

Daiwa Securities Group Inc.

# FY2020 Management Strategy

May 21, 2020

Seiji Nakata, President and CEO  
Daiwa Securities Group Inc.

**Daiwa Securities Group Inc.**

# FY2020 Management Strategy

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# **I - Overview of Year 2 of the Medium-Term Management Plan**

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**Daiwa Securities Group Inc.**

**Daiwa Securities Group would like to express its sympathy to all those affected by COVID-19. We will act together as a group to fight against social turmoil caused by the COVID-19 outbreak and contribute for social/economic recovery and further development.**

Daiwa Securities Group established Crisis Management Headquarters (Head: Seiji Nakata President and CEO ) and implemented following initiatives.

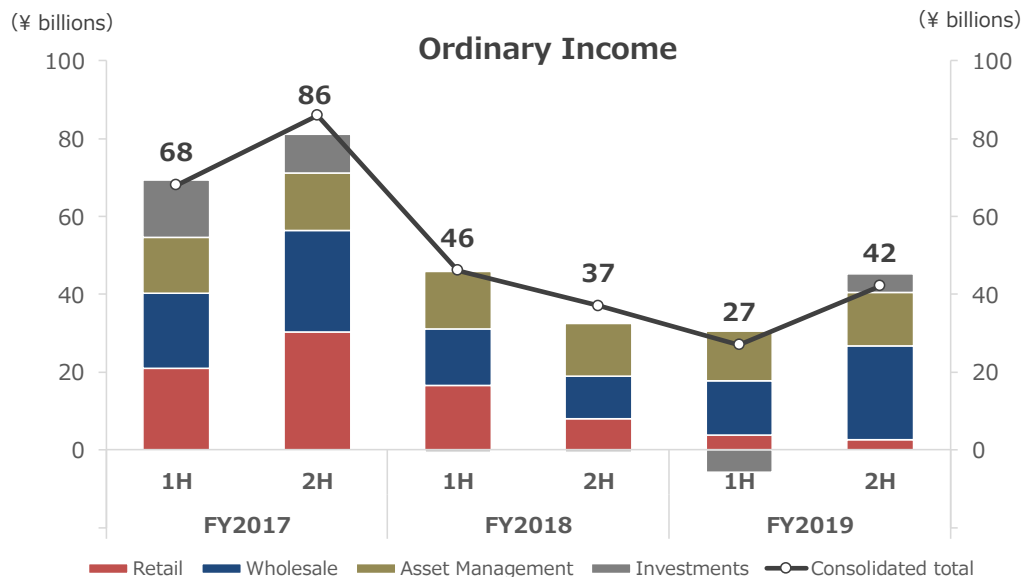
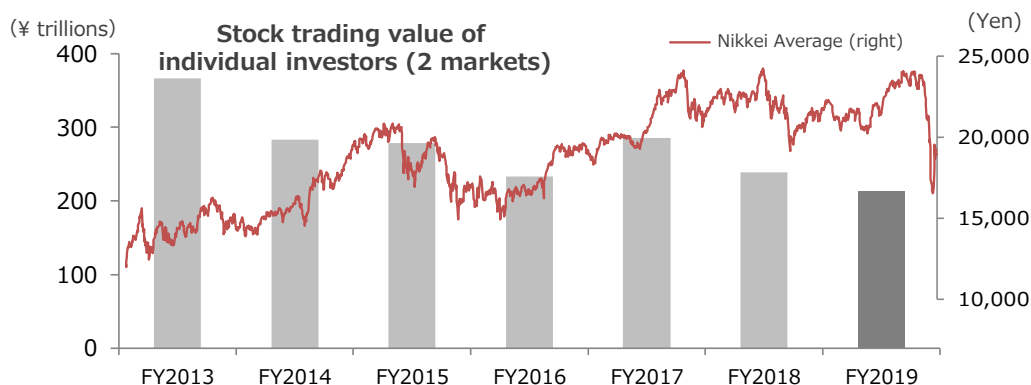
Employees	Customers	Societies
<ul style="list-style-type: none"> <li>Fully introduced remote working system to all employees</li> <li>Distributed portable devices to every employee in Daiwa Securities which enables them to access to the same network as in office</li> <li>Approx. 70% of domestic group employees including Daiwa Securities are working remotely (as of April 20)</li> <li>Improved commuting related regulations to lower the infection risk of personnel who unavoidably have to go to offices such as easing requirements for off-peak commuting, use of bicycles, cars and first class cars on trains, offering to stay at a hotel near office, and provided private bus</li> <li>Unlimited the number of days every employee can take special leaves (paid)</li> <li>More consideration given for employees who are raising children, pregnant, elder, and have underlying health conditions</li> </ul>	<p>(Retail Division)</p> <ul style="list-style-type: none"> <li>Consulting services are available by phone and online</li> <li>Temporary suspend over-the-counter service at all branches (170 branches) considering customers' health and safety</li> <li>Started securities-backed lending with special interest rate as an emergency measure to support small-to-medium-sized business owners</li> <li>Call centers are operated with split teams</li> <li>Daiwa Next Bank plans to establish "Ouen" time deposits to deliver donations to the "Daiwa Securities Group Future Support Bond Child Support Group Sustainable Fund" for a limited time from June 1st.</li> </ul> <p>(Institutional Investor)</p> <ul style="list-style-type: none"> <li>Sufficiently supplying liquidity to the capital market as a market maker</li> </ul> <p>(Wholesale Division)</p> <ul style="list-style-type: none"> <li>Utilizing online meetings effectively to respond to funding and financial advisory needs of customers facing COVID-19 shock</li> <li>Supporting fundraising for social issues, including underwriting of social bonds issued by International Finance Corporation (IFC)</li> </ul>	<p>(Japan)</p> <ul style="list-style-type: none"> <li>Donated 66,000 masks in total, mostly N95 masks stocked for disasters, including 40,000 masks to Ministry of Health, Labour and Welfare, 7,000 masks to Japan Federation of Economic Organizations, and 19,000 masks to medical facilities to support activities of healthcare professionals</li> <li>Donated 5 million yen to hotels operated by JHAT Co., Ltd. to support activities of healthcare professionals and essential workers</li> <li>Donated foods to children cafeterias to strengthen the support for children while schools are temporarily closed. Also, donated sanitary materials to organizations providing places to stay</li> <li>Planning to issue unsecured bonds (Daiwa Securities Group Future Support Bond). Total issue amount of ¥75 billion. 0.15% of the total issued amount, 10 million yen will be donated to the "Child Support Group Emergency Support Fund" established by the Public Resources Foundation, the remaining amount will be donated to the "Daiwa Securities Group Future Support Bond Child Support Group Sustainable Fund"</li> <li>Providing information of our supporting groups to employees who are considering donations</li> </ul> <p>(Overseas)</p> <ul style="list-style-type: none"> <li>Donated 1 million Chinese yuan (15.73 million yen) to the Red Cross Society of Hubei and 60,000 N95 masks which were stocked for disasters to Wuhan, Beijing and other cities in China to support activities to recover from the damage of COVID-19</li> </ul>

# I - Overview of Year 2 of the Medium-Term Management Plan

## FY2019 Consolidated Earnings Results and KPI

Revenues and ordinary income increased from the first half of FY2019 due to the profit recovery in Wholesale Division despite the market turmoil caused by the COVID-19.  
Net asset inflow remained high, while the progress of performance KPI remained as an issue.

### Stock Trading Value of Individual Investors and Earning Results



### KPI

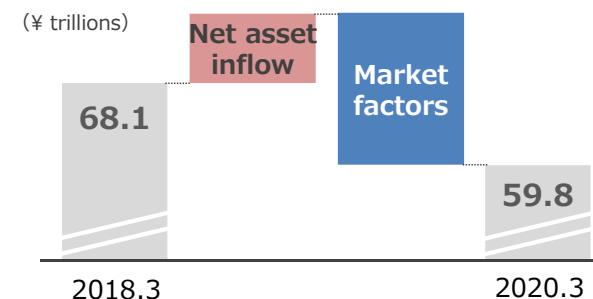
#### Customer-oriented KPI (Daiwa version of NPS® & Assets Under Custody)

- 1<sup>st</sup> place in external NPS survey for face to face distribution channels.
- Asset Under Custody exceeded the Medium-Term Management forecast, even though net asset inflow decreased due to the weak market.

**¥59.8 trillion**  
(as of March 31, 2020)

**¥80 trillion or more**  
(FY2020 target)

#### Sources of changes in Asset Under Custody



#### Performance KPI (Ordinary Income & ROE)

**¥70.2 billion, 4.9%**  
(FY 2019)

**¥200 billion or more,**  
(FY2020 target)  
**10% or higher**  
(Target)

#### Finance KPI (Consolidated total capital ratio)

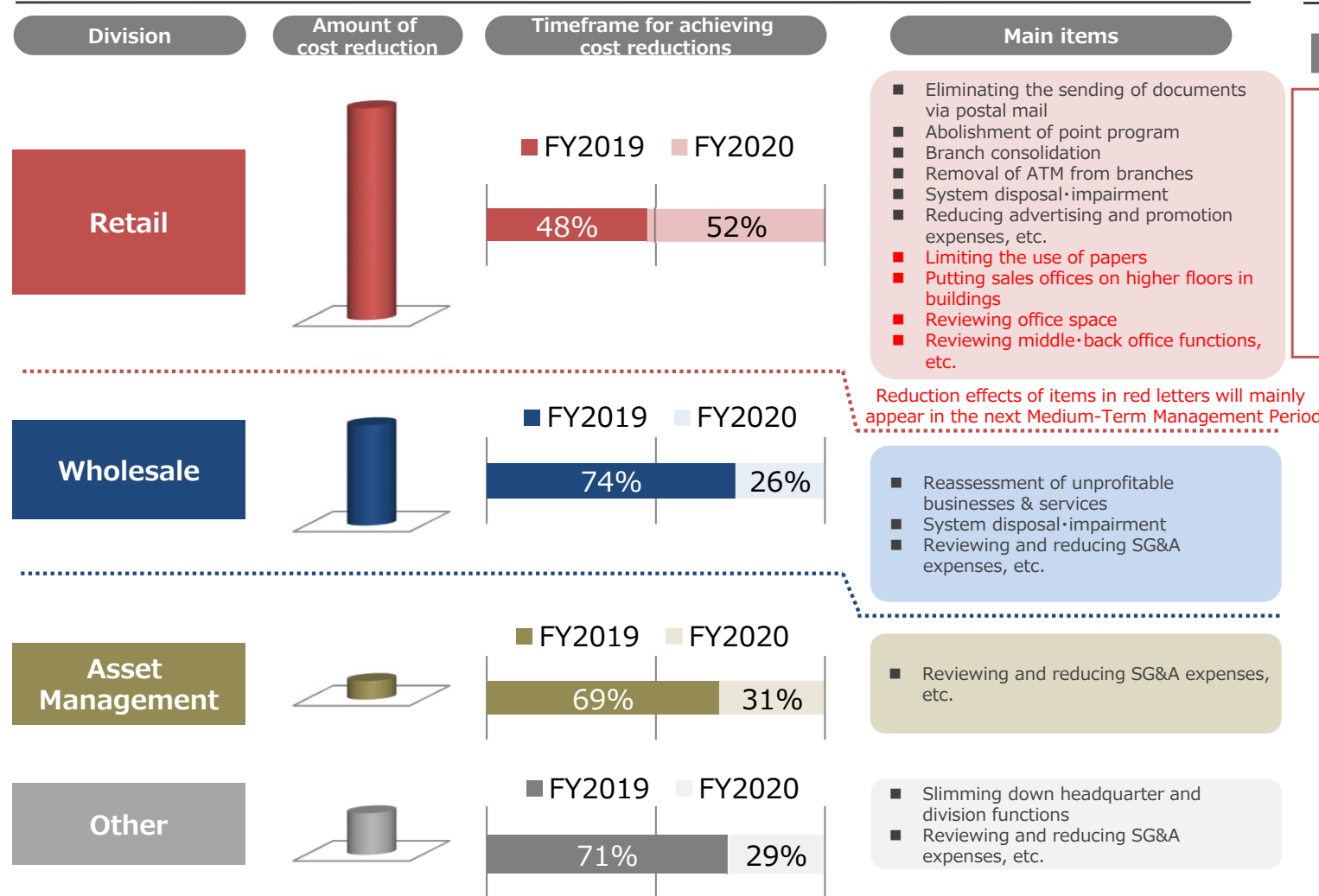
**19.4%**  
(as of December 31, 2019)

**18.0% or higher**  
(Target)

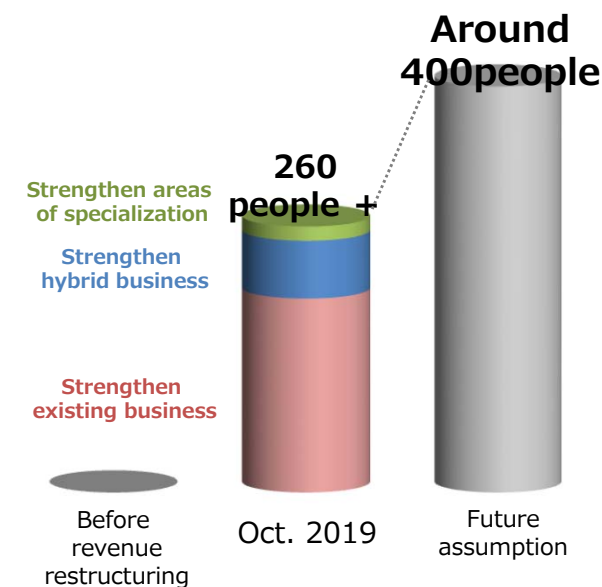
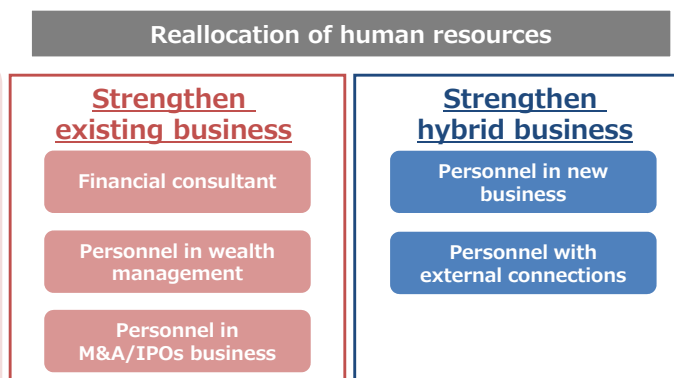
# Progress on Revenue Restructuring

The ¥15 billion goal in cost reductions by FY2020 is making steady progress. We are expecting to accumulate more cost reductions in the next Medium-Term Management Period through further business efficiency.

## Forecast of ¥15 billion in Cost Reductions



## Reallocation to Strategic Business Areas



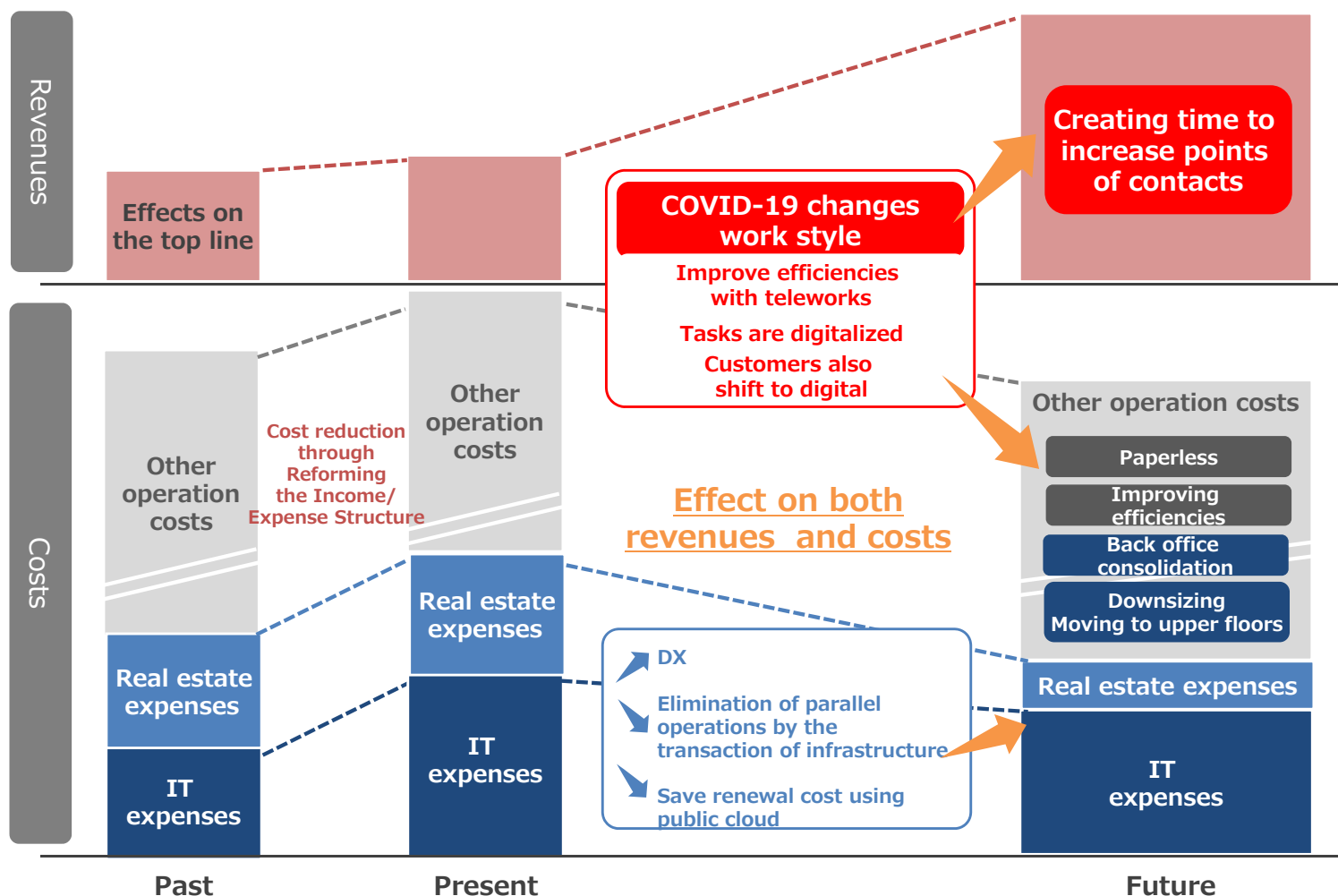
# I - Overview of Year 2 of the Medium-Term Management Plan

## COVID-19 Accelerates our Digital Transformation

Along with cost reduction, we have been preparing a new office infrastructure from 2 years ago. With 2in1 device\*, sales representatives can work from any location and increase contacts with customers. It will effects on both income growth and cost reduction.

