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**Autumn 2009**

# **Daiwa Securities Group Business Strategy**

**大和証券グループ本社**

**Daiwa Securities Group Inc.**

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# Investment Highlight

## Management Target

- Consolidated ordinary income: JPY 200bil or higher
- Consolidated ROE: 10% or higher
- Market Capitalization: Within top 40 in Japan

### Retail

Ordinary Income  
JPY 120bil

- Sales expansion and net increase of investment trust
- Enhance services to active investors
- Cost reduction

### Wholesale & Investment

Ordinary Income  
JPY 60bil

- Intensive allocation of management resources to Asia business
  - Regard Asia as a core market
- Expand financial institutions customer base, utilizing the advantage of independent broker status

### Asset Management

Ordinary Income  
JPY 20bil

- Maintain industry top position in net cash inflow
- Expand real estate asset management business

# Effect of Dissolution of JV with SMFG

## Faster decision making process in human and capital resources allocation among the Group companies

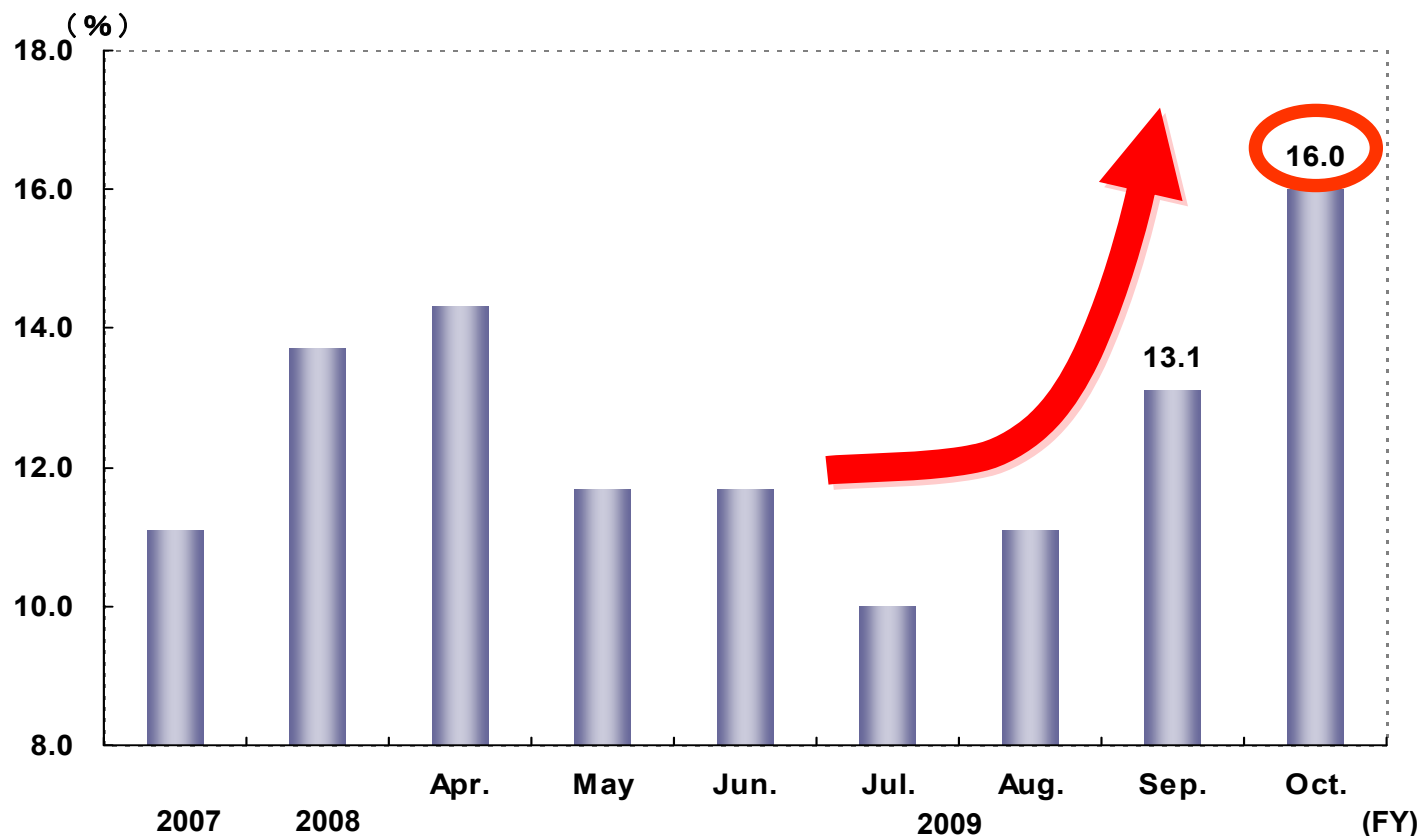
- Group-wide management process has improved by the dissolution of JV.
- Strategic and flexible allocation of human and capital resources among the Group companies has become possible.
  - ✓ Upgrade the Hong Kong subsidiary to the “second head quarters” status to strengthen wholesale business in Asia.
  - ✓ Daiwa Securities America is scheduled to become the subsidiary of Daiwa Securities Capital Markets (wholesale subsidiary).

## Dissolution of JV has positive effect on wholesale operations

- Daiwa Securities SMBC’s stock trade market share by financial institutions in Japan (TSE, OSE and NSE) has jumped up.  
( Please see next page.)
- Similar effect can be expected in finance deals of financial institutions and corporate clients.

# Effect of Dissolution of JV with SMFG

Daiwa Securities SMBC's market share in stock trading by financial institutions in major three markets in Japan (TSE, OSE and NSE)



	2007	2008	2009 Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.
Share (%)	11.1	13.7	14.3	11.7	11.7	10.0	11.1	13.1	16.0
Growth rate (%)	-	23.4	4.4	▲18.2	0.0	▲14.5	11.0	18.0	22.1

# Effect of Dissolution of JV with SMFG

**SG&A expense including personnel costs are expected to decline by more than JPY 4bil with dispatched staff returning to SMFG**

- Vacancy was filled by the Group's personnel re-allocation and organizational structure has been quickly rebuilt. Promotion of younger employees to vacant positions has enhanced organizational capacity and pushed up employees' motivation.
- There is no impact on overseas business.  
(Staff returned to SMFG was 12 out of 2,021 total overseas employees as of the end of Sep. 09)

**Solid financial base and ample liquidity have been maintained for the future business expansion**

- Consolidated total owners' equity: JPY 914.9bil (end of Sep. 09)
- Total high-liquidity portfolio: JPY 2,078.5bil (end of Sep. 09)

**Daiwa Securities SMBC has been assigned "A- (negative) long-term foreign and local currency Issuer Default Rating" by Fitch Ratings**

(Summary of the rating report released on 11/9/09 by Fitch Ratings on Daiwa Securities SMBC)

- "Daiwa Securities Group Inc. (the parent company) has strong capitalization"
- "Daiwa Securities SMBC's liquidity position is regarded as comfortable"
- "Quality of Daiwa Securities Group Inc.'s capital is high with no preferred share included"
- "Daiwa Securities SMBC's regulatory capital adequacy ratio was at a high level of 380.7% (Sep.09)"



