

Message From the CEO

Moving One Step Ahead

The financial uncertainties that emerged in 2007, due to problems in the US sub-prime loan market, erupted into a full-blown global economic crisis during 2008. Asset prices on markets worldwide were dragged down by this crisis, and business conditions for securities companies were about as difficult as one could imagine. Yet Daiwa Securities Group managed to maintain a comparatively firm financial and organizational base, demonstrating the Group's relative advantage over rival securities companies in this competitive global environment. I believe that these results confirm the value and effectiveness of management policy, and the success of strategic measures adopted by the Daiwa Securities Group under its last medium-term management plan—"Passion for the Best" 2008—which was completed in March 2009.



Naturally, earnings results for FY 2008 were disappointing. The sudden deterioration of global markets from October 2008 had a severe impact, sharply reducing income and causing the Group to post a net loss for the period of ¥85.0 billion. Since FY 2008 was also the final year of our medium-term management plan, the Group was unable to meet the plan's numerical targets, especially those associated with earnings. The financial crisis and the global economic slump have created business conditions that differ dramatically from what we envisioned when establishing the plan, two years earlier.

Nevertheless, I do not think that the bottom-line profit figures in FY 2008 are the proper measure of whether Group management policies were appropriate, or how competitive the Daiwa Securities Group is in the global securities industry. Following the collapse of Lehman Brothers, in 2008, many other financial institutions have also suffered losses which place their continued existence in jeopardy. By contrast, Daiwa Securities Group maintains a solid financial and competitive base. I consider this to be the true measure of our underlying strength. The Group's retail arm, Daiwa Securities, has continued to expand its customer base and the balance of assets under custody, while our wholesale securities business, Daiwa Securities SMBC, has steadily increased the number of stock and bond deals for which it has served as lead manager, since the previous Asian financial crisis, ten years ago. From the standpoint of global competitiveness, there is no question that our Group will emerge from the current downturn in an even stronger relative position than it enjoyed before the crisis. The financial industry is now in the midst of a major reorganization, and I believe that this represents a historic opportunity for Daiwa Securities Group to greatly increase its presence.

In the wake of a global recession of historic proportions, it is important to apprehend the lessons provided by these events. By placing profit motives above all other considerations, and excessively increasing leverage, financial institutions in Europe and the US have earned criticism which even Daiwa Securities Group, as a member of the same industry, must accept and reflect upon carefully. This is a time when we should reconsider the role that a financial institution in the securities business can and should play in today's world, decide what businesses and services our Group can provide to customers, and how we can best contribute to the industry, and to society in general.

From FY 2009, we are embarking on a new medium-term business plan—"Passion for the Best" 2011. This annual report will provide detailed information on the new business plan, and discuss the ways that Daiwa Securities Group is developing and expanding its operations. I hope that the information it contains, and the strategies we intend to pursue, will earn your continued support and approval in the years to come.

July 2009

A stylized handwritten signature in black ink, reading "鈴木 茂晴" (Suzuki Shigeharu).

Shigeharu Suzuki, President and CEO
Daiwa Securities Group Inc.

Interview With the CEO

“Passion for the Best” 2011

The Daiwa Securities Group’s new medium-term management plan, “Passion for the Best” 2011, covers the period from April 1, 2009 through March 31, 2012. Although the lingering impact of the financial crisis that began in 2008 will make operating conditions difficult for financial institutions in general, CEO Shigeharu Suzuki describes the goals of the current medium-term plan, what it aims to accomplish, and how the management team intends to lead the Daiwa Securities Group through difficult times to an even more prosperous future.

Question 1

In FY 2008, the Group posted a net loss of ¥85 billion. The financial and capital markets have been in turmoil, and the industry in general faces unprecedented challenges. How long do you expect the current difficulties to continue, and what direction do you think the markets will take in the future?

