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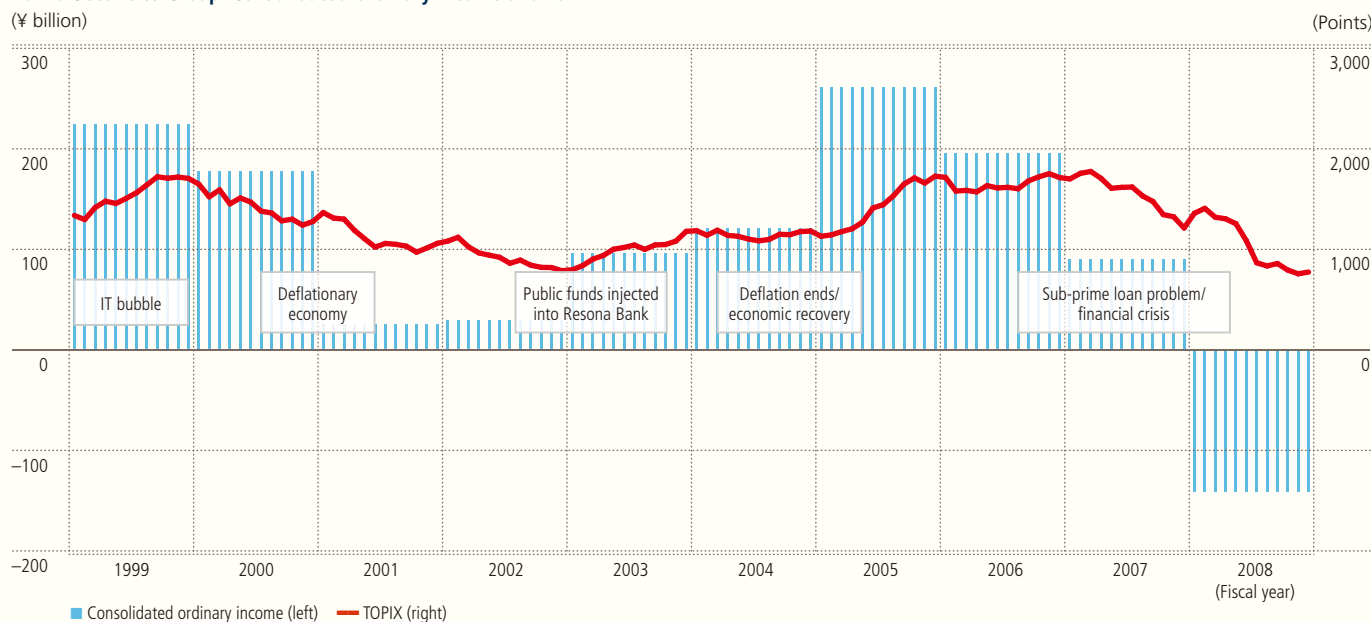
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# The Business Environment for the Daiwa Securities Group

**Daiwa Securities Group: Consolidated Ordinary Income and TOPIX**



## Impact of the Sub-Prime Loan Issue

Since the sub-prime loan crisis in the US began to emerge, it has grown steadily in severity, creating huge losses at many financial institutions and eventually triggering a global financial and economic crisis. The roots of this financial crisis can be traced to a decision, by major investment banks in the US and Europe, to alter their business models.

Following the collapse of the IT bubble, in 2000, earnings from the investment banks' main traditional business—underwriting the stock and bond issues of corporations—dropped off significantly. At the same time, deregulation measures allowed commercial banks to move into other business segments that had traditionally been dominated by investment banks, and the increase in competition rapidly eroded commissions. In short, the traditional business operations of investment banks experienced a sharp drop in profitability. In response, many investment banks in Europe and the US started looking for a new business model, and began using advanced financial technology to develop securitized financial products. Top investment banks in Europe and the US borrowed many times their total capital and established heavy leverage to expand their balance sheets and create securitized products, and made concerted efforts to maximize the profits from these products. The market for securitized products accelerated in 2006, when a global glut of capital prompted large institutional investors and other financial institutions to start looking for financial products that could bring them high returns. As they increased their purchases of these securitized products, the market took off.

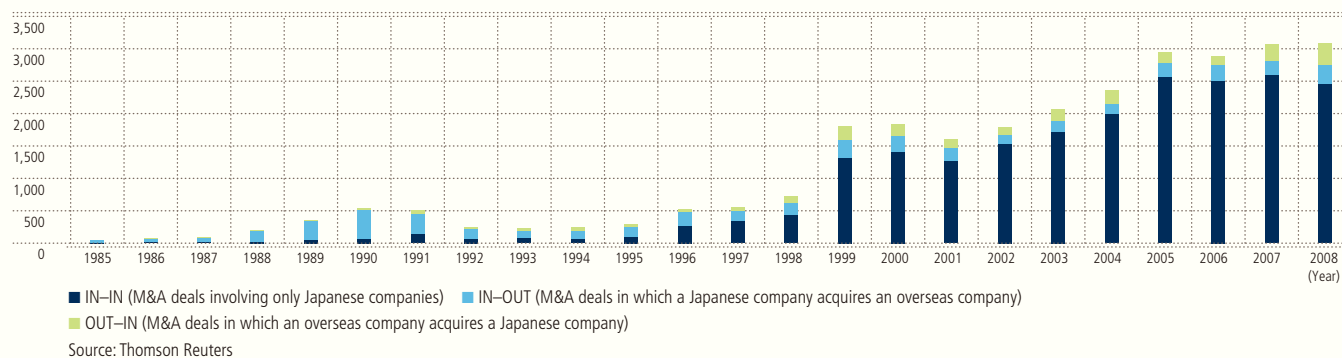
One feature of this business was that the creators of the financial products developed methods of using securitization and derivatives to transfer risk to someone else. The longer the chain of securitization grew, the harder it became to determine the true, underlying risk associated with the original

assets, so the latent risk contained in the overall system steadily increased. When they created securitized products from sub-prime loans, the investment banks were able to diversify the risk of the original loans, package them, and thereby create financial products that earned very high credit ratings. Essentially, these institutions were generating profits by spreading the risk inherent in sub-prime loans to investors worldwide.

However, when problems in the US sub-prime loan market began to emerge, and the actual scale of the risk became apparent, the investment banks were forced to reassess the risk management assumptions built into their business models. As the value of the properties underlying the loans also started to fall, and the market began to see the true scale of the credit risk which lay dormant in securitized products, credit ratings companies began to slash their ratings on these products. Financial institutions were forced to quickly change course, and started selling the instruments, as well as any other assets they could, in order to reduce their leverage. Once the cycle of “de-leveraging” began, it created chaos. Credit risk expanded and financial markets began to experience severe volatility. Soon, many financial institutions found themselves facing losses which far exceeded their permissible levels of risk. As financial institutions and institutional investors rushed to de-leverage, and eliminate their investment positions, the surge of selling pressure caused market prices to plunge sharply, generating further book losses at financial institutions, and setting off a vicious cycle of devaluation. Furthermore, the credit crunch that this de-leveraging process created made it very difficult to obtain operating funds directly from the financial markets. Banks adopted extremely tight credit policies and reined in lending to corporations. Since corporations were unable to get financing, many slipped into bankruptcy and the general environment in which business corporations operate became even harsher.

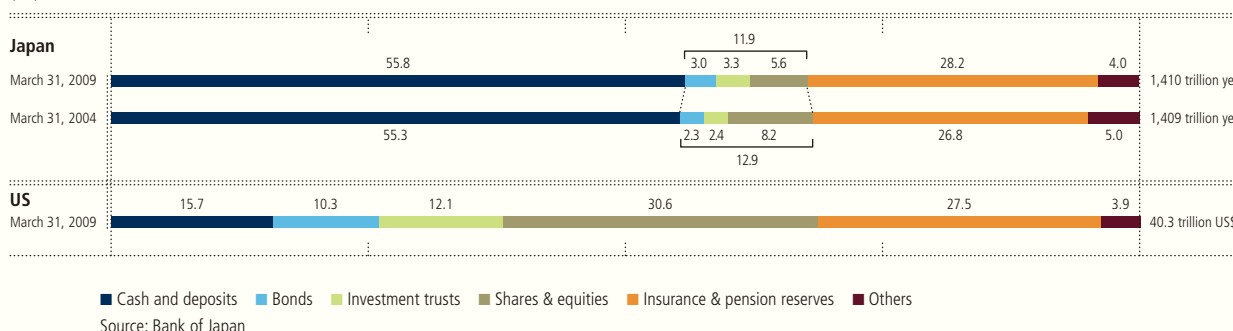
## Trends in M&A Activity Involving Japanese Companies

(Number of deals)



## Trends in Household Financial Assets

(% )



In an effort to restrain this growing international financial crisis, governments began to take coordinated steps to avert further deterioration. In October 2008 the G7 countries met and in November a new grouping that included many emerging economies—dubbed the “G20”—held a follow-up meeting to hammer out coordinated policies which eased monetary conditions in each of the participating countries, and announced large-scale fiscal spending packages to provide an economic stimulus. These plans and measures helped to bring the financial crisis under control. In November 2008, China announced a 4 trillion RMB economic stimulus package, and in February 2009 the incoming Obama Administration, in the US, passed a package of tax cuts and spending measures to support the economy. Slowly, these measures are being implemented in countries worldwide and are pulling the global economy out of crisis. The real economy will still have to complete structural adjustments, which will probably ensure that economic growth remains stagnant for an extended period of time. However, there are already signs that economic growth in China is starting to recover, while in the US and Europe there are indications that, at least, the economic situation is no longer deteriorating.

## Market Conditions

During the first half of FY 2008, market conditions were relatively favorable. At the start of the year, major financial institutions in the US and Europe received capital injections, and the credit concerns temporarily subsided. Since analysts did not expect the US to cut interest rates any further, the yen weakened somewhat and provided Japanese companies with more favorable business expectations. In early June the TOPIX advanced to its highest level in FY 2008, at 1,430.47. However, soon afterwards credit ratings agencies in the US downgraded their ratings of the major US “monoline” lenders and US-based securities companies announced large losses, reigniting concerns about a credit crisis. Meanwhile, crude oil prices

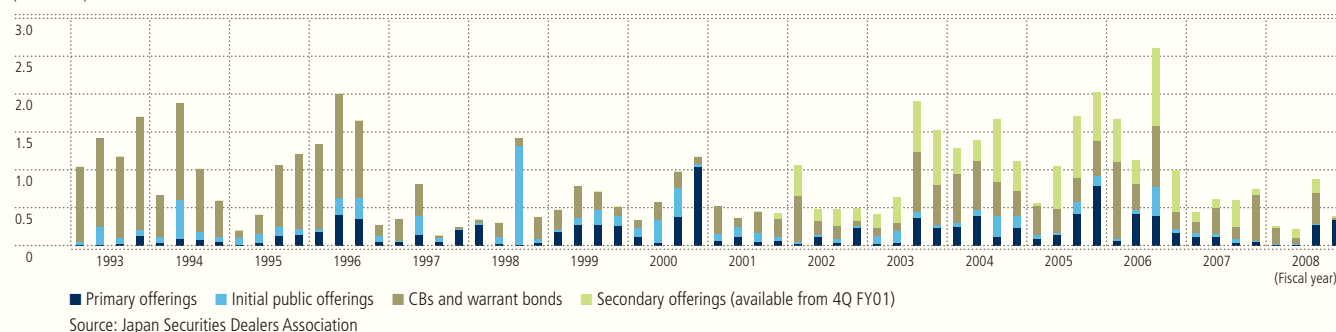
remained high, with the WTI index reaching US\$140/barrel. People began to talk about the risk of global “stagflation”—rising prices but flat economic growth. As future economic growth prospects weakened, the prices of crude oil and other raw materials eventually started to decline. The US dollar temporarily strengthened to the ¥110=US\$1.00 level in mid-August.

In September 2008, one of the largest investment banks in the US, Lehman Brothers, declared bankruptcy, setting off a global financial crisis and battering faith in financial institutions. The London inter-bank lending rate (LIBOR) soared and financial markets around the world began reacting to the crisis. The global money system responded with a “flight to quality,” and funds started moving to Japan, where the financial instability seemed to be relatively low. This caused the yen to appreciate suddenly, creating difficult conditions for the heavily export-dependent Japanese economy. By October 2008, the situation was deteriorating rapidly. Automakers and electronics manufacturers, as well as many other export-dependent companies, had no choice but to cut output in response to the decline in demand from Europe and the US. This, coupled with sharp yen appreciation, caused earnings at these companies to deteriorate. Production cuts also exacerbated the problem of excess labor and prompted companies to begin laying off workers, particularly temporary staff. This increased consumer anxiety about employment and caused people to cut spending. The result was an abrupt deceleration of the real economy.

By the end of March 2009, the TOPIX had fallen to 773.66, down 36.2% from the end of the previous fiscal year. Average daily trading value on the Tokyo Stock Exchange fell 30.9% year on year, to around ¥2.3 trillion. On the foreign exchange market, rapid yen appreciation peaked in December 2008 as the yen reached a 13-year high against the dollar of ¥87=US\$1.00. Thereafter, as financial markets began to stabilize, the yen weakened somewhat to end the fiscal year at ¥98=US\$1.00.