\* Introduced to all employees of Daiwa Securities

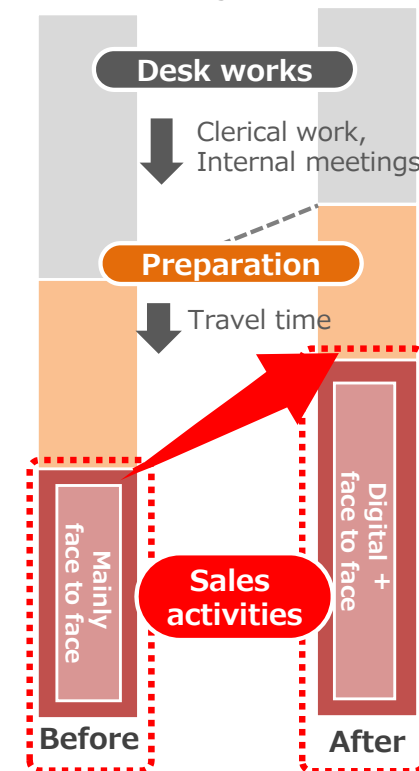
### Revenue Restructuring with a New Office Infrastructure



### Gain more time to contact customers

Average allocation of working hours of sales staffs

Image of expansion of time for customer contacts when utilizing DX and 2in1 device



✓ Expansion of time for customers by face to face interactions and digitalization

# Concepts to promote Hybrid Strategy

The hybrid strategy will be promoted based on the concept of "securities business type", which aims to expand the customer base through alliances, and "alternative type", which acquires cash flow from the assets of investees and commercializes assets as asset financial products.

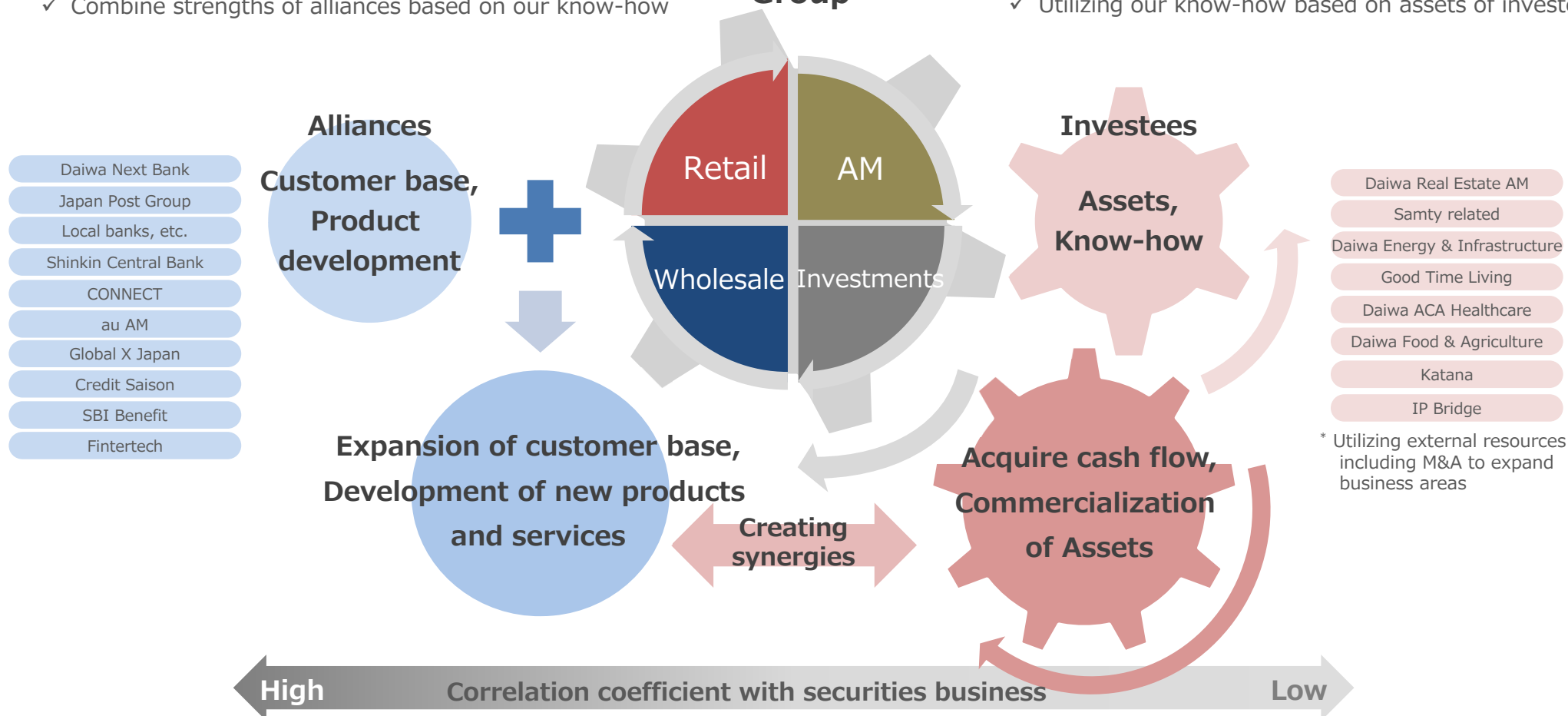
## "Securities business type" hybrid

✓ Combine strengths of alliances based on our know-how

### Daiwa Securities Group

## "Alternative type" hybrid

✓ Utilizing our know-how based on assets of investees





# I - Overview of Year 2 of the Medium-Term Management Plan

## Hybrid Strategy (Investments in FY2019)

Phase of planting seeds for hybrid investments is almost completed. We will enter into a phase of nurturing for monetization.

Investments of more than ¥10 billion are in **bold letters**.

### Securities Business Type Hybrid

#### Expansion of External Network

Announced collaboration with Japan Post Group (May 2019)

**Announced capital and business alliance with Credit Saison Co. Ltd (September 2019)**

Announced collaboration with Shinkin Central Bank (March 2020)

Provide Daiwa Fund Wrap for regional banks  
(FY2019: THE DAITO BANK, LTD., The Chiba Kogyo Bank, Ltd.)  
(FY2018: The Ehime Bank, Ltd., The Bank of Iwate, Ltd.)

#### Creation of New Business Line

##### **Business Expansion Targeted at Asset Builders**

Established CONNECT  
A new brand for providing financial services customized for smartphones (May 2019)



##### **Investment to Expand ETF Business**

Establish Global X Japan (September 2019)

**Invest into Global X (U.S.A.) (March 2020)**

### Alternative Type Hybrid

#### Increase Alternative Products

##### **Investments to Samty and REIT managed by Samty Group**

Capital and business alliance with Samty (May 2019)

**Consolidation of Samty Residential Investment Corp. (August 2019)**

**Acquisition of Good Time Living Co. Ltd., a company managing nursing care facility and residence for the elderly people (August 2019)**

##### **Expand Agriculture Business (Daiwa Food & Agriculture Co. Ltd.)**

Entry into Baby-leaves production business (April 2019)

Entry into tomato production business (March 2020)



#### Supporting restructuring of business and Japanese Industries

**Business and capital alliance with Katana, a company with an expertise in marketing (January 2020)**

Formed business alliance with IP Bridge, a company which engages in intellectual property procurement and licensing, with the goal of utilizing and facilitating monetization of intellectual property (April 2020)

#### Provision of benefits from Asia's Growth

Established Daiwa ACA APAC Growth LP (July 2019)

### Create Business by Diversification of Financial Method and Expansion of Business

##### **Investments for Startups**

Established 「Innovation Growth Fund」 which invests in startup companies with Sony Corporation (July 2019)

Establish DG Lab Fund II for Global Startups With Next-generation Technologies (August 2019)

##### **Investments for Renewable Energy**

Invest in Green Giraffe, a specialist advisory firm focused on the renewable energy sector (October 2019)

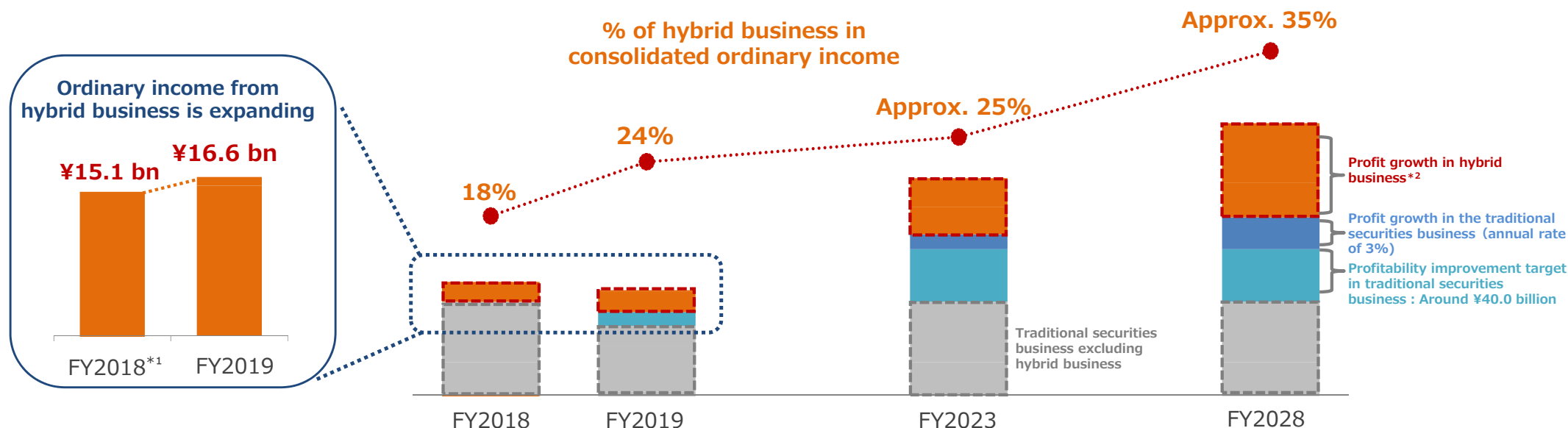
Enter into strategic partnership with Aquila Capital Holding (Germany), an investment manager mainly in renewable energy assets (December 2019)

# I - Overview of Year 2 of the Medium-Term Management Plan

## Promotion of Hybrid Strategy (the Ratio of Hybrid Business in Consolidated Ordinary Income)

The ratio of hybrid business in consolidated ordinary income in FY2019 is 24%.  
Improve the ratio of hybrid business while increasing ordinary income from traditional securities business.

### Image of Future Ordinary Income



### Correlation Coefficient of Ordinary Income at Macroeconomic Level

Company	Similar industry	Correlation coefficient with securities business
Daiwa Next Bank, Ltd.	Banking	0.8
Real Estate Asset・Asset Management (Daiwa Real Estate Asset Management Co. Ltd., Daiwa Office Investment Corporation, etc.)	Real estate Business	0.6
Daiwa Food & Agriculture Co. Ltd.	Agriculture	0.4
Healthcare (Good Time Living Co.Ltd., etc.)	Medical,welfare	0.3
Daiwa Energy & Infrastructure Co. Ltd.	Power	0.09

### Main Hybrid Business

Retail Division	Business partnership (Japan Post Bank Co., Ltd., Credit Saison Co.,Ltd.)
Asset Management Division	Daiwa Real Estate Asset Management Co. Ltd. Daiwa Office Investment Corporation Samty Asset Management Co.,Ltd. / Samty Residential Investment Corporation Global X Japan Co. Ltd.
Investment Division	Daiwa Energy & Infrastructure Co. Ltd. ACA Investments Pte Ltd
Other	Daiwa Next Bank, Ltd. Fintertech Co. Ltd. Good Time Living Co.Ltd., etc. Healthcare Daiwa Food & Agriculture Co. Ltd., Katana Inc.

## **II - Progress on Division Strategy & Future Initiatives**

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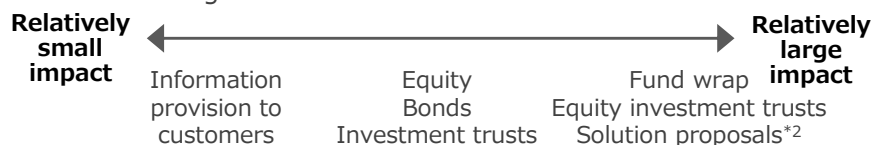
**Daiwa Securities Group Inc.**

# Retail Division Sales Activities During the Novel Coronavirus Pandemic

Upgrading to next-generation office infrastructure enabled sales activities that utilize the advantages of telecommuting and infrastructure.

## Sales Conditions

- Approx. 50%\*<sup>1</sup> of sales personnel come into the office (as of May 18)
- The use of 2in1 devices enables sales personnel to gather information, obtain division support, provide information to customers by phoning them or meeting with them via Web conferencing, and receive and place orders for products (stocks, bonds, investment trusts), even while working at home.



### Efforts to minimize impact

- ✓ Using Web conferencing, etc. (May)
- ✓ Going paperless for FW contracts, etc. (around summer)

## Examples of Proposals and Terms that Capture Market Movement

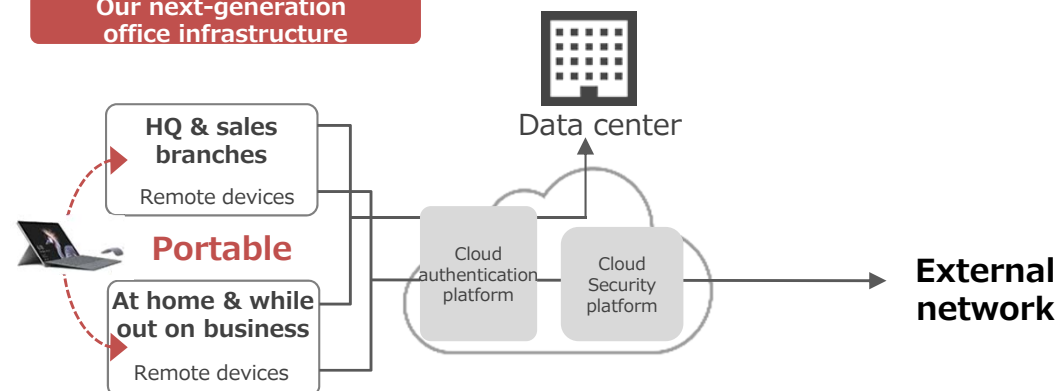
- Rapid yen appreciation, stock price decline
- Widening of credit spread
- Strong in yen bond investment needs while having low new bond issue amounts

- ✓ Foreign equity (U.S. equity)
- ✓ Foreign currency time deposits

- ✓ Financial institution subordinated bonds
- ✓ Daiwa Securities Group corporate bonds (issued in June, issue amount: ¥75 billion)

## Upgrading to Next-generation Office Infrastructure

### Our next-generation office infrastructure



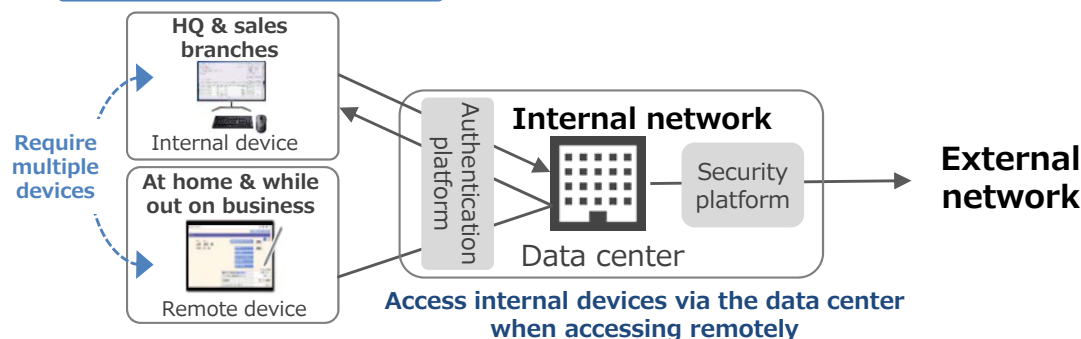
### Characteristics①

- Internal office structure that can be used without modification while outside of the company
- ✓ Enables business to be conducted securely anywhere, at any time
- ✓ Enables an employee to telework with one device

### Characteristics②

- Do not depend on internal network by using cloud environment
- ✓ Possible to increase capacity for simultaneous connection quickly and inexpensively
- ✓ No need for periodic infrastructure renewal

## Typical remote environment



\*<sup>1</sup> Approx. 30% of sales personnel come into the office as of April 20

\*<sup>2</sup> Business succession, leasing, real estate brokerage, introduction to tax consultant, etc.

# Three-Pillars Retail Strategy for Establishing an Asset Management Business Model

Promote three-pillars strategy to provide optimal solutions to customers by specialized personnel.

### The environment surrounding securities industry

Low correlation between markets and performance

Aging of society

New entrants from other industries

Pressure to lower fees for investment products

Strengthen customer-oriented business operations

Commoditization of financial products

- The Daiwa version of NPS was introduced to visualize the degree of customer satisfaction.
- **We have already introduced it at All branches.**
- We will aim for ongoing improvement.



NPS

- Established rules to increase contact with customers.
- Analyze transaction data.

Contacts

- Consolidate existing branches and put sales offices on higher floors in buildings.
- Expand the number of small, low-cost sales offices.
- Expand points of contact with customers.

**No. of sales offices: 58**  
**Total number of branches: 172 (in Japan)**

\* as of July 31, 2020 (scheduled)

Branches



Training

- Hold Quality No. 1 Meetings to develop a customer-oriented mindset among all employees.
  - Establish a training program for employees who have been in the company for 3-5 years.
- ...**No. 1 in the industry in the number of CFP certification holders: 1,020 holders**

\* as of March 31, 2020

Channels



- Optimize channels according to customer attributes and life stages.