A: The turmoil in financial and capital markets is gradually subsiding. Japanese individual investors continue to hold a wealth of assets, and in that sense they hold the keys to stability and recovery. I think that there are many attractive opportunities to generate earnings in the current market, and the Daiwa Securities Group must seek out these opportunities and strive to fulfill the proper role of a securities company in today’s society. If we do so, I think there will be vast opportunities for growth.

In the latter half of FY 2008, deterioration in the US housing market set off a chain reaction that led to a global financial crisis. The collapse of Lehman Brothers accelerated the crisis, and major financial institutions around the world began to register massive losses. Some of the most renowned names in the history of the financial industry were swept away, while many other financial institutions had to be rescued by government intervention and public funds. Market apprehension and extreme volatility caused asset prices to fall sharply,

and as earnings at financial institutions eroded, they restricted credit so abruptly that it began to choke the rest of the economy, pushing the entire world into an economic slump.

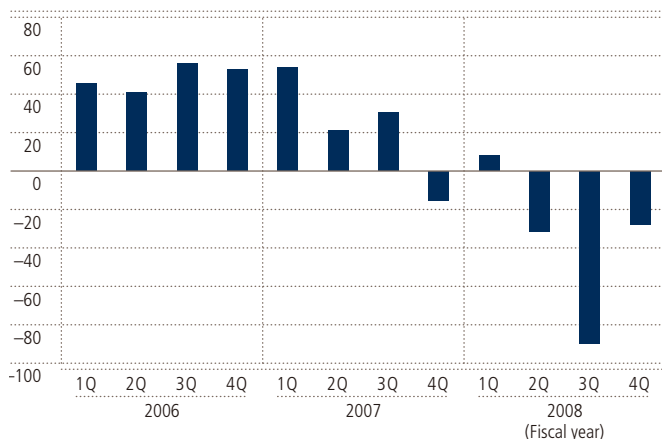
For Daiwa Securities Group, the turmoil in financial and capital markets was a major factor in the weak earnings results posted in FY 2008. Trading income at Daiwa Securities SMBC deteriorated, and investment assets held on the Group’s own account fell sharply in value, forcing us to make large additions to provisions for asset valuation losses. The investment banking division also suffered a drop in fee income, reflecting the stagnant market for new share offerings.

However, political leaders around the world have responded energetically to the financial crisis; led by the US, governments are stepping in to calm the situation, and there are signs that conditions are gradually starting to improve. It will probably take some time before the real economy finds its feet and begins to recover, but as companies reorganize their business models and structural change revitalizes struggling industries, I expect the economy as a whole to move gradually onto a new path towards growth. This period of corporate and industrial transformation will surely generate business opportunities for companies that are willing and able to seize them. The Daiwa Securities Group can play a very important role in this process, by properly fulfilling the traditional role of a securities firm—supplying funds to power these growing companies, through the capital markets. In this way, I think the Group will not only be able to contribute to reviving economic growth, but also revitalize its own earnings.

Though Japanese individuals have reacted to market uncertainty by temporarily halting their shift of assets “from savings to investment,” I think there is still plenty of scope to increase their investment. Currently, only about 12% of the estimated ¥1,400 trillion in personal assets is invested in securities products. As Japan’s population ages, and the number of children declines, the average balance of personal assets per capita is expected to rise steadily. This trend, coupled with a shift of assets to younger generations through inheritance, will increase the need for individuals to manage assets effectively, by selecting securities and financial products with higher returns. The overall shift of personal assets “from savings to investment” continues unabated, and Daiwa Securities Group must promote this transition, helping customers establish the most appropriate asset structure. In this way, we will also be able to expand the balance of assets under custody.

Daiwa Securities Group: Trends in Consolidated Ordinary Income

(¥ billion)





Question 2

The Group failed to meet the numerical targets laid out in its previous medium-term management plan, which ended in March 2009. While this may have been predominantly a reflection of market conditions, to what extent do you think the previous plan was successful, and what are the positive and negative legacies of the plan?

