

## Interview With the CEO

### Management's Two Main Objectives Will Help Enhance Corporate Value

From April 1, 2011, Takashi Hibino has taken over as the new CEO of Daiwa Securities Group Inc. Previously, he served as Deputy President of Daiwa Securities Capital Markets Co. Ltd., and played a leading role in spearheading the Group's expansion in Asia. In addition to serving as CEO of Daiwa Securities Group Inc., he also holds the President post at Daiwa Securities Co. Ltd. and Daiwa Securities Capital Markets Co. Ltd. Under his leadership, the Group intends to solidify its earnings base in Japan while bolstering operations in Asia and promoting greater cohesion within the Group.



**QUESTION:** From an overall perspective, how does the Daiwa Securities Group perceive current conditions in financial markets?

**A.** Since the collapse of Lehman Brothers and the outbreak of the global financial crisis, investment banking operations have faced a very adverse business climate. Japan's nominal GDP has not grown significantly for almost 20 years, and as this flat economic growth trend persists, the domestic stock markets have begun to contract both in terms of trading value and total market capitalization. This means that all securities companies must battle for a share of a pie that is not getting any larger. Meanwhile, financial regulations are being tightened up worldwide, and companies are competing to be the first to introduce the latest in IT capabilities.

The effort to comply with new regulations and capture market share naturally increases operating costs. Our domestic wholesale operations face extremely harsh earnings conditions, due to rising costs and stagnant revenues. In the past, the Daiwa Securities Group channeled a large portion of its resources into developing the domestic wholesale business. It is now apparent, however,

that macroeconomic trends in the Japanese market cannot support the Group's former business structure. In order to remain a vibrant, profitable company, we will have to redistribute management resources towards growing markets.

First of all, the Group needs to shift the focus of its wholesale operations to Asia. A multitude of Japanese companies are expanding into Asian markets to take advantage of the growth potential and earnings power of the region. The Group needs to follow the same path if we hope to maintain growth over the longer term. We have resolved to expand the scope of our "home"

Trading value in the Japanese stock exchanges and total market capitalization are gradually shrinking, leading to stagnation in potential earnings for all securities companies. The only option is to shift management resources toward markets and sectors where there is still potential for growth.

market to encompass all of Asia. By establishing a presence as one of the leading investment banks in Asia, the Group can benefit from the burgeoning links between Japan and the rest of Asia.

In Japan, meanwhile, the Group needs to shift its focus towards the Retail and Asset Management businesses. At present, a major percentage of personal financial assets is still held in the

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form of term deposits and simple savings accounts. These funds are now slowly making their way into investments, such as monthly-dividend-payment-type investment trusts. This flow is likely to accelerate further in the coming years. The nationwide branch network operated by Daiwa Securities, and the ¥43 trillion in customer assets it has attracted, represent a key operating base of the Group. The Asset Management business generated strong earnings last year by addressing the wide-ranging needs of domestic individual investors. This business segment still has vast potential, and it remains a top priority for the Daiwa Securities Group.

**QUESTION :** As the new CEO, what management policies and objectives do you plan to pursue?

**A.** The first priority for me will be reforming the Group's earnings structure. Since the collapse of Lehman Brothers, the business environment has become a lot more demanding. The first goal of management is the establishment of a robust business structure which can maintain a break-even point on a consolidated basis even in this sort of harsh business environment.

Another issue that we face as a Japanese securities company is the fact that Japan is a mature market with a declining population. It is essential that we treat the whole of Asia – including Japan – as our home market, and begin to tap the growth potential of emerging markets in Asia. We aim to achieve growth over the medium term by leveraging ties between Japan and the growing markets in Asia. To this end, we have adopted the second goal of becoming Asia's leading financial services firm.



In July 2011, we announced plans to merge the Group's two core subsidiaries – Daiwa Securities and Daiwa Securities Capital Markets – while bringing all overseas subsidiaries of Daiwa Securities Capital Markets under the direct management control of Daiwa Securities Group Inc. This reorganization of the Group management structure will allow us to allocate resources to each Group company and business region more effectively and appropriately. We also think that this will make the overall management structure more efficient, and help promote our two main management goals.

