

# Building a Network in Asia and Worldwide

Capital markets in many Asian countries are currently experiencing tremendous growth. Daiwa Securities Group is responding to the opportunities by solidifying its operating base and expanding its range of products and services throughout the region. The Group's strategy concentrates on wholesale operations, using the know-how and experience that it developed in Japan to build competitive brokerage and investment banking operations in Asia. As the Daiwa Securities Group extends its presence in the region, it is also contributing to the growth and development of Asian companies and capital markets.



Growing prosperity in Delhi, India

## Special Feature 1

### Building a Network in Asia and Worldwide



Taken as a group, the capital markets of Asia have now surpassed Japan in terms of total market capitalization and trading activity. In FY 2006, total equity trading value in the twelve major Asian markets\* (excluding Japan) exceeded US\$6 trillion, surpassing total trading value in Japan (US\$5.6 trillion) for the first time. In FY 2007, trading value in Japan edged up to \$6.2 trillion, while trading value in the other twelve Asian markets soared to \$15 trillion. The Daiwa Securities Group has already established an operating base in Asia, but it is responding to the tremendous growth opportunities by redoubling efforts to expand in the region. In FY 2008 and beyond, the Group intends to invest aggressively to raise its presence in Asia.

\* The twelve markets are Hong Kong, Korea, Taiwan, Singapore, Malaysia, Thailand, Indonesia, the Philippines, China, India, New Zealand and Australia.

#### Daiwa Securities SMBC Leads the Way in Asian Expansion

Daiwa Securities SMBC, which handles the wholesale securities operations of the Daiwa Securities Group, is the designated leader of the effort to build an operating base in Asia. The company has set three targets for business growth, which it intends to meet by FY 2011:

1. ¥100 billion in annual revenues from Asian operations
2. 1,000 employees at offices in Asia
3. A total of ¥100 billion in investments in private equity, funds and others in the Asian region.

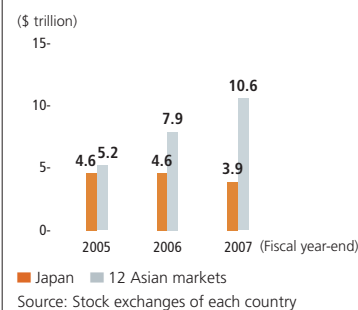
#### Opening New Offices in Asia

Daiwa Securities SMBC's operations in Asia and Oceania currently center on the company's subsidiaries in Hong Kong and Singapore. To strengthen the organization, the company has opened a representative office in Hanoi, increasing the total number of offices in Asia to 11. In addition to its new representative office, the company has taken steps to expand operations in Vietnam by forging an alliance with Saigon Securities Inc., which holds the largest share of total brokerage activity on the HoChiMinh Stock Exchange.

In India, Daiwa Securities SMBC has a local subsidiary in Mumbai (Bombay) which obtained a trading license and a seat on the Bombay Stock Exchange in April 2008. The subsidiary started to operate a stock brokerage business as well as underwriting, M&A and other investment banking operations, making it the first Japanese-owned securities company in India with a full lineup of wholesale securities services. The Daiwa Securities Group plans to use these offices in Asia to offer an expanding range of services to both Japanese and foreign clients.

#### Comparison of Japanese Stock Markets to Asian Markets

Market capitalization



Trade value



## Building a Regional Network

During FY 2007, the Daiwa Securities Group held three large receptions in Asia—in Singapore, Taiwan and Beijing. These receptions were organized in order to thank those individuals and groups who have supported the Group's efforts in the region, and to clearly express the Group's intention to expand its Asia-related businesses. All three receptions were well received, attracting government officials as well as local luminaries, representatives of leading financial institutions and officials from Japanese companies operating in the region. Furthermore, the receptions received a great deal of local press coverage and attention, which will be helpful in allowing the Daiwa Securities Group to build a strong network that can support future efforts to expand its business in Asia.

## Strengthening Equity Operations

The Group's equity business is working to expand its existing client base and further develop its infrastructure in each Asian country. The top priority is to make these operations profitable at the earliest possible date.

