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## Daiwa Securities Group Management Strategy

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Daiwa Securities Group

## Notice

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# I . Financial Summary of 1H FY2011

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# Consolidated Results of 1H FY2011

- Net operating revenues for 1H FY2011 increased to Y 174.7bil, up 9.2% y/y.
- Net income was a loss of Y 28.7bil due to extraordinary losses involved in reduction of SG&A.

## Consolidated Results

(Y mil)	FY2010 (1H)	FY2011 (1H)	% change vs 1H FY10
Operating revenues	201,388	<b>216,106</b>	7.3%
Net operating revenues	160,048	<b>174,704</b>	9.2%
SG&A	176,840	<b>187,750</b>	6.2%
Ordinary income	-9,027	<b>-7,169</b>	-
Net income	-5,384	<b>-28,787</b>	-
Total assets	16,594,420	18,406,338	
Net assets	934,776	828,173	
Shareholders' equity	856,224	753,662	
BPS(Y)	500.95	447.54	

## Segment Results

(Y mil)	Net operating revenues			Ordinary income		
	FY2010 (1H)	FY2011 (1H)	% change vs 1H FY10	FY2010 (1H)	FY2011 (1H)	% change vs 1H FY10
Retail	87,755	<b>88,310</b>	0.6%	18,904	<b>20,628</b>	9.1%
Global Markets	31,430	<b>29,015</b>	-7.7%	-21,770	<b>-28,662</b>	-
Global Investment Banking	14,432	<b>11,403</b>	-21.0%	-7,234	<b>-10,256</b>	-
Asset Management	17,995	<b>19,426</b>	8.0%	7,591	<b>8,208</b>	8.1%
Investments	-3,664	<b>2,511</b>	-	-7,374	<b>780</b>	-
Others/Adjustments	12,098	24,036	-	856	2,130	-
Consolidated total	160,048	<b>174,704</b>	9.2%	-9,027	<b>-7,169</b>	-

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

# Summary

**Maintained revenue level despite difficult business environment, however, posted net loss due to temporary expenses involved in profitability improvements.**

- **Consolidated net operating revenues for 1H FY2011 increased to Y 174.7bil, up 9.2% y/y.**
  - Due to the lack in trading values of domestic stock market and equity finance issues, equity related revenues decreased.
  - Secured profitability year on year basis due to increase in investment trust related revenues.
- **Consolidated ordinary income was a loss of Y 7.1bil.**
  - Trading gains in the Global Markets Division decreased due to rapid changes in foreign exchange and interest markets, while both Retail and Asset Management Division increased profits, which made consolidated ordinary income to be influenced at a minimum level.
- **Consolidated net income was a loss of Y 28.7bil.**
  - Implementation of Y 40bil reduction in base SG&A has obtained from 2Q FY2011.
  - Posted temporary expenses involved in reduction and downsizing of unprofitable businesses mainly in Wholesale Division and overseas operations (approximately -Y 2.7bil in business restructuring costs and approximately -Y 6.8bil in loss on sales and retirement of noncurrent assets).

## Ⅱ . Consolidated Financial Information

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# Capital Adequacy



- Consolidated Capital Adequacy Ratio was 25.8%, and Tier 1 Capital Ratio was 24.1% based on Basel II .
- Exposure to European peripheral countries was approximately Y 13.8bil.

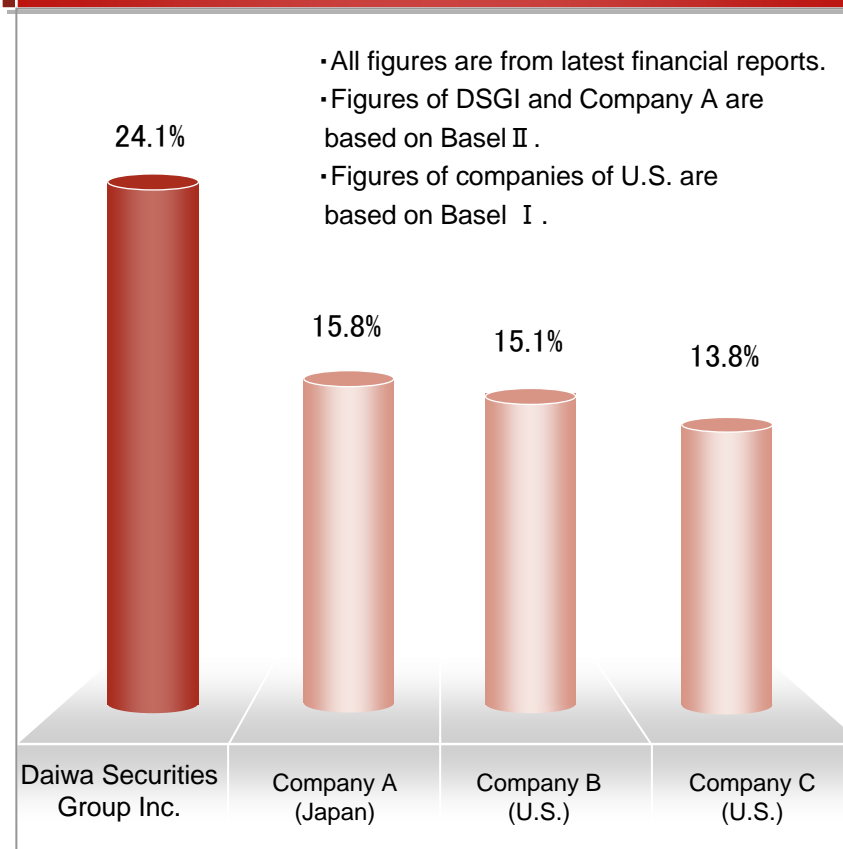
## Consolidated Capital Adequacy Ratio

(Y mil)	Mar 31, 2011	Jun 30, 2011	Sep 30, 2011
Total qualifying capital	966.8	910.8	854.9
Tier1	866.5	845.2	799.7
Tier2	62.3	45.0	33.9
Tier3	73.7	57.4	56.9
Total risk-weighted assets	3,545.3	3,245.0	3,312.6
Consolidated capital adequacy ratio	<b>27.2%</b>	<b>28.0%</b>	25.8%
Tier 1 capital ratio	<b>24.4%</b>	<b>26.0%</b>	24.1%

## Exposure to European Peripheral Countries

(As of Sep 30, 2011)	Amount	Details
Greek	Y 0.1bil	• Government bond
Italy	Y 10.8bil	• CDS
Ireland	Y 0.1bil	• Deposit balance etc.
Portugal	-	
Spain	Y 2.8bil	• Government Guaranteed Bonds Y 0.6bil • Other Straight Bonds etc. Y 2.2bil

## Tier 1 Capital Ratio (as of Sep 30, 2011)

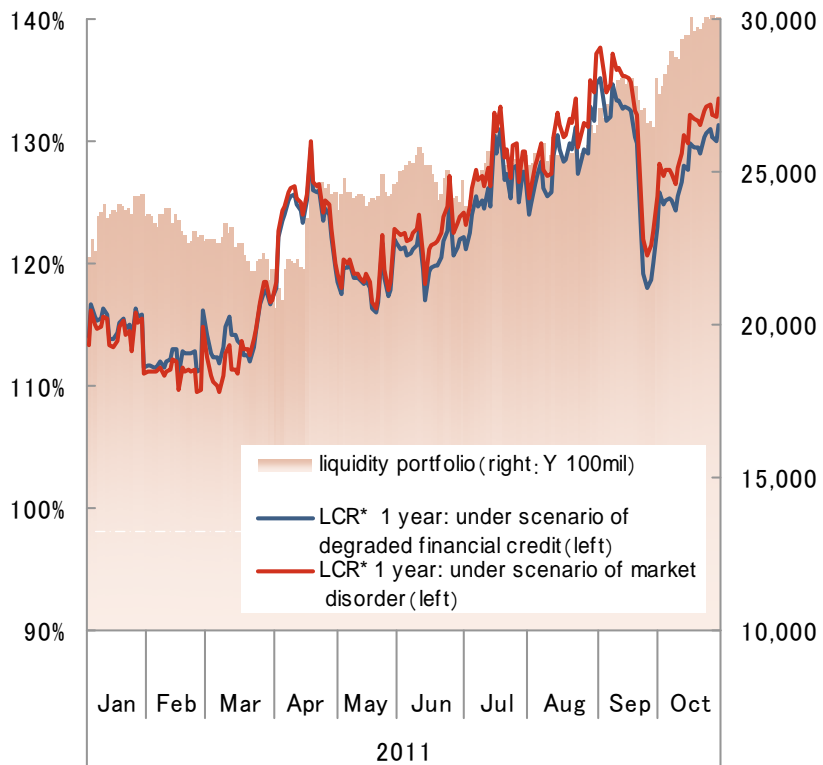


# Fund Administration



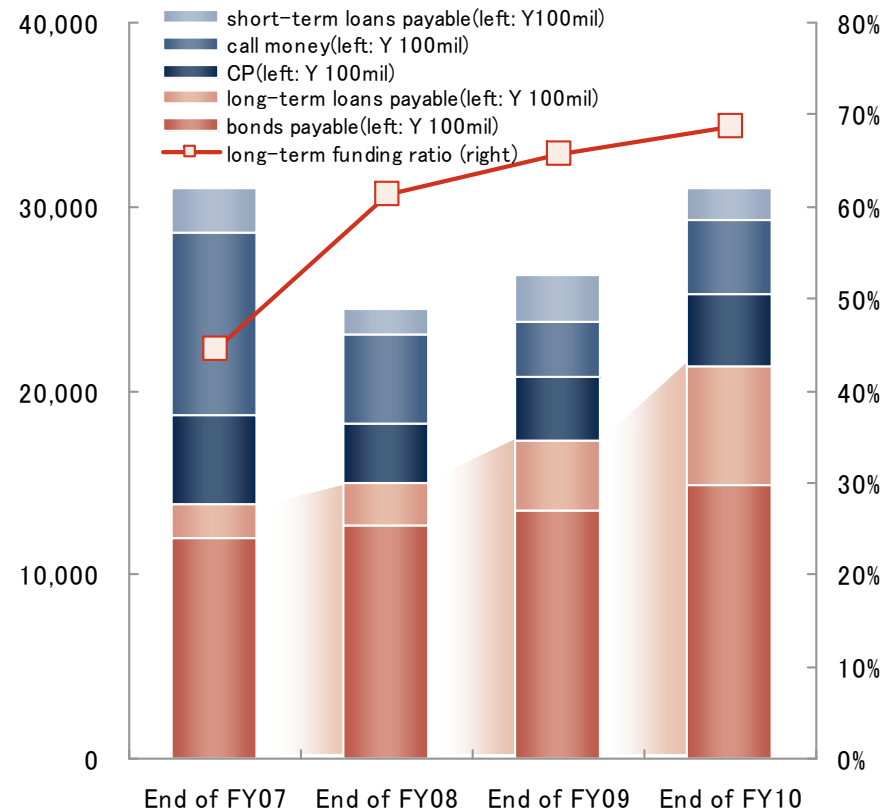
- Liquidity portfolio is over Y 3tri, able to continue business over one year without additional unsecured funding.
- Long-term (unsecured) funding ratio is approximately 70%.

