

## Special Feature: New Efforts to Increase Stable Sources of Revenues

# Elevating Stable Revenues by ¥60 Billion

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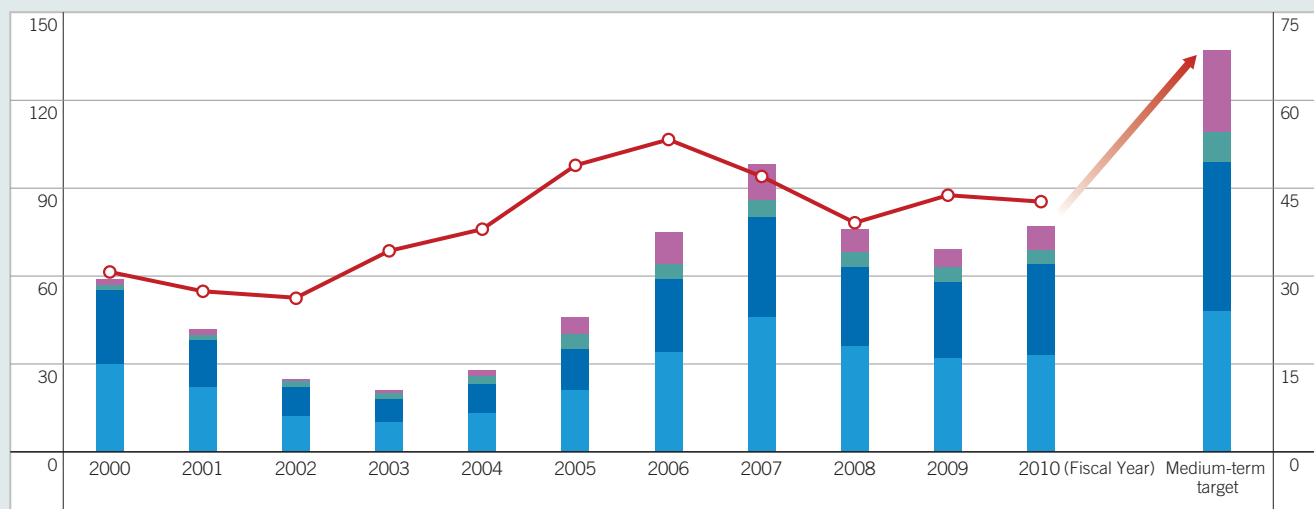
For many years, the Daiwa Securities Group has been making efforts to expand assets under custody, and thereby increase stable sources of revenues in the Retail business. Customer assets under custody have risen steadily since FY2003, increasing stable revenues for the Group, but more recently the balance of assets, as well as revenues from stable sources, have leveled off somewhat.

In order to establish a robust business structure, the Group has once again placed top priority on expanding customer assets, and thereby strengthening these stable revenue sources further. The entire group is taking steps to facilitate this process. For example, in 2011, the Group established Daiwa Next Bank, Ltd. In the near term, the Group hopes to attract ¥5 trillion in deposits, while increasing the balance of mutual fund assets operated by the Retail Division by ¥2 trillion, and assets in the Asset Management Division by ¥5 trillion. Meeting these targets would increase stable sources of revenues by around ¥60 billion per year over the medium term.

## Sources of Stable Revenues\* for the Group

(¥ billion)

(¥ trillion)

