



Leveraging Financial Capabilities to Contribute to a Sustainable Society

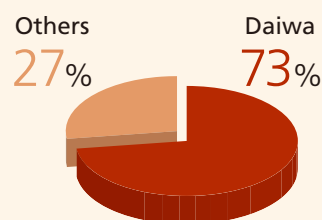
The world we live in is facing a host of pressing issues that threaten its very sustainability, ranging from environmental challenges—most notably climate change—to the growing gap between rich and poor. In times like these, companies are called upon to work in the greater society's interest and not merely pursue profit based on market principles. In that regard, the financial sector is uniquely positioned to support initiatives for social change. That is why the Daiwa Securities Group develops and sells Impact Investment* vehicles. These products offer our investors a clear way to make a difference and channel funds toward solutions to society's challenges.

* Investment with social objectives such as poverty reduction and environmental protection that also generates financial returns for investors.

Impact Investment bonds sold by Daiwa Securities (Mar. 2008-Apr. 2010)

Vaccine Bonds
World CO2L Bonds
Microfinance Bonds
Green World Bank Bonds
Water Bonds

Daiwa Securities' share of the Japanese market for Impact Investment bonds



Total sold: Approx. ¥260 billion (since March 2008)

Source: Daiwa Securities

*Only includes bonds for retail investors (as of end-April 2010)

Ratio of Impact Investment bonds to total foreign currency denominated bonds¹, 2009

Daiwa Securities group²: 11%

Overall Japanese market³: 3%

¹ *Uruidashi Gaisai*; foreign currency denominated bonds issued overseas and sold in Japan

² Ratio of Impact Investment *Uruidashi Gaisai* to foreign currency denominated bonds arranged by Daiwa Capital Markets Europe Limited and sold by Daiwa Securities.

³ Estimate by Daiwa Securities based on Capital Eye data.

WEB Please visit our website for more details. <http://www.daiwa-grp.jp/english/csr/report2010/kadai1>

Microfinance Bonds: Group-wide Effort to Help Reduce Poverty

Poverty alleviation is one of modern society's biggest challenges.

The Microfinance Bonds we have begun to offer to our clients are our answer to the question: "Can we help to solve this problem by making a new flow of money available that contributes to the challenge?"

Contributing to poverty reduction through bond investment

According to the World Bank, 1.4 billion people, or roughly one-fourth of the world's population, live on less than \$1.25 per day.*

Inspired to try to make a difference through our financial business activities, in November 2009 we began underwriting and selling Microfinance Bonds, a new type of product that utilizes bond investment to help reduce poverty.



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Microfinance refers to small-scale financial services offered to low-income people, mostly in developing nations. By offering unsecured loans (known as "microcredit") and other basic offerings to people previously considered too poor for financial services, microfinance aims to lift people out of poverty and help them become economically self-sufficient.

Microfinance Bonds are an attempt to generate investment to help fund microfinance initiatives. Under this scheme, the Daiwa Securities Group underwrites and sells bonds issued by the International Finance

Corporation (IFC, member of the World Bank group). The IFC, in turn, uses the proceeds raised from bond investors to fund its microfinance operations.

Group-wide effort to create a truly innovative product

Satoru Yamamoto, Deputy General Manager, Product Planning Department, Daiwa Securities, came up with the idea for this product. While studying in the US, he learned about a venture capital firm that used the Internet to raise funds for microfinance.

Mr. Yamamoto recalls, "I had heard about microfinance before but assumed it had nothing to do with the mainstream financial business. Still, I figured if one company can turn microfinance into a business, there might be some potential for Daiwa to get involved as well."

After returning to Japan, Mr. Yamamoto proposed offering bonds to raise money for microfinance. His colleagues in the Product Planning Department loved the idea. The General Manager of his department, Ms. Sachiko Hanaoka, gave the green light to the project. "Socially responsible investments have attracted serious attention lately," she said, "so this product should definitely interest investors." With management's blessing, Mr. Yamamoto's idea got started on the road to becoming a final product.

Daiwa Securities teamed up with another Daiwa Securities Group company to make the idea a reality. One Daiwa Securities Capital Markets (Daiwa CM) employee, Jun Yamamuro, Deputy General Manager, Capital Markets Department, began searching for candidates to issue the bonds and eventually approached the International Finance Corporation (IFC), which has a proven track record of approving loans to microfinance institutions. However,

* Note: 2005 figure from Martin Ravallion and Shahoua Chen World Bank report "The developing world is poorer than we thought, but no less successful in the fight against poverty."



From right:

Satoru Yamamoto, Deputy General Manager, and Sachiko Hanaoka, General Manager, Daiwa Securities Co. Ltd.

Toru Iwai, Deputy General Manager, Daiwa Securities Group Inc.

Yoshihiro Nakazawa, Associate, and Jun Yamamuro, Deputy General Manager, Daiwa Securities Capital Markets Co. Ltd.

(Position names are as of end of March 2010)

negotiations did not go smoothly at first—the IFC had never heard of such a bond before.

“We were persistent and patient,” recounts Mr. Yamamuro, “and ultimately the IFC agreed to work with us because they could tell how passionate we were about making this product happen.”

Strong demand for innovative products that make a difference

The decision to issue the bonds finally came in September 2009. The announcement sent shockwaves through the industry as it was the first such product in Japan to alleviate poverty through investment.

Naturally, the move was a big issue for employees on the front lines, as well. Jun Hagiwara, Manager, Asset Consultant Department, Sapporo Branch, Daiwa Securities, started reading books on microfinance and making proposals to his clients. He explains, “I could sense strong interest in products that made a difference, and this one seemed like it could fill that need. When explaining the product to clients, I focused most on details of how their investment would be used. Since this is a bond investment,

and not charity, the products also offer coupon payments. I think this fact gave clients the peace of mind that their money would be invested in reputable instruments. After buying the bonds, many clients have also followed the issuers’ progress reports regularly to find out how their money is being used.”

For some time, Mr. Hagiwara had been telling



Jun Hagiwara, Manager, Asset Consultant Department, Sapporo Branch, Daiwa Securities Co. Ltd. (Department and position names are as of end of March 2010)

potential buyers of socially responsible investments about Daiwa’s CSR priorities, explaining that leveraging financial capabilities to contribute to a sustainable society. “It’s heartening to know that my work is helping make the world a better place,” he says.

He goes on: “These products seem to have also expanded our client base, because people who had never considered buying foreign bonds before are taking an interest in products that contribute to a sustainable society. In the future, I think we’ll see more people buying these bonds for their social objectives.”

Daiwa takes its responsibility toward society seriously and will continue searching for innovative ways to use finance as a means of resolving various social issues.

A Word from a Stakeholder



Making a difference in the world requires envisioning a richer society that does more than merely meet people’s economic needs

Kumi Fujisawa

Cofounder and Vice President of the think tank, SophiaBank

Whenever I travel to poorer areas of the world, I am reminded of how hard the Japanese have worked to become wealthy. Thanks to such efforts, we now can enjoy economically affluent and materially satisfying lives. I am grateful to know our achievements are now being admired and respected by others. And now they are watching carefully to see what our future vision is, as a nation that is already economically and materially prosperous.

Issuing bonds that offer individuals opportunities to participate in contributing to a sustainable world is an ideal example of how people and corporations can work together toward further global development.