## Liquidity Portfolio and Stress Test



\*The firm's original definition based on LCR of Basel Committee.

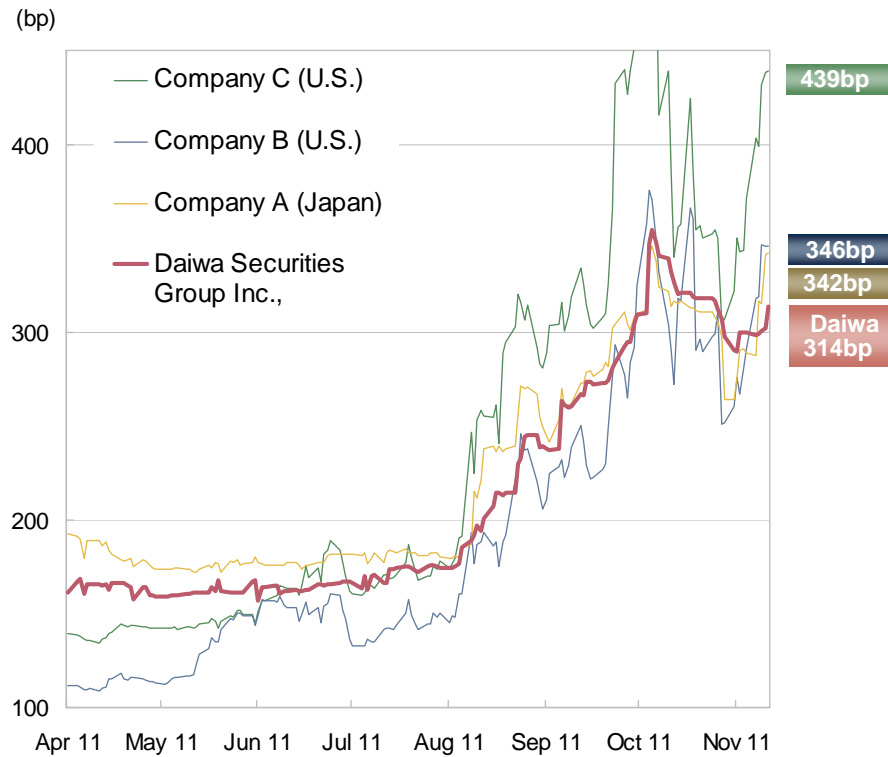
## Unsecured Funding Structure



# CDS

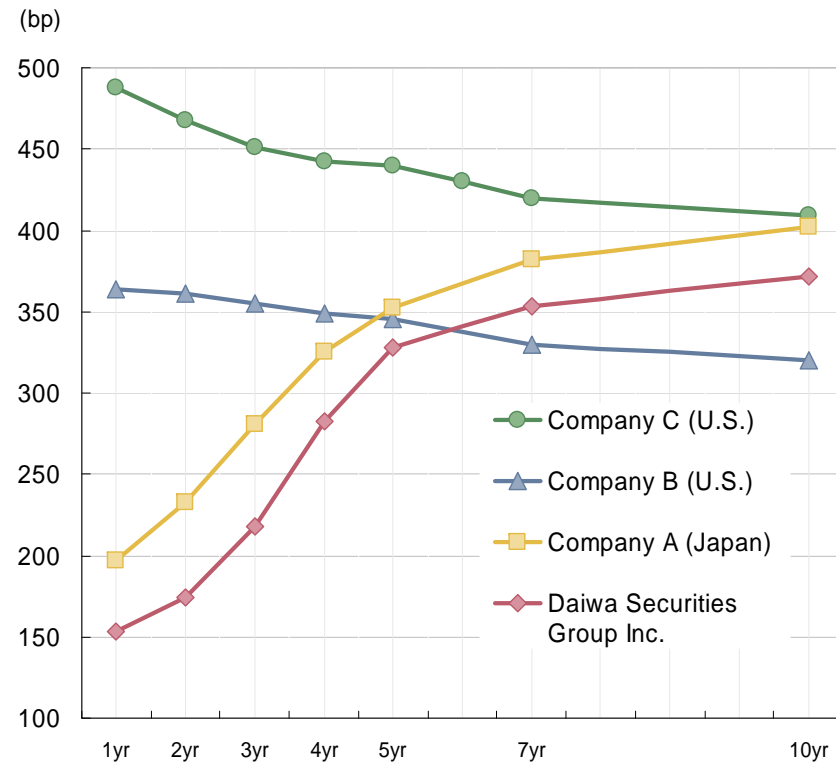
- Though our CDS spread rose parallel to U.S. Investment Banks under market conditions such as downgrade of U.S. Sovereign and European Sovereign Debt Crisis, the spread is toward a relatively declining trend reflecting small exposure in European peripheral countries.

**CDS Spread (five-year ; Mid)**



Source: Bloomberg

**CDS Spread Curve (Mid; as of Nov 11, 2011)**



Source: Bloomberg

# Debt Ratings

- Sep 28, 2011 FITCH: Daiwa Securities Group Inc. Upgraded of outlook to BBB+ (stable) from BBB+ (negative)
- Nov 9, 2011 Moody's: Daiwa Securities Group Inc. Downgraded to Baa3 from Baa2 (negative)

		Daiwa Securities Group Inc.	Daiwa Securities	Daiwa Capital Markets
Moody's	Sep 8, 2009	Baa1 (Under review for possible downgrade) ⇒Baa2 (Negative)	Baa1 (Under review for possible downgrade) ⇒Baa1 (Stable)	A1 (Under review for possible downgrade) ⇒A2 (Under review for possible downgrade)
	Nov 30, 2009	Baa2 (Stable)		Baa1 (Stable)
	Aug 2, 2011	Baa2 (Under review for possible downgrade)	Baa1 (Under review for possible downgrade)	Baa1 (Under review for possible downgrade)
	Nov 9, 2011	Baa3 (Negative)	Baa2 (Negative)	Baa2 (Negative)
S&P	Sep 11, 2009	BBB+ (Stable) ⇒BBB (Stable)	BBB+ (Stable)	A (Stable) ⇒BBB+ (Stable)
	Jul 7, 2011	BBB (Negative)	BBB+ (Negative)	BBB+ (Negative)
FITCH	Nov 9, 2009	BBB+ (Negative)	—	A- (Negative)
	Sep 28, 2011	BBB+ (Stable)	—	BBB+ (Stable)
R&I	Sep 10, 2009	A (Negative)	A (Negative)	A+ (Negative) ⇒A (Negative)
	Feb 5, 2010	A (Stable)	A (Stable)	A (Stable)
JCR	Dec 28, 2009	A+ (Negative) ⇒A+ (Stable)	A+ (Negative) ⇒A+ (Stable)	—
	Jan 21, 2011			A+ (Stable)

### Ⅲ. Progress of Basic Management Policy

## ① Establishment of a Robust Business Structure

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

Stable Revenue Expansion (increase revenue by Y 60bil)

- Sales of mutual funds in Daiwa Securities exceeds the level before Lehman Fall.
- Daiwa Asset Management ranked second in mutual funds balance share of OTC sales through bank channels, and continues expansion in AUM.
- Over Y 1tri deposit balance of Daiwa Next Bank as of Oct 2011.

Administrative Optimization (profit improvement of Y 40bil)

- Announcement of internal reorganization and acceleration of personnel shifts to sales forces.
- Reduction plan of SG&A increased from initial plan of Y 30bil to Y 40bil.

## 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.*

- Environment: Japanese corporations expanding business in Asia through M&A etc. despite challenging market condition.
- Achievements: Strengthening business base by execution of MOU with the Taiwanese Government and etc.  
Promoting strict cost control by downsizing or closure of loss making overseas operations, and reducing middle-and back-office operations.

