

Overview of the Group's New Medium-Term Management Plan: "Passion for the Best" 2011

The new medium-term management plan—"Passion for the Best" 2011—covering the period from April 2009 through March 2012, aims to make the Daiwa Securities Group Japan's best securities group.

1. Management Theme: "Establish the Daiwa Securities Group as One of Japan's Top Companies by Earning the Trust of All Stakeholders"

Since 1999, when it divided operations according to business segment and adopted the current holding company structure, the Group has been steadily developing its securities-related businesses and rapidly increasing the balance of customer assets, the number of accounts, and the number of investment banking deals on which it has served as lead manager. On this firm business foundation, the Group is preparing to build to another level of growth, by raising its standards of performance, adopting higher goals in its corporate philosophy, and cultivating an even stronger relationship of trust with all of its stakeholders—customers, shareholders, employees, and society in general. The management theme underlying this stage of expansion is to "establish the Daiwa Securities Group as one of Japan's top companies by earning the trust of all stakeholders."

2. Priority Issues: Building More Effective Business Models for Each Business Segment

In order to accomplish the goals described above, the first step in the medium-term plan is to start from square one, by re-examining each business and considering how to strengthen the relationship of trust with customers. At present, the intermediating functions of capital and financial markets have been weakened as a result of the financial crisis, obstructing the flow of funds from investors to stock and bond issuers. Both of these groups are customers of the Daiwa Securities Group. By earning the trust of investors and providing unique value-added products and services, the Group can lead them back to the financial and capital markets, and help to restore market vitality. In order to accomplish this objective, the Group is evaluating the needs of customers in each business segment, considering how they will evolve in response to medium- and long-term changes in the business environment, and trying to develop more effective business models. The three top priorities that Daiwa Securities Group has identified are: **"Concentrating management resources on the retail securities business," "establishing a sustainable business model for investment banking operations" and "expanding operations in Asia and other emerging regions."** The Group will adopt a flexible approach to allocating management resources among each business, on the basis of these priorities.

Summary of Assumptions Used in the "Passion for the Best" 2011 Management Plan

Compiled by the Daiwa Securities Group based on Daiwa Institute of Research medium-term economic assumptions as of December 2008

[Economy]

- Japanese economy to remain in an adjustment phase for the entire three-year period, with an average annual real GDP growth rate of 0.6%
- Growth rates in US and Europe remain weak, but economic growth in Asia remains relatively strong
- Overall global economic growth rate to be very weak for FY 2009

[Market]

- Stock prices to move upward during the 2H 2009-1H 2010 period
→TOPIX to average 1,050 over the course of the three years, rising to 1,150 in March 2012
- Yen-dollar exchange rate to remain at about the current level (averaging ¥98=US\$1.00 over the three-year period)

[Investors' stance]

- Shift of assets "from savings to investment" to continue, but policy measures required to address financial crisis
- Investors' tolerance for risk to return to normal

[Corporate trends]

- Though demand for equity financing will remain limited, it should gradually recover
- Reorganization, consolidation and changes in industry structure to accelerate the pace of corporate M&A activity (M&A activity involving companies in Asia and other emerging regions to be particularly brisk, especially cross-border buy-outs by Japanese companies that can take advantage of the strong yen)

[Regulation and industry trends]

- In the short term, market to remain risk-averse, as participants continue to de-leverage
- Competitors are also likely to place greater focus on customer needs and improving risk management

3. Implementation Guidelines: Emphasize Speed, Cooperation, Creativity and Originality

In each business segment the Group will examine its products, its system of dealing with customers (relationship management) and its execution capabilities. All of these should be handled swiftly, in a cooperative manner that makes optimal use of the Group's overall resources. In addition, the Group will seek ways to add value and strengthen the relationship of trust with customers.

