

Daiwa Securities Group - Strategy on Retail Business -

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Daiwa Securities Group

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I - The Significance of the Retail Business to the Daiwa Securities Group

Daiwa Securities Group

Medium Term Management Plan, “Passion for the Best” 2014

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

Milestones

FY2012 *Turnaround*

FY2013 *Growth*

FY2014 *Expansion*

Basic Policies
for
Medium Term
Management
Plan

Basic Policy I: Return to profitability by pursuing management efficiencies

(Focus of execution in the first fiscal year)

- Steadily implement the plan to reduce SG&A
- Realize greater organizational efficiencies by shifting personnel from the middle-and-back offices to the front divisions

Basic Policy II: Achieve client based high-quality earnings growth

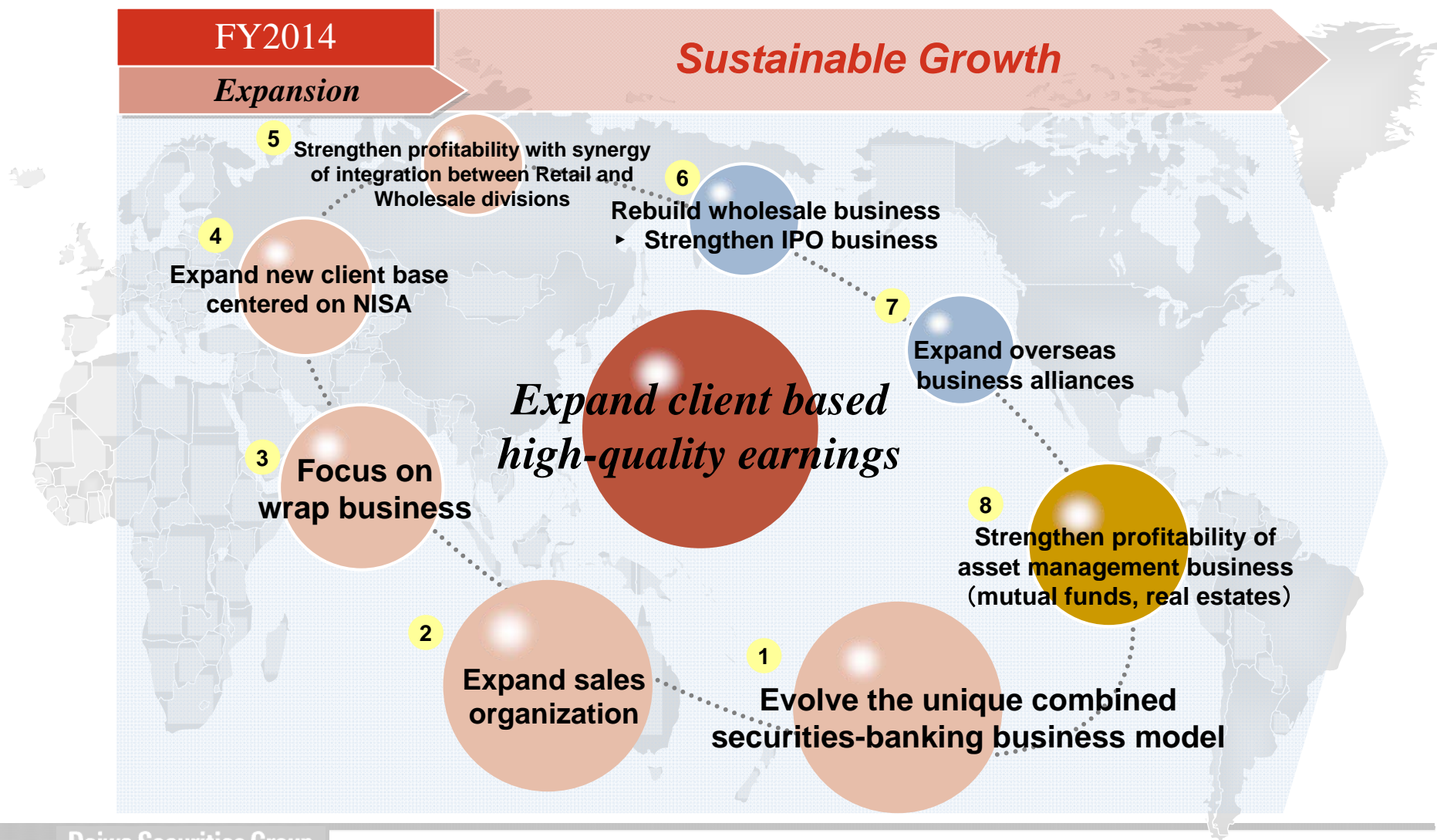
- Drastically expand our client base in Japan by investing management resources in the retail and asset management businesses
 - Expand stable earnings by increasing investment trusts and deposit balances-
- Strengthen revenue capacity centered around the launch of the “New” Daiwa Securities
 - Step up approaches to high net worth individuals and the middle market-
- Rebuild our wholesale business
 - Re-strengthen the brokerage business and build an efficient global network-

Management
Targets

1. Consolidated Ordinary Income [Initial FY] **Return to Profitability** [Final FY] **Over ¥120bil** 2. Fixed Cost Coverage Ratio [Final FY 4Q annualized] **Over 60%**

“Expansion” ≈ Aim for “Sustainable Growth”

