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# Business Strategy

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## Interview With the CEO

In April 2012, the Daiwa Securities Group unveiled a new Medium-Term Management Plan entitled “Passion for the Best” 2014. The management strategies underlying this business plan have been outlined since CEO Takashi Hibino took up his current position in 2011. Based on his experiences during his first year as CEO, Mr. Hibino and his executives have since refined and enhanced the plans. The first and most visible step in the new strategies involved merging the Retail and Wholesale businesses to create a “new” Daiwa Securities Co. Ltd. In this interview, Mr. Hibino discusses the elements of the new Medium-Term Management Plan and the bright future he envisions for the Daiwa Securities Group.

**Q1** In order to provide us with a clear background, would you please explain the assumptions and underlying vision behind the new Medium-Term Management Plan?

**A.** The Daiwa Securities Group’s management vision is to become a leading financial services firm in Asia while possessing and leveraging a solid business platform in Japan. To meet this objective, we will have to establish a robust earnings structure capable of generating profits even in times of economic stress. In addition, the Group must achieve sustainable growth by linking Japan and the growth of Asia. These two objectives form our basic management policies. The current Medium-Term Management Plan aims to establish an efficient business foundation while expanding “stable revenue” businesses and also lays out a roadmap for strengthening business in Asian markets—with Japan at the core—in order to produce steady, continuous earnings growth.



**Q2** What are the main objectives of the Medium-Term Management Plan and what are the ordinary income targets? There has been some uncertainty surrounding the financial markets, what with earnings targets likely being affected by future market trends and conditions.

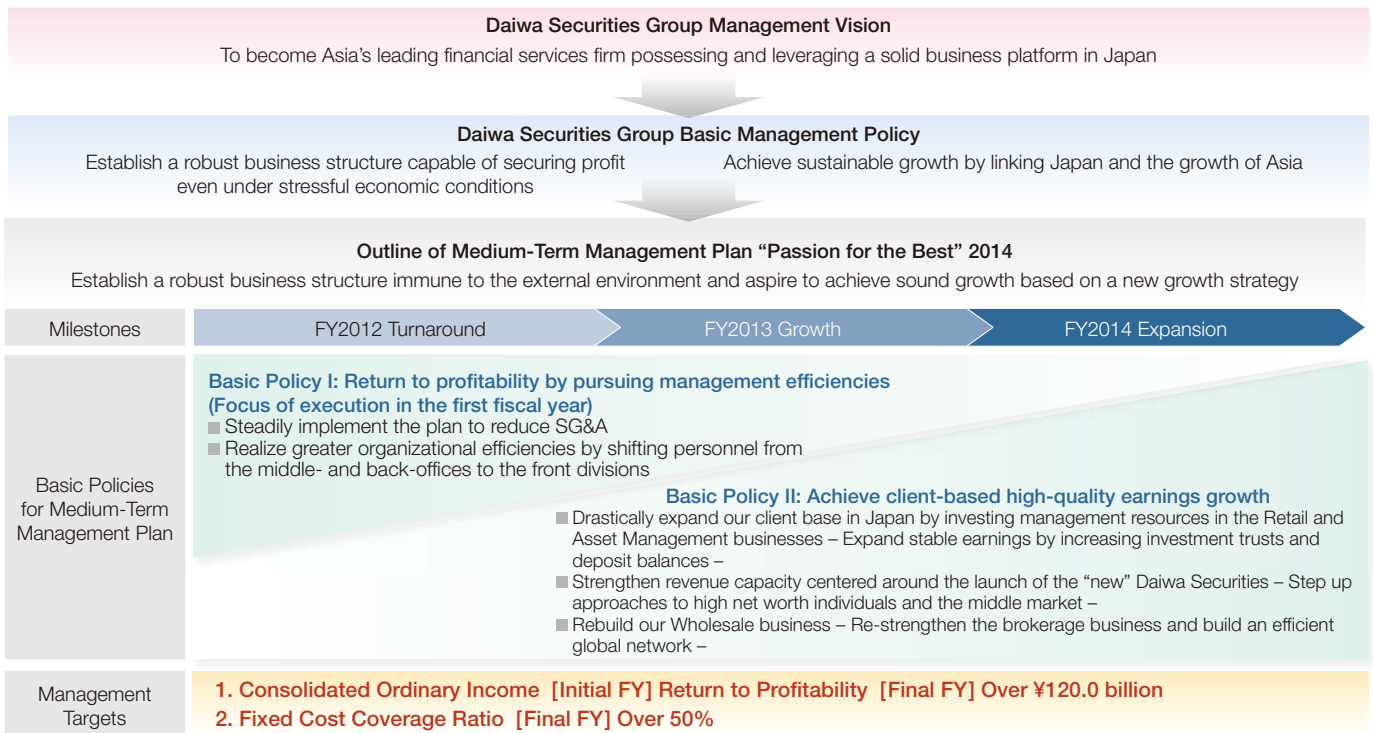
**A.** We expect to return to profitability in FY2012, and increase consolidated ordinary income to ¥120 billion by FY2014. Our objective is to cover at least 50% of fixed costs with revenues from stable sources.

In the final year of the current medium-term plan, we hope to increase ordinary income to over ¥88 billion in the Retail business, ¥20 billion in the Wholesale business, and ¥24 billion or more in the Asset Management business. As is often accurately pointed out, the securities industry is always going to be affected by market trends and conditions. It is quite common for a securities company to set targets at the beginning of a three-year plan and then revise them significantly, midway through the three-year term. For that reason, we have now adopted a “rolling method” system. The figures selected at the start of a Medium-Term Plan serve mainly as guideposts for Group management to refer to as the plan proceeds. Each fiscal year we summarize our progress toward the targets, consider the impact of a changing market outlook, and if conditions so dictate we will revise the numerical targets either up or down to reflect those changes. The underlying thrust of the management plan is what we are most concerned about, and what guides our business strategy. In principle, these qualitative objectives will not change regardless of revisions to the headline figures.

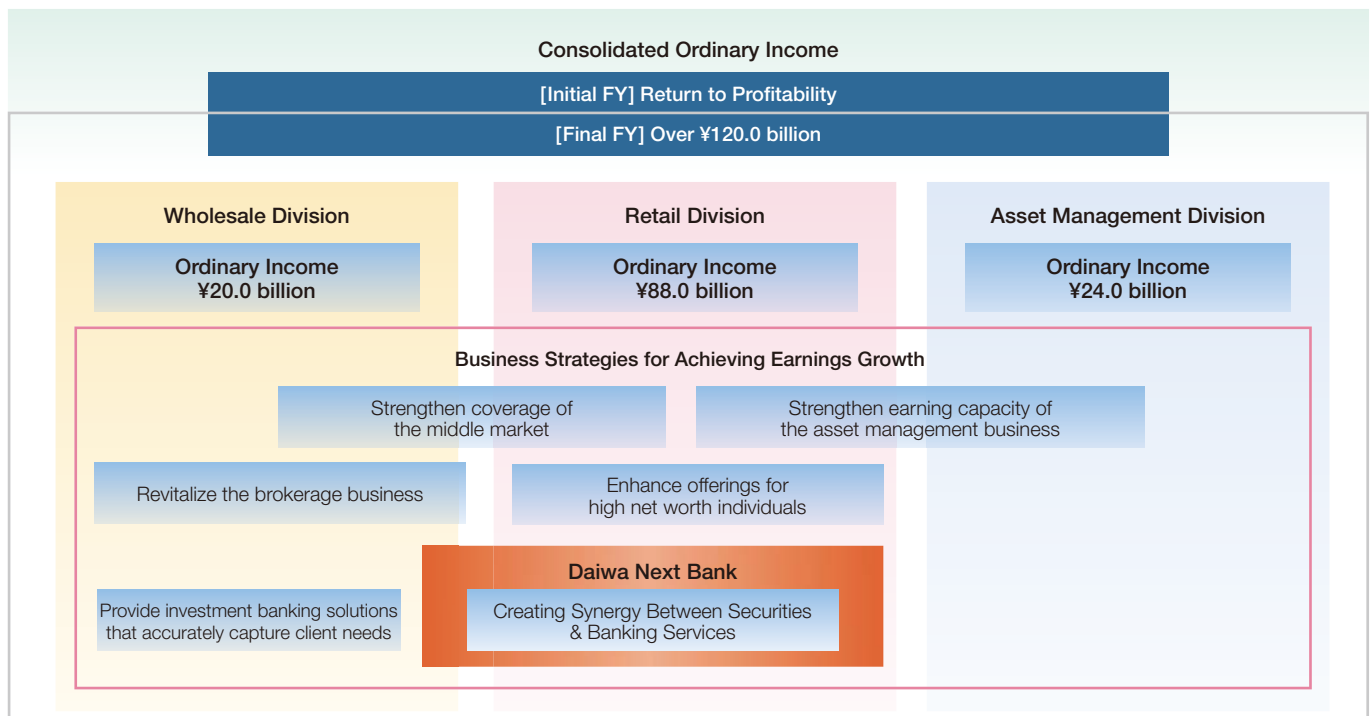
**Q3** The new plan includes, for the first time, a target for the “fixed cost coverage ratio.” Would you please explain the purpose of this target?

