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Daiwa Securities Group Management Strategy

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Daiwa Securities Group Inc.

Daiwa Securities Group

Notice

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I . Financial Summary

Daiwa Securities Group

Daiwa Securities Group FY2010 Consolidated Financial Summary

- Ordinary income was a loss of Y 32.6bil and net income was a loss of Y 37.3bil facing the task of profit structure

Consolidated Results

(Y mil)	FY2009	FY2010	% Change vs FY09
Operating revenues	537,915	403,042	-25.1%
Net operating revenues	458,105	318,564	-30.5%
SG&A	362,844	363,919	0.3%
Ordinary income	102,917	-32,602	-
Net income	43,429	-37,331	-
Total assets	17,155,345	16,842,411	
Net assets	1,017,528	921,398	
Shareholders' equity*	927,163	833,932	
EPS (Y)	26.41	-21.90	
BPS (Y)	530.27	496.76	
ROE	5.3%	-	

* Shareholders' equity = owners' equity + accumulated other comprehensive income

Ordinary Income by Segments

(Y mil)	FY2009	FY2010	% Change vs FY09
Retail (*1)	40,475	41,866	3.4%
Global Markets (*2)	-14,126	-52,173	-
Global Investment Banking (*3)	9,274	-14,733	-
Asset Management (*4)	11,196	15,948	42.4%
Investment (*5)	66,243	-21,476	-
Others (*6)	-7,336	-8,140	-
Total before adjustment	105,727	-38,708	-
Adjustment	-2,809	6,106	-
Consolidate total	102,917	-32,602	-

■ Main companies for each segment are as follows:

(*1) Daiwa Securities, Hinode Securities (*2) Daiwa Securities Capital Markets (Global Markets Division)

(*3) Daiwa Securities Capital Markets (Global Investment Banking Division), Daiwa Corporate Advisory Partners, Sagent Advisors Inc.*

(*4) Daiwa Asset Management, Daiwa SB Investments*, Daiwa Real Estate Asset Management, Daiwa Fund Consulting

(*5) Daiwa PI Partners, Daiwa Securities SMBCPI, Daiwa Corporate Investment

(*6) Daiwa Securities Group Inc., Daiwa Securities Capital Markets (Financial Division and others), Daiwa Institute of Research HD,

Daiwa Institute of Research, Daiwa Institute of Research Business Innovation, Daiwa Securities Business Center, Daiwa Property, Daiwa Sanko

* Equity in earnings of affiliates is included in ordinary income.

FY2010 Earnings Highlights

- **Net operating revenues were Y 318.5bil, down 31% y/y**
Commissions were Y 218.6bil (▲14%), Net gain on trading was Y 92.4bil (▲17%),
Net gain on private equity and other securities was a loss of Y 17.2bil
- **SG&A was Y 363.9bil, up 0.3% y/y**
Fees and commission paid were Y 70.3bil (+14%), Personnel costs were Y 160.2bil (▲6%)
- **Ordinary income was a loss of Y 32.6bil and net income was a loss of Y 37.3bil**
- **Ordinary income in Retail and Asset Management increased**
- **Global Markets, Global Investment Banking and Investment posted ordinary loss**
- **Primary factors for loss in 4Q**
Influence of unstable market condition after the earthquake : approx. Y ▲18bil
Other specific factors : approx. Y ▲18bil

Ⅱ . Management's Vision

Daiwa Securities Group

Visions

① - Establishment of a Robust Business Structure

Establish profit structure which enables to maintain break-even regardless of stressful environments such as Lehman's fall

② - Path to Asia's Leading Financial Services Firm

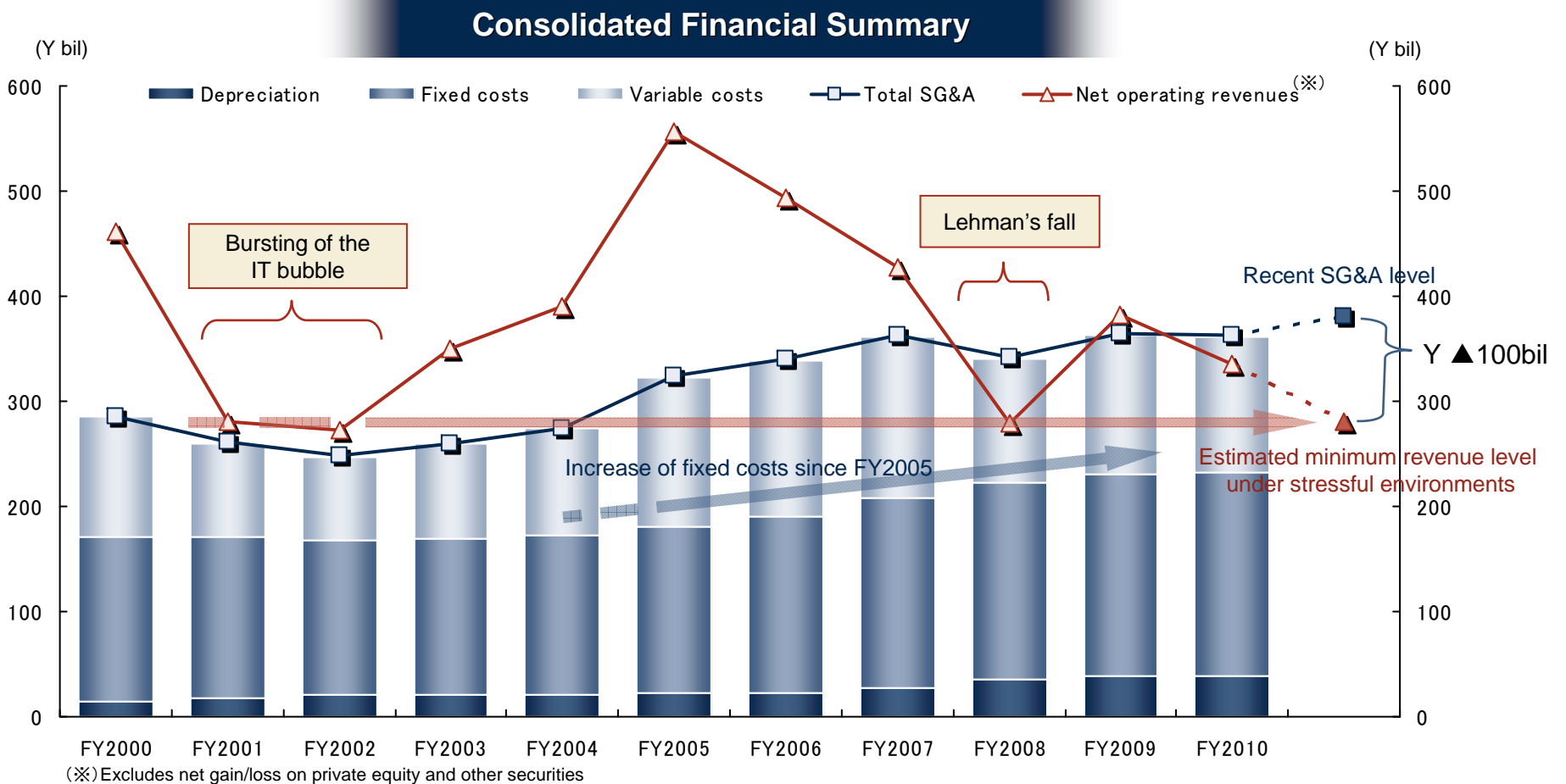
Achieve medium term growth by making Asia including Japan as our home market serving as a bridge between Japan and Asia's markets

Ⅲ. Establishment of a Robust Business Structure

Daiwa Securities Group

Profit Structure of Daiwa Securities Group

- Minimum net operating revenue under stressful environments is estimated around Y 280bil from the historical consolidated financial summary since FY2000
- On the other hand, present SG&A increased to around Y 380bil due to the increase of fixed costs
- Profit improvement of approx. Y 100bil is required for a robust business structure which enables to maintain break-even regardless of stressful environments



2 Pillars for Y100bil Profit Improvement

- Establish a robust business structure through stable revenue expansion of Y 60bil and Y 40bil profit improvement by administrative optimization

1st Pillar : Stable Revenue Expansion

- ✓ Asset based fee growth of Y 60bil by expanding client base by focusing on mutual fund and banking business

Measure①
Daiwa Next Bank
Expand deposit balance

Measure②
Daiwa Securities
Expand mutual fund asset

Measure③
Asset Management
Expand AUM

2nd Pillar : Administrative Optimization

- ✓ Y 40bil profit improvement through optimum personnel shift and reduction of SG&A