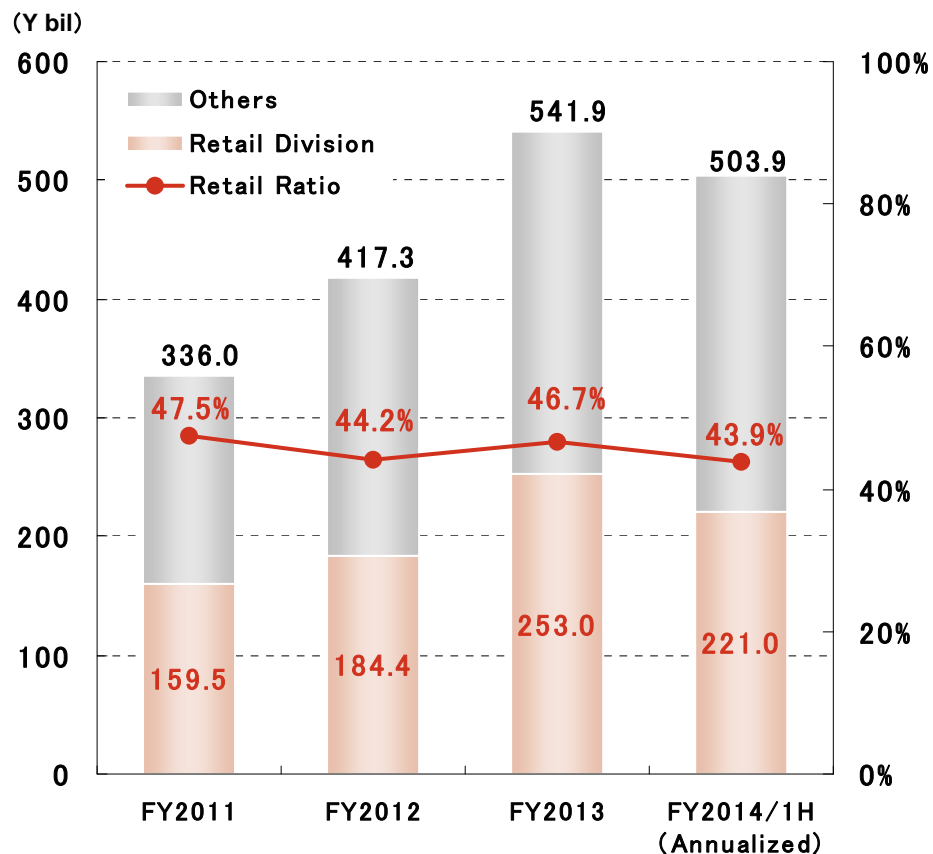
For the final year of the Medium-Term Management Plan,
we will focus on expanding our client base, aiming for the group’s sustainable growth (“Expansion”)



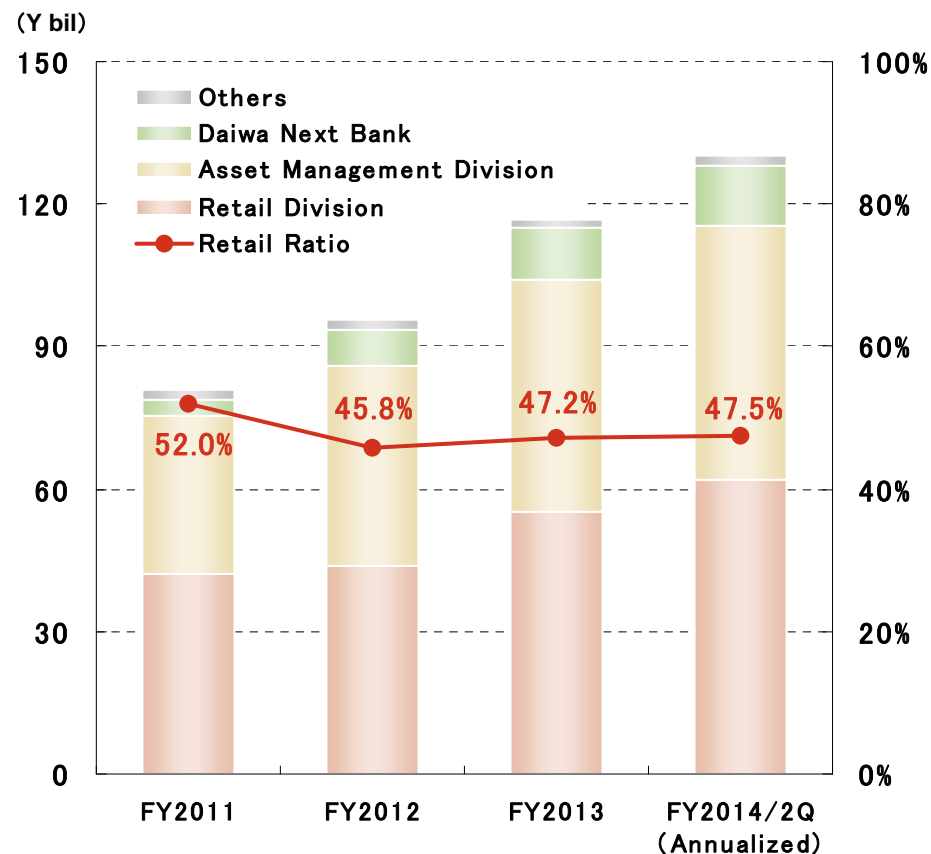
Retail division acts as the main revenue generator of consolidated results

- By further strengthening the collaboration with wholesale division and other group companies, the retail division acts as the main revenue generator of consolidated results
- In terms of stable revenue, the retail division also contributes to the increase in “Fixed cost coverage ratio*”, a key management target under the current Medium Term Plan, by expanding the balance of bank deposits and mutual funds, taking advantage of our unique combined securities-banking business model