As trading activity in Asian markets increased, during FY 2007, Daiwa Securities Group dramatically expanded its handling of Asian stocks. The Group hopes to accelerate this growth by establishing a strong team of salespersons and traders, as well as increasing the number of Asian equity analysts.

Finally, the Group is rapidly building a strong execution infrastructure in each of these Asian markets. In Singapore, Australia and India the Group is increasing its FIX<sup>\*1</sup> market connections, while in Hong Kong, Taiwan and Korea it is introducing direct market access (DMA)<sup>\*2</sup> and algorithm trading systems.<sup>\*3</sup>

<sup>\*1</sup> FIX: Financial Information eXchange, a unified electronic trading system linking buy-side and sell-side dealers

<sup>\*2</sup> DMA: Direct market access systems providing buy-side traders with direct access to the market, to conduct trading electronically

<sup>\*3</sup> Algorithm Trading: A computerized trading system that automatically generates orders based on program trading

## Investment Banking Business in Asia

Daiwa Securities Group has offered many Asian companies investment banking support, establishing a track record of underwriting securities such as Public Offerings Without Listing (POWL)\*. Building on the experience and know-how it has already acquired, the Group has been developing highly specialized skills and collecting information in local markets to allow it to expand this business. In FY 2007, Daiwa Securities SMBC was selected as the lead manager to underwrite an IPO for China Boqi Environmental Solutions Technology (Holding) Co., Ltd., the first Chinese corporation to list its shares on the First Section of the Tokyo Stock Exchange. In FY 2008 and beyond, the Group intends to use its expertise and origination capabilities to increase investment banking operations throughout Asia.

To support this effort, the Group will establish a team of sector specialists in Hong Kong and Singapore, each of whom possesses detailed knowledge of the investment banking needs of a specific industry. For the time being the Group will focus on growth sectors such as IT, telecommunications, real estate and energy. At the same time, it will increase the number of support staff at the Tokyo head office and improve its capabilities in cross-border investment banking operations.

\* POWL: A share offering in which shares of a company listed on an overseas market are sold in Japan, though the shares are not listed on a local Japanese market

## Investment in Asia

In order to strengthen its operating base in Asia, the Group has earmarked roughly ¥100 billion for strategic investments in the region between now and FY 2011. The funds will be used strategically in a broad range of sectors to expand business operations in Asia, and to build alliances that provide access to talented human resources. This exchange of personnel will contribute to earnings growth in the region.

In February 2008, Daiwa Securities SMBC Principal Investments took a capital stake in Airway Communications International Holding, a Chinese firm that uses broadband wireless technology to provide high-speed wireless data communications services. This marks the company's first direct investment in Asia.

In December 2007, Group investment affiliate EMP-Daiwa Capital Asia Limited, established in January 2007, took its first capital stake in a Hong Kong-based company. In the future, the Group will leverage its network to identify attractive investment targets.

### Group Network and Investment/Alliance Activities in Asia



## Enhancing Asia-Related Services Throughout the Group

Though wholesale securities operations are the main focus at present, the Daiwa Securities Group recognizes that Asian markets are extremely important to all operations. In the retail business, domestic individual investors are increasingly interested in investing in newly industrializing countries. To address this demand, Daiwa Institute of Research is expanding its research staff in Asia in an effort to improve research capabilities. In the asset management business, meanwhile, Asia-related investment trusts are among the Group's most popular products. To support these products, the Group is upgrading fund management capabilities at each of its subsidiaries in the region. By establishing in-house capabilities to manage global funds, the Group will be able to offer clients higher-value-added products and services.

# Expanding Retail Services

The market turmoil created by the sub-prime loan crisis caused the TOPIX to tumble approximately 30% during FY 2007, from 1,713.61 at the end of FY 2006 to 1,212.96 at the close of the year. Yet despite this harsh business environment, net operating revenues at Daiwa Securities Co. Ltd.—the retail arm of the Daiwa Securities Group—declined by only 2% year on year, demonstrating the stability of the company's earnings structure.



