

Spring 2013

Daiwa Securities Group Management Strategy

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Daiwa Securities Group

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Progress of Medium Term Management Plan

I . FY2012 *Turnaround*

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II . FY2013 *Growth*

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I . FY2012 *Turnaround*

① Summary of the Medium Term Management Plan

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Summary of the Medium Term Management Plan



Daiwa Securities Group Management Vision

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

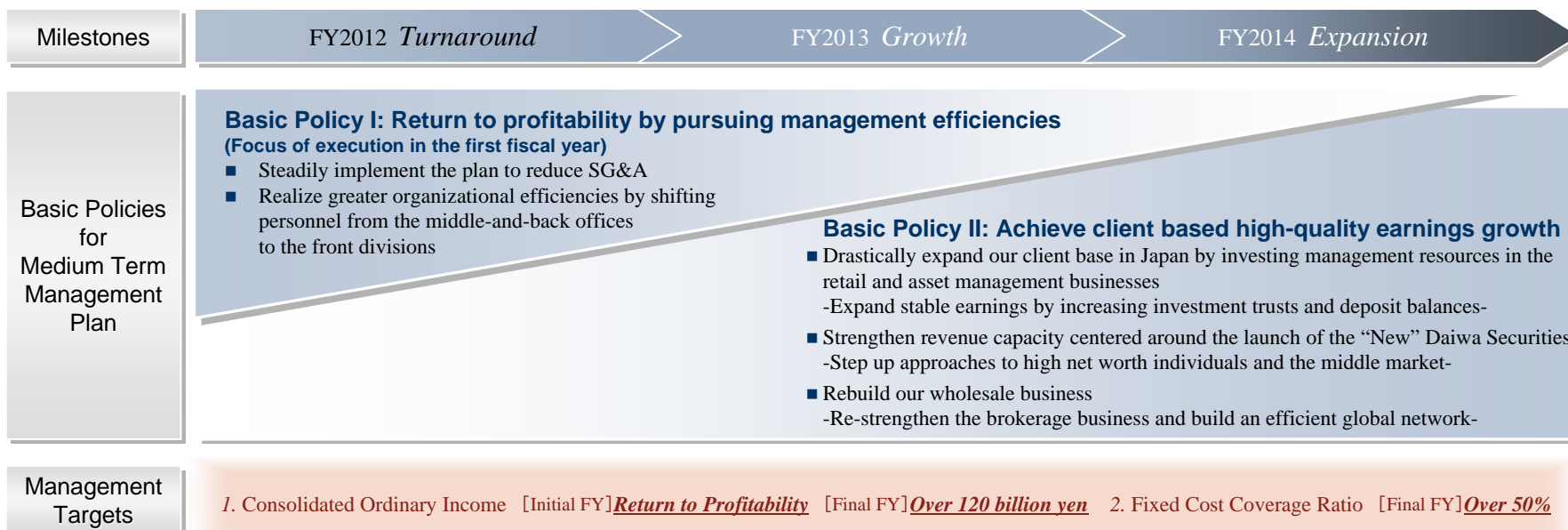
Daiwa Securities Group Basic Management Policy

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



I . FY2012 *Turnaround*

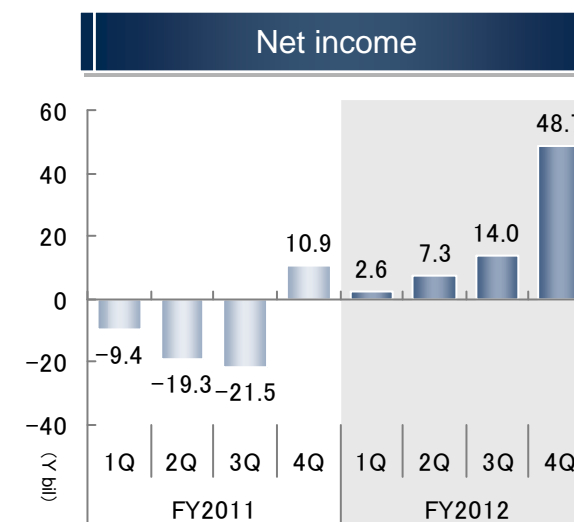
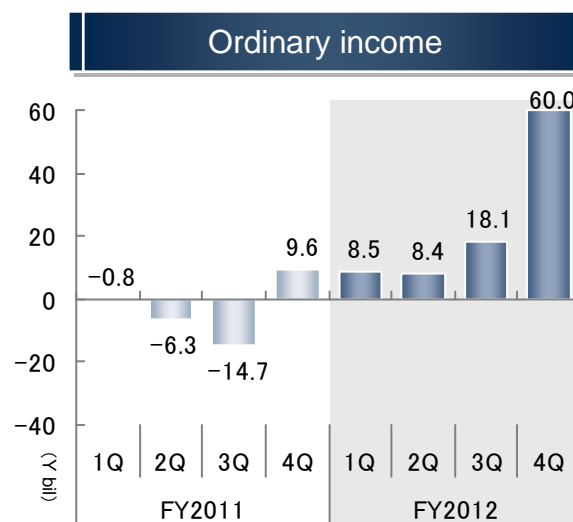
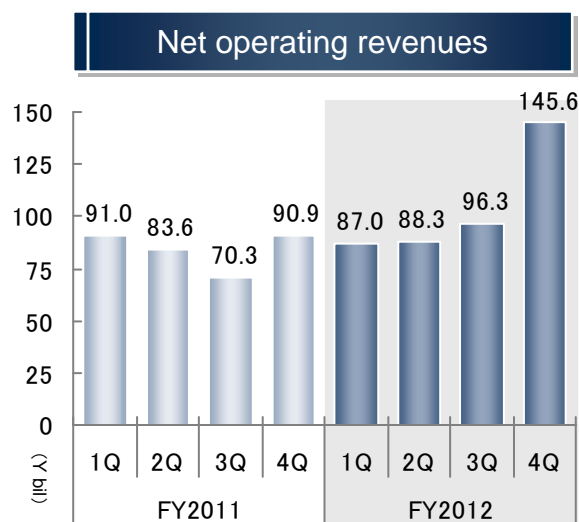
② Turnaround by pursuing management efficiencies

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Consolidated Results of FY2012

- Net Operating revenue increased by 24.2% y/y to ¥ 417.3 bil, Ordinary income was ¥ 95.1 bil and Net income was ¥ 72.9 bil.

(¥ mil)	Net operating revenues			Ordinary income			Net income		
	FY2011	FY2012	% change vs FY2011	FY2011	FY2012	% change vs FY2011	FY2011	FY2012	% change vs FY2011
Retail	159,516	184,415	15.6%	28,692	49,251	71.6%			
Wholesale	94,109	133,109	41.4%	-59,338	12,034	-			
Global Markets	67,796	105,219	55.2%	-43,380	14,374	-			
Global Investment Banking	26,312	27,889	6.0%	-15,958	-2,339	-			
Asset Management	37,424	43,591	16.5%	14,615	19,089	30.6%			
Investments	3,624	17,495	382.7%	552	14,161	-			
Consolidated total	336,016	417,308	24.2%	-12,200	95,176	-	-39,434	72,909	-