Elderly customers > Anshin Planner

**114branches 212planners**

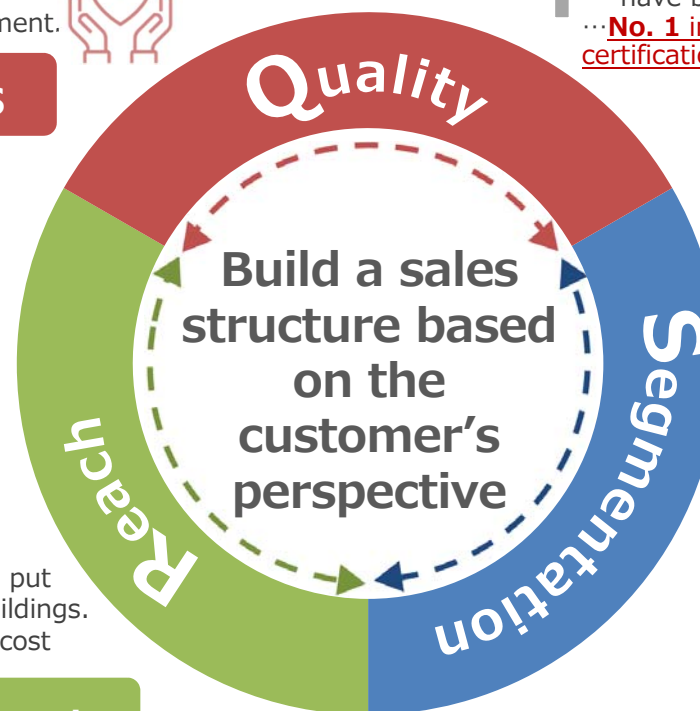
Asset-builders > Financial Consultants

**93branches 155consultants**

\* as of April 1, 2020

Roles

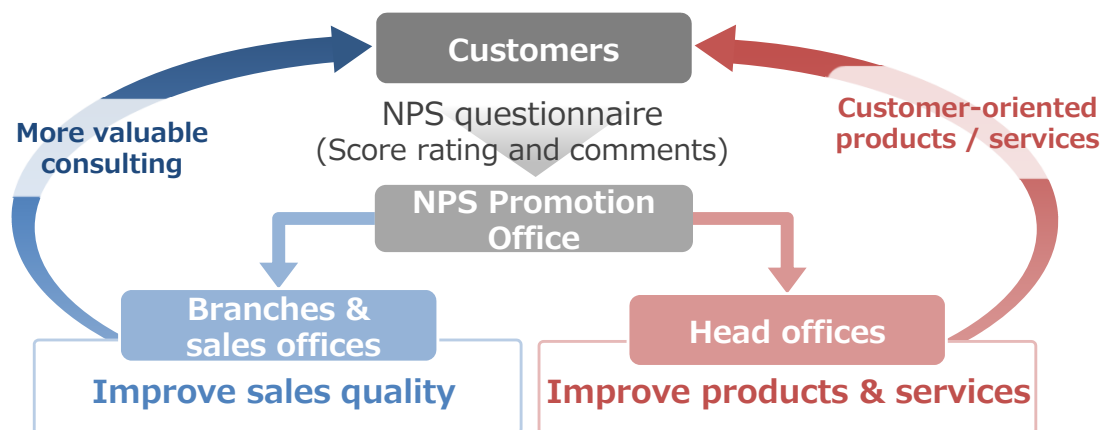
- Transition from a headquarter-driven sales structure to a bottom-up sales structure driven by individual branches, based on customer needs.



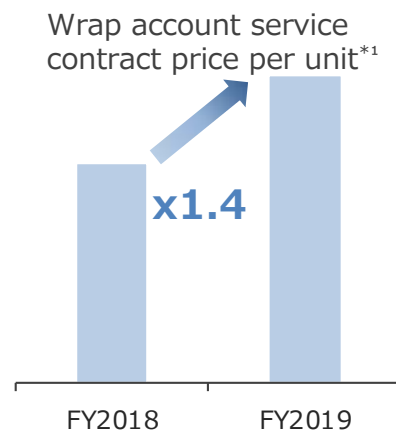
## Firmly Establish a Customer-oriented Framework Based on the Daiwa version of NPS

**Collect customers' voices and offer more valuable consulting, customer-oriented products and services with the Daiwa version of NPS.**

### Improvement of NPS based on Customers' Voices

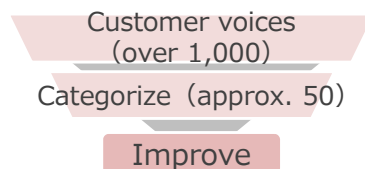


#### Enhanced sales style to deeply hear customer needs



#### Customer satisfaction committee is set to enhance efficacy of the framework

- Discuss important and frequently asked items

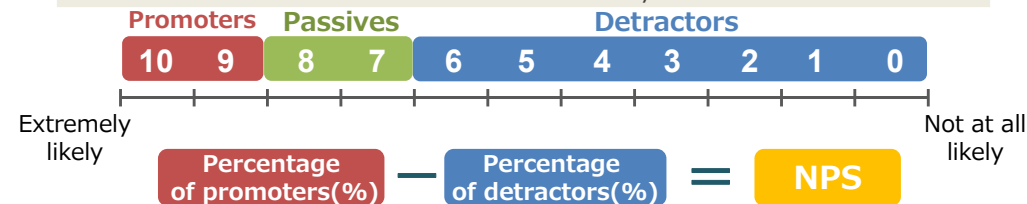


#### Examples

- Review of investment target of wrap service
- Expanded commission-free ATM alliance
- Introduced paperless account opening process

### Introduction of NPS

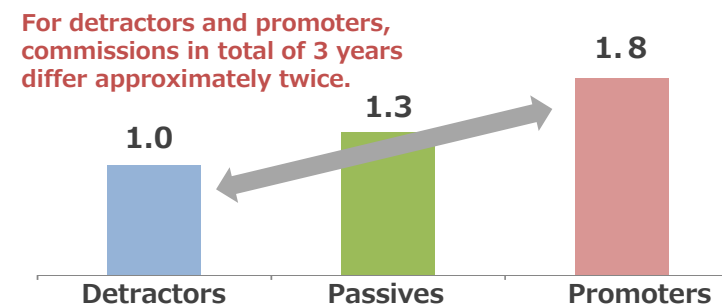
Q. If you were asked "Which securities company should I open an account at?" by a family member or friend, what is the percentage that you would recommend Daiwa Securities to the family member or friend?



### Correlation between NPS and Performance (Analysis of Our Customers)

If 10% of customers change from **Detractors** to **Passives** + ¥21.0 bn  
**Passives** to **Promoters** + ¥28.0 bn  
**Impact of revenue growth in Retail Division** (total of 3 years)

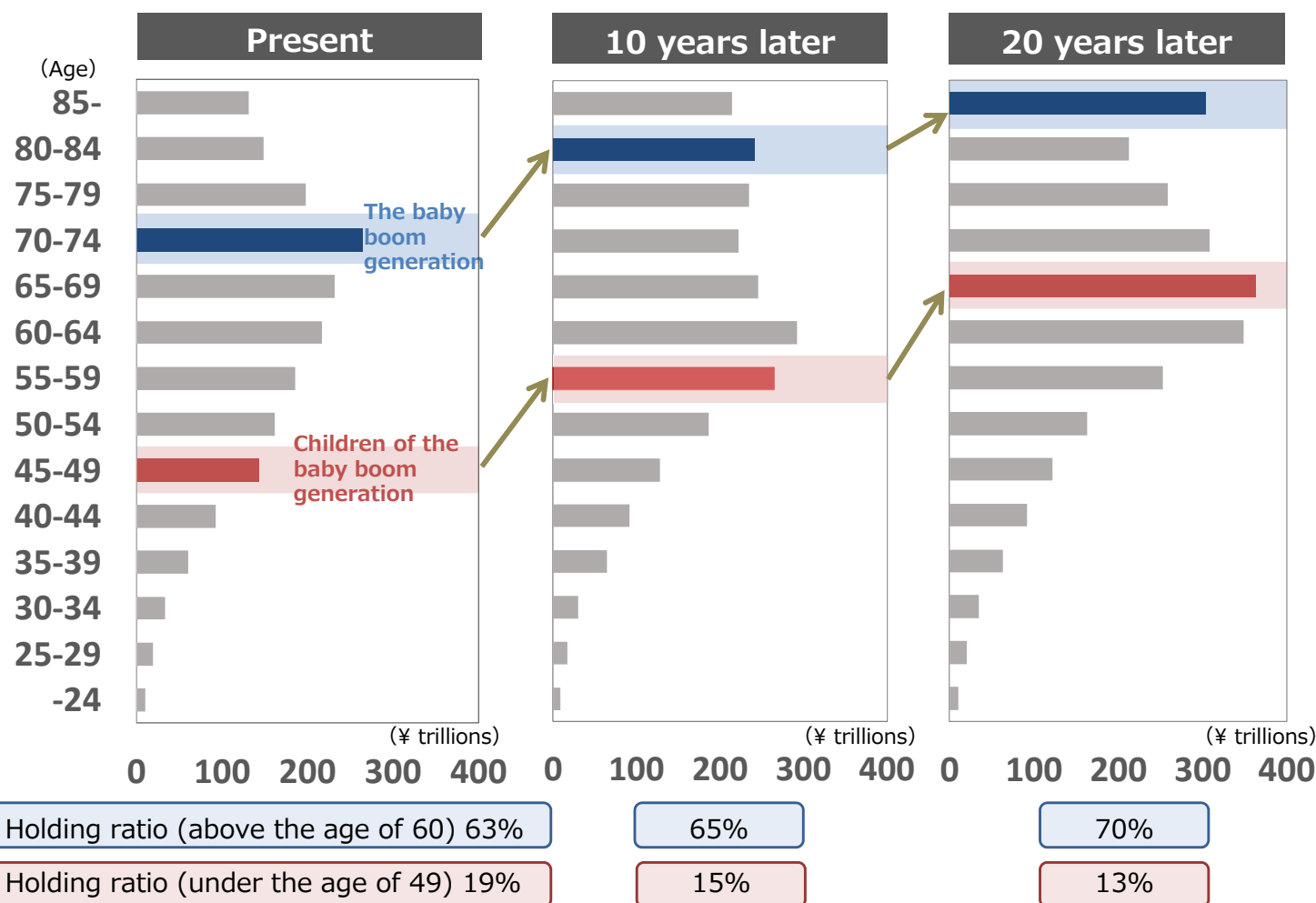
■ Commissions per customer\*2 for 3 years (set detractors to 1.0)



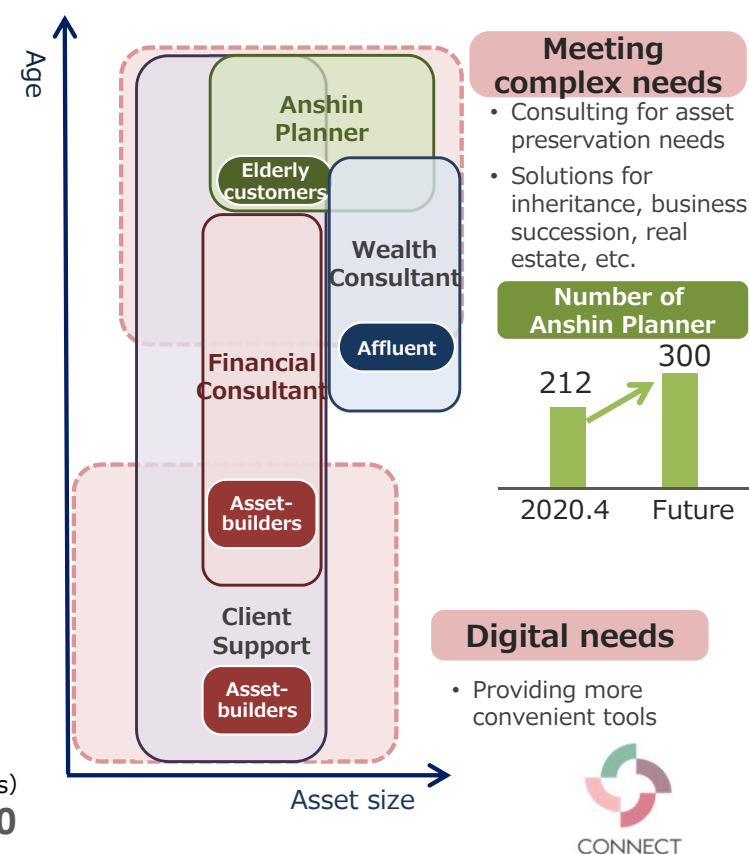
## Optimization of Channels according to Customer Attributes and Life Stage

Retail Business is facing structural changes such as customer aging.  
Anshin planners will meet the solution needs including asset preservation, inheritance, business succession, real estate, etc. for the elderly.

### Long-term Forecast of Household Financial Assets



### Providing Products by Optimizing Channels

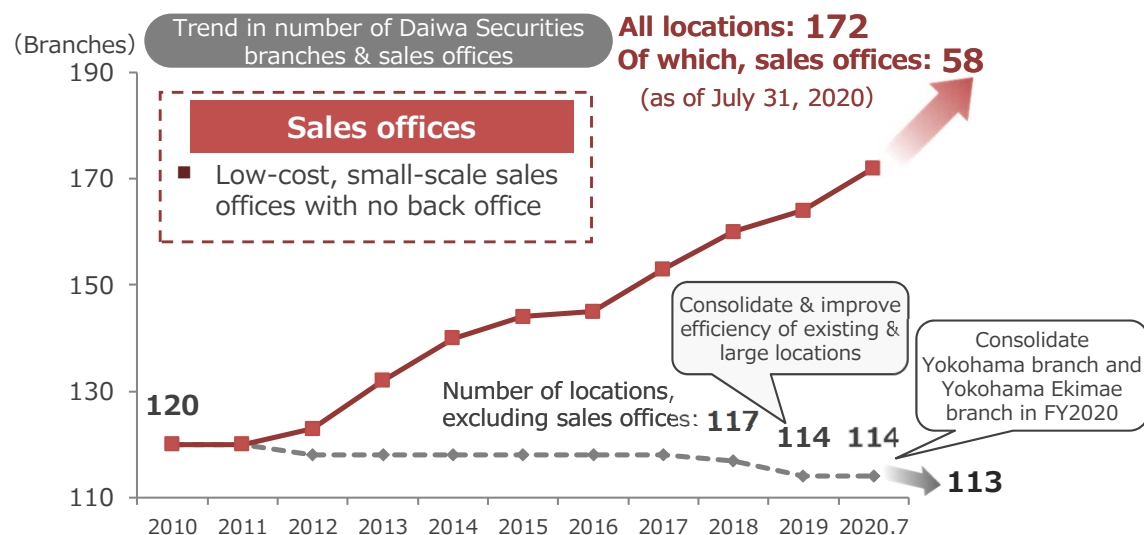




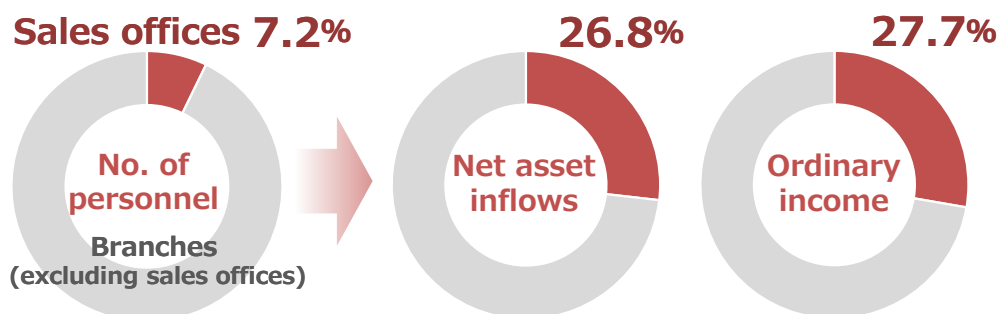
### Branch Strategy for the Post-Corona Environment (Face to Face Interaction and DX Integration)

**Expand sales offices as they contribute to net asset inflow and profits.  
Accelerate running cost reductions by consolidating neighborhood branches and putting sales offices on higher floors to focus on functionality.**

#### Location Strategy: Expand Sales Offices and Consolidate Large Branches



#### Location Strategy: Contribution from Sales offices to Net Asset Inflow & Profit



#### Future Direction of Branches

- Customers who visit branches have clear sense of purpose including investments and inheritance, etc.