Proportion of retail division results to consolidated net operating revenues



Proportion of retail division results to total stable revenues

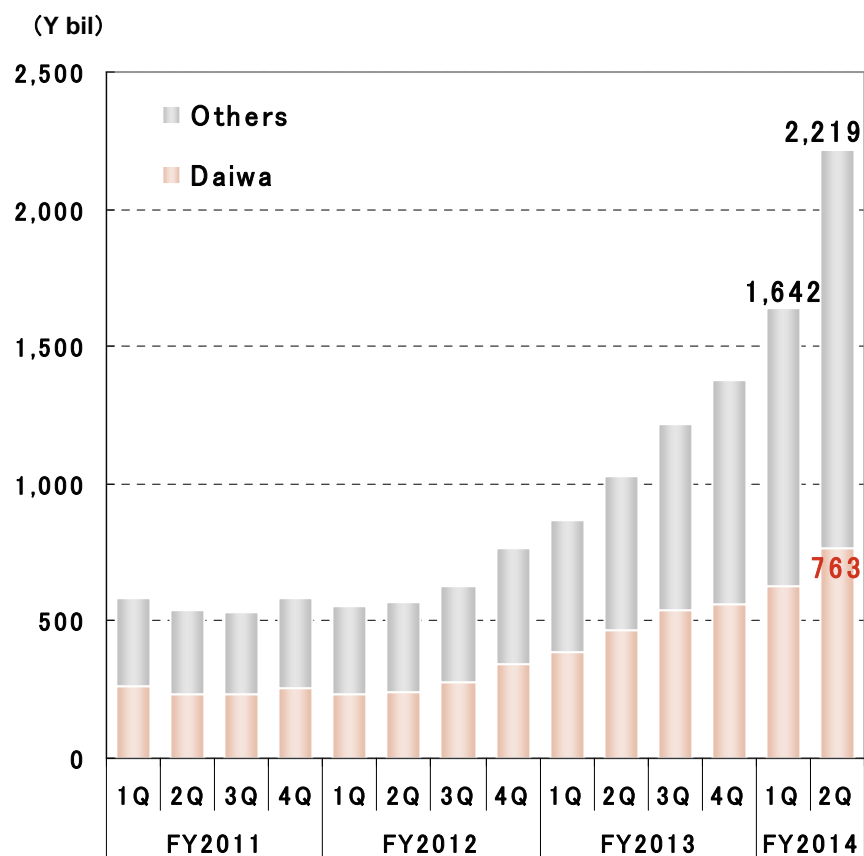


Ⅱ - Expanding the Stable Revenue Base

Overview of Wrap Account Service

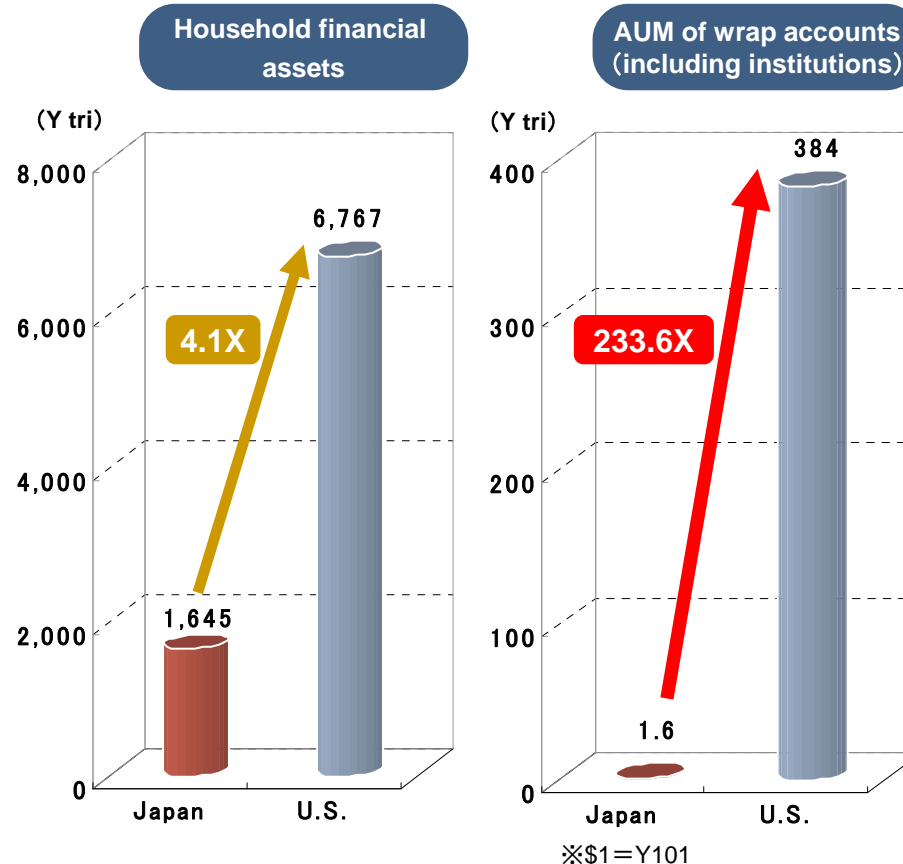
- As wrap accounts quickly gained recognition in Japan, Daiwa's AUM for wrap accounts also increased rapidly.
- In Japan, the balance of wrap accounts against individual financial assets is substantially smaller compared to the U.S., a leading country in wrap business. In Japan, therefore, there is a huge potential to increase the AUM of wrap accounts.

AUM of Wrap accounts



※All figures are as at the end of each quarter.

Comparison of financial assets
between Japan and the U.S. (as at June, 2014)



Daiwa's Strength in Wrap Business



- Daiwa offers an extensive line-up of investment styles for Daiwa Fund Wrap and SMA services, which enables it to make appropriate proposals to meet diversified customer needs.
- By using the unique combined securities-banking business model, Daiwa offers a package plan, 'Daiwa Fund Wrap and Yen Denominated Time Deposit Plan', which has contributed to the increase in new contracts.
- Contractual amounts by existing customers have been increasing due to the strong performance.

Extensive product line-ups

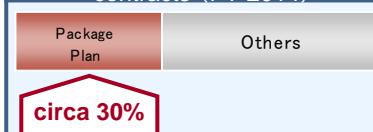
Fund Wrap	<ul style="list-style-type: none"> ■ Contract amount is from Y3.0 mil, the lowest in the industry. ■ Most number of investment styles (more than 100)
SMA	<ul style="list-style-type: none"> ■ Dedicated SMA consultants give proposals and support on investment styles to meet customer needs. ■ Large range of investment styles exclusive to Daiwa SMA.

Package plan with yen denominated time deposit

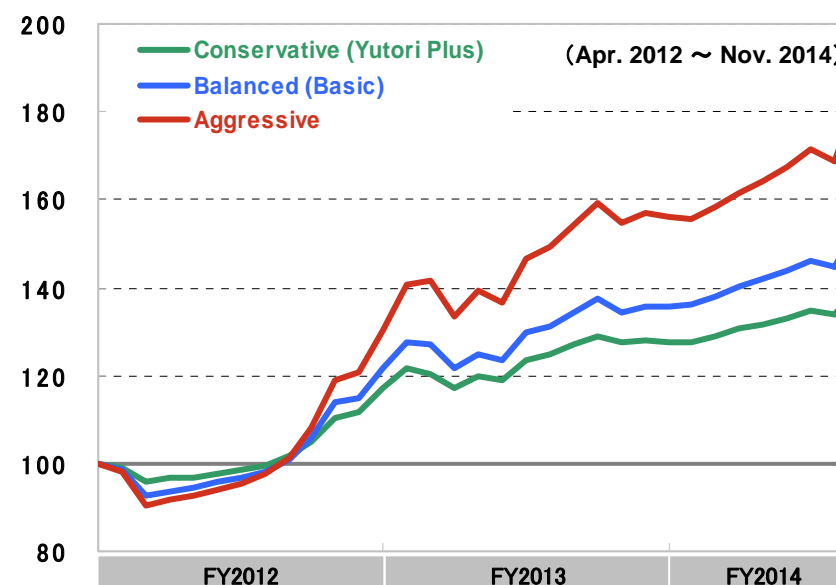
- Provided by collaborating with Daiwa Next Bank, with the aim to help first-time investors to take their first step.
- Contracts by first-time investors have contributed to the increase in new contracts.



