

Daiwa Securities Group FY2014 1H Management Strategy Update

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Daiwa Securities Group

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I - Progress of Medium Term Management Plan

Daiwa Securities Group



Daiwa Securities Group Management Vision

To become Asia’s leading financial services firm possessing and leveraging a solid business platform in Japan

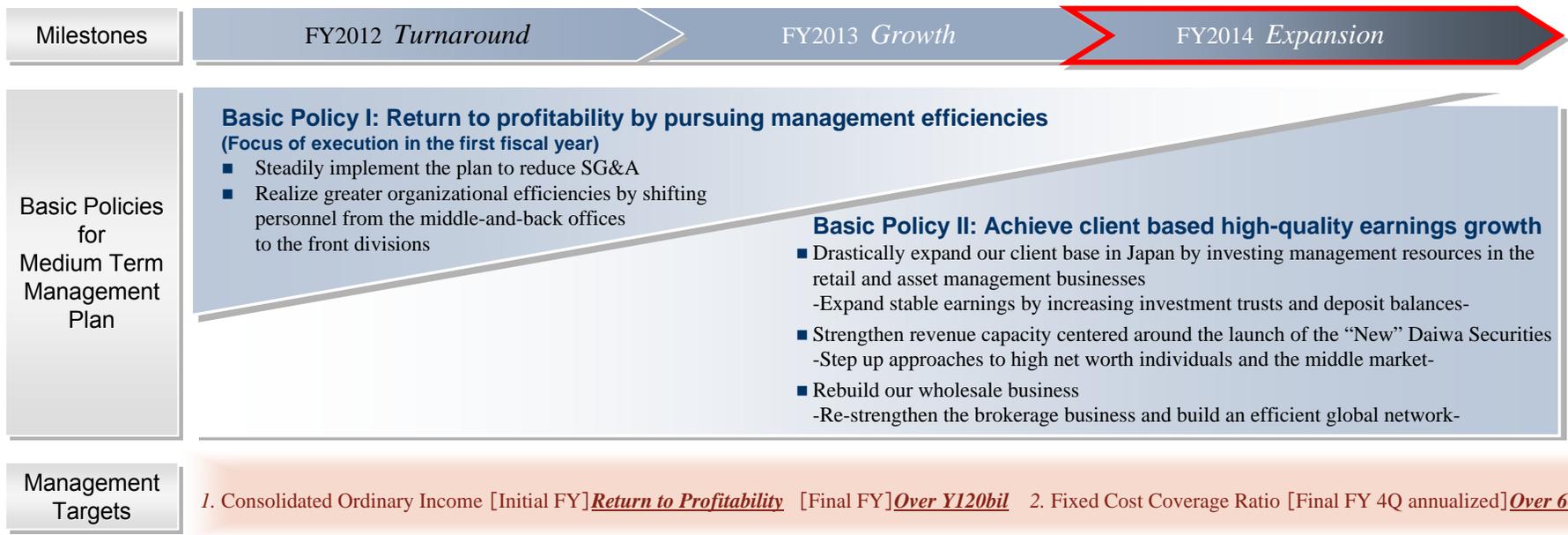
Daiwa Securities Group Basic Management Policy

Establish a robust business structure capable of securing profit even under stressful economic conditions

Achieve sustainable growth by linking Japan and growth of Asia

Outline of Medium Term Management Plan “Passion for the Best” 2014

Establish a robust business structure immune to the external environment and aspire to achieve sound growth based on a new growth strategy



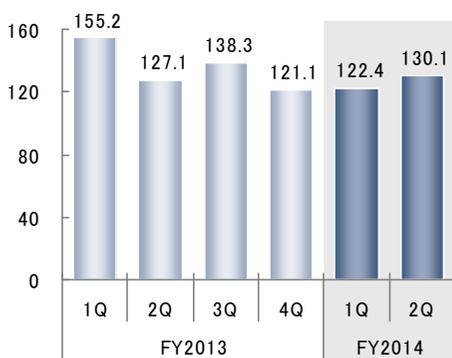
Consolidated Results of FY2014 1H



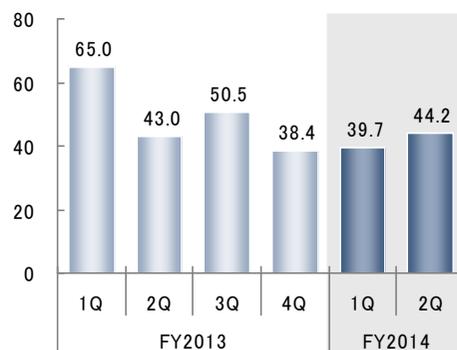
■ Net operating revenues were ¥252.6bil, Ordinary income was ¥83.9bil, and Net income was ¥71.4bil.

(Y mil)	Net operating revenues			Ordinary income			Net income		
	FY2013 (1H)	FY2014 (1H)	% change vs FY2013 1H	FY2013 (1H)	FY2014 (1H)	% change vs FY2013 1H	FY2013 (1H)	FY2014 (1H)	% change vs FY2013 1H
Retail	135,031	110,807	-17.9%	58,931	35,219	-40.2%			
Wholesale	87,626	85,977	-1.9%	23,789	23,770	-0.1%			
Global Markets	71,588	66,335	-7.3%	21,968	18,264	-16.9%			
Global Investment Banking	16,038	19,642	22.5%	1,821	5,506	202.3%			
Asset Management	24,432	26,664	9.1%	12,658	16,051	26.8%			
Investments	15,188	4,002	-73.6%	13,730	3,266	-76.2%			
Consolidated total	282,430	252,654	-10.5%	108,116	83,944	-22.4%	92,831	71,465	-23.0%

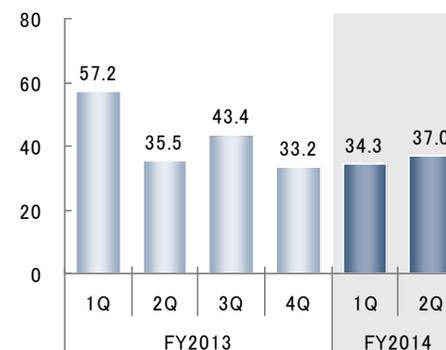
Net operating revenues (Y bil)



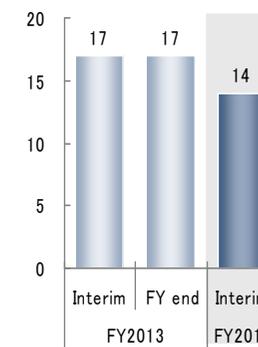
Ordinary income (Y bil)



Net income (Y bil)

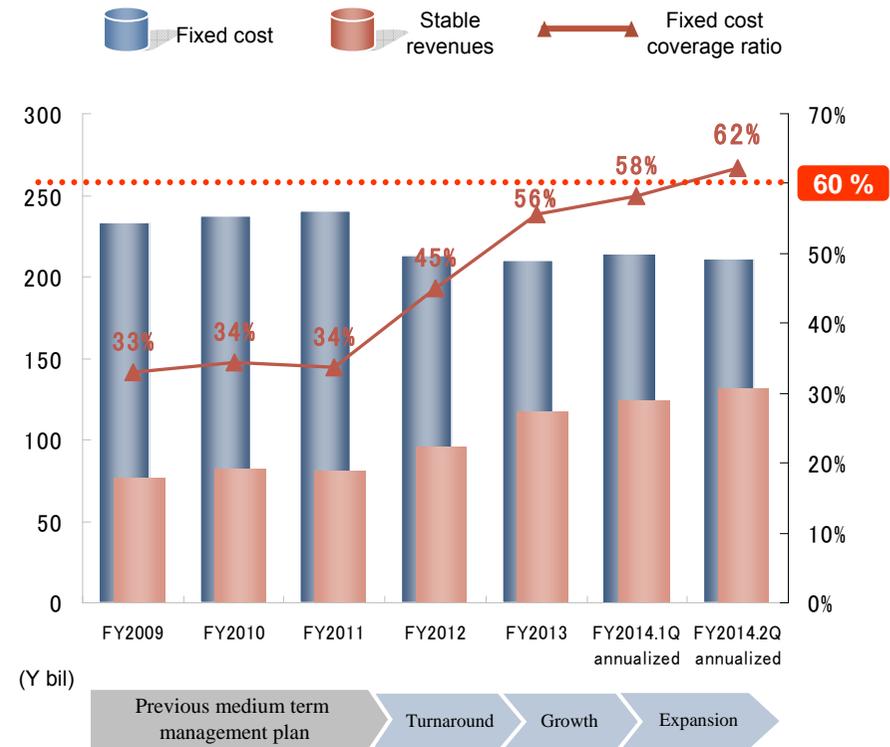
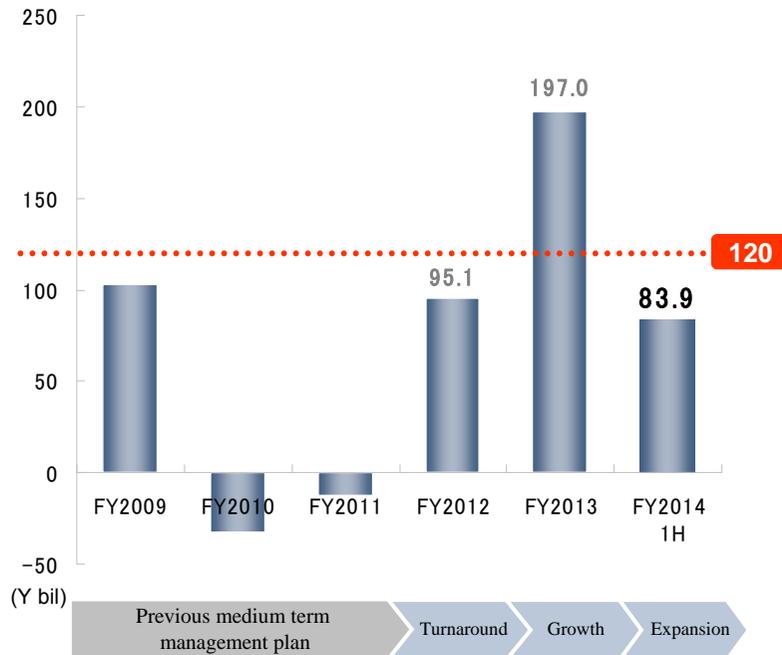