### Ⅲ- 1. Establishment of a Robust Business Structure

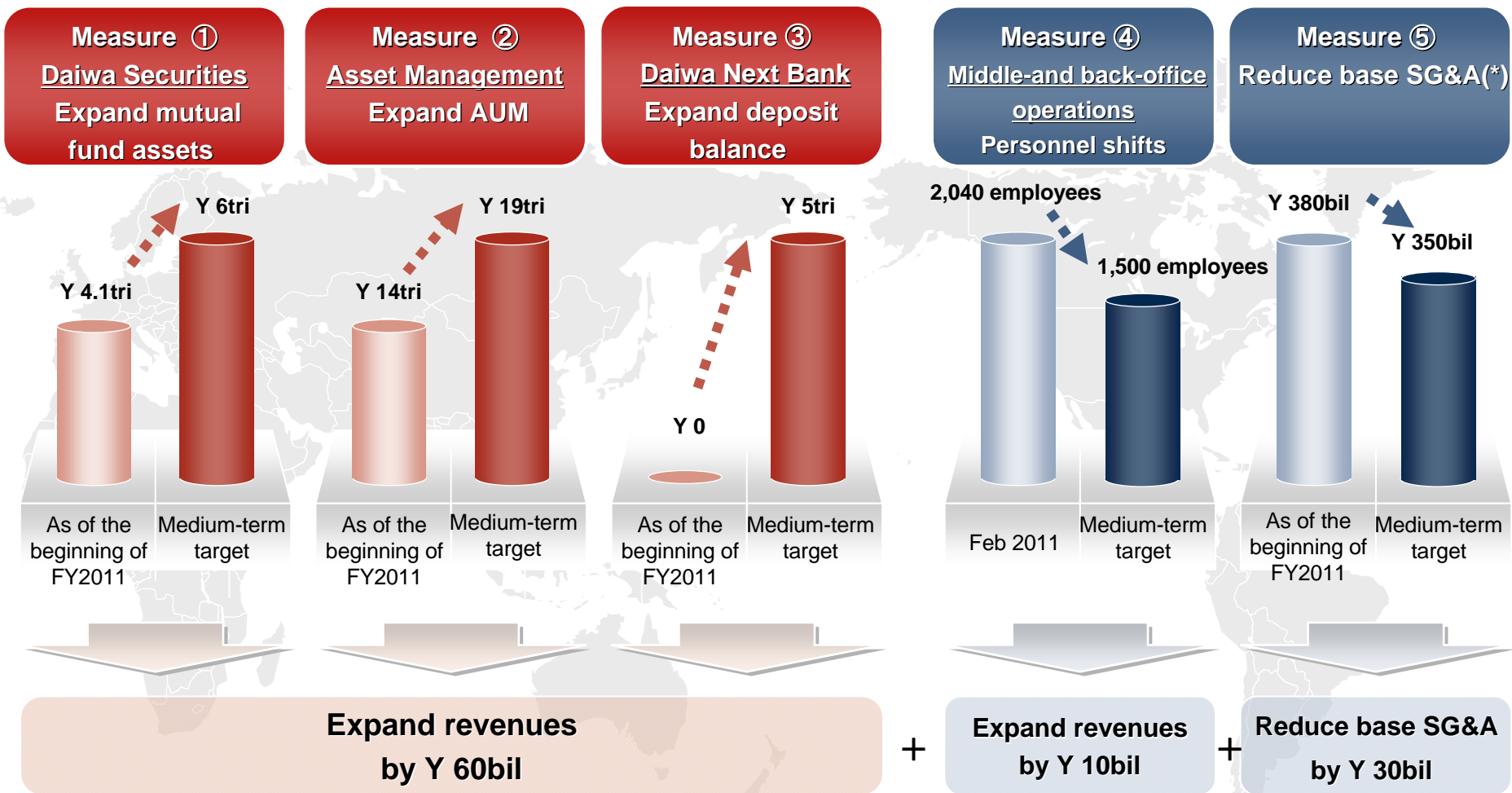
# 5 Major Measures for Y 100bil Profit Improvement

(Announced in Spring 2011 Daiwa Securities Group Management Strategy)



## Stable Revenue Expansion

## Administrative Optimization



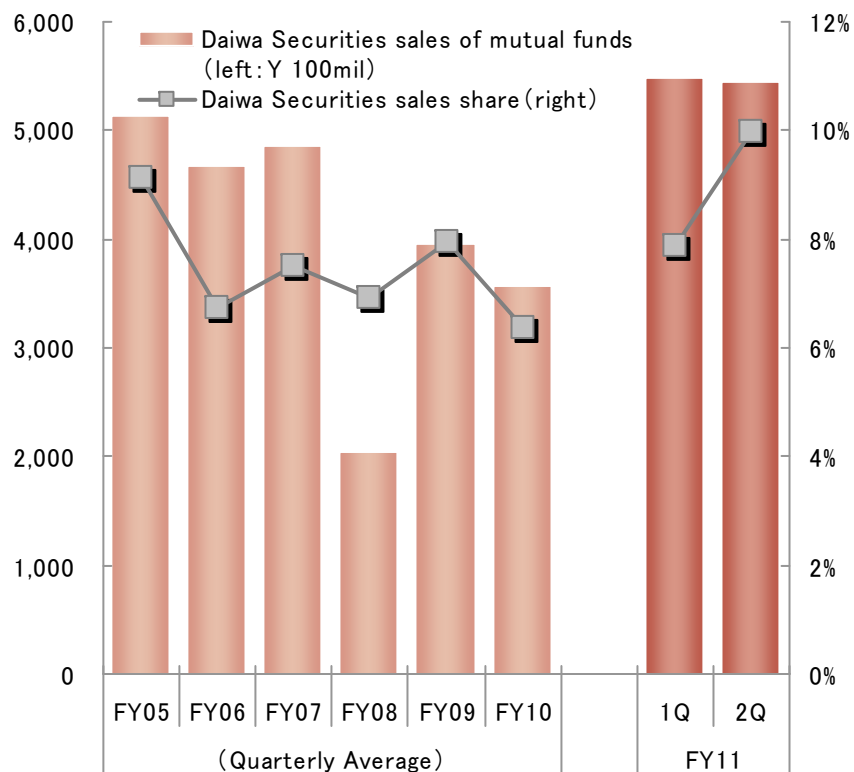
\*Base SG&A=Assumed Consolidated SG&A when ordinary income is zero



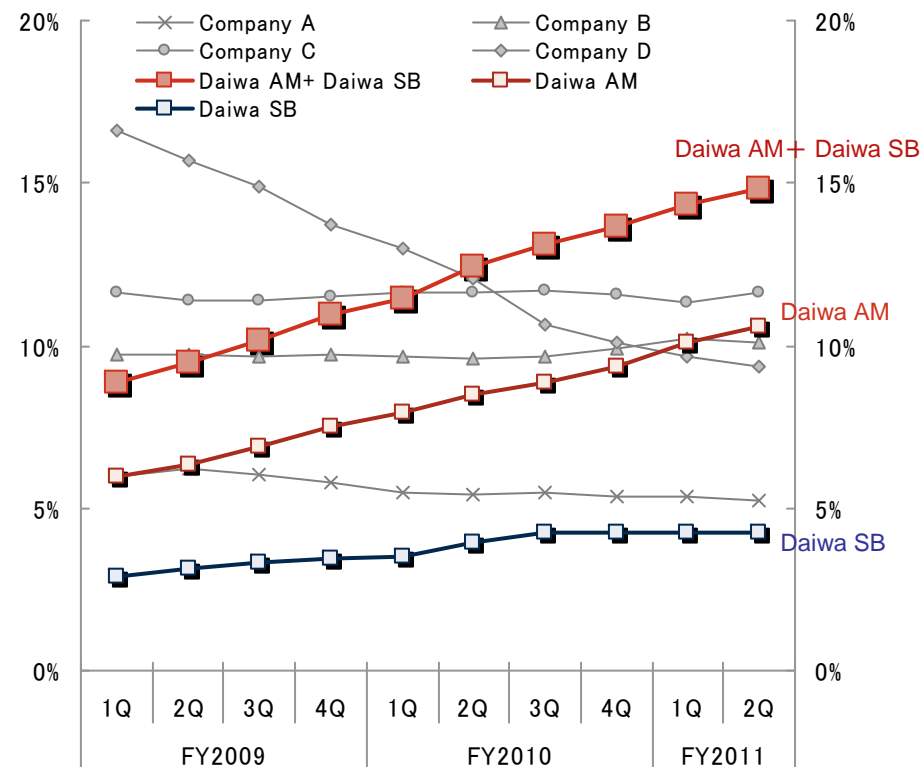
# [Stable Revenue Expansion] Focusing on Mutual Funds

- Sales of mutual funds in Retail Division for 1H FY2011 was approximately Y 1tri, exceeding the level before Lehman Fall.
- Asset Management Division ranked top in balance share of OTC sales through bank channels.

Measure ① Retail Division Sales of Mutual Funds



Measure ② Asset Management Division Share of Bank Related Sales Channel

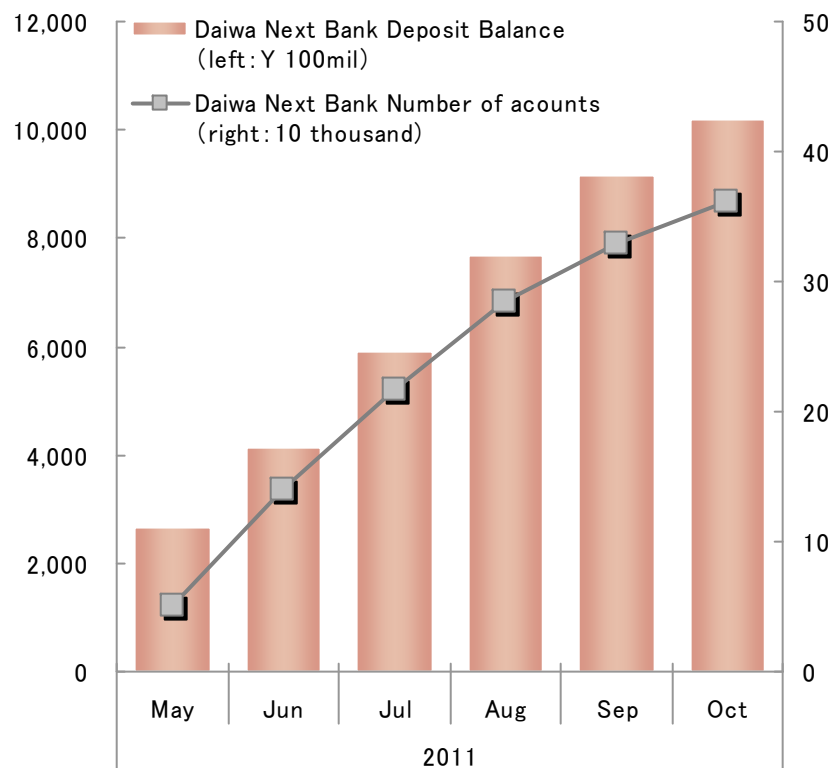


\*Made by Daiwa Asset Management using data of The Investment Trusts Association, Japan

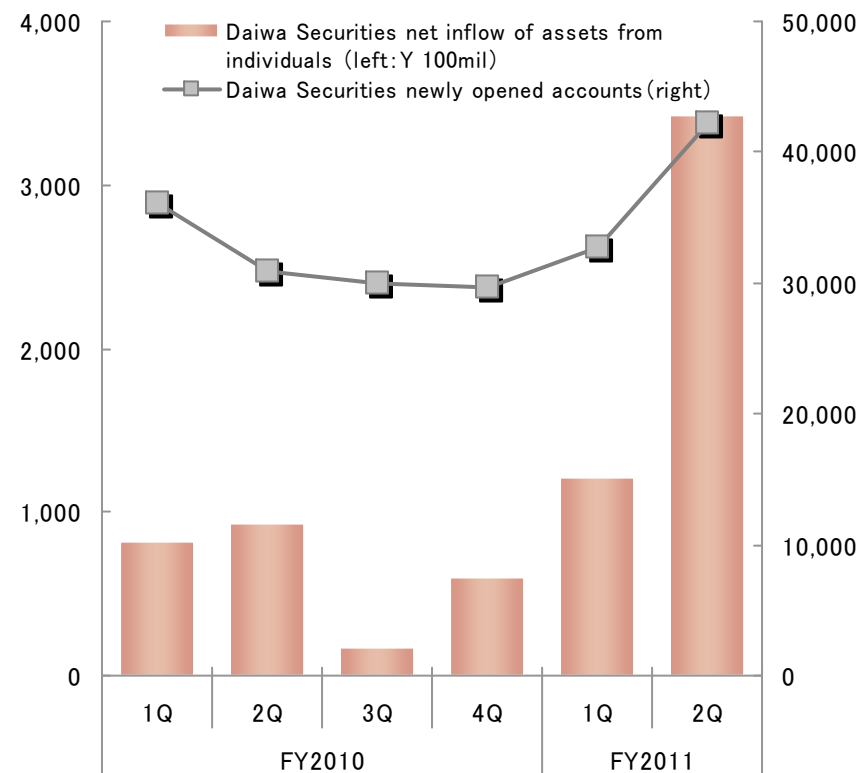
## [Stable Revenue Expansion] Focusing on Bank's Deposit Balance

- Daiwa Next Bank's deposit balance reached Y 1tri in less than half a year.
- Net inflow of assets from individuals and newly opened accounts increased in Retail Division.