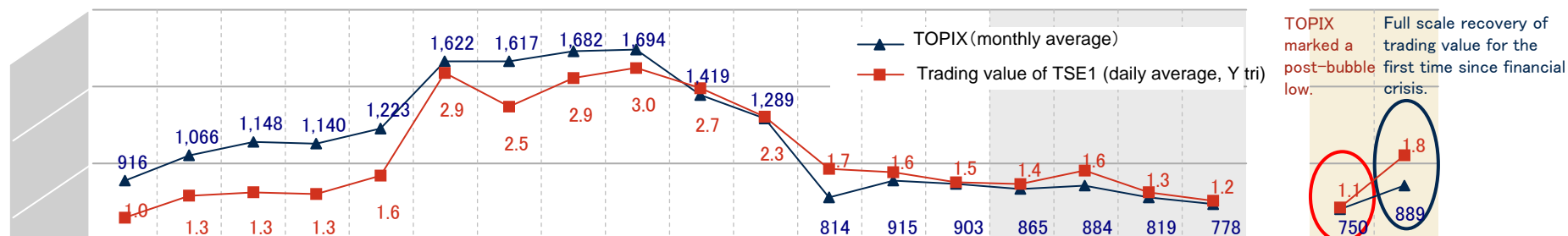
Establish a robust business structure



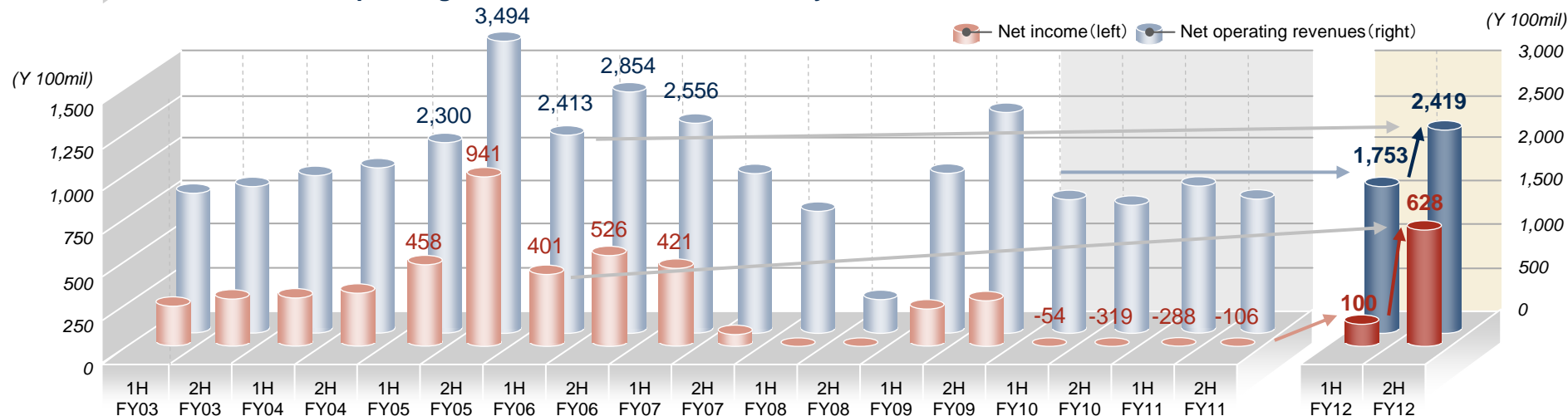
- Secured profit in 1H of FY2012 despite the severe market condition when TOPIX marked a post-bubble low.
- Secured high level of profit in 2H of FY2012 equal to that of Daiwa achieved in FY2005 - FY2007 when stock market was very active.
- Established a robust business structure that is capable of securing profit even under stressful economic conditions.

Trends of Net operating revenues and Net income

Trend of stock market



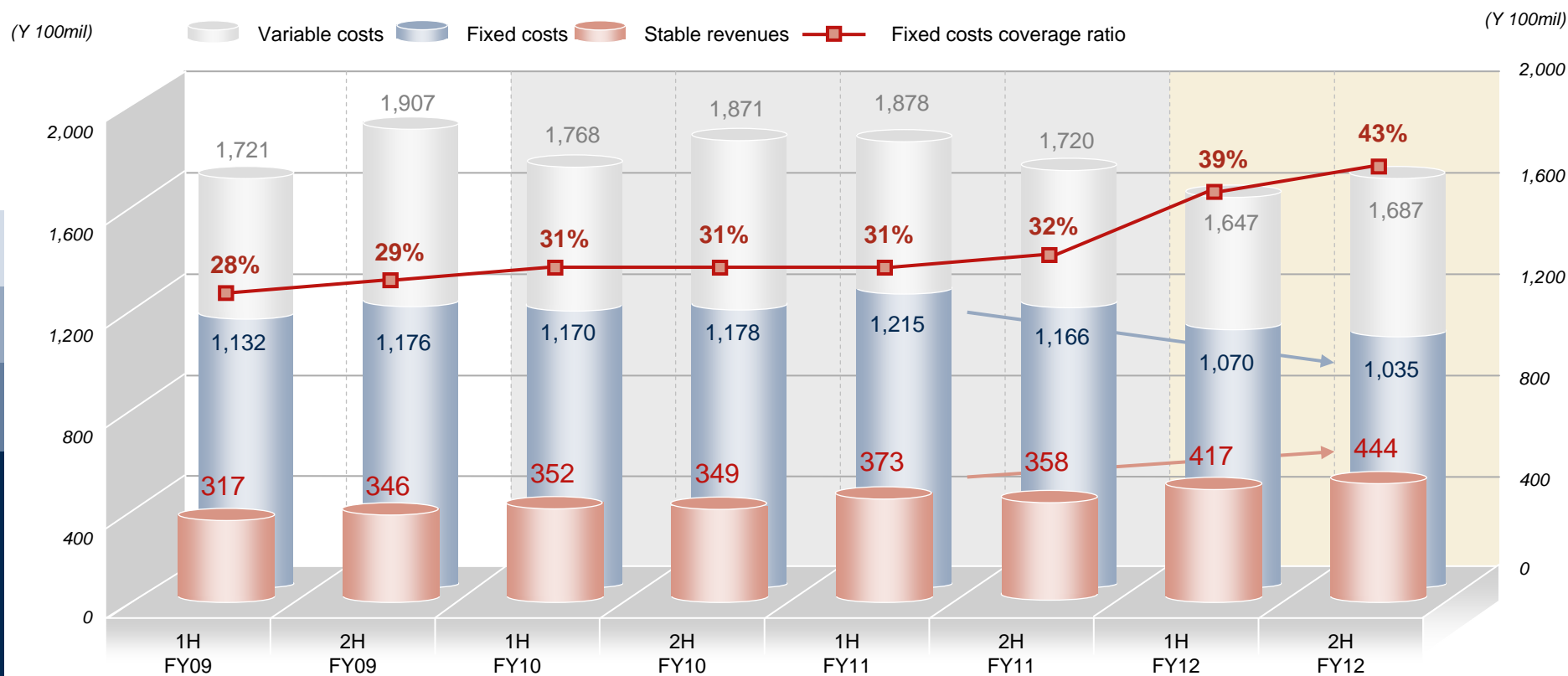
Consolidated Net operating revenues and net income (half year term)



Fixed costs coverage ratio

- Fixed cost has steadily decreased after peaking out in 1H of FY2011.
- In addition to the growth of asset management business, stable revenues gained from increase in deposit balance at Daiwa Next Bank and expansion of real estate asset management business.