Information terminals in the customer lobby of the Daiwa Securities head sales office

## Special Feature 2

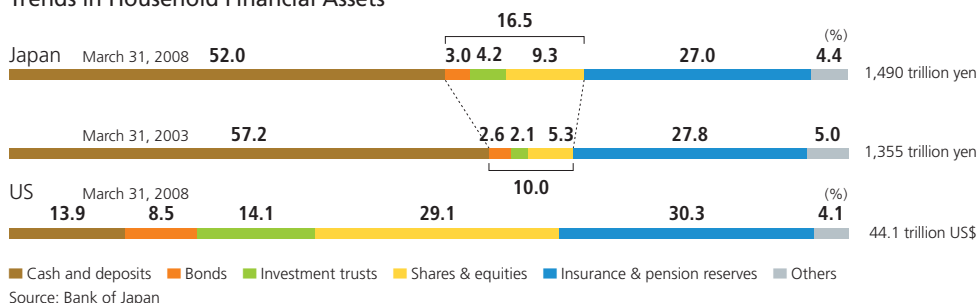
### Expanding Retail Services



Japanese households are starting to move their estimated ¥1,500 trillion in individual financial assets from savings to investment. Although the sub-prime loan crisis temporarily slowed this trend, the funds are still moving steadily into capital markets. As the number of individual investors increases, their investment support needs expand as well. By offering a broad range of services to meet these needs, Daiwa Securities is steadily expanding its retail business.

The recording studio at "Financial Information TV by Daiwa", Japan's only TV channel dedicated exclusively to market news

#### Trends in Household Financial Assets

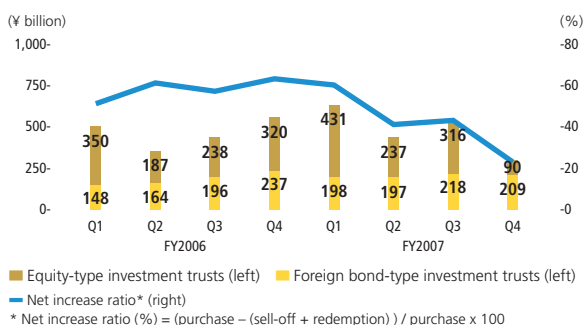


#### Expanding Assets Under Custody to Increase the Flow of Steady Earnings

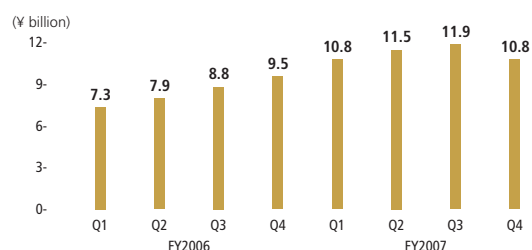
Daiwa Securities is concentrating its efforts on businesses that manage customer assets, working to increase the balance of assets under custody and help customers increase the value of their assets over the long term. Equity investment trusts are central elements in this strategy, offering retail investors a simple and convenient option as they move their assets from savings deposits into more diversified, investment-oriented products. Daiwa Securities is emphasizing sales activities which attract new investment capital to these funds. As the balance of assets under custody in equity investment trusts increases, the company is generating a stable and rapidly rising flow of revenues from agency commission fees. Just three years ago, monthly revenues from agency commissions was around the ¥1.2 billion level, but in FY 2007 this figure swelled to over ¥4 billion for some months.

Daiwa Securities continues to develop new products and services for retail customers. This is steadily expanding the assets under custody, and thus providing a source of revenues that is not greatly affected by changes in market conditions. As a result, the company's earnings structure will become much more stable.

#### Sales and Net Increase Ratio of Equity Investment Trusts



#### Agency Commission Revenues From Investment Trusts



## Products and Services to Support the Shift “From Savings to Investment”

### Investment Trusts▶

In the category of bond-type investment trusts, Daiwa Securities offers the “Daiwa World Bond Fund” as well as the “Daiwa Global Bond Fund”—Japan’s largest exclusive investment trust\* in terms of total assets. The company also sells a wide range of equity-type investment trusts and continues to develop new ones, each designed to reflect a particular market theme or trend.