Measure③ Deposit Balance of Daiwa Next Bank



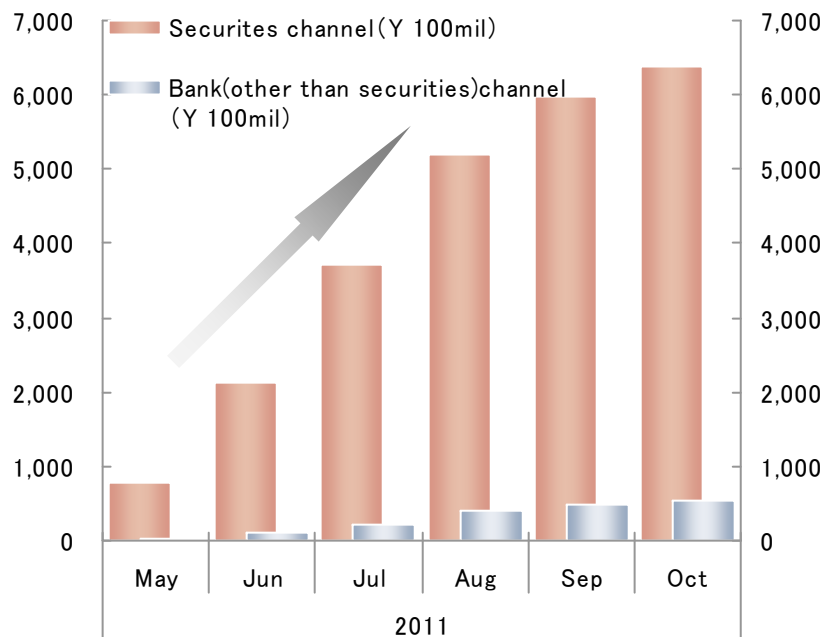
Synergy Effect to Retail Customer Base



# Daiwa Next Bank Advantaged Business Model

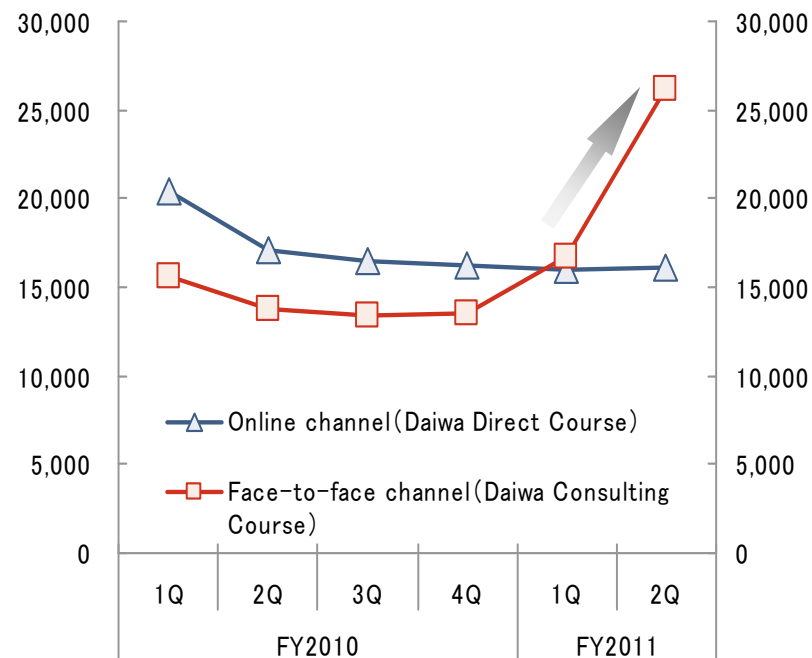
- Reached Y 1tri in deposit balance sooner than assumption, by superiority and originality of our business model.
- Confirmed high synergy effect between Daiwa Next Bank and Daiwa Securities, especially in face-to-face channel.

Deposit Balance from Individuals



Effective through securities channel

Daiwa Securities' Newly Opened Accounts

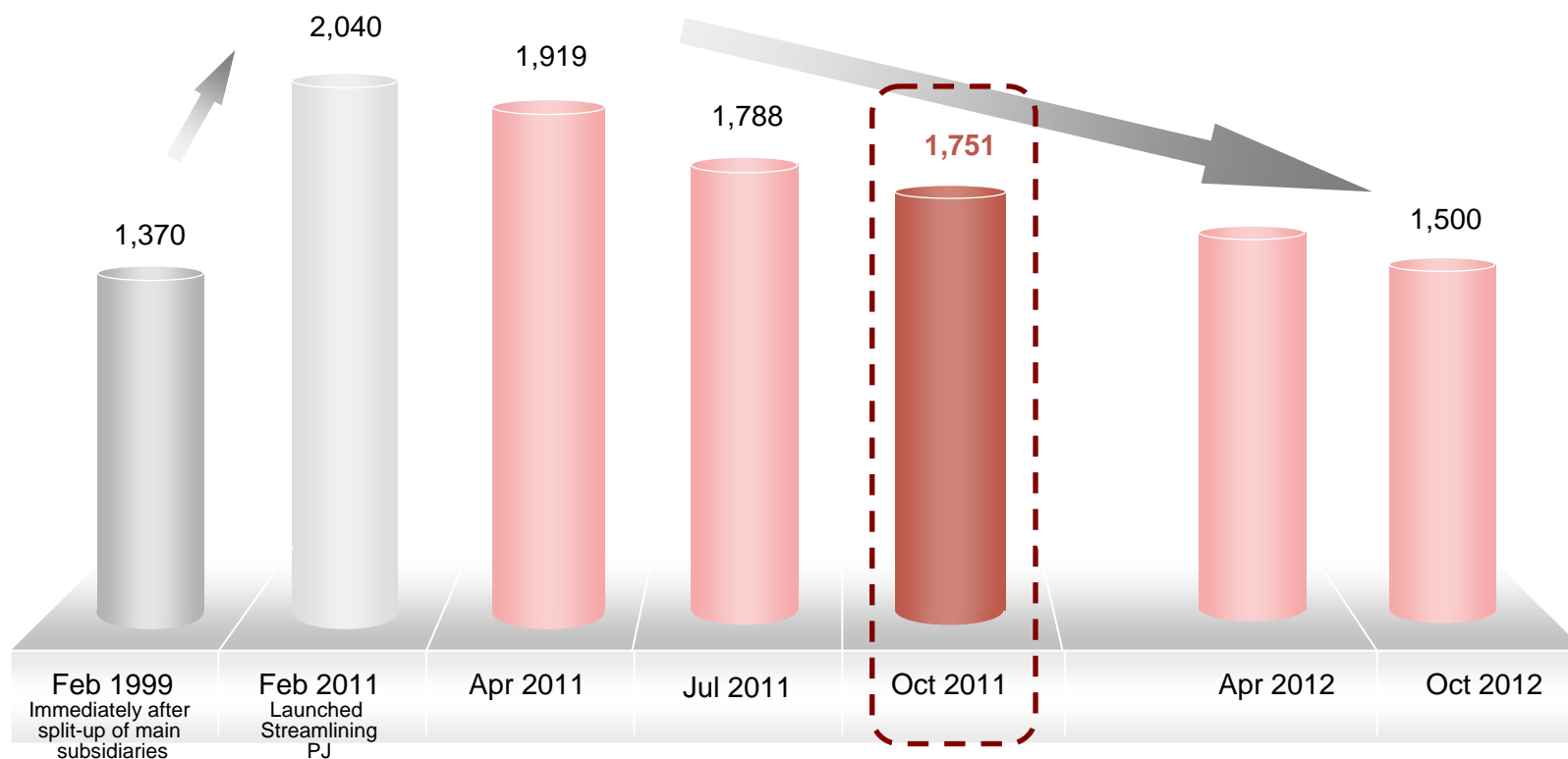


Effective in face-to-face channel

## [Administrative Optimization] Personnel Shifts to Sales Forces

- Personnel shifts to sales forces from middle-and back-offices are scheduled to be completed ahead of initial plan (initial target: Apr 2014).