Trends of cost structure and stable revenues

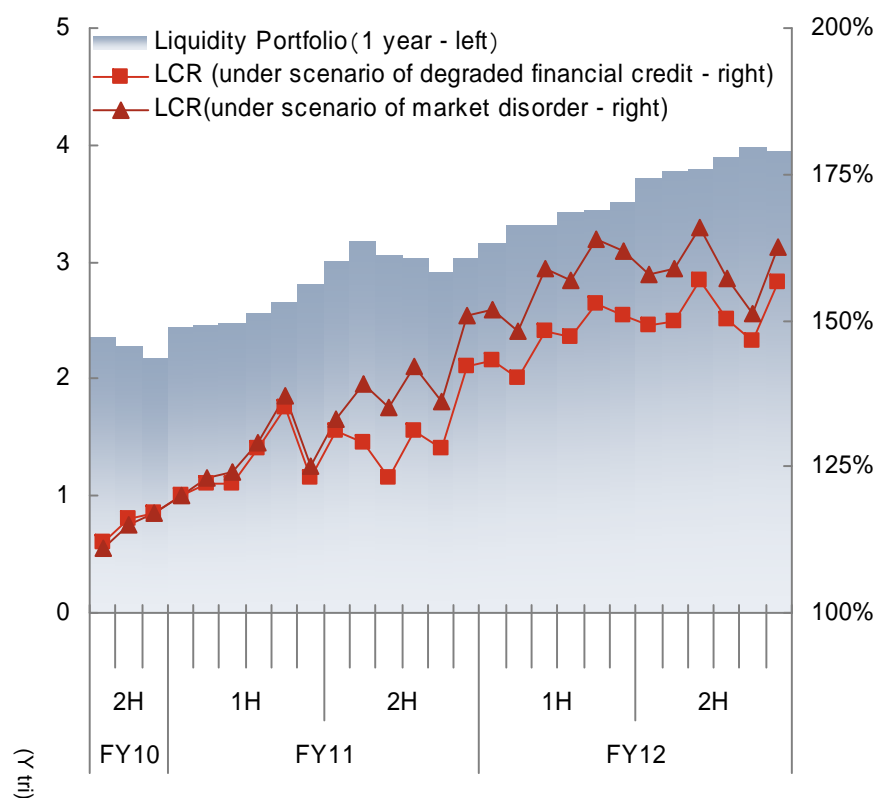


Healthy Financial Management



- Amount of liquidity portfolio (1 year) is closed to Y 4 tri and liquidity coverage ratio for each stress testing scenario maintain more than 150%.
- Consolidated total capital ratio on Basel 3 basis as of end of Mar, 2013 was 20.0%.
(Estimated consolidated total capital ratio for full implementation of Basel 3 as of Mar, 2013 was approximately 17%)

Liquidity portfolio and coverage ratio



Capital Ratio

		(Y 100mil)
Consolidated total capital ratio (Basel III basis)		Mar, 2013
Total Qualifying Capital	(D) = (A)+(B)+(C)	9,531
Common equity tier1	(A)	9,048
Additional tier1	(B)	-
Tier2 capital	(C)	483
Total Risk-Weighted Assets	(E)	47,552
Credit risk		27,526
Market risk *1		12,758
Operational risk *1		7,268
Consolidated common equity tier1 capital ratio	(A) / (E)	19.0%
Consolidated tier1 capital ratio	((A)+(B)) / (E)	19.0%
Consolidated total capital ratio	(D) / (E)	20.0%

*1 Market and Operational Risk hereunder is computed by multiplying each risk amount by 12.5 (the Reciprocal of 8%)

I . FY2012 *Turnaround*

③ Achieve client based high-quality earnings growth

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Investing management resources in the Retail business

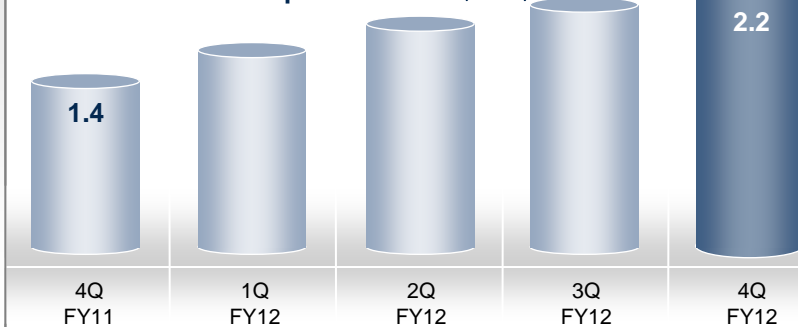
- The Retail Division introduced various services to evolve “securities and banking” business model, and opened new sales offices in uncovered areas
- Deposit balance of Daiwa Next Bank exceeded 2 trillion yen and revenue from cross-selling from deposits to securities grew over 3 times the level of 4Q FY2011

Progress of Retail Business

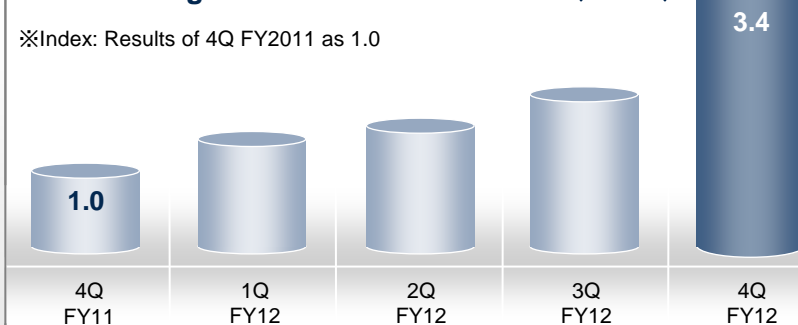
- **Evolution of business model creating synergy between securities and banking service**
 - Introduced foreign currency deposits (USD, EUR, AUD, NZD, ZAR, TRY) Jul 2012
 - Started package offering –Fund wrap and time deposits Dec 2012
 - Introduced “Premium Service” and “Family Plus” for major clients and their families Apr 2013
- **New Sales Offices**
 - ✓ Kasukabe Office Jun 2012
 - ✓ Kyodo Office Jul 2012
 - ✓ Ichikawa Office Aug 2012
 - ✓ Yamaguchi Office Mar 2013
 - ✓ Fushimi Office Jun 2013 (Plan)
 - ✓ Kitasenri Office Jul 2013 (Plan)
- **Started “Daiwa’s Inheritance Total Service” in early 2012**

Results of Daiwa Next Bank

Daiwa Next Bank Deposit Balance (Y tri)



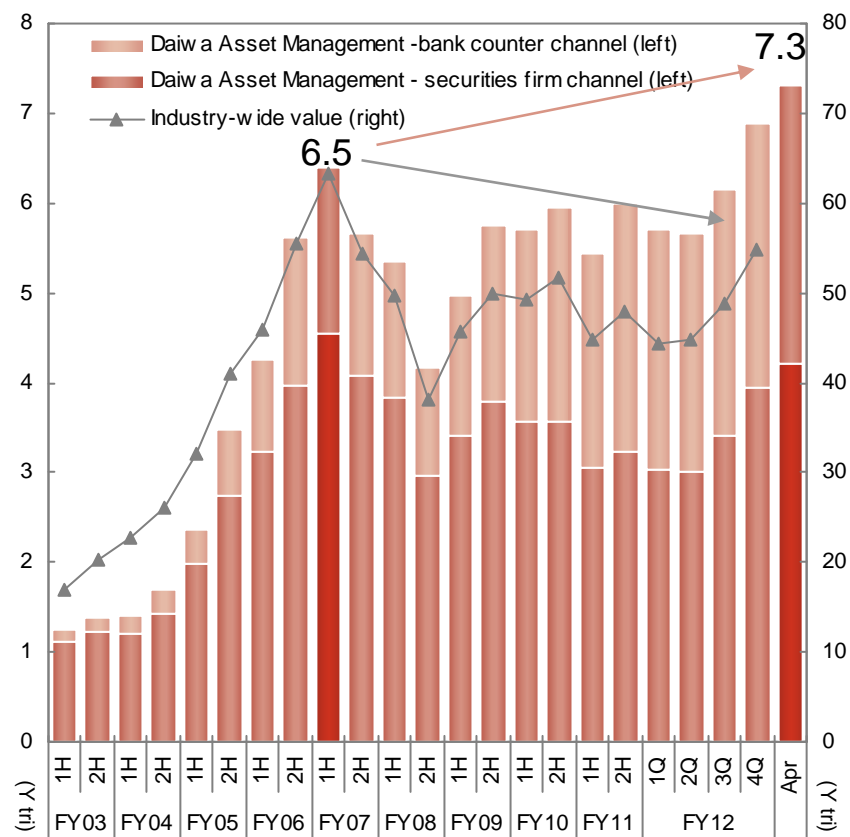
Cross-selling revenue of Retail Division (index)