## Management Goals

1

### Establish a robust business structure

The Group aims to create an earnings structure that keeps revenue above the break-even point even amidst harsh business conditions equivalent to those prevalent following the collapse of Lehman Brothers.

2

### Become Asia's leading financial services firm

The Group intends to achieve medium-term growth by leveraging the ties between Japan and the rest of Asia, and treating the entire Asian region as the Group's "home market."

## QUESTION : What specific measures is the Group taking to establish a robust business structure and become Asia's leading financial services firm?

**A.** In recent years, financial markets have gone through several phases of stress and earnings decline, such as in FY2002 following the collapse of the IT bubble, and during the global financial crisis in FY2008. We estimate that the Group needs to improve profitability by about ¥100 billion in order to maintain a break-even performance during such a downturn. To meet this goal, we are seeking ways to expand stable sources of revenue, which are less susceptible to market fluctuations, and improving administrative efficiency by slimming down management operations, which have become somewhat bloated since the switch to a holding company structure and company separation. Our main sources of stable revenues can be found in the Group's

Retail and Asset Management Divisions. By expanding the balance of customer assets, we aim to increase agency fees and trust fees from investment trusts, and other stable revenues. To further accelerate growth in customer assets, we established Daiwa Next Bank, Ltd. in 2011, and launched a bank agency business at Daiwa Securities Co. Ltd. In addition to offering favorable interest rates, Daiwa Next Bank can use Daiwa Securities as an agent, to offer customers face-to-face service via the nationwide branch network of 120 sales offices. The addition of banking functions to our Group operations means that the Daiwa Securities Group can now offer customers a broad range of products to match their risk

profile, from ordinary deposits to the Asset Management Division's attractive lineup of investment trusts and a multitude of financial products provided by the Retail Division. This will allow the Group to expand its customer base and the balance of assets. Under our current plan, we expect to increase income from asset-based businesses by around ¥60 billion per year.

Meanwhile, to reduce administrative expenses, we initiated efforts in June 2011 to consolidate the planning, personnel and finance functions of Daiwa Securities Group Inc., Daiwa Securities Co. Ltd. and Daiwa Securities Capital Markets Co. Ltd. into a single, more efficient administrative unit for the entire Group. Personnel will be reassigned to the Retail

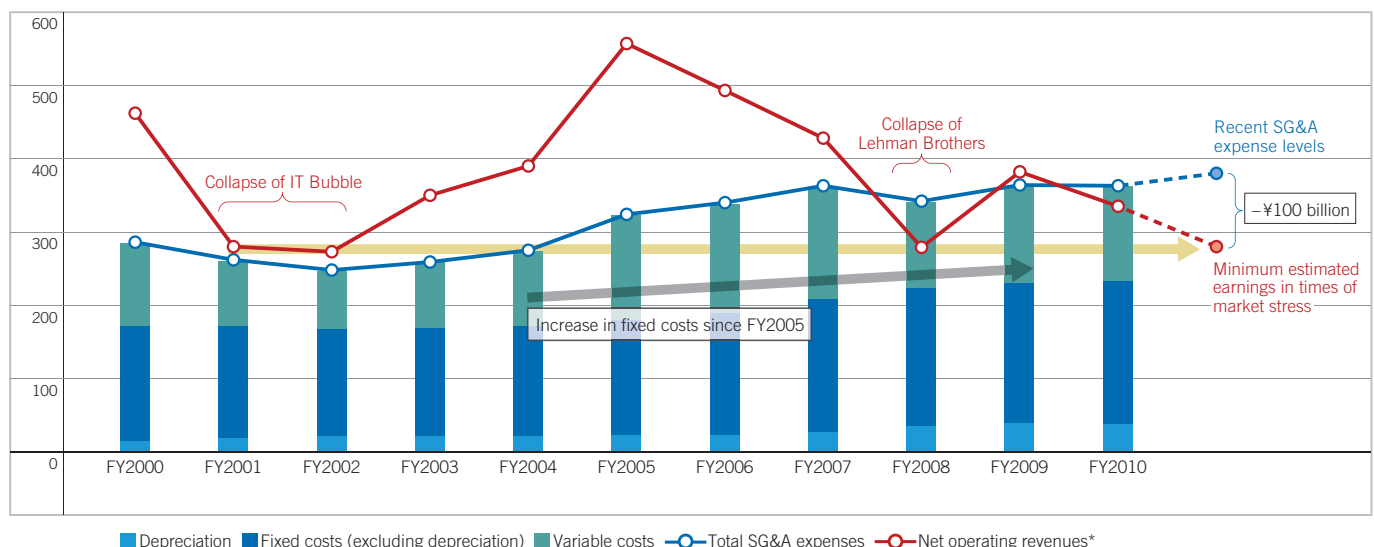
and Asset Management Divisions accordingly. There will also be reductions in SG&A expenses in real estate-related and IT operations. We expect the result of these steps to be an improvement in profitability of around ¥40 billion per year.