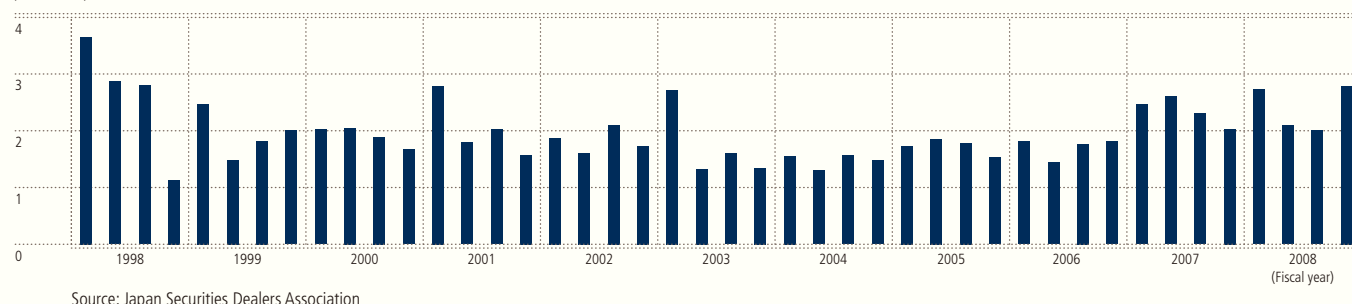
## Public Offerings in Japan

(¥ trillion)



## Bond Issuance in Japan

(¥ trillion)



## Business Environment

The dramatic change in market conditions had a big impact on the business environment in which the Daiwa Securities Group operates. Of the roughly ¥1,400 trillion in assets owned by Japanese individuals, roughly half is still held in regular bank deposits. As the population ages and fewer children are born to enter the workforce, Japan will see a decline in the number of citizens who are of working age, and therefore it will become increasingly vital to use these financial assets more productively to support continuing economic growth. The drop in market prices during FY 2008 caused the percentage of individual assets held in bonds, investment trusts, stocks and direct investment to decline temporarily, but we expect the flow of assets “from savings to investment” to resume in the future. Financial institutions must play an increasingly important role by developing products in a timely manner to meet these individuals’ investment needs.

Corporate demand to raise capital during the fiscal year was very subdued. Apart from large public offerings by the Mitsubishi UFJ Financial Group and Nomura Holdings, the global economic downturn sharply curtailed stock issuance to increase capital.

On the other hand, while companies were putting off plans to issue shares, there was a surge in demand to raise funds through the issuance of straight bonds. Total issuance for the fiscal year reached ¥9.6 trillion, surpassing the level in FY 2007.

M&A activity slowed during the period. While public M&A deals conducted in Japan during FY 2008 had a total value of US\$133.67 billion, an increase of 3.6% year on year, the number of such transactions declined by 3.8%, to 2,951. An increasing number of these deals were cross-border mergers or acquisitions, involving the purchase of an overseas company by a Japanese corporation. On the other hand, the number of M&A deals that were cancelled reached a historical record high, both in number and in

terms of total value. The deterioration in global economic conditions clearly put obstacles in the way of many successful M&A deals.

## Competitive Environment

Competitive conditions in the financial industry during FY 2008 changed dramatically, as the industry underwent unprecedented reorganization. In August 2008, JPMorgan Chase was called in to rescue Bear Stearns with a merger deal, but this was just the prelude to a comprehensive industry shake-out. In September, Lehman Brothers declared bankruptcy, with its US operations sold to Barclays and Nomura Holdings taking over the businesses in Europe and Asia. Later that month, Merrill Lynch was rescued by Bank of America in a forced merger deal, and Goldman Sachs and Morgan Stanley both reorganized under a bank holding company structure. In October, Mitsubishi UFJ Financial Group took a US\$9.0 billion capital stake in Morgan Stanley and began preparing plans to merge its group securities arm—Mitsubishi UFJ Securities—with the Japanese subsidiary of Morgan Stanley, Morgan Stanley Japan Securities Co., Ltd.

The massive losses suffered by US and European financial groups, as a result of the global financial crisis, have sharply reduced the presence of these companies in Japan’s financial markets. Therefore, relatively speaking, the events of the past year have improved the Daiwa Securities Group’s competitive position. In that sense, the changes that are now sweeping the financial industry represent an unprecedented opportunity for the Group. By focusing on the goals and challenges laid out in its current medium-term management plan, and taking steps to revise its business model in accordance with the medium- and long-term changes taking place in the financial industry, the Daiwa Securities Group aims to lay the groundwork for even greater future success, as it strives to be Japan’s best securities group.

## Retail

### Daiwa Securities

Daiwa Securities is responsible for the Group's retail securities operations, providing high-quality financial products and services to customers ranging from individuals to small, unlisted companies. In order to meet the varying needs of customers more effectively, the company has developed two main service courses—"Daiwa Consulting," in which sales personnel offer high value-added support, and "Daiwa Direct," which offers convenient service via a call center and the Internet.

By making optimal use of the Group's infrastructure and resources, Daiwa Securities has developed a retail securities operation that addresses every possible service and customer need in-house—through sales offices, a call center and Internet operations. The company will seek ways to leverage this competitive edge even further, in the future, to build an extensive client base and provide them with the best financial services available in Japan.

### Earnings Results for FY 2008

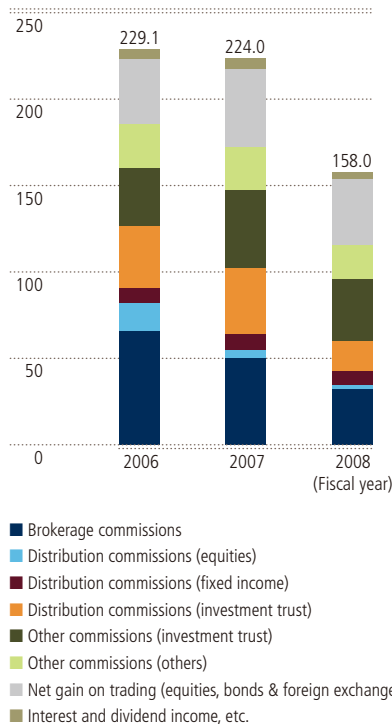
#### Turning a Profit Despite the Difficult Business Environment

During FY 2008, the impact of the global recession caused the TOPIX index to weaken by almost 40% over the course of the year, from 1,212.96 at the end of March 2008 to 773.66 in March 2009. Naturally, this made business conditions for Daiwa Securities very difficult. During the first quarter of the year, stock prices were relatively strong and sales of equity investment trusts remained brisk. However, the collapse of Lehman Brothers in September 2008 set off a panic that caused share

prices worldwide to drop sharply. As the yen soared and asset prices fell, this financial crisis started to erode the foundations of the real economy and it became clear that Japan's economy was grinding to a halt. As a result, Daiwa Securities suffered a sharp decline in revenues from equity brokerage commissions, distribution commissions on the sale of investment trusts, and agency commissions. Furthermore, the rising yen and falling interest rates restrained sales of foreign currency-denominated bonds.

Nevertheless, the company continued to record a net inflow of retail assets. In addition, there was an increase in equities entrusted to the company for custody during the second quarter of FY 2008, in preparation for the full introduction of electronic stock certificates. Meanwhile, many individual investors took advantage of the strong yen and declining share prices to set up new "Daiwa Direct" accounts, while others opened "Daiwa FX" accounts to engage in foreign exchange margin trading. The number of both types of accounts increased during FY 2008. In the latter half of the fiscal year, declining interest rates worldwide made investment in straight corporate bonds relatively attractive due to their relatively higher yields. Daiwa Securities recorded an

**Daiwa Securities: Breakdown of Net Operating Revenues**  
(¥ billion)



#### Financial Summary for Daiwa Securities

	(Millions of yen)		
	FY 2006	FY 2007	FY 2008
Net operating revenues	¥229,171	¥224,010	¥158,027
Ordinary income	74,477	71,026	18,396
Net income	43,468	41,009	9,882
Total assets	782,594	656,019	530,101
Net assets	245,888	260,975	238,662
ROE	17.6%	16.2%	4.0%
Net assets/Total assets	31.4%	39.8%	45.0%

increase in bond sales, suggesting that Japanese investors have not lost their appetite for investments despite the financial crisis and will continue to shift their assets “from savings to investment.”

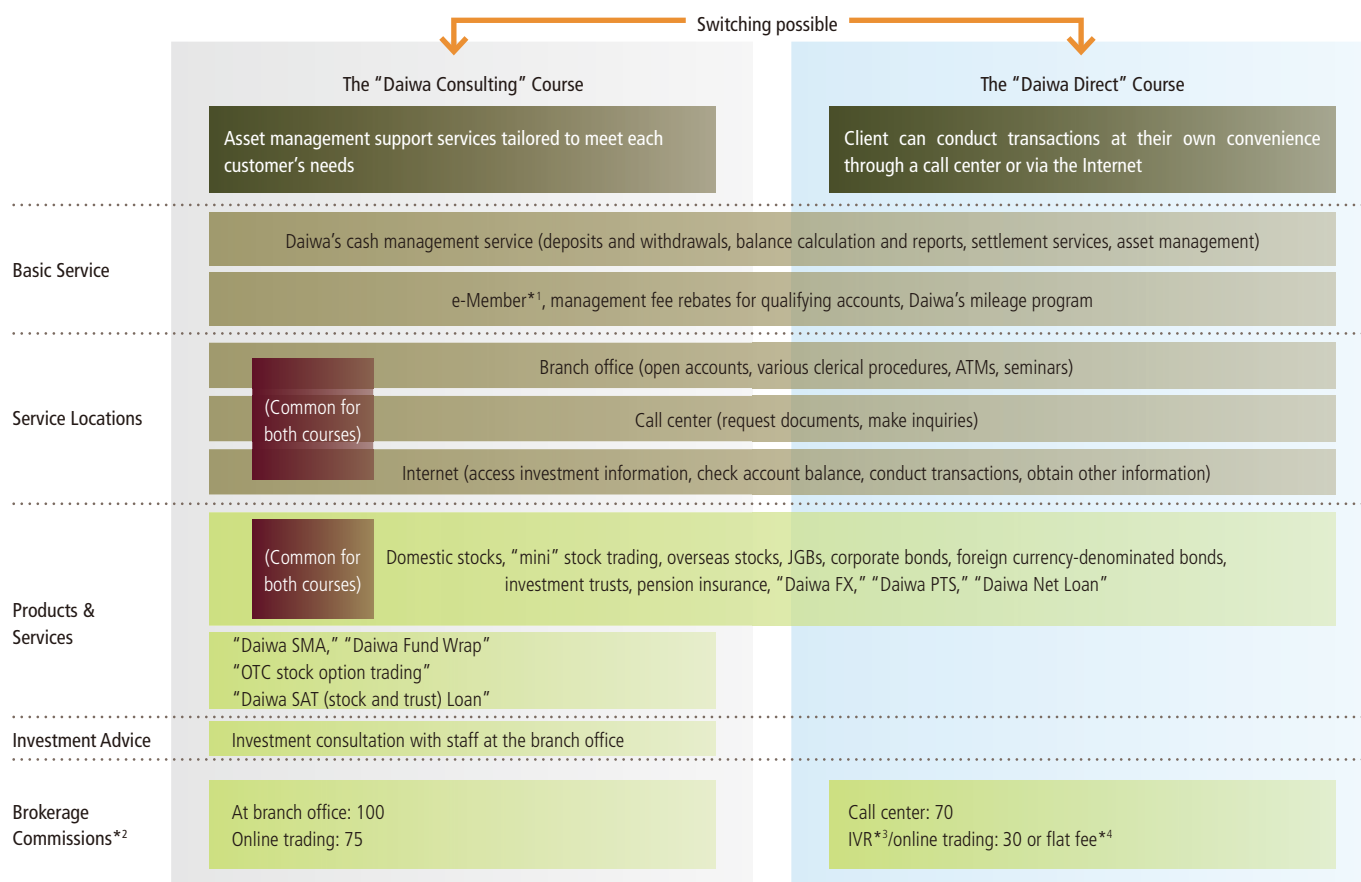
Despite the harsh business conditions that it faced in FY 2008, Daiwa Securities managed to generate relatively stable revenues from sources such as agency commissions and other commission income, and also tried to encourage bond sales. Consequently, the company was able to post a profit for the fiscal year. Net operating revenues declined 29.5% year on year, to ¥158.0 billion. Ordinary income fell 74.1%, to ¥18.3 billion and net income was down 75.9% year on year, to ¥9.8 billion.

## The Group's New Medium-Term Management Plan, “Passion for the Best” 2011

Under the Group's new medium-term management plan, which covers the next three years, Daiwa Securities will strive to “become a highly regarded securities company, renowned for its professionalism and originality.” Over the next three years, the business environment for securities companies is likely to change dramatically. In order to respond to these changes effectively, every employee of Daiwa Securities will be expected to cultivate a high degree of professionalism and make the best use of their skills, in order to earn the trust of customers. The company as a whole will seek to build on its existing base, using originality to develop new products and services for its customers.

The new medium-term management plan has set an ordinary income target of ¥120 billion for FY 2011, the final year of the plan. Emphasis will be placed on increasing the balance of customer assets under custody by accelerating sales activities.