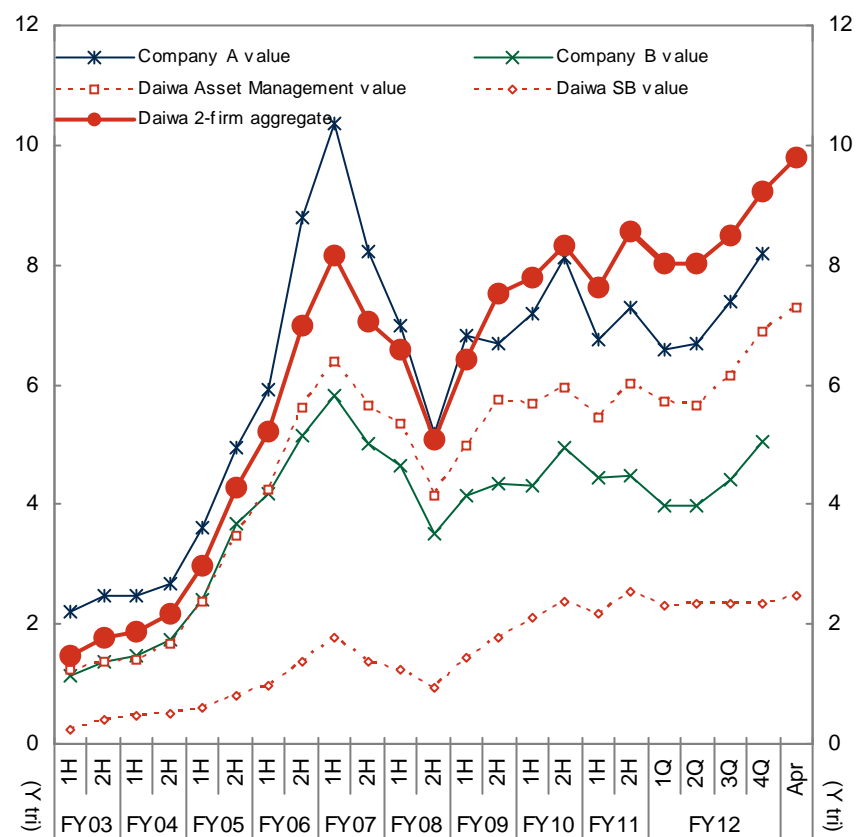
Investing management resources in the Asset Management business

- Daiwa Asset Management's mutual funds outstanding value has exceeded pre-Lehman crisis levels thanks to factors like expanded bank counter channels, reaching an all-time record level in April based on month-end prices
- Volume remains below pre-Lehman crisis levels both for major asset managers and for the industry as a whole, but the combined volume for the 2 Daiwa Group companies has grown to the biggest in the industry

Daiwa Asset Management: mutual funds value



Selected asset management firms: mutual funds value

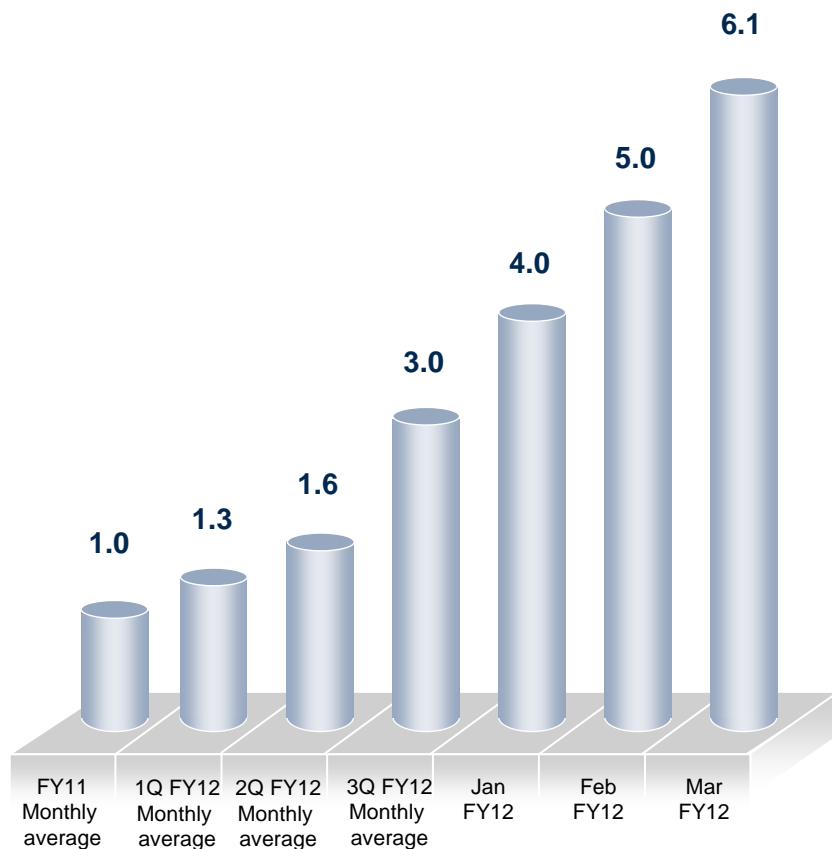


Strengthen revenue capacity centered around the launch of the “New” Daiwa Securities

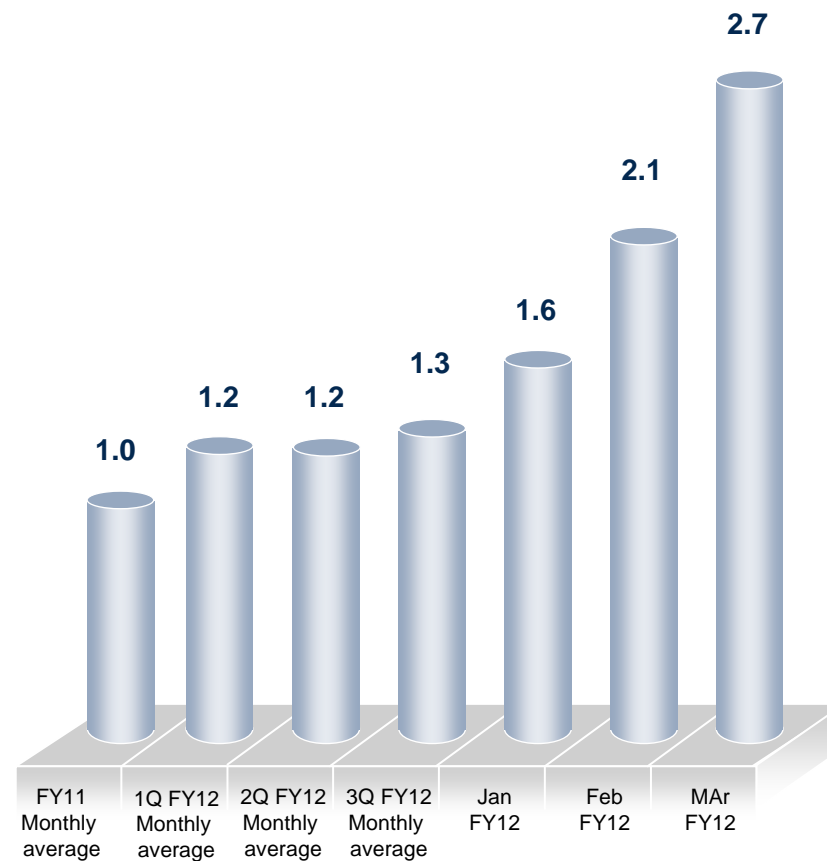


- Structured bond sales increased in Retail division as timely offer of products became possible through the integration with the wholesale arm
- Revenues from the “middle markets” (regional financial institutions, public corporations, middle to small sized corporations) increased by strengthening client coverage