A: Earnings in the securities industry are naturally affected by trends in the financial markets; last year's global economic crisis arguably had an even greater impact on the securities industry than on other industrial sectors. However, even though we failed to meet most of our numerical targets, Daiwa Securities Group did accomplish most of the strategies and business objectives laid out in the medium-term management plan. As a result, I firmly believe that the Group's business structure and organizational base is stronger now than it was before.

The underlying goal of the Daiwa Securities Group's last medium-term management plan was to use the Group's traditional, securities-related operations as a foundation to build unique business models for each of our main business segments—business models which are capable of generating steady, sustainable earnings. I think the results will show that we have accomplished this goal, and established a strong base for future operations.

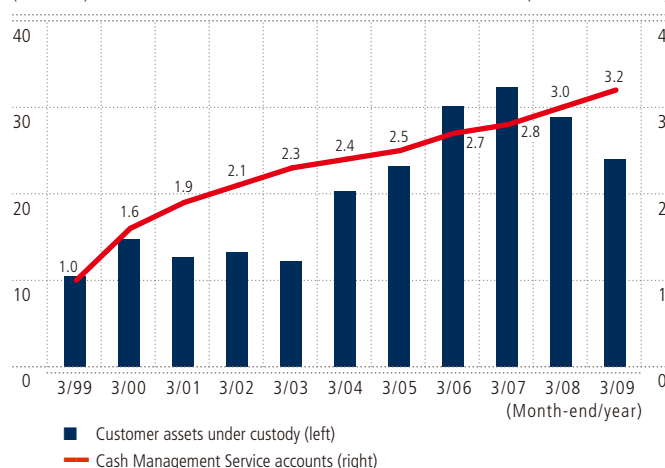
For example, a major segment in our retail business is the sale of equity investment trusts and foreign currency-denominated bonds. The Group's retail arm, Daiwa Securities, dramatically revised its business model to place priority on expanding total customer assets under custody, rather than focusing on short-term profits from sales commissions. As a result, over the past ten years we have managed to double total assets under custody. Similarly, equity brokerage operations at major securities companies now face competition from new online securities companies, which are offering lower processing fees in an effort to increase their share of total transaction value. Once again, Daiwa Securities chose to develop its own unique business model—Daiwa Direct—which leverages both the service and support offered by our nationwide network of branch offices, and the convenience and technical efficiency of the Group's own in-house, online service. The result has been a steady inflow of customers setting up

new accounts. Over the past ten years, the number of individual investors with Daiwa Securities accounts has tripled.

In the wholesale business, Daiwa Securities SMBC has steadily increased the number of stock and bond deals for which it has served as lead manager. Over the past ten years, this increase in lead manager contracts has outpaced that of every industry rival, both in the number of contracts and the growth rate. The Group is well-placed in the industry "league table," which reflects a company's share of lead manager contracts in the investment banking business. In FY 2008, Daiwa Securities SMBC was ranked second in the league tables for "total debt" and "total equity," ranked third in "number of M&A transactions" and fourth for "M&A transaction value." In FY 2006, the Group claimed the first-place spot in both "total debt" and "IPOs." In the trading business, during the second half of FY 2008 Daiwa Securities America benefitted from the decline in competitive pressure from US and European investment banks and demonstrated its presence as a primary dealer. Many central banks and government-related institutions established new trading accounts with Daiwa Securities America during the period, and there was a noticeable increase in business.

Unfortunately, the sharp drop in asset prices during FY 2008 pushed down the balance of assets under management in our asset management business. However, in line with the objectives of the

Daiwa Securities: Customer Assets Under Custody and Number of Accounts
(¥ trillion) (Million accounts)