**A.** The “fixed cost coverage ratio” tells us the extent to which reliable sources of income cover our operating costs. It is calculated by dividing the total income derived from “stable” sources by total fixed costs.

**Summary of the “New” Medium-Term Management Plan**

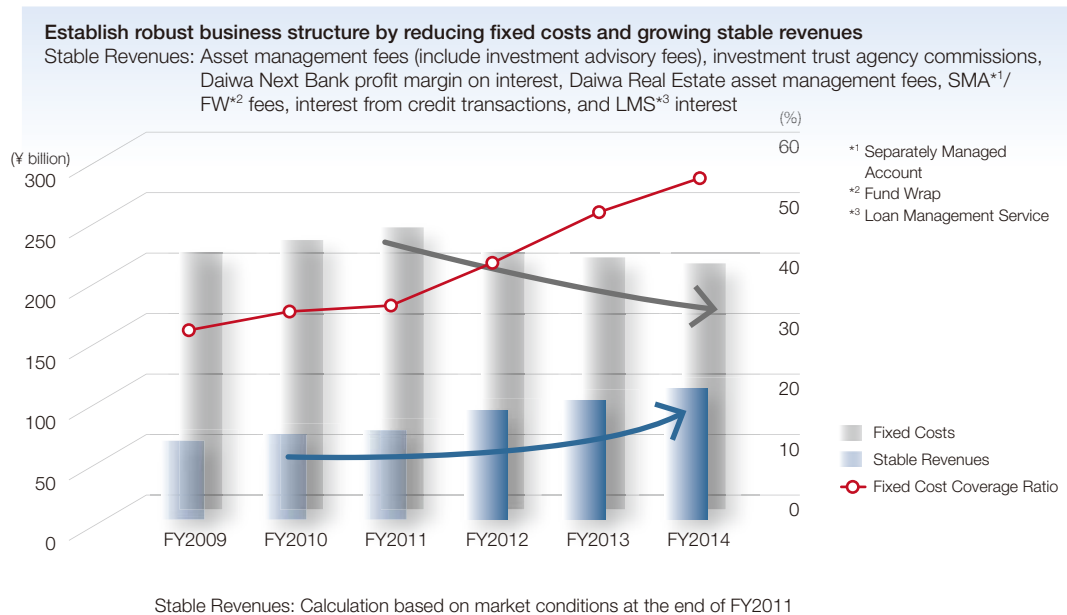


**Management Targets**



Environmental Assumptions for Medium-Term Management Plan	
Economy	[Global] [Global economic growth rate: average of 3.9% for the duration of the plan / US: 2.3%; Euro-zone: 0.6%; Other: 4.8%]
	[Domestic] [Real GDP growth rate: 1.8% in FY2012; 1.8% in FY2013; and 1.4% in FY2014]
Market Conditions	[Stock] [TOPIX: 910 for FY2012; 1,080 for FY2013; and 1,200 for FY2014]
	[Interest] [Long-term interest rate: 1.0% for FY2012; 1.6% for FY2013; and 2.0% for FY2014]
	[Currency] [Yen-dollar exchange rate: 85 yen for FY2012; 88 yen for FY2013; 90 yen for FY2014]

## Fixed Cost Coverage Ratio



At present, the Daiwa Securities Group has a fixed cost coverage ratio of 32%. By reducing fixed expenses and working to expand stable sources of income, we aim to increase that figure to over 50% by the end of FY2014. **We view this ratio as a key performance indicator and we intend to monitor it closely since it tells us to what extent we have achieved the management objective of “establishing a robust business structure.”**

We learned the hard way—during the financial crisis that followed the Lehman Shock—that when a severe shock occurs, it can be very difficult to change directions quickly. Therefore, we will continue working to cut costs and revive earnings even if the markets do start to recover. The Daiwa Securities Group has tried to cultivate a business philosophy of steadily expanding stable income sources, rather than just trying to cash in on short-term profits.

#### Q4 The first basic policy of the new plan is to “Return to profitability by pursuing management efficiencies.” Specifically, how do you plan to accomplish this?

**A.** By placing top priority on the introduction of more efficient methods and policies, we aim to return operations to the black in FY2012, the first year of the new medium-term plan.

At the start of FY2011, we calculated that the level of Base SG&A expenses—that is, the level at which ordinary income would be zero—was around ¥380 billion on a consolidated basis. The new medium-term management plan calls for us to reduce that break-even level to ¥320 billion or less by the end of FY2014. After breaking SG&A costs down by category, we believe that we can cut IT-related expenses by ¥19 billion and trim a further ¥33.5 billion from costs by rationalizing overseas operations. The remaining ¥7.5 billion savings will be achieved by reducing real estate expenses and other costs at Group subsidiaries. We expect to implement nearly 80% of these cost cuts during FY2012, reducing consolidated SG&A expenses by almost ¥50 billion.

Meanwhile, we are making progress in the effort to restructure our workforce. Plans for transferring personnel to front-office positions were announced last February. We initially intended to complete the transfer of middle- and back-office staff within three years, reducing the workforce in these sections to around 1,500. However, under a new plan we accelerated the process in order to complete most of the transfers by this April. Looking ahead, we hope to introduce multitasking and enhance the skills of our workforce further, creating a slimmer and more efficient operating structure.

**Q5** According to the plan, you intend to meet the second basic policy of “Achieve client based high-quality earnings growth” by channeling resources into the Retail and Asset Management businesses. How, exactly, is this expected to work?

**A.** There are actually three specific strategies involved. First of all, we will “**create a unique business model with synergies between securities and banking services.**” This strategy is really our top priority, in terms of fostering growth for the “new” Daiwa Securities. By entering the banking sector, the Daiwa Securities Group has opened the door to a lot of new possibilities. We can now offer retail customers a very broad and flexible lineup of products and services, from savings-type accounts with guaranteed principal to higher-risk investment products. This gives the Group access to many customers who are hard to reach through the sales channels used by securities companies. Daiwa Securities can now approach customers with savings accounts as well as show them other ways to manage their money, thus expanding the base of customers in our securities business.