Dividends (Y)



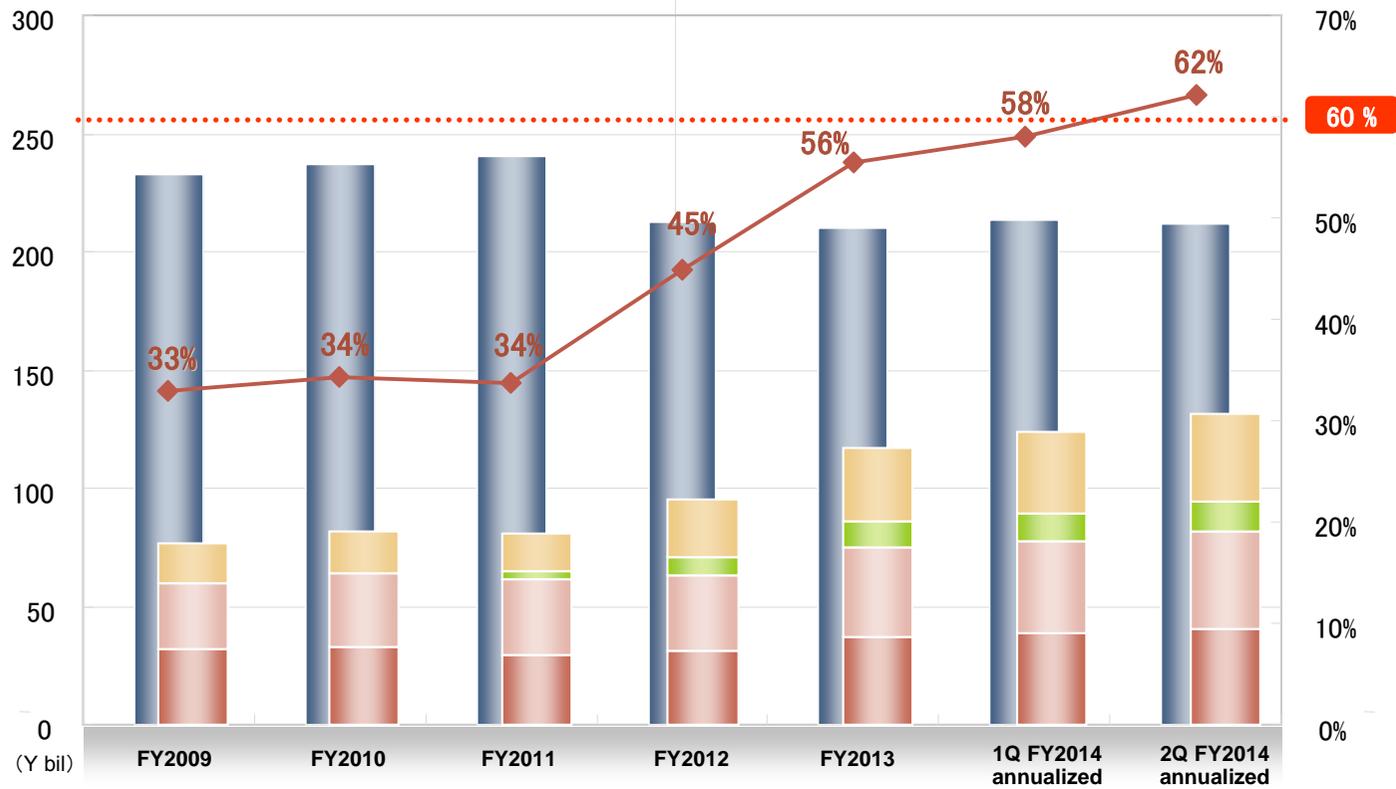
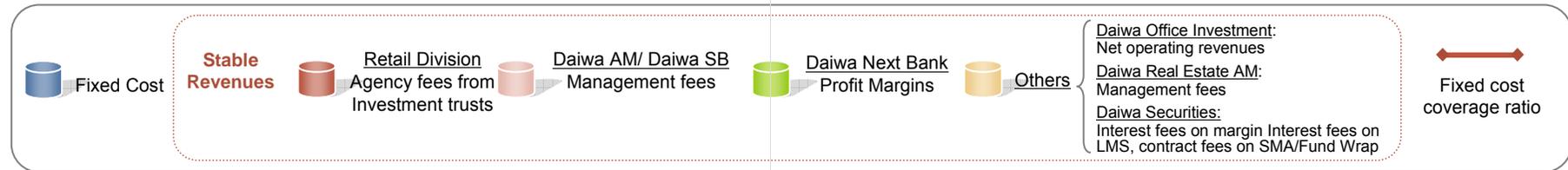
Progress of Medium Term Management Plan

- Consolidated ordinary income is growing at a good pace towards the final year target (Y120.0bil or more), and 'Fixed cost coverage ratio' stands at more than 60% (4Q annualized).



Fixed cost coverage ratio and breakdown of stable revenues

- Stable revenues steadily expanded, with further diversification of revenue streams, by the continual focus on stock-based revenues.
- In the business expansion phase, we aim to further raise the fixed cost coverage ratio by expanding stable revenues, while maintaining tight control on fixed costs.



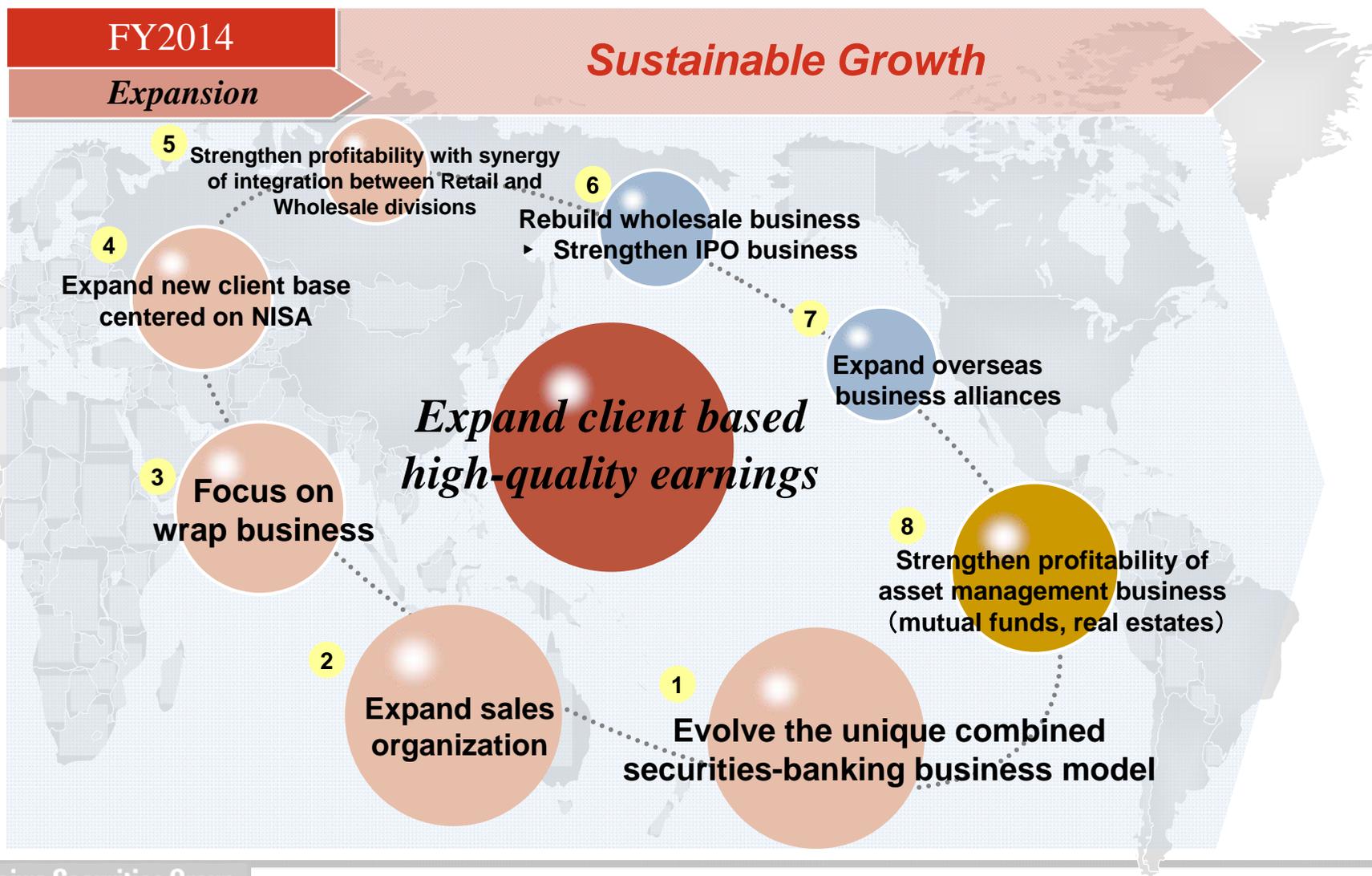
Ⅱ - FY2014: Expansion

Progress of strategies of the final year of medium term management plan

Daiwa Securities Group

“Expansion” ≈ Aim for “Sustainable Growth”