Measure①
Streamline headquarters operation and personnel shift to sales forces

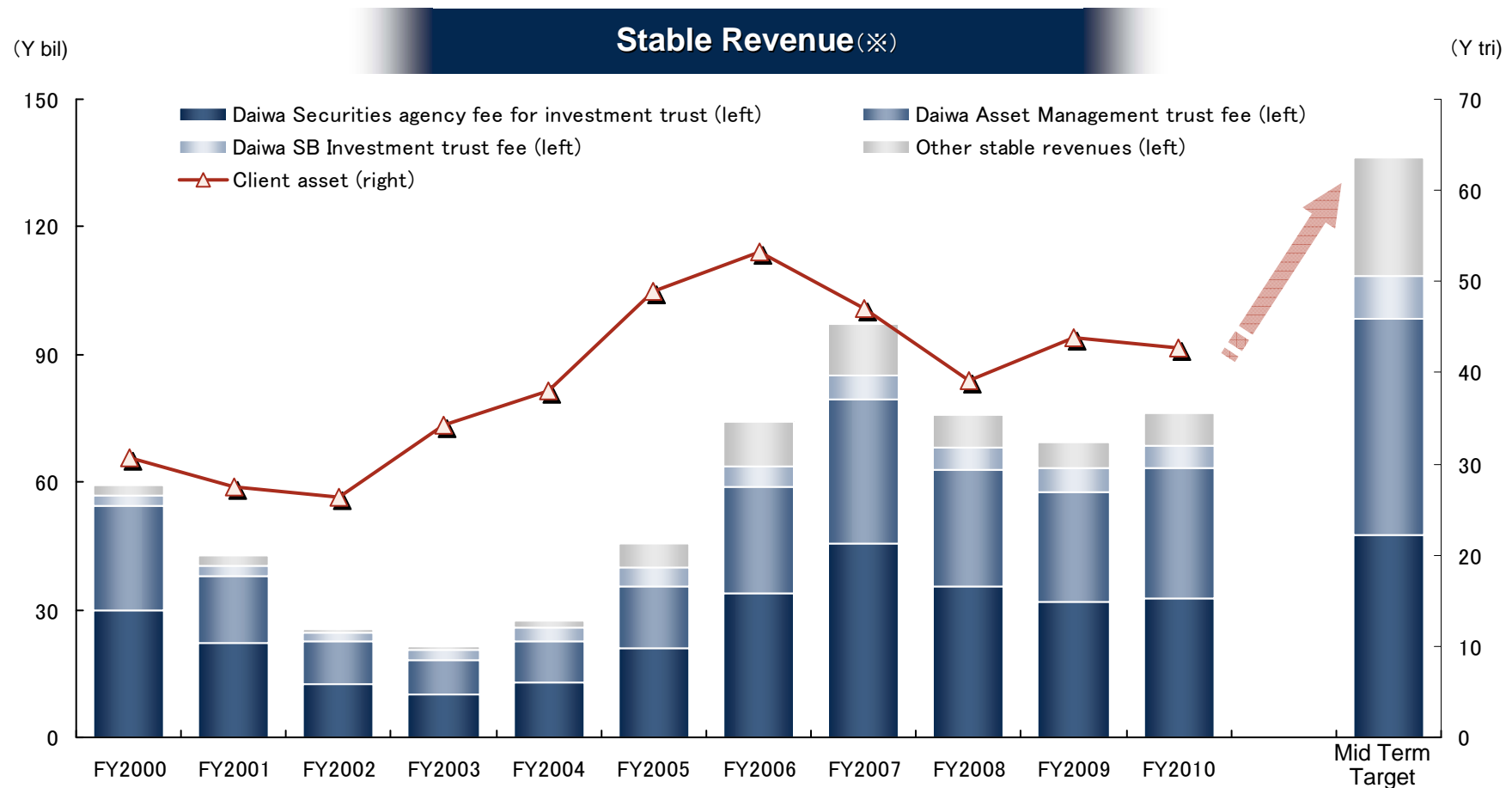
Measure②
Reduce base SG&A focusing on IT and real estate expenses

Establishment of a Robust Business Structure

~Ⅲ. Establishment of a Robust Business Structure~
1st Pillar : Stable Revenue Expansion

Client Asset and Stable Revenue

- Since FY2003, stable revenue grew from rise in client assets, though the growth has leveled off in recent years
- Stable revenue expansion through increasing client asset is the primary issue

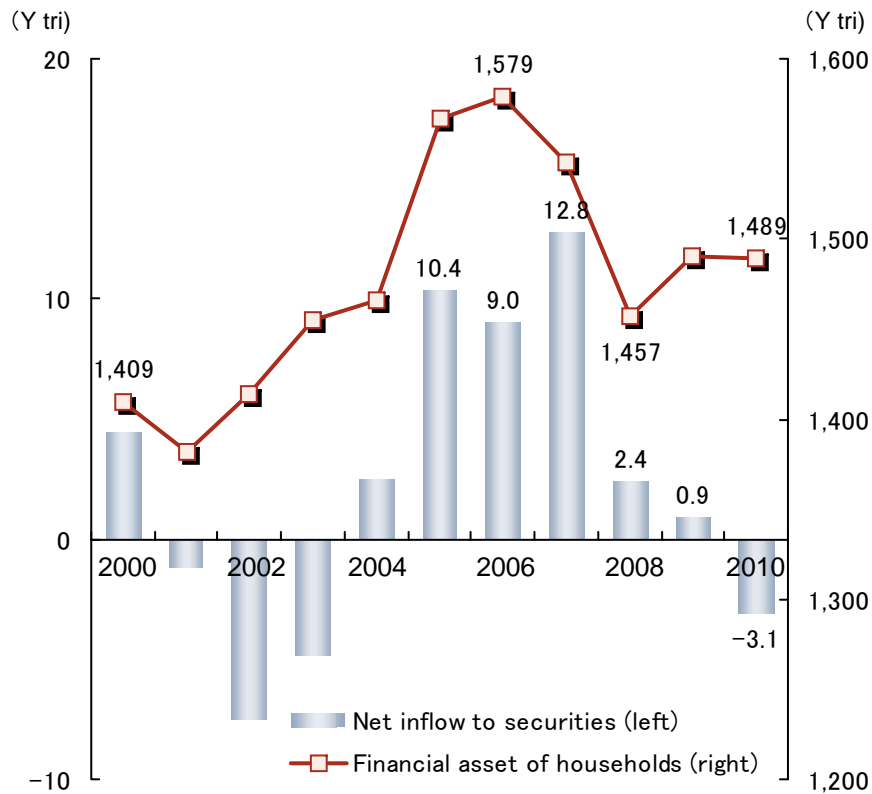


(※) Stable Revenue: Daiwa Securities agency fee for investment trust + Daiwa Asset Management and Daiwa SB Investment (management fee – commissions paid (As for Daiwa SB Investment * ownership ratio)) + Other stable revenues (financial income of margin trade and secured loan + wrap fees)

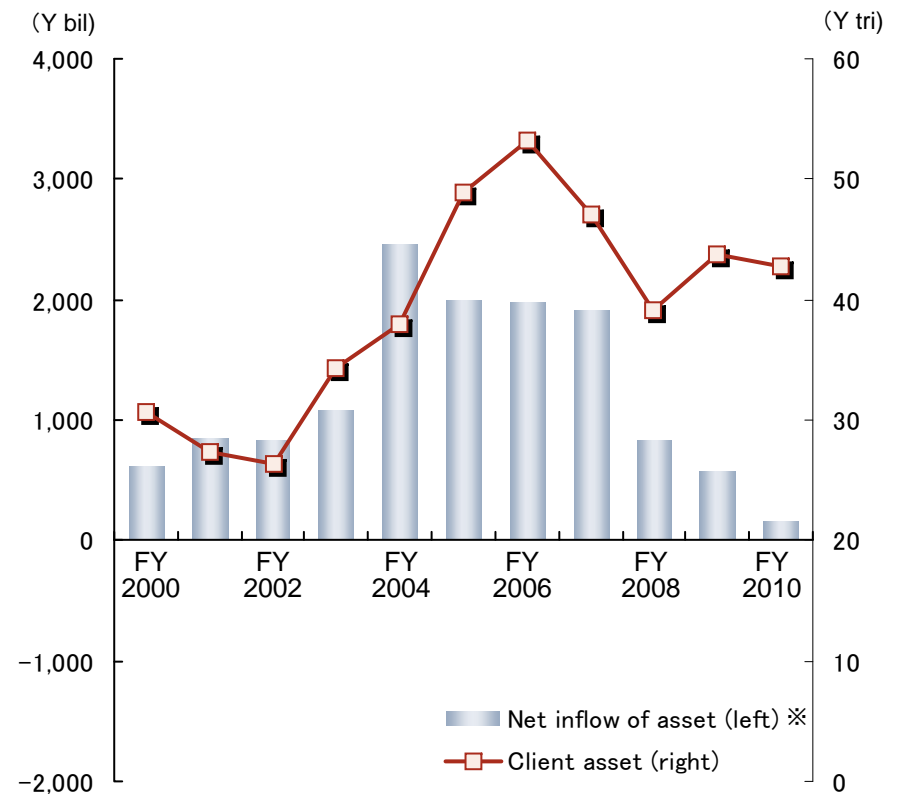
Present Status Toward Client Asset Increase