Measure ④ Number of Employees of Middle-and back-Office in  
2 Securities Companies and Holding Company

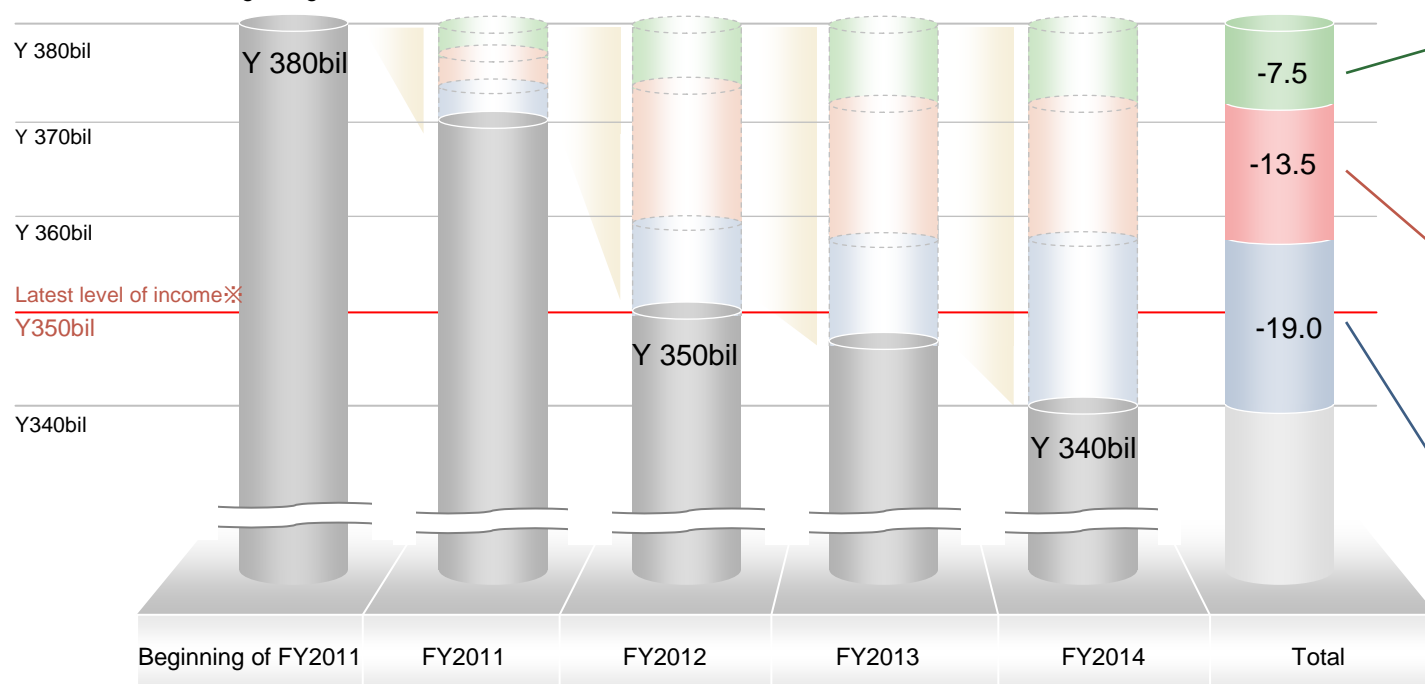


# [Administrative Optimization] Reduction of Base SG&A

- Reduce Y 40bil of SG&A, with an additional Y 10bil to SG&A reduction plan announced in May, 2011.
- Downsizing or closure of loss making businesses and reduction of over 300 personnel in overseas.
- Cost reduction will come into effect in the second half of FY2011 and 75% in progress by FY2012; base SG&A will be Y 350bil level.
- Reduction will continue after FY2013 due to decrease in depreciation, in FY2014 base SG&A will be under Y 340bil.

## Measure ⑤ Reduce Base SG&A

Base SG&A at the beginning of FY2011\*



Reduction of operating expenses by group companies/real estate expenses
<ul style="list-style-type: none"> <li>■ Administrative optimization by group companies, downsizing or closure of non-profit making businesses</li> <li>■ Reduction of the real estate cost through streamlining of the headquarters and close investigation of the rents</li> <li>■ Optimizing operations dispersed in several locations</li> </ul>
Overseas SG&A
<ul style="list-style-type: none"> <li>■ Optimizations of overseas operations → reduce more than 300 personnel</li> <li>■ Downsizing or closure of non-profit making businesses</li> <li>■ Right-sizing of middle-and back-offices</li> </ul>
System-related expenses
<ul style="list-style-type: none"> <li>■ Reduction and stronger control over system investments</li> <li>■ Reduction of operation costs</li> <li>■ Discontinuance of PTS and CFD services</li> </ul>

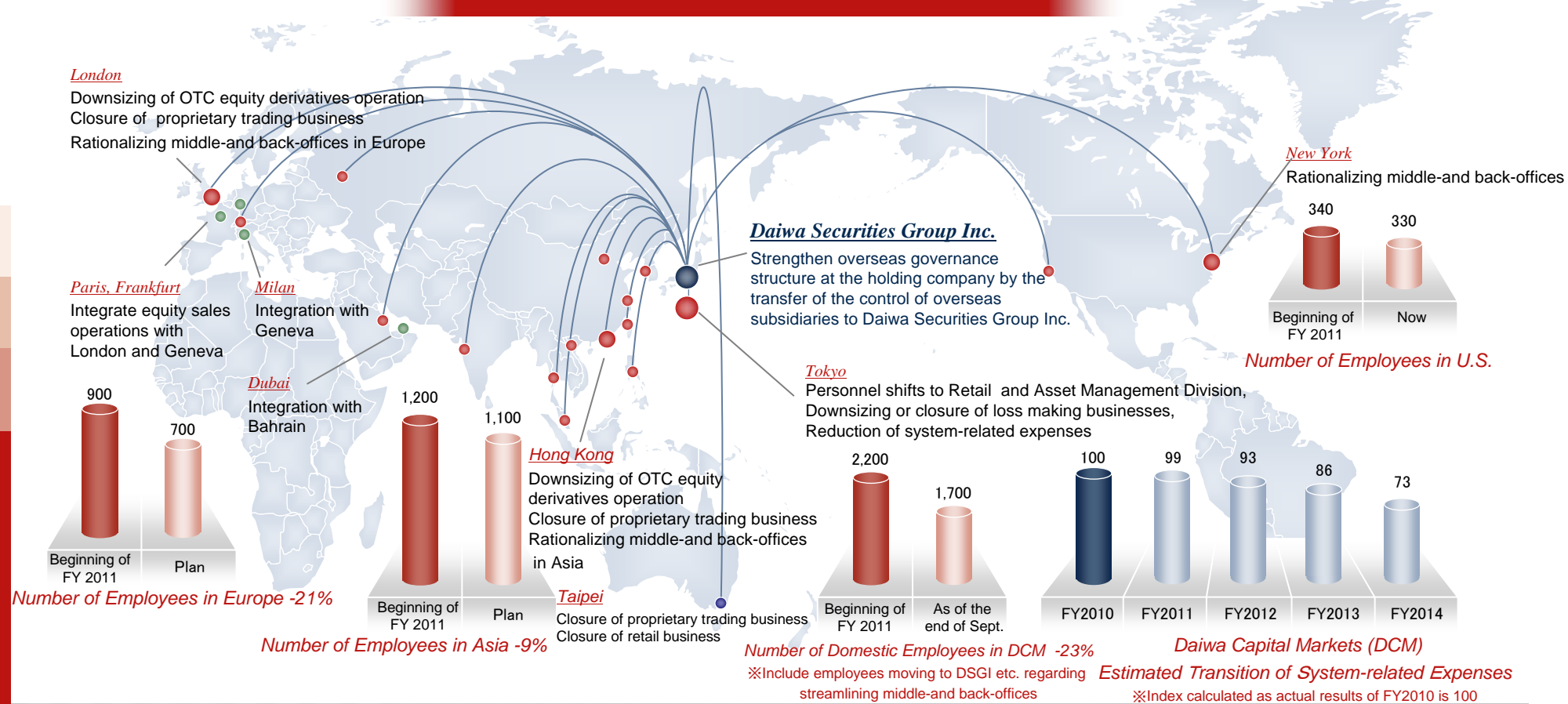
\* Base SG&A= Estimated latest consolidated SG&A when ordinary income is zero

※latest level of income = Average of actual results from FY2008 to FY2010, and actual result of FY2011 1H multiplied by 2 times

# Right-sizing of the Wholesale Business

- Reorganization and restructuring of global operation base.
- In domestic operations, personnel shifts to Retail and Asset Management Division as well as reduction of system-related expenses.
- In overseas, mainly in Europe, reduction of personnel and reorganization of operations.

## Reorganization and Restructuring of Wholesale Business



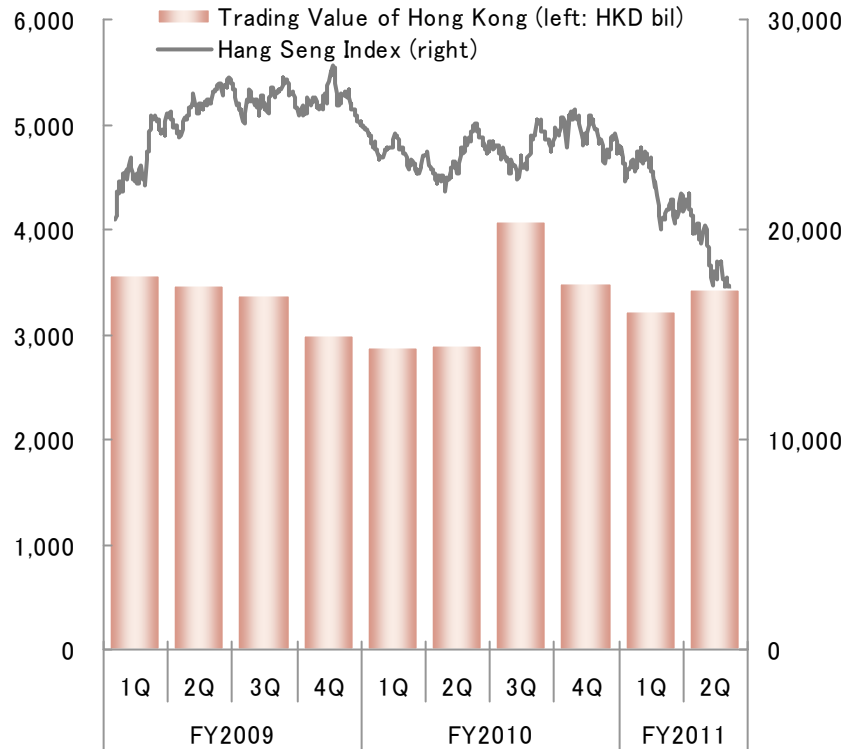
## Ⅲ- 2. Path to Asia's Leading Financial Services Firm