##### BEFORE

Consulting booths in branches

Street side offices

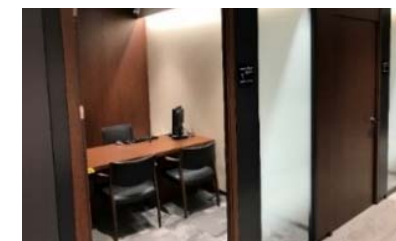
Fixed seats in offices

##### AFTER

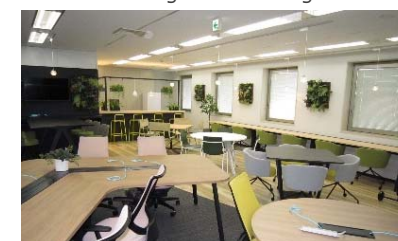
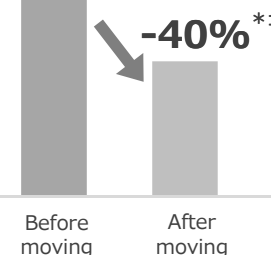
Rooms ensuring privacy

Putting sales offices in higher floors

Introduce address-free seats



##### Office rents



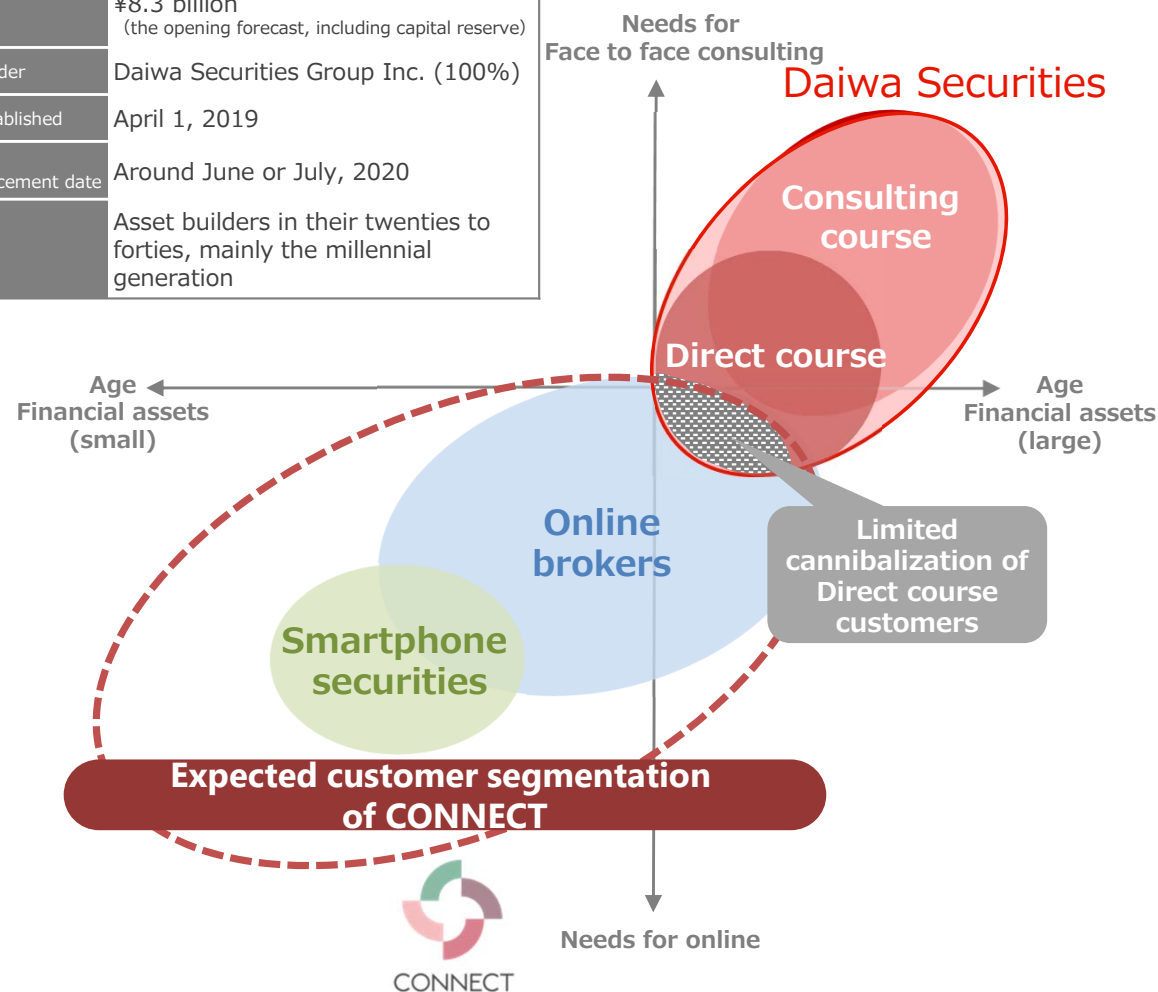


# New Initiatives Aimed at Capturing Asset Builders (CONNECT)

**Starting CONNECT, a new brand for providing financial services customized for smartphones. This is mainly targeted at beginner investors and asset builders.**

(Registered the business as a financial instruments business operator in April 22<sup>nd</sup> and preparing to commerce services from June or July)

Name	CONNECT Inc.
Capital	¥8.3 billion (the opening forecast, including capital reserve)
Shareholder	Daiwa Securities Group Inc. (100%)
Date established	April 1, 2019
Business commencement date	Around June or July, 2020
Targets	Asset builders in their twenties to forties, mainly the millennial generation



### Products

- **Starting from Japanese equities** (including ETF)
- Trading of shares less than a basic unit • **NISA accounts**
- Expansion of products including margin trading, IPO, investment trusts within 6 months after opening

### Commission

- **Lowest fee level in the industry**
- Distributing **commission free coupons** every month (around 10 times in a month, free of charge)
- **Installing SOR function** (offering more favorable execution price by Smart Order Routing)

### Channels

- **Easy-to-use trading on smartphones**
- **Providing application** (iPhone, Android)



### Promotion

- Application of **point system**



Various points services

Point exchange

Simulated investment by using points (equity linked)



Exchanging to shares



CONNECT

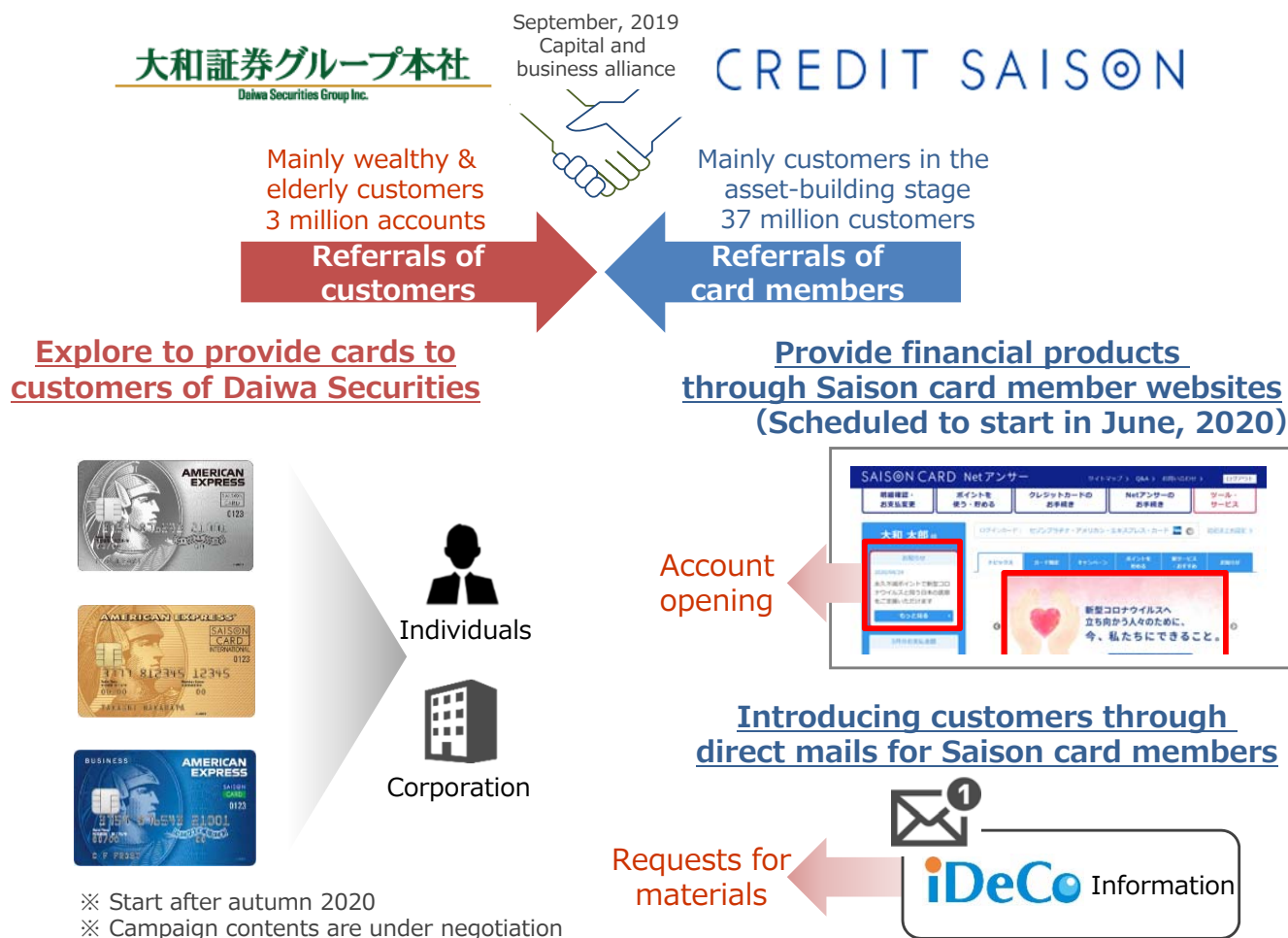
- Utilization of **gamification**

## II - Progress on Division Strategy & Future Initiatives

### New Initiatives in the Asset Building Area

We will implement initiatives to provide financial products with Credit Saison and start providing next-generation financial services through Fintertech, a joint venture.

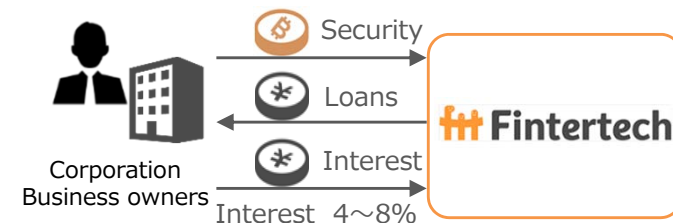
#### Capital and Business Alliance with Credit Saison



#### Next-generation Financial Service with Fintertech

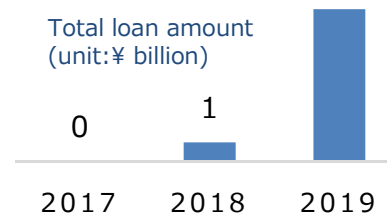
- Combine the strengths as a joint venture
- Aim to provide new next-generation financial services by utilizing cutting edge technologies of Fintertech

#### Digital asset collateral loan



- Funding business to receive interests by holding virtual currency as collateral and loaning legal tender (≒Securities loans)
- Registered as a Moneylending Business in 2019 and start operations from March 2020

#### Overseas market scale\*1



\*1 The Crypto Credit Report  
<https://reports.graychain.net/TheCryptoCreditReport-q4-2019.pdf>

# Providing Products & Services that Capture Customers' Needs

**Captured 1<sup>st</sup> place in main rankings highly rated by investors and issuers in both domestic and overseas.**

**Started provision of information in a new style during COVID-19 outbreak.**

## Strengthening Domestic and Foreign Research

### Overall

Nikkei Veritas Analyst Ranking2020  
Ranked **1<sup>st</sup> place** for **2 consecutive years**

2020 Institutional Investor All-Japan Research Team  
Ranked **1<sup>st</sup> place**

\* overall ranking by company for Nikkei Veritas Analyst Ranking, equity research ranking

### Factors

- Set a clear goal of "rank in first place continuously"
- Expanded researcher base by supporting the growth of young analysts
- Strengthened provision of information based on SDGs and ESG (established ESG Research Division)

### Corporate Access

2020 Institutional Investor  
Japan's Top Corporate Access Provider

Corporate respondents' ranking : **1<sup>st</sup> place**

Investor respondents' ranking : **2<sup>nd</sup> place**

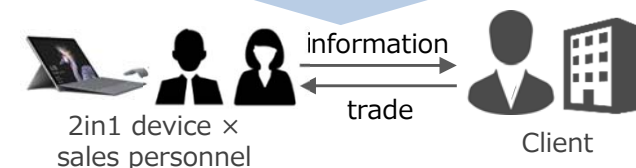
## Initiatives under COVID-19 Outbreak

### ■ Supporting measures for sales personnel

Live streaming of  
study sessions  
utilizing 2in1 device



Corporate staff  
accompanying  
virtually



### ■ Organizing timely online seminars



# Providing Various Solutions that Capture Customers' Needs

**Maintain a firm grip on top ranking in the PO & IPO league tables.**  
The top line reached a record high as we expanded M&A global network including investment in Green Giraffe.

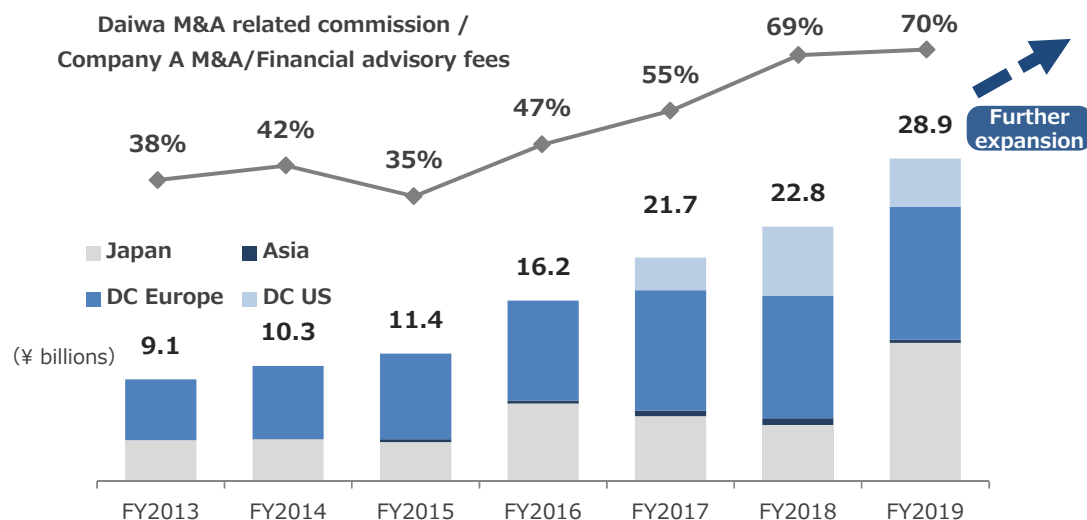
**FY2019 League Table Ranking & Market Share**\*1 (Source: Daiwa Securities)

Rank	IPO	Share	Rank	Primary and secondary equity offerings*2	Share
1	Nomura	30.5%	1	SMBC Nikko	15.6%
2	<b>Daiwa</b>	<b>24.6%</b>	2	<b>Daiwa</b>	<b>15.3%</b>
3	SMBC Nikko	19.2%	3	Nomura	14.1%
4	Mizuho	10.1%	4	Mitsubishi UFJMS	12.2%
5	Mitsubishi UFJMS	4.2%	5	Mizuho	11.3%

Rank	Straight bonds (excl. family bonds)	Share	Rank	Municipal bonds	Share
1	Mizuho	21.9%	1	Nomura	20.1%
2	SMBC Nikko	19.7%	2	SMBC Nikko	18.5%
3	<b>Daiwa</b>	<b>19.0%</b>	3	<b>Daiwa</b>	<b>17.6%</b>
4	Nomura	18.7%	4	Mizuho	16.1%
5	Mitsubishi UFJMS	16.8%	5	Mitsubishi UFJMS	15.3%

## M&A Results

### The top line reached a record high.



### Dec. 2018: Montalbán Atlas Capital acquisition (Spain)

### Oct. 2019: Invested in Green Giraffe. The number of cases working with DC is increasing.

### Global mid cap advisory rankings (FY2019)\*3

Rank	Financial & advisory	No. of deals
<b>10</b>	<b>Daiwa Securities Group/DC Advisory</b>	<b>116</b>

\*1 Compiled by Daiwa Securities based on REFINITIV

\*2 PO total (excluding domestic and foreign CBs and REITs)

\*3 Mergermarket. M&A deals with a total transaction value of USD500 million or less in all regions. Excluding accounting firms. Disclosed deal basis.

# Focus on Acquiring Deals Looking Ahead After COVID-19

Work to increase mandate acquired deals by far-seeing proposals looking after COVID-19 outbreak. Focus on proposals and sourcing to startups.

## Far-seeing Proposal looking after COVID-19 Outbreak

Corporate Action  
Time Line

Pipelines and Prospects for each Products

Ensure  
Liquidity

### Pipelines for debt finance is increasing

- ✓ Important way of financing under ultra-low interest rate
- ✓ Improvements seen in careful investors' stance

Improvements  
in B/S

### Increase in equity & mezzanine finance needs for rebuilding capital policy

- ✓ Cancellation of equity finance reflecting market drop and rise of uncertainty was temporal
- ✓ Needs for finance to improve B/S increased
- ✓ Needs for finance accompanying M&A increased
- ✓ Debt restructuring increased

Business  
Restructuring  
•  
Industry  
Reorganization  
•  
Growth Strategy

### M&A needs expected to increase in medium-term

- ✓ Delays seen in progress in existing deals and examinations for new deals, but small decrease in pipelines.
- ✓ Increase in industry reorganizations and M&As
- ✓ Increase in cross-border M&A deals
- ✓ Increase in investments and sales of PE funds

## Focus on Proposals and Sourcing to Startups

Proposals  
under  
COVID-19  
Outbreak

### ■ Strengthened proposals utilizing 2in1 devices and web-conferences

- ✓ Demand for IPOs from companies is robust
- ✓ Client access in Corporate Division rose **25%** in April compared to 2H FY2019 utilizing telephone and web-conferences

Sourcing  
Capability  
(Deal-finding  
skill)

### ■ Strengthen relationships and partner with external venture capital firms domestic and overseas and universities

- ✓ Established a joint venture company with Sony Corporation in FY2019  
"Innovation Growth Fund" started investing

### <Major VC fund investees>

VC	DG Daiwa Ventures	SONY×Daiwa Securities Group Inc.	WiL
Fund	DGLAB FUND	Innovation Growth Fund	WiL Fund I, II
Total amount	approx. ¥30.0 bn	¥16.0 bn	USD 0.88 bn
Theme	Block chain / AI / VR/AR / Security / Bio health	AI・Robotics	B2B/Sharing/Market place

Networking  
Skills

- Further evolution of the Daiwa Innovation Network (DIN)
- Held DIN on-line for the first time in May. Supported startups during COVID-19 outbreak



Cumulative total of presenters from startups : 476 companies  
Average participants : 140