### Business Structure of Daiwa Securities



\*<sup>1</sup> Reports on trading history or trading information can be accessed by the client from their PC

\*<sup>2</sup> Figures indicate a percentage, where the fee charged to "Daiwa Consulting" customers when conducting transactions at a branch office is equal to 100%

\*<sup>3</sup> Interactive Voice Response

\*<sup>4</sup> Daily flat rate

## Results of the Group's Previous Medium-Term Management Plan

### Focus on Increasing Customer Assets Under Custody and Developing Stable Revenue Sources

Under the previous medium-term management plan, Daiwa Securities focused on developing attractive products and services, such as investment trusts, an extensive lineup of foreign currency-denominated bonds, and the top-rated "Daiwa SMA" account, in order to increase the balance of assets under custody. In particular, we believe that investment trusts are a good catalyst for promoting the shift of Japanese individuals' financial assets "from savings to investment." In addition, providing foreign currency-denominated investments and other high value-added products and services through "Daiwa Direct" enabled the company to steadily expand the scope of its customer base, for example, by aggressively marketing "Daiwa Direct" accounts to employee stock ownership associations.

Meanwhile, the company took steps to adjust its revenue structure, making it less dependent on brokerage commissions and increasing the emphasis on stable revenue sources, such as agency commissions from investment trusts, which are based on the balance of assets under custody. One of the most important indicators, from this perspective, is the total income from investment trust agency commissions. Daiwa Securities succeeded in increasing this revenue from around ¥2.3 billion per month in March 2006 to a peak of ¥4.0 billion per month in 2007. Looking ahead, the company aims to increase the balance of customer assets further by developing even more attractive products and services, thereby providing an even larger base of stable revenues.

During the past three years, Daiwa Securities also moved to a new headquarters building and took steps to refurbish and remodel branch offices. Systems were upgraded with IT infrastructure to automate clerical work and services were enhanced, thereby rationalizing business procedures to reduce costs. Meanwhile, employees were offered a wider range of career paths, allowing them to develop a better balance between their work and their personal lives, thus improving their loyalty and motivation.

## Basic Strategy for "Passion for the Best" 2011

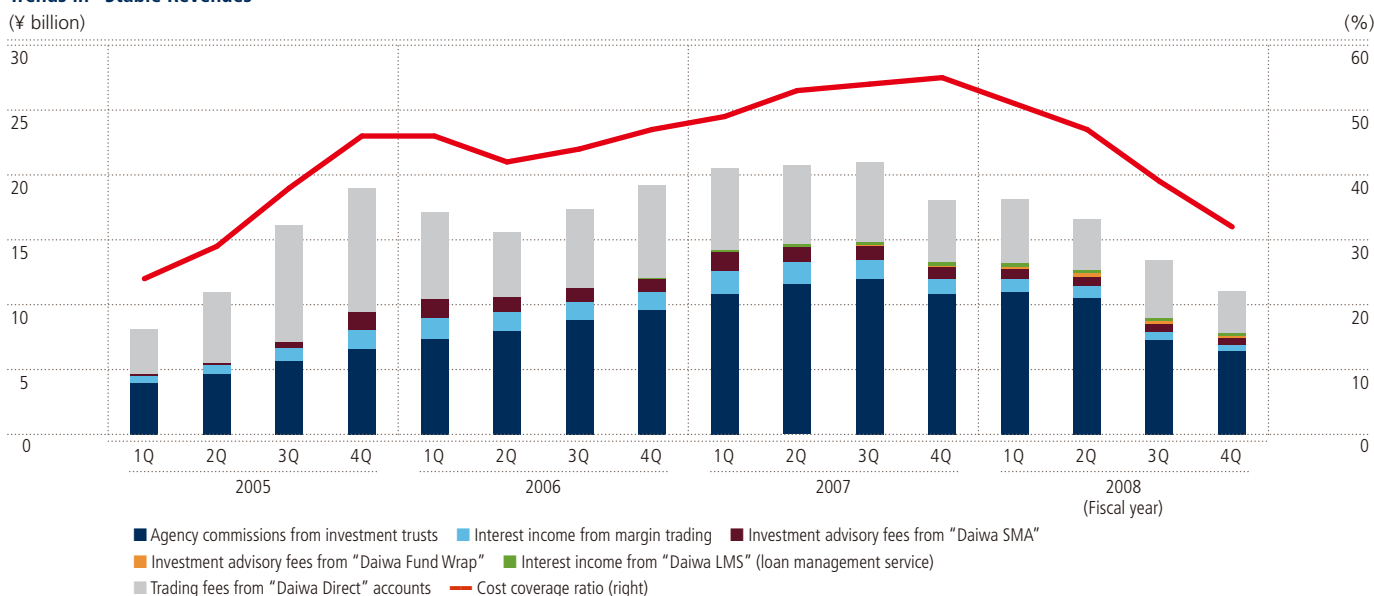
### Five Strategic Goals to Strengthen Daiwa Securities' Unique Business Model

In order to meet the targets of the medium-term management plan, Daiwa Securities will pursue five specific strategic goals: **(1) Adjust the organizational structure to maximize the contributions of the professional workforce, (2) Provide original, high value-added products and consulting services, (3) Offer career paths that highly motivate workers, (4) Enhance employee education and training, and (5) Make use of advanced information technology.**

To utilize its sales capabilities more effectively, Daiwa Securities plans to make changes to its sales and sales support structures, and seek ways to offer the most appropriate investment proposals to customers. In addition, the company will enhance the "Daiwa Direct" category of products and services, and develop services that can be tailored specifically to match the needs of each customer. Each employee will be asked to chart a career path of their choosing, and support will be provided at each stage of career development, in the form of education and training, to help

### Trends in "Stable Revenues"

(¥ billion)





## Moving One Step Ahead

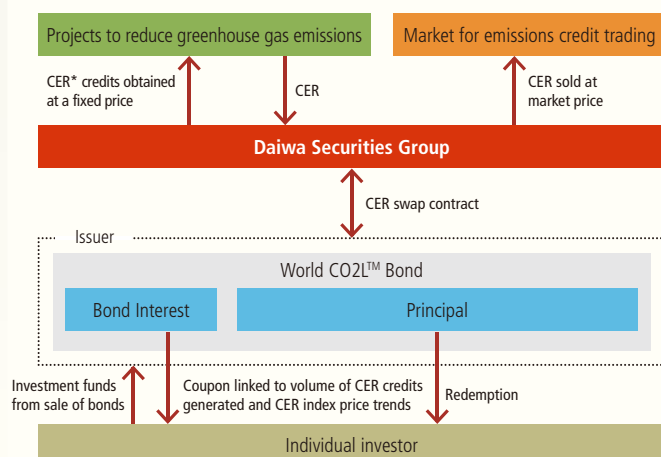
### Eco-Friendly Financial Products Provide “Earnings–Plus”

As global issues such as environmental protection and support for developing countries grow increasingly important, Daiwa Securities Group is providing customers with the opportunity to make a contribution and support the Group’s own CSR activities. For example, Daiwa Securities Group has developed bonds with interest rates that are linked to CO<sub>2</sub> emissions trading credits and bonds that help fund efforts to supply vaccines to children in developing countries. By developing this type of financial product, which allows customers to earn a return on their investment, and make a contribution to society as well, the Group is helping to create a more sustainable society and protect the environment. In short, our products and services offer benefits to the Group, to investors, and to society as a whole.

#### “World CO<sub>2</sub>L™ Bond”: Make Use of the Market for CO<sub>2</sub> Emissions Trading

In June 2008, Daiwa Securities Group joined forces with the World Bank to develop and offer to individual investors a new financial product that leverages the “Clean Development Mechanism,” established under the Kyoto Protocol, and the global market for CO<sub>2</sub> emissions trading. This bond, which goes by the nickname “World CO<sub>2</sub>L™ Bond,” (Certified Emission Reduction-Linked Uridashi Bond), is a US dollar-denominated instrument with guaranteed principal, whose coupon is linked to the price of CO<sub>2</sub> emissions credits. Specifically, the interest rate for these bonds is determined by the total market value of CO<sub>2</sub> emissions credits obtained from the construction of the Hongyan Small-Scale Hydroelectric Project in China’s Guizhou Province. The bonds thus allow individual investors to indirectly gain access to the market for emissions trading, which they are not able to access directly. At the same time, this helps to stimulate the market for emissions trading. The full financial reach and coordinating capabilities of the Daiwa Securities Group were required to locate a development project that helps to reduce greenhouse gases, organize the funding to create the bond, and then market it to investors. This success has attracted attention from other financial institutions and issuers.

#### Structure of the “World CO<sub>2</sub>L™ Bond”



\* Certified emissions reduction

#### “Vaccine Bonds”: Support Global Vaccination Efforts

The Daiwa Securities Group offers individual investors another unique type of bond—the “Vaccine Bond”—issued by the International Finance Facility for Immunisation (IFFIm). Every year, thousands of children worldwide lose their lives because they have not been immunized against common diseases. In order to address this situation, an international quasi-governmental body known as “GAVI (the Global Alliance for Vaccines and Immunisation) Alliance” was established to support immunization efforts worldwide. IFFIm is a multinational group that provides funding for these efforts.

Most of the funding for IFFIm comes from the UK and the governments of other countries; a total of US\$5.3 billion has been pledged to the fund. However, the allocation of these funds has been spread out over a prolonged period—in some cases as much as 20 years. To obtain immediate funding, the organization must rely on financial markets. “Vaccine Bonds” provide the funding to save a child’s life today, and repay the bondholders when the funds pledged by each government are allocated. In March 2008, the Daiwa Securities Group became the first financial institution to develop these bonds for individual investors and to market them in Japan. In February 2009, the Group issued a second “Vaccine Bond” in Japan. The Group invited guest lecturers from IFFIm, the GAVI Alliance and the World Bank to conduct seminars for the second consecutive year, and the individual investors who attended these seminars expressed keen interest in “Vaccine Bonds.”

#### The “Vaccine Bond” Scheme





them advance to the next level. Furthermore, the company will continue to use IT to rationalize and systematize its clerical operations.

### Consulting Division: Enhancing Consultation Skills to Increase Customer Assets Under Custody

In the “Daiwa Consulting” segment of its business, Daiwa Securities aims to continue providing high value-added consulting services and products, in order to increase the balance of customer assets under custody. As Japanese individuals continue to shift their assets “from savings to investment,” an increasingly important group of products is investment trusts. Daiwa Securities will try to provide an assortment of investment trusts that meet customers’ needs, in an effort to increase the balance of investment trust assets. As an indicator of its success in this regard, Daiwa Securities aims to increase its monthly agency commissions from investment trusts to ¥5.2 billion by FY 2011.

The company will also strengthen its stock and bond related businesses, which form the core of a securities company’s competitiveness. For example, in April 2008 the company introduced its “OTC stock options trading” service, which allows customers to create service packages that match their own needs and market expectations. This is an area that the company intends to develop further in the future. Daiwa Securities is also taking steps to enhance the products and services offered by its discretionary asset management services, such as “Daiwa SMA” and “Daiwa Fund Wrap.” These services have attracted a large number of customers, making “Daiwa SMA” the industry’s largest discretionary asset management service in terms of total contracted assets, and “Daiwa Fund Wrap” the largest in terms of total number of contracts. As the pioneer in this type of wrap account business, Daiwa Securities intends to continue expanding the market.

### “Daiwa Direct” Division: Expanding Service Options for Active Investors

In the “Daiwa Direct” segment, the company is constantly adding new options, ranging from traditional stocks, bonds and investment funds to services such as “Daiwa FX” (foreign exchange margin trading), and off-hours trading in domestic stocks, using “Daiwa PTS” (proprietary trading system). The company will continue to enhance its “Daiwa Direct” service by adding new features for investors who take an active stance in managing their assets.

### New Medium-Term Management Plan for Daiwa Securities

#### Three-Year Goal

Become a highly regarded securities company, renowned for its professionalism and originality.

Ordinary income target for FY 2011: **¥120 billion**

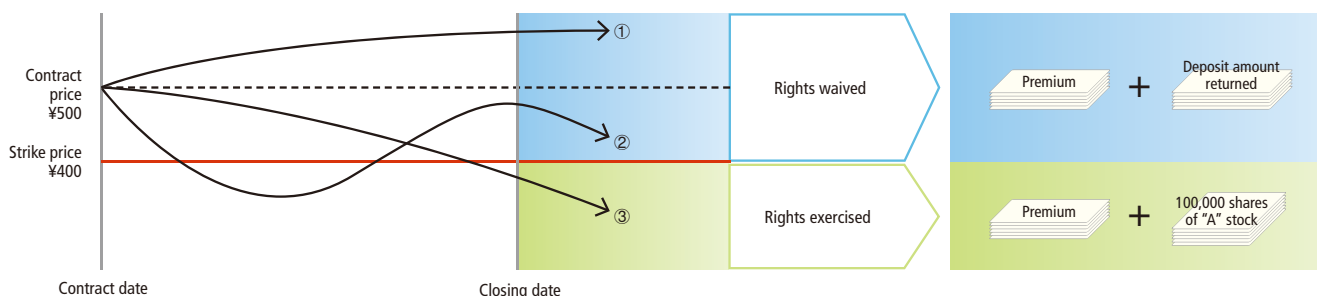
#### Basic Strategies

- Adjust the organizational structure to maximize the contributions of the professional workforce
- Provide original, high value-added products and consulting services
- Offer career paths that highly motivate workers
- Enhance employee education and training
- Make use of advanced information technology

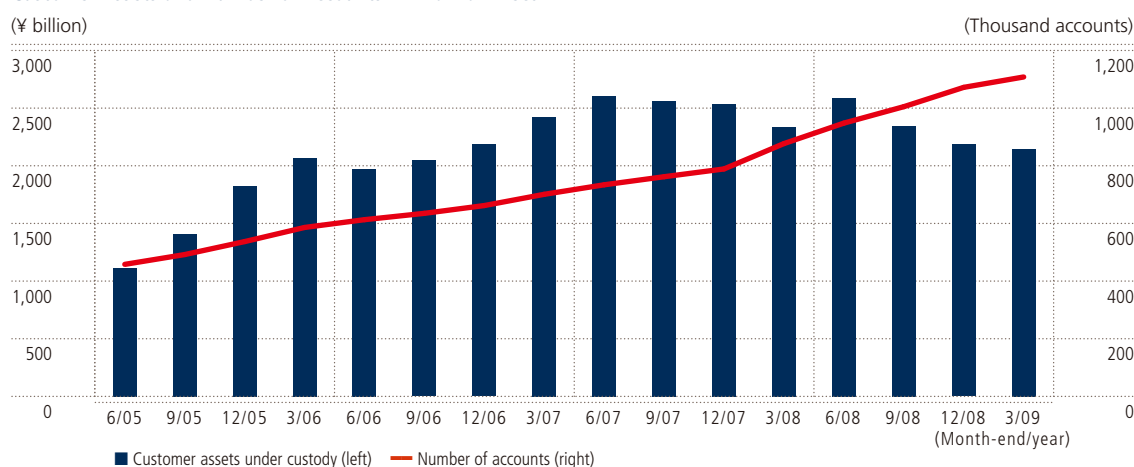
In September 2009, the company intends to launch a trading service offering JGBs for individuals using “Daiwa PTS.” This will be Japan’s first market to offer JGBs for individuals. Conventionally, JGBs for individuals are offered for sale when first issued and are redeemed by application to the Bank of Japan via another financial institution. However, the new service will offer investors more options for buying and redeeming JGBs for individuals. It is just one example of Daiwa Securities’ ongoing efforts to provide pioneering services that enhance convenience for customers.