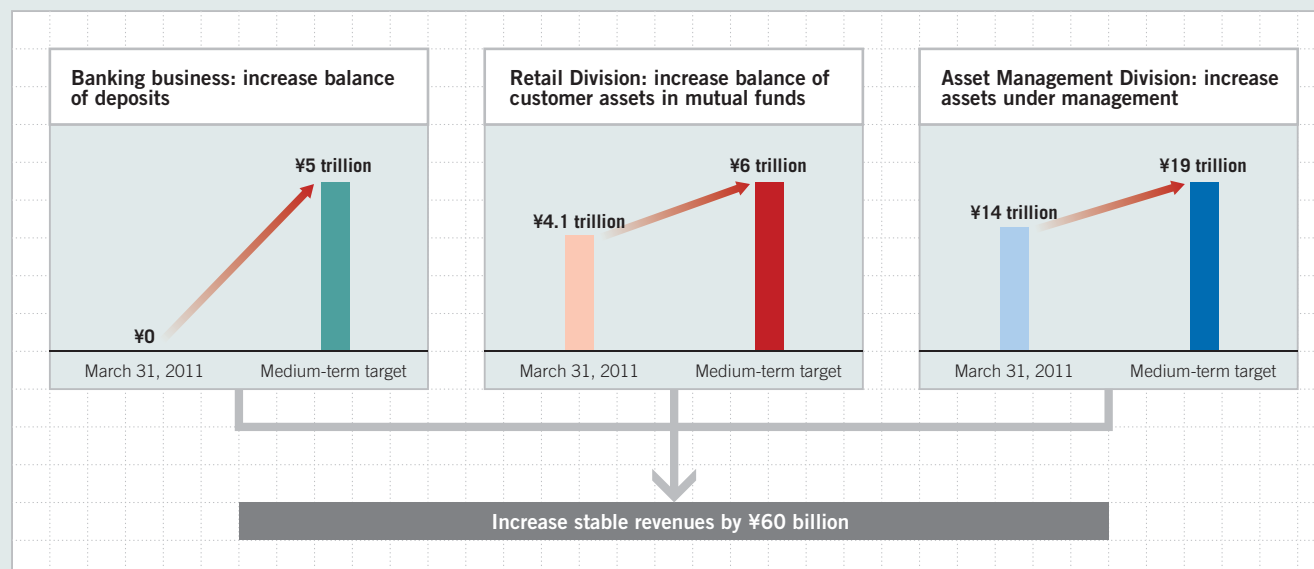


■ Daiwa Securities agency fees (left) ■ Daiwa Asset Management trust fees (left) ■ Daiwa SB Investments trust fees (left) ■ Other stable revenues (left)

● Balance of customer assets under custody at year-end (right)

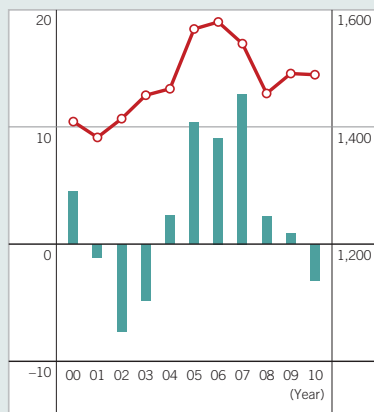
\* Stable Revenues = Daiwa Securities agency fees + Daiwa Asset Management and Daiwa SB Investments trust fees (management fees – commissions paid) + Other stable revenues (financial income of margin trade and secured loan + wrap fees). In the case of Daiwa SB Investments, trust fees are calculated based on ownership ratio.

## Overview of Measures to Increase Stable Revenues by ¥60 billion



**Household Financial Assets**

(¥ trillion) (¥ trillion)



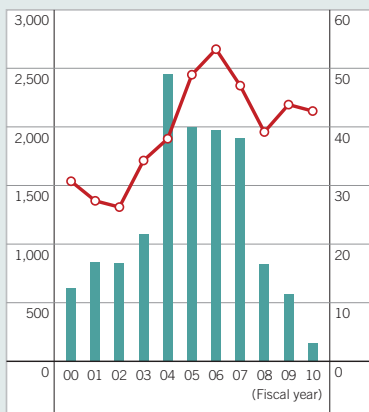
■ Net inflow to securities (left)

○ Balance of household financial assets (right)

Source: Flow of Funds statistics by the Bank of Japan

**Daiwa Securities Group  
Customer Assets Under Custody and Net Inflow**

(¥ billion) (¥ trillion)



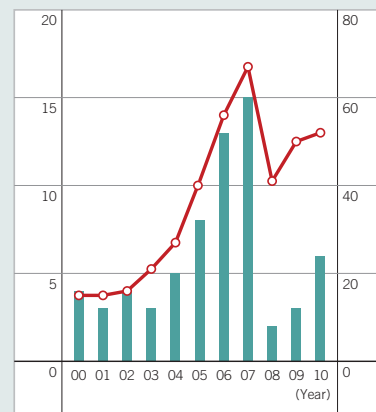
■ Net inflow in assets under custody (left)\*

○ Balance of customer assets under custody (right)

\* Excludes re-invested dividends.