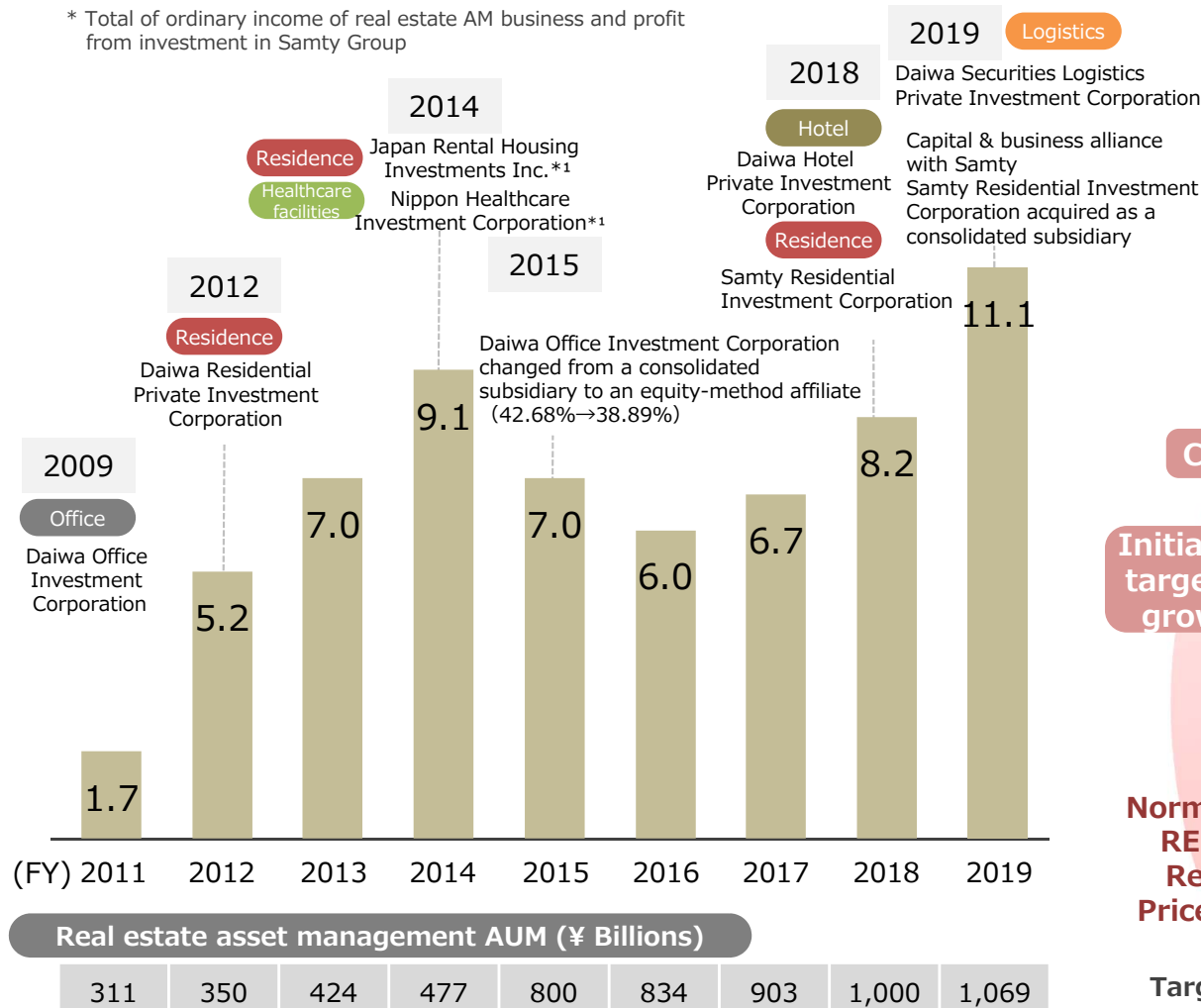


### Diversification & Expansion of AUM in the Real Estate Asset Management Business

**Continue to diversify and expand AUM with the aim of stable income growth and exceed 10 billion yen in profit from real estate asset management.**  
**Strive to expand AUM through initiatives aimed at steady investment and growth amid the changes in the external environment.**

#### Real Estate Asset Management Related Business: Ordinary Income (¥ billions)

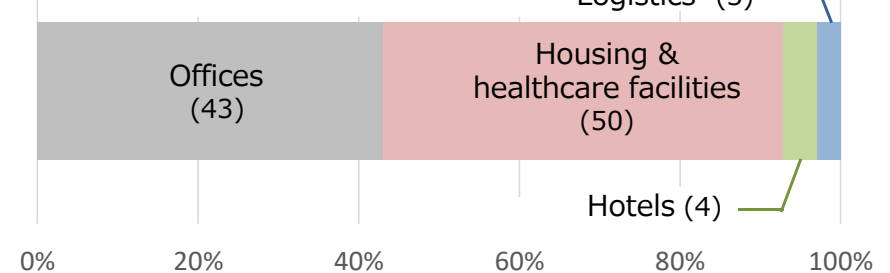
\* Total of ordinary income of real estate AM business and profit from investment in Samty Group



#### Response Once the Novel Coronavirus Pandemic has Resolved

##### Real estate asset management portfolio

(Percentage of holdings (%) held in parentheses\*2)



##### Response by Daiwa Real Estate Asset Management

Current

Initiatives targeting growth

- Concentrating on steady investment aimed at the post-corona environment
- Strengthening relationships with existing clients
- Investment opportunity presented by temporary market chaos
  - ✓ Naturally invest in asset classes with stable cash flow and exercise strict selectivity in various asset classes
- Making greater use of the group's internal warehousing function
  - ✓ Redevelop properties owned within the group, invest in development properties, etc.

**Realize growth outside of REITs through agile acquisition of properties using internal group bridge funds, etc.**



Normalization of REIT market  
Rebound in Price/NAV ratio

**Target expansion of Real Estate Asset Management AUM to 1.5 trillion yen**

#### Real estate asset management AUM (¥ Billions)

311	350	424	477	800	834	903	1,000	1,069
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\*1 Japan Rental Housing Investment Inc. merged with Nippon Healthcare Investment Corp. in April 2020 and changed trade name to Daiwa Securities Living Investment Corp..

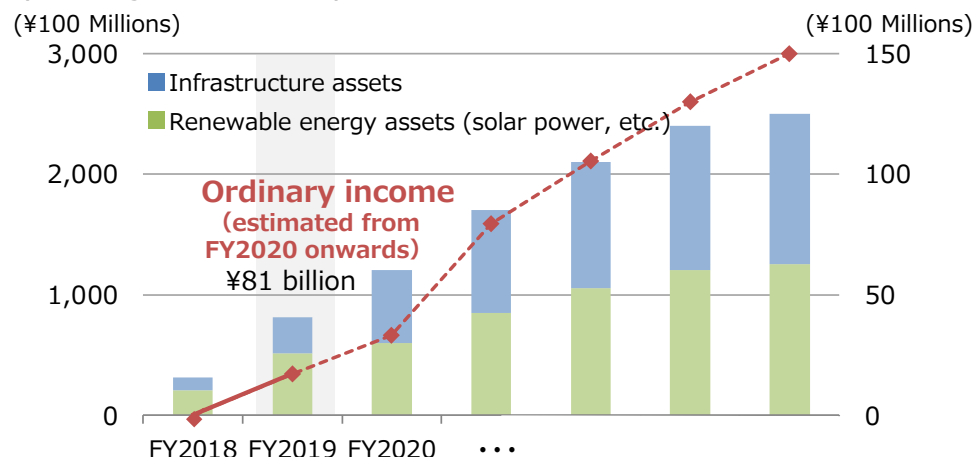
\*2 REIT operated by Daiwa Real Estate Asset Management Co. Ltd. and Samty Asset Management Co., Ltd.. (as of April 30, 2020)

## Expansion to New Business Areas (Daiwa Energy & Infrastructure Co. Ltd.)

**Capture more stable income gains from investment in renewable energy and infrastructure.  
Target expansion in AUM by strengthening initiatives in investment, exit, and risk management.**

### Daiwa Energy & Infrastructure Earnings Results

- FY2019 net operating revenues were ¥2.1 billion, and ordinary income was ¥1.7 billion.
- We are targeting ¥300 billion in AUM over the medium and long term (including external funds).



### Future Policy

#### Investment Develop a track record in strategic investment

- Domestic solar power: Expand investment targets, including secondary projects
- Overseas renewable energy: Expand joint investment with Aquila Capital

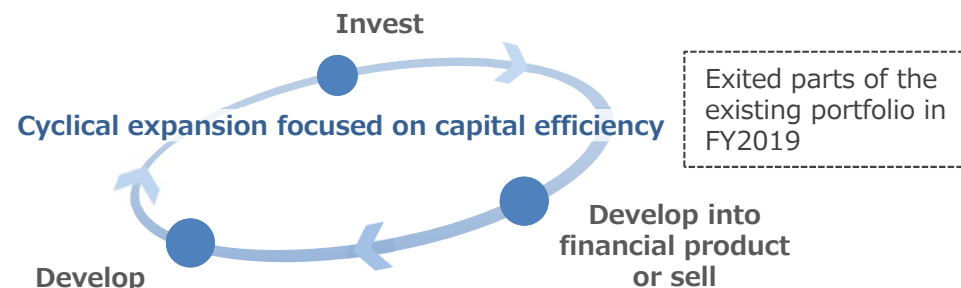
#### Aquila Capital Profile

Description: Investment company that targets investment in renewable energy projects in Europe  
Equity interest: DEI acquired 40%

- Excellent partner for expansion of business in Europe
- Strengthen the global group platform by allying with DC Europe and Green Giraffe

- Infrastructure: Expand areas of investments (airports, telecommunications, etc.)

#### Exit Establish a capital recycling model

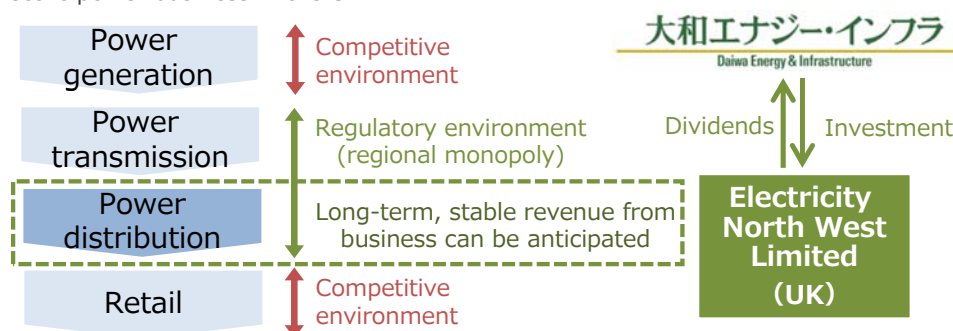


#### Risk management Enhance risk management and monitoring

- Strengthen the project risk management and monitoring structure as the investment balance increases.
- Strengthen the management structure of the company invested in (Aquila Capital)

### Investment Example (Investment in Power Distribution Business in the UK)

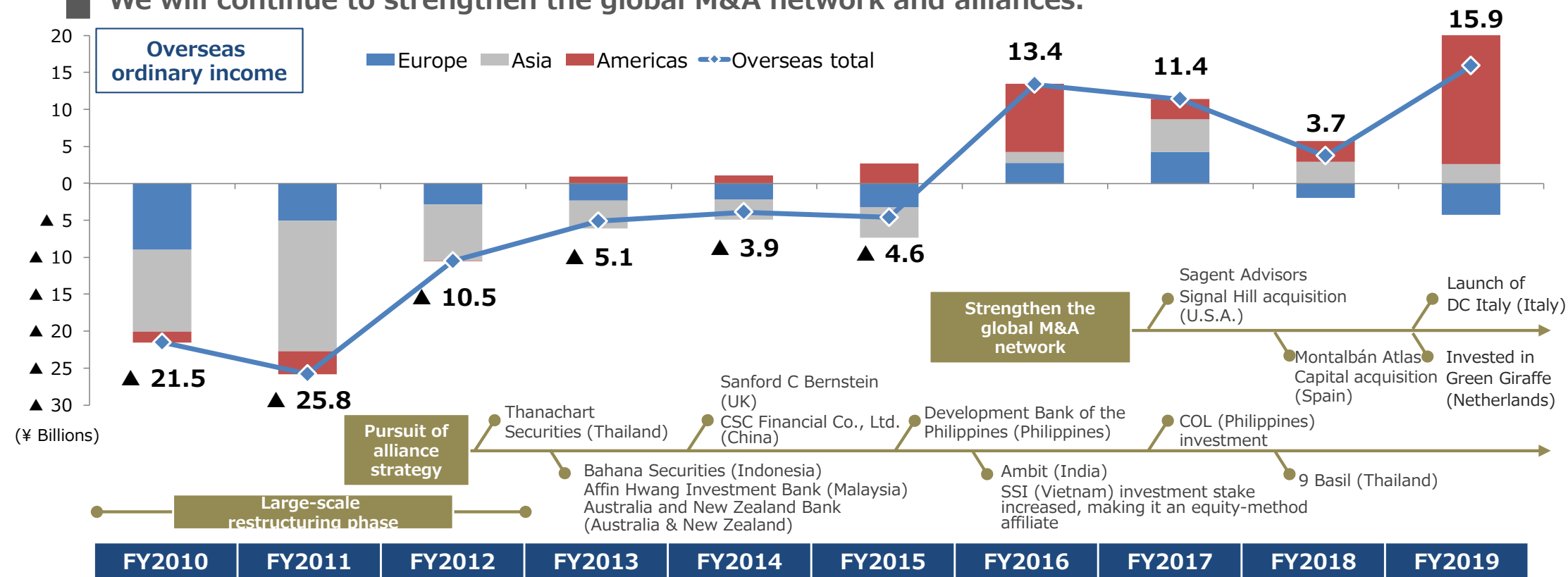
Electric power business in the UK



\* AUM for Daiwa Energy & Infrastructure is the balance at the end of the fiscal year for past results and the average balance during the fiscal year for future forecasts.

# Overseas Business

Overseas operations have succeeded in initiatives aimed at improving business efficiency thus far, and have generated profits for 16 consecutive quarters. We will continue to strengthen the global M&A network and alliances.



## Americas FICC profit at a high level in FY2019

- ✓ Have consistently maintained primary dealership in U.S. Treasuries since December 1986
- ✓ Built a stable revenue base on the back of a high share of the short-term U.S. bond market in particular
- ✓ Continuously in the black for 13 years, since FY2007 and posted especially high profits in FY2019 (¥17.6 bn)
  - Established a group of professionals centered around employees with market experience and many years in the company

## Breakdown of VaR in Japan and overseas\*1

(¥ billions)

Japan + Overseas	1.2
Japan	1.2
Overseas	0.2

\*1 Total of VaR in Japan and Overseas is smaller than the simple aggregation of figures in Japan and Overseas due to the correlation of regions. As of March 31, 2020, holding period: 1 day, confidence level: 99%, observation period: 520 days



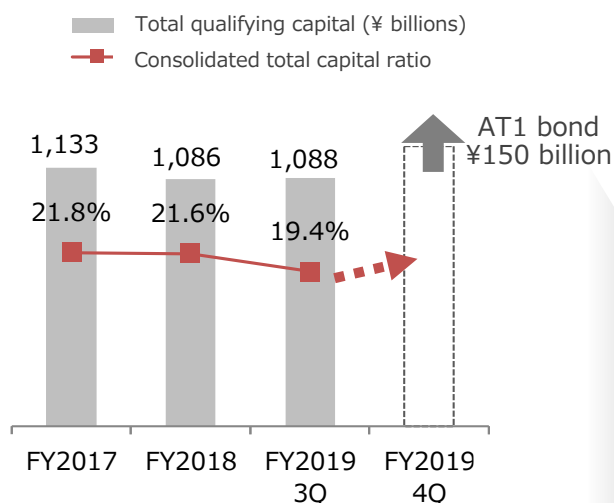
## **Ⅲ- Finance and Capital Strategy**

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**Daiwa Securities Group Inc.**

Implement a financial strategy that takes all stakeholders into consideration by striving to balance investment in growth, improving capital efficiency, maintaining financial health, and enhancing shareholder returns to achieve sustainable growth by earning healthy profits.

### The First Issuance of AT1 Bond

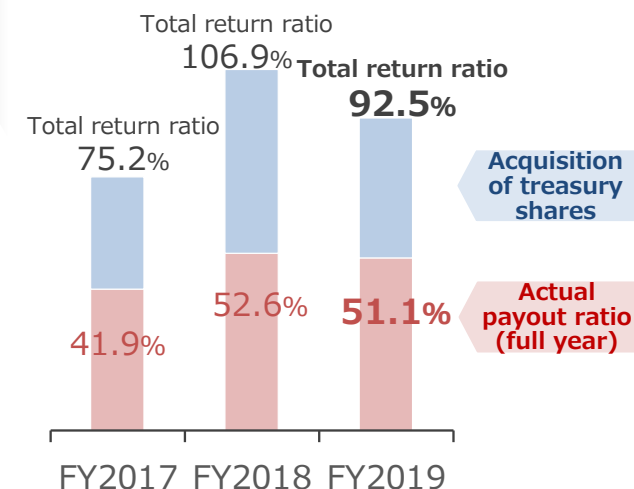


### Dividend Policy · Shareholder Return

#### Dividend policy

- ✓ The Company will basically pay dividends semiannually at a pay-out ratio of at least 50% based on the consolidated financial performance.
- ✓ The Company will also consider increasing returns to its shareholders in various ways including share buybacks when it has sufficient accumulated capital to pursue further growth.