### “OTC Stock Options Trading” (Buying-target price-offer type)

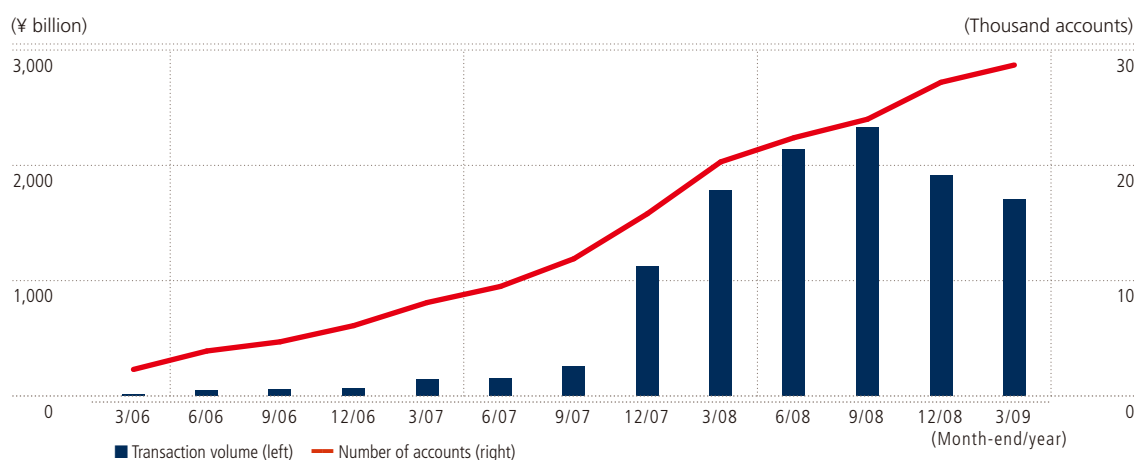
Example: Trading stock options with a strike price of ¥400 per share for 100,000 shares in company “A” with a current stock price of ¥500.



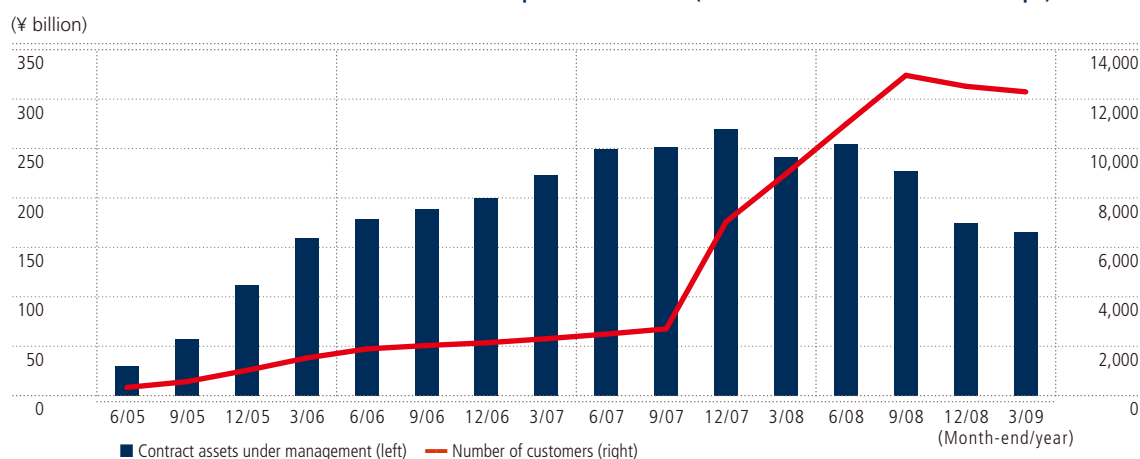
## Customer Assets and Number of Accounts in "Daiwa Direct"



## Transaction Volume and Number of Accounts in "Daiwa FX"



## Total Contracted Assets and Number of Customers in Wrap Account Services ("Daiwa SMA" and "Daiwa Fund Wrap")



Notes: 1. "Daiwa SMA" includes "Daiwa SMA Private Asset Allocation Service" accounts.  
 2. "Daiwa Fund Wrap" services launched in October 2007.

## Wholesale & Investment

### Daiwa Securities SMBC

Daiwa Securities SMBC is a joint venture between Daiwa Securities Group Inc., which holds a 60% capital stake, and the Sumitomo Mitsui Financial Group, which controls 40%. The company operates a wholesale securities business whose main customers are institutional investors and business corporations. The company's "sales & trading" business offers brokerage services for equity, bond and derivative trading, as well as providing high-quality financial products and services. In addition, the company has an investment banking business which helps customers select the best solution for obtaining funds by underwriting stock and bond issues, manages IPOs, and provides advisory services to help companies organize mergers and acquisitions. As the only joint venture between a securities group and a Japanese megabank, Daiwa Securities SMBC has established itself as one of Japan's best investment banks, by leveraging the extensive networks, resources and connections of both its parents.

#### Earnings Results for FY 2008

##### Losses Minimized Despite Severe Market Turmoil

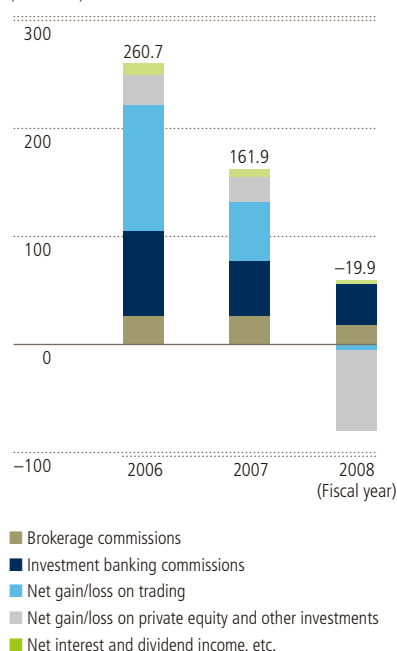
During FY 2008, the business environment affecting the Group's wholesale securities business was extremely trying. The sub-prime loan crisis, which emerged in 2007, sent ripples through the entire financial industry, prompting financial institutions to suddenly change course, and sell off assets in an attempt to de-leverage. This sent asset prices tumbling and accelerated the downward spiral of losses and market turmoil. During the first quarter there were signs that the bond market

might be stabilizing, but from the second quarter onward events such as the collapse of Lehman Brothers plunged the markets into crisis. Severe volatility in share prices and exchange rates generated large losses in the trading business.

Compared with the truly massive losses posted by many major financial institutions in other countries, Daiwa Securities SMBC was able to limit the scale of the damage; however, these losses did have a severe impact on earnings for the period. In the investment banking business, meanwhile, the uncertain economic future made corporations very cautious about new business expansion plans. This caution was clearly reflected in the low level of equity financing activity and M&A deals.

Due to these harsh conditions, Daiwa Securities SMBC posted a loss of ¥19.9 billion in the consolidated net operating revenues account, a deterioration of ¥181.9 billion year on year. Ordinary income deteriorated by ¥168.8 billion year on year, to a ¥167.4 billion loss, and in the net income account, losses expanded by ¥139.1 billion year on year, to ¥144.9 billion in FY 2008.

**Daiwa Securities SMBC: Breakdown of Net Operating Revenues (Consolidated)**  
(¥ billion)



#### Consolidated Financial Summary for Daiwa Securities SMBC

	(Millions of yen)		
	FY 2006	FY 2007	FY 2008
Net operating revenues	¥ 260,700	¥ 161,954	¥ (19,989)
Ordinary income (loss)	92,866	1,431	(167,468)
Net income (loss)	51,945	(5,836)	(144,958)
Total assets	10,448,648	13,881,604	11,137,793
Net assets	683,247	615,921	530,978
ROE	8.5%	—	—
Net assets/total assets	6.5%	4.4%	4.8%

There were some other positive achievements amid the extremely difficult business climate. For example, a change in the competitive environment in the latter half of the year improved the profitability of JGB trading. In the investment banking business, Daiwa Securities SMBC raised its profile, claiming second place in the league tables for both total debt and total equity, and the number one spot in domestic M&A advisory contracts (deals in which both parties were Japan-based corporations).

### The Group's New Medium-Term Management Plan, "Passion for the Best" 2011

Under the Group's new medium-term management plan, Daiwa Securities SMBC has adopted the goal of "Creating a sustainable growth model for the investment banking business, founded on customer trust and loyalty." In the extremely difficult business environment that all investment banks currently face, it is absolutely essential that the company examines its relationship with clients and strives to earn their trust and loyalty, to build a strong customer base and a firm business foundation.

Under the medium-term management plan, Daiwa Securities SMBC has set the quantitative target of increasing ordinary income to ¥60.0 billion in FY 2011. In addition to strengthening its domestic customer base, the company will seek to cultivate a broader range of international clients. By emphasizing the quality of the products and services it offers, and tailoring these products and services to match customer needs,

Daiwa Securities SMBC intends to build a sustainable base of operations in the investment banking sector. In this way, the company intends to establish itself within three years as a leading Japanese investment bank with high-quality, internationally competitive businesses.

### Results of the Group's Previous Medium-Term Management Plan

#### Raising Its Profile and Expanding Overseas

Under the previous medium-term management plan, spanning the last three years, Daiwa Securities SMBC sought ways to take advantage of its relationship with both the Daiwa Securities Group and Sumitomo Mitsui Banking Corporation (SMBC) to expand its business opportunities. As a result, sales of structured bonds and credit instruments increased in the trading business, as did the company's trading volume in OTC equity derivatives. In the investment banking business, meanwhile, Daiwa Securities SMBC underwrote a number of large-scale issues over the past three years including preferred stock issued by Sanyo Electric and a hybrid securities issue for Nippon Steel Corporation. The company also helped Sumitomo Metal Mining to issue a loan with stock acquisition rights. The company's connections with SMBC were valuable in paving the way for these deals.

Although Daiwa Securities SMBC was unable to meet its financial targets under the last medium-term management plan, it did achieve some notable successes during the three-year period. In FY 2006, for example, it placed first in the league tables for total debt and IPOs.

#### Daiwa Securities SMBC's Position in the Major League Tables (FY 2008)

	Total Debt		Total Equity		M&A (transaction value)	M&A (number of deals)
	Rank	Share	Rank	Share	Rank	Rank
1st	Mitsubishi UFJ	18.1%	Nomura	40.0%	Goldman Sachs	Nomura
2nd	Daiwa Sec. SMBC	17.5%	Daiwa Sec. SMBC	18.7%	Nomura	Mizuho Financial Group
3rd	Nomura	15.8%	Mitsubishi UFJ	9.3%	Morgan Stanley	Daiwa Sec. SMBC
4th	Mizuho	15.2%	UBS	7.0%	Daiwa Sec. SMBC	Citigroup
5th	Nikko Citigroup	12.8%	Nikko Citigroup	6.2%	Merrill Lynch	MUFG

Source: Total debt and total equity based on Daiwa Securities SMBC's data; M&A based on data from Thomson Reuters.

#### FY 2008 Domestic M&A Market Advisory Ranking\* (Deals in which both parties were Japan-based corporations)

1st	2nd	3rd	4th	5th
Daiwa Sec. SMBC	Nomura	Goldman Sachs	GCA Sawian Group	Bank of America Merrill Lynch

\* Based on transaction value (excluding real estate deals)

Source: Thomson Reuters

## Moving One Step Ahead

### Global M&A Structure

Under the Group's new medium-term management plan, "Passion for the Best" 2011, the wholesale business will work aggressively to develop its cross-border M&A capabilities by adopting a four-pillared M&A structure drawing strength from bases in Japan, Europe, the US, and Asia. FY 2009, the first year of the new medium-term management plan, also marks the 50th anniversary of the Daiwa Securities Group's first foray into overseas operations. The Group will continue to strengthen its overseas network and build a global base for operations.