**Balance of Assets in Mutual Funds,  
and Net Inflow**

(¥ trillion) (¥ trillion)



■ Net inflow to mutual funds (left)

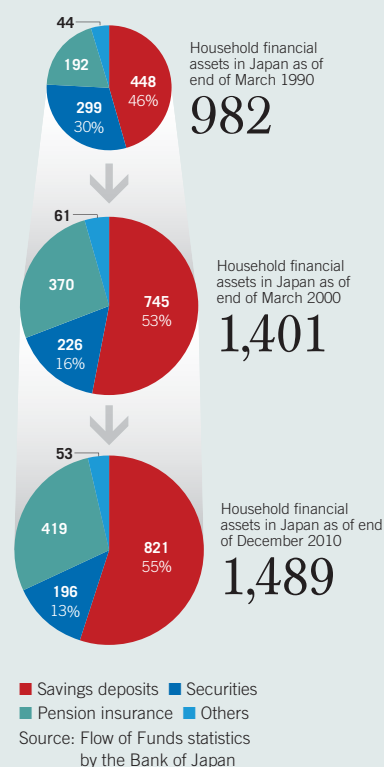
○ Balance of assets in publicly offered mutual funds (right)

Source: Investment Trusts Association of Japan  
"Changes in Assets of Publicly Placed Investment  
Trusts of Contractual Type (mutual funds)"

## The Clear Trends in Household Financial Assets Are in Bank Deposits and Mutual Funds

**Bank Deposits Account for a Large  
Share of Household Financial Assets**

(¥ trillion)

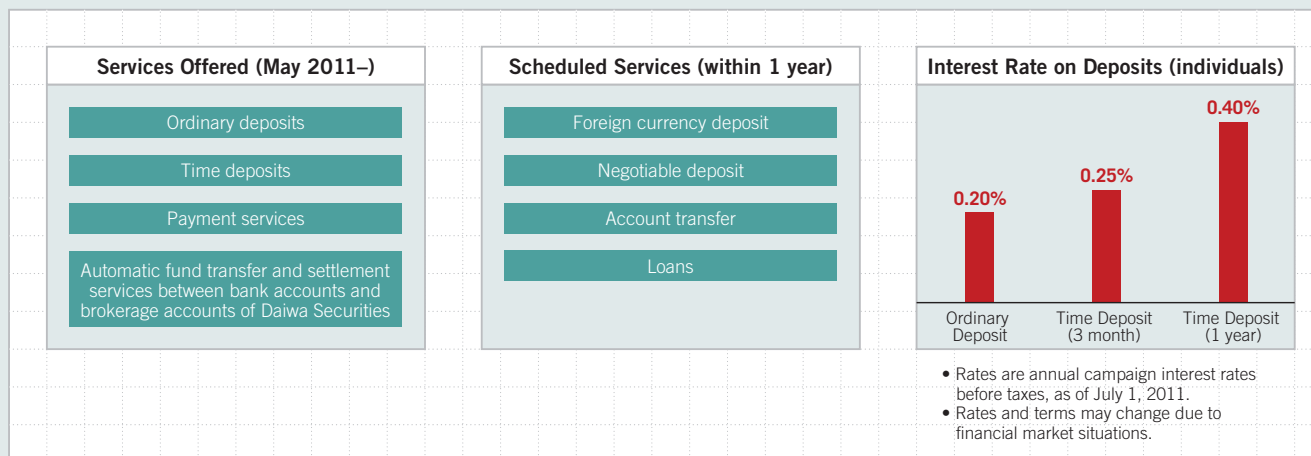


Trends in the distribution of household financial assets offer one of the best indicators of customer assets. Household financial assets in Japan have been rising in an almost unbroken trend since the end of the Second World War, but following the collapse of the economic bubble in 1990, the vast majority of those assets moved into the safe haven of bank deposits. Even after interest rates fell to virtually zero, in the 2000s, Japanese individuals kept most of their assets tied up in term deposits and regular bank accounts. It was only in the latter half of the 2000s that these assets started to make their way into securities. However, in recent years the overall balance of financial assets has leveled off, and the flow of assets into securities has stagnated as well. Indeed, in 2010, the flow of assets into investments actually reversed, and there was a net outflow from securities.

Trends in the Daiwa Securities Group's customer assets under custody have unfortunately followed much the same pattern as the macroeconomic trend. The balance has remained more or less level for the past three years. The inflow of customer assets in FY2010 was far below the average recorded over the preceding ten years. This stagnation in asset growth has become a matter of great urgency for the Group as a whole; it is apparent that dramatic changes in strategy will be required. On the other hand, while purchases of securities have stagnated, there has been a pick-up in the flow of money to mutual funds, which bottomed out during the global economic crisis of 2008.

Most of the baby-boom generation have now reached retirement age. There is a possibility that this will lead to reductions in the pool of individual financial assets as retirees start drawing from their savings. This is a concern, since the Group is urgently hoping to increase its balance of customer assets. For the Daiwa Securities Group, it is essential to consider the macroeconomic trends, and decide how to target both the accumulated pool of individual deposits and the steady flow of funds into mutual funds. By concentrating management resources on this issue, the Group aims to expand its base of customer assets.