Meanwhile, we will broaden the product and service lineup to include foreign currency-denominated deposits, and we will enhance our service through convenient online account service and personal service at one of the Group’s sales offices. The Group is developing a business model to link banking and securities operations that will offer customers a single portal to any and all financial services. For example, customers who open a savings account will also be able to conduct stock transactions from that account, thus promoting a shift of assets from savings to more investment-oriented products.

By creating a business model that fosters synergy between securities and banking operations, the Daiwa Securities Group can offer Japanese individuals more latitude to manage their assets effectively, raising awareness of equity investment and international diversification of investments. I believe that it is our mission to take the lead in this process.

The second strategy is to “**strengthen earnings capacity of the asset management business.**” We concentrated on shifting the Daiwa Securities Group’s human resources into the two companies that handle the

**Return to Profitability by Pursuing Management Efficiencies (Focus of execution in the first fiscal year)**

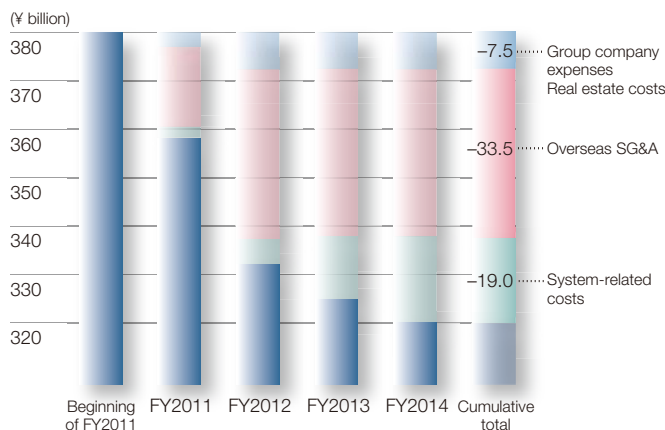
- Steadily implement the plan to reduce SG&A
- Realize greater organizational efficiencies by shifting personnel from the middle- and back-offices to the front division

**SG&A Reduction**

Reduce base SG&A from the beginning of FY2011 by more than 60 billion yen.

- Have already enhanced organizational efficiencies in Japan and reduced headcount by a total of 500 overseas in line with the size reduction / exit from unprofitable businesses / branches.
- Base SG&A at under 320 billion yen for FY2014.

**Efforts to Reduce Base SG&A\***

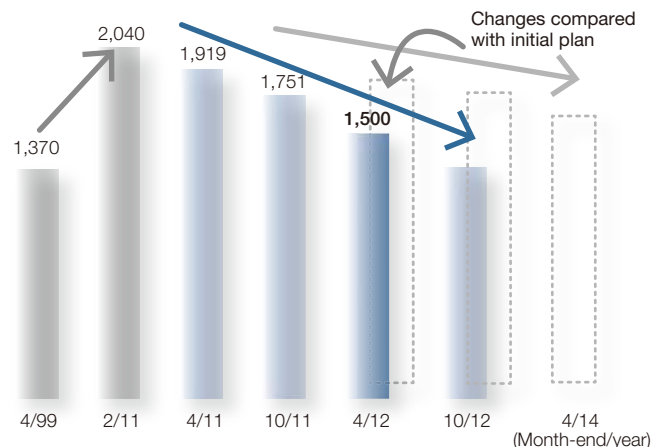


**Personnel Shifts**

Continue to shift middle- and back-office personnel to the front division by eliminating redundancies and reorganizing around the launch of the “new” Daiwa Securities.

- Personnel shift from 2,040 to 1,500 was executed well ahead of the initial plan (to be completed over three years by April 2014) and was completed by April 2012.

**Trends in Number of Middle- and Back-office Personnel**





Group's asset management business, hoping to attract a dominant share of the assets flowing into investment trusts through bank-related sales channels. Meanwhile, the Retail business is strengthening its mutual fund sales capabilities, placing top priority on increasing the balance of assets under management.

The Daiwa Securities Group's share of the balance of assets in mutual funds is at its highest level ever, reflecting the strong reputation of the funds we offer for quality as well as quantity. A survey of banks, conducted by R&I and entitled "Sales agents' ranking of best funds," found that the top three choices were all Daiwa Securities Group products: "Brazil

Bond Open Fund," "Short-Term Australian Bond Open" and "High Grade Oceania Bond Open Fund." We will continue to offer attractive products while strengthening our support for sales agents in an effort to increase our share of the market even further.

We are also taking steps to boost the earnings potential of the real estate asset management business. In March 2012, our listed REIT (real estate investment trust)—Daiwa Office Investment Corporation—became a consolidated subsidiary of Daiwa Securities Group Inc. Planning and support for this REIT has been exemplary, and it has become an important source of stable earnings for the Group. We have high expectations for the real estate asset management business in the future, and intend to provide strong support for Daiwa Office Investment Corporation, both in financing and locating new properties, in order to increase its total assets under management.

The third strategy is to **"enhance offerings for high net worth individuals."** As Japan's demographic shift towards an elderly population continues, it is estimated that estates worth some ¥50 trillion per year will be transferred via inheritance procedures, including many instances in which family businesses are passed on or transferred. This creates an enormous opportunity for consulting services and business continuity support. The Retail business is enhancing its solutions business for high net worth individuals, focusing on estate and business continuity consulting in particular.

By building strong relationships with these clients and addressing a wide spectrum of needs, the Daiwa Securities Group can not only handle issues of inheritance and business continuity, but also offer negotiable securities, pension insurance and securities-backed loans, real estate and many other solutions.

## Q6 What role does the "new" Daiwa Securities play in the Group's Medium-Term Management Plan?

**A.** Daiwa Securities Co. Ltd. will play a central role, serving as the platform for the fourth strategy listed in the medium-term plan; **"strengthen 'coverage of the middle market'."** In the past our securities business was segmented, with Daiwa Securities offering retail services to individual investors and unlisted companies, while Daiwa Securities Capital Markets Co. Ltd. was responsible for serving institutional investors and listed corporations. There were firewalls between the two corporations that prevented them from exchanging information on clients. This made it difficult for the Group to cover the so-called "middle market," consisting of foundations, incorporated associations, incorporated schools, religious corporations and regional financial institutions.

Now that the Retail and Wholesale businesses have been reunited, the "new" Daiwa Securities will be able to enhance its services and coverage of these middle-market entities by assigning dedicated staff to address their needs, offering them the products typical of our Wholesale securities business (structured bonds, derivatives, etc.) and providing specialized knowledge and sales support. We are currently bolstering the sales support divisions to ensure that middle-market customers receive "seamless" service that incorporates the merits of both Retail and Wholesale operations.

Furthermore, when the two operations were separated, the Retail and Wholesale businesses offered slightly different products and services. Working together, they can now respond better to the diverse needs of middle-market customers. At present, the Daiwa Securities Group's share of the middle market is quite limited, so there is great potential for growth in this market segment. If we strengthen our sales structure and coverage of this segment, the impact on earnings could be considerable.

**Q7** What are your plans for the Wholesale business?

**A.** As noted in the medium-term plan, our fifth strategy is to “revitalize the brokerage business.” As financial regulations are strengthened on a global scale, investment banks face a very challenging business environment. This is likely to continue, and therefore the Daiwa Securities Group has to concentrate on customer-oriented businesses that will allow us to elevate profitability and capital efficiency at the same time.