#### Acquisition of CBCF

In May 2009, Daiwa Securities SMBC decided to strengthen its operating base in Europe by acquiring Close Brothers Corporate Finance (Holdings) Limited (CBCF), an investment bank with a particular focus on the M&A advisory business, and concluded a share transfer agreement with that company's parent, Close Brothers Group plc.

CBCF operates one of Europe's leading unaffiliated investment banking businesses, which specializes in providing M&A advice to companies seeking to acquire businesses. The headquarters is in London, and it has branches in the UK, France, Germany, Spain and Switzerland, providing a broad and detailed network of operations throughout Europe. According to Thomson ONE Banker and mergermarket, the company ranked number two on the European league table for the number of M&A advisory deals conducted in 2007 (covering publicly disclosed deals of €750 million or less). It has a very strong presence in the market for medium-sized mergers. CBCF boasts a highly experienced team of professionals with very close relations to companies throughout Europe. These resources will help the Daiwa Securities Group to attract and successfully conclude cross-border M&A deals.

Daiwa Securities SMBC decided to acquire 100% of the company's shares because it expects to derive strong synergy from the acquisition. Following the purchase, the corporate finance and M&A divisions of Daiwa Securities SMBC Europe Limited will be transferred to CBCF, thus allowing Daiwa Securities SMBC and CBCF to work in very close cooperation to attract cross-border M&A advisory contracts.



#### A Global M&A Network Founded on Four Regional Pillars

Daiwa Securities SMBC is also taking steps to strengthen its M&A business in regions other than Europe. The Tokyo office, which forms the hub of the global network, is continuing to hire personnel and strengthen its ability to support cross-border M&A deals. In Asia, the company is working to enhance its origination capabilities by assigning "sector bankers" with extensive experience in each industry sector to offices in Hong Kong and Singapore. In the US, in April 2007, the company acquired a stake in, and formed a business partnership with Sagent Advisors, which handles M&A advisory operations for the Group in North America. This has greatly enhanced the company's origination and execution capabilities in the region.

With the purchase of CBCF, Daiwa Securities SMBC is now preparing to pursue one of its main goals under the new medium-term management plan—"to establish a four-pillared M&A structure drawing strength from bases in Japan, Europe, the US, and Asia." This will greatly expand the company's ability to support the cross-border M&A efforts of Japanese corporations. Daiwa Securities SMBC intends to help Japanese companies in their efforts to expand internationally, focusing all of its energies on developing its financial skills and its global network.



Signing ceremony for the acquisition of CBCF

### Daiwa Securities SMBC Establishes a “Financial Research Center”

#### —Enhancing Daiwa Securities SMBC’s research capabilities—

In August 2009, in order to strengthen the research and information distribution capabilities of the Daiwa Securities Group, Daiwa Securities SMBC established a “Financial Research Center.” In addition, research departments have been set up at various overseas offices: Daiwa Securities America Inc., Daiwa Securities SMBC Europe Limited, Daiwa Securities SMBC Hong Kong Limited and Daiwa Securities SMBC Singapore Limited.

Daiwa Securities SMBC’s Financial Research Center and the research departments of the overseas subsidiaries absorbed the research operations of Daiwa Institute of Research (DIR) and its overseas subsidiaries, and the roughly 150 research analysts and strategists who worked at DIR’s domestic and overseas offices were reassigned to the new research departments.

The reorganization will allow the research division to work much more closely than ever before with the Daiwa Securities SMBC sales personnel who focus on institutional investors. This should greatly enhance the Group’s ability to provide information to institutional investors and other customers as well.

Overseas, the company served as an M&A advisor to Taiyo Life Insurance in its bid to take a capital stake in the Chinese company Union Life Insurance, and it won the lead manager contract for a “samurai bond” issue by Westpac Banking Corp., which was guaranteed by Australia’s federal government. The company expanded its network and solidified its business foundation in Asia by opening a subsidiary in India and setting up a joint-venture securities company in China—Daiwa SMBC-SSC Securities. However, Daiwa Securities SMBC still needs to take additional measures on the important issue of strengthening its risk management structure.

Despite the difficult business conditions created by the recent financial crisis, Daiwa Securities SMBC focused on developing the business segments that it was able to control, and maintained a relatively strong financial base thanks to its ample liquidity and the use of subordinated loans to increase its capital strength. Now the company intends to use this relative advantage to expand its share of the markets in which it operates and lay the groundwork for future growth.

### Basic Strategy for “Passion for the Best” 2011

#### Daiwa Securities SMBC Will Pursue Four Strategic Goals

Under the Group’s new medium-term management plan Daiwa Securities SMBC has adopted four strategic goals:

The first goal is **to improve customer satisfaction**. Daiwa Securities SMBC will make customer satisfaction its number one priority. It will strive to maintain high ratings from domestic institutional investors and earn higher marks from overseas institutional investors. The company will improve and expand its execution infrastructure to better support customers.

The second goal is **to strengthen “solution” capabilities**. By promoting greater professionalism among executives and employees, the company will try to enhance its ability to develop and propose solutions to customer needs. It will seek to earn top ratings in the league tables and earn various industry awards.

Thirdly, the company will aim **to expand its global presence**. In addition to continuing its past efforts to develop a global product line and a global support network, Daiwa Securities SMBC will take steps to further expand its overseas presence. The company will continue to focus its energies particularly on the growth of business in Asia, in order to reap the maximum benefits from strong economic growth in the region. In the M&A business, the company will support the global expansion efforts of corporate clients by developing a four-pillared M&A advisory network, with bases in Japan, Europe, the US and Asia.

### New Medium-Term Management Plan for Daiwa Securities SMBC

#### Three-Year Goal

Creating a sustainable growth model for the investment banking business, founded on customer trust and loyalty.

Ordinary income target for FY 2011: **¥60 billion**

#### Basic Strategies

Improve customer satisfaction

Strengthen “solution” capabilities

Expand global presence

Develop a stable earnings structure



Finally, the company will strive **to develop a stable earnings structure**. Particularly in the derivatives business, Daiwa Securities SMBC will work to develop a global structure to manage its positions and refine its trading operations, in order to improve the stability of earnings. The company will seek to maximize its cooperation with the Daiwa Securities Group and SMBC in order to develop a firm business structure and expand stable sources of earnings.

### Strategy for the Products Division

The strategy for the Products Division calls for the company to develop equity-related products and services that can continue to earn strong ratings from domestic institutional investors and improve the ratings received from overseas institutional investors, thereby expanding businesses that generate stable earnings. To do this, the company will focus on improving its execution infrastructure, and expanding the range of equity derivatives, equity repo transactions and stock lending services in order to diversify its income sources. The main indicator that will be used to gauge the success of these efforts will be the company's position in the broker rankings awarded by major institutional investors. In the bond trading business, Daiwa Securities SMBC will take steps to develop

broader and more stable earnings from traditional products such as JGBs and publicly traded bonds, while working to expand its customer base, particularly among central banks and sovereign wealth funds.

In the derivatives business, Daiwa Securities SMBC will continue to extend the global reach of its operations platform, develop its derivative valuation models and improve its core infrastructure. In this way, the company will seek to more precisely manage its positions and its trading operations, and improve earnings performance. Finally, in the structured products, credit and agency business, Daiwa Securities SMBC will draw upon its relations with Daiwa Securities and SMBC to access their extensive customer base, cultivate new clients and strengthen relations with existing clients.

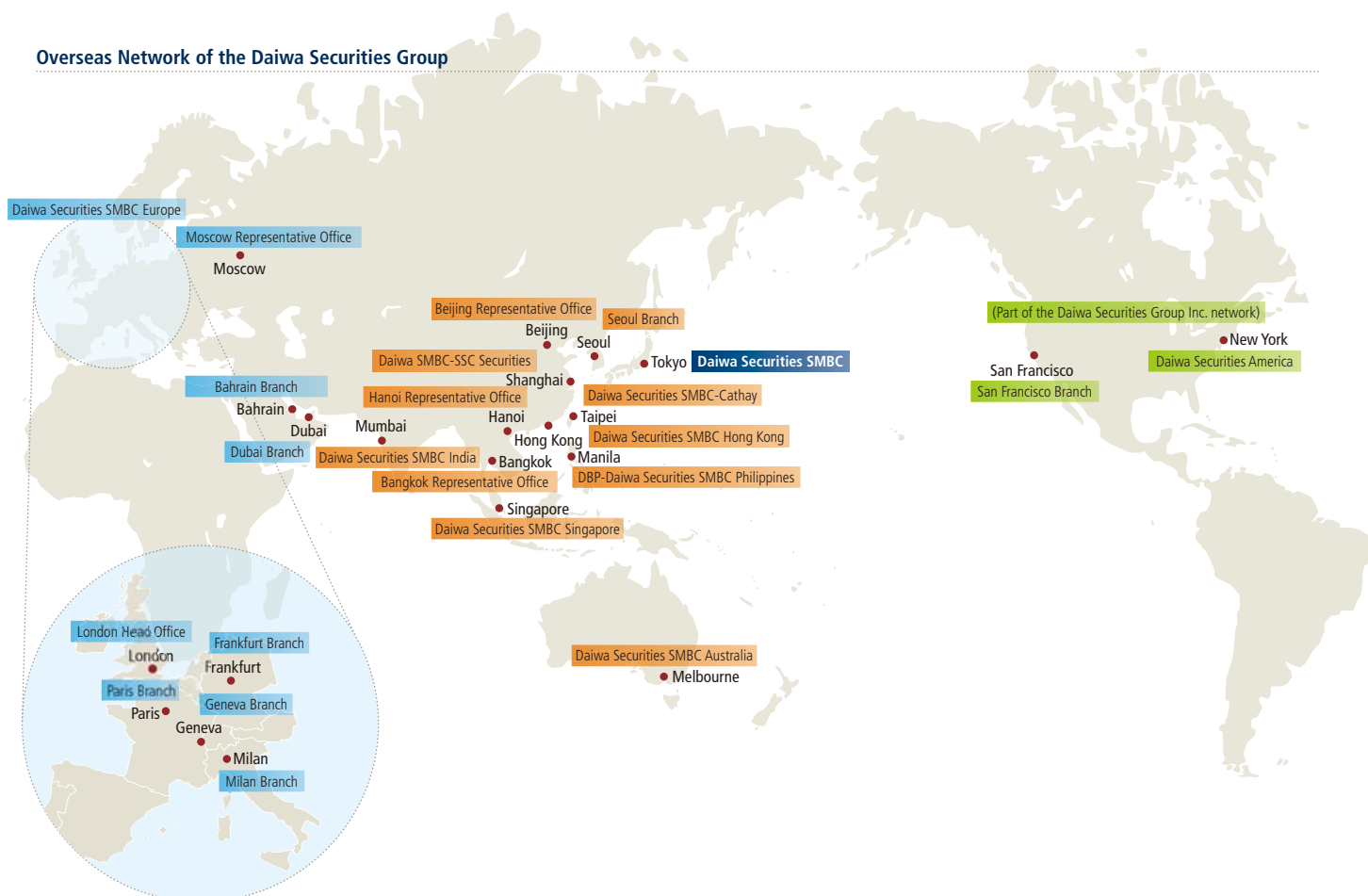
### Strategy for the Investment Banking Division

In the Investment Banking Division, Daiwa Securities SMBC will take steps to improve its domestic solution and origination capabilities, and its ability to respond to the increasingly global needs of customers. In the domestic market, the company will analyze the issues that customers face and propose prioritized solutions. Meanwhile, the company will continue to expand its overseas network, particularly in Asia,

### Major Deals in FY 2008

Primary and secondary equity offerings (including CBs)	ORIX (domestic CB; ¥150.0 billion), Chuo Mitsui Trust Holdings (global secondary offering; ¥103.5 billion), T&D Holdings (public offering; ¥61.0 billion), Asahi Breweries (overseas CB; ¥35.0 billion)
Corporate straight bonds	Panasonic (¥400.0 billion), Tokyo Electric Power (¥380.0 billion), SMBC (subordinated bond; ¥286.0 billion), SMBC (¥160.0 billion), KDDI (¥120.0 billion), Kansai Electric Power (¥120.0 billion), Mitsubishi Corporation (¥100.0 billion)
Agency bonds	Development Bank of Japan (¥183.0 billion), Japan Finance Corporation for Municipal Enterprises (¥110.0 billion), Japan Student Services Organization (¥87.0 billion), Urban Renaissance Agency (¥60.0 billion), Japan Housing Finance Agency (¥47.8 billion)
Overseas primary and secondary equity offerings	China Taisan Technology Group Holdings Limited (IPO on the Singapore Exchange; ¥4.3 billion)
Structured finance	The Japan Housing Finance Agency, Secured Pass-through Bonds No. S-9, 11 (issue: ¥300.0 billion; underwriting: ¥96.0 billion), The Japan Housing Finance Agency, Secured Pass-through Bonds No. 15, 19, 20, 21, 22 (issue: ¥296.9 billion; underwriting: ¥101.4 billion), SMBC, Series 18, 19 RMBS and Specified Bonds (issue: ¥83.0 billion; underwriting: ¥83.0 billion), Nippon Life Insurance, First SPC Series 1 Collateralized FILP Bonds for "2008 Fund" (issue: ¥50.0 billion; underwriting: ¥25.0 billion), Master Trust Bank of Japan, Second SPC Series 1 Collateralized FILP Bonds (issue: ¥50.0 billion; underwriting: ¥22.0 billion), Trust Certificates 2008-12 (Lease Receivables Securitization) (issue: ¥30.0 billion; underwriting: ¥30.0 billion)
M&A	Purchase of SANYO Electric by Panasonic Corporation (advisor to SANYO) Merger between Meiji Dairies and Meiji Seika (merger advisor) Acquisition of ordinary shares in Mitsui Life Insurance through third-party allocation, by SMBC and several other financial firms (advisor to SMBC, Mitsui Sumitomo Insurance, Sumitomo Life Insurance and Chuo Mitsui Trust and Banking) Purchase of USJ by SG Investments (advisor to USJ) Repurchase of shares in Mazda Motor held by Ford Motor, by Mazda and its business partners (advisor to Mazda) Merger between Telepark and MS Communications (advisor to MS Communications)

## Overseas Network of the Daiwa Securities Group



establishing an M&A advisory business structure that can offer global support through four main regional bases—in Japan, Europe, the US and Asia. The indicator used to gauge success will be the industry league tables and the annual awards announced by Thomson Reuters, *Nikkei Veritas* and the *International Financing Review* (IFR). Daiwa Securities SMBC will aim for the number one position in league tables for total equity, total debt, and M&A activity involving Japanese companies. In FY 2008, the company placed second in total debt and total equity, and fourth in M&A advisory deals (based on total value). It also was awarded the “Yen Bond House of the Year 2008” award by the IFR in December 2008.