Proportion of package plan contracts among new Fund Wrap contracts (FY 2014)



Performance of Daiwa Fund Wrap*



Portfolio Style	Performance		
	6 Months	1year	2years
Conservative (Yutori Plus)	+8.8%	+10.4%	+37.8%
Balanced (Basic)	+11.9%	+15.0%	+52.8%
Aggressive	+16.0%	+19.2%	+81.3%

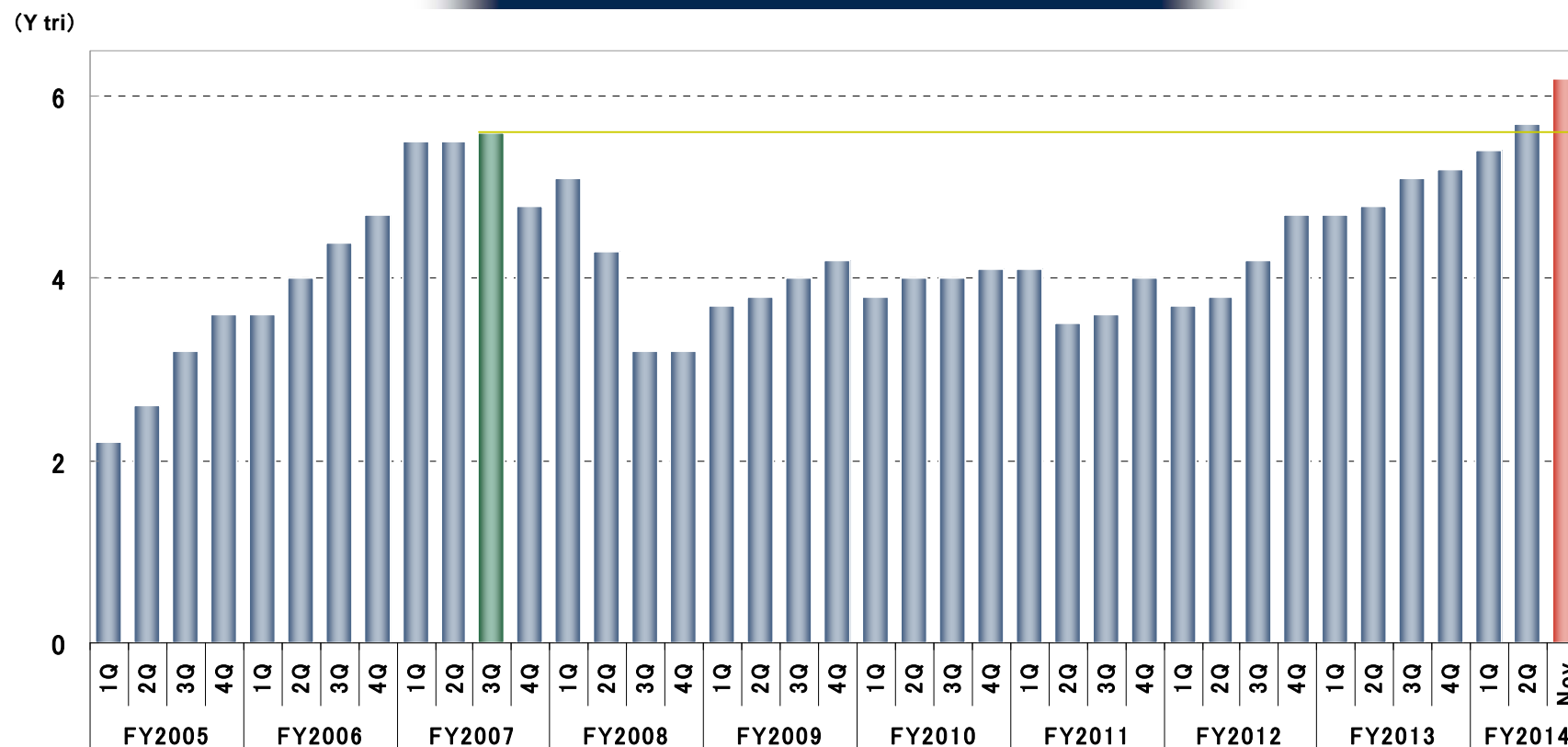
※ Reference date: as at Nov.28, 2014.

Expansion of AUC of Investment Trusts



- The AUC of investment trusts has steadily increased through measures that meet customer needs, including advising long-term ownership and promoting accumulative investments.
- The AUC of investment trusts in the retail division posted a record high at the end of 2Q, 2014; the AUC increased further in November. An increase in agency fee contributed to the expansion of stable revenues.

AUC of investment trusts in the retail division

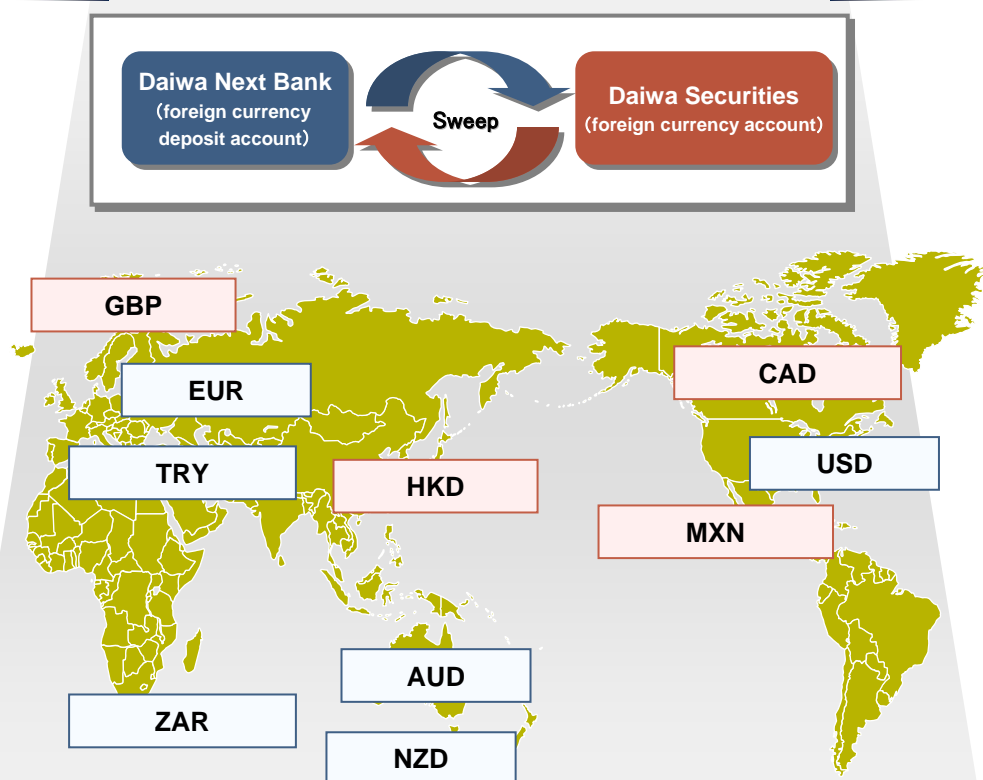


※All figures are as at the end of each quarter.