For the final year of the Medium-Term Management Plan,
we will focus on expanding our client base, aiming for the group’s sustainable growth (“Expansion”)



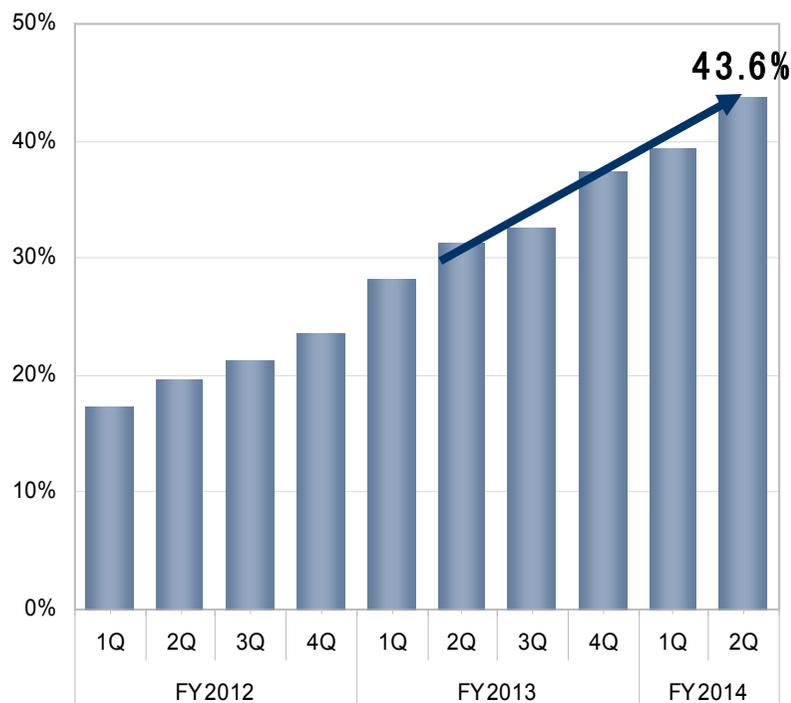


Evolve the Unique Combined Securities-Banking Business Model

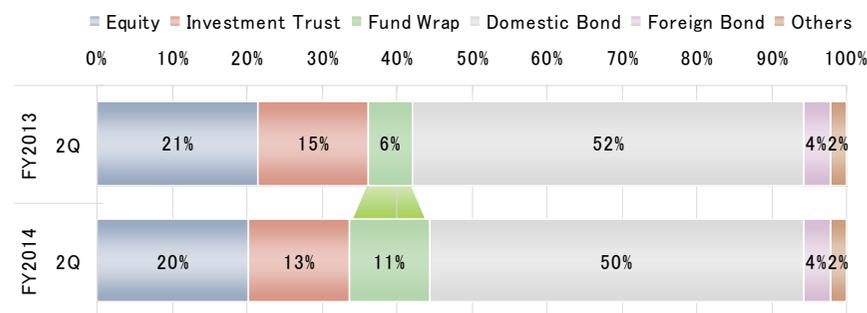
- Cross-selling ratio, the ratio of new time deposit customers initiating securities transaction, has further increased to 43.6%, accelerating the shift from savings to investments within the Daiwa group.
- Enhance the convenience of customers and expand foreign assets by introducing a sweep function for foreign currencies.

Enhance the shift into investments by cross-selling

※ Accumulated cross-selling ratio = accumulated total accounts of cross-selling / accumulated total accounts of newly-opened time deposit



Break-down by products of cross selling (based on accumulated value basis)



Upgrading foreign currency services

Introducing a sweep function for foreign currencies and new foreign currency-denominated deposits



- ✓ Existing foreign currencies deposits
USD, EUR, AUD, NZD, ZAR, TRY
- ✓ New foreign currencies deposits
HKD, CAD, GBP, MXN

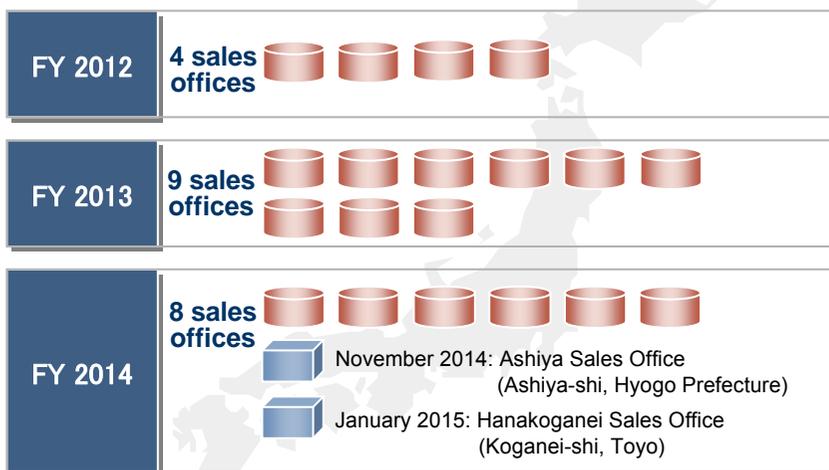


Expand Sales Organization

- We strengthened the sales network to further expand client base, by continuing to open new sales offices with consideration to cost efficiency.
- We will deploy 'inheritance consultants' to branches, and plan to introduce a 'Inheritance planner qualification' (internal qualification) as means to reinforce the inheritance-related business structure.

Sales offices opened and will open

sales offices opened sales offices to be opened



140 branches (118 branches, 22 sales offices)

Enhance customer contacts by expanding sales network

Reinforce inheritance-related business

Deploy inheritance consultants

- ✓ Deploy inheritance consultants to branches to provide an all-round support service to clients on their inheritance issues, regarding any type of procedures in addition to Daiwa's procedures (service planned to start from January 2015).

Introduction of inheritance planner qualification (internal qualification)

- ✓ Increase the number of staff with high expertise through the acquisition of CFP and internal training program to improve the quality of consulting on inheritance and business succession.

Number of qualified CFP staff (Daiwa Securities)



Strengthen wealth business, with the main focus on inheritance business

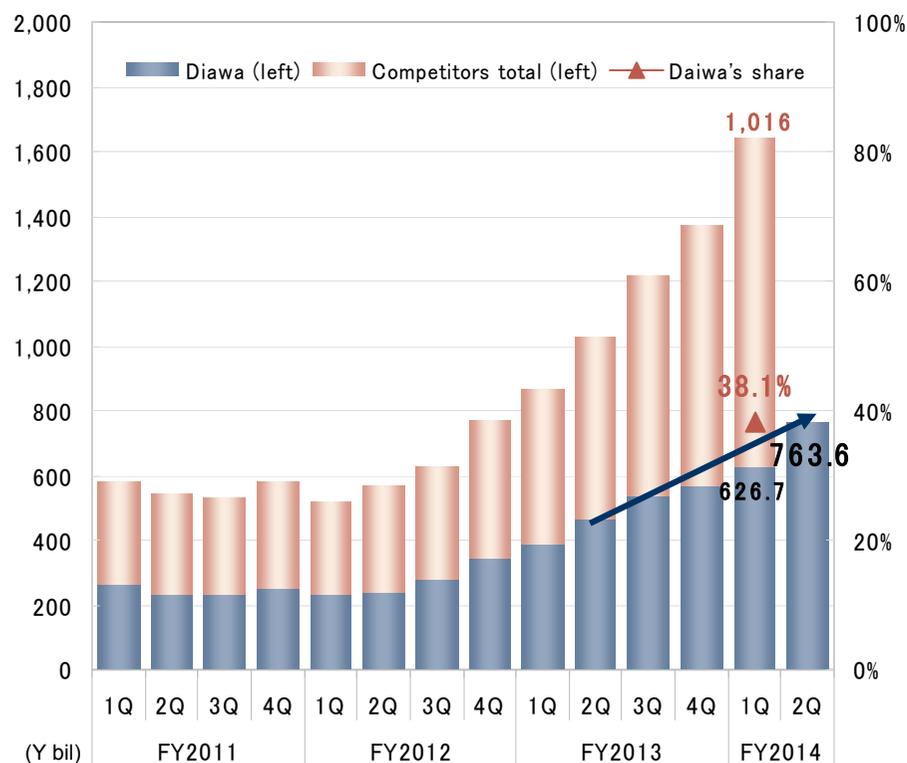


Focus on Wrap Account Service

- Daiwa Securities' AUM for wrap accounts (SMA and fund wrap) has surpassed Y760.0bil, maintaining the No.1 position among competitors*.
- 'Daiwa Fund Wrap' is an effective product to promote the shift "from savings to investment". We will continue focusing on spreading the product to a wide range of customers, by promoting its competitiveness and collaborating with Daiwa Next Bank.

※as at the end of June 2014

AUM in wrap accounts and Daiwa's share



Strong points of 'Daiwa Fund Wrap'

- ✓ **Contract amount is from Y3.0mil, the lowest among competitors**
- ✓ **Daiwa offers the most number of investment types (100 and more)**
- ✓ **Daiwa offers an extensive lineup of stable investment strategies**
 - More customers are seeking to make stable investment. Daiwa has responded by introducing two conservative investment style products, including 'Yutori' in October 2013 and 'Yutori Plus' in July 2014.
 - The investment style contract rates show that 'stable type' contracts -which have a low risk allowance-account for 60% of all contracts, indicating that customers are seeking long term stable investment
- ✓ **Fund wrap + yen denominated time deposit set plan**
 - This is a service utilizing the combination with Daiwa Next bank, with the aim of making it easy for potential customers who are considering to make an investment.