## Globalization Activities

Daiwa Securities SMBC is continuing to expand its overseas network, channeling its resources into the development of overseas offices based on prioritization of strategic regions. The company is placing a particularly strong focus on measures to develop its business in Asia. Under the new medium-term management plan, Daiwa Securities SMBC aims to increase earnings from overseas businesses to 30% of the total by 2011, with Asia accounting for 15%. The company is also investing resources in the global development of support and management functions, including financing, risk management, compliance and IT systems.

## Daiwa Securities SMBC Principal Investments

Daiwa Securities SMBC Principal Investments (hereafter, “Daiwa Securities SMBC PI”) is a wholly owned subsidiary of Daiwa Securities SMBC. The company is involved in private equity investment, and also invests in monetary claims, real estate, and other investments. In addition, it develops and manages regional, corporate revitalization funds and other types of investment funds.

Daiwa Securities SMBC PI boasts a team of highly trained professionals with specialized knowledge of finance, real estate, accounting, tax matters, legal affairs and management consulting. These skills are used to address the needs of the companies targeted for investment, providing a wide range of solutions that help the companies revitalize their businesses.

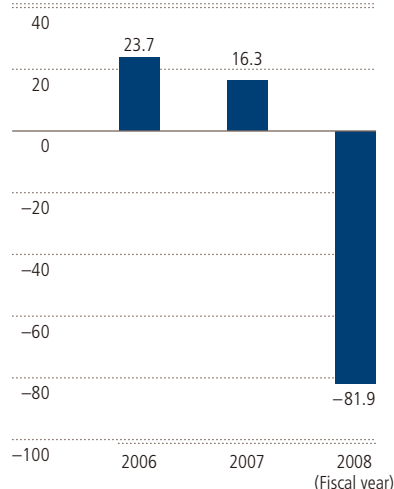
### Earnings Results for FY 2008

#### Sudden Deterioration in the Business Environment Generated Large Valuation Losses on Investment Assets

The global economic slump during FY 2008 not only had a severe impact on corporate earnings in a wide range of countries and business sectors, but also pushed down share prices worldwide. The number of listed Japanese companies that declared bankruptcy during 2008 increased dramatically, to 33 from 6 in 2007, and in the January–March quarter of 2009 alone, 14 additional companies became insolvent. The Japanese real estate market also weakened. As the sub-prime loan crisis in the US intensified, the many foreign investors and financial institutions that previously were active in Japan, supplying funds for real estate investment, withdrew causing a rapid outflow of funds from the real estate market.

During FY 2008, Daiwa Securities SMBC PI had the opportunity to make new direct investments in a number of companies, including Shinseido, Taiwan’s Neo Solar Power, SOMA Networks of the US, and China’s Hon Chuan (China) Holdings. The company also began taking returns from its investments in Ogihara and Daiwa Seiko, but due to the adverse business environment and falling share prices it was forced to book large valuation losses on its corporate and real estate investments, and thus post large investment losses for the period. Regarding Sanyo Electric, the largest single target of the company’s investment, Daiwa Securities SMBC PI accepted a takeover bid from Panasonic on March 31, 2009, under which Panasonic will acquire Sanyo Electric’s shares from Daiwa Securities SMBC PI. Based on this deal, the company intends to take profits on its investment in Sanyo Electric during FY 2009.

**Daiwa Securities SMBC PI:  
Ordinary Income**  
(¥ billion)



### Results of the Group’s Previous Medium-Term Management Plan

#### Strong Results in the First Half of the Plan; Large Write-Downs in FY 2008

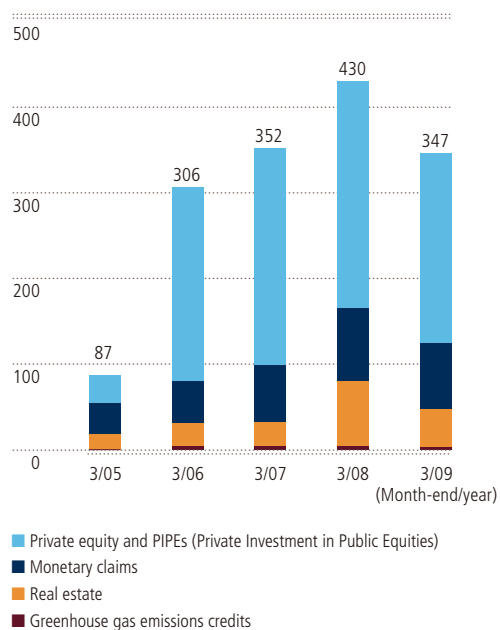
Under the Group’s previous medium-term management plan, Daiwa Securities SMBC PI focused on increasing its balance of investment assets, with a target of ¥400.0 billion by the end of FY 2008. At the end of the previous fiscal year the company had surpassed that target. However, thereafter deteriorating market conditions and falling asset prices caused the valuation of many existing investments to decline, generating impairment losses and increases to the provisions for investment losses.

If more qualitative measures are used to evaluate the company’s performance under the medium-term management plan, we get a clearer picture. During the 2003–05 period, when there was a relative shortage of risk-seeking capital in the market, Daiwa Securities SMBC PI made numerous direct equity investments, and also invested in monetary claims and bulk-type investment in real estate. During FY 2006 and FY 2007, these investments generated steady returns. For example, the company took profits on some of its direct investments, transferring

its preferred shares in Maruzen to Dai Nippon Printing, and selling off its shares in Mitsui Mining. The company not only generated profit contributions from the exit strategy on previous corporate investment, but it also took profits on monetary claims and real estate. During this period investment profits began to mount.

However, the sub-prime loan crisis in FY 2008 set off a financial crisis which caused asset prices to fall sharply and the economy to deteriorate. Daiwa Securities SMBC PI was forced to take large valuation losses on the corporate investments and real estate it had acquired when the market prices were rising. This produced substantial investment losses.

**Daiwa Securities SMBC PI: Balance of Investment Assets (After Deducting Investment Loss Provisions)**  
(¥ billion)



## Basic Strategy Under “Passion for the Best” 2011 Turning Opportunities Into Reality

Due to the current economic uncertainties, Daiwa Securities SMBC PI faces a situation in which investment decisions are very difficult to evaluate. Since the start of 2009, the number of corporate bankruptcies has remained high, particularly among large companies in real estate-related industries with heavy debt burdens. However, the current business climate also offers a great many opportunities to rebuild failed companies and make a profit.

Under the Group’s new medium-term management plan, Daiwa Securities SMBC PI intends to implement an action plan based on three strategies: (1) The company will establish the internal framework necessary to begin conducting investment fund management on a full-scale basis. (2) The company will make selective decisions on which businesses to preserve and which to abandon, while using current market trends to seek new investment opportunities. (3) The company will continue looking for exit strategies to generate returns from its existing direct investments.

In April 2009, Daiwa Securities SMBC PI entered the fund management business in earnest, when it formed a joint venture to set up an investment fund with Quantum Leaps, which was founded by Mr. Nobuyuki Idei, the former Chairman and CEO of Sony. This joint venture, Daiwa Quantum Capital, will focus on direct investments in Japanese and other Asian companies.

Daiwa Securities SMBC PI is aiming to steadily secure profitability for existing investments, and in light of the current investment environment, is focusing new investment on rebuilding failed companies. In this way the company intends to ensure that it turns investment opportunities into reality.

### Structure of the Fund Developed by Daiwa Securities SMBC PI and Quantum Leaps

Summary of the joint venture company	
Name	Daiwa Quantum Capital Ltd.
Paid-up capital	¥20 million
Investors	Daiwa Securities SMBC PI 51% Quantum Leaps 49%
Date established	April 1, 2009

Summary of funds currently being developed	
Fund name	Daiwa Quantum Capital Partners I
Concept	Build on the relationship between Japan and Asia to help the companies in which the fund invests grow, and generate investment profits.
Targets of investment	Asia (ex-Japan) 70% Japan 30%
Fund size	The maximum final investment amount will be set at around ¥30.0 billion, about 30% of which will be provided by Daiwa Securities SMBC PI as a limited partnership investment.

## Daiwa SMBC Capital

Daiwa SMBC Capital is a private equity firm which was formed through the merger of the former Daiwa Securities Group subsidiary NIF Ventures and the former SMBC Capital, a subsidiary of Sumitomo Mitsui Financial Group. The company uses its extensive business network and years of accumulated experience and know-how to conduct buyouts and invest in venture companies. The company has supported the growth of a large number of ventures and helped them list their shares. Daiwa SMBC Capital's track record of past investment success and the high-quality management support that it can provide to emerging companies allow it to increase the corporate value of investment targets and conduct highly transparent fund management activities.

### Earnings Results for FY 2008

#### Despite Harsh Business Conditions, the Company Continued to Carefully Select Investment Targets

In FY 2008, the turmoil in financial markets and a deteriorating economy sharply reduced the number of domestic companies that listed their shares during the period to 34, compared with 99 in FY 2007. This created extremely difficult business conditions for Daiwa SMBC Capital.

Sales fell 32.9% during the period, to ¥9.0 billion, and ordinary loss amounted to ¥5.8 billion. Daiwa SMBC Capital invested in 63 companies during FY 2008 (compared with 138 in FY 2007), and the total value of investments contracted to ¥11.5 billion (compared with ¥15.4 billion in FY 2007). Almost all of these represented investments in venture companies; there were only three buyouts during the period, which accounted for just ¥2.7 billion. Of the 60 venture companies in which Daiwa SMBC Capital invested during FY 2008, eight were overseas

companies with a total investment value of ¥1.2 billion. Five domestic companies and one overseas investment target listed their shares during the period (compared with 18 domestic companies and three overseas companies in FY 2007).

The company launched one new fund—DS Capital Bridge Fund, L.P.—with a total commitment of US\$11 million. The number of funds in operation as of March 31, 2009, was 61, with a total commitment value of ¥277.2 billion and a fund balance of ¥158.8 billion.

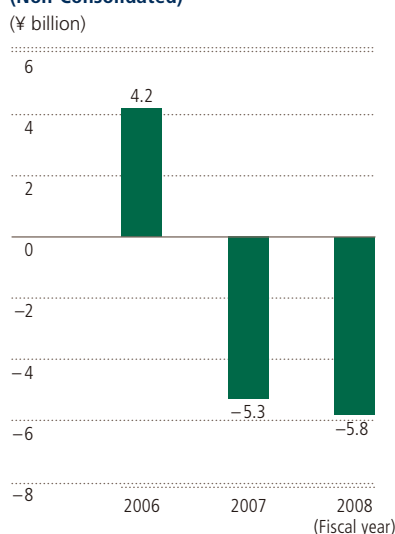
### Management Policy

#### Daiwa Securities Group Inc. Increased Its Share of Equity

Daiwa SMBC Capital faces a very difficult business environment, and at present it seems to be getting even harsher. In order to survive the fierce competition that it will face in the future, the company needs to enhance its ability to locate attractive investment targets, as well as its ability to propose deals and lend management support to the target companies. It will also be necessary to increase overseas investment and buyout activity, particularly in Asia. Furthermore, in a business environment which makes IPO listings extremely difficult, the company needs to develop stable sources of income, by developing ways to take profits on investments without conducting an IPO, and by finding better ways of marketing its funds to investors.

To help the company address these issues, Daiwa Securities Group Inc. issued a takeover bid for Daiwa SMBC Capital from April 30, 2009 through June 18, 2009. This takeover bid will allow the Group to turn Daiwa SMBC Capital into a private subsidiary and allow it to adopt more active and flexible management strategies.