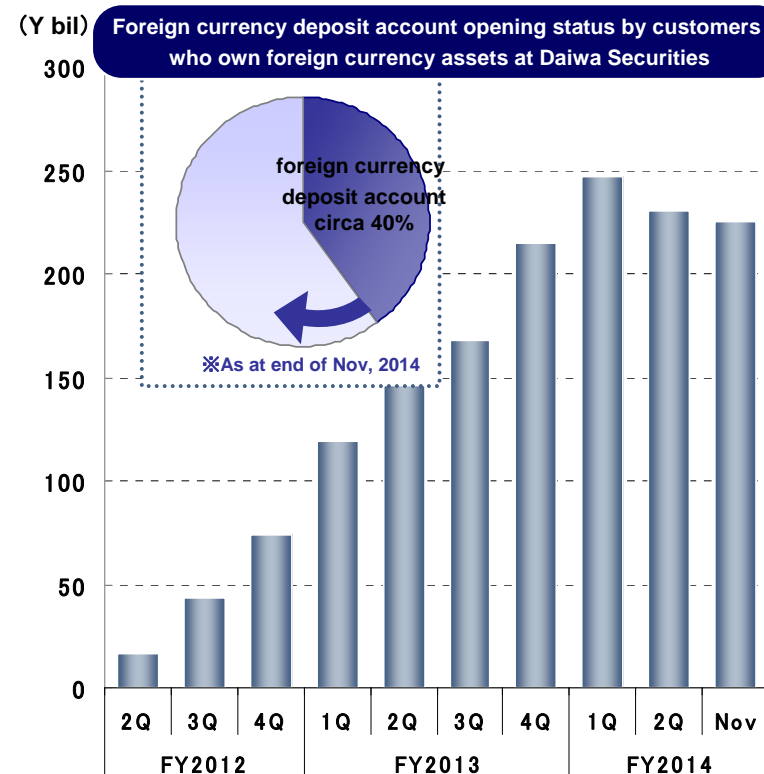
Evolving the Securities Banking Business Model (Foreign Currency Deposits)

- In November 2014, Daiwa Next Bank introduced a sweeping function for foreign currencies; and it increased the number of foreign currencies it handles from 6 to 10.
- The features of the sweeping function include:
 - ✓ Purchase amount for foreign denominated securities products is automatically sent from the Daiwa Next Bank account to the Daiwa Securities account.
 - ✓ Redemption proceeds, interests, coupons, and dividends from foreign currency assets are automatically sent to the Daiwa Next Bank account, which offers a relatively good interest rate.
- The improved convenience has pushed up the number of newly opened foreign currency deposit accounts at Daiwa Next Bank by customers who own foreign assets at Daiwa Securities.

Introduction of a sweeping function for foreign currencies;
and an increase in handled foreign currencies



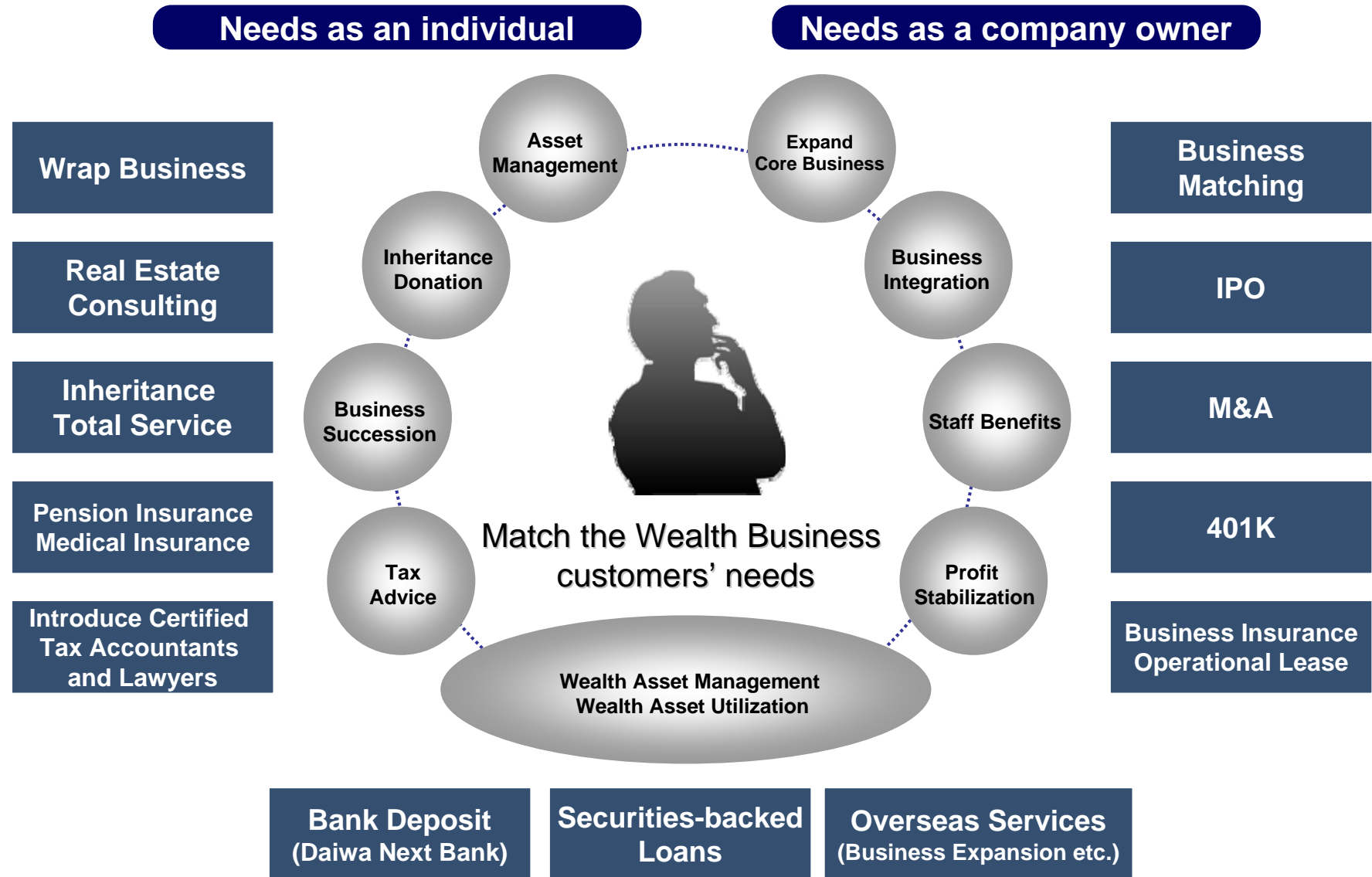
The value of foreign currency denominated deposits
at Daiwa Next Bank



※All figures are as at the end of each quarter.