#### Shareholder return



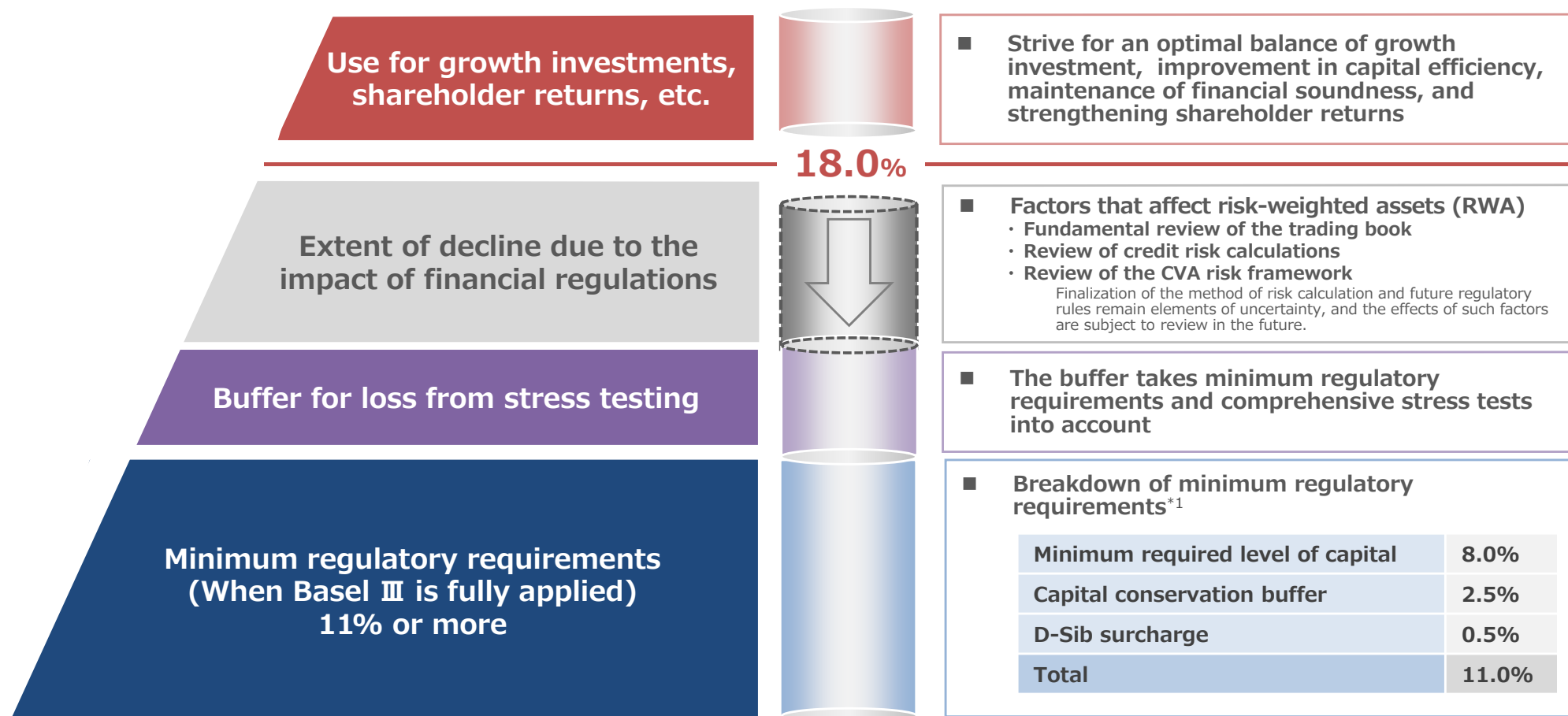
### Summary of AT1 bond

Name	Unsecured perpetual subordinated bonds with optional-redemption clause and write-down clause
Redemption Date	5 or 10 years
Issue Amount	¥150 billion
Payment Date	March 16, 2020
Use of Proceeds	Investments for hybrid strategy, repayment of existing borrowings
Rating	BBB+ (Japan Credit Rating Agency, Ltd.)

We aim to maintain sufficient capital adequacy while responding to changes in the regulatory environment and providing for future growth and investment. We also aim to improve sustainable corporate value by ensuring an appropriate level of liquidity and enhancing shareholder return.

[View on Financial KPI](#)

Consolidated total capital ratio: **19.4%** (as of Dec. 31, 2019)



## **IV- In Conclusion**

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**Daiwa Securities Group Inc.**

# FY2020 KPI for Promoting Achievement of SDGs

KPIs have been established this fiscal year for each action theme to accelerate the initiatives in the action plan aimed at achieving SDGs. We will follow up on the status of initiatives and make changes where necessary to achieve the SDGs.

Action Theme	KPI	Description of Initiative
Promoting marketing of SDGs aimed at market expansion	Number of people who have completed SDG training	✓ Acquire SDGs knowledge through external courses
Expanding SDG-based finance products that contribute to solving social challenges	SDG bonds (project bonds) league table	✓ Provide funding to support solutions to social challenges
	"Ouen" time deposit balance	✓ Promote solutions to social challenges through deposits
	SDG-related funds Amount or no. of funds handled* <sup>1</sup>	✓ Expand the line-up of related funds to respond to increased customer interest in SDGs/ESG.
	Net increase in SDG-related funds* <sup>2</sup>	✓ Expand funds based on SDGs/ESG investment themes
Developing & supporting an industrial base that contributes to achievement of SDGs	Investment in SDG-related businesses	✓ Contribute to renewable energy and infrastructure related investment
	M&A league table in the renewable energy segment	✓ Strengthen advisory services in the global renewable energy sector
	No. of M&A deals retained + No. of cases of business succession consulting	✓ Contribute to regional revitalization through M&A for small and medium-sized companies, business succession, etc.
	Contribution through foundations and NPO, etc.	✓ Support solutions of various issues in local and international communities with foundations and NPO, etc.
Strengthening engagement that accelerates the investment cycle	ESG coverage ratio in individual company reports	✓ Expand ESG information in analysts' reports
Daiwa Securities Group "Make it your own" plan	Percentage of women in management positions	✓ Increase the percentage of women in management positions
	Volume of CO <sub>2</sub> emissions	✓ Continue to reduce the environmental burden in the entire value chain with the goal of transitioning to a low-carbon society

\*<sup>1</sup> Scope: Daiwa Securities

\*<sup>2</sup> Scope: Daiwa Asset Management

# Initiatives Aimed at Achieving SDGs

We are maintaining flexibility in implementing initiatives aimed at solving social challenges due to the impact of the novel coronavirus.

## Promoting marketing of SDGs aimed at market expansion

- Held proprietary seminars based on SDG themes at branches nationwide. At the Kyoto Branch, invited Mr. Nishiguchi, Executive Managing Director of Japan Innovation Network as the instructor for a seminar on using innovation as an entry point.
- Used the SDGs booklet to introduce the various SDG initiatives in the Daiwa Group to customers and business partners.



## Expanding SDG-based finance products that contribute to solving social challenges

- Daiwa Next Bank, Ltd. received a special award in the 3rd Japan SDG Award ceremony, recognizing its initiatives in achieving a wide range of SDGs through "Ouen" time deposits.
- Underwrote social bonds issued by International Finance Corporation (IFC), which announced emergency support for private sector companies to respond to the rapid spread of the novel coronavirus.



## Daiwa's version of the SDG value chain

### Strengthening engagement that accelerates the investment cycle

- Provided information related to SDGs/ESG to investors and issuers through research and seminars.
- The University of Tokyo outsourced a survey on social impact investment to Daiwa Institute of Research.
- Daiwa Institute of Research and Daiwa Investor Relations Co., Ltd. teamed up to provide support on materiality specification and consulting on ESG disclosure.



### Developing & supporting an industrial base that contributes to achievement of SDGs

- Invested in Green Giraffe, which is No. 1\* in the global league table in advisory business specializing in the renewable energy sector.
- Fintertech Co., Ltd. participated in the J-WAVE Inc.'s "#Don'tStoptheMusic" project. The program supported the music world, which has been severely affected by the novel coronavirus through providing a free tipping system.
- Daiwa Food & Agriculture Co. Ltd. allied with KAGOME CO., Ltd. to produce low-cost tomatoes in a weather-resistant greenhouse.



\* Source: inspiratia (1H 2019, value basis)

## Daiwa Securities Group "Make it your own" plan

- A voluntary SDGs/ESG working group was launched at our UK subsidiary, Daiwa Capital Markets Europe Limited. This was a proposal by employees.
- Diverse workstyles according to life stages were introduced once the 2in1 devices were issued to all employees. The telecommuting system, including working from home, was expanded with the goal of improving productivity throughout the company.



# Reforms to Improve Job Satisfaction × DX

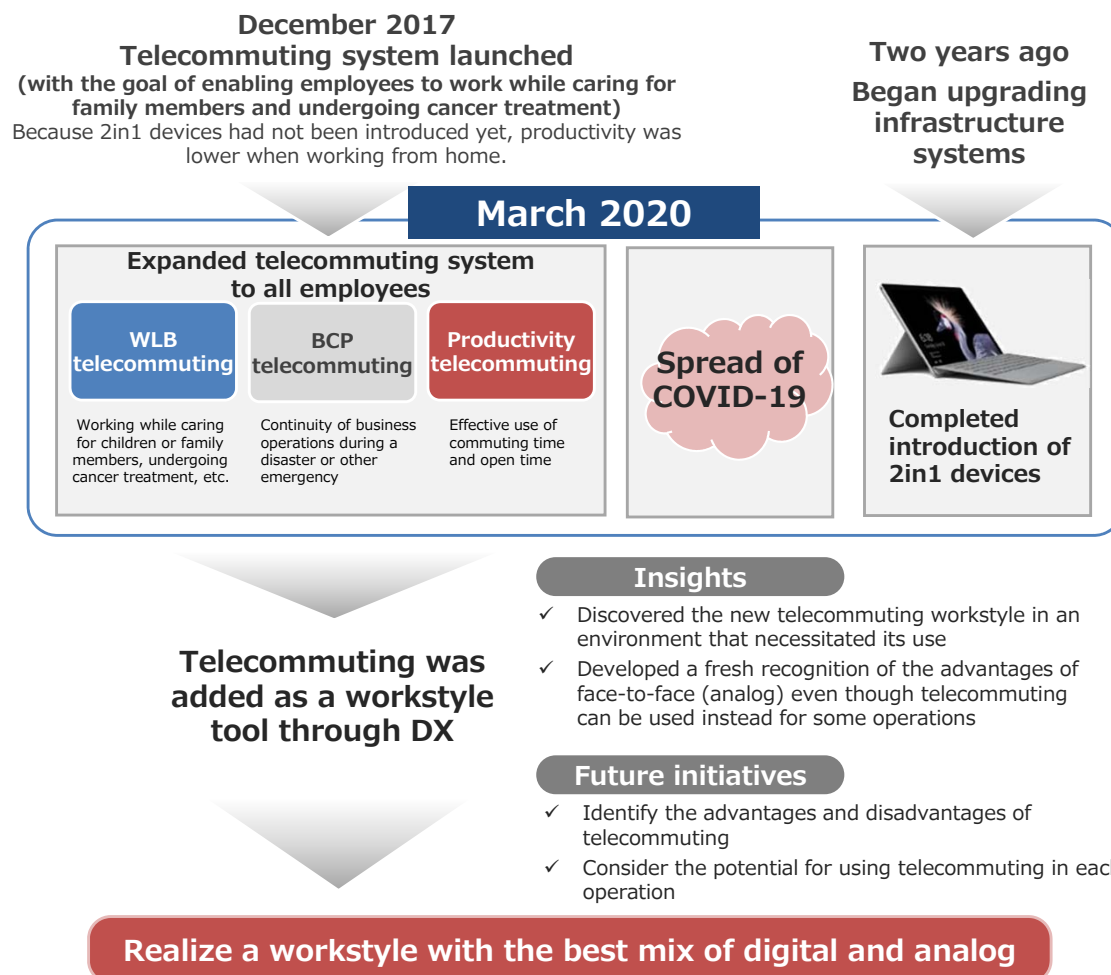
Formulate No. 1 in Job Satisfaction Plan 2020 and establish an environment that enables employees to demonstrate their full potential.

In March 2020, we pursued DX along with the telecommuting system as the novel coronavirus spread and increased the number of workstyle options.

## No. 1 in Job Satisfaction Plan 2020

Theme	Measures
Workstyle	<p>Establish systems and an environment that enable employees to work efficiently and demonstrate maximum performance in a limited time period</p> <ul style="list-style-type: none"> <li>Expand telecommuting system</li> <li>Implement SmartBiz year-round</li> </ul>
Career development	<p>Expand career options and establish an environment that enables employees to work actively, with higher motivation</p> <ul style="list-style-type: none"> <li>Establish a new Digital IT Master certification system</li> <li>Expand support for returning to work after taking childcare leave</li> <li>Expand the Daiwa Women's Management Forum (training program for women in management positions)</li> </ul>
Work-life balance	<p>Establish a system that increases employee job satisfaction and enables employees to continue working while experiencing various life events</p> <ul style="list-style-type: none"> <li>Establish a new pregnancy escort leave program and make it a general principle to take one week or more of childcare support leave</li> </ul>

## Realization of Diverse Workstyles through DX



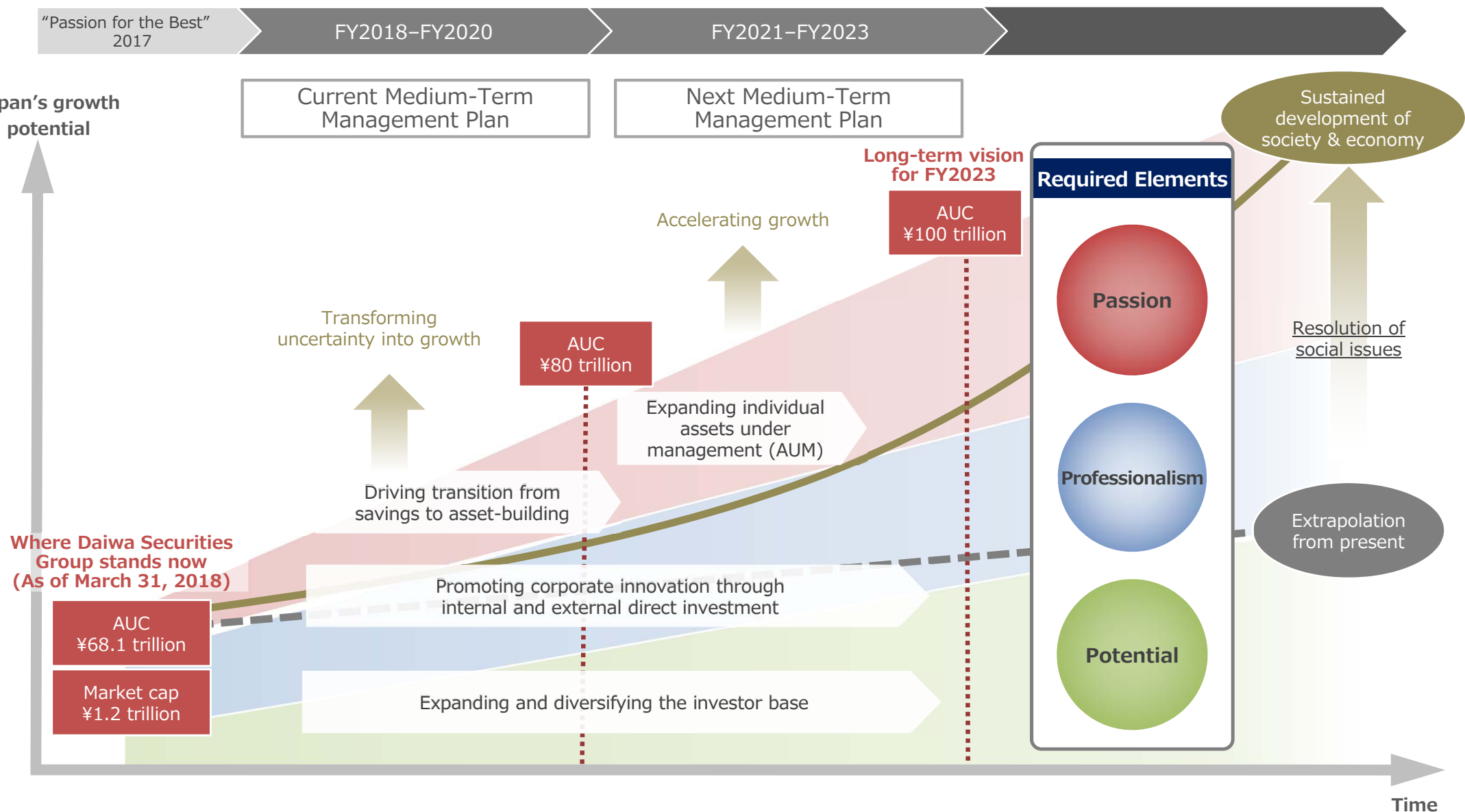
# Appendix

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**Daiwa Securities Group Inc.**