**Daiwa SMBC Capital: Ordinary Income (Non-Consolidated)**



## Asset Management

### Daiwa Asset Management

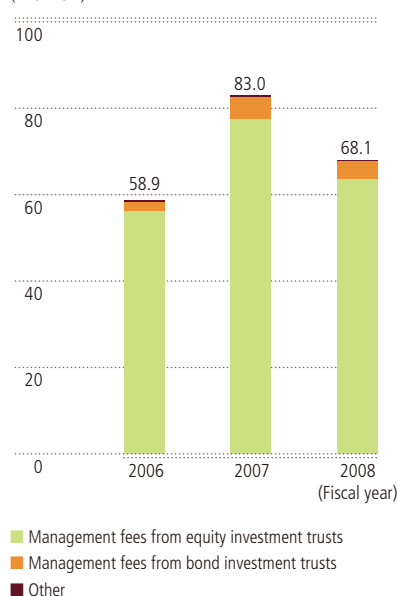
Daiwa Asset Management forms the core of the Group's asset management operations. The company develops and manages various types of investment trust products which are marketed primarily to individual investors, through a multitude of sales channels including not only Daiwa Securities and other retail securities companies, but also banks and post offices throughout Japan. The company's product lineup includes a wide variety of different investment trusts, which invest in everything from domestic and overseas stocks and bonds to REITs and commodities-related products. Daiwa Asset Management provides support to help individuals manage their investment portfolios with easy-to-understand information and detailed follow-up services. In this way, the company has built one of the largest investment trust operations in Japan, in terms of the balance of assets under management.

#### Earnings Results for FY 2008

##### Competitive Fund Management Results and Fund Development Efforts Despite a Harsh Business Environment

The operating environment for domestic investment trust management companies has grown increasingly difficult since the latter half of FY 2007. However, that was just a prelude to the deterioration in business conditions that followed the collapse of Lehman Brothers in September 2008. Industry-wide, the balance of assets under management in publicly offered equity investment trusts plunged ¥17.3 trillion in value, from ¥57.7 trillion at the end of March 2008 to ¥40.3 trillion in March 2009. The balance of assets under management at Daiwa Asset Management fell from ¥6,503.9 billion in March 2008 to ¥4,602.1 billion at the end of March 2009. As a result, operating revenues for FY 2008 contracted 18.0% year on year, to ¥68.1 billion, and ordinary income fell 33.6% year on year, to ¥11.6 billion.

**Daiwa Asset Management: Breakdown of Operating Revenues**  
(¥ billion)



Over the course of FY 2008, the net inflow of funds to all domestic, publicly offered equity investment trusts (excluding ETFs) was around ¥1.1 trillion, and Daiwa Asset Management registered a net inflow of ¥305.9 billion. This increase was entirely supported by a ¥403.8 billion net inflow to funds that specialize in foreign bonds—a segment that Daiwa Asset Management has developed as a strategic way of responding to the needs of small investors. One of the company's main products, the "Daiwa Global Bond Fund" maintained a balance of over ¥1 trillion in assets under management, making it one of the largest such funds in the industry. Another fund which is marketed through sales channels outside the Daiwa Securities Group—the "High-Grade Oceania Bond Open" fund—has become one of the most popular, as many major domestic banks and securities companies have begun offering it to their customers.

In terms of fund performance, Daiwa Asset Management's "Resona High-Grade Sovereign Fund" earned the number one spot overall, in the NIKKEI NET-QUICK ranking of investment trusts, in the category of short-term (1-year) performance, and the "High-Grade Oceania Bond Open" fund claimed the number two spot overall in the category of long-term (3-year) performance.

#### Financial Summary for Daiwa Asset Management

	(Millions of yen)		
	FY 2006	FY 2007	FY 2008
Operating revenues	¥58,933	¥83,079	¥68,157
Ordinary income	13,015	17,494	11,613
Net income	8,659	10,665	6,513

	(Billions of yen)		
	FYE 2006	FYE 2007	FYE 2008
Balance of assets under management	9,666	9,710	7,594
(Equity investment trusts)	6,388	6,503	4,602
(Bond investment trusts)	3,277	3,206	2,992

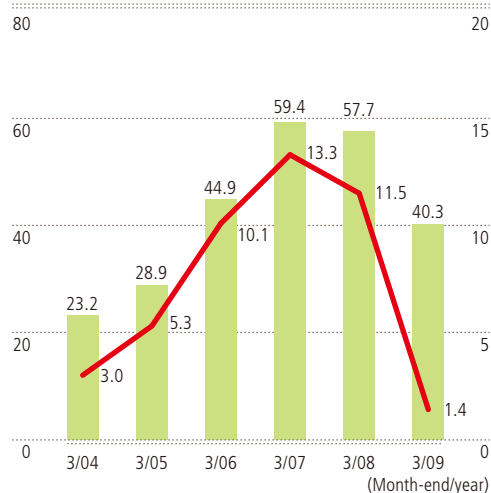


Daiwa Asset Management's efforts to develop new investment products included the creation of several funds that invest in bonds denominated in Brazilian real—a currency that had previously been difficult for individual investors to invest in. These products have been picked up by many banks and securities companies. In addition, the company launched the "Daiwa China Ace Fund," which invests in Chinese "A" stocks that have been approved for investment by qualified foreign institutional investors (QFII)\*. Another new product—the "Daiwa Energy Technology Fund"—invests in companies that have developed technology for alternative energy sources, which are likely to enjoy rising demand worldwide. Other funds launched in FY 2008 include the "Daiwa Value Stock Fund 2008" and the "Daiwa ETF—TOPIX-17."

\* Qualified foreign institutional investors (QFII) are companies that have been approved to trade in renminbi-denominated Chinese domestic "A" stocks on the Shanghai and Shenzhen markets. There are limits on the scope of trading that QFII's are permitted to conduct.

#### Trends in Total Assets of Japanese Publicly Offered Equity Investment Trusts and Net Inflow

(¥ trillion) (¥ trillion)



■ Balance of assets in publicly offered equity investment trusts (left)  
— Net fund inflow (right)

Note: Net inflow includes the inflow from re-invested dividend payments.

Source: The Investment Trusts Association, Japan

#### Daiwa Asset Management: Major Investment Trusts Launched in FY 2008

	Fund Name	Launch Date	Launch Amount (¥ billion)
1Q	Daiwa Value Stock Fund 2008	June 2008	56.4
2Q	Daiwa Brazil Bond Fund 2008-08	August 2008	34.5
3Q	Daiwa Energy Technology Fund	December 2008	13.7
4Q	Daiwa China Ace Fund	March 2009	29.5

## The Group's New Medium-Term Management Plan, "Passion for the Best" 2011

Under the group's new medium-term management plan, Daiwa Asset Management 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." To meet this goal, the company will focus on strengthening its fund management capabilities, its ability to develop new products, and its customer support services. Daiwa Asset Management aims to claim the largest share of Japan's investment trust market and to increase ordinary income to ¥15.0 billion by FY 2011.

## Results of the Group's Previous Medium-Term Management Plan

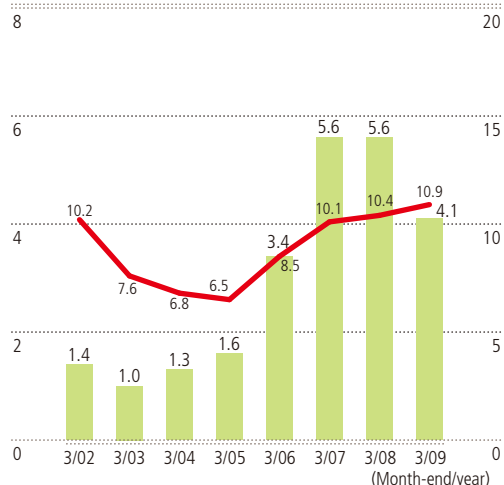
### Increased Market Share

Under the Group's previous medium-term management plan, Daiwa Asset Management made efforts to help Japan's individual investors manage their ¥1,400 trillion in personal assets, and promote the shift of assets "from savings to investment." By offering a multitude of attractive investment trust products, the company sought to increase its balance of customer assets under management, and thus help strengthen the operating foundation of the Daiwa Securities Group.

Over the course of the previous medium-term management plan, Daiwa Asset Management expanded its share of the overall domestic market for publicly offered equity investment trusts (excluding ETFs) by 2.4 percentage points, from 8.5% to 10.9%. Under the new medium-

#### Daiwa Asset Management: Assets Under Management of Publicly Offered Equity Investment Trusts (Excluding ETFs) and Market Share

(¥ trillion) (%)



■ Assets under management of publicly offered equity investment trusts (left)  
— Market share (right)

## Moving One Step Ahead

### Importing Global Growth to Japan

The Daiwa Securities Group is working constantly to develop new investment funds and products that respond to current trends and themes in the market. In this way, the Group is helping Japan's investors to take advantage of growth in overseas markets. The needs of individual investors are constantly changing and diversifying; for example, there is currently a great deal of interest in funds that invest in the steadily growing markets of emerging countries, like China and Brazil. In addition to reinforcing its own global fund management structure, therefore, Daiwa Asset Management has been forging alliances with leading asset management companies in each region. By developing a competitive advantage in each category of funds, each investment region and each type of investment concept, Daiwa Asset Management can develop investment trust products that address customer needs.

#### Alliance With Banco Itau, One of Brazil's Largest Financial Institutions

In July 2008, the Daiwa Securities Group forged a business alliance with one of Brazil's largest private financial institutions, Banco Itaú Holding Financeira S.A. (hereafter, "Banco Itau"), with the aim of developing cooperative securities operations in Japan, Brazil and other parts of South America. Brazil is one of the world's rapidly emerging economies—the "B" in the widely-used acronym "BRICs." With a land area 23 times the size of Japan, Brazil is rich in natural resources, including oil, iron ore and agricultural products. In addition, the country has a burgeoning manufacturing sector; a Brazilian company developed the world's first ethanol-powered, commercially manufactured car. Banco Itau is one of the largest private financial institutions in Brazil, with over ¥21 trillion in total assets. It is also making rapid strides into the securities and asset management businesses.



Signing ceremony



Banco Itau headquarters

In the first cooperative venture under the new business alliance, Daiwa Asset Management worked closely with advisors from Banco Itau to establish a unit-type investment trust—the "Daiwa Brazil Bond Fund 2008-08." This fund, which is marketed through the branch offices of Daiwa Securities, has been very popular with investors.

#### Investment trusts that Daiwa Asset Management has established on the basis of investment advice from Banco Itau

- Daiwa Brazil Bond Fund 2008-08, 09, 10, 11
- Daiwa Latin America Stock Fund
- Daiwa Brazil Sovereign Fund 08-10
- Daiwa Brazil Real Bond Open Fund
- Resona Brazil Sovereign Fund
- Brazil Bond Open Fund

#### Overview of Banco Itau

Official name: Banco Itaú Holding Financeira S.A.

Address: Praca Alfredo E S Aranha 100 Parque Jabaquara  
Sao Paulo, Brazil

Representative: Roberto Egydio Setubal, CEO & President

Type of business: Finance

Market capitalization (as of June 30, 2008): 94.9 billion real<sup>\*1</sup>

Assets under management (as of March 31, 2008):

US\$100.1 billion (asset management division only)<sup>\*2</sup>

<sup>\*1</sup> Source: BOVESPA

<sup>\*2</sup> Source: ANBID

#### Areas of cooperation

- Asset management
- Brokerage
- Investment banking
- Mutual exchange of research
- Exchange of personnel, trainees, etc.

term plan, which commenced in FY 2009, the company aims to build on this base, and expand its share further.

## Basic Strategy for “Passion for the Best” 2011

### Strive to Thoroughly Understand Customer Needs

Under the Group’s new medium-term management plan, Daiwa Asset Management will take steps **to strengthen its fund management capabilities, its ability to develop new products, and its customer support services**, as it strives to thoroughly understand and address the needs of its customers. By doing so, the company hopes to earn higher levels of approval and trust than its competitors, and thus capture the largest share of assets under management in Japan’s investment trust market.

### Strengthening Fund Management Capabilities

Daiwa Asset Management will seek to diversify and enhance its ability to generate returns on funds that surpass the benchmarks, improve its research in overseas markets, especially in emerging economies, and reinforce its fund management infrastructure. The company will also provide extensive information on fund performance, to enhance customer trust.

### Improving New Product Development

By studying the investment environment, monitoring investor needs and analyzing the activities of competitors, Daiwa Asset Management aims to enhance its ability to create a variety of new fund products. In this way, the company intends to develop large-scale funds that are popular with investors.

### Enhancing Customer Support Services

Daiwa Asset Management will develop customer-oriented plans by maintaining close contact with the activities of its sales agents and sales personnel, who have actual contact with the customer. The company

## New Medium-Term Management Plan for Daiwa Asset Management

### Three-Year Goal

Earning customer trust by thoroughly considering their investment needs, to become the asset management company investors choose to manage their funds.

Ordinary income target for FY 2011: **¥15 billion**

### Basic Strategies

Strengthen fund management capabilities

Improve new product development

Enhance customer support services

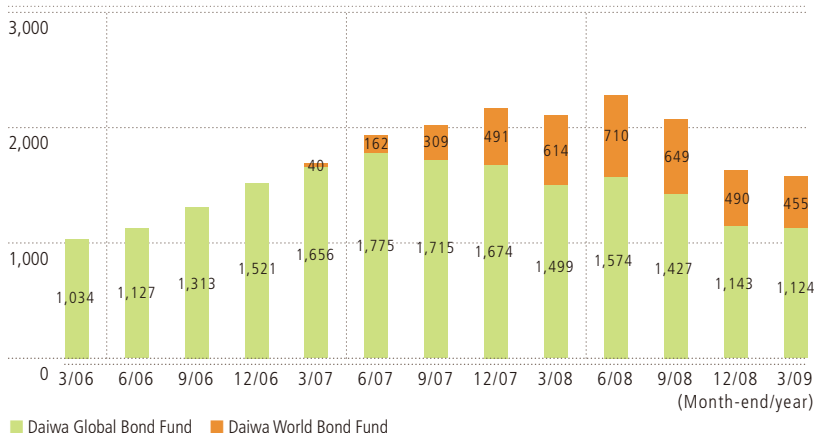
will work to develop a structure which can quickly provide clients with easy-to-understand documents and information on its Internet site. In this way, the company aims to expand its share of total publicly offered equity investment trusts.