Corporate Philosophy of the Daiwa Securities Group



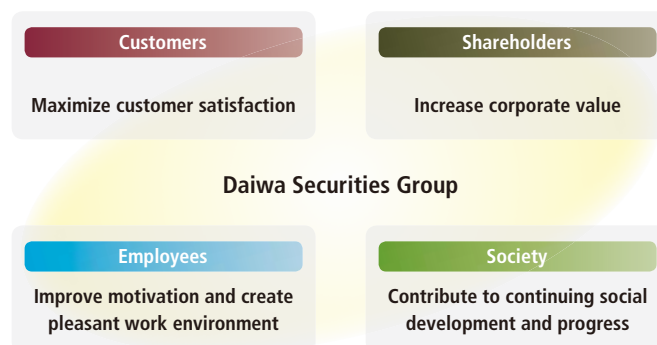
medium-term management plan, the Group continued to develop new investment trust products that meet customer needs, such as monthly dividend-type funds that invest in foreign currency-denominated bonds. In addition, we have been working to develop sales channels for these products, so that we can receive an inflow of assets not only from branches of Daiwa Securities, but through many non-Group channels as well. In this way, we are establishing the infrastructure to expand total assets under the Group's management.

The high reporting quality and analytical skill of our equity research team earned strong reviews during the period. Daiwa Institute of Research (DIR) was selected as the top-rated research team in Japan by the *Nikkei Veritas* magazine's "21st Ranking of Top Analysts," in 2009, regaining the number one spot for the first time in three years. The US magazine *Institutional Investor* also selected DIR as the number one team for Japanese equity research.

From a financial standpoint, the Daiwa Securities Group has avoided excessive leverage and strives to always maintain a healthy financial position. The Group did not book any losses directly related to the sub-prime loan crisis. I believe that this financial rectitude gives us a competitive advantage relative to other companies in the industry. Finally, we have taken steps to improve the Group's human resources policies and management control capabilities, by introducing new IT systems and implementing improved policies for personnel evaluation, remuneration and hiring. In all of the ways described above, the Group has been strengthening its operating structure and management capabilities with the goal of supporting future business growth and earnings growth. All of these improvements, accomplished under our medium-term management plan, will persist regardless of changes in the external operating environment. Therefore, I believe that when business conditions recover, Daiwa Securities Group will have the vitality and vision to embark on a new path towards growth.

Management Theme

Establish the Daiwa Securities Group as one of Japan's top companies by earning the trust of all stakeholders.



Question 3

Could you please discuss the main themes and objectives of the Group's new medium-term management plan—"Passion for the Best" 2011?

A: Essentially, we want to lay the groundwork for continued expansion by strengthening the bonds of trust between the Group and its various stakeholders.

During times of uncertainty, such as we are now facing, it is essential that a company prepare itself to seize the opportunities that will surely emerge when economic conditions rebound. Daiwa Securities Group is proactively identifying issues that need to be addressed and setting goals for the future, and making sure that every employee is aware of the direction that the Group plans to take.

In my view, the key is to develop the Group's vitality and adopt high standards and goals, in order to earn the trust and respect of all stakeholders—customers, shareholders, employees, and society in general. Therefore, we have adopted a new management plan and revised our corporate philosophy in order to make “contributing to society” a central theme. For example, one of the stated objectives in our medium-term management plan is to “make continued contributions to society through the Group's core business activities.” Next, the management theme calls for the Daiwa Securities Group to “establish itself as one of Japan's top companies by earning the trust of all stakeholders.” This is not just a slogan that we have adopted for three years, to coincide with the current medium-term plan. On the contrary, I view this as a very basic expression of what the Daiwa Securities Group is constantly seeking to accomplish. By consistently striving to earn the trust of all those with whom we do business, the Group can remain on course for continued sustainable growth.