(Source) Japan Investment Advisors Corporation, Daiwa Securities



Expand new client base centered on NISA

- We focused on expanding our client base, mainly first-time investors, through the NISA accumulated investment service.
- As for the NISA accumulative investment, there has been progress in forming assets using NISA-exclusive funds.
- We introduced a retiree-focused planning service ('korekara-life') from October to capture new customers from the retiree layer.

NISA accumulated service

- Promote accumulated investment that has affinity with potential investor layer

Daiwa's accumulated investment service

Risk dispersion effect based on the dollar cost averaging strategy

Accumulating date can be set at will Can buy from low amount (1,000 yen)

A wide variety of products to choose from:
Japanese and non-Japanese stock-type, bond-type, balanced-type funds

NISA accumulative investment (Top 5 funds purchased)	Ratio of cumulative purchase amount
1 Daiwa US REIT	<p>NISA non-exclusive 53% NISA exclusive 47%</p>
2 Daiwa Index Select Nikkei 225 (NISA exclusive)	
3 Canada High Dividend Stock Twin α	
4 Daiwa US Stock Strategy α Triple Returns BRL	
5 Daiwa Index Select JPX400 (NISA exclusive)	

※Based on cumulative amount during January–September 2014

Start of retiree-focused planning service

- Support customers' asset formation after their retirement

Cash flow analysis

✓ Savings outstanding forecast etc.

Portfolio designing

✓ Suggest the best asset allocation

Investment management with continuous review

✓ Manage customers' asset by the most appropriate method for the client

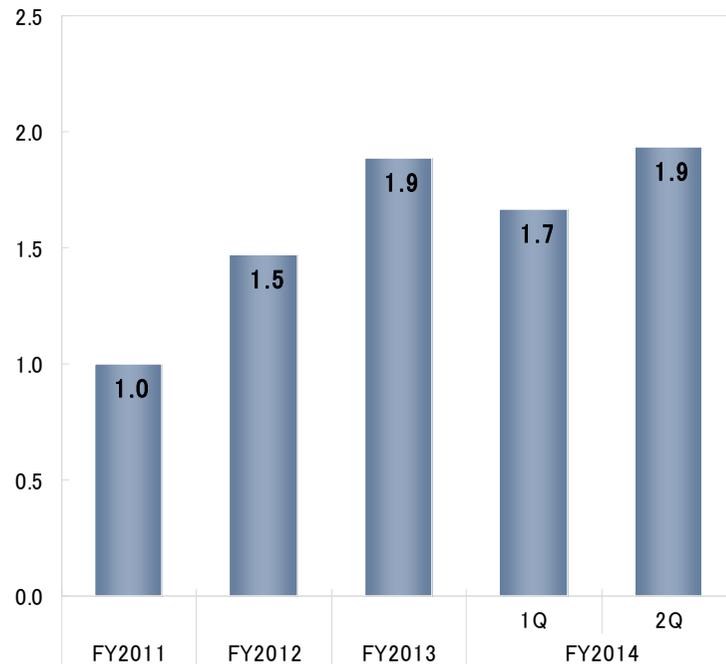
✓ Review the plan accordingly in case of changes to the customers' living or economic conditions



Strengthen Profitability with Synergy of Integration

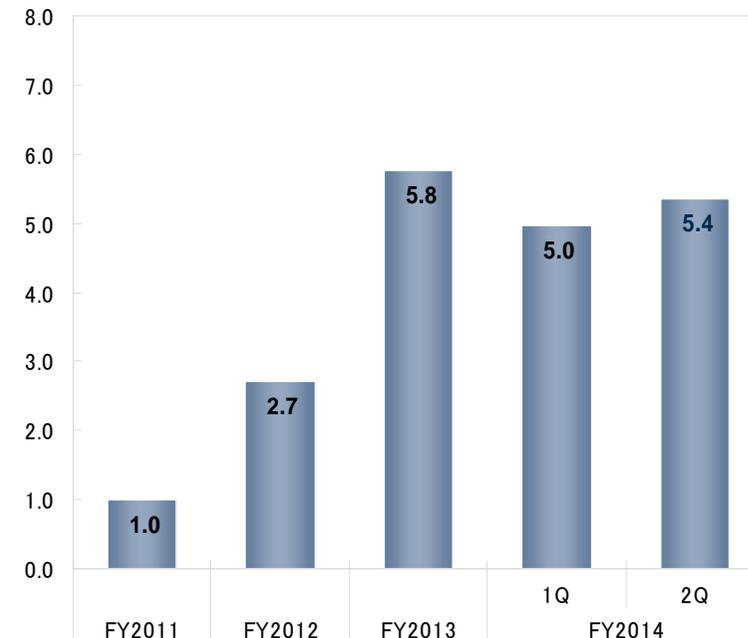
- Though being affected by market conditions, middle market revenues continued to maintain a high level.
- Privately placed structured bond sales have maintained a high level, as collaboration between the product structuring section and sales section has worked well, since the integration of retail and wholesale arms in April, 2012.

Revenues from middle market



*Index: FY2011 monthly average as 1.0

Retail division:
Privately placed structured bond sales



*Index: FY2011 monthly average as 1.0



Rebuilding the Wholesale Business/Overseas Alliances

- The wholesale division has made a profit for 8 consecutive quarters since 3Q FY2012. Overseas operations continue to work on improving their profitability in order to achieve stable profit.
- As for overseas alliances, we will aim to expand our business by strengthening the global network efficiently, and raising the level of service.

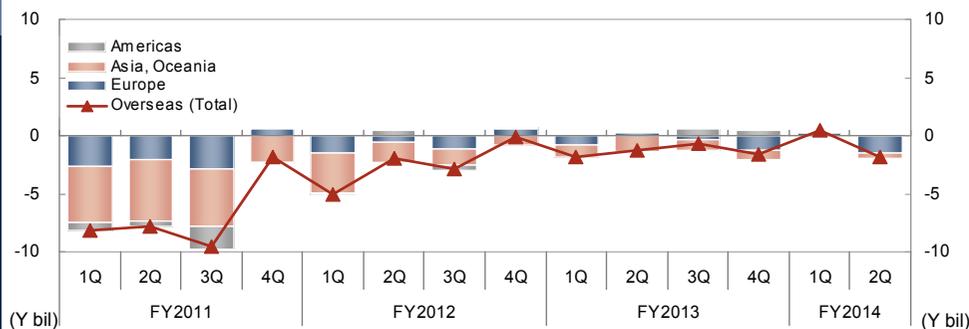
**Wholesale Division (Global basis)
Ordinary income**



Main IB Deals in 1H FY2014

Equity Finance	
Mitsui Fudosan	Global PO: Y345.2bil (June)
Mitsui OSK	Euro-Dollar CB: 4 years USD300mil, 6 years USD200.0mil (April)
Accordia Golf Trust	Singapore IPO/POWL: SGD760.0mil, circa Y62.2bil (July)
Debt Finance	
Softbank	SB (retail-targeted bond): Y300.0bil (May), Y400.0bil (August)
East Japan Railway	SB Y60.0bil (July)
M&A	
Sumitomo Bakelite's acquisition of Vaupell (US)	

**Wholesale Division (Overseas)
Ordinary income**



**Business Collaborations through
Overseas Alliances**

Alliance Area: ● Equity ◆ Investment Banking

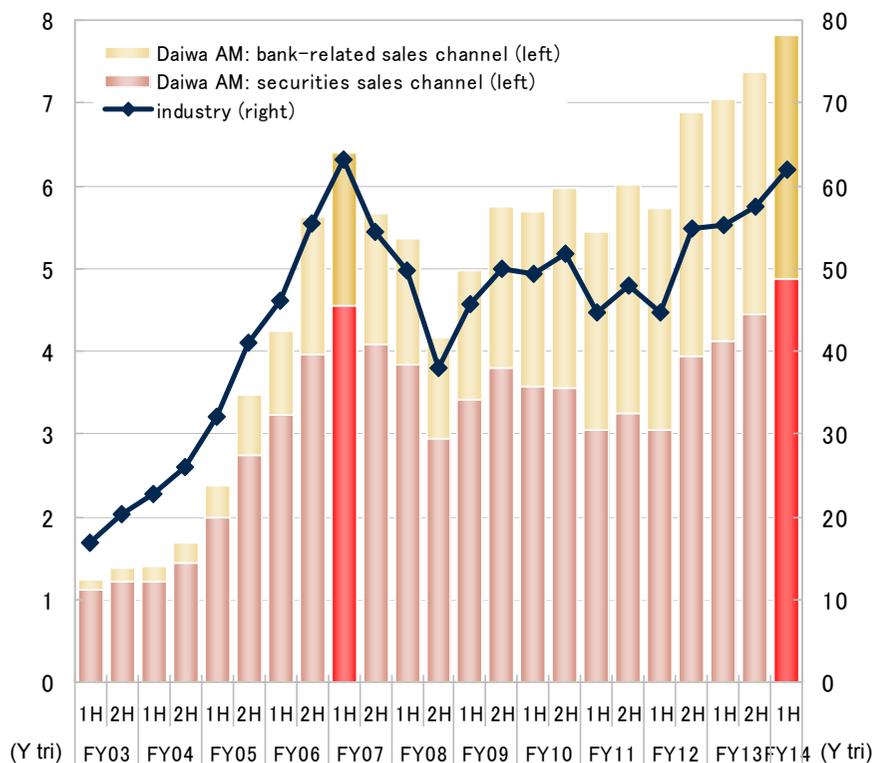
ASEAN			
Feb. 2013	Thanachart Securities (Thailand)	●	
Sep. 2013	Bahana Securities (Indonesia)	●	◆
Dec. 2013	Affin Investment Bank (Malaysia)	●	
Other than ASEAN			
Feb. 2014	Australia and New Zealand Bank (Australia and New Zealand)		◆
Apr. 2014	Sanford C. Bernstein (UK)	●	