Ⅲ- Expanding the Wealth Business - focus on Inheritance Business -

Extensive Products and Services offered to the Wealth Business Customers

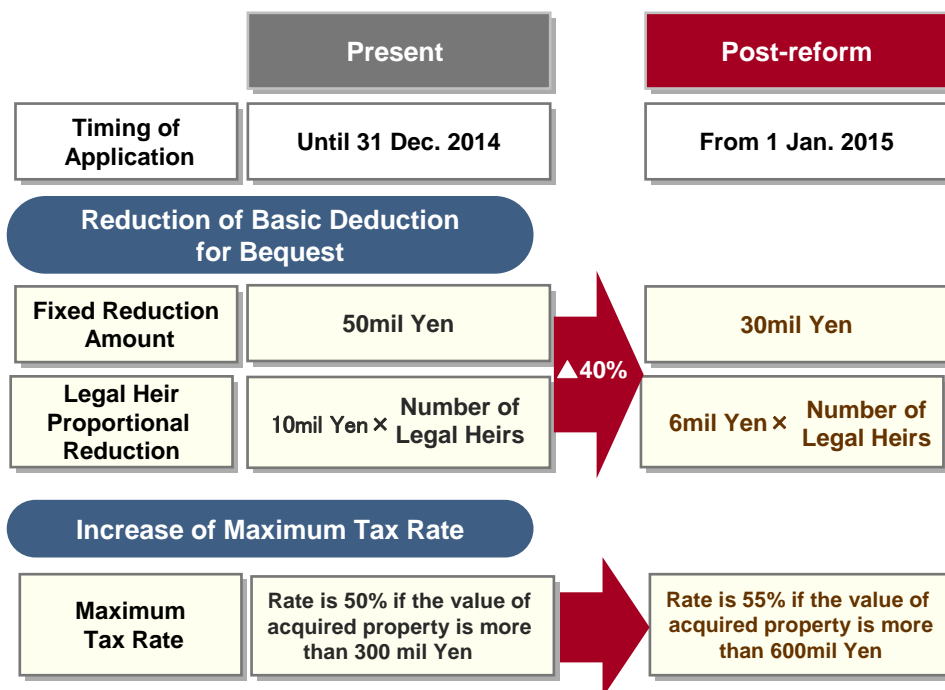


Developments Surrounding Inheritance



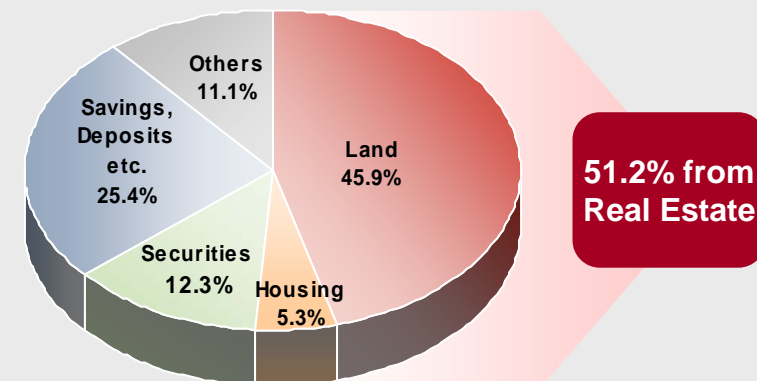
- The inheritance tax will be increased in 2015, after which the number of inheritance tax applicants and the amount of inheritance tax are expected to rise.
- More than half of the inherited property consists of real estate; the value of assets used to calculate inheritance tax has increased due to the rise in land prices.

Increase in inheritance tax (from 2015)



Impact by the rise in land price

Breakdown of Inherited Property



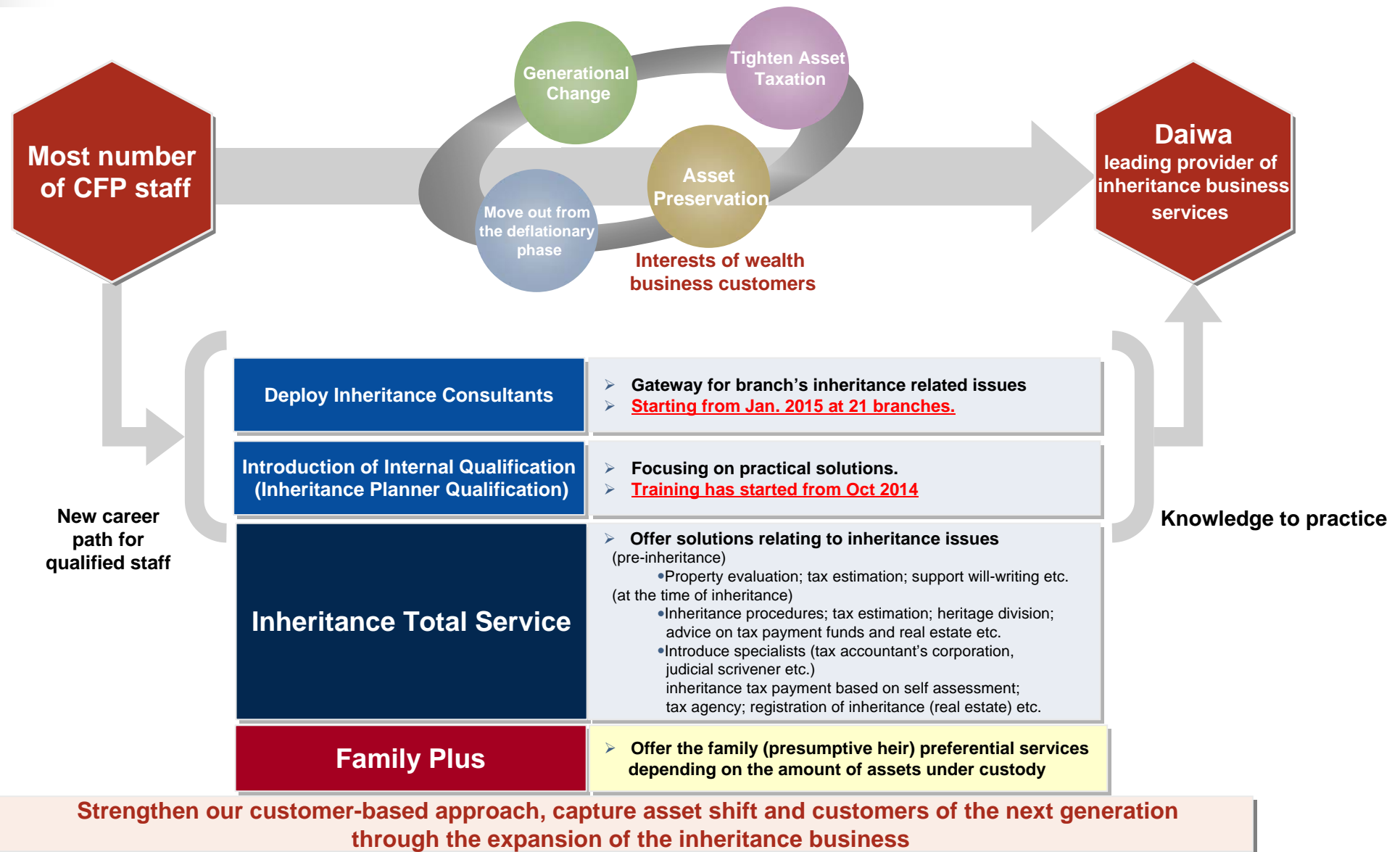
(Source) National Tax Agency, "Inheritance Tax Filed in 2012"