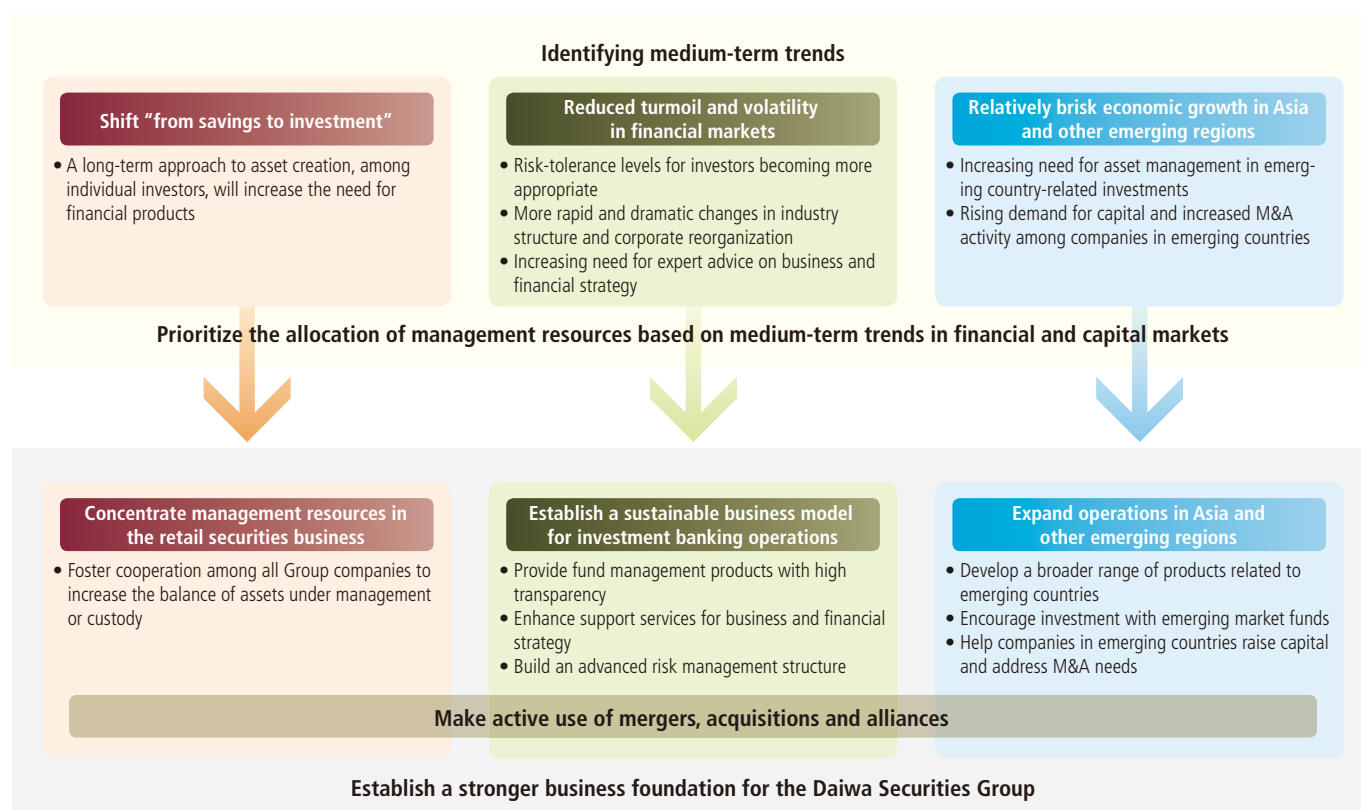
Question 4

The goal of “earning stakeholder trust” certainly sounds nice. But what are some specific measures and activities that the Daiwa Securities Group intends to implement, in order to earn that trust? Also, can you explain in greater detail how these measures will help the Group increase earnings?

A: The first priority of the new medium-term management plan is to “build more effective business models” for each of our core businesses. We have tried to consider what customers will require over the medium term, and what products and services they will expect a securities company to provide. We have also considered likely trends in the business environment and adjusted plans for allocating management resources to core businesses, accordingly.

In order to earn the trust and loyalty of customers over the longer term, the Daiwa Securities Group must consider what added value it can provide, and what products and services it can offer to match existing or latent customer needs. By answering these questions effectively, the Group can not only benefit customers, but also contribute to general market vitality by facilitating the flow of funds into financial and capital markets. The key to accomplishing these goals is to re-examine and revise the business models for each of our core

Main Issues: Building More Effective Business Models



businesses. The Group must make optimal use of its overall resources and capabilities, and cultivate practices and procedures that enhance the speed, cooperation, originality and creativity of every employee.