### Strengthening the Base of Operations

Through the strategic efforts described above, Daiwa Asset Management will take steps to build a global business structure, by expanding the regions where it has fund management coverage, increasing the range of issues in which it can invest, and enhancing its trading functions. In addition, the company will work to improve personnel training, by establishing enhanced personnel training programs, introducing career design options for employees, and seeking to hire and train specialists in each business segment who have a global outlook.

**Trends in the Balance of Assets Under Management in “Daiwa Global Bond Fund” and “Daiwa World Bond Fund”**

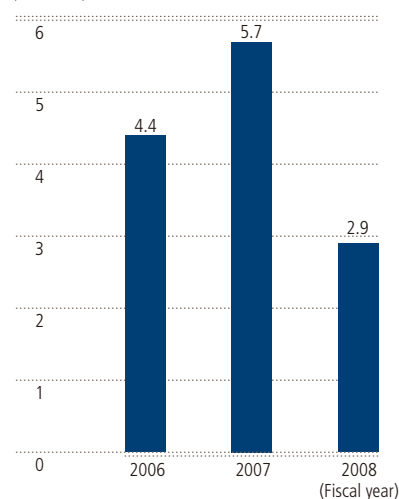
(¥ billion)



## Daiwa SB Investments

Daiwa SB Investments plays a central role in the asset management operations of both the Daiwa Securities Group and the Sumitomo Mitsui Financial Group. Over 60% of the assets under management are handled under investment advisory contracts, and it has established a particularly strong position in pension fund management. The company has earned high ratings from customers in the Rating & Investment Information (R&I) *Newsletter on Pensions and Investments*. It has also received numerous contracts from overseas pension funds to manage their funds. In the investment trust business, Daiwa SB Investments has employed its extensive experience in pension fund management to develop and manage fund products. The company has a business alliance with a major US-based fund management company T. Rowe Price Group which allows it to manage funds and conduct research on a global basis. In this way, Daiwa SB Investments is able to provide top-quality fund management services to institutional investors and individual investors alike.

**Daiwa SB Investments: Ordinary Income**  
(¥ billion)



### Earnings Results for FY 2008

#### Steadily Creating New Funds Despite the Harsh Business Climate

Daiwa SB Investments' operating revenues declined 26.0% year on year in FY 2008, to ¥19.4 billion, while ordinary income contracted by 48.1%, to ¥2.9 billion. At the end of March 2009, the balance of assets under management stood at ¥3,418.9 billion, a decline of 34.1% compared with the ¥5,189.9 billion balance at the end of March 2008. During FY 2008, the company established a number of new funds including the "Japan Corporate Revaluation Fund," "Next-Generation Environmental Business Fund" and "DC Japan Government Bond

#### New Medium-Term Management Plan for Daiwa SB Investments

##### Three-Year Goal

Establishing a high-quality fund management structure that is capable of providing stable fund performance to institutional investors and individual investors alike.

Ordinary income target for FY 2011: **¥5 billion**

##### Basic Strategies

Strengthen fund management capabilities

Expand the range of fund management products

Strengthen the operating base

Improve risk management and operating efficiency

Plus.” In February 2009, Daiwa SB Investments also opened a new representative office in Shanghai. The company has earned high marks from many outside institutions including R&I’s *Newsletter on Pensions and Investments*. Superior fund management skills and information disclosure earned the company ninth place in the overall rankings of the “2008 survey of pension customers’ evaluations of asset management companies.”

### The Group’s New Medium-Term Management Plan, “Passion for the Best” 2011

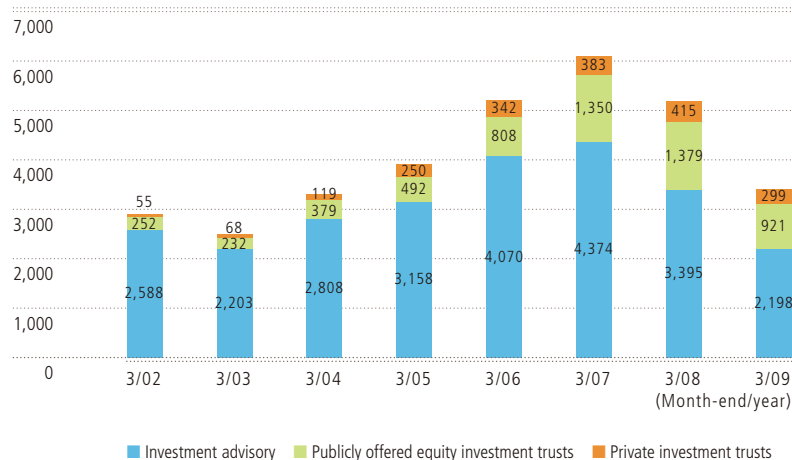
Under the Group’s new medium-term management plan, Daiwa SB Investments has set itself the goal of “Establishing a high-quality fund management structure that is capable of providing stable fund performance to institutional investors and individual investors alike.” The company’s ordinary income target for FY 2011 has been set at ¥5.0 billion.

Daiwa SB Investments will pursue these objectives by adopting a consistent fund management philosophy and building a global structure that can manage funds and obtain information in accordance with the company’s own business culture.

The four strategic goals under the medium-term plan are **to strengthen fund management capabilities, expand the range of fund management products the company offers, strengthen the operating base, and improve risk management and operating efficiency.** By pursuing these goals, Daiwa SB Investments intends to improve fund performance and expand its balance of assets under management. Individual targets for net inflow of assets have been set for each customer segment. The company will also strive to improve its position in the industry, both in terms of pension fund and investment trust assets managed, and in terms of outside rankings such as the newsletter published by R&I.

**Daiwa SB Investments: Trends in the Balance of Assets Under Management**

(¥ billion)



## Research, Consulting and Systems

### Daiwa Institute of Research Holdings

On October 1, 2008, the former Daiwa Institute of Research was reorganized under a holding company structure. Daiwa Institute of Research Holdings is a wholly owned subsidiary of Daiwa Securities Group Inc., and its main business operations are handled by subsidiaries—Daiwa Institute of Research Ltd. (DIR) and Daiwa Institute of Research Business Innovation Ltd. (DIR BI). DIR provides research, consulting and IT systems support services to all companies in the Daiwa Securities Group, while DIR BI offers IT systems consulting and IT systems integration services to customers outside the Daiwa Securities Group.

#### Earnings Results for FY 2008

During FY 2008, earnings from intra-Group services for all three companies of the Daiwa Institute of Research Group were impacted by the completion of major projects such as the transfer to a new data center, and the introduction of new operating systems at Daiwa Securities SMBC. Coupled with cut-backs in IT-related spending by the Daiwa Securities Group in the latter half of the year, this resulted in lower earnings. On the other hand, business from customers outside the Daiwa Securities Group remained brisk, as Daiwa Institute of Research Business Innovation did its best to respond precisely to the needs of existing customers. As a result, combined sales of the three companies (less internal sales between the three) amounted to ¥105.1 billion. This is 3.9% less than the sales figure posted by the former Daiwa Institute of Research, in the previous fiscal year. Combined ordinary income for the three companies declined 31.7% year on year, to ¥9.1 billion.

For the first time in three years, Daiwa Institute of Research claimed the number one spot in *Nikkei Veritas* magazine's "21<sup>st</sup> Ranking of Top Analysts" and it also took the number one position for the first time ever in the "2009 All-Japan Research Team" rankings issued by the US-based financial magazine, *Institutional Investor*.

#### Analyst Rankings

##### *Nikkei Veritas* "21<sup>st</sup> Ranking of Top Analysts"

Overall ranking for each participating company

Rank	Company	Score
1	DIR	17,413
2	Nomura	14,307
3	Mitsubishi UFJ	10,942
4	UBS	9,994
5	Nikko Citigroup	9,028
6	J.P.Morgan	8,202
7	Mizuho	6,404
8	Goldman Sachs	5,757
9	Credit Suisse	5,572
10	Morgan Stanley	4,267

#### The Group's New Medium-Term Management Plan, "Passion for the Best" 2011

##### Daiwa Institute of Research Ltd.

Under the Group's new medium-term management plan, DIR has set itself the goal of "Leading the way in research, consulting and systems support functions, to create world-class value." Specifically, the company's research and consulting divisions aim **to support earnings growth in the Group's brokerage and investment banking operations**, while the systems division will strive **to provide steady systems support services in a cost-efficient manner**.

#### Research Division

The research division will provide basic support to the business activities of all Daiwa Securities Group companies, by researching and providing information on the global economy, the functions of capital and financial markets, and regulatory topics. It will also actively prepare and disseminate reports to help ensure that these markets function properly.

##### *Institutional Investor* "2009 All-Japan Research Team"

Ranking for each participating company (based on number of analysts ranked)

Rank	Company	Score
1	DIR	24
2	Nomura	18
3	UBS	17
4	Goldman Sachs	15
4	Nikko Citigroup	15
6	J.P.Morgan	14
7	Mitsubishi UFJ	13
8	Credit Suisse	9
9	Deutsche Securities	7
9	Mizuho	7
9	Morgan Stanley	7



The company has established a four-pillared network with research centers in Tokyo, New York, London and Beijing, allowing it to analyze trends throughout the world and provide information from a global perspective.

In addition, the division will continue its efforts to provide recommendations on ways to stimulate the financial markets. During periods when market conditions are uncertain, such as those that currently prevail, proposals and recommendations of this sort are even more valuable, and therefore the company's efforts are contributing to the name recognition and visibility of the Daiwa Securities Group.

#### Consulting Division

The consulting division will seek to take a stronger role in a number of privatization issues that are planned in the near future, and try to contribute to maximizing the Group's success. By responding to the various needs of customers and maintaining close cooperation with other companies in the Daiwa Securities Group, the division will work to develop proposals that offer the most appropriate solution, in order to maximize both customer satisfaction and earnings for the Daiwa Securities Group.

In addition, DIR is looking ahead to the prospect of a growing consulting business in China. By effectively identifying needs among consulting clients in China, the division can support the investment banking and IPO activities of Daiwa Securities SMBC.

#### IT Systems Division

The IT systems division plans to pursue four main themes in its support operations for the Group. First, it will promote flexibility and efficiency in developing a structure to conduct systems upgrades. The division will work in close concert with other Group companies to assign functions and support personnel. Second, the division will help support the Group's global expansion strategy. The division will cultivate IT personnel who can work effectively in an international environment, and develop front-end systems that contribute to the product divisions and overseas offices of Group companies.

#### New Medium-Term Management Plan for Daiwa Institute of Research

##### Three-Year Goal

Leading the way in research, consulting and systems support functions, to create world-class value.



##### Basic Strategies

- Support earnings growth in the Group's brokerage and investment banking operations
- Provide steady systems support services in a cost-efficient manner

Third, the division will develop and provide systems that offer a balance of cost efficiency and reliability. The division will generate and implement detailed plans to improve cost efficiency, while striving to improve productivity and service quality.

Finally, the division will take a leading role in developing systems functions for the Daiwa Securities Group. By involving each Group company in systems development, the division can make proposals that will help each Group company achieve its strategic goals.

## Daiwa Institute of Research Business Innovation Ltd.

Under the group's new medium-term management plan, DIR BI has adopted the goal of "Serving companies as an IT partner with industry-leading solutions and a solid business foundation." To this end, DIR BI aims **to expand the scope of operations and to strengthen its business foundation.**

### Expanding the Scope of Operations

DIR BI is developing systems and providing systems consulting services to companies in the financial and industrial sectors, as well as public sector organizations.

In the financial sector, the company not only offers standard IT products and services, but is expanding its business by offering a variety of systems products and innovative plans and proposals that utilize IT. In October 2008, the company launched "Financial Plate," its latest systems platform for the financial industry. This should not only attract new users, but also convince existing customers to upgrade to a new system as soon as possible.

In the industrial sector, DIR BI is aggressively developing its ability to propose solutions that can help a client company increase corporate value, streamline clerical procedures and cut costs. In this way, the company is striving to increase cooperation with customers and serve as a strategic partner in the IT field.

DIR BI offers administrative systems for health insurance associations, and it currently holds the largest share of this market in terms of the number of associations using its systems. The company is hoping to establish its systems as the de facto standard for the health insurance sector by providing enhanced service and expanding its market share. By expanding the range of services, the company hopes to offer solutions which can contribute to improved efficiency for the entire social insurance sector.

## New Medium-Term Management Plan for DIR BI

### Three-Year Goal

Serving companies as an IT partner with industry-leading solutions and a solid business foundation.

### Basic Strategies

Expand the scope of operations

Strengthen the business foundation

DIR BI is expanding the range of IT systems services it provides in order to target new markets, and building a structure that can address a more diverse array of business needs. The company will continue to research new technologies and their applications on a global basis in an effort to develop solutions that can revitalize clients' businesses.

### Strengthening the Business Foundation

DIR BI is conducting exhaustive risk management, and continuously seeking ways to improve quality in both systems development and systems management operations. It is also making progress in improving efficiency and cutting costs to provide highly competitive systems services. Since personnel training is the wellspring of service quality in this business, the company will keep a close eye on trends in the business and in technological development and strive to provide employees with the necessary specialized knowledge and skills, by offering a comprehensive training system and offering personnel opportunities for professional growth.