Expand revenues of the Asset Management Business (Investment Trusts)

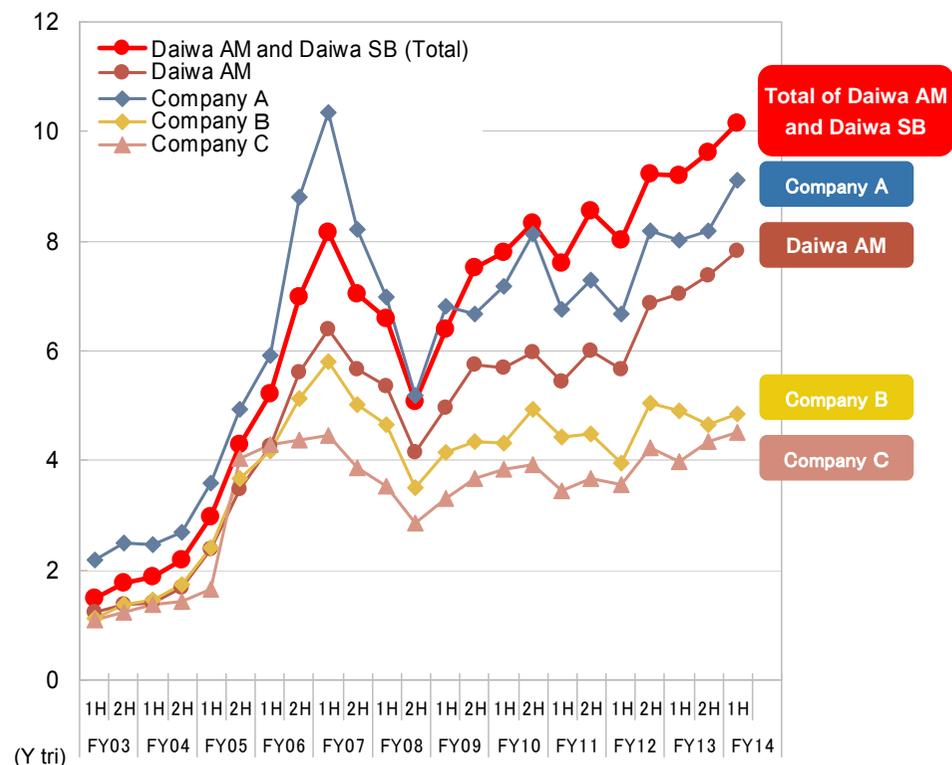
- The AUM of Daiwa Asset Management's investment trusts recorded its highest as at the end of September, while the industry's AUM is still below the pre-Lehman shock level.
- The combined AUM of Daiwa Asset Management and Daiwa SB investments is growing further, while maintaining the largest asset size in the industry.

**Daiwa Asset Management
AUM in publicly offered equity investment trusts**



※Excluding ETFs

**Selected asset management firms
AUM in publicly offered equity investment trusts**



※Excluding ETFs

(Source) Prepared by Daiwa AM based on the figures by the Investment Trusts Association



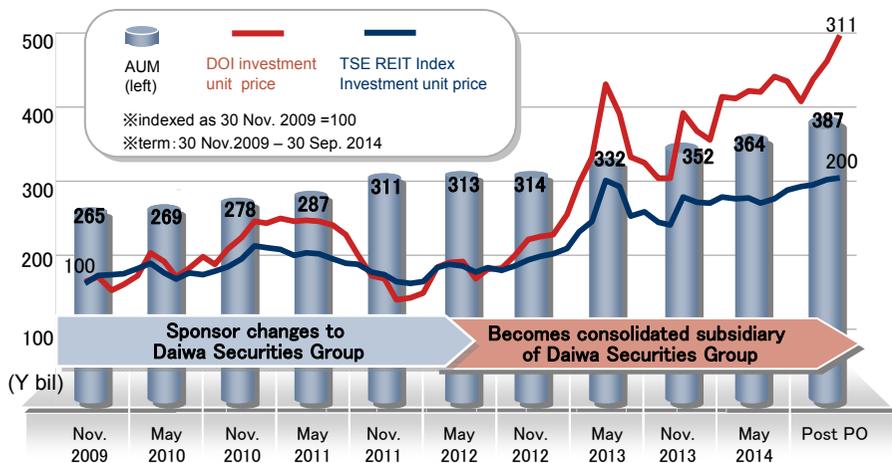
Strengthen Profitability of Asset Management Business (Real Estates)

- Daiwa Office Investment Corporation implemented a public offering in June, and its AUM, including acquired property, has expanded to Y387.5bil.
- Nippon Healthcare Investment Corporation was listed on 5 November as the first-ever J-REIT to specialize in healthcare facilities.

Daiwa Office Investment Corporation (DOI, Listed REIT)

- Jun. 2014: implemented public offering, and expanded AUM to Y387.5bil
- Sep. 2014: added to FTSE EPRA / NAREIT Global Real Estate Index Series

Offer Summary	
Launch Date	17 Jun. 2014
Pricing Date	25 Jun. 2014
Units Offered	new units: 41,092 units, over allotment: 4,110 units
Offer Price	Y466,537
Offer Amount	Y21,088mil (including OA)



Daiwa Residential Private Investment Corporation (Private REIT)

- Asset size has steadily expanded from Y25.0bil to Y60.0bil in one-and-a-half years since investment started in March 2013.

Nippon Healthcare Investment Corporation (Listed REIT)

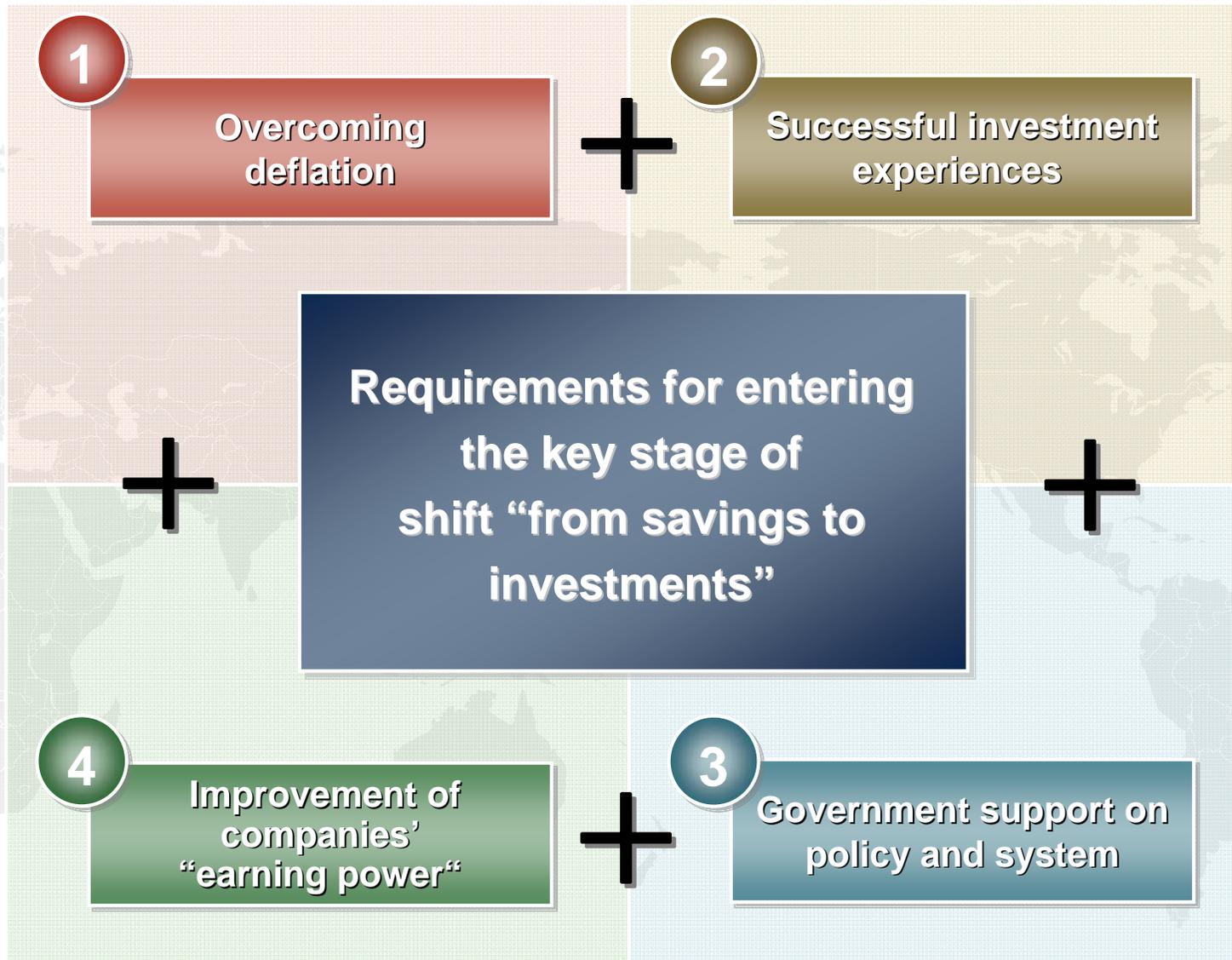
- Listed on Tokyo Stock Exchange on 5 November as J-REIT to specialize in healthcare facilities.
- AUM was Y13.2bil; number of properties was 14 (post IPO)