One way of approaching these “revisions to the business model” is to consider the likely trends in customer needs and market conditions over the medium term, and consider how the Daiwa Securities Group can most efficiently allocate and effectively employ its management resources to address these changes, through core businesses.

One of the most important trends to consider is the ongoing shift of individual assets “from savings to investment.” Over the medium term, we can expect the demand for financial products such as investment trusts to expand. Therefore, one key to future growth for the Daiwa Securities Group is to find ways to address this demand and encourage the general trend “from savings to investment.” Over the next three years, we intend to channel resources into the retail business so that Daiwa Securities, in cooperation with other Group companies, can attract even more of these individual financial assets.

Another trend that we anticipate is a gradual return to “normality,” as the turmoil in capital and financial markets subsides. As this trend proceeds, the excessive risk aversion that investors have displayed lately should gradually dissipate, and they will begin looking for a wider range of fund management options. Furthermore, as companies begin to find their feet and consider how to return to a growth track, we expect a steady rise in demand to raise capital as well as increased M&A activity as industries consolidate. The Daiwa Securities Group will work to address the needs of all these customers, helping issuers to raise funds, providing the high transparency and variety of fund management products that investors demand, and also improving our support and advisory capabilities to guide companies in their business and financial strategies. In this way, I think we can establish a successful and sustainable business model for the investment banking business.

Finally, we expect economic growth in Asia and other emerging regions to be stronger than in more established industrialized countries. Therefore, the Daiwa Securities Group is adopting an array of strategies to expand our business in these emerging regions. In addition to offering Japanese investors a diverse selection of funds and financial products linked to these countries, we are also helping sovereign wealth funds and other investors in these countries to manage their investments in Japan. We are making particularly aggressive efforts to expand investment banking business in these countries, helping companies to raise capital and advising them in M&A activities.

As the above examples demonstrate, the Daiwa Securities Group is trying to anticipate medium-term trends and respond appropriately. The Group is always on the alert for M&A opportunities or business alliances that can enhance our capabilities, and we have done our utmost to create flexible and responsive management structures that can alter the allocation of management resources and revise business models if there are any changes in these medium-term trends.

Question 5

What objectives and strategic goals have you set for each of the individual business segments under the new medium-term management plan?

A: Naturally we set specific numerical targets for each business segment, but we have also identified qualitative indicators that will help us evaluate how well each Group company has met the goal of “earning trust” and improving customer satisfaction.

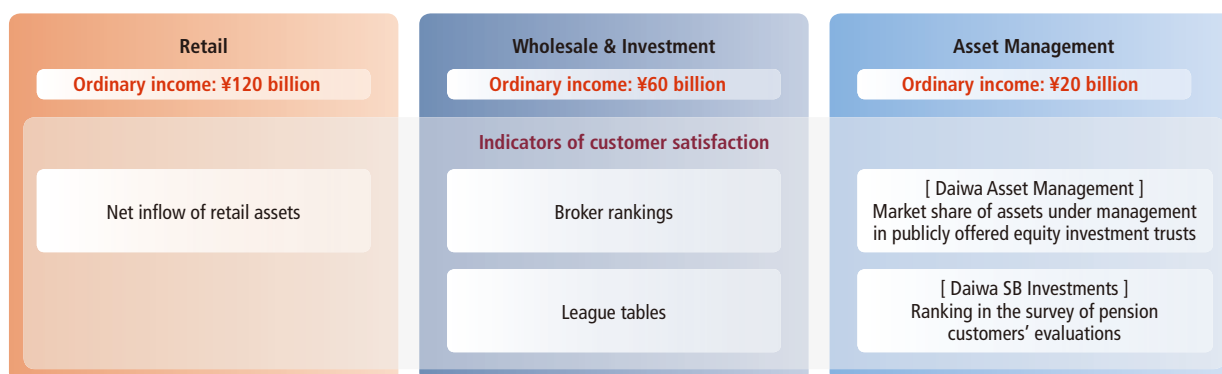
The numerical targets for each business are provided in the accompanying table. However, I think that the most notable feature of the new medium-term plan is its emphasis on envisioning the sort of