We have also announced the consolidation of the retail operations of Daiwa Securities and the wholesale operations of Daiwa Securities Capital Markets into a single company which will shift management resources toward retail operations, particularly those that help to expand stable revenues. This will also help to cut costs and reduce administrative inefficiency arising from the separation of corporate structures.

The Group aims to improve earnings by roughly ¥100 billion, by expanding stable sources of revenue which are not susceptible to market fluctuations, and reducing SG&A expenses through improvements in management efficiency.

### Profit Structure of the Daiwa Securities Group

(¥ billion)

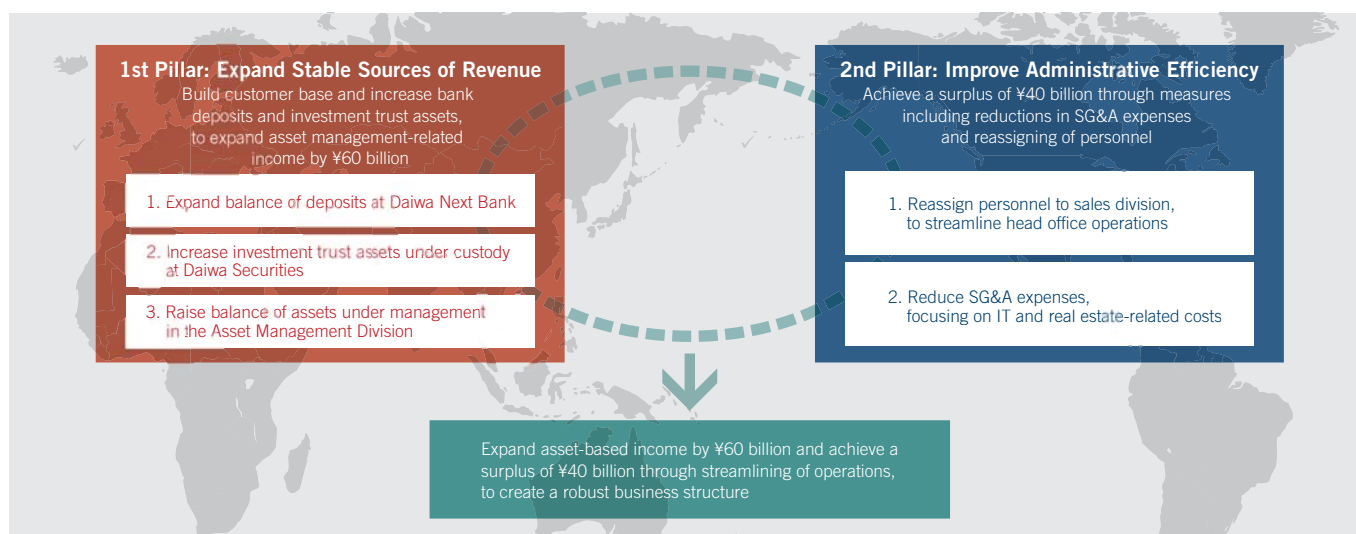


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In order to establish ourselves as Asia's leading financial services firm, we are increasing capital and expanding the workforce at all of our Group subsidiaries in Asia, to build a stronger business foundation in the region. Since most of these expansion efforts have already been implemented, costs should begin to level off in the near future, while our overseas business expands to unprecedented levels. As part of the aforementioned Group restructuring, all overseas subsidiaries of Daiwa Securities Capital

Markets will be brought under the direct management control of the Group holding company. This will allow the Daiwa Securities Group to exercise closer supervision of the subsidiaries and ensure that they justify the slogan "Asia's leading financial services firm." This improved management of Group operations will make the allocation of management resources more efficient and globally balanced. The Group will be able to pursue its key management goal of expanding business in Asia more effectively.