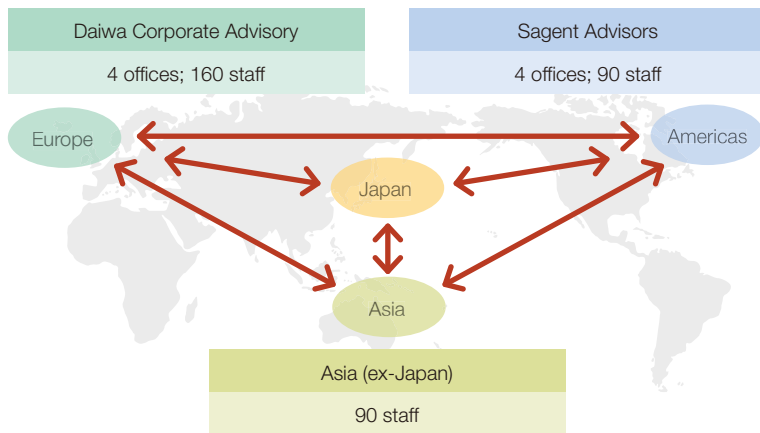
The Global Markets business makes full use of our solid domestic customer base and global network to provide a diverse range of products while also driving cohesive and efficient operations in the Asian region. Specifically, we continue to efficiently provide value-added services that differentiate us from our competitors through the enhancement of an integrated sales system in Asia with Japan as its core and a pan-Asian research network.

Furthermore, we are also working to “provide investment banking solutions that accurately capture client needs,” which is our sixth individual strategy. Since our Global Investment Banking business is not tied to any of Japan’s large corporate groupings, by cultivating the sales and proposal capabilities of investment bank personnel

we can precisely address the needs of a broad range of clients without being limited by group affiliations, and propose optimal solutions.

Leveraging the Daiwa Securities Group’s global network centered in Asia, including Japan, we will concentrate on supporting the efforts of Japanese companies to expand into Asia, and on offering investment banking solutions to leading companies in Asia. We also intend to improve cooperation between the four main bases of our M&A business—Japan, Asia, Europe and the Americas—in an effort to expand cross-border M&A consulting income. We also aim to diversify and maximize the earnings potential associated with M&A activities, focusing on associated activities like financing and foreign exchange trading.

**Cross-border M&A**



**Q8** As part of the plan to expand “stable” revenue, what targets has Daiwa Securities Group set for specific product segments and businesses?

**A.** We have identified the following revenue categories as “stable”: Asset management fees (including investment advisory fees), investment trust agency commissions, Daiwa Next Bank profit margin on interest, Daiwa Real Estate asset management fees, SMA / FW fees, interest from credit transactions, and LMS interest. To expand these income sources, we hope to increase the balance of assets under management in Daiwa Securities’ mutual funds by ¥800 billion, and the balance of assets under management of mutual funds at the two asset management subsidiaries by ¥2.6 trillion.

**Targets for Increasing Stable Sources of Income**

Figures in parentheses reflect market assumptions

Retail Division	Asset Management Division
Net increase of mutual fund [3-year cumulative]: +¥0.8 trillion (+¥1.7 trillion) Increase in agency fees: +¥6 billion (+¥12 billion)	Net increase of mutual fund [3-year cumulative]: +¥2.6 trillion (+¥4.6 trillion) Increase in asset management fees: +¥7.8 billion (+¥13.5 billion)

# Message From the COO/CFO

Since the global financial crisis that followed the Lehman Shock in 2008, governments throughout the world have been introducing tighter regulations aimed at fostering changes in the business models of financial institutions and ensuring their financial stability. The Daiwa Securities Group has always maintained a comparatively healthy financial position, but in the future we plan to go a step further. We intend to take even more proactive steps to procure and manage capital and maintain appropriate levels of liquidity, maintain an appropriate balance of assets and liabilities, and seek to enhance sustainable improvement of company value from the standpoint of financial health.

## Dramatic Changes in Global Financial Regulation

Governments are making major revisions to their financial industry regulatory structures, due to the financial crisis starting from the Lehman Shock in 2008, to the European debt crisis in 2012.

With the introduction of new rules on consolidated regulation and supervision, the Daiwa Securities Group is now required—as of FY2011—to meet the same capital adequacy ratios as banks (the “Basel 2” regulations). The “Basel 2.5” accords introduced at the end of December 2011 place some tighter controls on market risk, but the next major change in capital adequacy rules will be the “Basel 3” accords, a comprehensive package of revisions that will be introduced in stages from March 2013. The Basel 3 regulations will require financial companies to maintain “going concern capital”—an amount of high-quality assets (common stocks and retained earnings) sufficient to cover any losses that might conceivably be generated in the course of ongoing operations. These rules will prevent companies from over-leveraging, and ensure that they maintain enough liquidity to ride out any major environmental

stress. In other words, the regulations on financial companies are now being extended to include not only capital adequacy, but also liquidity and leverage.

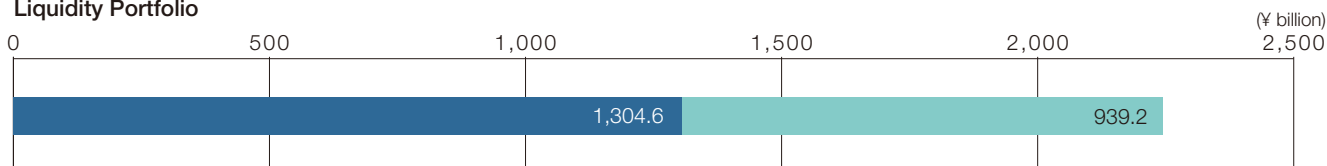
In addition to the Basel Accords, the G20 is taking steps to introduce new controls on derivative trading that will help limit settlement risk and counterparty risk. They have agreed to revise laws governing the over-the-counter derivatives market by the end of 2012. The US government is also considering whether to introduce the so-called “Volcker Rule,” which would prohibit depository financial institutions from trading on their own accounts as well as from owning or sponsoring investment funds.

## Emphasizing Capital Efficiency

The new financial regulatory environment that the Daiwa Securities Group faces reflects a hasty reaction to the prolonged turmoil in financial markets. The Basel 3 accords are an attempt to dictate more conservative norms among financial companies regarding the appropriate levels of capital adequacy and liquidity and it will be necessary to make various changes to meet the new standards.

### Short-term Unsecured Capital Procurement and Liquidity Portfolio of the Daiwa Securities Group as of March 2012

#### Liquidity Portfolio



■ Portfolio of liquid assets (cash, JGBs, etc.) ■ Semi-liquid assets (bonds, listed stock, etc.)

#### Short-term Unsecured Capital Procurement



■ Loans ■ Commercial paper ■ Bonds maturing within one year





Businesses that consume a great deal of capital or place a heavy burden on liquidity will be more tightly controlled and financial companies will have to build the most appropriate portfolio of businesses based on the assumption that regulations will continue to tighten.

Our new Medium-Term Management Plan responds to the current trend towards tighter financial regulation. The Daiwa Securities Group's financial strategy under the new plan addresses issues such as how to secure appropriate levels of capital adequacy and liquidity. It pursues highly effective risk management. The general business strategy focuses on client asset-based businesses that manage the assets of customers, such as bank deposits and investment trusts, and on brokerage businesses that reflect the flow of orders from customers. In this way, the business plan emphasizes stable earnings and capital efficiency.