Management Targets

Consolidated ordinary income: ¥200 billion or over

Consolidated ROE: 10% or higher

Market capitalization: In the top 40 listed Japanese companies



business we want each unit of the company to become, three years from now. The numerical targets are certainly useful in gauging success, but another key measure of whether the business has met its goals is customer satisfaction. We have identified indicators in each business that can demonstrate whether customers are indeed satisfied.

For example, in the retail business, Daiwa Securities will strive to “become a highly regarded securities company, renowned for its professionalism and originality.” We have adopted criteria to gauge whether the company has accomplished this objective, including the numerical goal of generating ¥5.2 billion in monthly agency commissions for investment trusts, by FY 2011.

Similarly, in the wholesale business Daiwa Securities SMBC has the goal of “creating a sustainable growth model for the investment banking business, founded on customer trust and loyalty.” The company’s financial product activities will be evaluated on the basis of the “broker rankings” of institutional investors, while investment

banking activities will be judged according to its position in the various “league tables” and awards that rate investment banks. Daiwa Securities SMBC also aims to expand overseas business, and the benchmark for success will be to increase overseas income to 30% of the total by FY 2011.

Daiwa Asset Management, which forms the core of our asset management business, has adopted the goal of “earning customer trust by thoroughly considering their investment needs, to become the asset management company investors choose to manage their funds.” We will evaluate success on the basis of several factors—its share of the balance of assets under management in publicly traded investment trusts, and the performance ranking of its various funds. Finally, Daiwa SB Investments aims to “establish a high-quality fund management structure that is capable of providing stable fund performance to institutional investors and individual investors alike.”



Question 6

Since you took over as CEO, you have often indicated that the best way to ensure that the Daiwa Securities Group meets its performance targets is to increase employee motivation. How would you characterize your approach to personnel strategy today? Also, do you agree with the philosophy adopted by many overseas financial institutions, that the best way to attract quality personnel is to offer high salaries?

A: First of all, while money has its merits, I think there are limits to how much it can boost motivation. There are a great many factors that determine how much devotion employees feel for their company—pride in their work, the sense that they can trust superiors and the company in general, and their rapport with co-workers. All these needs must be met if employees are to perform at their best, and support the company’s continued growth.

A big salary, alone, is not sufficient to motivate employees. In fact, on the contrary, a personnel strategy that is based solely on remuneration is likely to be unbalanced, and at worst, it can lead to deterioration in the moral judgment of employees and companies alike. I think that the sub-prime loan crisis is a perfect illustration of this principle.

Since I took over as CEO, the issue of how to increase employee motivation has been a constant focus of my efforts. As I see it, the first step is to show employees that they are valued and respected, and ensure that they have positive feelings for the company. To earn that sort of loyalty, you must find ways to give employees pride in their own work, earn their trust, and promote camaraderie and cooperation among co-workers. Creating this sort of a pleasant working environment is extremely important.

The Daiwa Securities Group has adopted various strategies, over the years, to try to cultivate a productive work environment. One example is our effort to promote a work-life balance. Since 2007, Daiwa Securities Group has had an official policy that urges employees to leave the office before 7:00 p.m. If we ensure that employees have ample time to rest and enjoy their private lives, they will be better able to focus, and to do high-quality work during business hours. That helps to improve productivity.