- In recent years of Japanese domestic market, net inflow into securities has become a sluggish stream, for the growth in financial asset of households has peaked out
- Same trend can be seen in the client base of Daiwa Securities Group

Financial Asset of Households (Japan)



Client Asset and Net Inflow of Asset (Daiwa Securities Group)



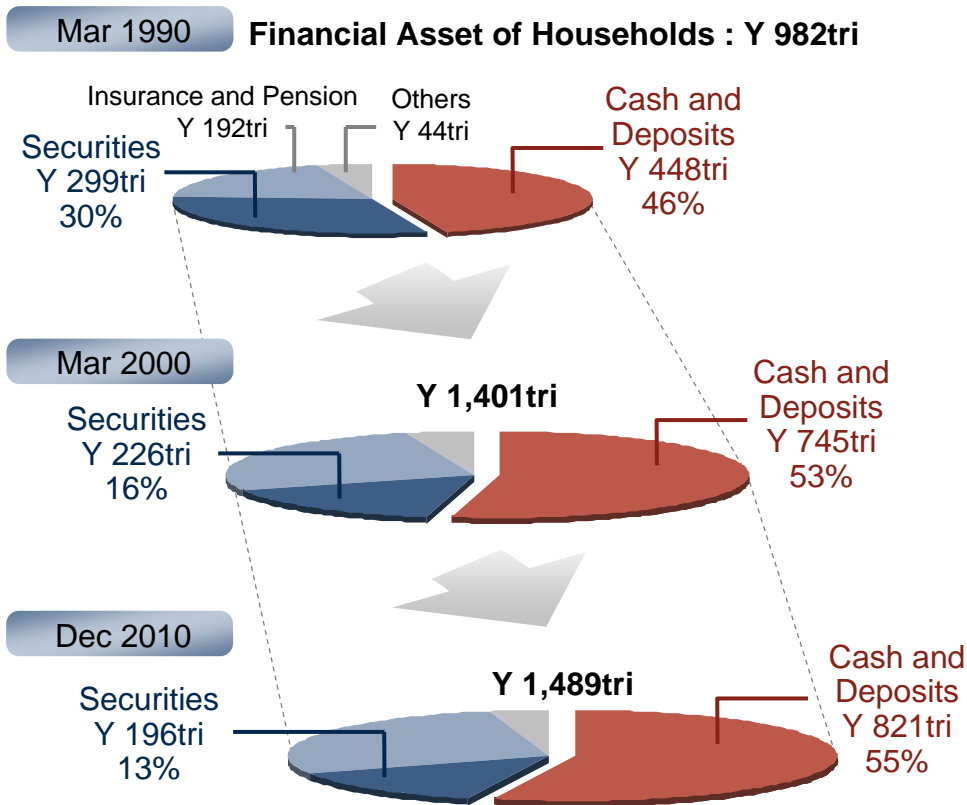
Original Source: Flow of Funds Statistics by the Bank of Japan

※Excludes dividend payment of investment trust

Tendency of Household Savings in Japan

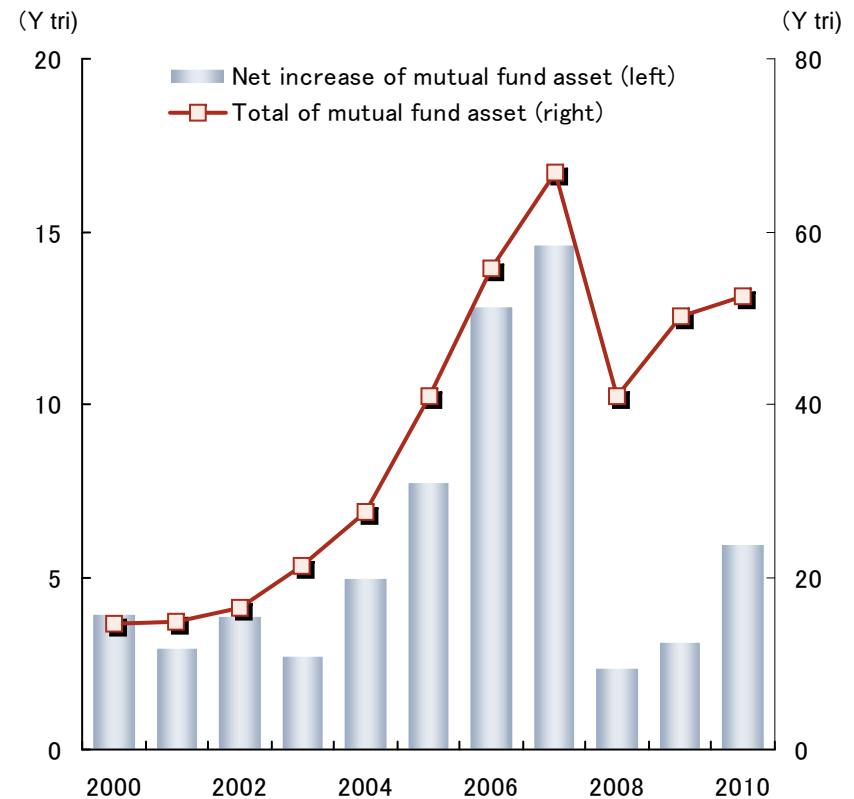
- Even under the low interest rates, much of Japanese household savings has been tied up in deposits
- Though net inflow to overall securities has slimmed, net increase of mutual fund asset has been standing steady
- Therefore, 1.Household Deposits, 2.Mutual Funds are the 2 main focuses toward increasing client asset

Transition of Household Financial Asset



Original Source: Flow of Funds Statistics by the Bank of Japan

Total and Net Increase of Mutual Fund Asset



Original Source: Investment Trusts Association Japan

Focus on Household Deposits -Establishment of Daiwa Next Bank-

- Daiwa has established Daiwa Next Bank, and entered into the banking business (commencement of business: May,13)
- As an internet bank, Daiwa Next Bank provides highly competitive interest rate by a low cost business structure
- Services are provided not only through the internet, but also through the nation-wide branch networks of Daiwa Securities

Overview of Banking Services

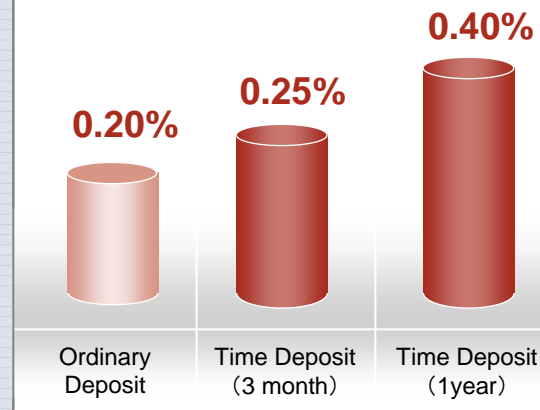
Current Services

- Ordinary deposits
- Time deposits
- Payment services
- Automatic fund transfer and settlement services between bank accounts and brokerage accounts of Daiwa Securities

Scheduled Services

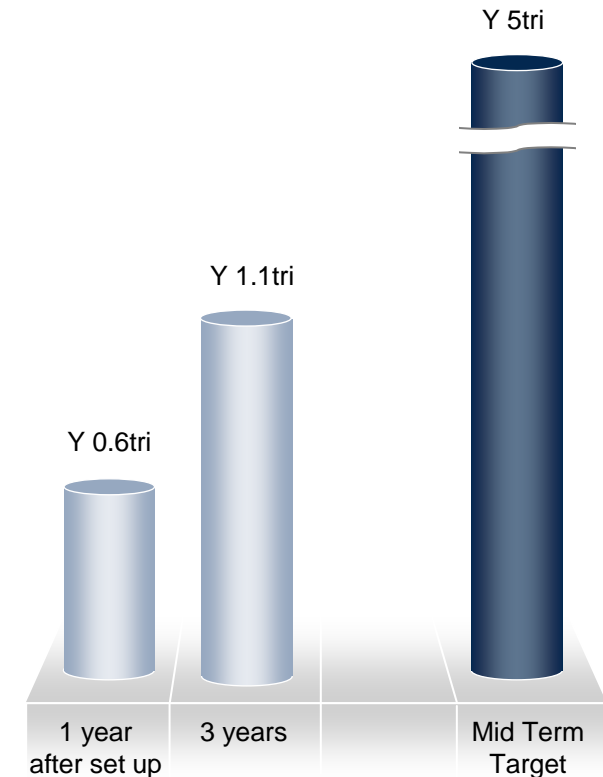
- Foreign currency deposit
- Negotiable deposit
- Account transfer
- Loans