### Two Pillars for ¥100 Billion Profit Improvement



### QUESTION : What specific progress has the Daiwa Securities Group made in developing operations in Asia?

**A.** The Global Markets Division has added many talented new employees to its team in Asia; efforts to install the systems infrastructure and build a Pan-Asian research team have made excellent progress; we have established one of the industry's strongest organizations in Hong Kong; and we have launched sales efforts aimed at institutional investors in the region. These efforts have already helped the Daiwa Securities Group to dramatically expand its share of total trading on Asia's leading stock exchanges, and we expect further growth in FY2011. In November 2010, we acquired the KBC Group's Global Convertible Bond and Asian Equity Derivatives businesses, which will further enhance the Group's presence in the region.

The Group's share of trading on financial markets in the region is expanding, and it has attracted lead management deals for large-scale POWLs in Hong Kong and Japanese company market listings in Asia.

Meanwhile, our Global Investment Banking Division handled a number of large POWL\* issues on the Hong Kong exchange, including issuances by the Agricultural Bank of China and AIA Group. It also was involved in underwriting IPOs by Asian companies on the stock

exchanges in Hong Kong, Australia and Singapore. The Division marked two industry firsts, by lead-managing the issuance of depositary receipts by Japanese companies on

Asian stock exchanges. SBI Holdings became the first Japanese company to list depositary receipts on the Hong Kong exchange and Elpida Memory made a similarly groundbreaking issuance on the Taiwan stock exchange. In this way, the Group is helping Japanese companies to raise capital and expand operations by

tapping Asian financial markets. The number of mandates won by Daiwa Securities Capital Markets (including M&A mandates) has increased steadily due to the scale of Asian markets and the opportunities they offer. We expect this Division to achieve much better results going forward.

As the Group expands the workforce at its offices in Asia, personnel costs are rising apace. In FY2010, these costs depressed earnings; it will take time before investment in top

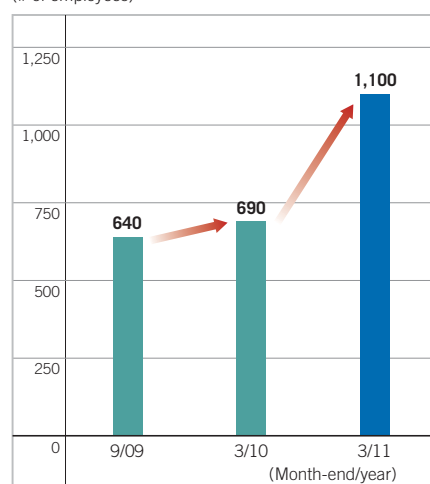
quality personnel starts to pay off. However, earnings in the Global Markets Division began to pick up in the latter half of FY2010. We expect expansion efforts to begin making a contribution to earnings in the Global Investment Banking Division as well, with our Asia operations moving above the break-even point in the near future.

\*POWL: Public Offering Without Listing – a method used by companies listed on overseas stock exchanges to raise capital in Japan.