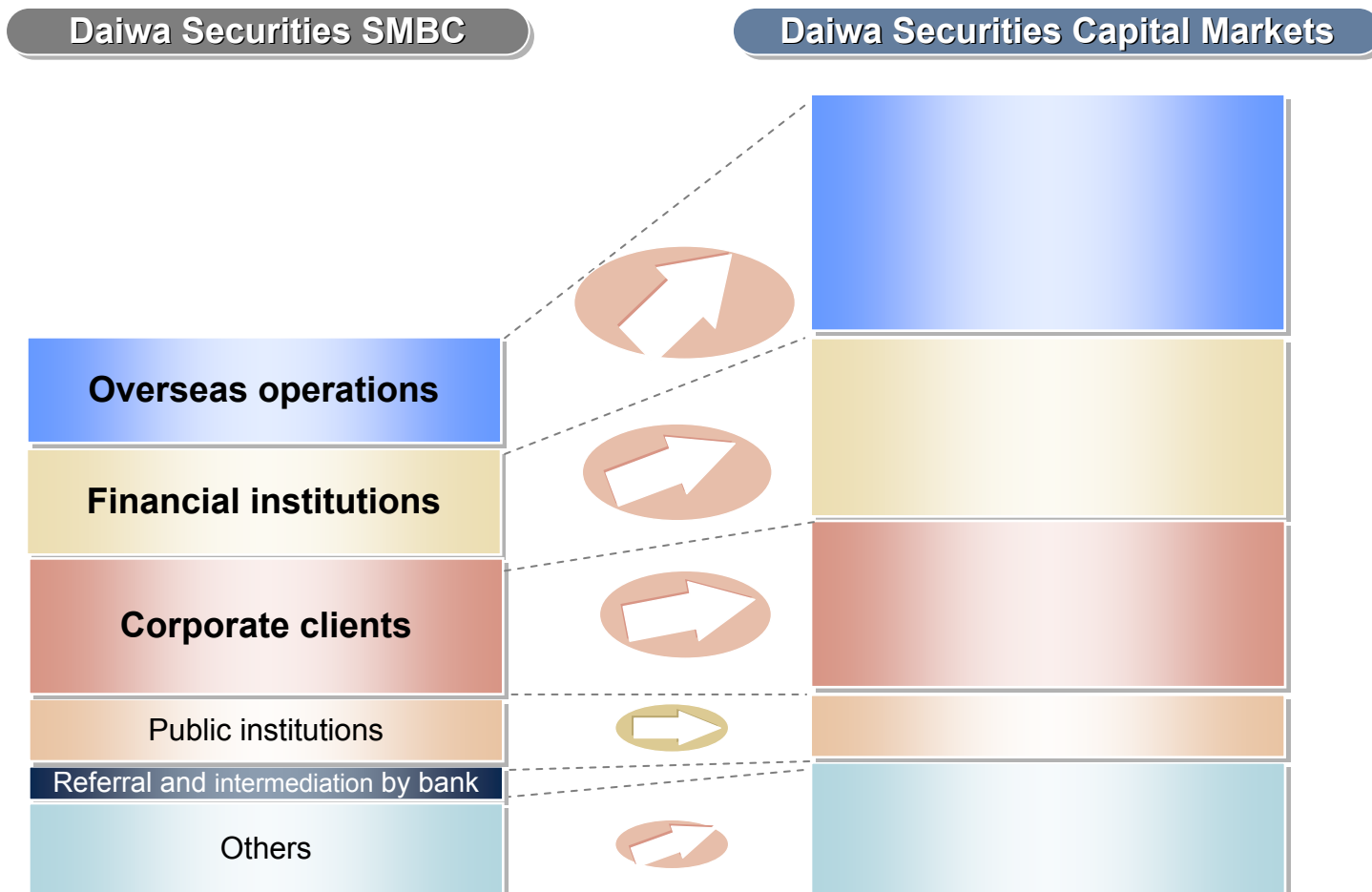
# Wholesale & Investment



# Wholesale Revenue Target Breakdown

- Expand customer base by utilizing the advantage of independent status
- Expand overseas revenues by strengthening Asian business

## Revenue breakdown image



# Wholesale Structural Change for Business Expansion in Asia

## Upgrade the Hong Kong subsidiary to “Second head quarters” status to strength Asian operations

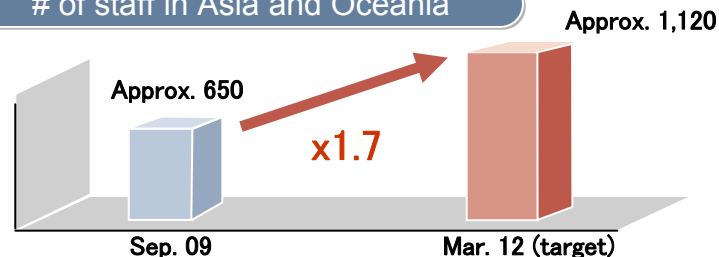
- Assign 4 senior executives led by the representative deputy president (currently 1 senior officer)
- Transfer the part of headquarters functions such as management planning from Tokyo to Hong Kong
- Station global head of equity sales and co-global head of IB division in Hong Kong

### Increase personnel

- Market division: Increase approx. 300 staff in Asian equity and derivative business.
- IB division: Increase approx. 100 staff in underwriting and M&A business.