## Maintaining Financial Health

At the end of FY2011, the Daiwa Securities Group had a consolidated capital adequacy ratio of 27.4% (based on the Basel 2.5 standards)—a very high level relative to those of other major financial groups. In addition, the Group has already established a liquidity management structure to regulate the liquidity coverage ratio in accordance with the Basel Committee on Banking Supervision. Stress tests are conducted on a daily basis in order to confirm the condition of our liquidity portfolio. Furthermore, the results of these stress tests showed that the liquidity coverage ratio remained well above 100% in every stress test. This indicates that we would be able to maintain business continuity even if market conditions were

to prevent the Group from obtaining unsecured loans for a period of one year. The Group can boast an extremely solid financial base, and the systems we have set up for controlling capital adequacy and liquidity should be able to fully comply with any further tightening of financial regulations in the future. We will continue to refine these structures.

Although the businesses that the Group conducts carry with them a multitude of inherent risks, constant monitoring of risk throughout the Group will allow us to maintain a healthy financial base and earnings structure. As noted above, global financial regulations are likely to place even greater importance on capital efficiency. The Daiwa Securities Group is responding to this trend by introducing risk management structures and procedures that can control market risk and credit risk at appropriate levels and minimize operational risk in the future.

Nobuyuki Iwamoto  
Deputy President  
COO and CFO  
Daiwa Securities Group Inc.

## Retail Division

In order to suit the varied investment styles and preferences of customers, the Retail Division offers two main courses for products and services. The “Daiwa Consulting” course allows customers to obtain high value-added services and products from experienced sales staff in face-to-face consultations, whereas the “Daiwa Direct” course allows customers to transact their investments conveniently, via the Internet or telephone call centers. In addition to offering a multitude of investment products covering stocks and bonds for domestic and overseas, mutual funds, pension insurance and wrap account services, the Retail Division also offers securities-backed loans and good interest rates for both ordinary deposits and fixed-term deposits. This portfolio of products and services allows the company to meet the varying needs of each individual customer.

### Action Plan for FY2012

1. Establish a unique business model creating synergy between securities and banking services
2. Strengthen wealth management businesses
3. Strengthen service coverage of the middle markets
4. Raise revenue level by improving earning capacity and productivity

### Business Conditions and Earnings Results for FY2011

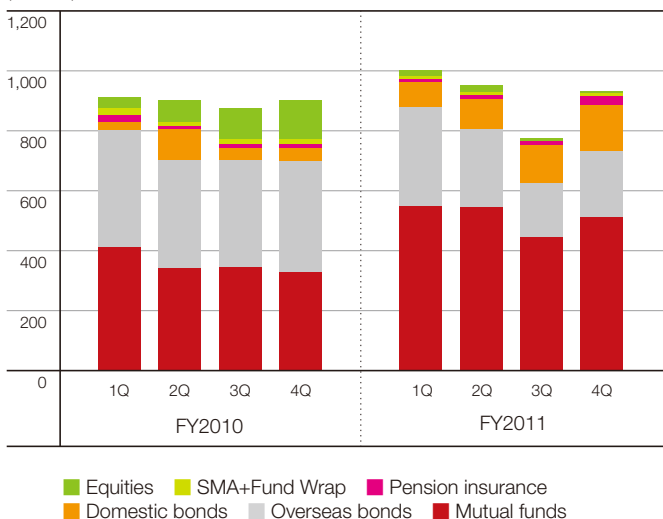
A host of negative factors contributed to a harsh business climate in FY2011, from the earthquake-related electric power shortages in Japan and floods in Thailand to the debt crisis in Europe and the credit downgrade on US treasuries, which elevated the yen against other currencies. These factors caused Japanese stock prices to fall steadily from the summer onward. At the end of December the Nikkei 225 stood at a low 8,455. In early 2012, however, signs of improving economic conditions in the US, measures to address the debt crisis in Europe, and further monetary easing measures by the Bank of Japan calmed market fears and stock prices began to recover. By the end of FY2011 the Nikkei 225 had risen to 10,083. Reflecting these conditions, Retail Division revenues from both stocks and bonds declined steadily until the third quarter, although they recovered in the fourth quarter. Meanwhile, sales of mutual funds—a key product focused on by Daiwa Securities—increased

substantially. As a result, the company was able to limit the decline in net operating revenues for the period to 3.9% year on year, to ¥172.0 billion, while ordinary income fell by 7.2%, to ¥38.8 billion.

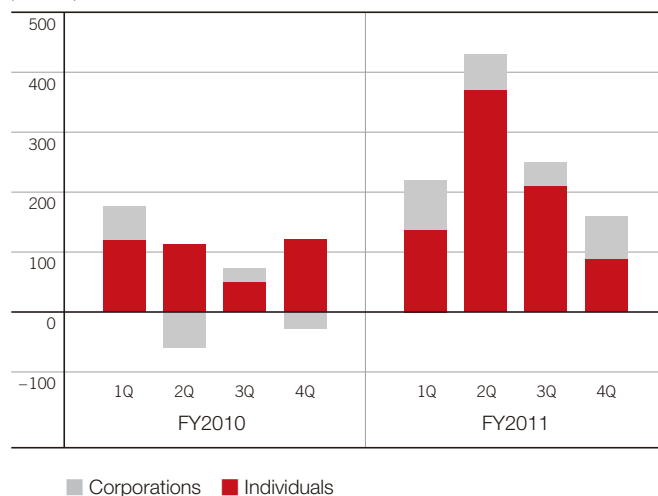
### Key Events of FY2011

The Retail Division has been concentrating its sales efforts on mutual funds, and expanding its lineup of monthly dividend-type funds, in order to address customers’ need for dividend income. Daiwa Securities aggressively develops and introduces new funds to reflect market trends and themes. Products such as the “Daiwa Harris Global Selected Stock Fund” and “Daiwa ASEAN Domestic Demand-Related Stock Fund” helped generate over ¥2 trillion in mutual fund sales during FY2011, increasing Daiwa Securities’ share of the market to 9.1%. Investment trust sales commissions rose 60% year on year, to ¥46.9 billion.

Sales and Distribution Amount by Product Category (Daiwa Securities)  
(¥ billion)



Net Inflow of Assets (Daiwa Securities)  
(¥ billion)



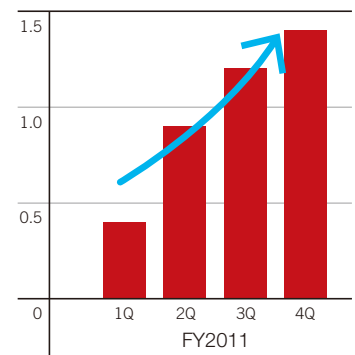


Yoriyuki Kusaki  
Deputy President  
Deputy Head of Retail  
Daiwa Securities Group Inc.

In May 2011, with the launch of Daiwa Next Bank, the company entered the banking business as a bank agent. In collaboration with the bank, it launched the “Daiwa Twin Account,” which allows seamless connection between a customer’s bank account at Daiwa Next Bank and their brokerage account at Daiwa Securities, making their fund allocation activities easier and more efficient. It also offers good interest rates on deposits, providing both convenience and enhanced services to help expand the customer base. As of the end of March 2012, Daiwa Next Bank had attracted some 480,000 accounts with a balance of deposits exceeding ¥1,430 billion. The bank turned a profit in the third fiscal quarter since the bank was founded. Now that the company can offer various types of savings accounts, in addition to the investment vehicles that have been its forte in the past, Daiwa Securities will be able to attract a broader range of customers to use the Daiwa Securities Group’s services. The impact is already apparent; in FY2011 the company increased the number of new accounts by 22% year on year, to 154,000, and the net inflow of assets soared by 168% year on year, to ¥1,060 billion.

Daiwa Securities not only offers customers opportunities to generate a good return on their investments. The company has also been focusing on so-called “impact investments” which make a positive social contribution to the environment or to economically disadvantaged groups. In FY2011, the company began selling “JICA bonds,” the first retail market-oriented bonds issued by the Japan International Cooperation Agency (JICA). In addition, it helped arrange “Green Bonds,” which are issued by the World Bank and marketed mainly to regional banks.