Offer Summary	
Launch Date	1 Oct. 2014
Pricing Date	27 Oct. 2014
Listing Date	5 Nov. 2014
Units Offered	new units: 39,000 units, over allotment: 2,000 units
Offer Price	Y150,000
Offer Amount	Y6,150mil (including OA)

Ⅲ - Entering the key stage for shift “from savings to investments”

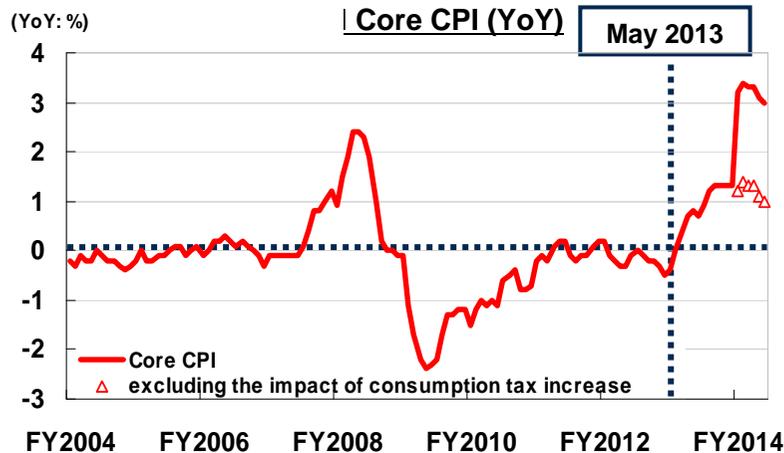
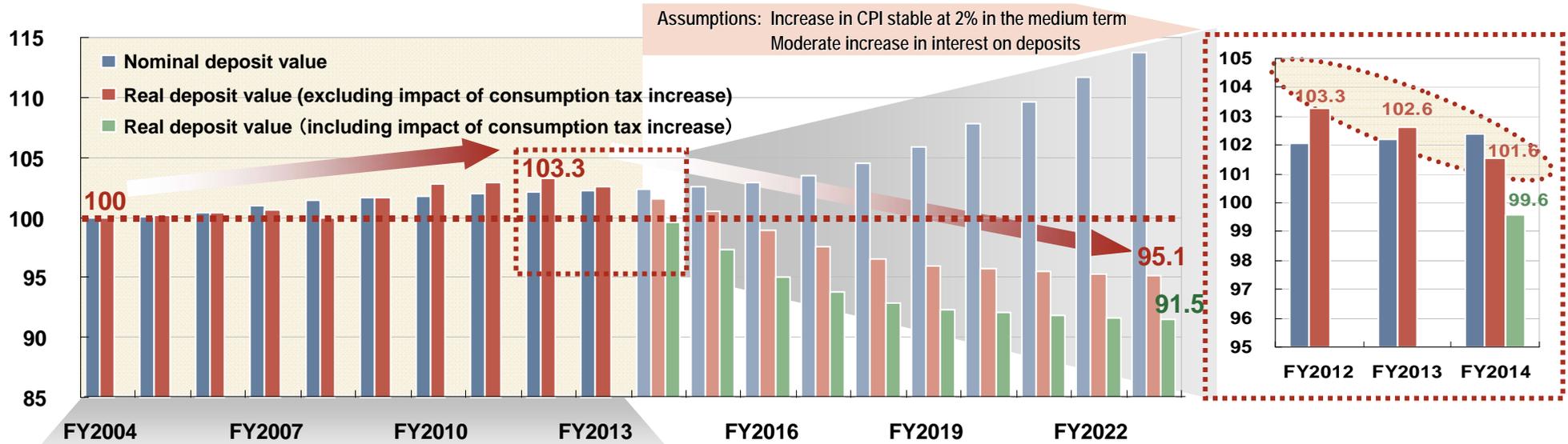
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Requirements for entering the key stage of shift “from savings to investments”



① Overcoming Deflation -Reduction in Real Value of Deposits-

Real Value of Household Deposits (Index basis: 100 = prices as of FY 2004)



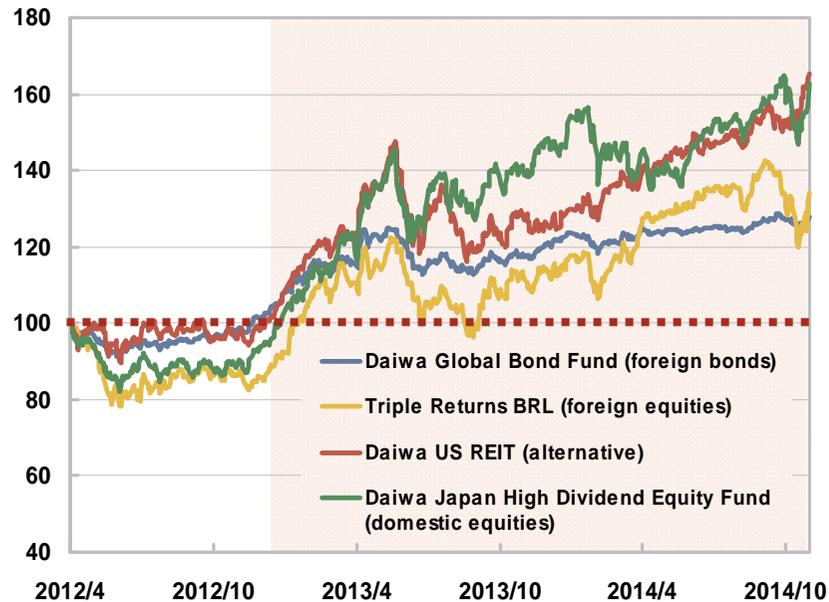
[Assumptions of Estimate of Real Deposit Value of Households]

- FY2004-2013: Consumer price index and actual interest on bank time deposits used to estimate nominal and real deposit balance
- FY2014-2023: Consumer price index and estimates* of interest on bank time deposits have been used to estimate nominal and real deposit balance
- * It is assumed that CPI (excluding the impact of consumption tax increase) will be stable at the BOJ’s target of 2% in the medium term.
- * To estimate Interest on bank time deposit, it is assumed that the call rate will gradually rise from FY2017.

(Source) Prepared by DIR based on materials by the Bank of Japan and the Ministry of Internal Affairs and Communications

② Successful Investment Experiences -Improvement of Investment Performance-

Performance of Major Investment Trusts

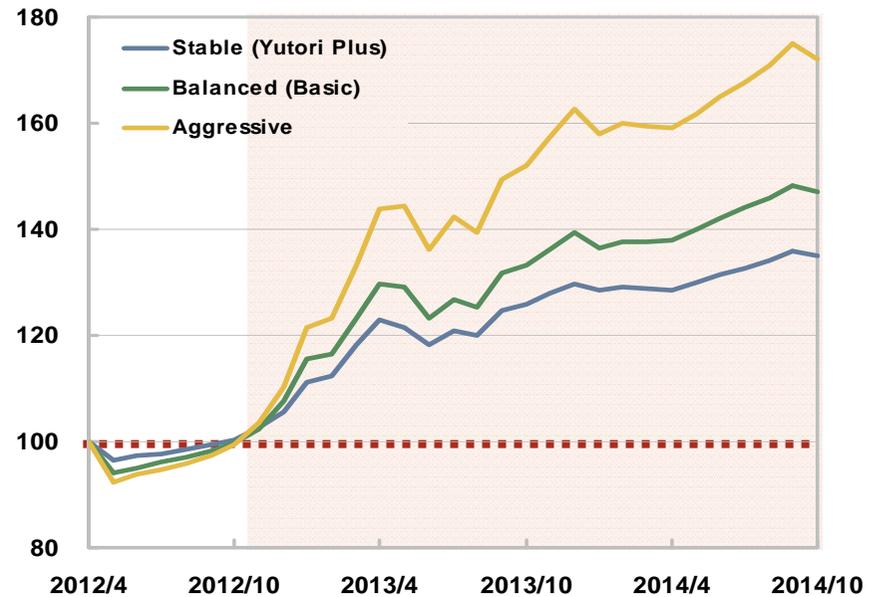


*Amount of redistribution and reinvestment standardized with Apr. 2, 2012 as 100.

Fund Name	Performance		
	6months	1year	2years
Daiwa Global Bond Fund (foreign bonds)	+2.9%	+7.9%	+30.2%
Daiwa US Stock Strategy α Triple Returns BRL (foreign equities)	+4.6%	+18.4%	+55.7%
Daiwa US REIT (alternative)	+15.6%	+29.0%	+72.5%
Daiwa Japan High Dividend Equity Fund (domestic equities)	+16.9%	+16.0%	+82.6%