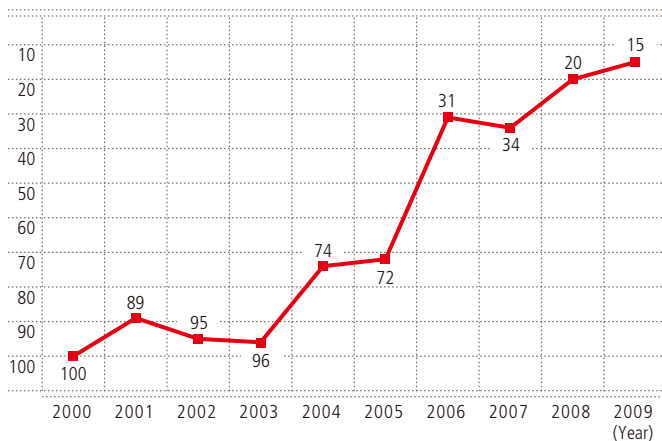
The Group also has earned a strong reputation for supporting working women. We have extensive support programs such as child-care leave, and we aggressively promote women to managerial positions. The Daiwa Securities Group has many extremely talented female employees, and if these individuals were to leave the company when they have children, we would be losing some of our

most valuable assets. Therefore, the Group has established a work environment that allows both men and women to continue working while raising children or providing nursing care, and provides both men and women with equal opportunities to advance their careers. In 2009, the Group appointed four new female officers. As the many young women in our Group strive to emulate their achievements, I strongly expect that this number will continue to increase in the future, and the Daiwa Securities Group will be able to cultivate future female leaders for the financial industry.

Perhaps the best measure of the Group's success in motivating employees and earning their loyalty is the trend in company rankings among prospective new employees. In recent years there has been a steady surge in the Daiwa Securities Group's ranking among "companies that new graduates want to join." As a result we can expect a steady improvement in the quality of the young employees we hire. I will continue working to ensure that employees are well treated, and seeking ways to increase their loyalty and motivation, since their contributions are what make Daiwa Securities the best securities group in Japan.

Daiwa Securities Group: Ranking of the Companies Where Students Most Want to Work (The Nikkei—Overall Ranking)

(Ranking)



Question 7

The Daiwa Securities Group has a long-standing business relationship with the Sumitomo Mitsui Financial Group, which recently announced plans to acquire a stake in Nikko Cordial Securities and a part of Nikko Citigroup. Do you think that this will have any impact on the relationship between Daiwa Securities Group and Sumitomo Mitsui Financial Group, and if so, how do you expect the relationship to evolve in the future?

A: Daiwa Securities SMBC—a joint venture between Daiwa Securities Group and Sumitomo Mitsui Financial Group—has already achieved a great deal of success in the investment banking industry, and I am sure it will continue to do so. I expect our Group and Sumitomo Mitsui Financial Group to continue working together in the future, and trying to maximize the benefits of our relationship on both sides.

In 1999, when the Daiwa Securities Group adopted its current holding company structure, we set up Daiwa Securities SB Capital Markets Co. Ltd. (the forerunner of the current Daiwa Securities SMBC) as a joint venture investment bank. If you look at cumulative net earnings generated over the ten years since 1999, Daiwa Securities SMBC has been the single most profitable investment bank in Japan. This suggests that the combined strengths of our two groups make for an extremely effective and successful investment banking operation. As the only joint venture between a major Japanese securities company and a Japanese megabank, I expect Daiwa Securities SMBC to continue growing in the future. On a more general level, the close ties between our two corporate groups go back to well before the establishment of Daiwa Securities SMBC ten years ago. In the future, I am confident that the two groups will continue to work together, seeking to build a relationship that maximizes the benefits to each partner.

On the other hand, as Japanese individuals shift more and more of their assets "from savings to investment," there is no question that the retail securities market will continue to present a very attractive business opportunity to financial companies, attracting a large number of new players. As more and more companies join the market, it can only accelerate the shift and add vitality to the market. From our perspective, that is something that we should welcome. The Daiwa Securities Group is a professional securities organization with extensive experience and strengths that we continue to hone. We aim to be the market leader, and have no reason to fear additional competition.