**Retail division:
Private structured bond sales revenues**



Revenue from the middle market

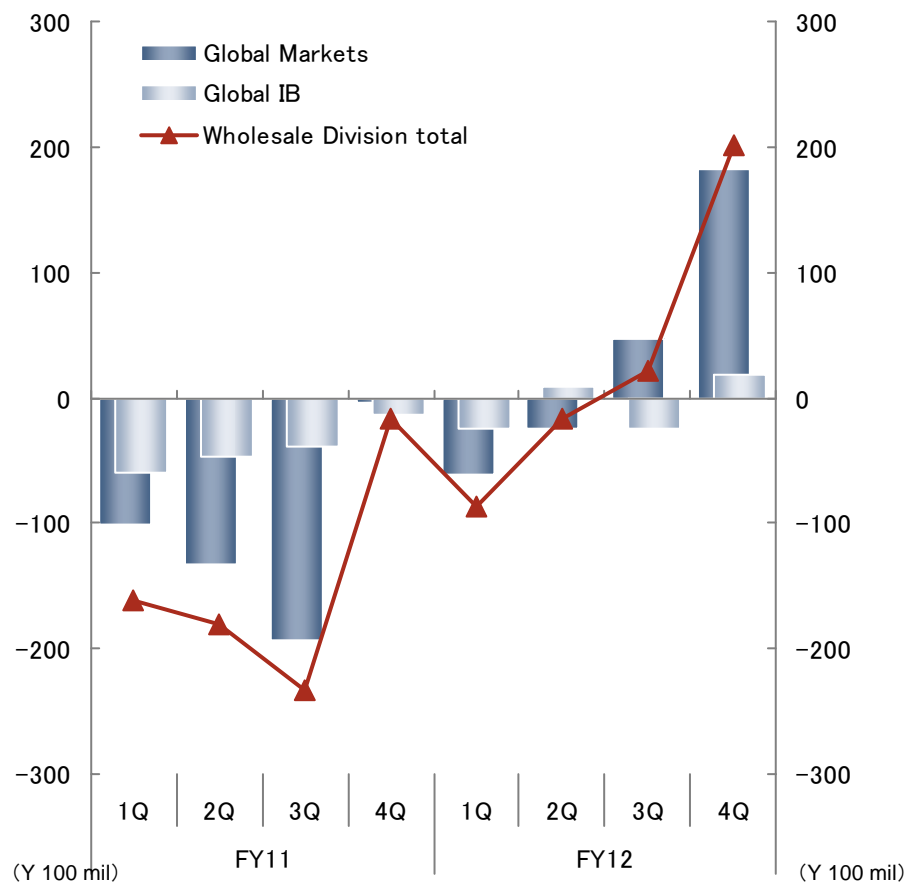


Rebuild our wholesale business

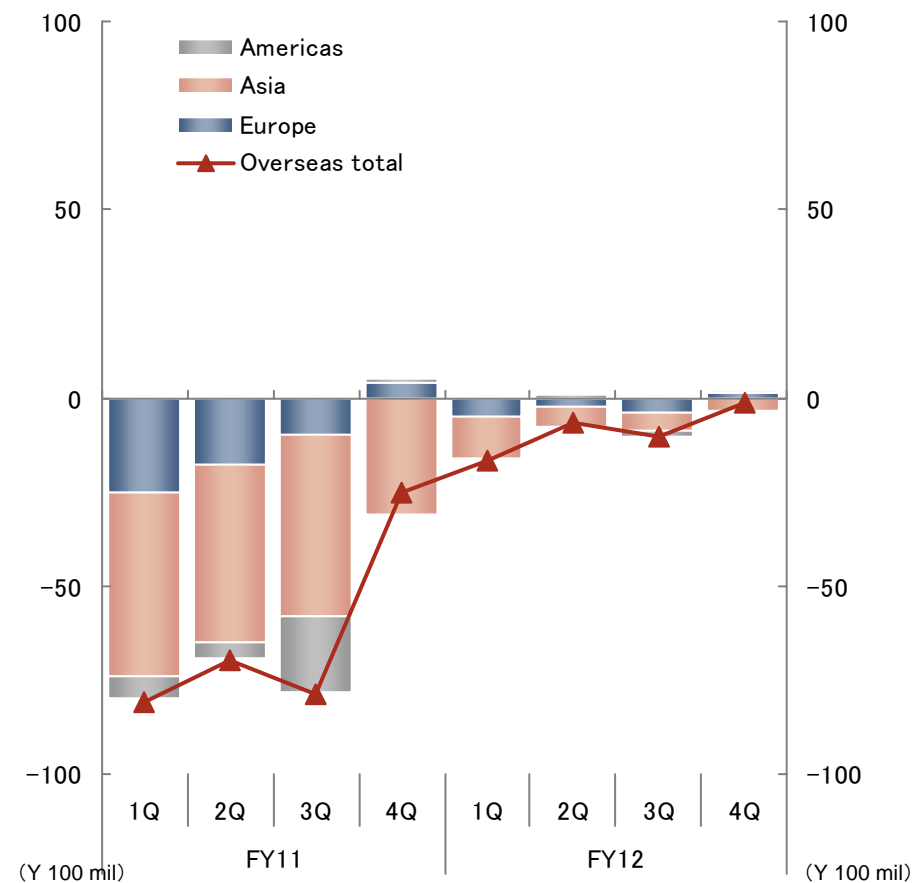


- Wholesale Division turned into the black in 3Q FY2012, followed by a large growth in profits in 4Q
- Overseas operations still posting losses although profitability greatly recovering compared to last fiscal through cost reduction

Wholesale Division Ordinary Incomes (Global)



Wholesale Division Ordinary Incomes (Overseas)





II . FY2013 *Growth*

“Savings to Investments” and Growth Strategy

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FY 2013 Daiwa Securities Group Management Policies



During FY 2012, positioned as the phase for “Turnaround” for the first fiscal year of the Medium Term Management Plan “Passion for the Best” 2014, we steadily reduced costs and improved efficiency of organizations while integrating our two main subsidiaries, in which each the retail and wholesale business were operated. Moreover, we quickly brought the integration to full effect, greatly advancing our steps toward achieving the Plan’s management target of “returning to profitability during the initial fiscal year”, and the Group’s basic management policy of “establishing a robust business structure capable of securing profit regardless of economic conditions.”

In FY 2013, positioned as the phase for “Growth” for the second fiscal year of the Group’s Medium Term Management Plan, we will accelerate our business development vigorously to seize the dynamic transition from “savings to investments” aggregating group-wide efforts. The long lasting tendency toward stronger yen and weaker stock prices has finally reached its historical turning point, preparing the market environment to bring about a large current from “savings to investments.” Political supports to insist this dynamic shift of the vast individual financial assets, such as earnest efforts to exit from deflation and introduction of the Japanese ISA (Individual Savings Account) in January 2014, can also be expected.

By putting emphasis on three themes: 1) Evolving the combined securities-banking business model 2) Strengthening the asset management business 3) Strengthening the wealth management business through inheritance related services, we will provide highly valued products and services that accurately meet client needs.

In turn, by efficiently developing Investment Banking business through our global network, we will simultaneously facilitate the transition from “savings to investments” and provide abundant capital to enterprises, thus to contribute in regenerating and revitalizing the Japanese economy.