Road Price Ratings (2014)

- The 2014 Road Price Ratings released by the National Tax Agency showed a substantial increase in large city areas.

※The yoy increase rate for main maximum road prices of prefectural capitals:
 Nagoya City: 10.0%, Chuo Ward of Tokyo City: 9.7%,
 Yokohama City: 7.8%, Saitama City: 7.1%, Osaka City: 6.2%

Expanding the Inheritance Business



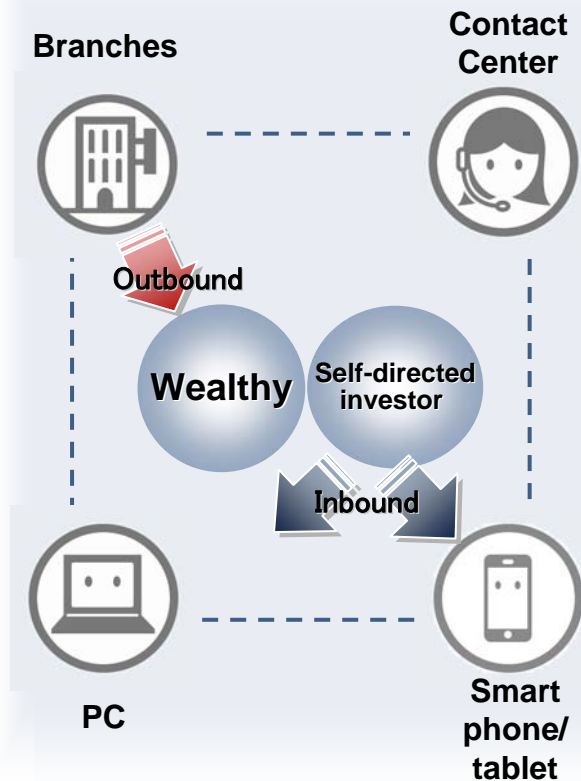
IV- Areas to Improve the Retail Business

For Broader Range of Investors

Create services and platforms suitable for an era when securities investments become part of people's lives

Deflationary era

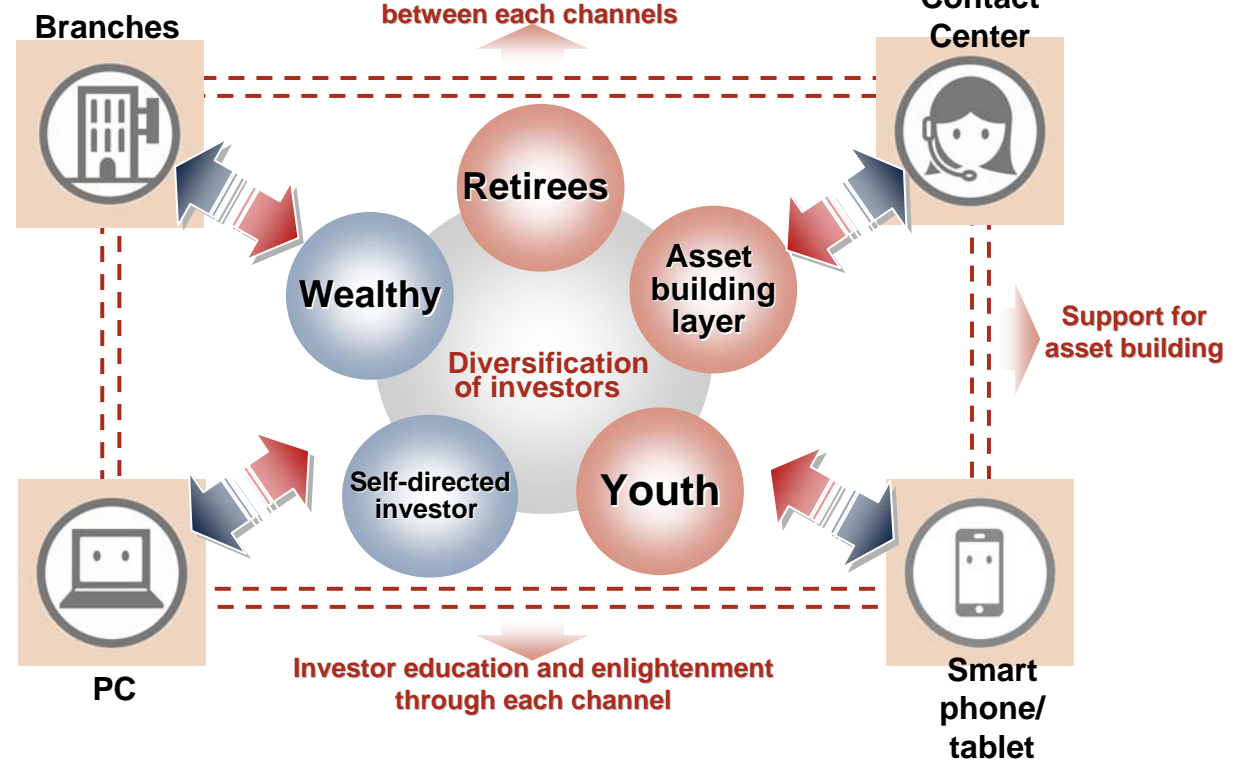
Focus on certain investors



Post-deflationary era

Broader range of investors choose channels according to their own needs

Enhancement of seamless collaboration between each channels



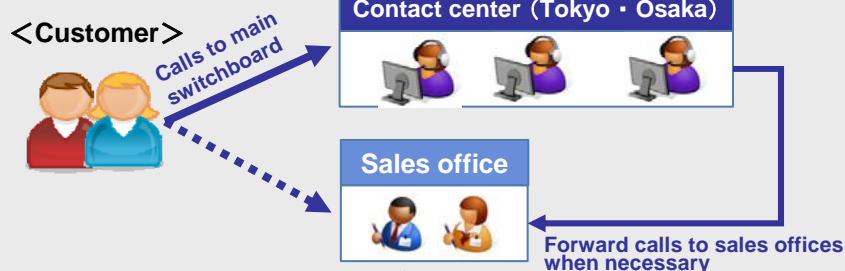
Use of Contact Centers and Smart Devices