\* Increase approx. 70 staff in middle and back office

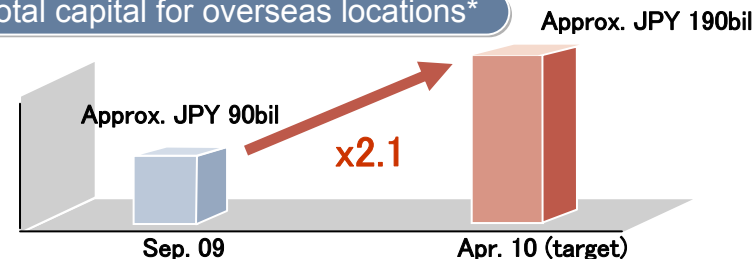
# of staff in Asia and Oceania



### Strengthen capital

- Allocate approx. JPY 100bil capital into overseas locations

Total capital for overseas locations\*

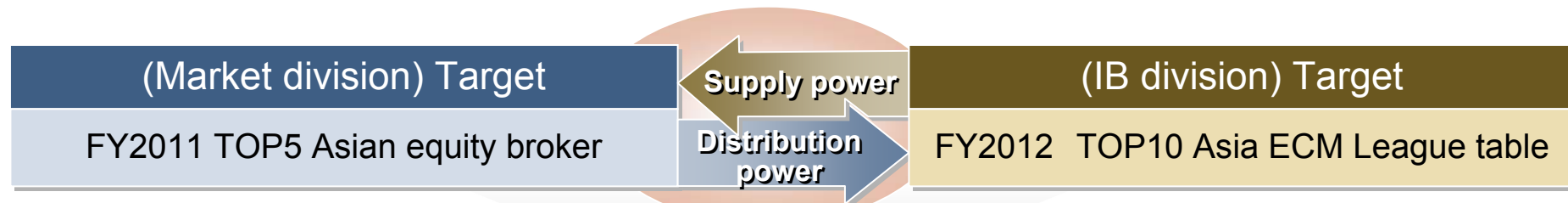


## Consider to set up the Asia Advisory Board

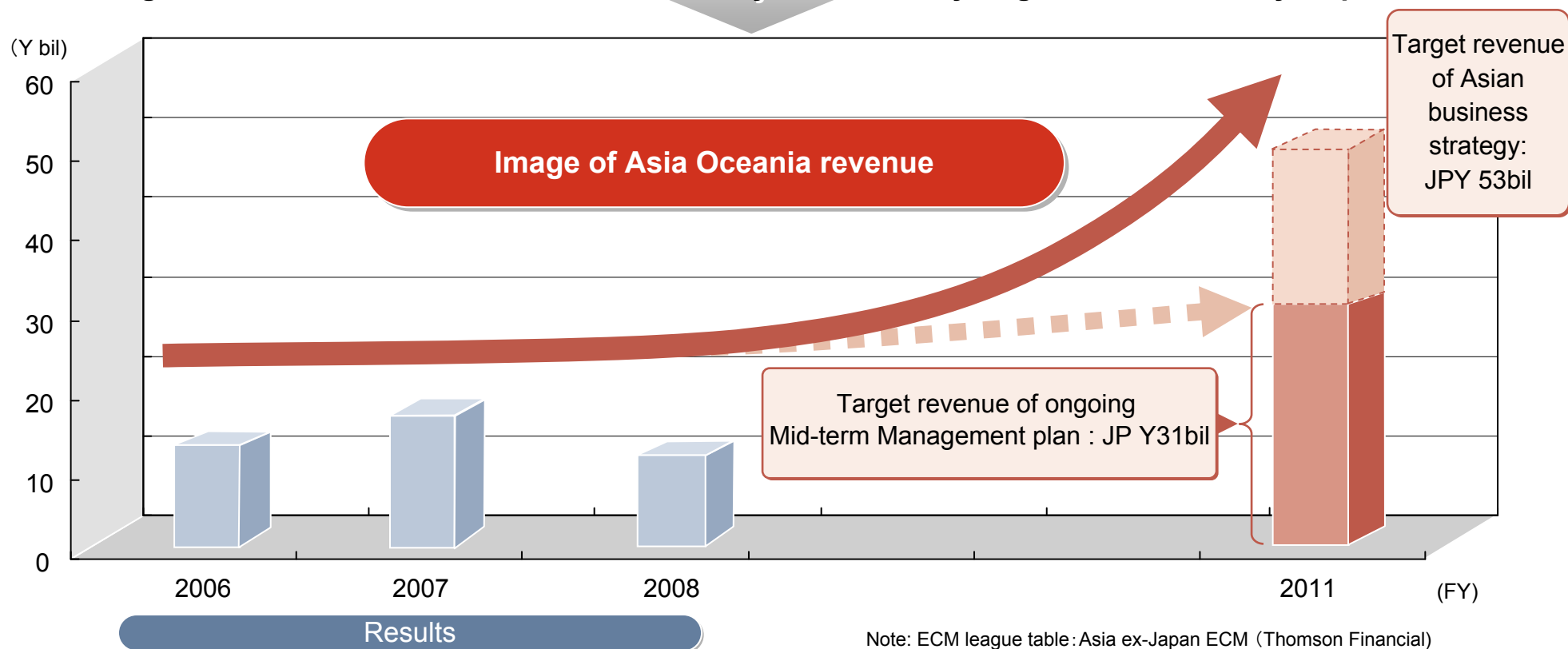
- Invite local influential people as our advisors
  - ➡ Obtain advice and suggestion for our Asian strategies

\* Includes only overseas business operated by Daiwa Securities Capital Markets





Strengthen Market and IB division simultaneously to harness synergetic effect as early as possible



# Wholesale & Investment Daiwa Securities SMBC Principal Investments Exiting Sanyo Electric Investment

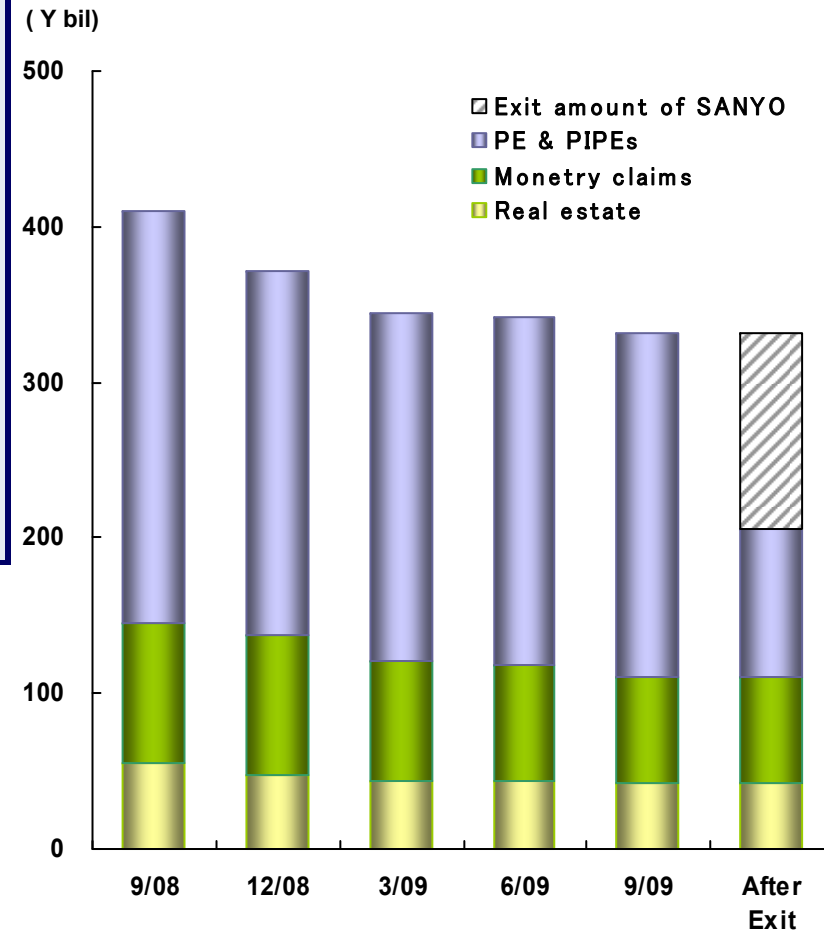
## Summary of SANYO Electric Co., Ltd. TOB

- Tender offer period: November 5 ~ December 7, 2009  
(22 business days)
- Tender offer price: Common shares: JPY 131 per share  
Class A preferred shares: JPY 1,310 per share  
Class B preferred shares: JPY 1,310 per share
- Tender offer shares: All of the Class A preferred shares  
(89,804,900 shares)  
Part of the Class B preferred shares  
(64,134,300 shares)
- Tender offer settlement commencement date:  
December 11, 2009
- Remaining shares not applied for tender offer:  
Common shares: 246,323,000 shares

## Capital gain by tender offer

- Capital gain: Approx. JPY 92.6bil  
(Sales amount: approx. JPY 201.6bil)

## (Reference) Daiwa Securities SMBC PI Investment Amount



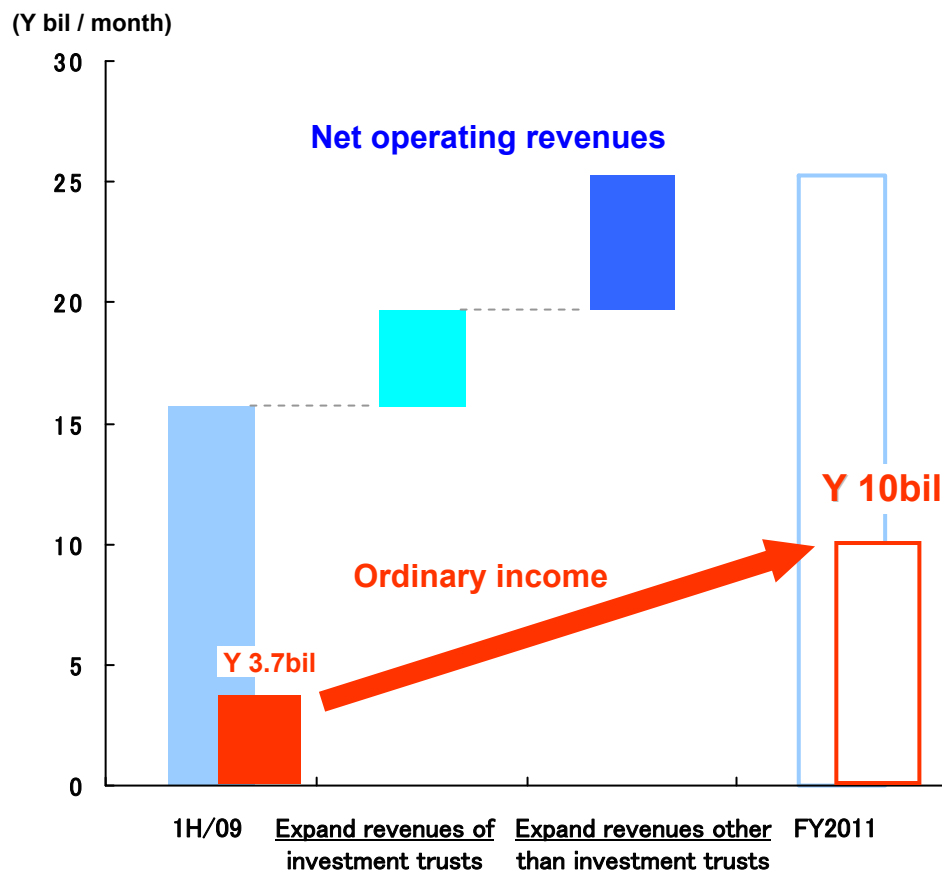


# Retail



## Achieve Ordinary Income of JPY 120bil (JPY 10bil per month) in FY2011

### Steps to ordinary income of JPY 10bil per month



#### “Daiwa Consulting” Course

- Expand sales of equity investment trusts and increase assets under custody and expand sales of equity investment trusts
- Strengthen equity and bond revenues. Core of our competitiveness
- Increase contracts and balance of wrap accounts and pension insurance products