Action Plan for Each Business

Retail Business

1. Evolve a unique business model creating synergy between securities and banking service
2. Facilitate transition from savings to investments through the Japanese ISA
3. Strengthen wealth management business through inheritance related services
4. Strengthen service coverage of the Middle Markets
5. Raise revenue level by expanding stable revenue and improving productivity of sales forces

Wholesale Business

1. Provide IB solution that precisely answer client needs leveraging global network
2. Provide timely products to link firm client base and market environments
3. Develop business focused on client trading flows and expand trading revenue

Asset Management Business

1. Strengthen investment management capability and pursue investment performance
2. Raise and expand main funds both in securities and bank related distribution channels
3. Enhance supports to distributors and provide information meeting clients needs
4. Develop products and strengthen marketing corresponding to introduction of the Japanese ISA

IT/Think Tank Business

1. Enhance the Group's presence by aggressively transmitting economical, financial and environmental research information
2. Increase the Group's business opportunities by strengthening consulting capacity in Asia including Japan
3. Improve the Group's system efficiency by using off-shore and cloud computing systems

Investment Business

1. Maximize returns from the existing portfolio
2. Raise funds timely conforming to market environment and seize attractive investment opportunities while managing risk conditions and capital efficiency

**After the lost 20 years,
the time is finally right for the transition from savings to investments...**

**Expanding
Supply of
growth
money**

**Equity
investment**

**Internationally
diversified
investment**

**Increasing
Return of
Financial Assets**

**Leading the way in diversified investing to make full use of household financial assets of
Y 1,500 trillion is the mission of, and moreover the core business strategy of Daiwa Securities Group**

Main pillars of our strategy to lead the era of transition from savings to investments

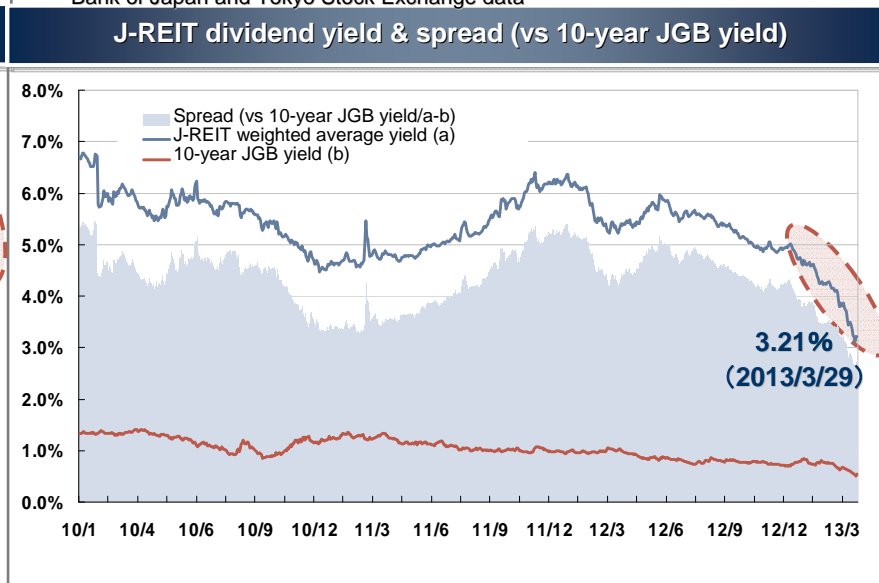
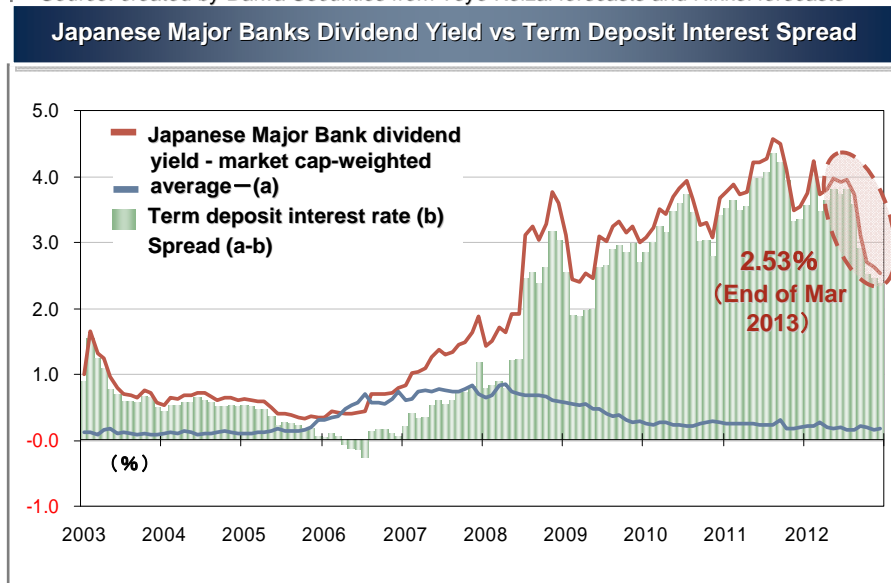
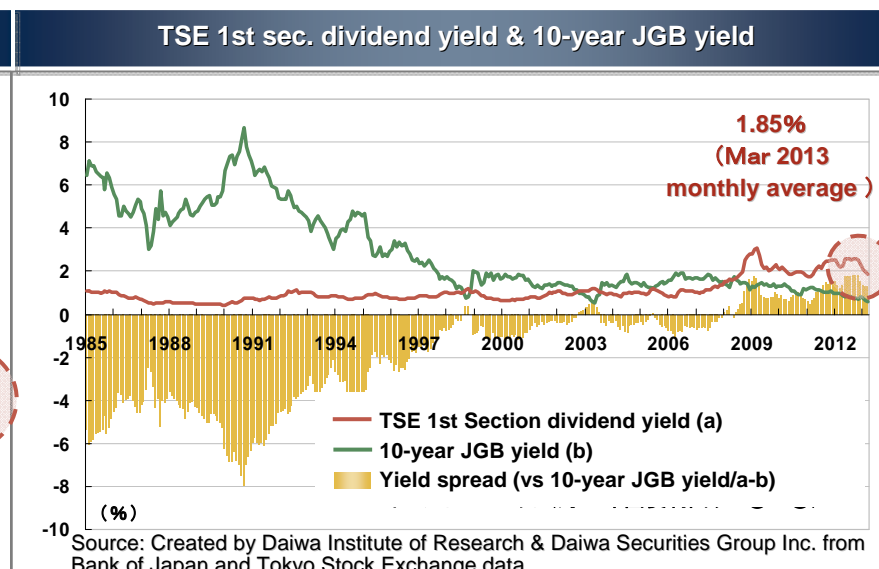
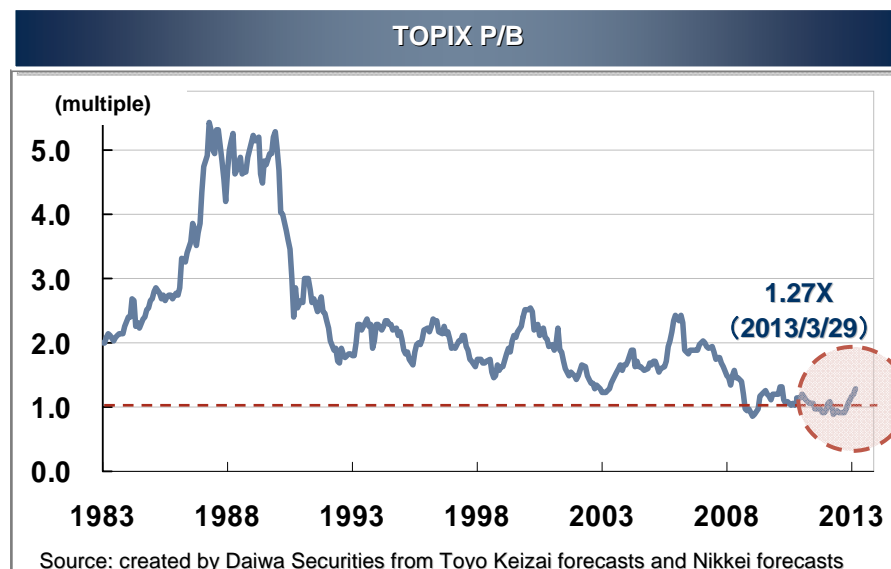
**Evolve the combined securities-
banking business model**
~Full function within the Group to lead
transition from savings to investments~