Daiwa Securities does not limit itself to the excellent collection of funds managed by its affiliate, Daiwa Asset Management Co. Ltd.; it also handles a growing number of funds that are developed and managed by

outside fund management firms. During FY 2007, funds that invest in newly industrializing countries like China and Brazil were particularly popular. In the future, the company will continue to distinguish itself in terms of product themes as well as target products and regions, providing investment trusts that answer a wider range of customer needs.

\* Exclusive investment trusts: Investment trust products offered by only one securities company or group. “Daiwa Global Bond Fund” and “Daiwa World Bond Fund” are offered only through members of the Daiwa Securities Group.

### Foreign Currency-Denominated Bonds▶

Foreign currency-denominated bonds are another core product for Daiwa Securities. Due to the low interest rates that prevail in Japan, many investors seek a higher, yet stable return by moving their funds into the currencies of countries with higher interest rates. Daiwa Securities concentrates on high interest-rate bonds denominated in foreign currencies, with a maturity period of 2–3 years, offering a constant,

timely and diverse supply of bonds to domestic investors. In March 2008, the company underwrote Japan’s very first “vaccine bond.” This unique bond product, denominated in South African Rand, provides funds to support vaccination efforts in developing countries. The Daiwa Securities Group will continue working to develop foreign currency-denominated bonds that offer added value in unique ways.

### The “Vaccine Bond” Scheme



### JGBs for Individual Investors▶

Daiwa Securities aggressively markets Japanese Government Bonds (JGBs) to individual investors. As the shift of personal assets from savings to investment brings new “investors” into the market, JGBs are an ideal option for those investors who want better returns but a very high level of security. For many,

these bonds are perfect as their first step into the investment market. Daiwa Securities positions them as an entry-level product for investors who are extremely sensitive to risk—customers which the company had difficulty targeting in the past.

### Daiwa LMS▶ (Securities-Backed Loans)

In August 2006, the company launched “Daiwa LMS,”<sup>\*1</sup> a service which allows customers who own securities to borrow money, up to a specified limit, using these securities as collateral and benefit from a fully flexible borrowing and repayment schedule. This service addresses a wide range of needs, since it allows customers to obtain cash easily without having to sell their securities. Since its launch, Daiwa LMS has served a large number of customers; the balance of loans outstanding stood at over ¥65 billion as of March 2008, boosting Daiwa Securities to the top spot among Japanese securities finance companies<sup>\*2</sup> in

terms of loan balance, a mere 17 months after the service was launched. Since Daiwa Securities holds custody of the securities for the period of the loan, this is also helping to increase assets under custody. By offering customers a very convenient way of obtaining funds, Daiwa Securities hopes to expand this business further in the future.

<sup>\*1</sup> LMS: Loan Management Service

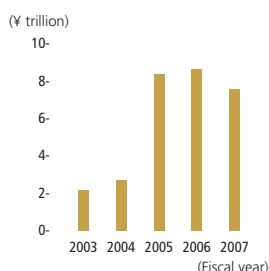
<sup>\*2</sup> Covers all securities-backed loan operations of financial institutions that use the capital markets to provide funds for credit trading

## Daiwa Direct ▶

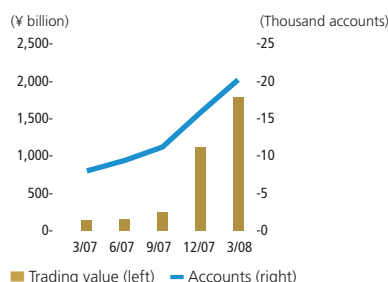
Daiwa Securities has been developing its own online securities trading operation. "Daiwa Direct" adopts a unique business model that merges the convenience and immediacy of online trading with the high level of service provided by branch offices and Call Center support. This model has greatly increased customer satisfaction. In April 2007 Daiwa Securities upgraded its standard website as well as its mobile Internet site, and in July 2007 it implemented upgrades to the functions of its investment trust section, improving the

navigability and expanding the features of these sites. In September the company eliminated trading fees on "Daiwa FX (foreign exchange margin trading)," allowed customers to change their leverage ratio and began providing periodic performance reports for each account. These changes increased the popularity of Daiwa FX; at the end of FY 2007, there were 20,000 customer accounts, compared with just 8,000 a year earlier, and annual trading value rose from ¥300 billion in FY 2006 to ¥3.3 trillion in FY 2007.