#### “Daiwa Direct” Course

- Enhance services to meet active investors’ needs

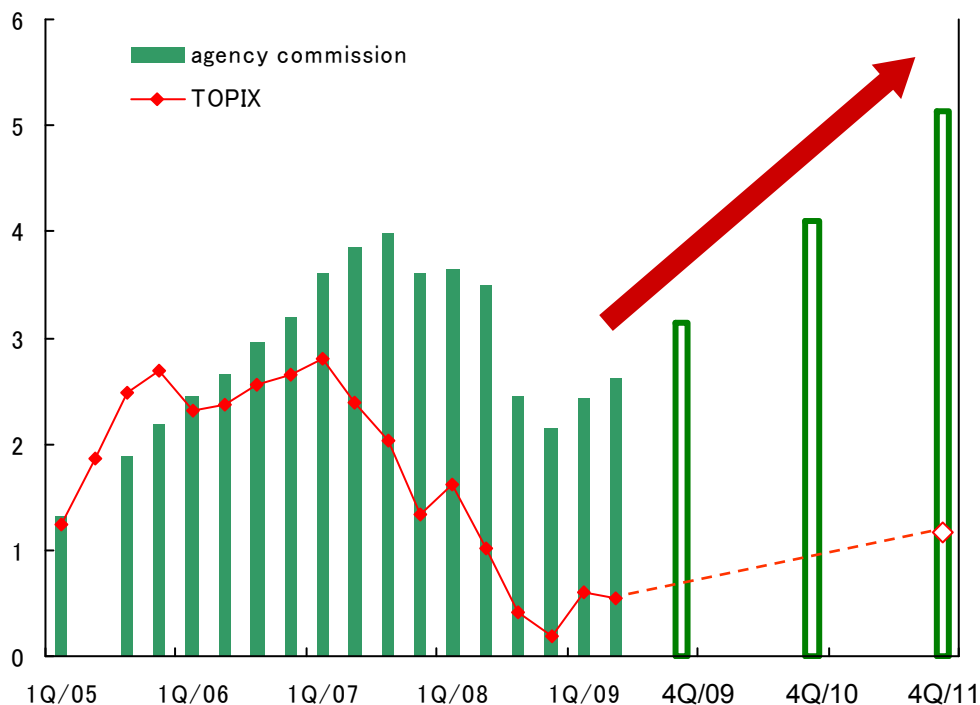
#### Cost

- Reduce cost through IT investment

**Agency commission ⇒ JPY 3.55bil per month (Mar. 2012)**

## Agency commission trend

(Y bil / month)

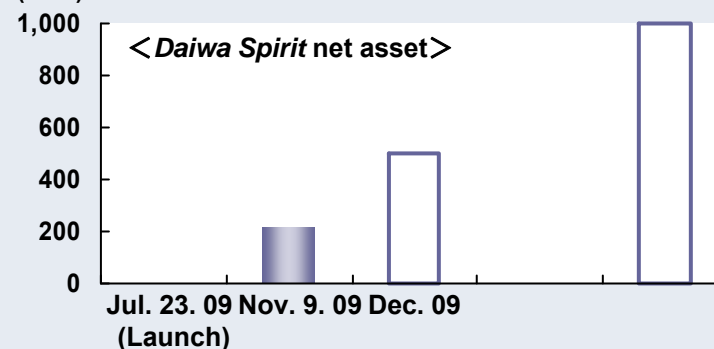


## Sales expansion and net increase of equity investment trusts

### ■ Grow new flagship fund

✓ Daiwa Foreign Bond Fund “*Daiwa Spirit*”

(Y bil)



### ■ Launch timely new funds responding to change in environment and market's trend

✓ Emerging country fund  
(Brazil, China, India)

\* TOPIX assumption as of the end of Mar. 12: 1,150 pt  
(Assumption in the mid-term management plan)

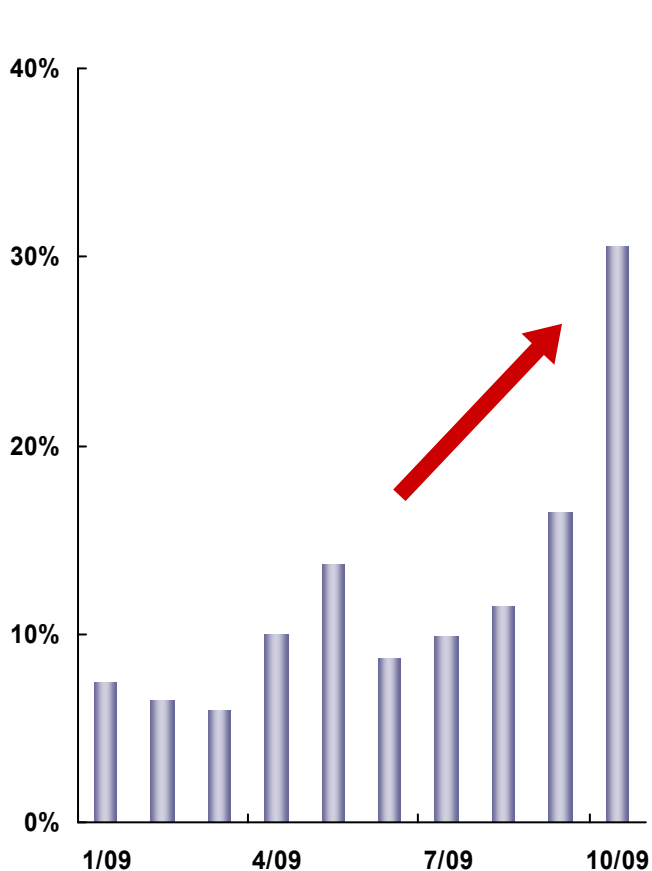
# Daiwa Securities “Daiwa Consulting” Course ②

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## Equity

- Increase trading volume by expanding sales of foreign equity

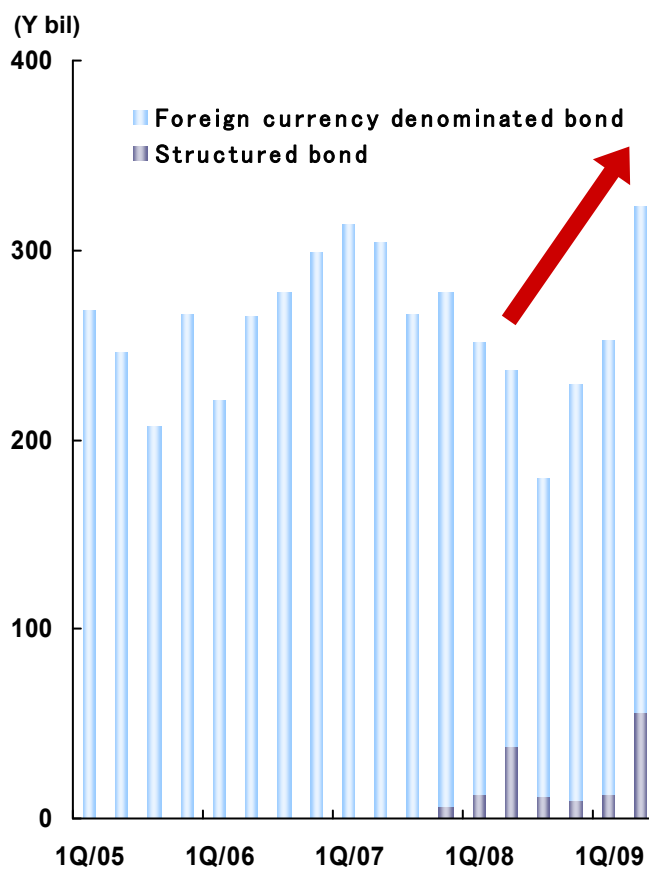
Foreign equity proportion  
in total equity revenues