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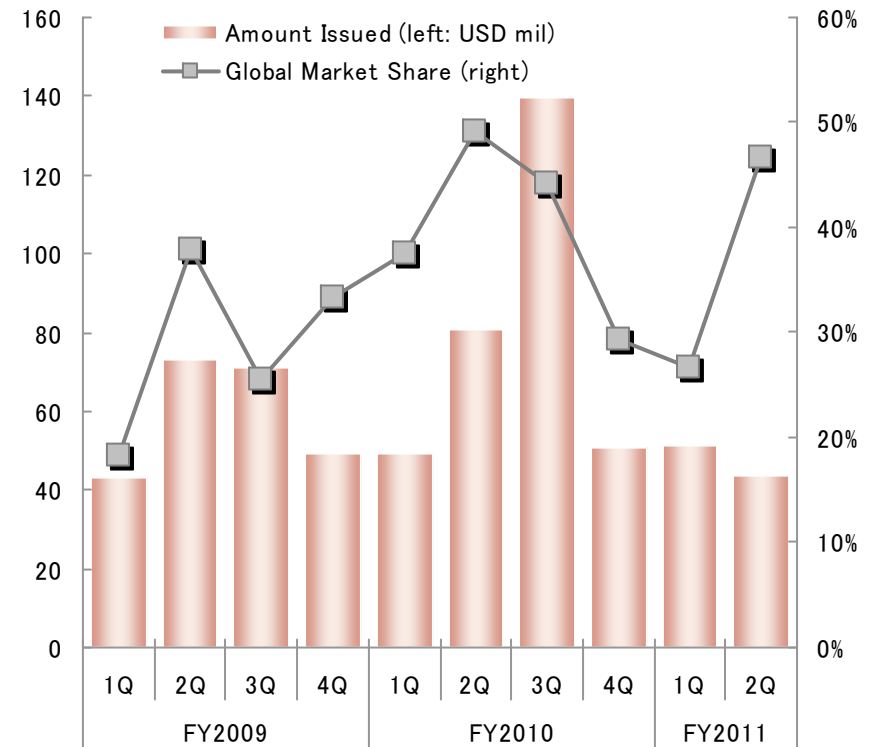
# Business Environments in Asia

- Markets in Asia/emerging countries has been in a correction phase since the beginning of 2011, and ECM markets in Asia performs below the previous year level.

Trading Value of Hong Kong



Asian ECM Market (Excluding Japan)



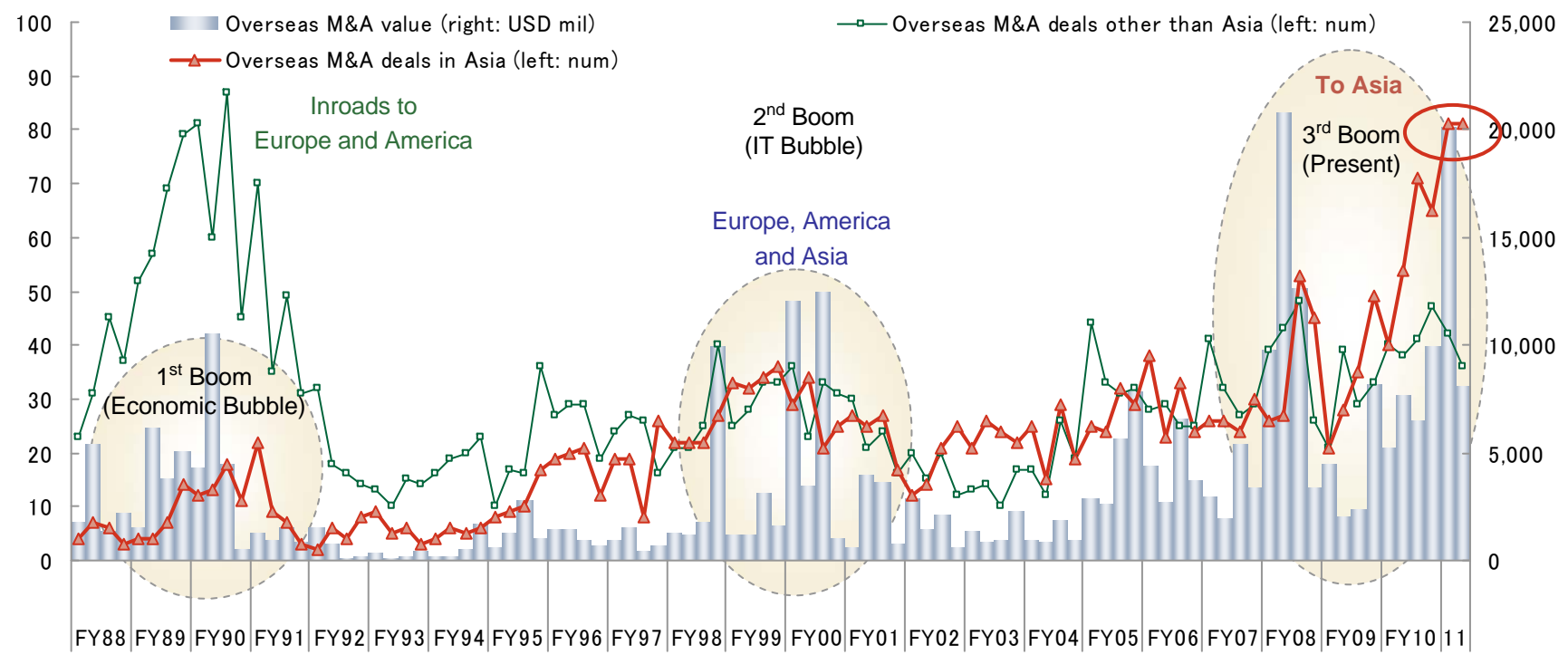
\*The issuer is located in Asia/Oceania (excluding Japan, Middle East and Central Asia)

# Japanese Corporations Actively Making Inroads to Asia



- Acquisitions of Asian businesses have increased, forming a third overseas M&A boom by Japanese corporations.
- Number of acquisitions of Asian businesses by Japanese corporations reached to a record high level in 1H FY2011, despite few number of large deals.

## Overseas M&A by Japanese Corporations



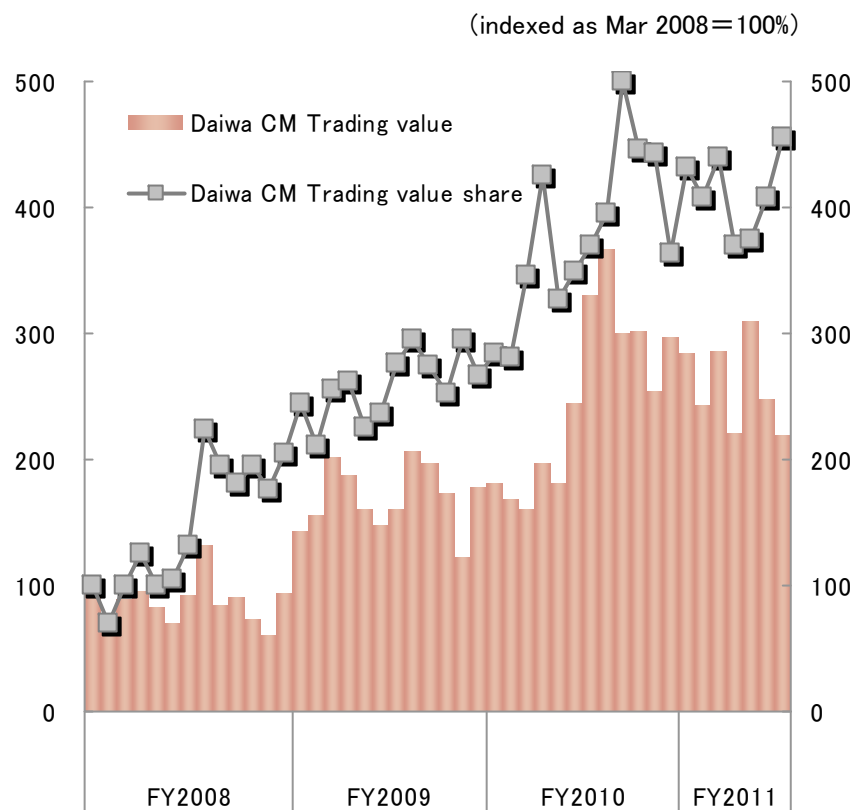
Source: Thomson Financial

# Our Initiatives in Asia (GM Division)

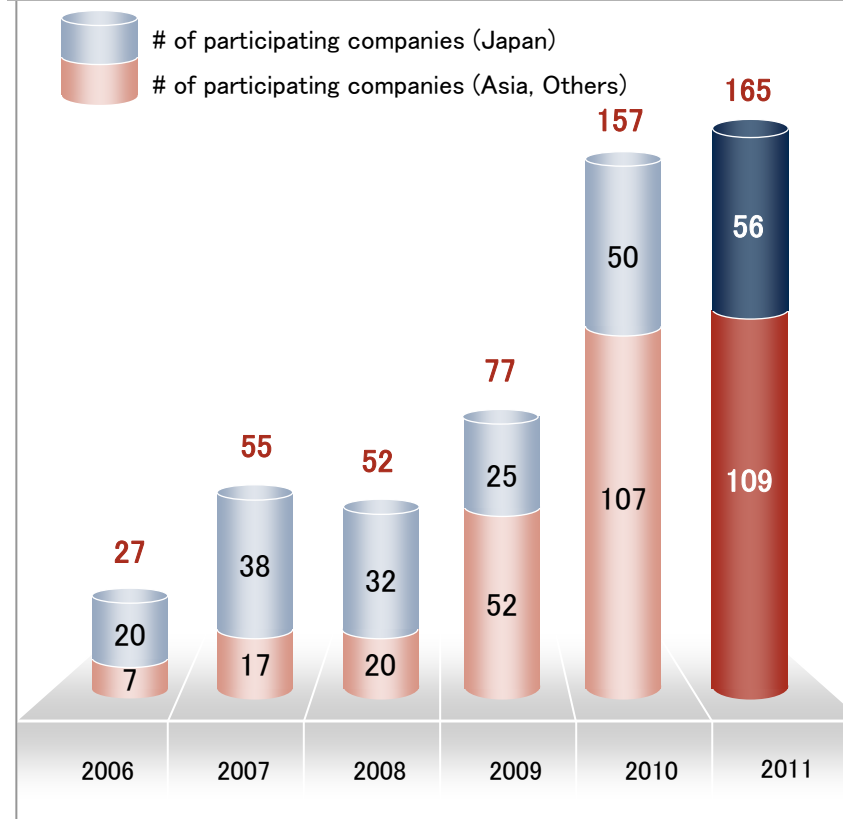


- Share of trading value in Hong Kong maintains high level.
- Number of participating companies and investors to Daiwa Investment Conference Hong Kong was largest ever.