### Online Stock Trading Value



### Number of Accounts and Trading Value at "Daiwa FX"



## Daiwa SMA and Daiwa Fund Wrap ▶

Total contract assets under management of the Daiwa SMA\* services stood at ¥192 billion at the end of March 2008, giving Daiwa Securities the largest single share of Japan's SMA market. Due to the decline in equity prices in FY 2007 the balance of contract assets declined, but relative to the overall market trend, Daiwa SMA's performance was fairly strong. In June 2008 the company introduced a new service—"Daiwa SMA Private Asset Allocation Service"—that allows customers to entrust selection of asset management style and decisions about changes and timing to an individual asset advisor. The company intends to continue improving Daiwa SMA by adding new services and features.

In October 2007, the company launched another new service—"Daiwa Fund Wrap"—which had attracted ¥48.6 billion in contract assets as of the end of March 2008. This service is designed to meet the needs of individual investors who want to fully diversify their portfolio of investments internationally, and it is available to investors with relatively small investment amounts, as well; the minimum initial contract amount is ¥3 million. Daiwa Securities intends to use feedback from customers and continue to develop services that meet their needs.

\*SMA: Separately Managed Account. This refers to asset management services that include a discretionary investment contract or investment advisory services.

## Pension Insurance ▶

Demographic trends in Japan, including a low birth rate and a rising number of elderly citizens, have increased the need for financial services such as pension insurance to supplement the national pension fund, and estate planning. By offering various types of assurance or guarantee, these pension products can address these needs. Daiwa Securities offers several types of pension insurance product, some of which

have special accounts that invest primarily in equity investment trusts and provide life insurance benefits or guarantee a pension principal amount. Others provide a fixed interest rate and ensure that funds are managed safely. Daiwa Securities plans to continue developing new products that meet customer needs, and will offer seminars to inform customers about the various options.

# Human Resources, the Wellspring of Competitiveness

For any financial institution, and especially a securities company, the skills of the employees provide the underlying basis for competitiveness. In order to develop and provide the advanced products and services needed to grow as an organization, it is essential that the Group attract and cultivate first-rate employees. The Daiwa Securities Group is constantly striving to attract and train high-quality employees in order to maintain its position as a pioneer, exploring new opportunities in financial and capital markets and pursuing pathways to future growth.



## Special Feature 3

### Human Resources, the Wellspring of Competitiveness



In its current medium-term management plan, “Passion for the Best” 2008, the Daiwa Securities Group identifies personnel policies and strategies as the most important element of the Group’s basic strategy. This is based on the understanding that in order to provide high value-added services to customers, a securities company must build a team of true professionals, and provide them with the motivation to excel in all their work activities. This sort of motivation can only be sustained if every employee has a strong feeling of trust and loyalty to the company, pride in their work, and a high degree of coordination and camaraderie with their fellow workers.

#### Promoting a Balance Between Work and Personal Life

The Daiwa Securities Group strives to attract the most talented individuals in the securities industry and motivate them by providing a challenging work environment and career path, attractive pay and benefits, and special recognitions for superior performance such as the President’s Award. Part-time and temporary workers are offered opportunities to earn status as full-time salaried employees, and special events are organized to express the Group’s gratitude to the family members whose constant support is another essential element of motivation.

As part of this effort, in April 2008 the Group established a “Work-Life Balance Promotion Committee” chaired by the CEO, who also holds the post of “Chief Work-Life Balance Officer” (CWO). Under the leadership of top executives, this committee is responsible for helping employees to achieve a healthy balance between their work and their personal life. In addition, a “Work-Life Balance Promotion Section” has been established in the Personnel Department of Daiwa Securities Group Inc., with staff assigned specifically to oversee these efforts.

#### Attracting Top-Quality Personnel

Providing ideal working conditions that give employees a high degree of motivation is one way to ensure that the Daiwa Securities Group will become even more competitive in the future. The Group also does its utmost to ensure that women have the maximum opportunity to fulfill their potential, and ensure that all employees can continue to work for the Group as long as they are able to contribute.