## Bond

- Attract new money to foreign bonds and structured bonds

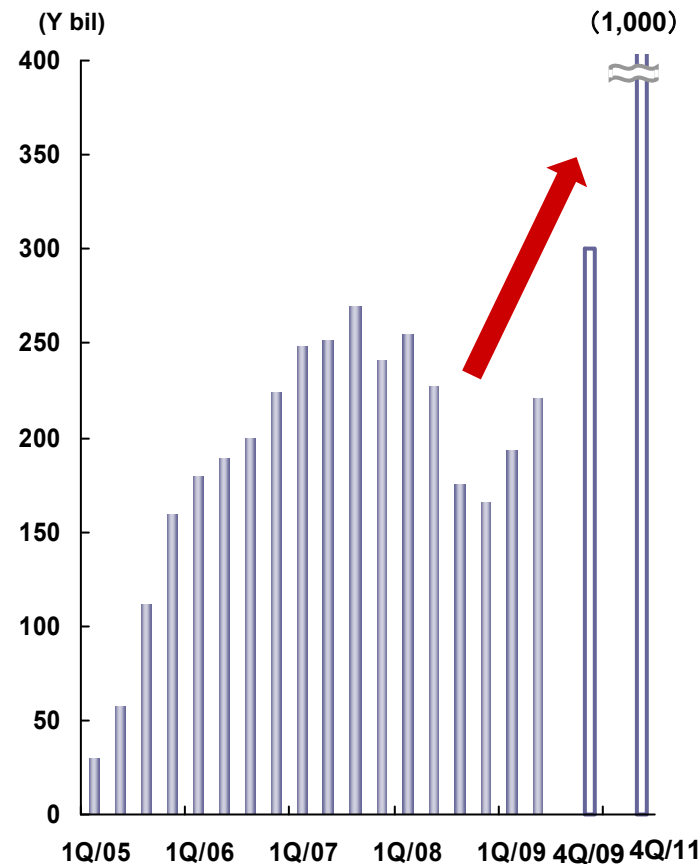
Sales of foreign currency bonds  
and structured bonds



## Wrap account

- Keep No.1 industry position and seek further expansion

Wrap account contract  
assets under management

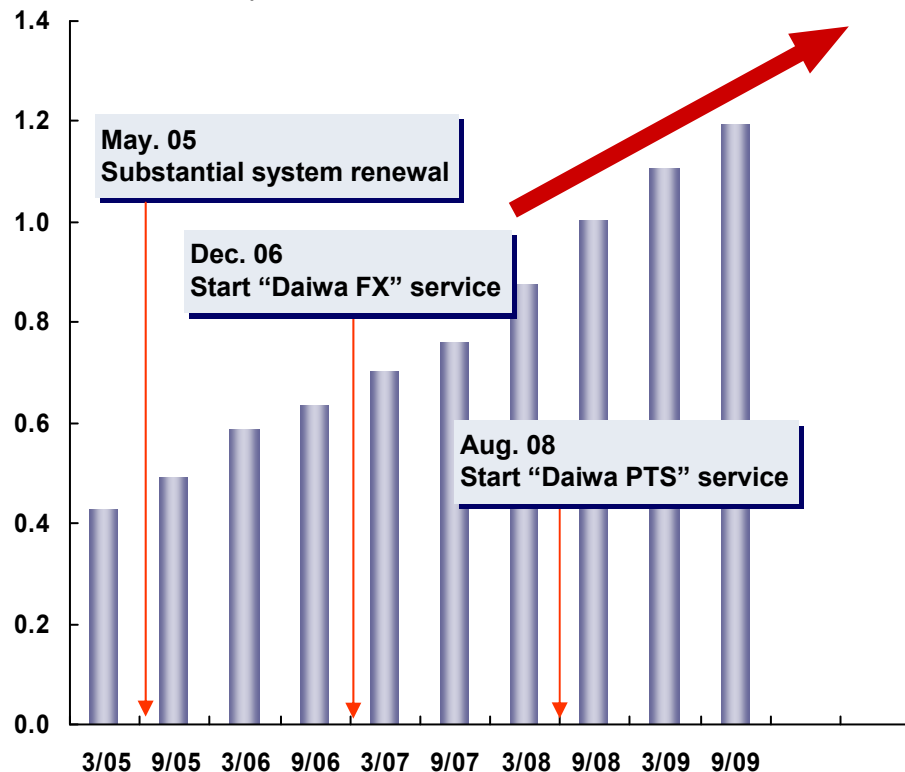


# Retail “Daiwa Direct” Course ①

Expand business based on one of the largest customer base in Japan

“Daiwa Direct” account trend

(# of accounts: million)

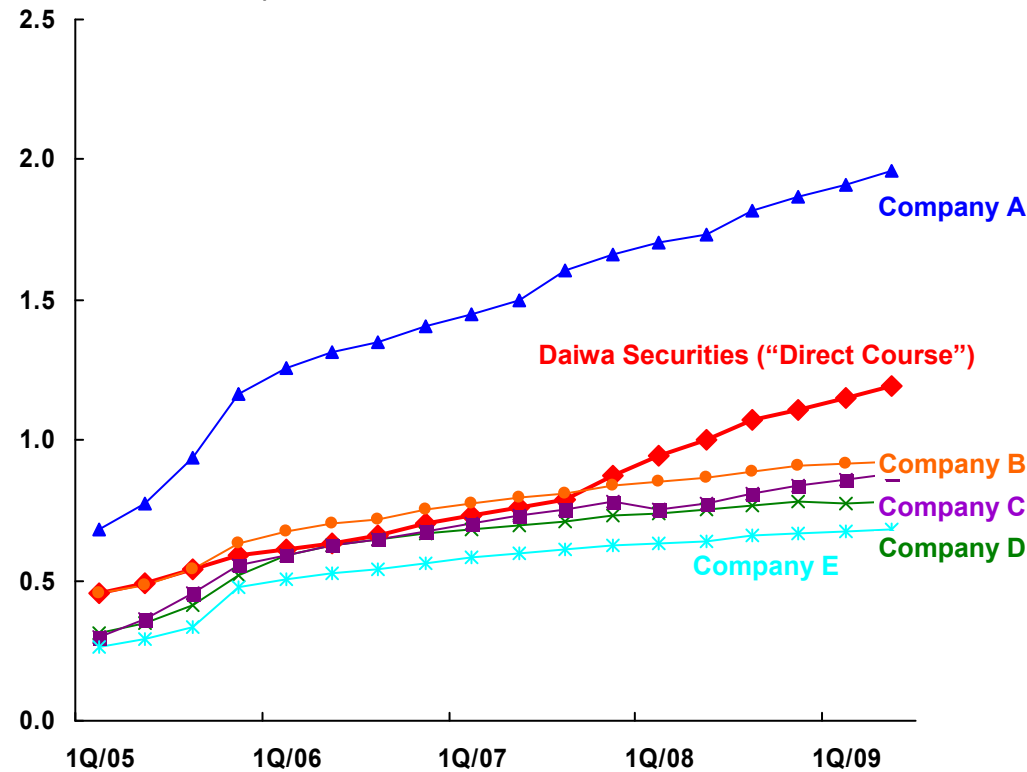


Expand product line-up and improve usability

Offer more  
attractive line-up

Comparison with other online brokers  
in # of accounts

(# of accounts: million)



## Expand service contents to attract active investors

### Start “ACTIVELINE” service

“ACTIVELINE” is a new service line-up by Daiwa Securities to promote more active investment style with products such as high-speed internet trading, enhanced user-friendliness, and low trading cost.