## Progress of Strategy for Expansion in Asia

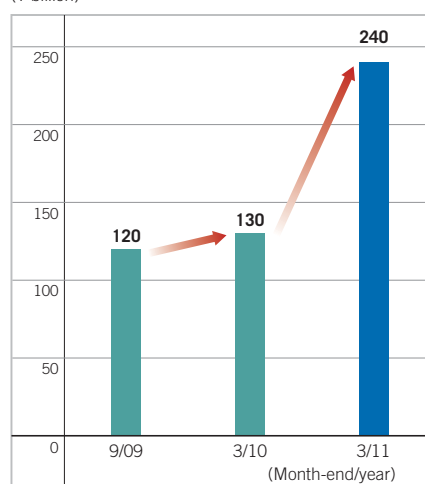
### Personnel in Asia (ex-Japan)

(# of employees)



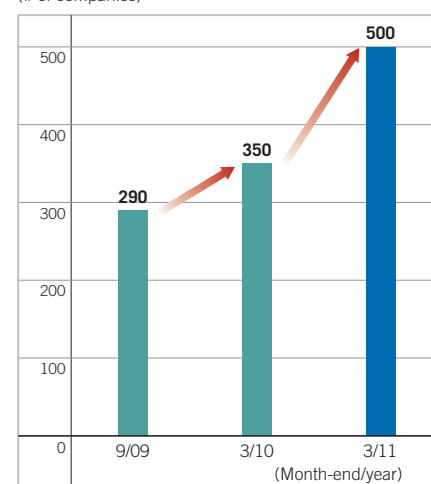
### Total Capitalization of Overseas Subsidiaries

(¥ billion)



### Number of Asian Companies (ex-Japan) Covered by Equity Research Analysts

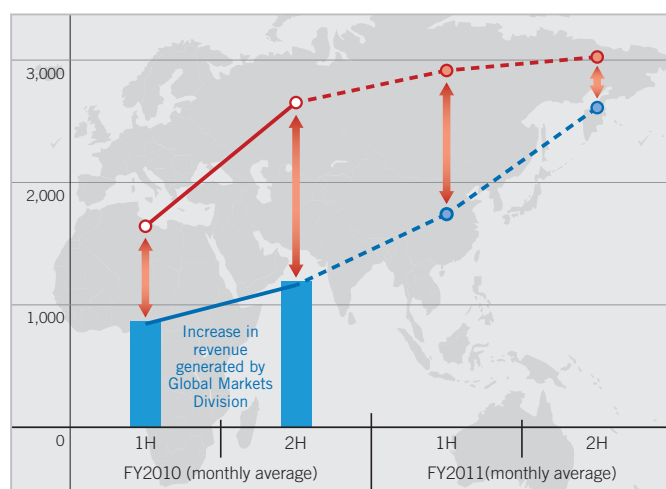
(# of companies)



Note: Includes subsidiaries in Europe and the Americas.

### Revenues and SG&A Expenses in Asia (ex-Japan)

(¥ million)



■ Revenues in Asian region (results)    —○— SG&A in Asian region (results)  
 - - - Revenues in Asian region (assumed)    - - - SG&A in Asian region (planned)

Note: Managerial accounting basis.

### The Daiwa Securities Group Subsidiaries in Asia



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### Accomplishments of the Daiwa Securities Group's Investment Banking Operation in Asia

#### Underwriting Overseas IPOs by Asian Companies

In FY2010, the Daiwa Securities Group lead-managed IPOs by three Chinese companies. China Sanjian Fine Chemicals raised U.S.\$115 million by listing its shares in Hong Kong, International Taifeng Holdings conducted a U.S.\$74 million IPO in Hong Kong, and Novarise Renewable Resources made a U.S.\$29 million listing in Australia. All of these were big deals, compared with most recent IPO activity on the Japanese markets. The Group also was selected joint book-runner for the Singapore listing of the Sabana Shari'ah Compliant Industrial REIT, the world's largest Islamic REIT, which raised a total of U.S.\$593 million.

#### Japanese Companies Listed on Overseas Exchanges

In February 2011, Elpida Memory selected the Group to jointly lead-manage its depositary receipts, listed on the Taiwan stock exchange. This was the first time for a Japanese company to be listed on the Taiwanese market. Elpida Memory issued roughly ¥12 billion in Taiwan Depositary Receipts (TDR). In April 2011, SBI Holdings made a similar, ¥18 billion listing on the Hong Kong exchange, which was also sponsored by the Daiwa Securities Group. This was also the first time for a Japanese company to use Hong Kong Depositary Receipts (HDR) to make a Hong Kong listing, and only the second time that a foreign (non-Chinese) company had done so. The first such listing was by the Brazilian raw materials company Vale S.A.