These efforts have earned Daiwa Securities Group a strong reputation as a good company, and it has steadily improved its ranking in surveys asking university students at which company they would most like to work. This reflects the success of the Group’s personnel policies, and efforts to improve the motivation and loyalty of employees. The remarkable contributions that young employees and women make to the Daiwa Securities Group are a vital element of our strength, and help distinguish the Group from other companies in the securities industry. The diverse abilities of our employees will provide the driving force behind the Group’s future development and expansion.

Diamond Weekly (Feb 9, 2008)

#### Popularity Ranking of Companies Where University Students Would Like to Work (financial sector)

Liberal arts majors (male)

Overall rank	Company
2	The Bank of Tokyo-Mitsubishi UFJ
5	Tokio Marine & Nichido Fire Insurance
7	Sumitomo Mitsui Banking Corporation
9	Daiwa Securities Group
11	Mitsubishi UFJ Trust and Banking

Liberal arts majors (female)

Overall rank	Company
1	Tokio Marine & Nichido Fire Insurance
2	The Bank of Tokyo-Mitsubishi UFJ
8	Sumitomo Mitsui Banking Corporation
9	Mitsubishi UFJ Trust and Banking
14	Mizuho Financial Group
20	Daiwa Securities Group

Nikkei Woman (May 2008)

#### Ranking of Best 100 Companies for Women to Work

Overall

Rank	Company
1	P&G
2	IBM Japan
3	Matsushita Electric Industrial
...	...
7	Daiwa Securities Group

Female Employee Contribution

Rank	Company
1	Daiwa Securities Group
1	IBM Japan
3	Matsushita Electric Industrial
4	Resona Bank
5	Tokyo Electric Power Company



# Building Top-Quality IT Infrastructure

Effective information technology (IT) is an essential tool in implementing a company's management strategy. The role of IT infrastructure in the securities industry has changed substantially, since it can not only greatly reduce clerical work and costs, but also make a direct contribution to business expansion. Thus, changes in the structure of strategic IT systems can have a major influence on a company's competitiveness. The Daiwa Securities Group actively utilizes IT systems to promote dynamic changes that will enhance corporate value.

## Special Feature 4

### Building Top-Quality IT Infrastructure



The Daiwa Securities Group is investing aggressively in IT infrastructure, seeking to achieve an optimal balance of IT equipment and relevant personnel and provide the support necessary to implement Group business strategy swiftly and effectively. The Group's methods for managing IT investment and the process of procuring the IT resources—both personnel and equipment—have been recognized even by outside ratings agencies for their effectiveness.

#### Strengthening IT Through Strategic Investment

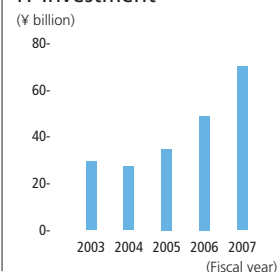
In order to respond quickly to the diverse demands of the securities business, the Daiwa Securities Group is investing aggressively in IT systems. In recent years, the Group has focused on strategic investment in IT to expand its operating base, improve services for customers and enhance its market competitiveness. During FY 2007, this sort of strategic investment accounted for 67% of total IT-related investments.

At Daiwa Securities, improvements in customer service included upgrading the online trading system and supporting new products and services such as Daiwa SMA, fund wrap and proprietary trading system (PTS) services.

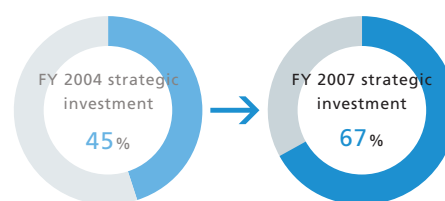
Daiwa Securities SMBC, meanwhile, has invested in improved trading systems that can support diversified services, such as algorithm trading systems based on financial engineering, which have enhanced the company's international competitiveness. The company places a high priority on continued investment in reliable and innovative IT systems that can respond to the market changes and reforms that are taking place as the Tokyo Stock Exchange prepares to introduce a next-generation trading system of its own. In this way, the company aims to establish a competitive advantage.