- Start “Daiwa CFD ” (Contract For Difference) (Sep. 10)
  - ✓ First entry in Japan as a major securities company
  - ✓ Leveraging the strength of the major securities firm
    - ⇒ Create and lead more secure and attractive market
  - ✓ Currently offering Nikkei 225 index futures CFD
    - ⇒ Plan to expand products line-up including single stock CFD
- “Daiwa FX” (OTC FX margin trade) (since Dec. 06)
- Start “Daiwa 365FX” (FX margin trade on exchange) (Nov. 09)
  - ✓ Ample choice of currency pair trades
  - ✓ Offering client choice between “Daiwa FX” (OTC FX) and “Daiwa 365FX” (FX on Change) depending on client needs

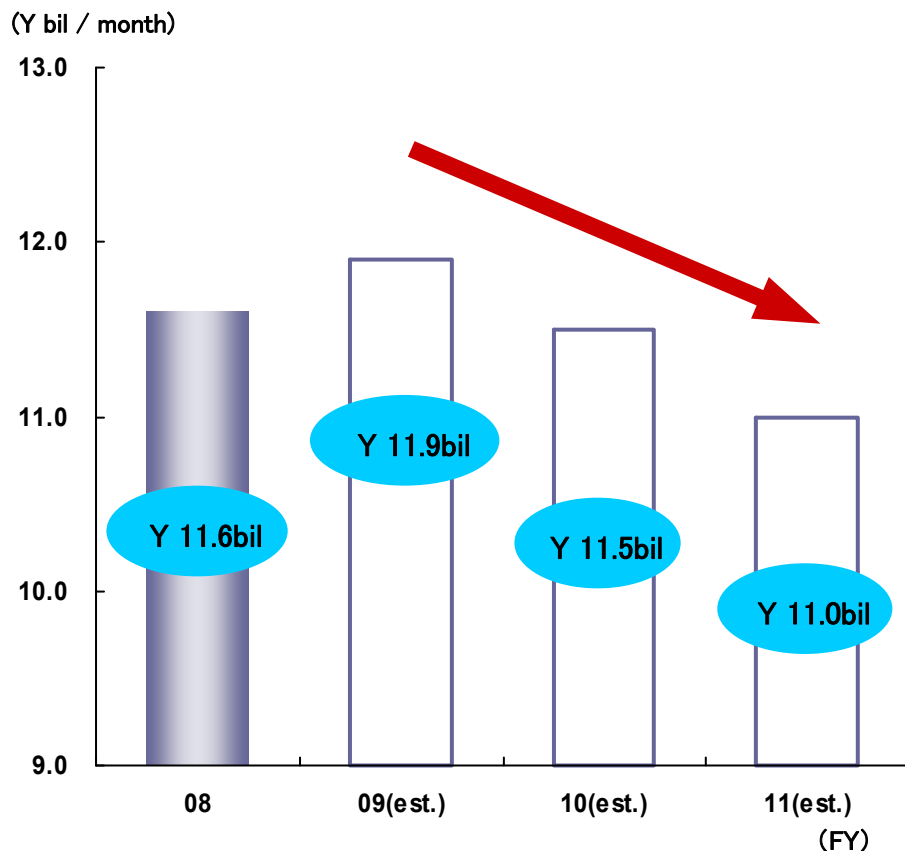




# Retail Evolution to IT Enhancing Securities Company

## Strengthen marketing capability and cost reduction by IT

### Projection on fixed-type costs

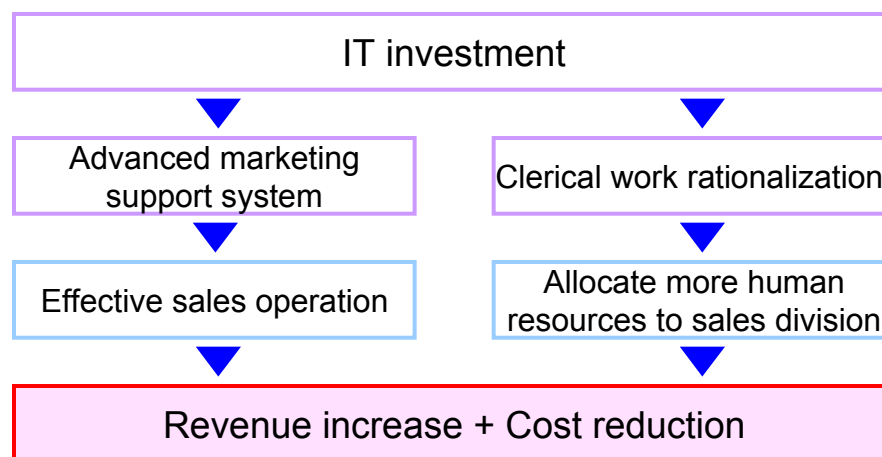


### 【Past approaches】

- System improvement
- Document computerization
- Intra-company distribution rationalization etc.

### 【Future approaches】

- Minimize manual clerical process by establishing electric process flow
- Allocate more human resources to sales division etc.