*Performance : Reference date is Oct 31, 2014

Performance of Daiwa Fund Wrap



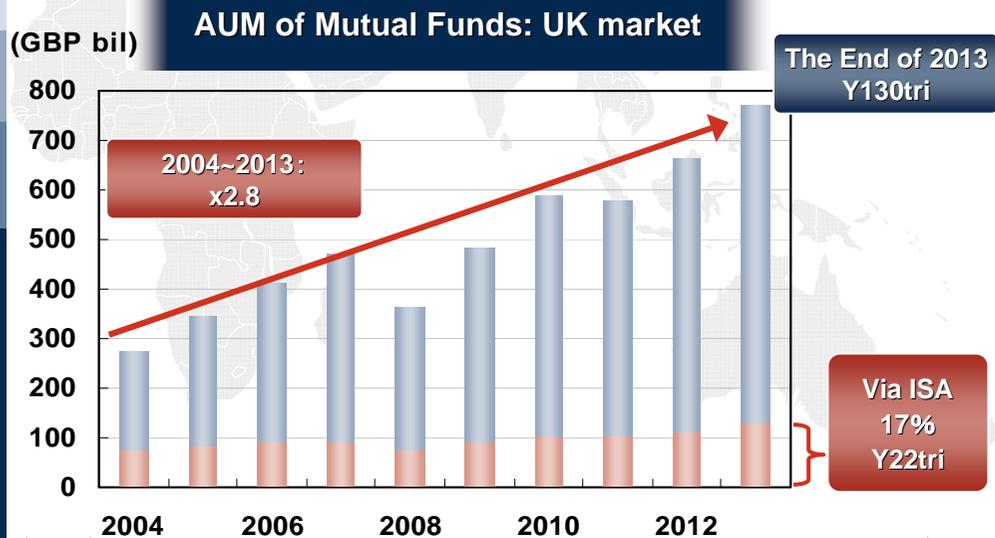
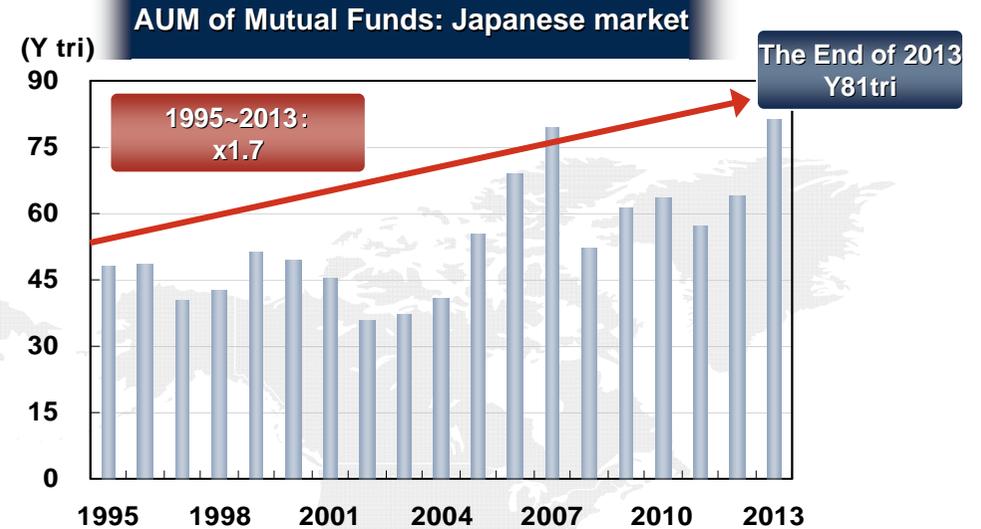
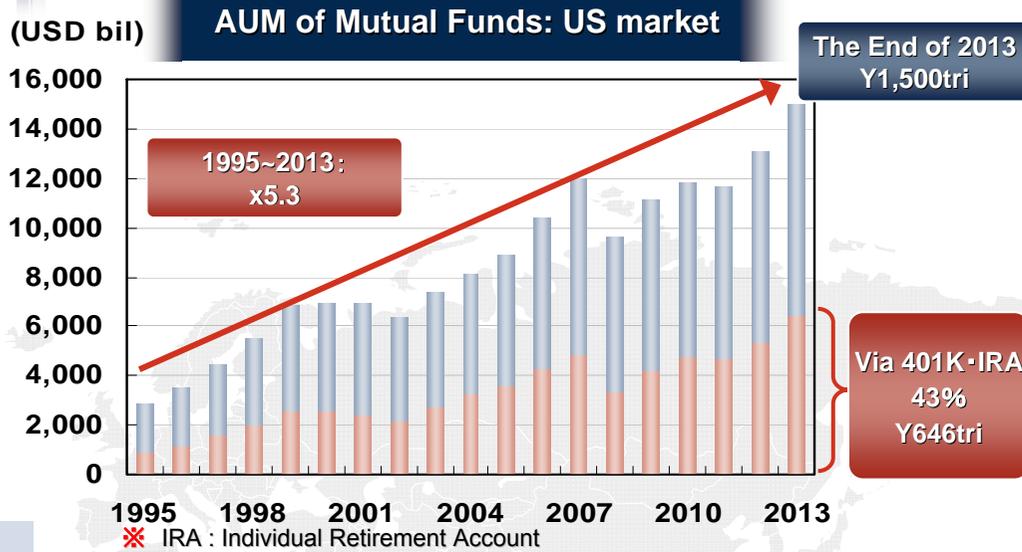
*Performance of a model case if fund wrap-exclusive funds are held at the standard allocation rate (Index basis: 100 = Apr. 30, 2012; fund wrap fees, etc. not taken into consideration)

Portfolio style	Performance		
	6months	1year	2years
Stable (Yutori Plus)	+5.0%	+7.3%	+34.5%
Balanced (Basic)	+6.5%	+10.2%	+47.6%
Aggressive	+8.2%	+13.1%	+72.9%

*Performance : Reference date is Oct 31, 2014

III - Entering the key stage for shift "from savings to investments"

③ Government support on policy and system -Expansion of mutual funds market (global comparison)-



Enhancement of Support Measures for Asset Building (from FY2015 Tax System Revision Request)

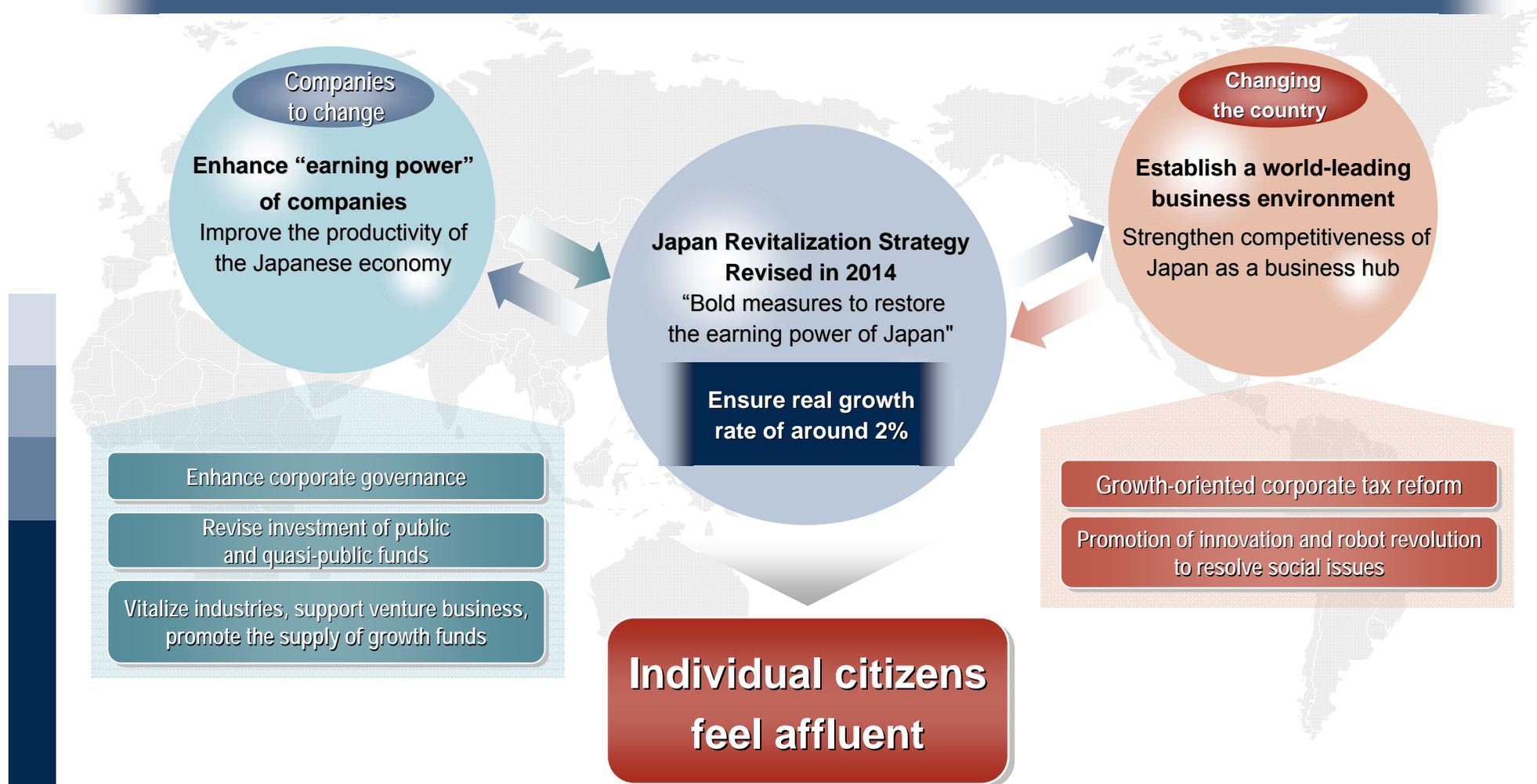
- ✓ **Upgrade the System and Improve Convenience of NISA**
 - Establish 'Junior NISA'
 - Raise the yearly investment ceiling of NISA
 - Improve the convenience of NISA (simplify the procedure of opening NISA accounts)
- ✓ **Revision of Defined Contribution Pension System (DC)**
 - Expand the amount of matching investments
 - Lighten the administrative workload of DC for corporates

(Source) Prepared by Daiwa Securities Group Inc. using statistics of ICI (Investment Company Institute), IMA (Investment Management Association), and The Investment Trust Association Japan

※Yen amounts at the end of 2013 are calculated by 1USD = Y100, 1GBP = Y170.