## Daiwa Next Bank: Overview of Main Services



## Entering the Banking Business to Attract Customer Savings Deposits

In May 2011, the Daiwa Securities Group established Daiwa Next Bank, and took its first step into the retail banking sector. At the same time, Daiwa Securities Co. Ltd. received permission to operate a bank agency business.

Daiwa Next Bank enjoys the low operating cost structure of an Internet bank, which allows it to offer depositors attractive interest rates. At the same time, through its bank agency relationship, it can provide personal service via Daiwa Securities' 120 branch offices nationwide. While enjoying the benefits of an Internet bank structure, the Group can also reach out to customers directly, using the branch offices and their sales personnel as a marketing channel.

As of December 2010, Japanese individuals had some ¥820 trillion in savings deposits – that is roughly four times the amount invested in securities. In the past, Daiwa Securities, the Group's Retail business,

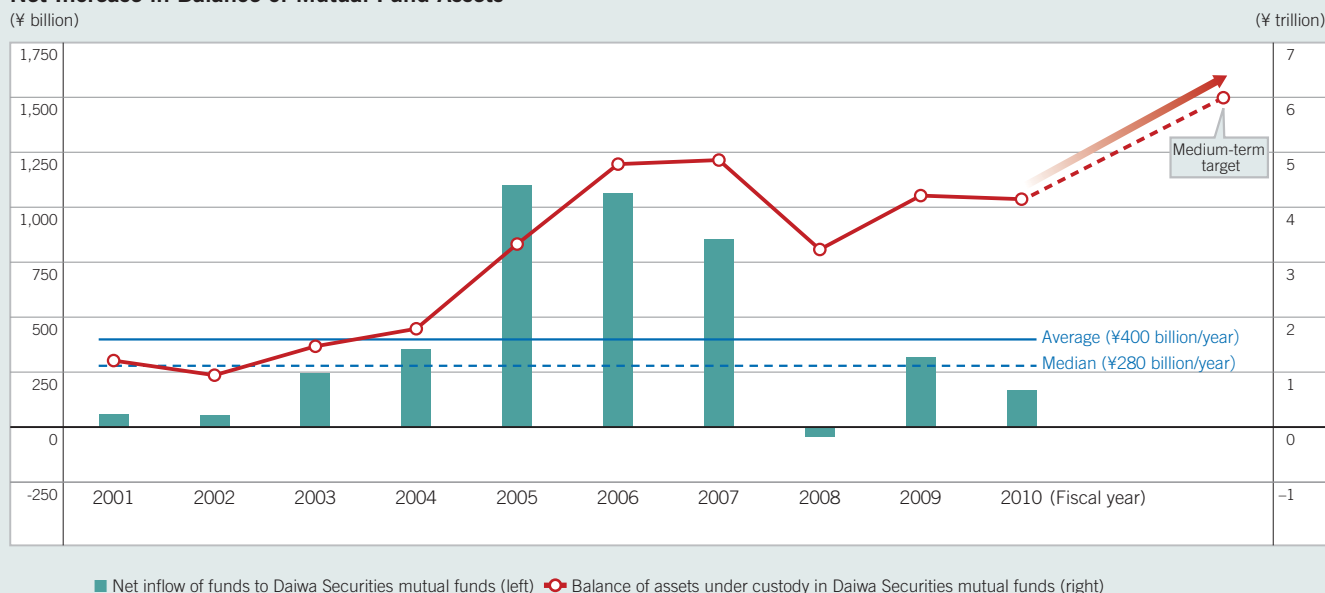
focused on securities investments, but with the advent of Daiwa Next Bank, its lineup of products and services now includes various types of bank deposits, covering a broader range of risk profiles. It also can provide much greater convenience to customers. The unique combination of an Internet bank and full-service securities company allows customers to seamlessly link their savings accounts and their investment portfolios, with a "sweep service" that handles automatic fund transfers and settlements between a customer's savings account at Daiwa Next Bank and their brokerage account at Daiwa Securities. In this way, the Group is creating synergy among its various operations.

Daiwa Next Bank aims to increase deposits to around ¥1.1 trillion by the end of March 2014. In the longer term, the Group believes this balance can grow to as much as ¥5 trillion. Using its unique business model, Daiwa Next Bank hopes to establish itself as one of Japan's leading banks.