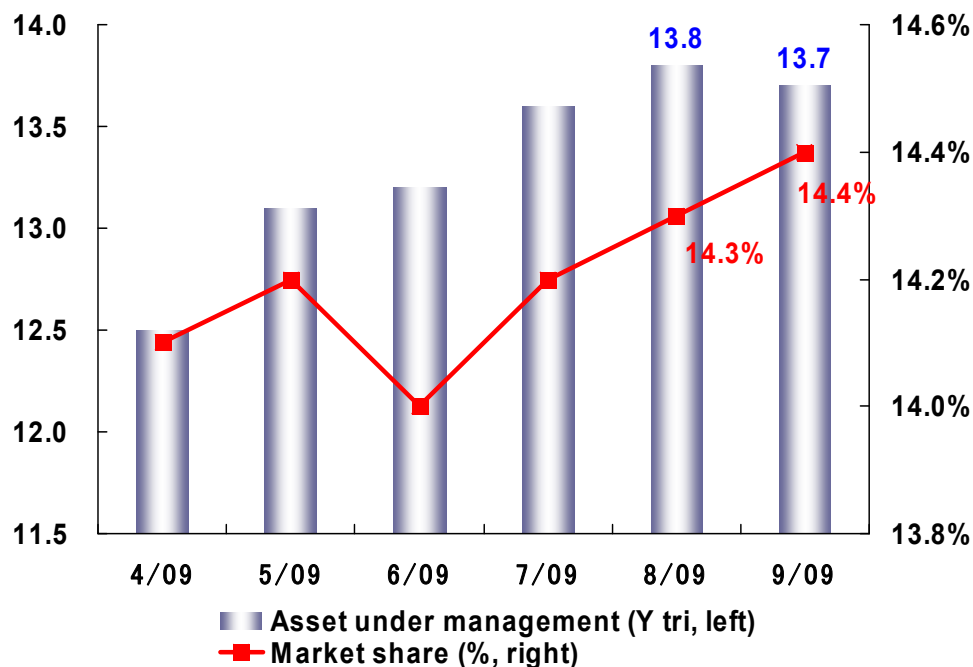
# Asset Management



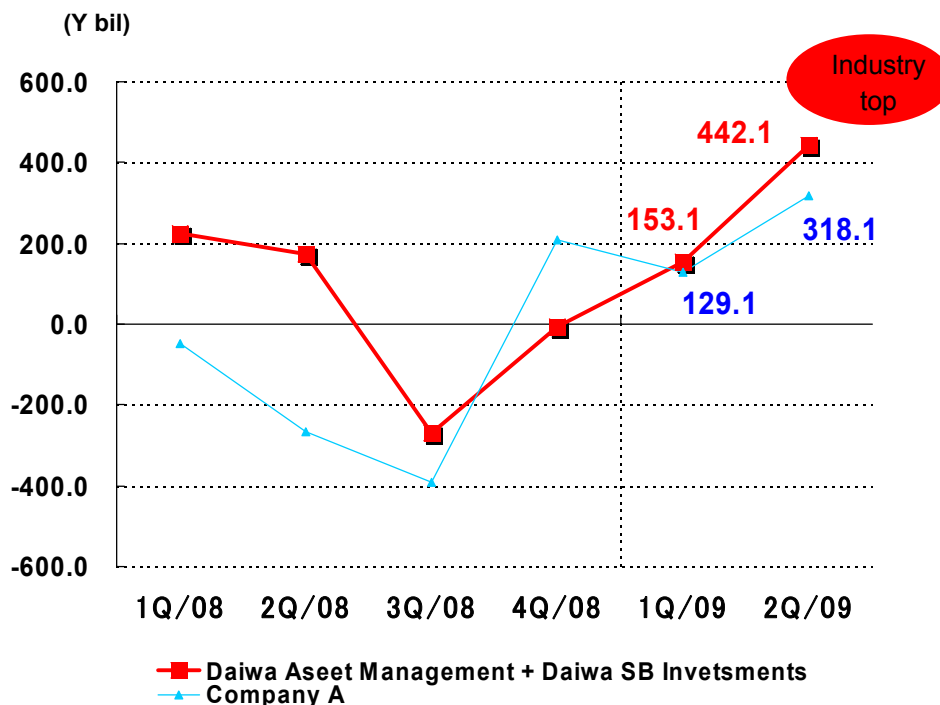
# Asset Management Rise in AUM Market share

- Quarterly market share of AUM in equity investment trusts continued to rise as sales expanded
- Size of net inflow into investment trusts was No.1 in industry\* as cash inflow continued

Asset under management and share of AUM  
in equity investment trust



Net inflow into investment trusts



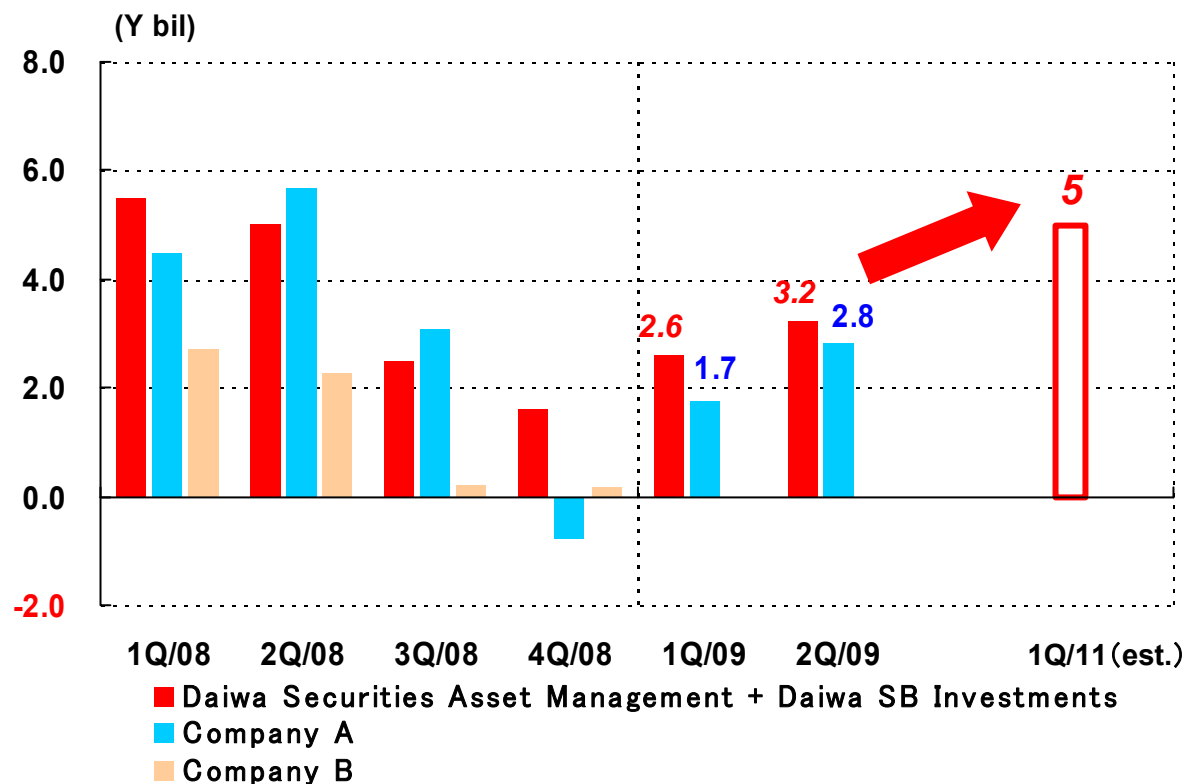
\* Daiwa Asset Management and Daiwa SB Investments combined

Source: The Investment and Trust Association

# Asset Management

## Profitability in Asset Management

### Ordinary income of two asset management companies



Note: Data of Company B after 2009 is not disclosed

#### 【Mid-term Management Plan】

Asset Management  
Ordinary Income : JPY 20bil

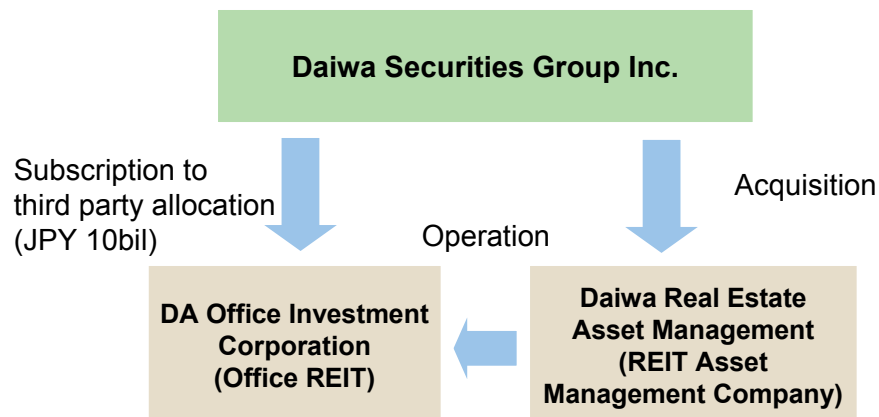
Breakdown  
Daiwa Asset Management :  
JPY 15bil  
Daiwa SB Investments :  
JPY 5bil

+

Daiwa Real Estate  
Asset Management :  
JPY 2bil

# Asset Management Expanding J-REIT Asset Management Business

## Daiwa Securities Group Acquired J-REIT Asset Management Company



- Daiwa Securities Group Inc. acquired all outstanding shares of the asset management company for DA Office Investment Corporation (DAO) on July 1<sup>st</sup> 2009.
- Subscription of third party allocation issue by DAO (total issuing value of JPY 10bil)
- Changed new business name of asset management company to “Daiwa Real Estate Asset Management”

## Improvement after the subsidiary wholly by Daiwa Securities Group

### Financial Strength

- Refinanced JP Y13.9bil by Domestic 5 mega banks including SMBC, despite difficult conditions to get new loan to REIT in general
- Credit rating upgraded to A (R&I) after the refinance
- Build long-term relationship with financial institutions and improved financing condition

### Sponsor Support

- Acquire information on properties and offices through Daiwa Securities Group’s network
- Enhance investor relations activities
- Strengthen internal compliance and management structure
- Increase employees and support human resource

### —Growth Strategy—

- Cut down funding cost by credit enhancement
- Acquire funds for business growth by utilizing Daiwa Group’s extensive network of investors and financial institutions
- Expand asset under management by acquiring properties utilizing Group’s real estate information
- Aim rapid expansion of asset under management by catching REIT M&A opportunities amid industry reorganization



