment that can rapidly discover evidence of attacks as well as an incident response system that operates 24 hours a day, 365 days a year. Going forward, we will continue to define cybersecurity as a key issue in terms of Group management and will work to strengthen the management system.

\* Computer Security Incident Response Team