Implementation Guidelines



4. Management Targets

The Group has set both quantitative and qualitative targets for its medium-term management plan, “Passion for the Best” 2011, and will seek to adjust flexibly to changing external conditions in order to best meet these targets. These objectives include indicators which serve to monitor the level of customer satisfaction in each business segment.

Summary of Management Theme and Targets

Operating companies (Business segment)	Management theme (Three-year goal)	Ordinary income target for FY 2011	Other management targets and criteria for evaluation
Group	Establish the Daiwa Securities Group as one of Japan's top companies by earning the trust of all stakeholders.	¥200 billion (Consolidated)	Consolidated ROE: 10% or higher Market capitalization: In the top 40 listed Japanese companies
Daiwa Securities (Retail)	Become a highly regarded securities company, renowned for its professionalism and originality.	¥120 billion	Net inflow of retail assets Agency commissions from investment trusts
Daiwa Securities SMBC (Wholesale & Investment)	Create a sustainable growth model for the investment banking business, founded on customer trust and loyalty.	¥60 billion	Broker rankings League tables Percentage of earnings generated by overseas operations
Daiwa Asset Management (Asset Management)	Earn customer trust by thoroughly considering their investment needs, to become the asset management company investors choose to manage their funds.	¥15 billion	Relative performance Number of major new funds launched Share of total assets under management in publicly offered equity investment trusts
Daiwa SB Investments (Asset Management)	Establish a high-quality fund management structure that is capable of providing stable fund performance to institutional investors and individual investors alike.	¥5 billion	Fund management performance Survey of pension customers' evaluations Net inflow of funds

5. Basic Strategies for the Group

(1) Personnel

The priority issue to be addressed under the “Passion for the Best” 2011 management plan is to build more effective business models. Effective personnel strategies are needed to back up these business models and ensure that employees are allocated effectively. In addition to managing the direct/indirect cost ratio, it will be necessary to develop a strategy for expanding the workforce on a global basis which considers the issues of personnel allocation and employee transfers.

Also, during difficult times like those that the industry now faces, it is important to have a team of true professionals. The Daiwa Securities Group will strive to cultivate the industry's most highly trained specialists, supporting employees' efforts to receive certification and providing high-quality training programs. In hiring, training and daily operations the Group will constantly instill in its employees the high principles and ethics of the Daiwa Securities Group, cultivating a professional workforce that can earn the trust of customers.

Finally, the Group will implement further measures to promote a work-life balance, aiming to ensure that each employee is satisfied, highly motivated, and able to get the most out of life, both in the workplace and at home.

(2) Finances

The Group's financial strategy will center on a careful re-examination and allocation of funds to each division. A clear order of priorities will be established and both capital spending and operating costs will be controlled carefully in order to maintain the Group's healthy financial condition. The business conditions in which the Group operates are likely to remain difficult, but as long as the Group maintains its relatively strong financial position, there will be plenty of attractive growth opportunities to pursue. In order to make the most of such opportunities, it is essential that the Group will take care to maintain and strengthen its fundraising capacity. In addition to traditional methods of raising funds, the Group will explore new alternatives, and it will strive to maintain a balance between dividend distribution and retained earnings, rewarding investors while maintaining the capacity to invest in growth opportunities.

To implement this strategy effectively, the Group will promote cooperation and joint efforts in financial matters, and seek to improve the quality of risk management. The Group will use its financial base and infrastructure to support quick and effective communication of data on consolidated conditions, and seek to promote management flexibility.

(3) Information Technology

The Group's IT strategy will seek to balance cost efficiency with the need to maintain a competitive edge in technology. As part of Daiwa Institute of Research's reorganization, all IT functions and personnel for the entire Group have been optimally allocated, in a move that is expected to improve the efficiency of systems development and operations. In addition to reducing cost, this is expected to strengthen the IT support structure and allow the Group to respond flexibly to changes in the operating environment. At the same time, the Group will provide training and support to improve the IT literacy of every employee, to enhance the quality and efficiency of all Group operations.