Interest Rates (Individuals)



- Rates are pre-tax, as of May12, 2011
- Rates and terms may change due to financial market situations

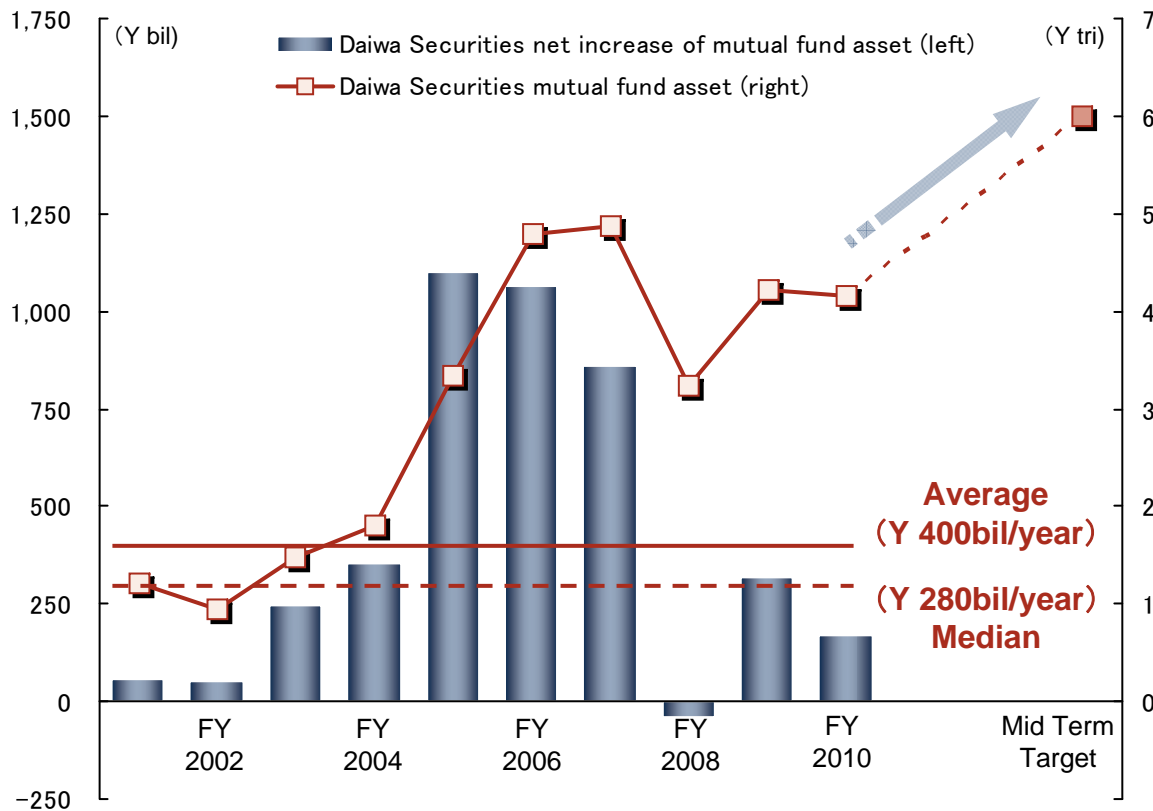
Bank Deposit Targets



Focus on Mutual Funds -Retail Division-

- Average annual net increase of mutual fund asset for the past 10 years was Y 400bil, median was Y 280bil
- Seek medium term target of Y 6tri in mutual fund asset (Y 4.1tri as of March, 2011)

Net Increase of Mutual Fund Asset



Policy Toward Mid Term Target

Focus on Monthly Dividend Type Funds

Launch Attractive Funds

- Ex) Daiwa/Harris Global Selected Fund (Apr)

Focus on Redemption Funds

- Intensify financial advisory to redemption funds of Government Bonds for Individuals and Postal Savings (※)
- Correspond to low level risk needs with products such as JGB Fund

Revised Internal Evaluation System

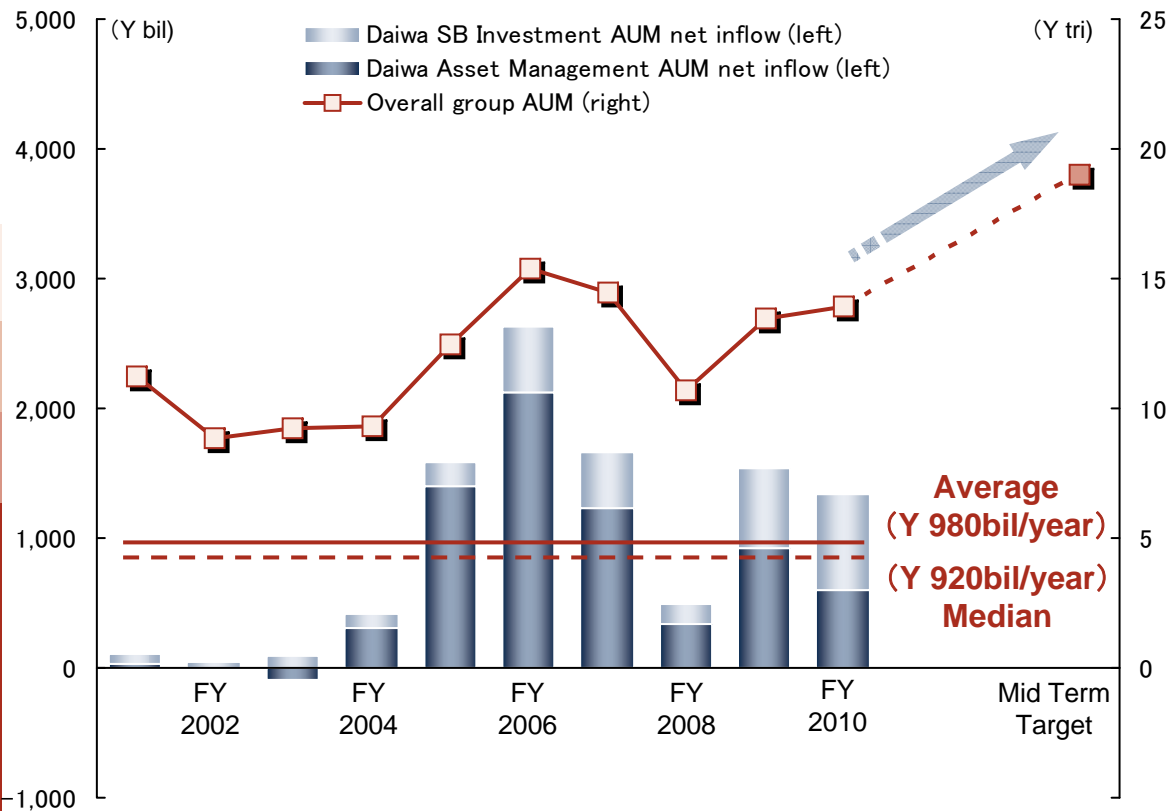
- Focus furthermore on sales incentive for net increase of mutual fund asset

(※) Postal Savings: Time deposit of Japan Post Bank

Focus on Mutual Funds -Asset Management Division-

- Average annual net increase of asset under management for the past 10 years was Y 980bil, median was Y 920bil
- Seek medium term target of Y 19tri in asset under management (Y 14tri as of March, 2011)