#### Taisho Pharmaceutical's Acquisition of a Malaysian Company

In April 2011 Taisho Pharmaceutical announced the acquisition of a Malaysian pharmaceuticals company, Hoepharma Holdings Sdn. Bhd., for 370 million Ringgit (approximately ¥10 billion). Hoepharma sells its products in some 40 countries worldwide, with operations centered in Thailand, Indonesia and other parts of Southeast Asia. It is the largest locally owned pharmaceuticals company in Malaysia.

#### Handling Numerous POWL Issues

The Daiwa Securities Group has handled numerous POWL issues, which allow overseas companies making public offerings to attract investment from Japanese individual investors. In the past, most of the deals that the Group has jointly lead managed involved the privatization of large Chinese companies. The Daiwa Securities Group has a very strong presence in this business segment. In July 2010, the Group acted as a joint book-runner of a POWL deal for the privatization of the Agricultural Bank of China on the Hong Kong market. In October 2010, it also acted as a joint book-runner for the POWL deal in the IPO of AIA Group – the Asian subsidiary of the U.S.-based insurance company AIG. In March 2011, the Group was selected as the Japanese lead manager for the POWL of Hutchison Port Holdings Trust, whose IPO in Singapore raised U.S.\$5.4 billion, making it the largest IPO ever in Southeast Asia.

### QUESTION : What measures does the Group intend to implement in FY2011?

**A.** Following FY2010's disappointing earnings results, we have set management objectives for the future which will depend greatly on what we achieve in FY2011. In the Retail Division, our main goal is to increase the balance of customer assets under custody.

As I mentioned earlier, one step towards this goal was the creation of Daiwa Next Bank. We also intend to focus on investment trusts in FY2011. We are changing our evaluation system for sales personnel to reflect their success in marketing investment trusts and

increasing stable sources of revenues. In April 2011, we established "area consultant sections" at certain Retail Division offices in the major urban areas of Japan. After analyzing the distribution of high-net-worth individuals in each neighborhood, Daiwa

Securities has assigned sales persons to cover promising areas. This will allow us to reach customers who previously did not have sufficient access to the Group's financial products and services, and guide future plans to open new branches. In this way, our

sales efforts will focus on cultivating customers more aggressively.

In the wholesale business, Asian operations will reach full-scale activity in FY2011. We intend to carefully examine the profitability of each business segment, focusing man-

agement resources on those that will help us to enhance profitability. In addition, we will focus on optimizing overseas offices for cost-efficiency.

The Retail Division is accelerating efforts to attract new sources of revenues from both new and existing customers, while the wholesale business takes steps to improve efficiency and pursue business in Asia.



## QUESTION : What are your longer-term goals for the Daiwa Securities Group?

**A.** Just as Japanese companies are expanding their outlook to include all of Asia, Japan itself is becoming more closely intertwined with the Asian region as a whole. The Daiwa Securities Group has adopted the byword “Asia Including Japan” in its business activities, and is providing support for financial interaction throughout the region. We will promote exchanges that enrich both Japan and the rest of Asia. This includes such activities as disseminating advanced Japanese technology throughout Asia, supporting Japanese companies as they open offices in the region, and building bridges between the vast financial assets available in Japan and the intense demand for financing in the other parts of Asia. In doing so, we not only ensure the

By contributing to prosperity in Japan and the Asia region, the Group aims to become Asia’s leading financial services firm and establish itself as an essential participant in the international financial system.

long-term growth potential of the Daiwa Securities Group, but we also contribute to the prosperity and development of Asian society in general.

To facilitate these benefits we are leveraging the consulting functions of the Retail business and the Wholesale business’s ability to develop and supply financial products. We are taking steps to improve synergy by reorganizing the Group’s organizational structure, such as merging Daiwa Securities and Daiwa

Securities Capital Markets. As Asia’s leading financial services firm, the reorganized Daiwa Securities Group will focus its management efforts on becoming an essential contributor to the international financial system.