## Direction for the Future



## Outline of “Passion for the Best” 2020, Our Medium-Term Management Plan

## “Passion for the Best” 2020

## A Financial and Capital Market Pioneer that Creates the Future

“Passion for the Best” 2017

FY2018

FY2019

FY2020

## Basic Policy

## Progress

1 Providing high value-added solutions through the use of our “Quality No. 1” consulting capabilities

2 Providing new value as an integrated securities group with a hybrid business model

Establishment of a sales organization, products, and services

Realization and evolution of “Customer First” operations

Dramatic improvement in customer satisfaction

## Digital Transformation

Strengthening of conventional business and full utilization of Group resources

Expansion and strengthening of external networks and surrounding businesses

Enhancement of products and services

Expansion of customer assets

Growth of companies driving the Japanese economy

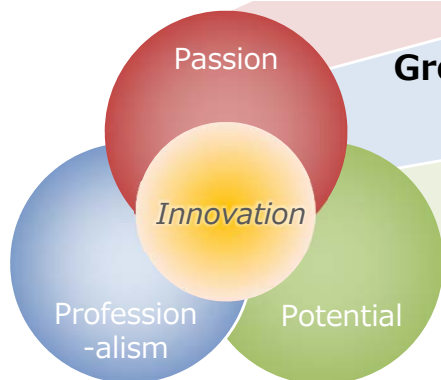
Asset scale and corporate value

## Group Numerical Targets

Customer-oriented KPI

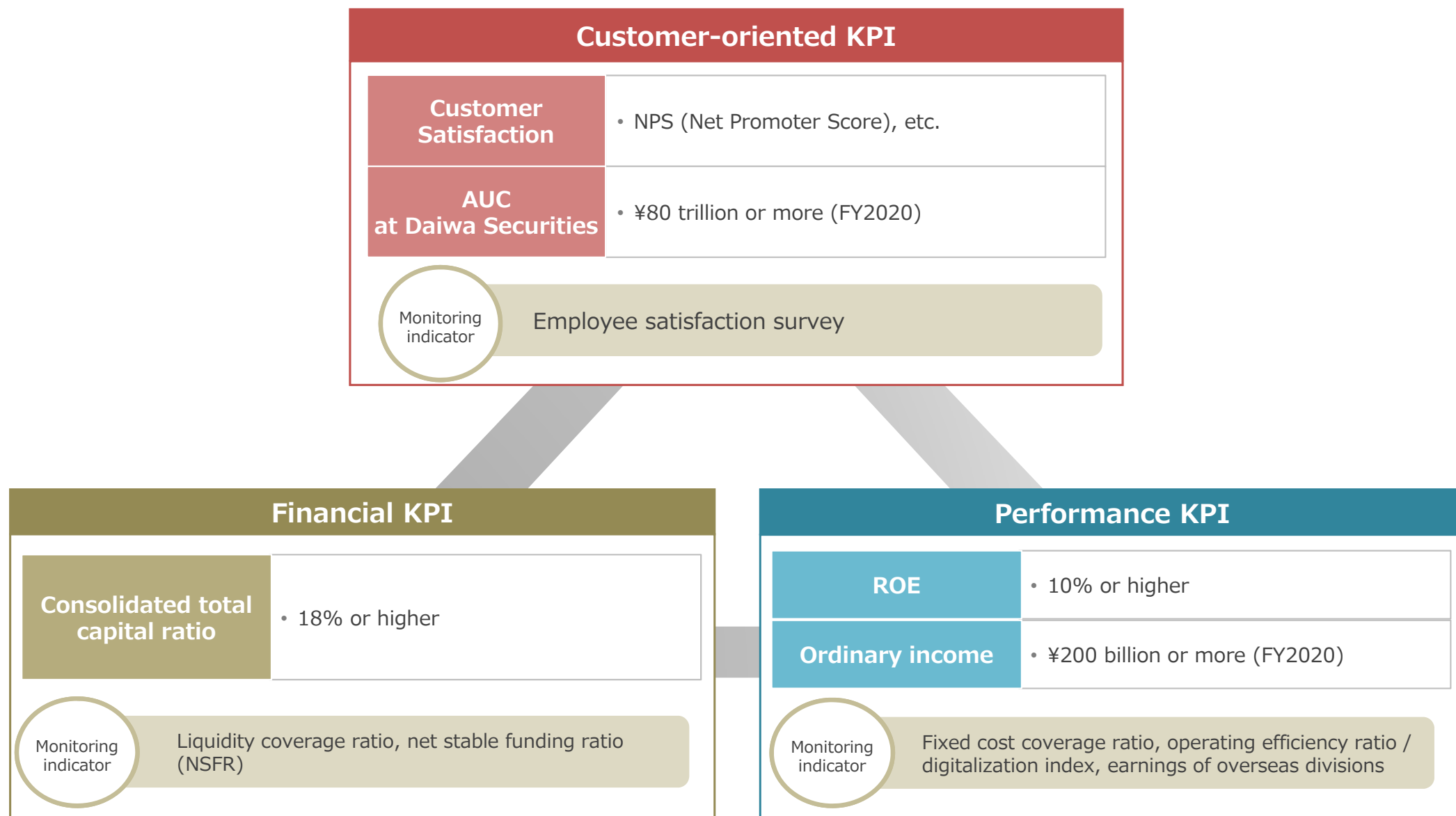
Performance KPI

Financial KPI

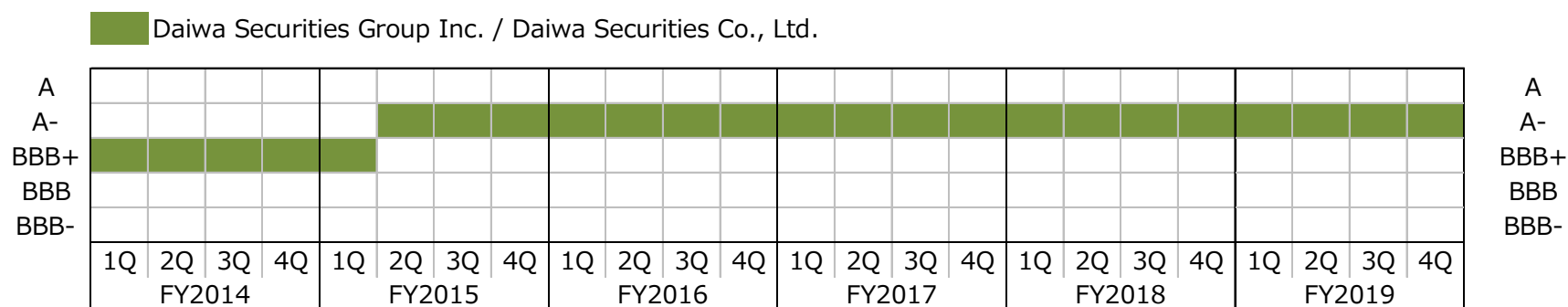
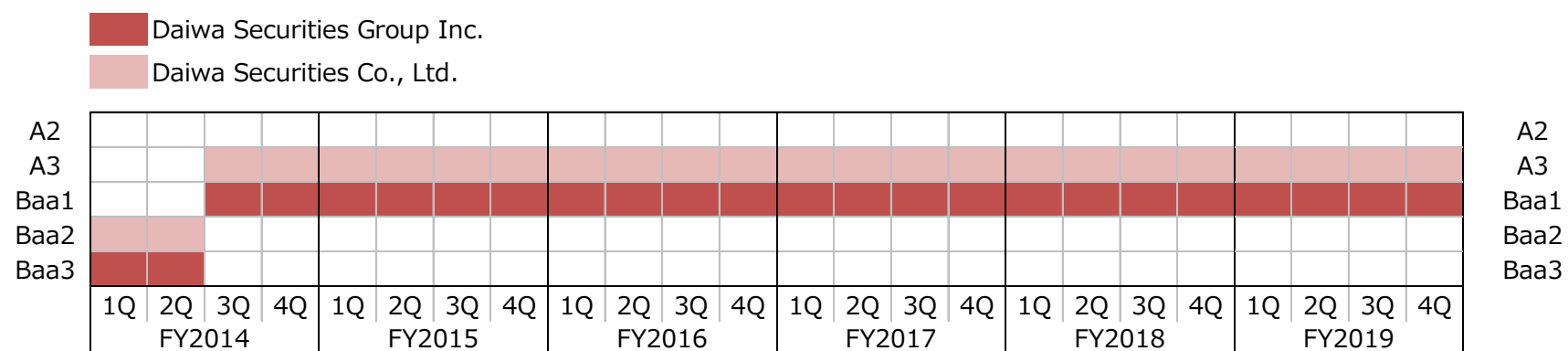
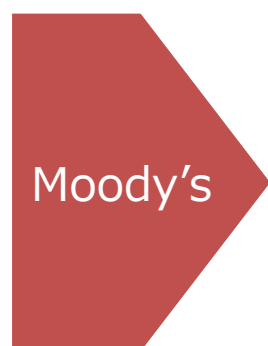
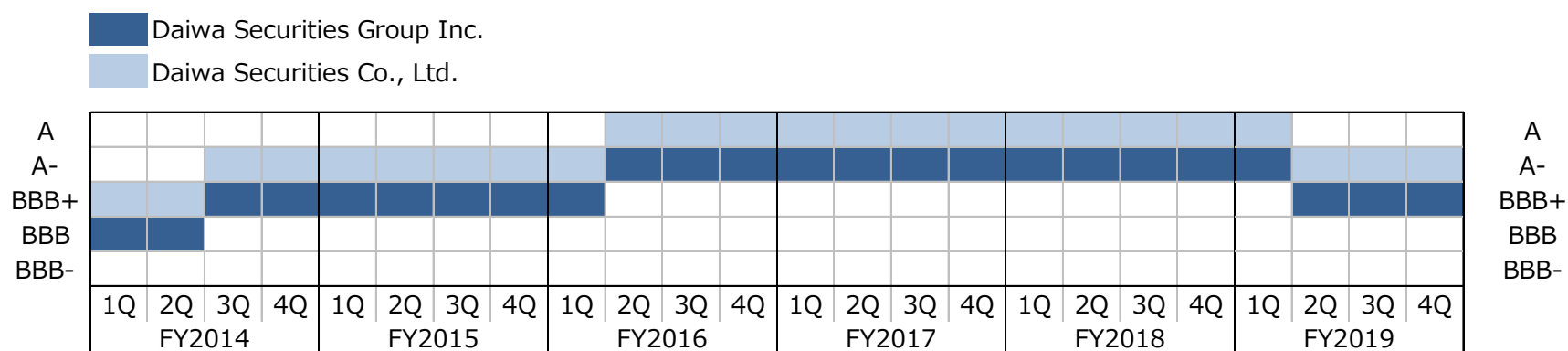


Time

## Group Numerical Targets



# Trend in Credit Ratings for Our Group



## Shareholder Return

## Dividends

FY2019 dividend per share: 20yen (interim: 11yen, year-end: 9yen)

Annual dividend payout ratio: 51.1%

## Share Repurchase

Total number of shares to be repurchased: 50 million shares

Total amount to be paid for repurchase: ¥25.0 billion

Total return ratio

**106.9%**Amount repurchased  
¥34.8 bn

Total return ratio

**92.5%**Amount repurchased  
¥25.0 bn

Total return ratio

**75.2%**Amount repurchased  
¥37.1 bn

Total return ratio

**60.4%**Amount repurchased  
¥18.9 bn

Total return ratio

**58.3%**Amount repurchased  
¥18.5 bn

Acquisition of treasury shares

**34.9%****34.1%****34.5%****42.5%**

Approx. 40%

**41.9%****52.6%****51.1%****50% or higher**

Actual payout ratio (full year)

Dividends per share (yen)

15		34		30		29		26		28		21		20	
3	12	17	17	14	16	17	12	13	13	13	15	12	9	11	9
Interim	Year-end	Interim	Year-end	Interim	Year-end	Interim	Year-end	Interim	Year-end	Interim	Year-end	Interim	Year-end	Interim	Year-end
FY2012		FY2013		FY2014		FY2015		FY2016		FY2017		FY2018		FY2019	
“Passion for the Best”2014 (FY2012-FY2014)						“Passion for the Best”2017 (FY2015-FY2017)						“Passion for the Best” 2020 (FY2018-FY2020)			

# Innovative Human Resource Strategy

We are implementing various measures to maximize productivity, active contribution and job satisfaction. We will formulate the No. 1 in Job Satisfaction Plan 2020 and establish an environment that enables employees to demonstrate their potential to the maximum extent.

## Human Resource Strategy aimed at No. 1 in Quality



## No. 1 in Job Satisfaction Plan 2020

Theme	Measures
<b>Workstyle</b>	<p>Establish systems and an environment that enable employees to work efficiently and demonstrate maximum performance in a limited time period</p> <ul style="list-style-type: none"> <li>■ Expand telecommuting system</li> <li>■ Implement SmartBiz year-round</li> </ul>
<b>Career development</b>	<p>Expand career options and establish an environment that enables employees to work actively, with higher motivation</p> <ul style="list-style-type: none"> <li>■ Establish a new Digital IT Master certification system</li> <li>■ Expand support for returning to work after taking childcare leave</li> <li>■ Expand the Daiwa Women's Management Forum (training program for women in management positions)</li> </ul>
<b>Work-life balance</b>	<p>Establish a system that increases employee job satisfaction and enables employees to continue working while experiencing various life events</p> <ul style="list-style-type: none"> <li>■ Establish a new pregnancy escort leave program and make it a general principle to take one week or more of childcare support leave</li> </ul>

<sup>\*1</sup> Q-Road and DBP(Daiwa Basic Program) are training programs

<sup>\*2</sup> Percentage of women in management, women as a percentage of employees hired, percentage of women who participate in training programs, percentage of men who take childcare leave, and percentage who take annual vacation time <sup>\*3</sup> Number who take the ASP (Advanced Skill-building Program) course

# SDGs Action Plan Being Pursued by Daiwa Securities Group

## Building a Daiwa version of an SDG value chain that will create a sustainable capital cycle

### Promoting marketing of SDGs aimed at market expansion

- Strengthen promotion aimed at education and proliferation of SDGs.
- Improve financial literacy by educating people about investment via SDGs.
- Create branches and provide marketing tools that take people and the earth's environment into consideration.
- Pursue services that are easy for all customers to use.

### Expanding SDG-based finance products that contribute to solving social challenges

- Expand the line-up of SDG-related products (SDG-related funds, SDG bonds, etc.).
- Expand social financing through Daiwa Next Bank deposits, crowdfunding, etc.
- Create new financial products linked to SDG marketing.
- Provide investment opportunities in unlisted companies involved in SDG-related businesses.

## Daiwa's version of the SDG value chain

### Strengthening engagement that accelerates the investment cycle

- Explore ways to evaluate the impact on SDGs.
- Establish an internal screening system.
- Actively communicate information on SDGs/ESG to encourage dialog.
- Provide consultation aimed at expanding disclosure of non-financial information.

### Develop & support an industrial base that contributes to achievement of SDGs

- Maintain the industrial base through M&A and business succession and provide succession support.
- Develop & support start-up firms and social innovators.
- Support stimulation of local economies/support economic development in other countries.
- Use advanced technology to provide new value.
- Invest in SDG-related businesses.
- Partner with and support NPOs, etc.

## Daiwa Securities Group "Make it your own" plan

### Company

- Environmentally conscious initiatives
- Create a workplace that leaves no one behind
- Develop SDG-literate human resources
- Pursue reforms that improve job satisfaction.
- Communicate examples of initiatives internally & externally.

### Employees

- Recognize social challenges around you.
- Take action aimed at solving problems.



In August 2016, The University of Tokyo established Hongo Tech Garage (a Daiwa Securities Group donation project). The goal of this project is to generate the seeds of start-up companies from the independent projects of students. Daiwa Securities Group is developing and supporting start-up companies and social innovators by support the project.

#### Example of supported project: teTra – Air mobility (flying car) –

- teTra is a team of University of Tokyo graduate school students and working adults who participated in the Spring Founders Program\* put on by Hongo Tech Garage in 2018.
- Hongo Tech Garage was the first to support pursuit of this project.
- They developed a personal flying device aimed at a society in which people move about safely and freely in the air.
- teTra aviation corp. was established in June 2018.  
<https://www.tetra-aviation.com/>
- On February 29, 2020, teTra won the Pratt & Whitney Disruptor Award and a cash prize of \$100,000 in the Final Fly Off competition, a global competition in personal flying devices and mobility, which is sponsored by Boeing.
- No other team met the qualifications, so teTra was the only team to receive that award.

\* The program supports technology projects and product development during spring break. Being selected results in being adopted as a supported project and being paid for the work site, materials and equipment, and other items during the activity funding period (¥30,000-¥300,000).





# External Ratings & Certifications

## Inclusion in Indices

**FTSE**  
Blossom Japan Index



**MSCI**  
Japan Empowering Women (WIN)  
Select Index



GPIF selected indexes

**MSCI ESG Ratings**



Upgraded from BBB to A (April, 2020)

**GRESB Survey**  
GRESB 2019 "Green Star"



Obtained for 8 consecutive years (Daiwa Office Investment Corp.)  
Obtained for 2 consecutive years (Daiwa Rental Housing Investment Inc.)

**FTSE4 Good Index**



Included for 14 consecutive years

**S&P Dow Jones & Company, Inc.**  
& **SAM**  
DJSI World / Asia Pacific



Continually included since 1999

## Awards from External Organizations

**Nadeshiko Brand**  
(enterprises that encourage the success of women)



Selected for 6 consecutive years

METI & Tokyo Stock Exchange Inc.

**Health & Productivity Stock/  
Outstanding Company in Health &  
Productivity Management**



Selected for 6 consecutive years/  
Selected for 4 consecutive years

METI & Tokyo Stock Exchange Inc.

**Competitive IT Strategy Company**



METI &  
Tokyo Stock  
Exchange Inc.

**Kurumin Mark**  
Certification for companies that  
provide childcare support



Ministry of Health,  
Labour & Welfare

**Mark for companies that promote the  
establishment of a workplace  
environment that enables employees to  
both work and care for elders**



Ministry of  
Health, Labour  
& Welfare

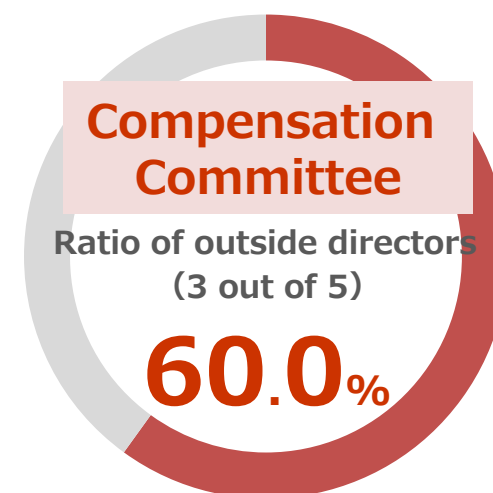
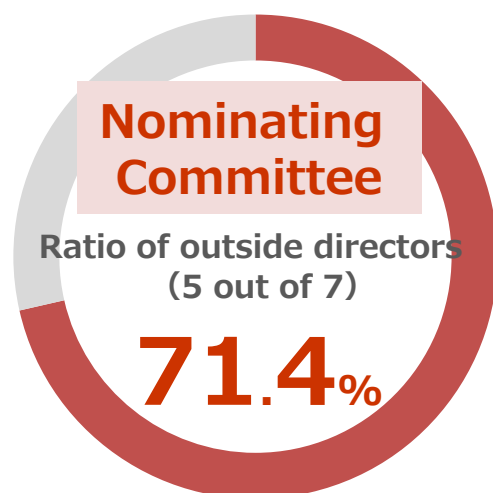
**Employment popularity ranking**

**Total ranking: 4th**  
**Financial industry: 2nd**

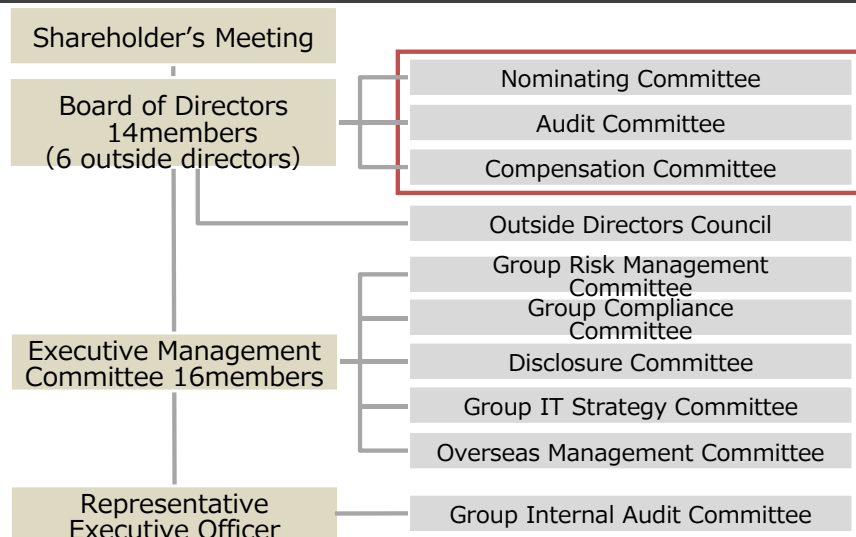
Toyo Keizai Online,  
2021 Graduates (1st half period)

# Governance

Appointed all of the chairperson of the three committees to be outside directors for higher transparent and objective governance system.