Asset Under Management



Policy Toward Mid Term Target

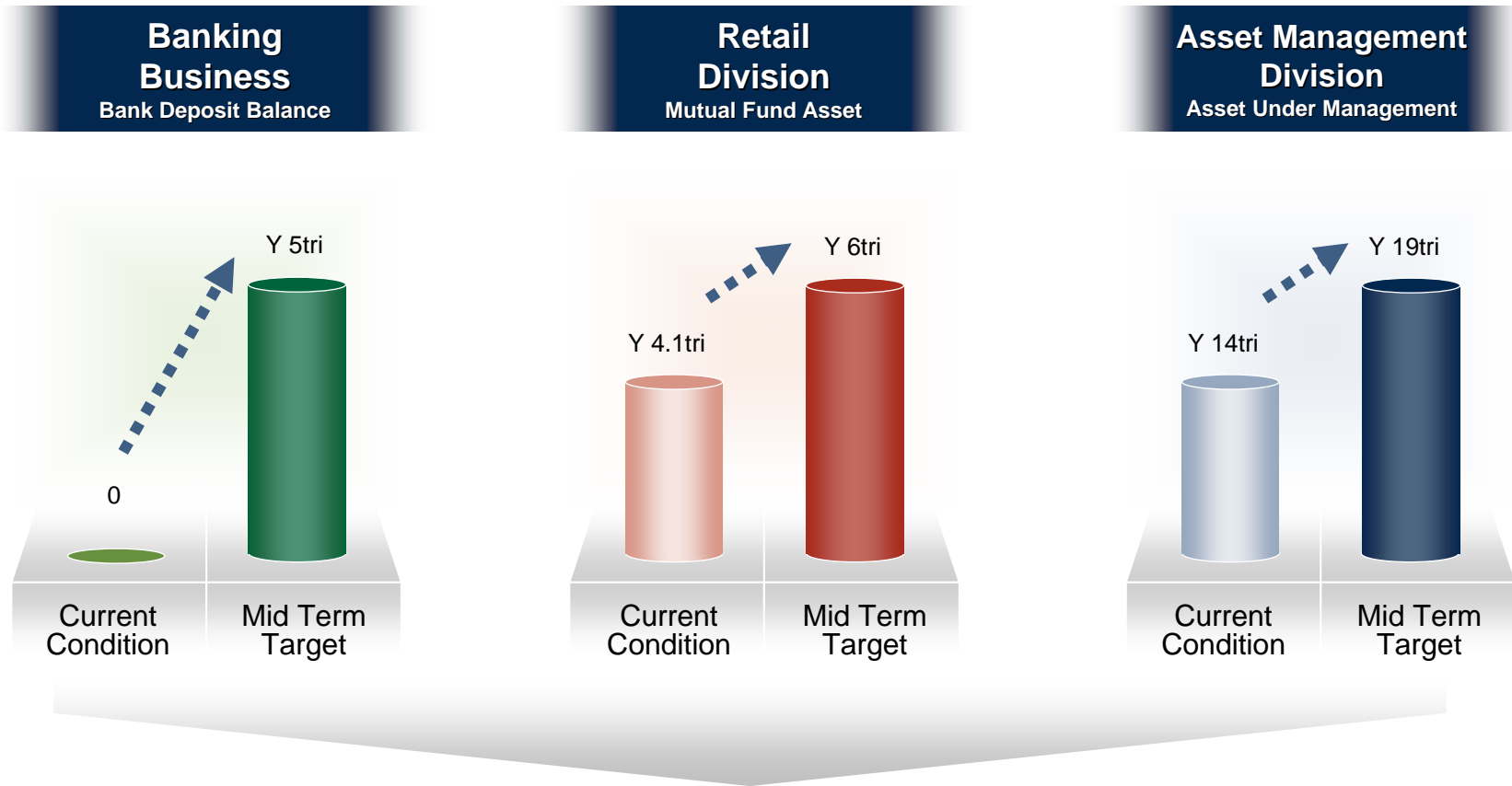
Strengthen Investment and Sales Platform

- Enhance global research and investment platform focusing on Asian market
- Develop new product lineup-introduce new large funds
- Provide attractive products and services to meet customer and distributor needs

Daiwa Real Estate Asset Management

- Expand real estate AUM as the Group's new business field

The Outline of Stable Revenue Expansion Y 60bil



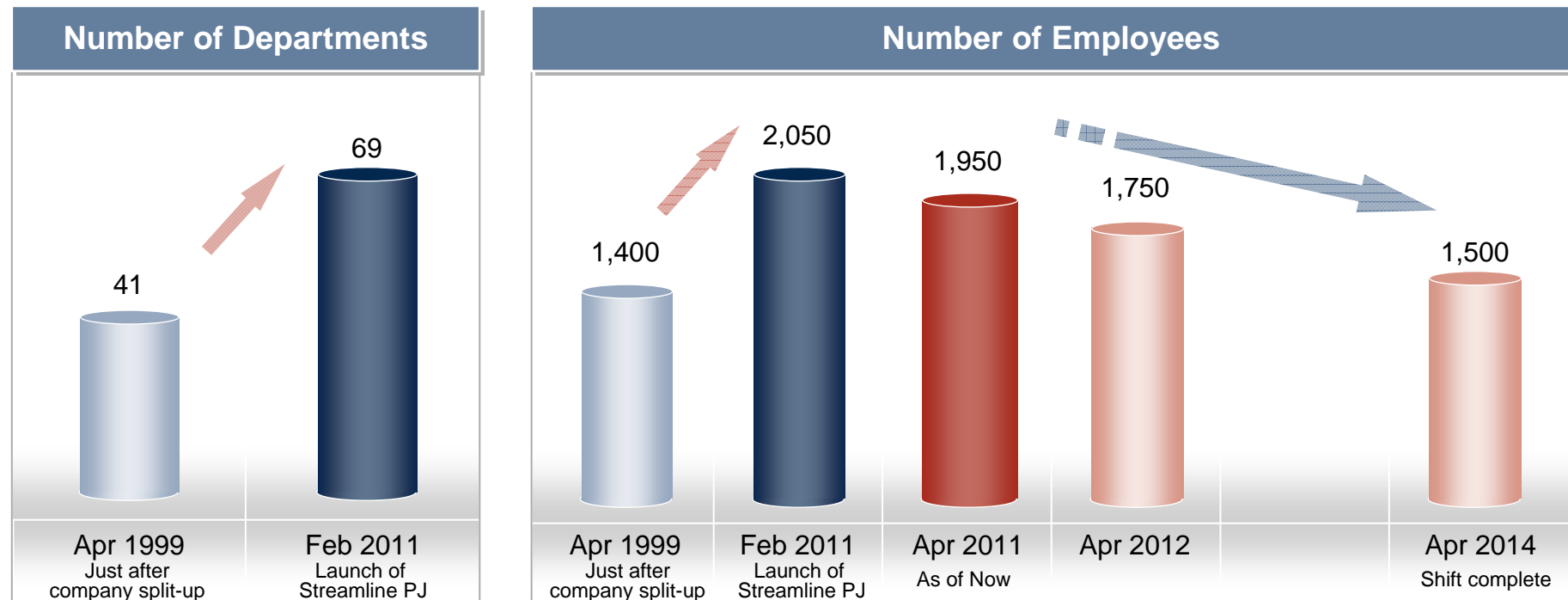
Stable Revenue Expansion of Y 60bil

~ III. Establishment of a Robust Business Structure ~
2nd Pillar : Administrative Optimization

Streamline of Middle-Back Office

- Since the movement to a holding company structure and split-up of main subsidiaries back in 1999, middle-back office scale bloated 1.5 times as much as in number of both departments and employees within 10 years
- In April 2011, organization merge accompanied with personnel shifts to sales forces has started

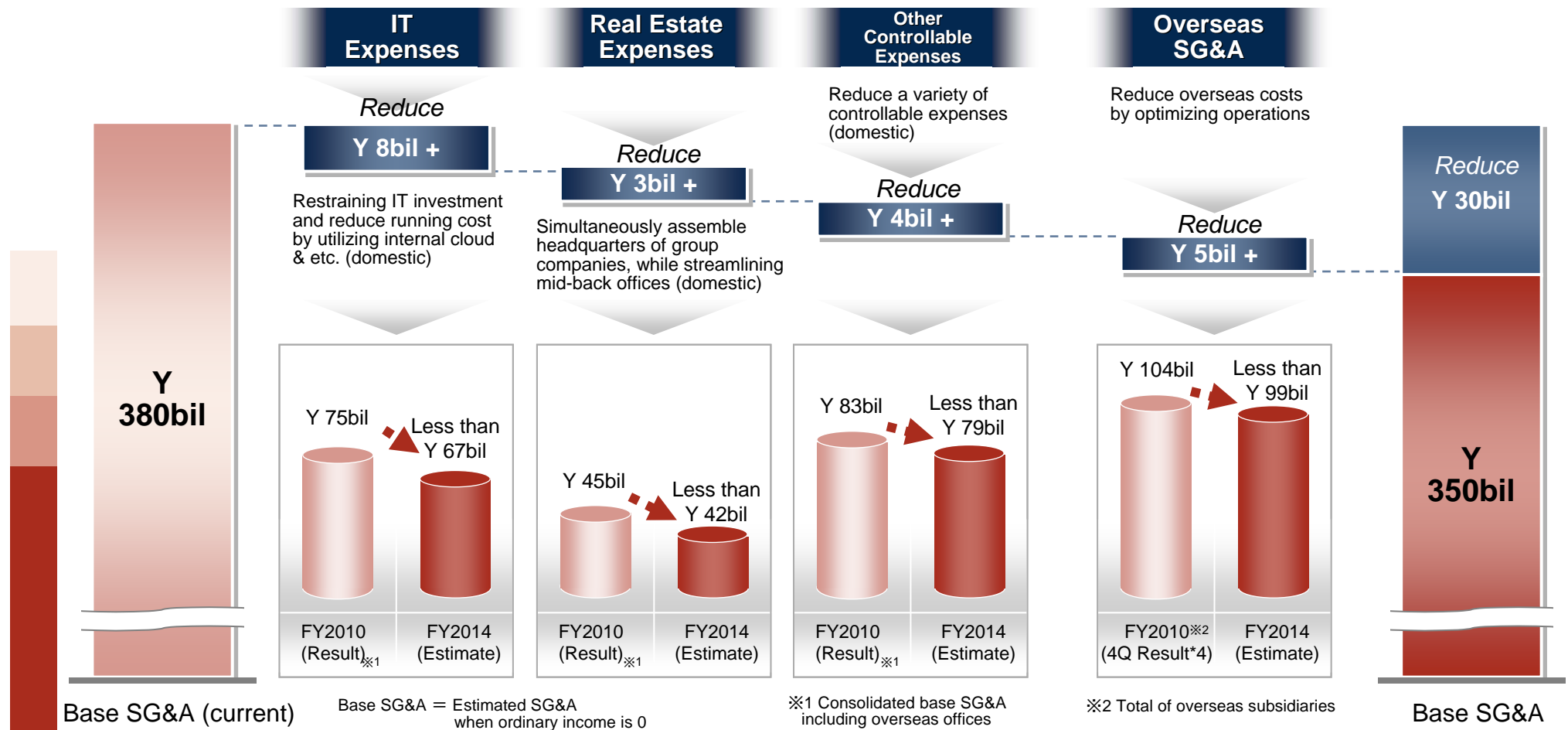
Middle-Back Office in Daiwa Securities Group Inc., Daiwa Securities and Daiwa Securities Capital Markets (※)