**Balance of Deposits at Daiwa Next Bank**  
(¥ trillion)



#### Major “Impact Investment”-Type Products Marketed by Daiwa Securities in FY2011

Issue	Issuer	Intended use of funds	Currency	Sales amount (approx.)*	Issue date
Ecology Bond	Nordic Investment Bank	Funds projects aimed at improving the environment, such as facilities to reduce air and water pollution	S. African Rand	¥9.1 billion	Nov. 2011
JICA Bond	Japan International Cooperation Agency	Provides international yen loans to support developing countries	Japanese Yen	¥13.0 billion	Dec. 2011
Water Bond	Asian Development Bank	Funds water-related projects in the Asia-Pacific region	Turkish Lira	¥21.6 billion	Feb. 2012

\* Based on TTM rate on date of issuance

# Wholesale Division

The Wholesale Division consists of the “Global Markets” business, which provides high-quality financial services and products such as stocks, bonds, currencies and derivatives brokerage to institutional investors, and the “Global Investment Banking” business, which underwrites stock and bond issues for corporations and provides IPO and M&A advisory services. The Division has established a solid platform for operations including offices in the four main financial centers of Tokyo, Hong Kong, London and New York. Daiwa Securities has extensive experience and knowhow, and has earned a good reputation for providing financial solutions to global clients including corporations, other financial institutions and institutional investors.

### Action Plan for FY2012

1. Acquire IB deals by utilizing global network cored on Asia including Japan
2. Provide timely products to link firm client base and markets environments
3. Develop business focused on client trading flows with priorities in capital efficiency and based on appropriate risk management system

### Business Conditions and Earnings Results for FY2011

The Wholesale Division was severely affected by harsh business conditions, as equity financing both in Japan and overseas contracted following the East Japan Earthquake, and as the debt crisis in Europe depressed trading profits. During FY2011 the Global Markets business experienced a 15.4% drop in net operating revenues, to ¥52.0 billion, and generated an ordinary loss of ¥54.4 billion. The Global Investment Banking business also saw net operating revenues decline 13.6%, to ¥26.5 billion, and posted a ¥14.2 billion ordinary loss. In the fourth quarter, however, restructuring efforts and personnel reductions at overseas offices, domestic improvements in management efficiency and IT-related cost-cutting greatly improved the profit structure. As major global stock markets

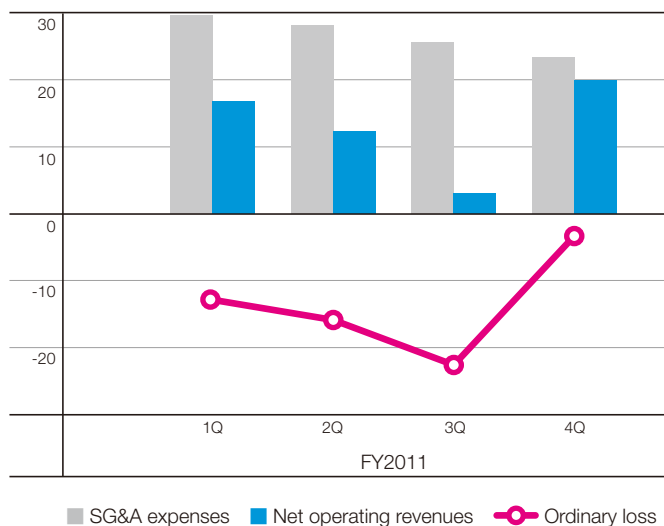
began to recover and interest and exchange rates stabilized, trading profits improved and earnings improved dramatically compared with the start of the fiscal year.

### Key Events of FY2011

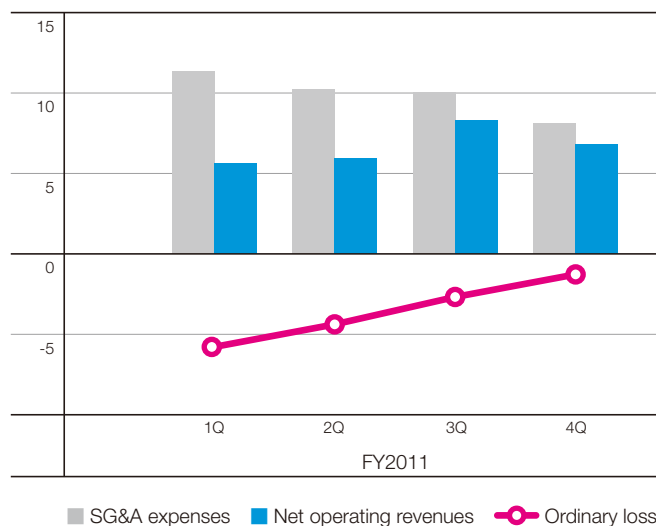
During FY2011, the Group took proactive steps to improve earnings in the Global Markets business including the transfer of Synthetic Prime Brokerage\* operations and the downsizing or closure of other unprofitable businesses. On the other hand, in order to bolster stock trading capabilities in Asia, including Japan, the Group established a Pan-Asian research team that can offer comprehensive and effective coverage of Japanese and Asian equities. In preparation for the merger of Daiwa Securities and Daiwa Securities Capital

### Quarterly Earnings Trends in FY2011

**Global Markets**  
(¥ billion)



**Global Investment Banking**  
(¥ billion)





**Akio Takahashi**  
Deputy President  
Deputy Head of Wholesale  
Daiwa Securities Group Inc.

Markets, and with the aim of maximizing the impact of this merger, a sales support structure (providing information and product proposals) was established to target the so-called “middle market”—a segment that offers Daiwa Securities the best prospects for future earnings growth.

In equity finance, the Global Investment Banking business leveraged synergies developed through the acquisition of a global CB business division from KBC, a leading Belgian financial group, to win the sole lead manager role in KDDI’s ¥200 billion CB issue despite the harsh business climate. This was the largest single issue won in FY2011. By winning several large-scale debt financing issues in FY2011, Daiwa Securities claimed second place in the league table for straight corporate bonds (excluding issuance of

the company’s own bonds). The M&A business was also quite successful. Revenues in Europe increased year on year and cooperation with Sagent Advisors, with which the Group has capital ties, earned Daiwa Securities an advisory role in Daicel Corporation’s acquisition of US company, Special Devices Inc. (SDI). Cross-border M&A business is increasing in general. This shows that the global business strategy—leveraging offices in the world’s four major financial centers—is starting to bear fruit.