## Management Structure



## Points of Corporate Governance

### ■ Separating the supervisory and executive functions

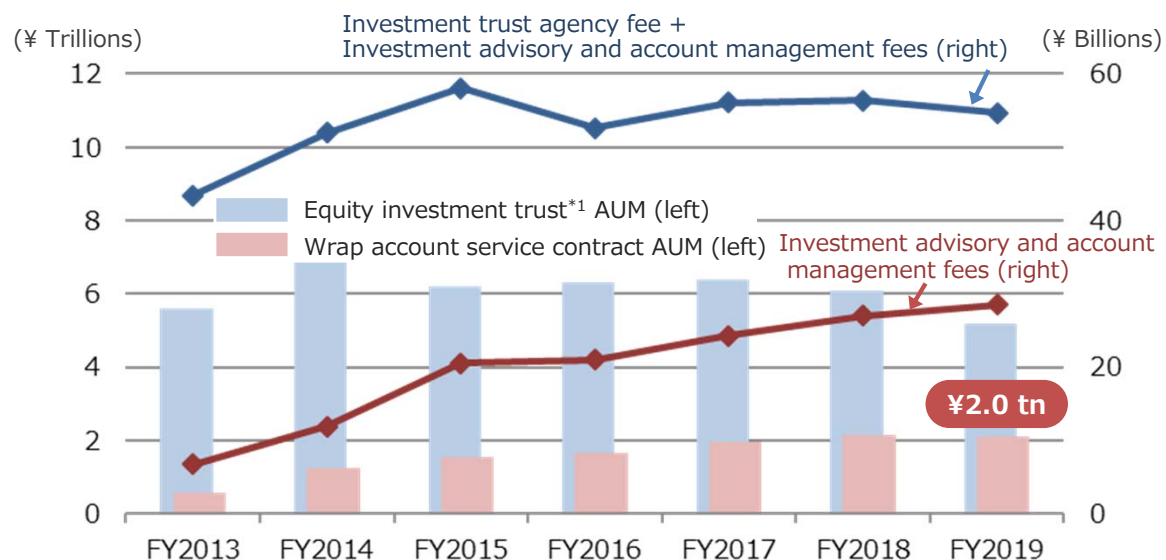
- Adopted a company with Three Committees System
- Strengthen supervisory functions at the Board of Directors from the appointment of outside directors with highly specialized skills, and better transparency in management from the establishment of three committees with outside directors a majority of their members and serving as chairpersons.

### ■ Agile decision-making

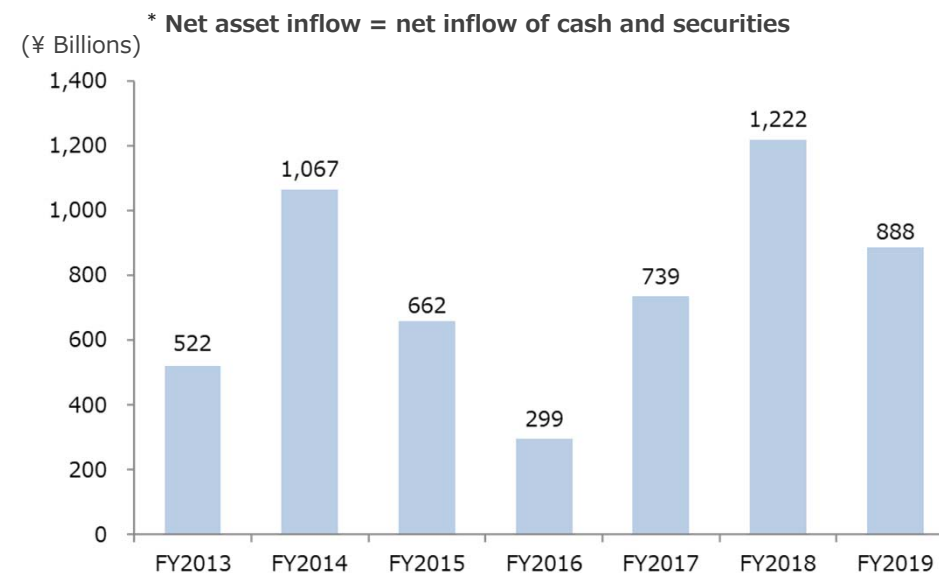
- Better decision-making agility by having the Board of Directors assign significant authority to corporate executive officers while clarifying the division of duties among corporate executive officers.

# Reference for Retail Division

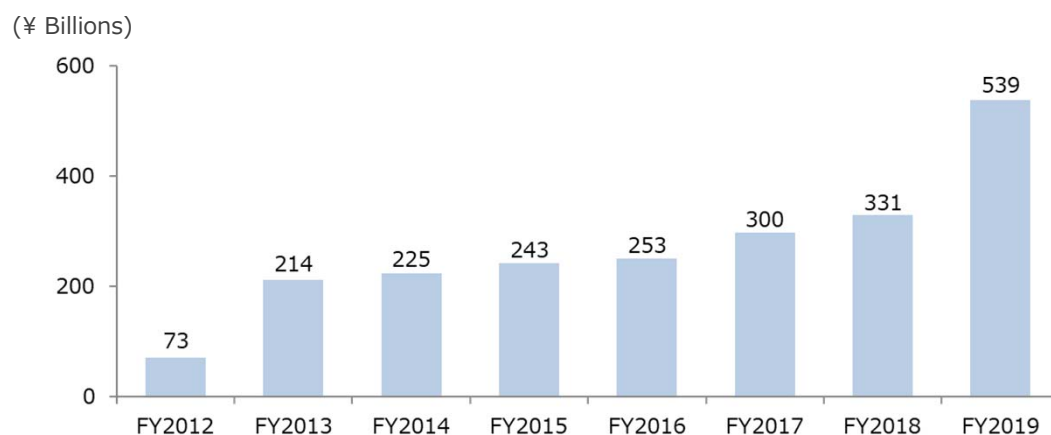
## AUM and Fees for Investment Trusts and Wrap Account Services (Daiwa Securities)



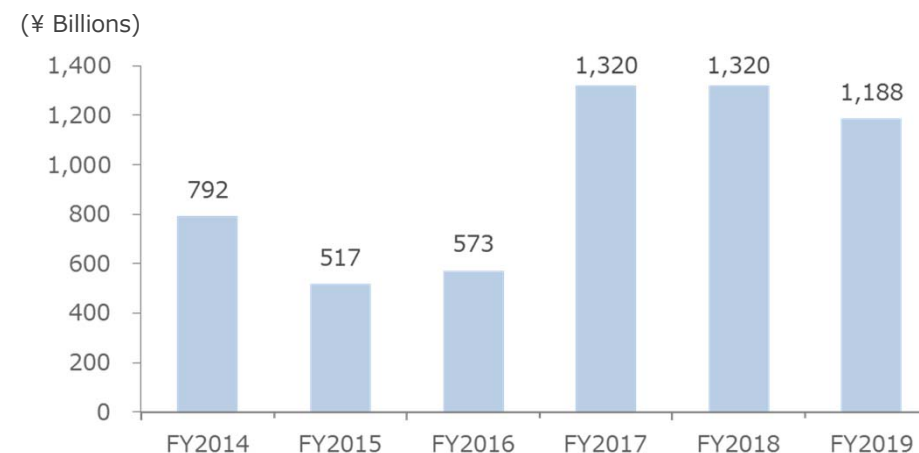
## Net Asset Inflow\* (Daiwa Securities)



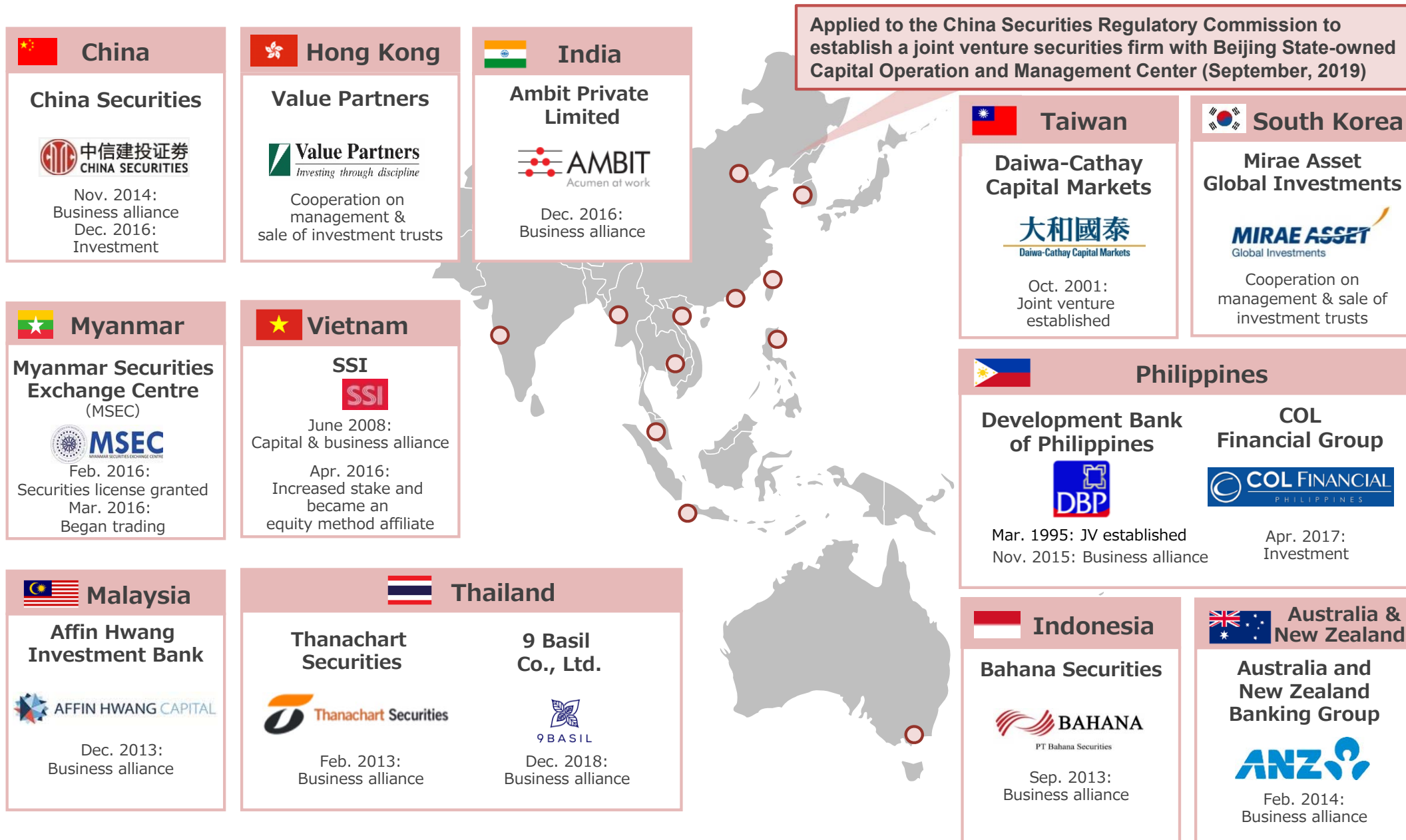
## Expansion of Foreign Currency Deposits (Daiwa Next Bank)



## Foreign Equity Trading Value (Daiwa Securities)

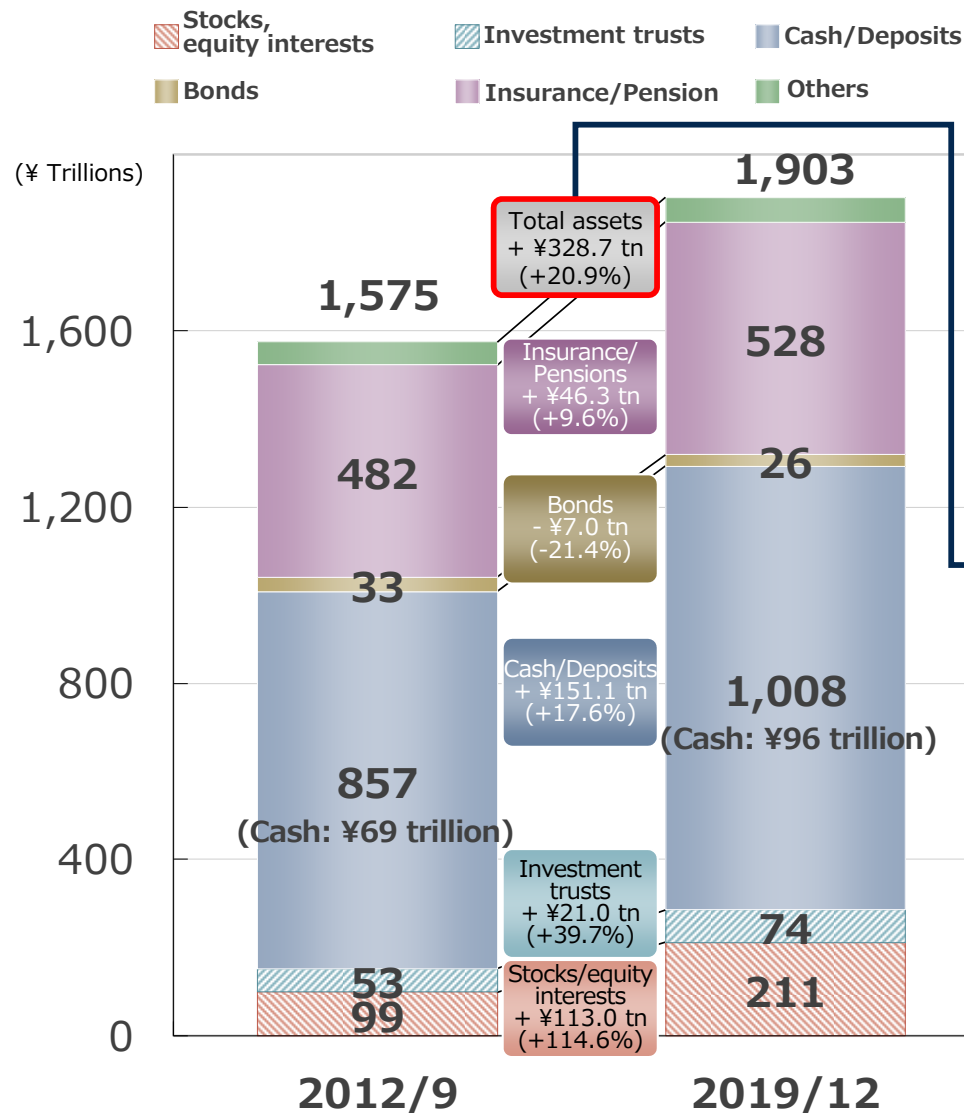


# Alliances and Investments in Asia



# Progress on Shift from Savings to Investments Since Abenomics Began

## Household Financial Assets (Sept. 30, 2012 vs. Dec. 31, 2019)

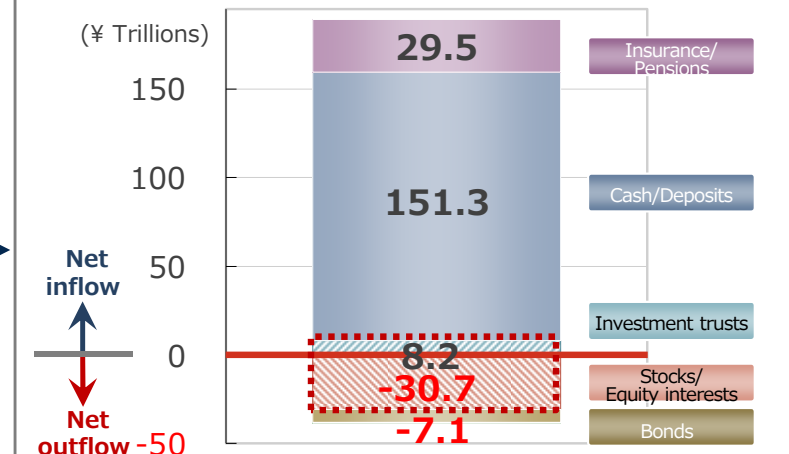


Transaction factors  
+ ¥150.9 tn  
(45.9%)

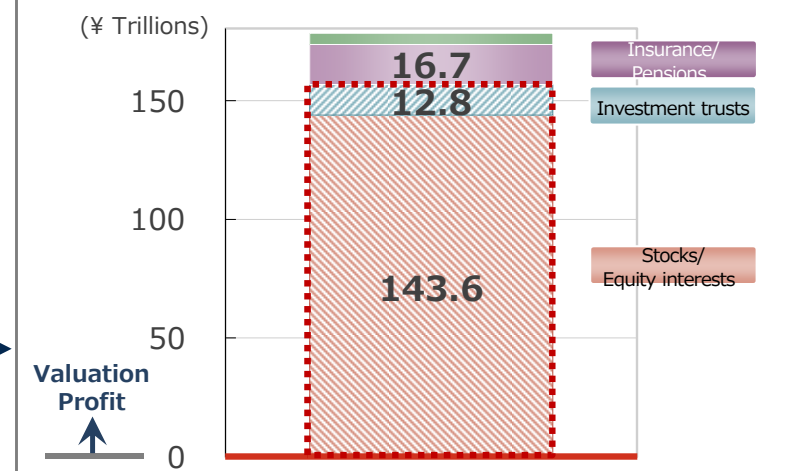
Factor analysis

Market factors  
+ ¥177.8 tn  
(+54.1%)

## Transaction Factors (Asset Inflows/Outflows)



## Market Factors (Market Value Adjustment)





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