- Introduced smart devices and contact centers, which alternatively receive calls coming through the main switchboard of branches/sales offices.
- Branches/sales offices that have introduced the system have found that created more time has been created for sales activities including an increase in the number of client meetings.
- Contact centers are scheduled to be introduced to all branches/sales offices by the end of FY2014.

Measures to improve operational efficiency

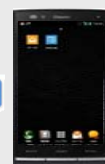
Contact Centers

- ✓ Assist branches/sales offices by alternatively receiving main switchboard calls (to be introduced to all branches/sales offices by March 2015)



Smart Devices

- ✓ Distributed PC tablets/smart phones to all sales staff (Jun. 2014)

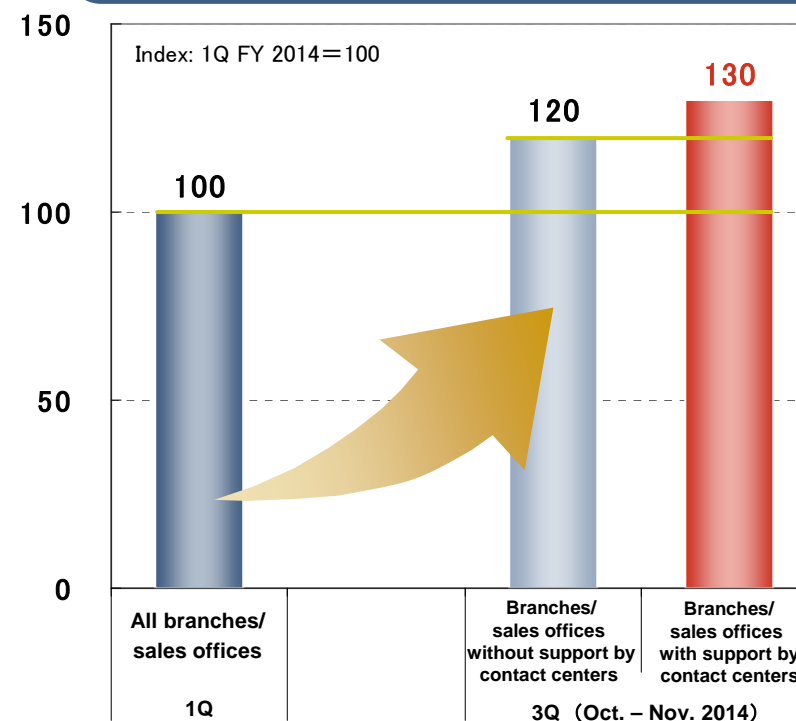


- Customer information
- CRM coordination
- Pitching materials
- E-signature procedure
- Investment information

Increase opportunities to contact customers

Number of Client Meetings

(FY2014 monthly average)



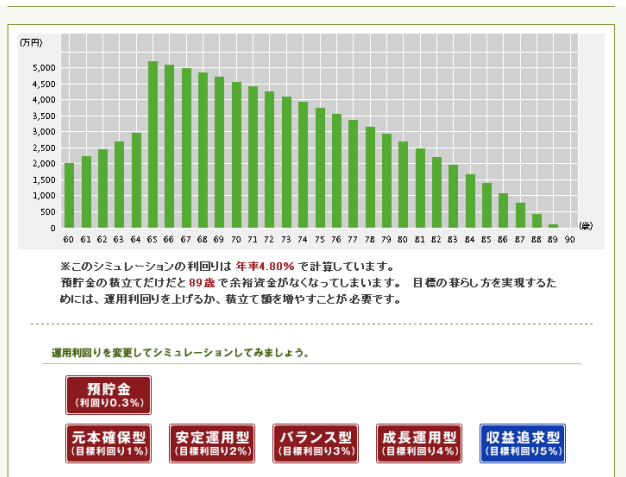
※A full-scale introduction of alternatively receiving calls by contact centers started from July 2014. As at the end of November 2014, around half of branches/sales offices have introduced the system.

Retiree-focused planning service ('Korekara-Life')

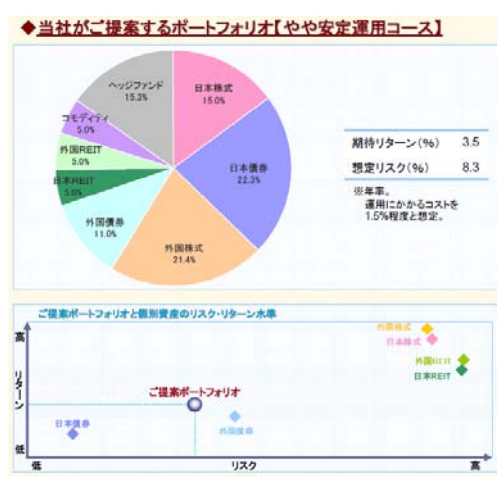
- We introduced a retiree-focused planning service ('Korekara-Life') to all branches (excludes sales offices) to provide cash flow analysis and the most appropriate portfolio designs to retired or soon-to-retire customers.
- Fund Wrap is the mainly proposed product, while we also offer products including mutual funds and insurance according to customer needs.

Planning service		Solution
Cash flow analysis	Portfolio designing	Product offering
<ul style="list-style-type: none"> ■ Ask customer's life plan ■ Analyze cash flows up to retirement ■ Analyze cash flows post-retirement 	<ul style="list-style-type: none"> ■ Ask customer's investment experience and investment policy ■ Provide recommended portfolio and future simulation results 	<ul style="list-style-type: none"> ■ Offer a variety of products in response to diversified customer needs

Cash Flow Analysis (Easy ! Life Navi)



Portfolio Recommendation (Free portfolio Designing Service/ Hearing Sheet)



Offer Fund Wrap and other products according to customer needs

Grow	Daiwa Fund Wrap NISA-accumulative services
Receive	Monthly dividend payment type mutual funds Pension Insurance
Protect	Time deposit Medical Insurance



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