\* Provides investors with credit securities, funding and market access through portfolio swaps (swap trading using a securities portfolio as the underlying asset)

### Major Lead-Managed Deals and Publicly Announced M&A Advisory Activities in FY2011 (Including Participation as Joint Book-Runner)

#### Primary and Secondary Equity Offerings (Including CBs)

KDDI	Euro/Yen CB	¥200.0 billion
Skymark Airlines	Subscription sales	¥20.4 billion
REXLot Holdings	CB	HK\$9.6 billion

#### IPO

Sichuan Yimikang Environmental Tech	Shenzhen IPO	CN¥340 million
Beijing Jingneng Clean Energy	Hong Kong IPO	HK\$2.1 billion

#### Bonds

ORIX	Yuan-denominated bonds (Dim sum bonds)	CN¥500 million
Republic of Turkey (guaranteed by JBIC)	Samurai bonds	¥90.0 billion
Int’l Bank for Reconstruction & Development	Global US dollar-denominated bonds	US\$6.2 billion in total

#### M&A

Teva Pharmaceutical Industries’ acquisition of Taiyo Pharmaceutical Industry	Advisor to Taiyo Pharmaceutical
Taisho Pharmaceutical’s acquisition of Hoepharm Holdings	Advisor to Hoepharm Holdings
Daicel Corporation’s acquisition of Special Devices Inc.	Advisor to Daicel Corporation

# Asset Management Division

There are four main subsidiaries that comprise the Daiwa Securities Group's Asset Management business. Daiwa Asset Management Co. Ltd. focuses on the establishment and management of investment trusts mainly for individual investors. Daiwa SB Investments Ltd. (an equity method affiliate) has an established history of results and reliability in providing investment advisory services to pension funds and other institutional investors. Daiwa Real Estate Asset Management Co. Ltd. manages real estate assets, and Daiwa Office Investment Corp., the J-REIT that Daiwa Real Estate Asset Management Co. Ltd manages, became a consolidated subsidiary of the Group in March 2012.

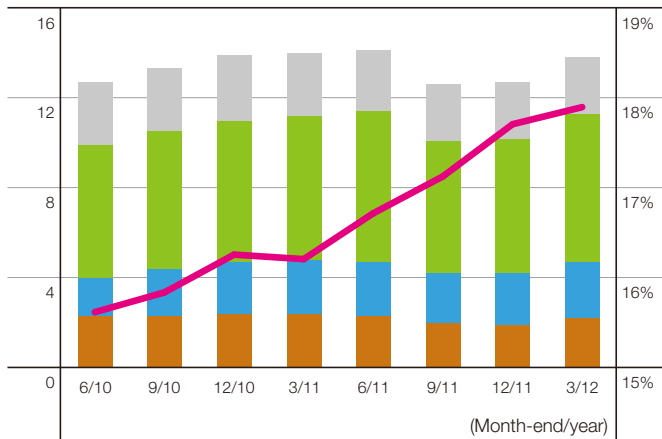
A deteriorating market environment, including the deepening debt crisis in Europe, battered the entire asset management industry. Mutual funds lost ¥3.0 trillion in value across the industry as a whole, closing FY2011 with a net asset value of ¥51.2 trillion. Though there was a net outflow of investment in the latter half of the year, this was offset by the inflow of new investment earlier in the period. Over the full fiscal year there was a net inflow of ¥2.0 trillion.

Daiwa Asset Management led the industry in the net inflow of assets to mutual funds, during FY2011, with ¥667.2 billion. The balance of assets under management closed the year at ¥6,624.9 billion, increasing the company's market share by 1.1 percentage points to 12.9%. Daiwa Asset Management also had the two top-ranked funds in the industry in terms of net asset inflow. The "Daiwa C&S Beikoku REIT Fund" led the industry with an inflow of ¥507.2 billion and the "Daiwa C&S US REIT Open B course (Currency Unhedged)" was second, with ¥470.1 billion. Daiwa Securities has donated its sales-commission portion of the management fees from the "Daiwa Japan Supporter Vol.3-Phoenix Japan" launched in May 2011 to the Japan NPO Center's Japan

Earthquake Local NPO Support Fund, which assists with reconstruction in the aftermath of the East Japan Earthquake. The Group intends to continue making contributions each fiscal period, out of the income from this fund, to support the rebuilding effort. Daiwa Asset Management won several recognitions during the period, including the Morningstar Award "Fund of the Year 2011" and the R&I Fund Award 2012. It was also selected as the top-ranked fund manager in the Sixth Annual Fund Manager Brand Survey conducted by The Japan Financial News Co., Ltd.'s "Nikken Investment Trust News," demonstrating the company's strong reputation among the banks that distribute mutual funds.

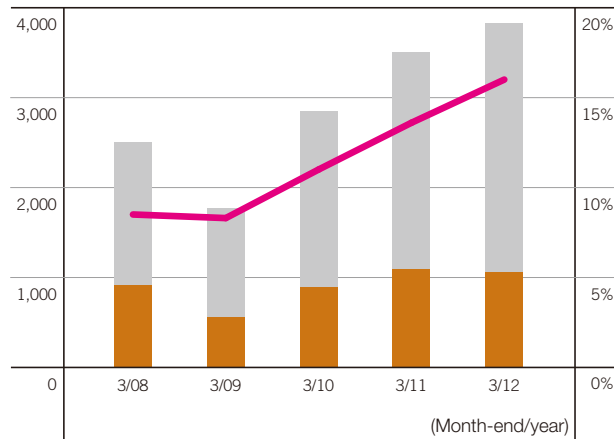
Daiwa SB Investments recorded a net inflow of ¥480.3 billion to its mutual funds during FY2011. At the end of the fiscal year, the balance of assets under management of mutual funds stood at ¥2,547.2 billion, increasing its share of the market by 0.6 percentage points to 5.0%. The company's "Short-Term Australian Bond Open" ranked second in the industry for the total balance of assets under management, and this fund continued to expand, with a net inflow of ¥398.2 billion in FY2011. The "Emerging Bond Fund With Currency Selection" also recorded a strong net inflow of ¥327.3 billion. In the

**Balance of Assets Under Management at the Two Asset Management Subsidiaries, and Market Share**  
(¥ trillion)



- Daiwa Asset Management (Bond investment trusts)
- Daiwa Asset Management (Mutual funds)
- Daiwa SB Investments (Mutual funds)
- Daiwa SB Investments (Investment Advisory)
- Daiwa Securities Group mutual funds share (right)

**Sales of Mutual Funds Through Bank-related Sales Channels**  
(¥ billion)



- Daiwa Asset Management (Mutual funds)
- Daiwa SB Investments (Mutual funds)
- Daiwa Securities Group share (right)



**Makoto Shirakawa**  
Deputy President  
Head of Asset Management  
Daiwa Securities Group Inc.

investment advisory business, Daiwa SB Investments maintained its first-place overall position in the investment advisory rankings published by Rating & Investment Information, Inc. (R&I)'s "Pensions & Investments" newsletter, for a third consecutive year. It also received various awards from R&I's Fund Awards 2012 and the ninth-annual Mercer MPA Awards (Japan).

These strong performances boosted the Daiwa Securities Group's overall share of the market for mutual funds by

1.7 percentage points, to 17.9%. The two companies together controlled a 16.0% share of all mutual funds sold through bank sales channels in FY2011—an increase of 2.4 percentage points over the previous year. Net operating revenues for the overall Asset Management Division increased by 3.0% year on year, to ¥37.4 billion, and ordinary income declined by 8.4%, to ¥14.6 billion.