### Trading Value Share in Hong Kong



### Daiwa Investment Conference Hong Kong

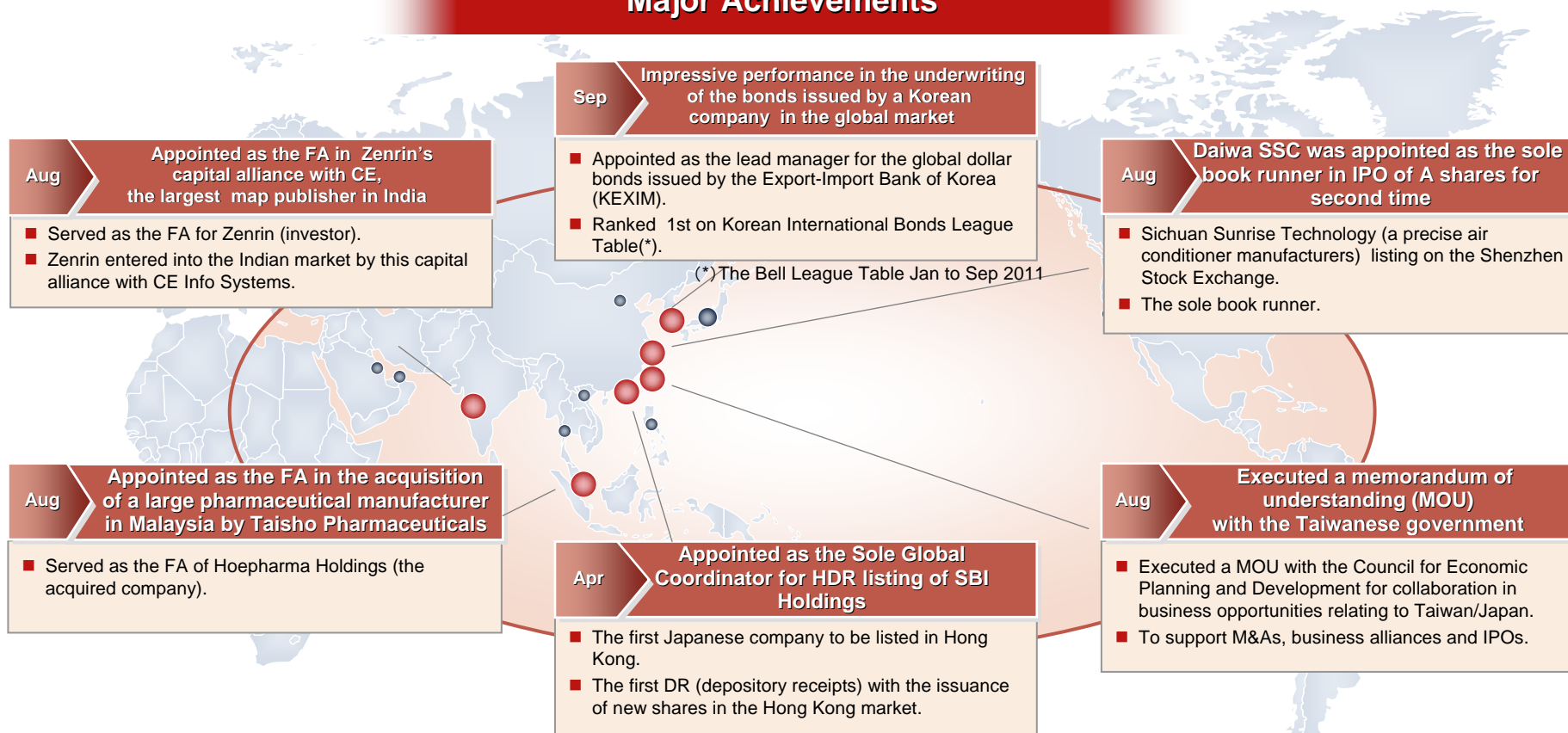


# Our Initiatives in Asia (GIB Division)



- GIB Division accumulated successful results in Asia, such as appointment to Global Coordinator for the first Japanese Corporation listing in HK, and executed a MOU with the Taiwanese government for collaboration in business opportunities relating to Taiwan/Japan.