### Daiwa Next Bank



### Net Increase in Balance of Mutual Fund Assets



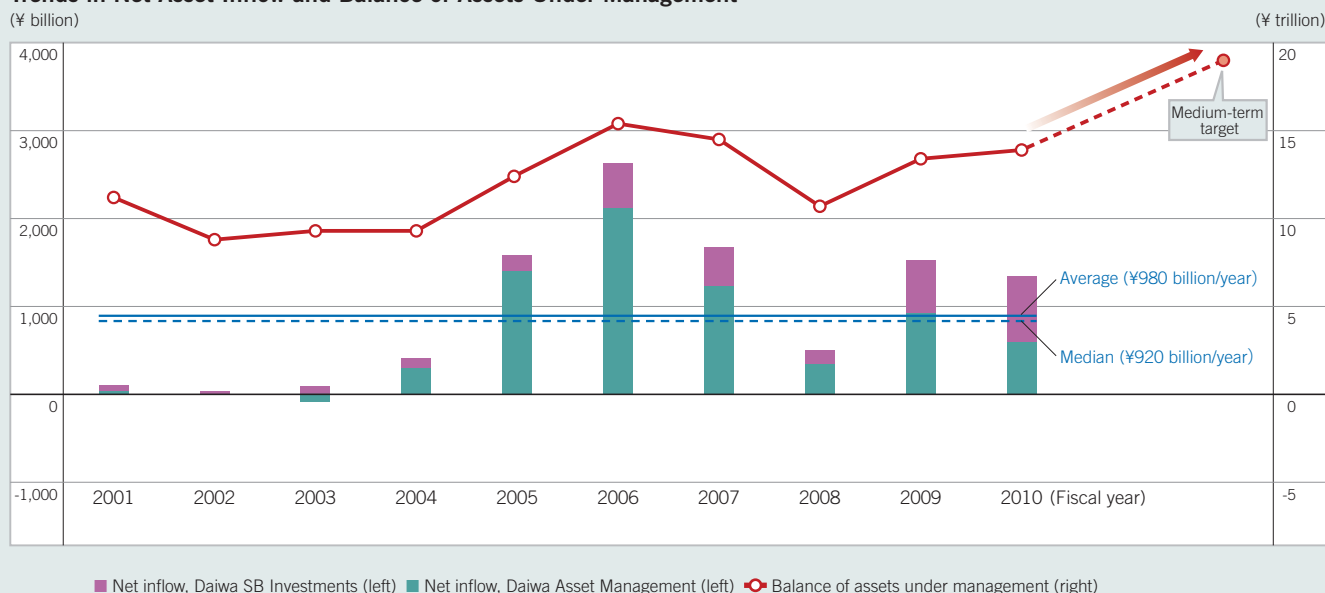
## Focusing on Mutual Funds — Retail Division

The Group's Retail Division, overseen by Daiwa Securities, is one of the pioneers of monthly-dividend-payment-type investment trusts. The Division has been steadily expanding its lineup of such products, and responding to changing trends in customer needs and market conditions by providing new funds. Despite these efforts, though, the net inflow to mutual funds has stagnated since the collapse of Lehman Brothers, and the Group needs to make a concerted effort to improve sales of mutual funds.

Over the next two years, more than ¥20 trillion in fixed deposits and JGBs for individuals will reach maturity. Daiwa Securities is taking steps to promote high-yield monthly-dividend-payment-type funds, and low-risk investments such as JGB-related funds to meet the varying investment needs of customers.

Through these efforts, the Group aims to increase the balance of customer assets in mutual funds by around ¥2 trillion over the medium term. A new internal employee evaluation system has been introduced to encourage and reward those sales personnel who make strong contributions to increasing the balance of assets under custody in mutual funds. One example of the Group's efforts in this area was the launch of the "Daiwa Harris Global Selected Stock Fund" in April 2011, which has succeeded in attracting a net inflow of as much as ¥90 billion in a single month.

### Trends in Net Asset Inflow and Balance of Assets Under Management



## Focusing on Mutual Funds — Asset Management Division

The two main Group subsidiaries that are involved in asset management operations are Daiwa Asset Management Co. Ltd. and Daiwa SB Investments Ltd. Trends in the inflow of customer assets to these two companies over the past ten years show that asset management operations are attracting an average of around ¥980 billion per year in new investment. Since the regulations that prevented banks from actively marketing these financial products were lifted, these two companies have been making efforts to expand their sales channels, offer appropriate sales support, and develop new products to better serve customer needs. As a result, the Group's share of this market has steadily increased. Going forward, the Group plans to enhance its ability to manage overseas stock funds, which are increasingly in demand, and further upgrade its product development and sales support capabilities.

The Group is also expanding rapidly into a new field, real estate asset management, through Daiwa Real Estate Asset Management Co. Ltd. These efforts are aimed at increasing the balance of assets under management in this Division by around ¥5 trillion.