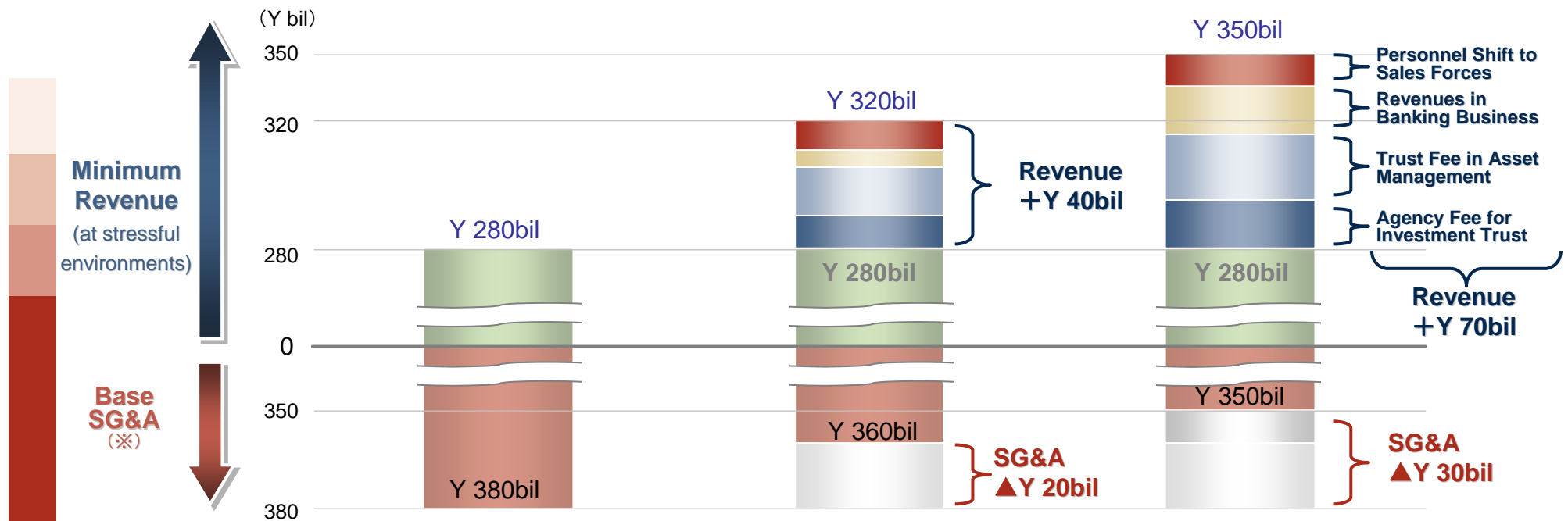
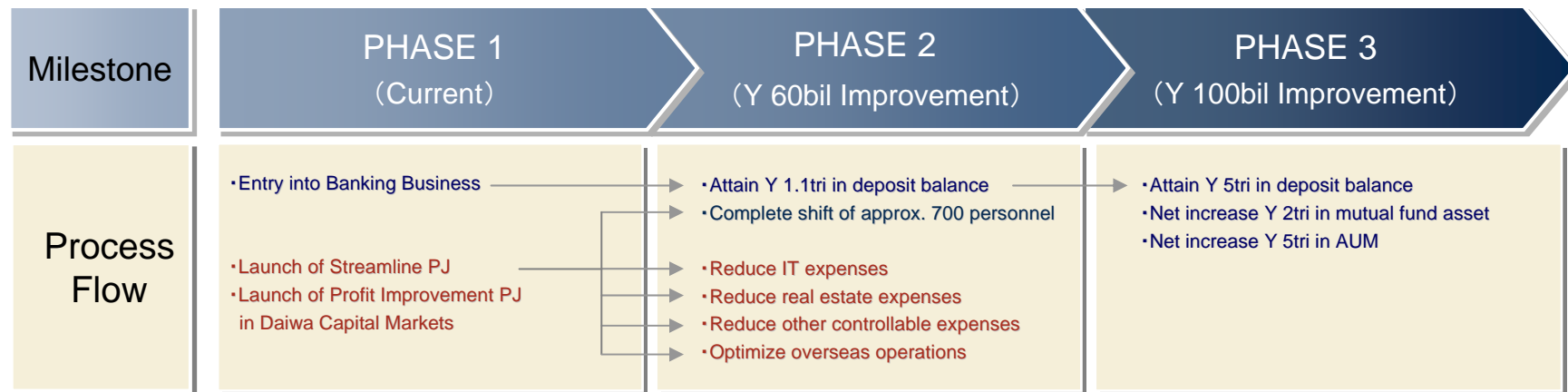
(※) Departments and employees exclude: overseas resident officers, workers on loan, international students in Daiwa Securities Group Inc., Daiwa Securities and Daiwa Securities Capital Markets, as well as branch offices, Corporate Institutions Department, Financial & Public Institutions Department and Private Banking Department in Daiwa Securities and Front Division, Product Division and Financial Research Center in Daiwa Capital Markets

SG&A Reduction Measures

- Reducing Y 30bil in base SG&A by properly controlling various costs such as IT expenses and overseas SG&A



Process Flow of Profit Improvement



(※) Base SG&A = Estimated SG&A when ordinary income is 0

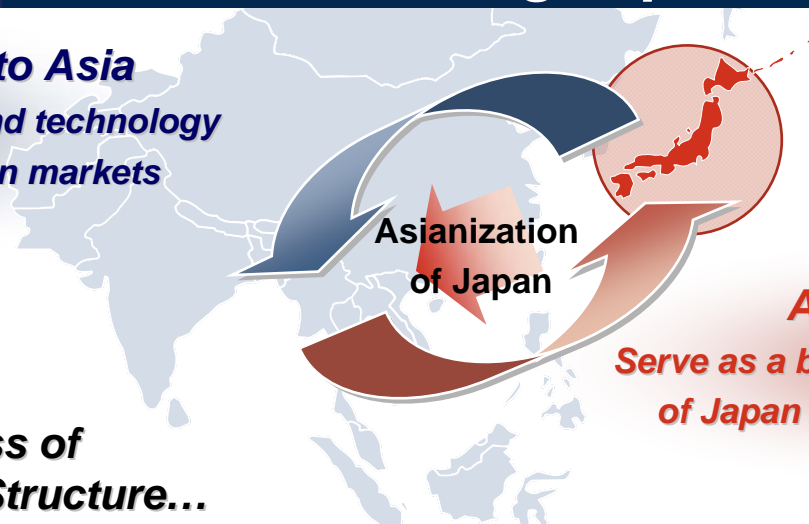
IV. Path to Asia's Leading Financial Services Firm