**Strengthen the asset management
business**
~"Daiwa for Investment Management"~

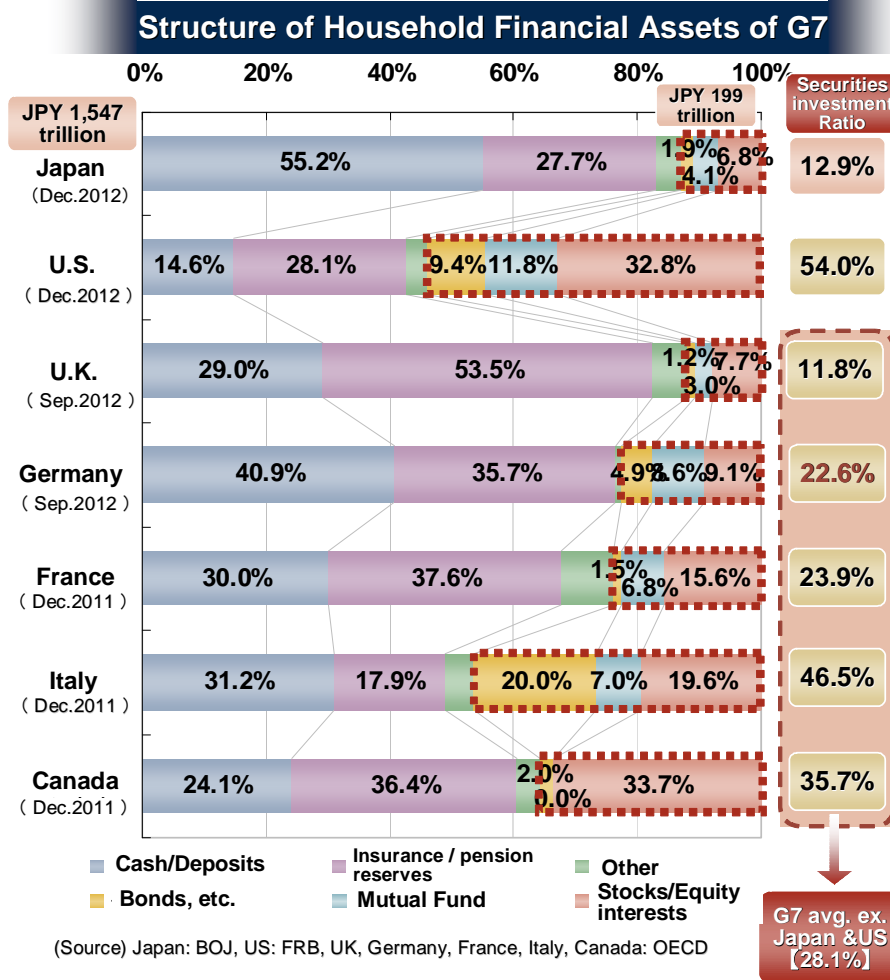
**Strengthen inheritance
consulting services**
~"Daiwa for Inheritance Consulting"~

Raise the standing of the Daiwa Securities Group in the financial world and expand our customer base

Correction of Market Outlier



If securities investment ratio rises to the level of major developed countries - *about JPY 150-230 trillion*



1 If securities investment ratio rises to the level of G7 average excluding Japan & US

JPY 1,547 trillion x (28.1% – 12.9%)

JPY 236 trillion room for expansion

2 If securities investment ratio rises to the level of Germany

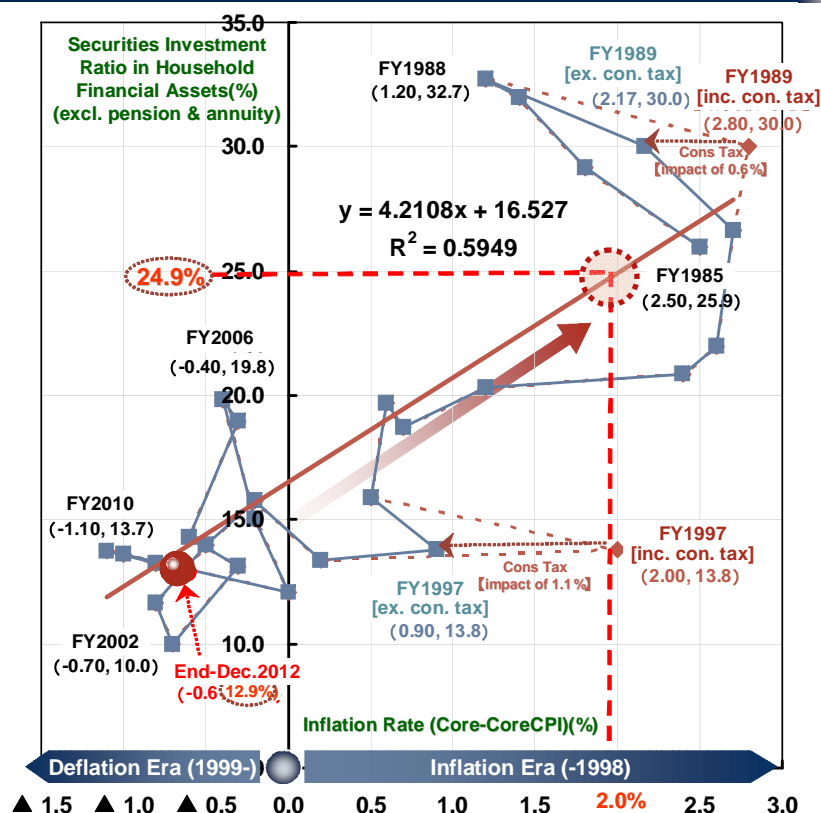
JPY 1,547 trillion x (22.6% – 12.9%)

JPY 151 trillion room for expansion

If inflation rate rises up to 2%
- about JPY 186 trillion

To the era of
“Japanese Great Rotation”

Inflation Rate* and Sec. Ration in Household Financial Assets*
(from the end of FY1985 to the latest (End-Dec.2012)): annual results, quarterly for the latest period



* Inflation rates are based on annual Core-Core CPI (composite indicator excluding foods [other than alcoholic beverage] and energy)
* Inflation rates do not reflect the influence of introduction and increase of consumption tax in FY1989 and FY1997 respectively
(Source) Daiwa Securities based on data of QUICK etc.