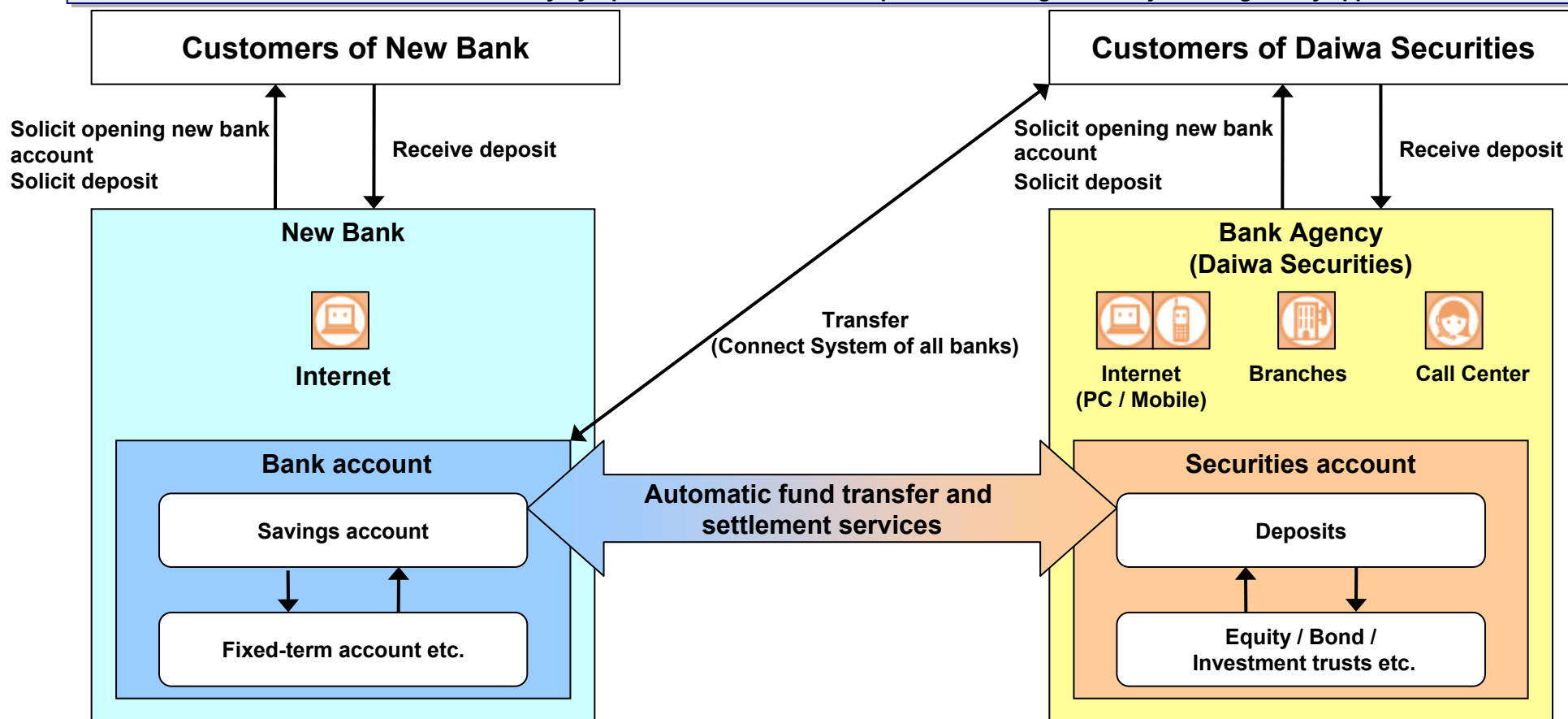
# APPENDIX



# Establishment of Internet Bank

To become “the main financial group for building customer assets”

- ◆ Reason and purpose for entering banking operations:
  - Offer our customers the deposit account services to enhance convenience in wealth management
  - Offer comprehensive financial products through “one-stop channel”
- ◆ Service contents of the banking operation:
  - Offer deposit products, automatic fund transfer and settlement services between bank deposit account and Daiwa Securities account
- ◆ Time schedule:
  - Plan to establish a subsidiary by April 2010 and commence operations during 2011 subject to regulatory approval



# Daiwa Securities Group Inc. Issuance of new shares

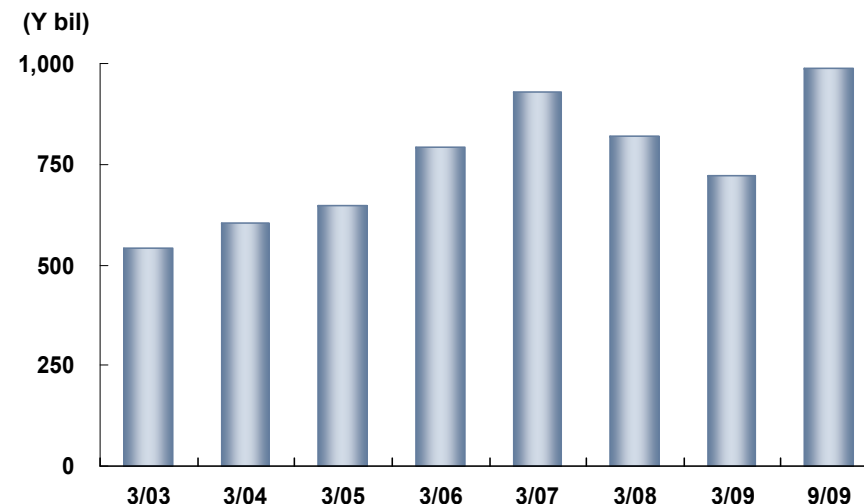
## Outline

<b>Number of Shares offered</b>	402.5mil shares
<b>Total Offering amount</b>	JPY 207.6bil
<b>Subscription Period</b>	July 9 ~ July 10, 2009
<b>Issue Price</b>	JPY 516 (3.01% discount)
<b>Payment Date</b>	Issuance of new shares: July 15, 2009 Offering O.A.: August 11, 2009
<b>Total Amount to be Paid</b>	JPY 198.2bil
<b>Use of Proceeds</b>	JPY 48bil to fund business JPY 125bil to invest in subsidiaries

## Changes in Financial Statements

	Jun. 2009	Sep. 2009
<b>Capital</b>	JPY 178.3bil	JPY 247.3bil
<b>Net assets</b>	JPY 1,107.8bil	JPY 1,249.9bil
<b>Shareholders' equity</b>	JP Y824.1bil	JPY 988.3bil
<b>Common shares outstanding</b>	1,404,664,000 shares	1,749,307,000 shares

## Shareholders' Equity



Note: From March 2007,  
Shareholders' equity = owners' equity + valuation and translation adjustments



# Consolidated Financial Summary

(Y mil)	FY2009		% Change vs 1Q FY09	FY2009	FY2008	% Change vs 1H FY08	FY2008
	2Q	1Q		1H	1H		
Operating revenues	105,631	132,119	-20.0%	237,750	296,935	-19.9%	413,936
Net operating revenues	87,137	107,364	-18.8%	194,502	151,123	28.7%	199,544
SG&A	85,569	86,552	-1.1%	172,121	177,739	-3.2%	343,270
Ordinary income	2,037	22,827	-91.1%	24,865	-23,203	—	-141,150
Net income	1,991	17,870	-88.9%	19,861	-14,637	—	-85,039
Total assets	16,129,373	15,309,320		16,129,373	16,564,070		14,182,579
Net assets	1,249,909	1,107,811		1,249,909	1,017,118		952,329
Shareholders' equity*	988,324	824,109		988,324	774,427		720,272
EPS (Y)	1.15	13.27		12.89	-10.87		-63.16
BPS (Y)	565.26	612.12		565.26	575.28		534.99
ROE (Annualized)	0.9%	9.3%		4.6%	—		—

\* Shareholders' equity = owners' equity + valuation and translation adjustments

ROE (Annualized)	2Q	1H
Daiwa Securities	10.7%	10.7%
Daiwa Securities SMBC (consolidated)	----	3.3%

## FY09 Interim Dividend

**FY09 Interim Dividend per Share: 5 yen**



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