Daiwa Securities Group

Development of Business Structure

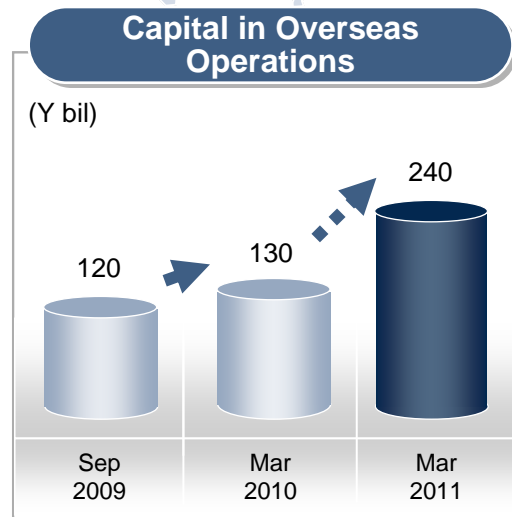
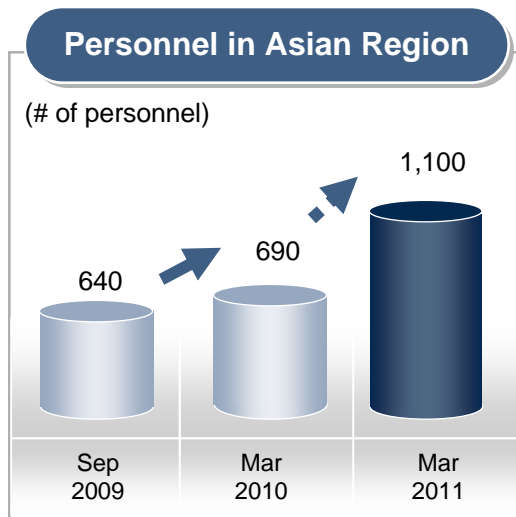
『Asia including Japan』

Japanese Products to Asia
 Assist Japanese enterprise and technology
 by leading way to the Asian markets



Asian Products to Japan
 Serve as a bridge between the vast financial assets
 of Japan and the strong funding needs of Asia

Development Progress of Asian Business Structure...

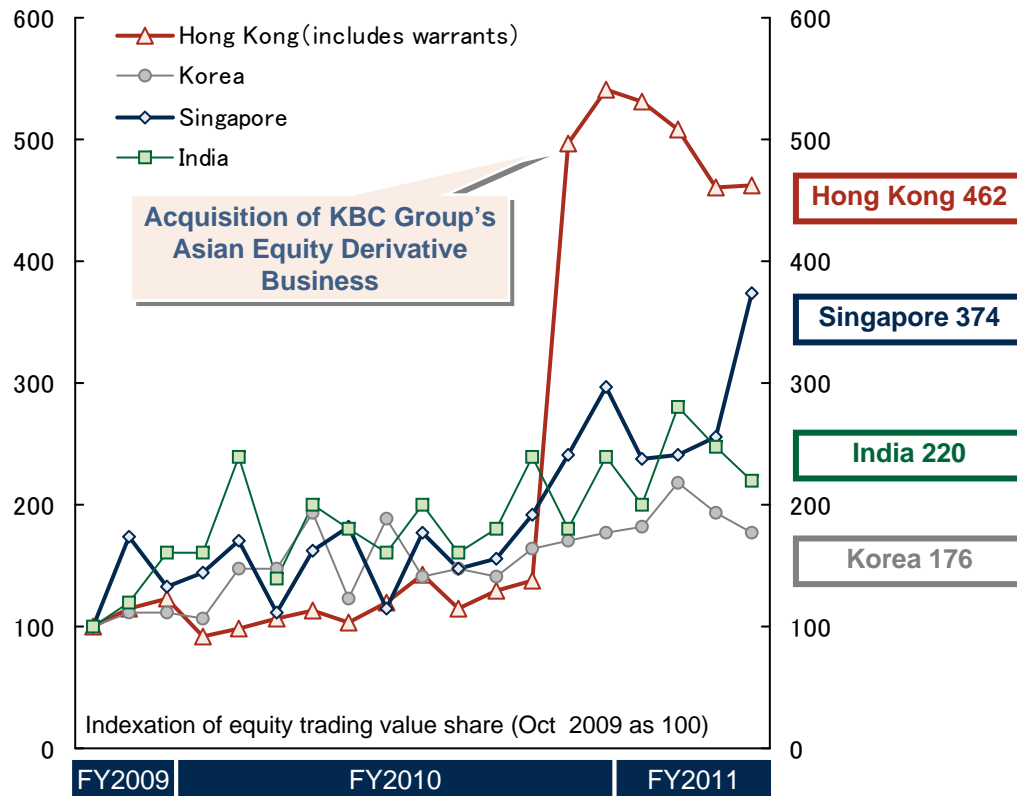


Includes Europe and America

Progress of Business Expansion

- Share of equity trading value in Hong Kong (including warrants) has exceeded 400% level of October 2009
- Equity trading value in other Asian markets are rising steadily as well
- Number of mandates increased due to progress in forming competent teams in Investment Banking Division

Equity Trading Value Share



Achievements in Investment Banking

Major Deals in 2011

Feb

- Elpida Memory
Financial Advisor and Joint Lead Manager of the Listing of Taiwan Depository Receipts
 - First listing deal by Japanese company on the Taiwan Stock Exchange

Mar

- Hutchison Port Holdings Trust
Joint Lead Manager of POWL
 - Largest-ever IPO deal of POWL on Singapore Exchange

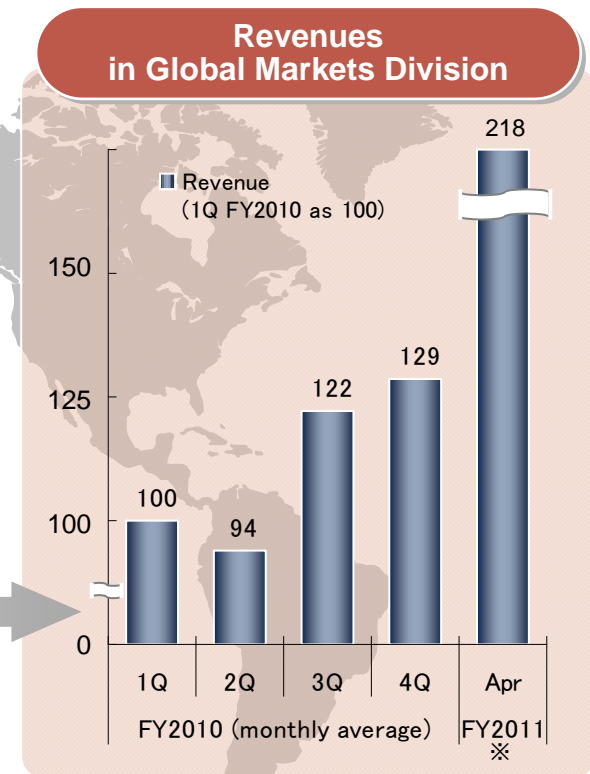
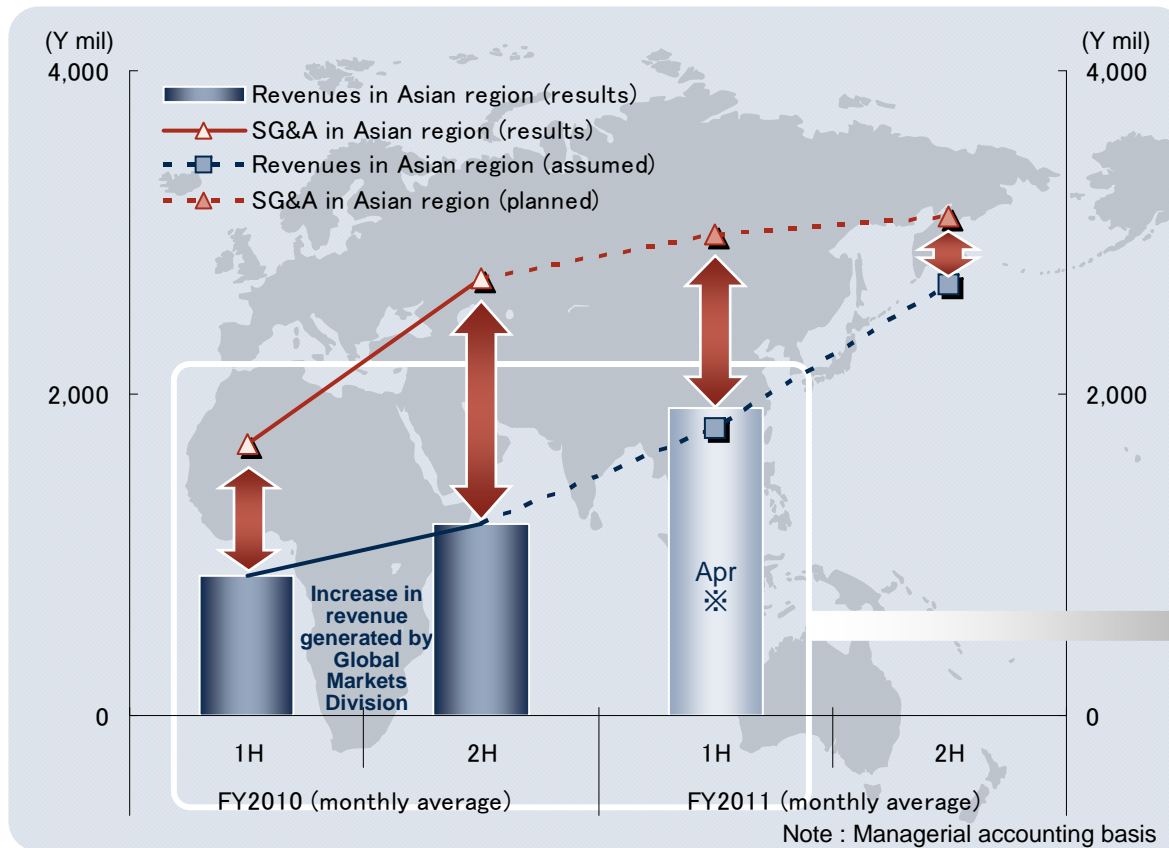
Apr