### Action Plan for FY2012

1. Sophisticate investment style and research analysis
2. Improve product development functions and offer new attractive products
3. Enhance supports to distributors and provide information meeting client needs
4. Establish an efficient organization and enhance risk management system

#### Daiwa Asset Management

##### ■ Improve fund management capabilities

Adopt more sophisticated management techniques, better research and analysis in order to improve fund performance, and promote diversification of investment objects and investment strategies

##### ■ Enhance product development capabilities

Develop products with content and performance that meets client needs, and develop in-house infrastructure to support new product development

##### ■ Improve marketing capabilities

Bolster product proposal and customer support capabilities and strengthen transmissions of information from the investor's perspective

##### ■ Strengthen the organizational base

Invest in a solid organizational base that can provide top-quality services, while pursuing the most efficient cost structure by prioritizing cost-cutting targets

#### Daiwa SB Investments

##### ■ Improve fund management capabilities

Strengthen fund management base focusing in particular on growing Asian asset markets, and enhance competitiveness of existing products

##### ■ Expand range of fund management products

Develop and manage competitive funds that address investors' needs

##### ■ Improve sales and marketing base

Establish a stronger base to manage publicly offered investment trusts by increasing support for sales agents; elevate and maintain the market presence of the investment advisory business by developing products and services that meet customer needs

##### ■ Strengthen the organizational base

Upgrade quality and efficiency of specialized operations, train and efficiently utilize personnel and enhance product management

## IT/Think Tank Division

### One of Japan's Leading Think Tanks

#### Daiwa Institute of Research Group

The Daiwa Institute of Research Group encompasses a number of companies involved in research, information services and other support functions. The group includes Daiwa Institute of Research Holdings Ltd., the administrative parent of the group; Daiwa Institute of Research Ltd., which offers research and consulting services as well as providing systems support to companies in the Daiwa Securities Group; and Daiwa Institute of Research Business Innovation Ltd., which provides systems support to companies outside the Daiwa Securities Group. The synergy between these companies has made the group one of Japan's leading think tanks, addressing sectors ranging from economics and social issues to corporate business strategy and IT solutions. In FY2011, the three main group companies generated a combined ordinary income of ¥6.4 billion, down 23.7% from the previous year.

#### Action Plan for FY2012

- |   |  |
|---|--|
| <ol style="list-style-type: none"> <li>1. Enhance the Group's presence by further increasing values as a think tank</li> <li>2. Create business opportunities by enhancing consulting services in Asia including Japan</li> </ol> | <ol style="list-style-type: none"> <li>3. Decrease system-related administration and development costs by introducing in-house IT development and the Group's internal-cloud system</li> </ol> |
|---|--|

#### Enhanced Skills in Disseminating Information are Making the Group an "Opinion Leader" in Japan

The Daiwa Institute of Research Group has over 40 years of experience in conducting macroeconomic research, financial and capital markets research both in Japan and overseas, and environment-related research. The group is working to enhance the knowledge and expertise it possesses, and its capacity to make proposals and recommendations based on such research. Furthermore, it is developing its ability to disseminate this information, in order to serve as a think tank and an opinion leader in Japan and overseas.

#### Consulting Services Help Clients Enhance Their Corporate Value

As business adopts an increasingly global focus, the consulting needs of corporations are growing more sophisticated and diverse. To meet these needs, the Daiwa Institute of Research Group offers a broad assortment of different consulting services, from management consulting to business strategy, corporate financing strategy, and human resource and organizational consulting. The group also assists Japanese companies with their efforts to expand into Asian markets, with research on local business and investment conditions and consulting support for new business expansion plans. Using its accumulated consulting experience, the group can help customers make decisions and enhance corporate value.

#### Optimizing the Cost-Effectiveness of IT Systems to Make the Daiwa Securities Group More Competitive

The IT systems support business has adopted cost-value optimization methods such as building cutting-edge offshore development structures and one of the most advanced cloud computing environments in Japan, to help make the Daiwa Securities Group more competitive. The group will improve systems development efficiency through its Chinese systems development subsidiary, SinoCom DIR Business Innovation Technology (Beijing) Co., Ltd., with the aim of establishing a cutting-edge offshore development structure. Efforts to develop the domestic cloud computing environment include not only the expanded use of cloud computing at the Daiwa Securities Group companies, but efforts to promote the standardization of cloud-computing platforms for operating core systems through the "Global Alliance for User-driven Cloud Computing" which the Group launched in collaboration with other IT companies.

In step with the Group's overall global strategy, IT governance for global systems is being upgraded to provide fuller IT support to the Daiwa Securities Group's business activities.



## Investment Division

The Daiwa Securities Group is active in investment businesses, including venture capital investments, private equity investments and fund management. These businesses not only offer a supply of capital to meet the funding needs of customers, but they also enhance their corporate value through “Hands-On Management.”

### Action Plan for FY2012

1. Maximize returns from the existing portfolio
2. Invest and raise funds in a timely and appropriate manner

#### Investing in the Future Through Private Equity Stakes Daiwa Corporate Investment Co., Ltd.

Daiwa Corporate Investment Co., Ltd. was established in 1982 as a private equity firm. The company uses its extensive business network, centered on the Daiwa Securities Group, and a wealth of accumulated experience and knowhow to supply capital for venture companies or buy-outs. In this way, it has helped numerous businesses to grow and eventually to list their shares publicly. In the fund management business, which supplies capital for investments, the company also operates a highly transparent financial instruments operation (Type II Financial Instruments Business and Investment Management Business).

In FY2011, Daiwa Corporate Investment established the East Japan Earthquake Small and Medium Enterprises Revival Support Investment Limited Partnership, with the aim of providing assistance for recovery and growth from the East Japan Earthquake. This fund aims to contribute to the early recovery and sustained growth of the disaster-stricken region by flexibly providing risk money (equity investment) to the region's unlisted companies.

#### <Venture Capital Investment >

Daiwa Corporate Investment generally provides support to companies with advanced technologies and companies with unique business models, content or services. Its approach is to offer venture companies a “Hands-On” support package that includes not only investment capital but also contacts to prospective executives or employees, advice on listing the company's shares, and a full array of other types of management assistance.

#### <Buy-Out Investment>

This business focuses on business reorganization and reformation of medium-sized businesses with valuable management assets, often through MBO\*. Investment focuses on companies with no clear management succession, the subsidiaries of large corporations, business divisions that are being spun off, or companies which aspire to become privately-held. The experience and knowhow cultivated at Daiwa Corporate Investment through venture investment is leveraged in directly assisting the buy-out investment of target companies.

\* MBO: Management Buyout—The act in which management leads the buyout of a company's own shares.

#### Developing Solutions Through Investment Activities Daiwa PI Partners Co. Ltd.

Daiwa PI Partners Co. Ltd. was launched in 2001, under the name Daiwa Securities SMBC Principal Investments Co. Ltd. The company was involved in private equity investment, monetary claims investment, real estate investment, investment in greenhouse gas emissions credits and regional recovery funds. In February 2010, the investment portfolio was transferred to a company that retained the original name, Daiwa Securities SMBC Principal Investments Co. Ltd., whereas the current company adopted the name Daiwa PI Partners Co. Ltd., and began pursuing new investment activities. Through its investment activities, Daiwa PI Partners addresses the varying needs of target companies for raising capital and selling off assets.

In FY2011, Daiwa PI Partners established Aozora Daiwa Finance Co., Ltd. together with Aozora Bank, Ltd. in October 2011. Through this joint venture, Daiwa PI Partners will build a one-stop framework for a wide range of high-value-added services providing fund raising solutions in bridge loans and mezzanine finance for M&A transactions, which require both speediness and specialized expertise.

#### <Monetary Claims Investment>

The Daiwa Securities Group has been a pioneer in monetary claims investments since 1998. It acquires loan contracts and nonperforming loans from financial institutions and business corporations throughout Japan.

#### <Private Equity Investment>

The Group has made more than ¥300 billion in private equity investments in over 20 Japanese and Asian companies.

#### <Investment Funds>

The Group has established Daiwa Quantum Capital Partners I—an investment fund operated jointly with Quantum Leaps Corporation, the venture capital firm founded by former Sony CEO, Mr. Nobuyuki Idei. This fund invests mainly in growing companies in Asia, including Japan.

The Daiwa Securities Group introduces to you  
a New Way to Bank

# Daiwa Next Bank



Why not save, while you invest?  
Daiwa offers you a new style of financial service.  
When it comes to saving and investing, we are here to be your “Best Partner.”

Agency Services

Principal Bank

## Daiwa Securities

## Daiwa Next Bank

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