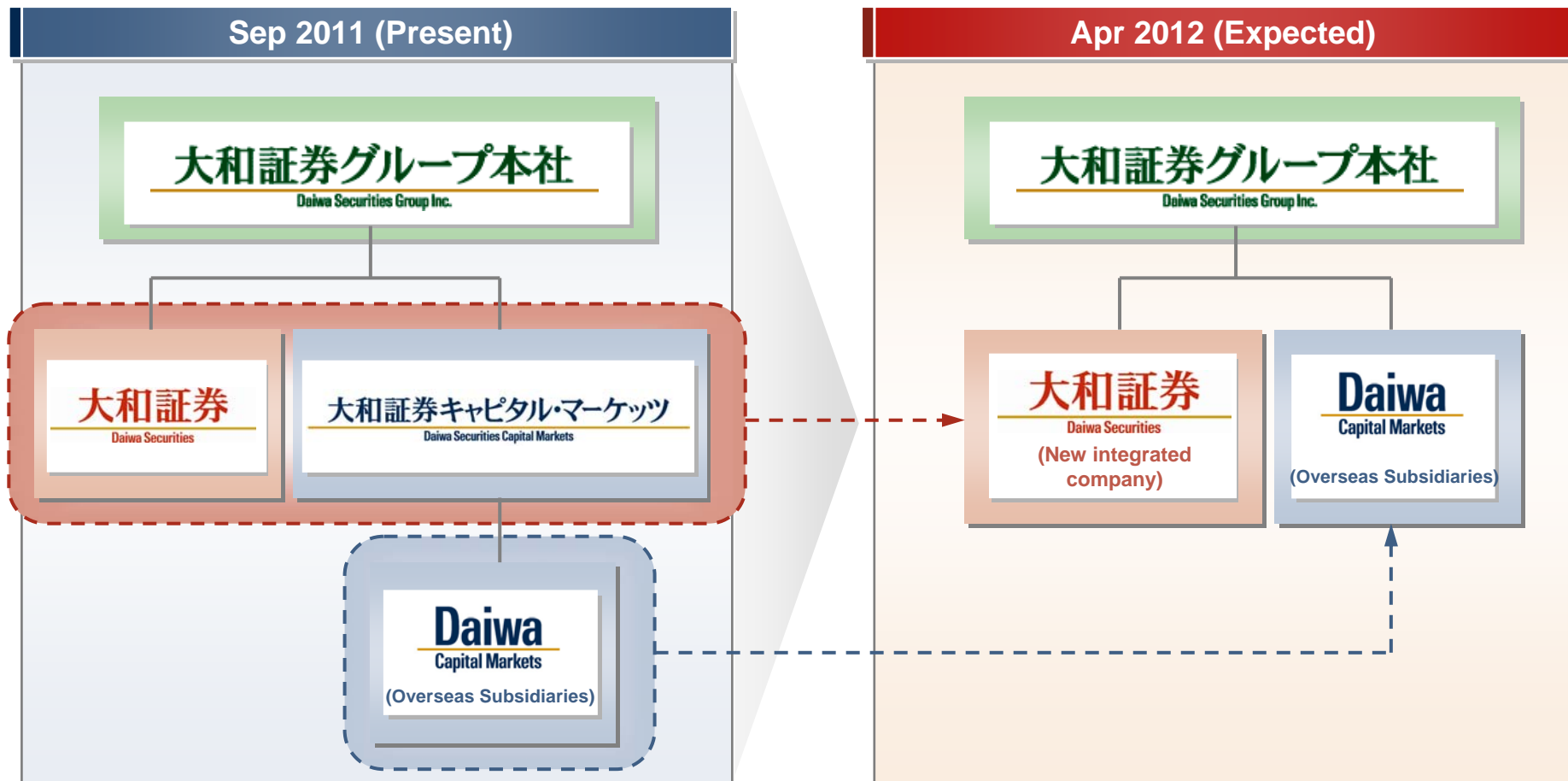
## Major Achievements



## IV. Conclusion

# Starting of the “New” Daiwa Securities

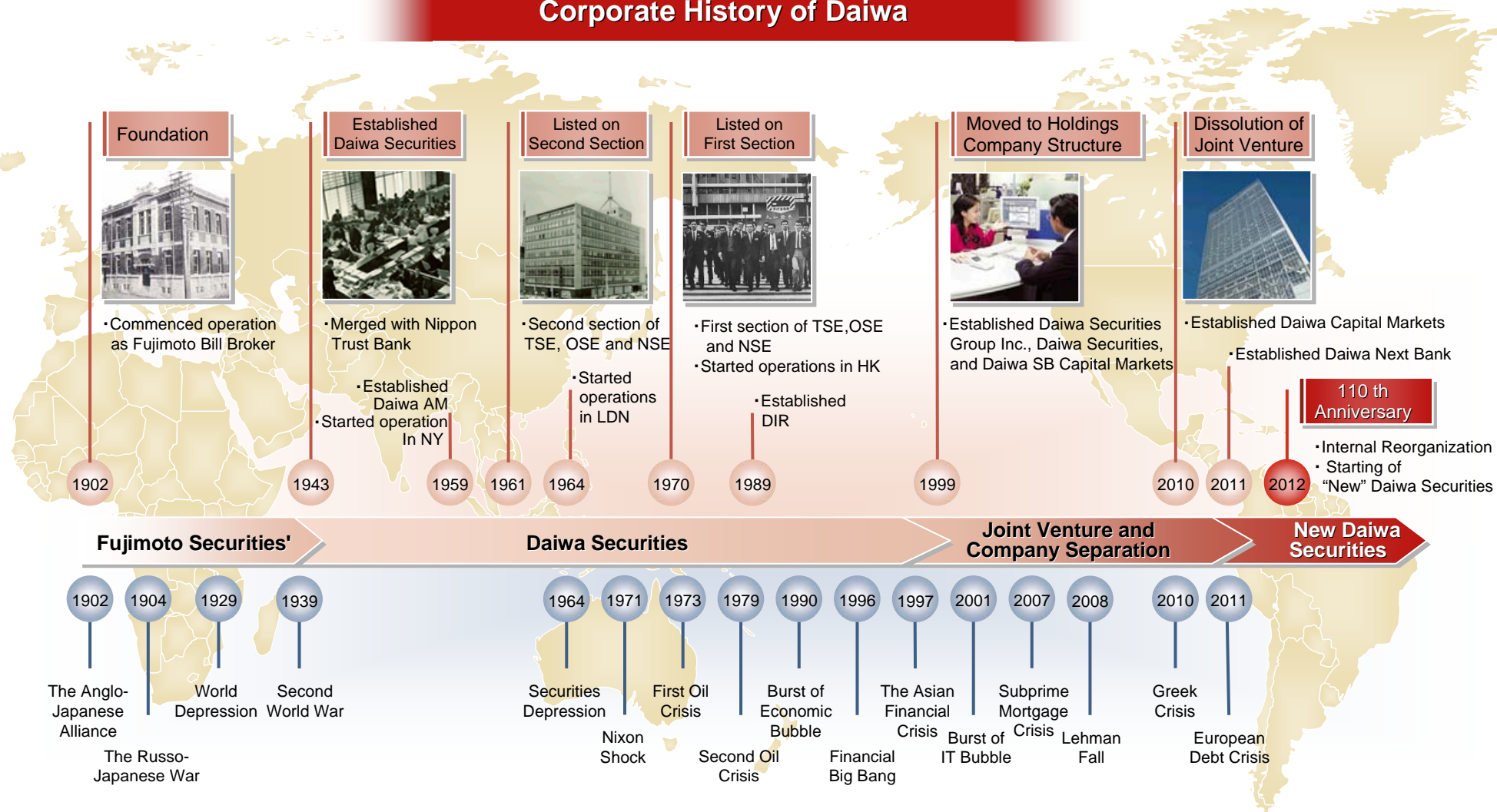
## Internal Reorganization



# Starting of the “New” Daiwa Securities



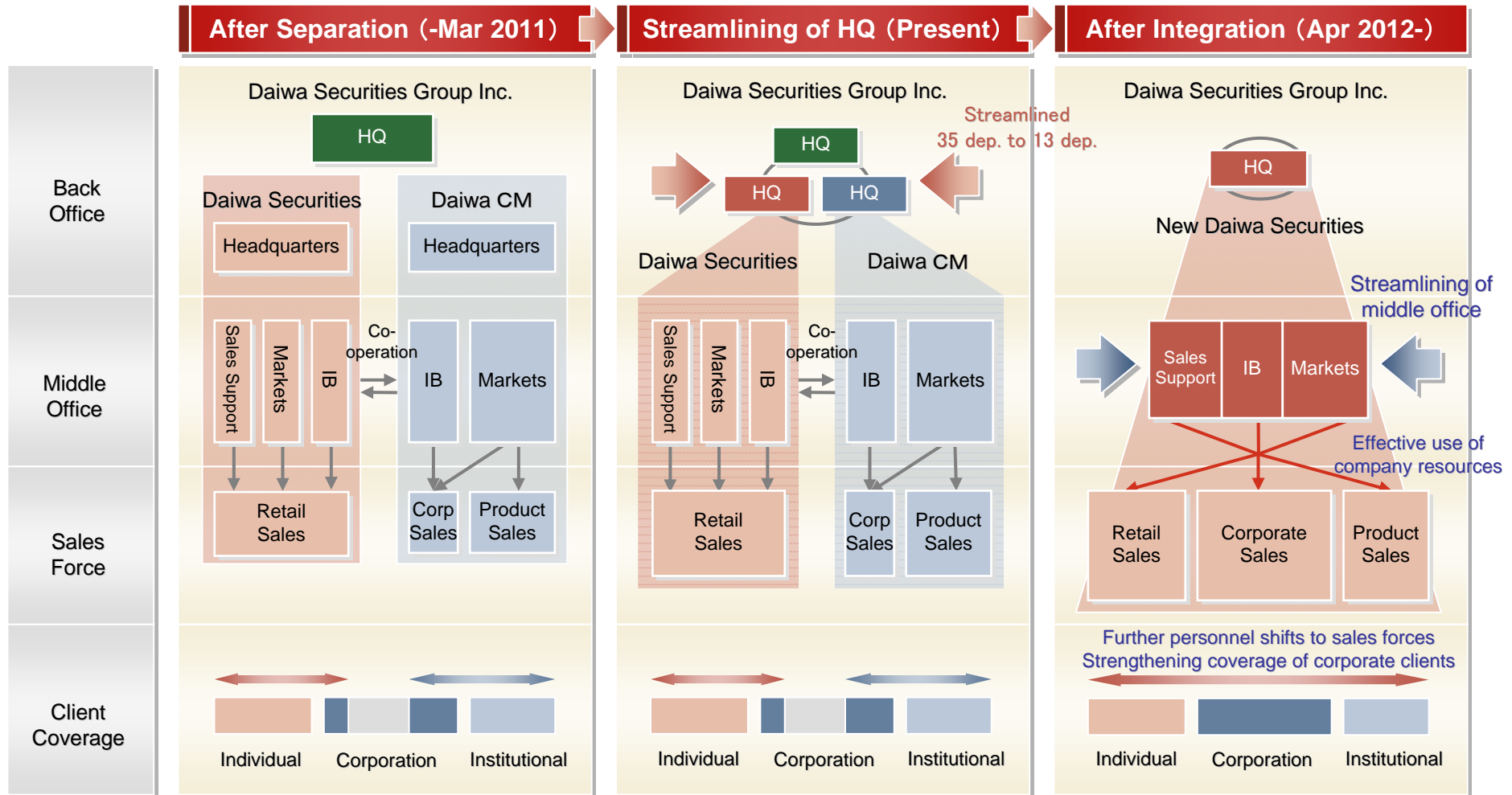
## Corporate History of Daiwa



# Starting of the “New” Daiwa Securities



- “New” Daiwa Securities = Integrated securities firm with a strong sales organization and an efficient managerial structure.



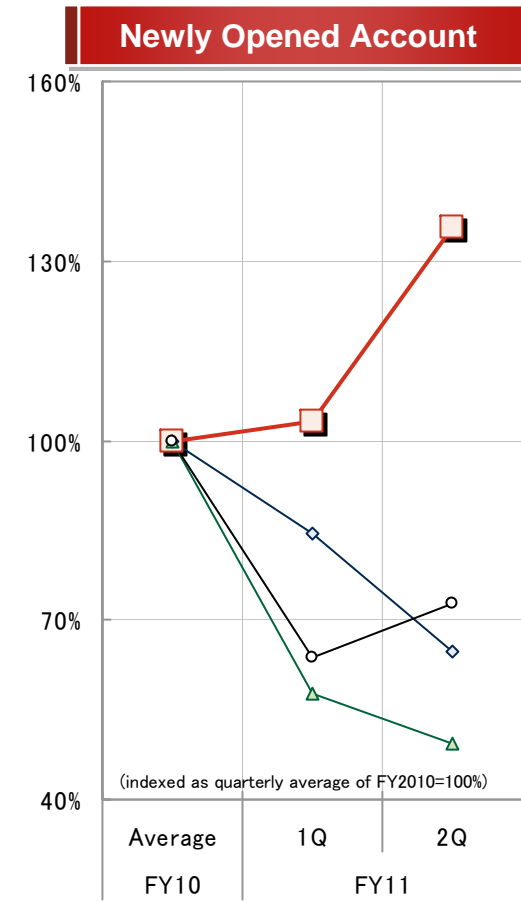
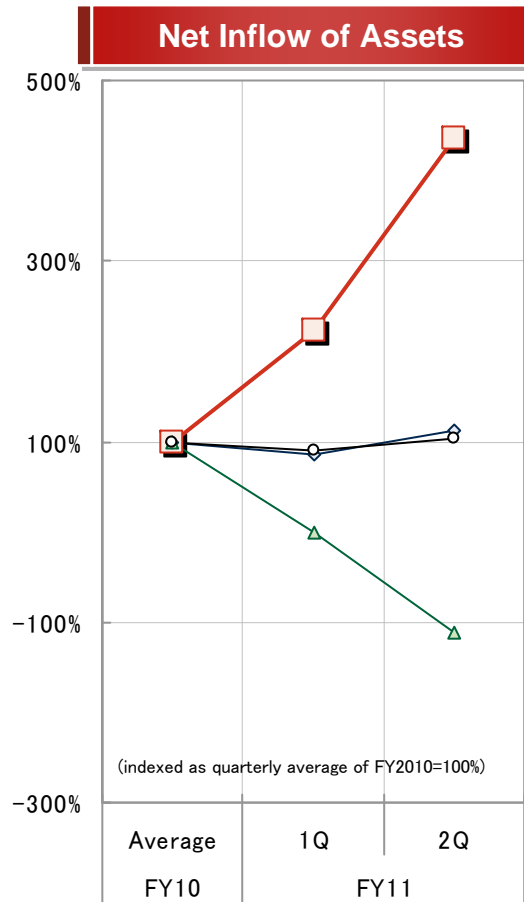
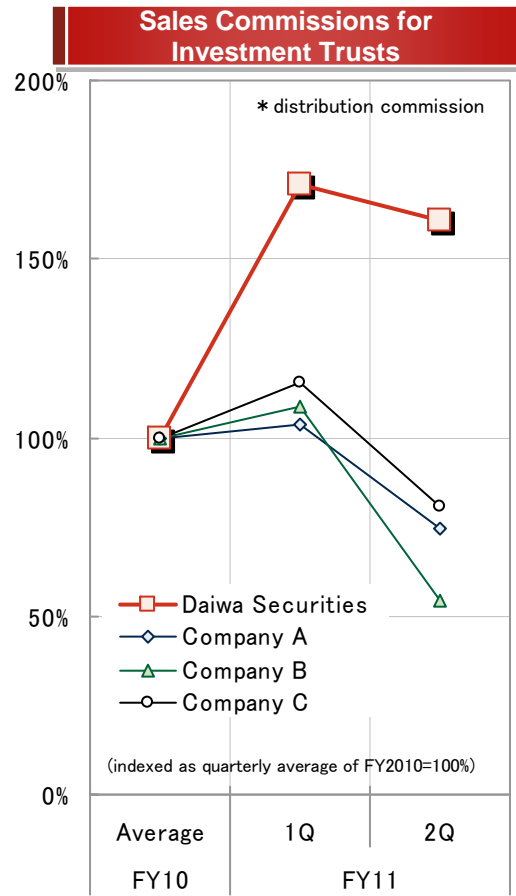
# Appendix

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# Domestic Securities Major Index of Retail Business



- Results of Retail Division was relatively firm due to concentration on mutual fund sales and developing client base.



# **Daiwa Securities Group**

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**Daiwa Securities Group Inc.**

**Investors Relations**

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