- SBI Holdings
Sole Sponsor and Sole Global Coordinator of Listing of Hong Kong Depository Receipts (HDR)
 - First listing deal by Japanese company on the Stock Exchange of Hong Kong Limited

Present Situation and Outlook of Business Performance

- Increase in SG&A will level off in FY2011
- Following the growth of Global Markets Division, contribution of Global Investment Banking Division to revenues will proceed at full tilt in FY2011

Revenues and SG&A in Asian Region



Appendix : Policies by Operating Segments

Retail Business

■ Raise net inflow of asset level seeking for expansion of client base and stable revenue

Priority Measures of FY2011

○Entry into banking agency business

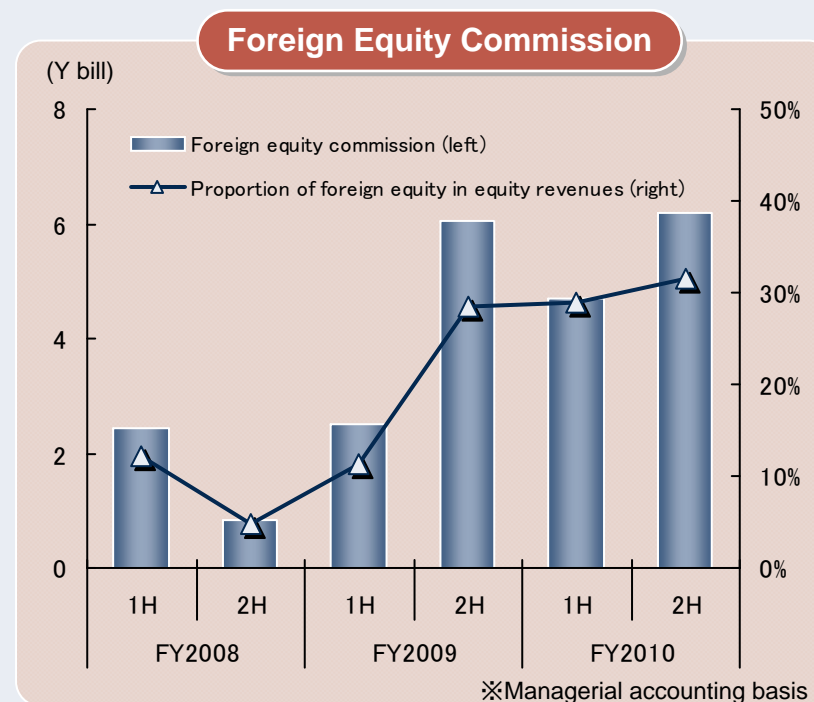
○Enhancement of mutual fund sales

- Aim to increase agency fee for investment trust, the core of stable revenue

○Establishment of Area Consultant Team as part of new branch strategy

- Setting up teams attending mission to expand client base in unexploited areas from nearby branches
- Enhance area marketing with a view of opening new branches in future to these areas

○Further expansion of foreign equity trading



Wholesale Business

■ Reverse a deficit through expansion of Asia related revenue and cost management

Priority Measures of FY2011

○Global Investment Banking Division

- Reinforce the Asian IB structure continuously
- Continue strengthening core operating base and regain a higher league table position

○Global Markets Division

- Equity : Enhance services for further expansion of Asian equity trading
- FICC : Initiation of global trading structure

○Cost Management

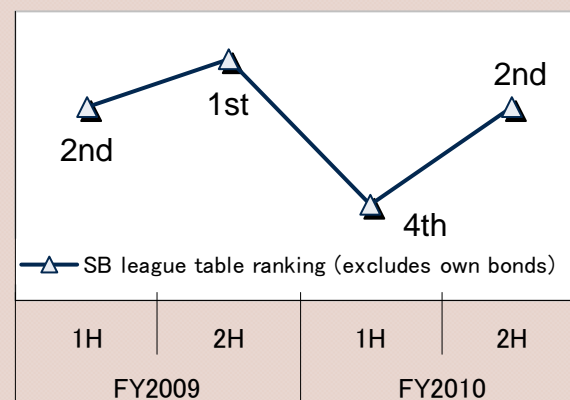
Enhancement of P/L Management

- Profitability analysis by business lines and concentrating on core competence

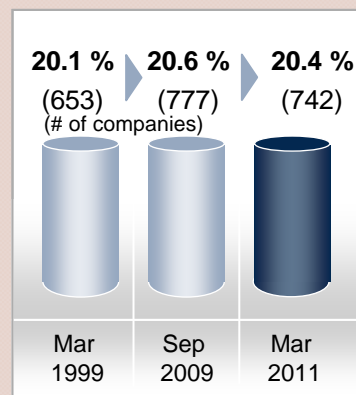
Streamlining of Global Business Management

- Cost reduction through integration of middle-back offices in overseas operations

Domestic Debt League Table



Share of Lead Managing Companies



Source: Toyo Keizai Inc. "Quarterly Journal"

Asset Management Business

■ Enhance global research and investment platform focusing on Asian market

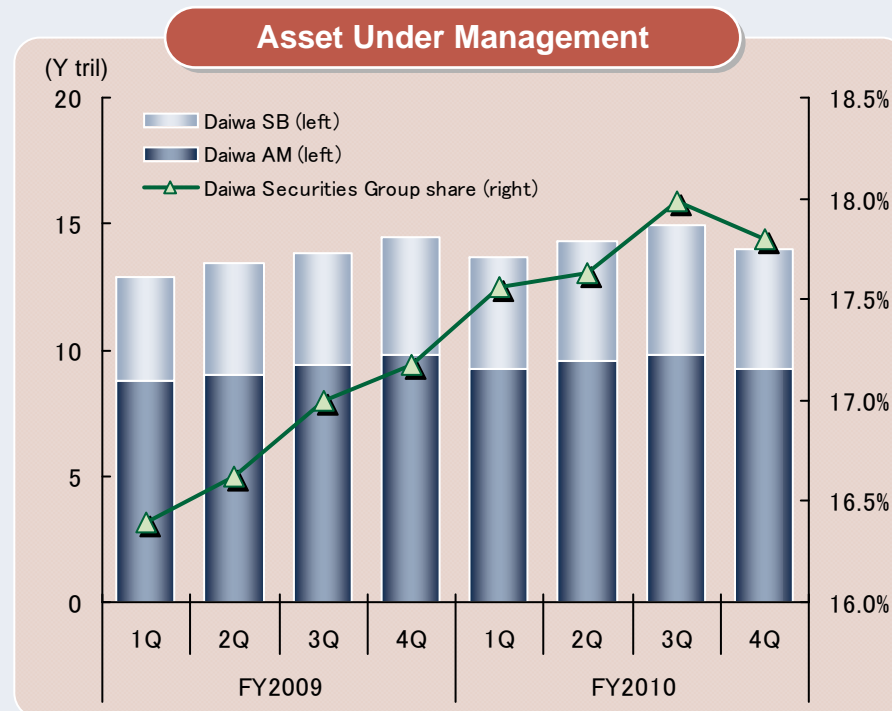
Priority Measures of FY2011

○ Enhance global research and investment platform

- Enhance global research and investment platform focusing on Asian market
- Develop new product lineup—introduce new large funds
- Provide attractive products and services to meet customer and distributor needs

○ Daiwa Real Estate Asset Management

- Increase in stable revenue through expansion of real estate asset under management
- Provide attractive REIT products



Others

Investment Business

- Maximize returns from the existing portfolio
- Invest and raise funds in a timely and appropriate manner
- Enhance risk management system and progress further cost reduction

IT Systems and Think Tank Business

- Enhance the Group presence by providing client-oriented information
- Add value to client business through consulting service
- Contribute to the Group's global business strategy and cost reduction

Daiwa Securities Group

Centred on Asia. Serving the World.

Daiwa Securities Group Inc.

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