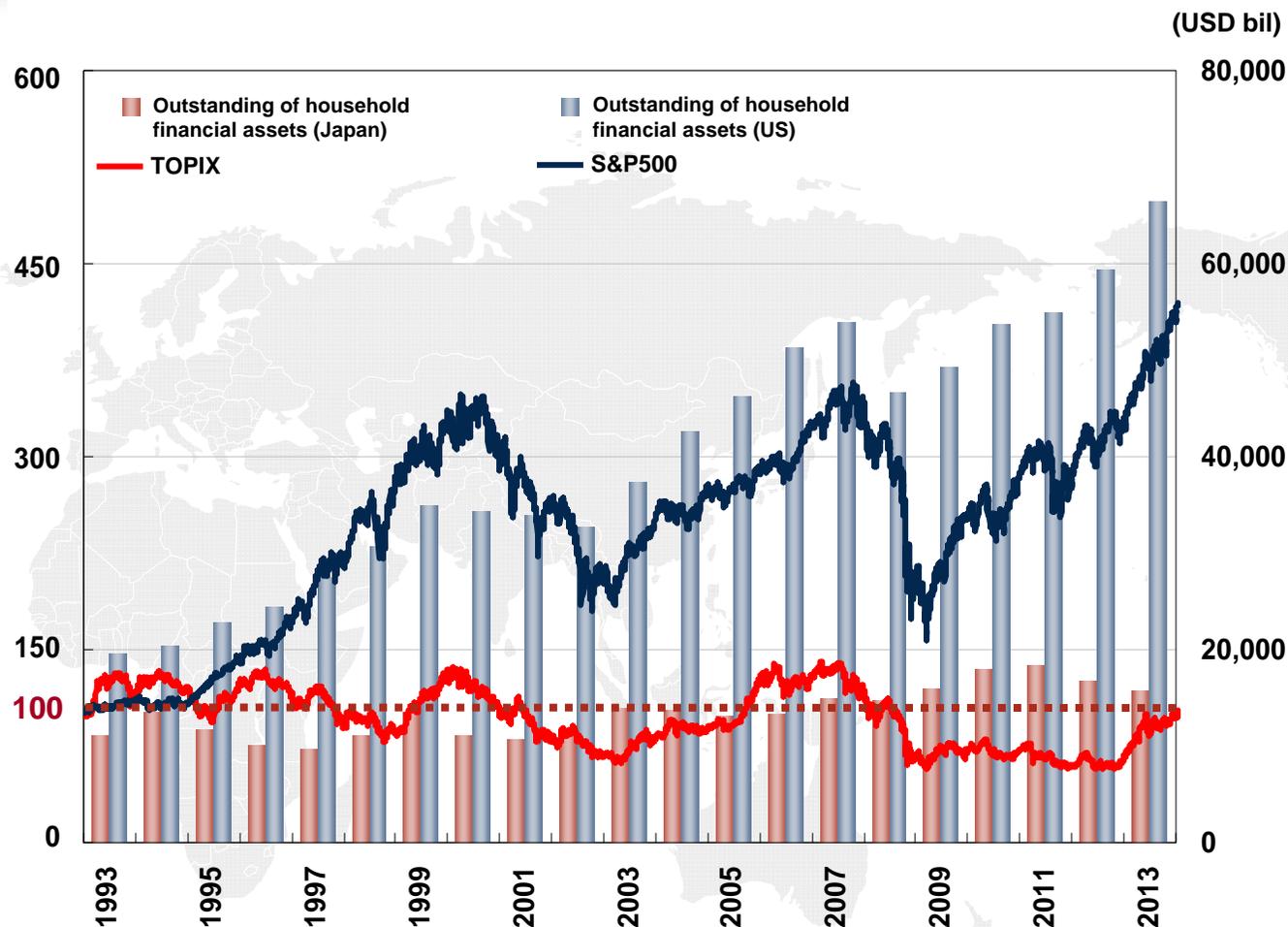
④ Restore the “earning power” of companies - Japan Revitalization Strategy (Revised in 2014) -

Revitalize the Japanese economy by virtuous cycle of shift “from Savings to Investments” and rise of corporate value



III- Entering the key stage for shift “from savings to investments”

(Reference) Changes to Household Financial Assets and Stock Market
 – Comparison between Japan and US (1993-2013) –



Changes (1993-2013)

US (CY basis)

- Household Financial Assets Outstanding: USD19.6tri → USD66.5tri (3.4x)
- S&P500: USD466 → USD1,848 (4.0x)

Japan (FY basis)

- Household Financial Assets Outstanding: USD11.0tri → USD15.7tri (1.4x)
- TOPIX: 1,563 pt → 1,202 pt (0.8x)

※ TOPIX, S&P500 (1 Apr. 1993 – 30 Dec. 2013) have been indexed as 1 Apr. 1993 = 100
 ※ Household Financial Assets of Japan are FY based, while those of US are CY based

(Source) Prepared by Daiwa Securities Group Inc. using data by the Bank of Japan's "Flow of Funds Accounts", FRB's "Flow of Funds", and Bloomberg

For Broader Range of Investors

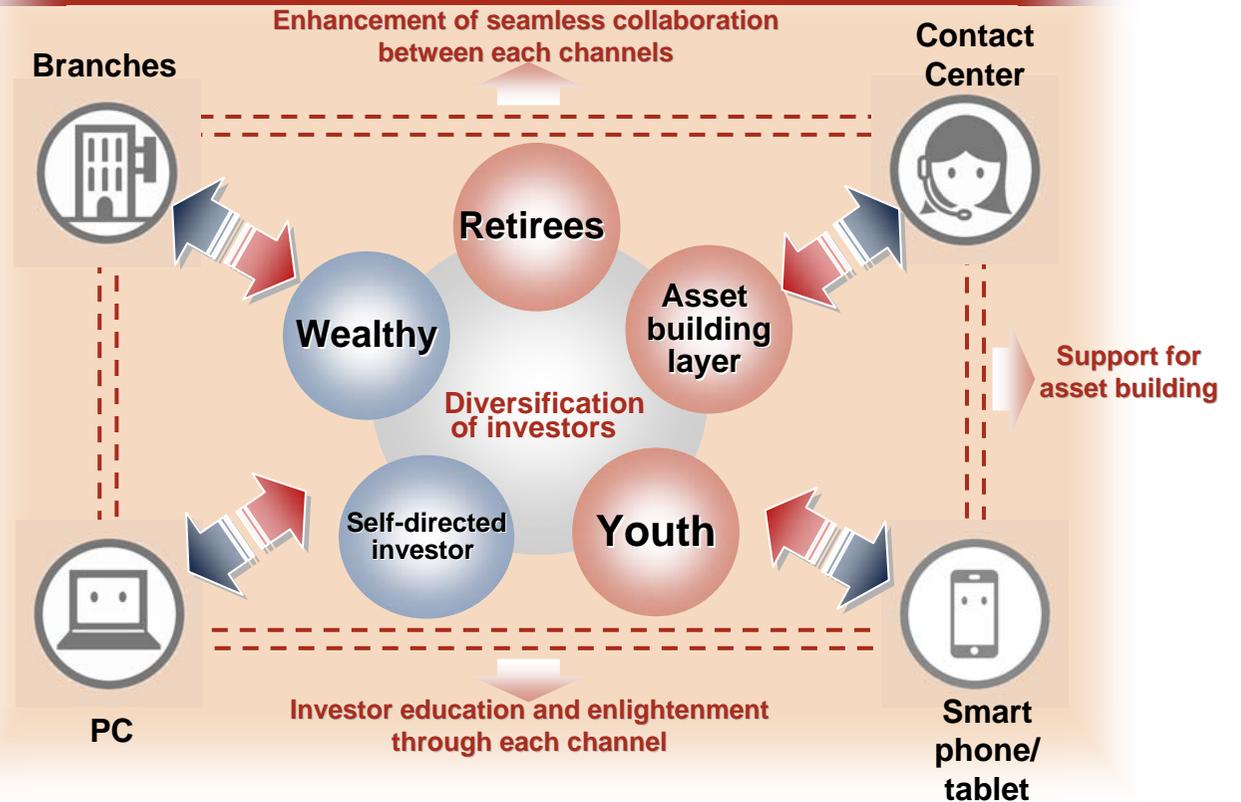
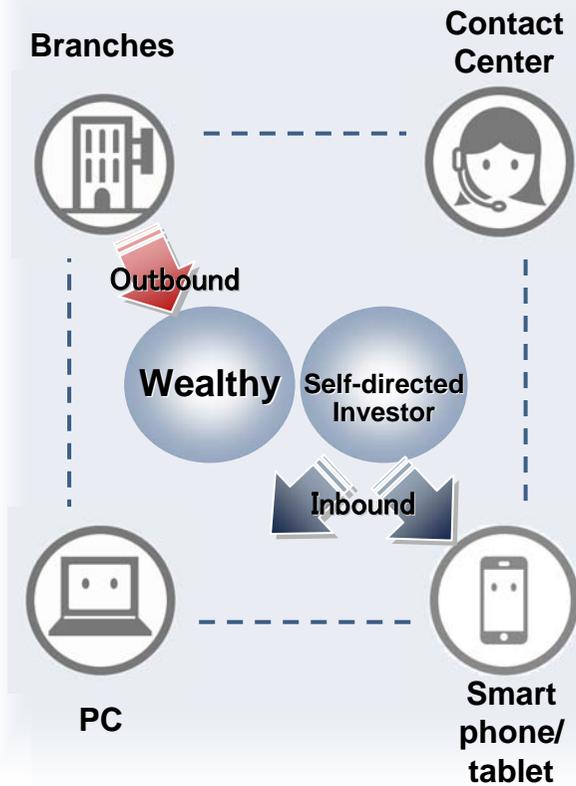
Create Services and Platform suitable for an era when securities investments become part of people’s lives

Deflationary era

Post-deflationary era

Centered on certain investors

Broader range of investors chose channels according to their own need's





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