- Since 1985, **inflation rate* and securities investment ratio in household financial assets are positively related at a certain level.**

* Inflation rate are based on annual Core-Core CPI (composite indicator excluding foods [other than alcoholic beverage] and energy)
* Inflation rate do not reflect the influence of introduction and increase of consumption tax in FY1989 and FY1997 respectively

- Securities investment ratio in household financial assets **could rise up to 24.9%.**

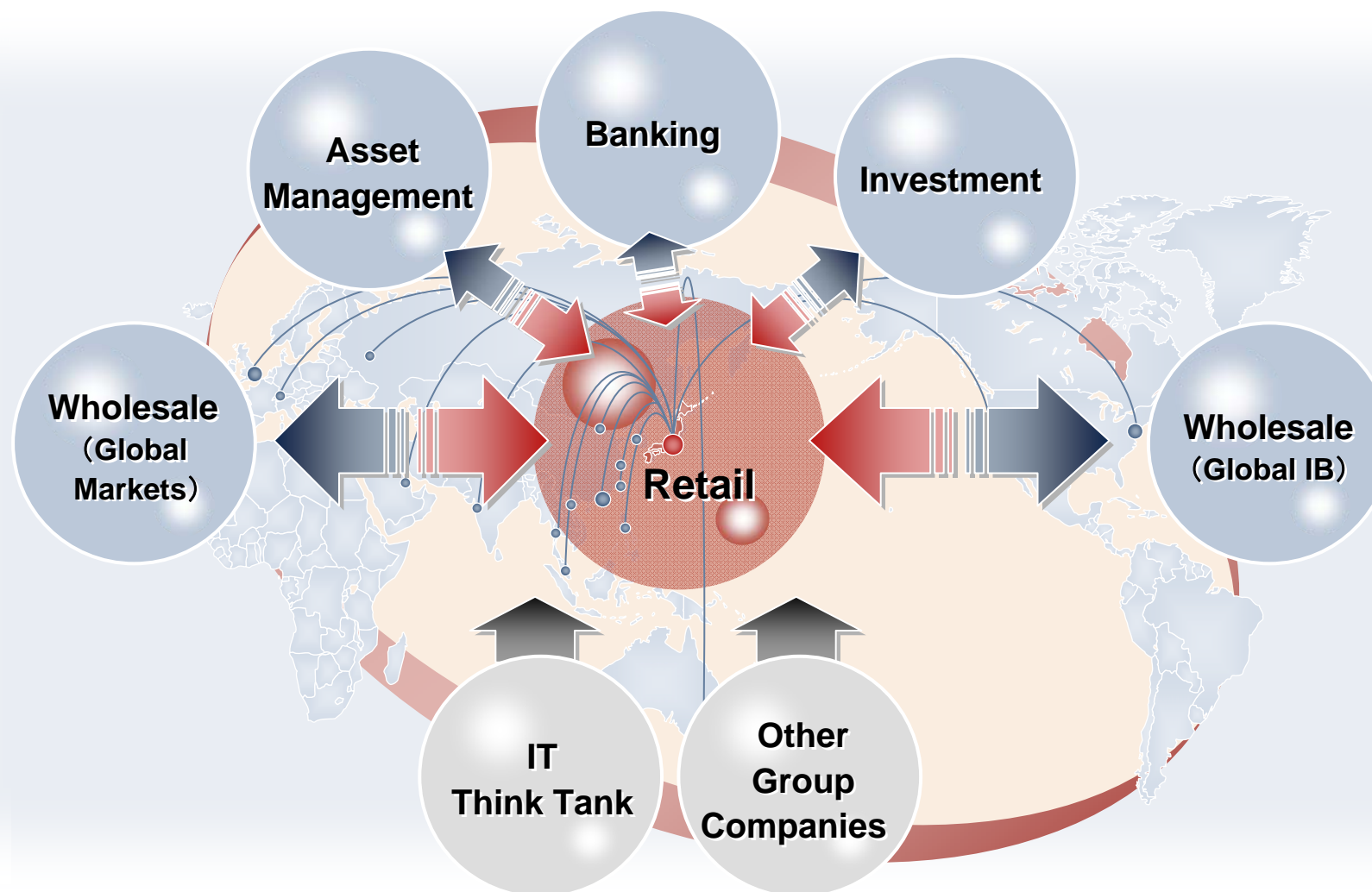
3 If inflation rate rises up to 2%

JPY 1,547 trillion x (24.9% – 12.9%)

JPY 186 trillion room for expansion

Accelerating the shift from “Savings to Investments” with the entire Group’s resources

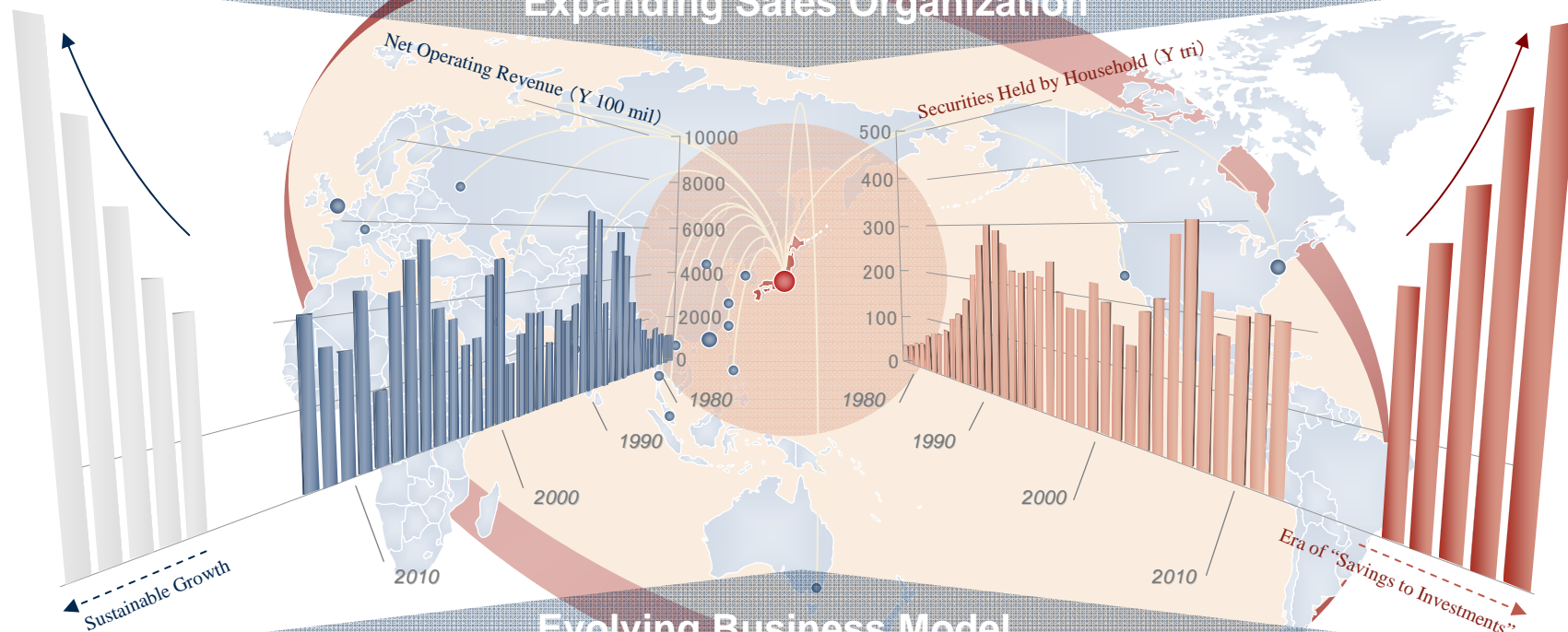
- The Group will accelerate the shift from “Savings to Investments”, enhancing the cooperation of Divisions operating globally and positioning Retail Division as center front.



Main measures of the Retail Division

- 1 Reinforcing personnel of front division**
Increasing head counts of branches and call centers
- 2 Expanding branch networks**
Rapidly opening sales offices
- 3 Active appointment of female employees**
Doubling female managers
- 4 IT investment for operational efficiency**
Pursuing operational efficiency through renewing call center infrastructure, and Strengthening consulting capability by introducing PC tablets

Expanding Sales Organization



Evolving Business Model

- 1 Evolve a unique business model creating synergy between securities and banking service**
Improving service quality of “Premium Service” designed for major clients
- 2 Strengthening inheritance related consulting function**
Expanding inheritance related services such as “Family Plus” and professional personnel
- 3 Proactively focusing on NISA (Japanese ISA)**
Reaching out to new client segments by utilizing Daiwa Next Bank as a gateway



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