Finally, the Group has invested in a new central clerical system and a new data center. The Group is working to establish a unified systems infrastructure for all Group companies.

#### Trends in Group-Wide IT Investment



#### Strategic Investment as a Percentage of Total IT-Related Investment

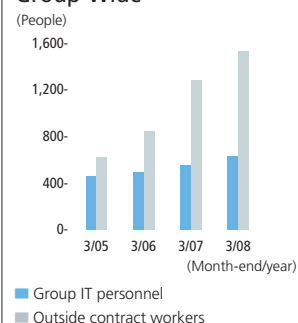


#### Increasing IT Personnel

The Daiwa Securities Group is sharply increasing the number of IT personnel to help build and maintain a top-quality IT network. In addition to efforts inside the Group to train personnel in IT skills, particularly in terms of project management, the Group is also hiring outside IT staff, including overseas IT employees (especially in China), allowing the Group to develop new systems effectively and cost-efficiently.

In addition to IT workers in China, the Group is seeking highly experienced overseas IT personnel who have the necessary market know-how to develop financial IT systems. The Group is actively using major IT vendors in India as outside contractors.

#### Number of IT Personnel, Group-Wide



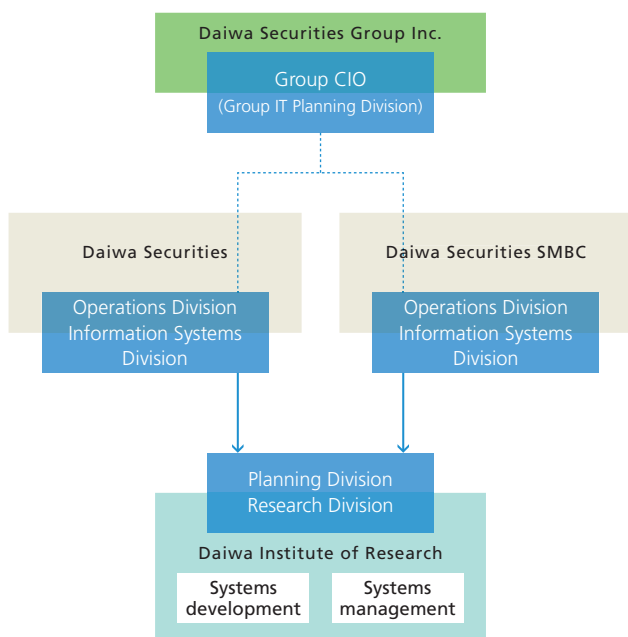
## Unifying Group IT Strategy

The Group is currently reviewing and reorganizing its overall IT organization in an effort to optimize IT support functions. By allocating IT resources effectively and efficiently, the Group is trying to maximize the impact of its investments.

Daiwa Institute of Research (DIR) plays an important role in optimizing IT functions. DIR is responsible for the Group's systems development and management activities, as well as researching cutting-edge technology and information security issues. It has been assigned the task of developing and implementing plans for partnership policy and global sourcing. This gives DIR a solid base to implement IT strategies for the Group.

By having DIR dispatch systems engineering officers and IT personnel to the Group's core operating subsidiaries, Daiwa Securities and Daiwa Securities SMBC, the Group can ensure at a structural level that business skills and IT skills are integrated. This structure also allows the IT unit to develop new systems swiftly.

### Group IT Structure and Functions



## Actively Introducing the Latest in Information Technology

The Daiwa Securities Group actively adopts and introduces the very latest in information technology in an effort to ensure that its IT systems are secure and effective. For example, the Group's OA infrastructure at our new head office building has been upgraded with a 1,300-terminal thin-client system which helps reduce the risk of compromising the information contained in the system, and also improves the sustainability of business operations. In order to improve communications and coordination within the Group, the relocation to our new head office building included the introduction of a common system shared across all companies. Both of these systems are due to be installed at all 117 branch offices in Japan, thus providing an advanced OA infrastructure that extends throughout the Group. In the future, the Group intends to actively seek opportunities to introduce virtual technology and other IT advances, in an effort to make even more efficient use of systems resources.