

**Daiwa Securities Group**

**Annual Report 2009**

Year ended March 31, 2009

Moving One Step Ahead

**PASSION** *for the* **BEST**

## Profile

The Daiwa Securities Group is a comprehensive financial services company with securities-related operations as a foundation. Through its global network, the Group offers a multitude of services to clients in Japan, North America, Europe, Asia and Oceania.

In April 2009, the Group embarked upon a new medium-term management plan entitled “Passion for the Best” 2011. Under this plan, the Daiwa Securities Group will endeavor to maximize the combined resources of all Group companies to establish itself as one of Japan’s top companies by earning the trust of all stakeholders.



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This annual report contains forward-looking statements about the Daiwa Securities Group. You can identify these statements by the fact that they do not relate strictly to historic or current facts. These statements discuss future expectations, identify strategies, contain projections of results of operations or of financial condition, or state other "forward-looking" information. These statements are based on currently available information and represent the beliefs of the management of the Daiwa Securities Group. These statements are subject to numerous risks and uncertainties that could cause the Daiwa Securities Group's actual results, performance, achievements or financial condition to differ materially from those described or implied in the forward-looking statements. The Daiwa Securities Group undertakes no obligation to publicly update any forward-looking statements after the date of issuance of this annual report. These potential risks and uncertainties include, but are not limited to: competition within the financial services industries in Japan and overseas, our ability to adjust our business focus and to maintain profitable strategic alliances, volatile and sudden movements in the international securities markets, foreign exchange and global economic situations affecting the Daiwa Securities Group. "FY 2008" refers to the fiscal year ended March 31, 2009, and other fiscal years are referred to in a corresponding manner.

# Organizational Structure of the Daiwa Securities Group

## Retail

### Daiwa Securities Co. Ltd.

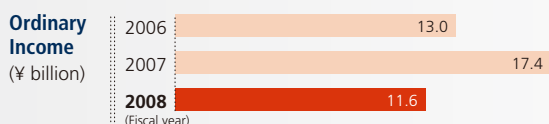
This retail securities company is a wholly owned subsidiary of Daiwa Securities Group Inc. The company provides a complete assortment of financial products and services, including both face-to-face consulting and services provided over the Internet, mainly to individual investors and unlisted companies.



## Asset Management

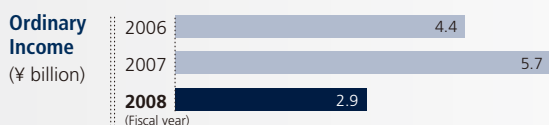
### Daiwa Asset Management Co. Ltd.

An asset management company which forms the core of the Group's asset management operations. The company establishes and manages a multitude of investment trusts with various investment targets or investment themes, and markets them through the branch office network of Daiwa Securities, as well as many other sales channels.



### Daiwa SB Investments Ltd.

This company handles asset management operations for the Daiwa Securities Group and the Sumitomo Mitsui Financial Group, providing pension fund management and other services for institutional investors in Japan and overseas. The company also develops and manages investment trusts.



## Wholesale & Investment

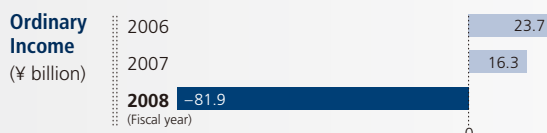
### Daiwa Securities SMBC Co. Ltd.

This wholesale securities company was formed as a joint venture between Daiwa Securities Group Inc. and the Sumitomo Mitsui Financial Group. As a leader in Japan's financial markets, the company utilizes financial and capital markets to help corporations and institutional investors in Japan and overseas to identify the best solution to their financing or investment needs.



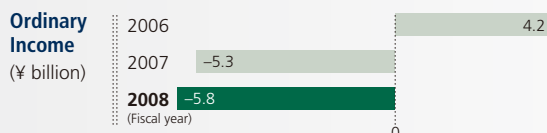
### Daiwa Securities SMBC Principal Investments Co. Ltd.

A wholly owned subsidiary of Daiwa Securities SMBC, this company is responsible for the Group's investment activities, employing the Group's own capital in private equity, real estate and other investments. The company also develops and operates investment funds.



### Daiwa SMBC Capital Co., Ltd.

This company is a private equity investment company created through a merger between the Daiwa Securities Group's NIF Ventures and the Sumitomo Mitsui Financial Group's SMBC Capital. The company focuses largely on venture capital investments.



## Research, Consulting and Systems

### Daiwa Institute of Research Holdings Ltd.

#### Daiwa Institute of Research Ltd.

This company serves as the "think tank" for the Daiwa Securities Group, taking the lead in the Group's research, consulting, and systems support operations. The company studies and provides basic information, and offers recommendations to support the Group's business expansion, and provides systems support services which are both reliable and cost-efficient.

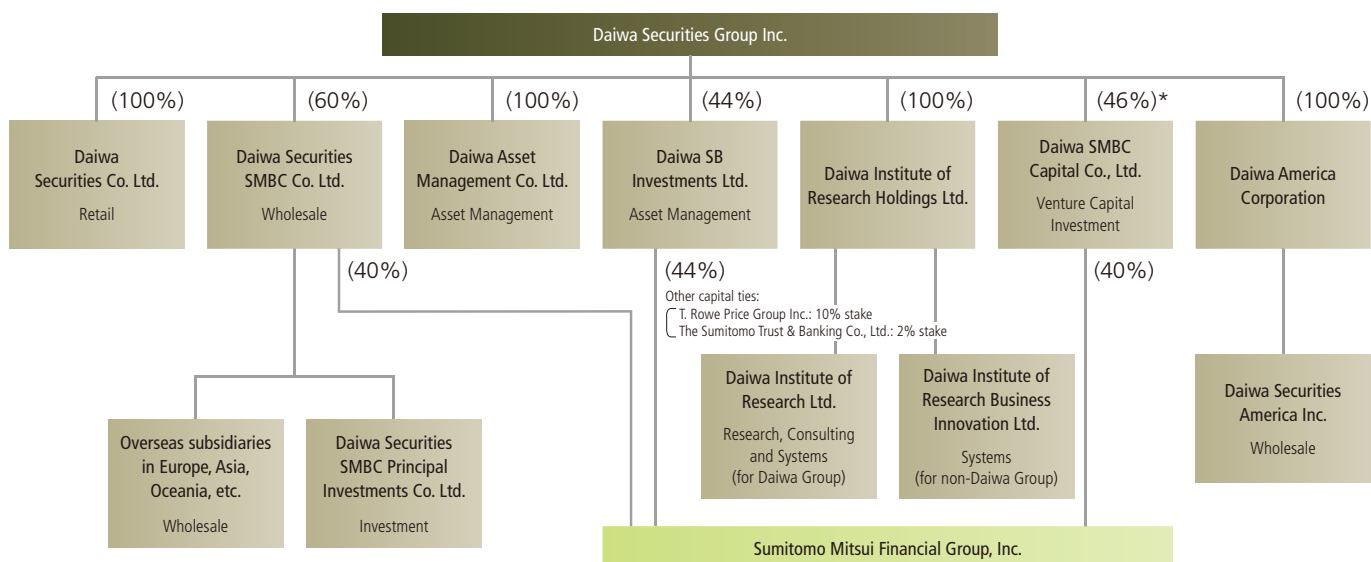
#### Daiwa Institute of Research Business Innovation Ltd.

This company provides systems support service to companies outside the Daiwa Securities Group. The company serves clients as a strategic partner in IT development and support, providing industry-leading solutions that help customers enhance their corporate value.

## Capital Structure of the Daiwa Securities Group

(as of March 31, 2009)

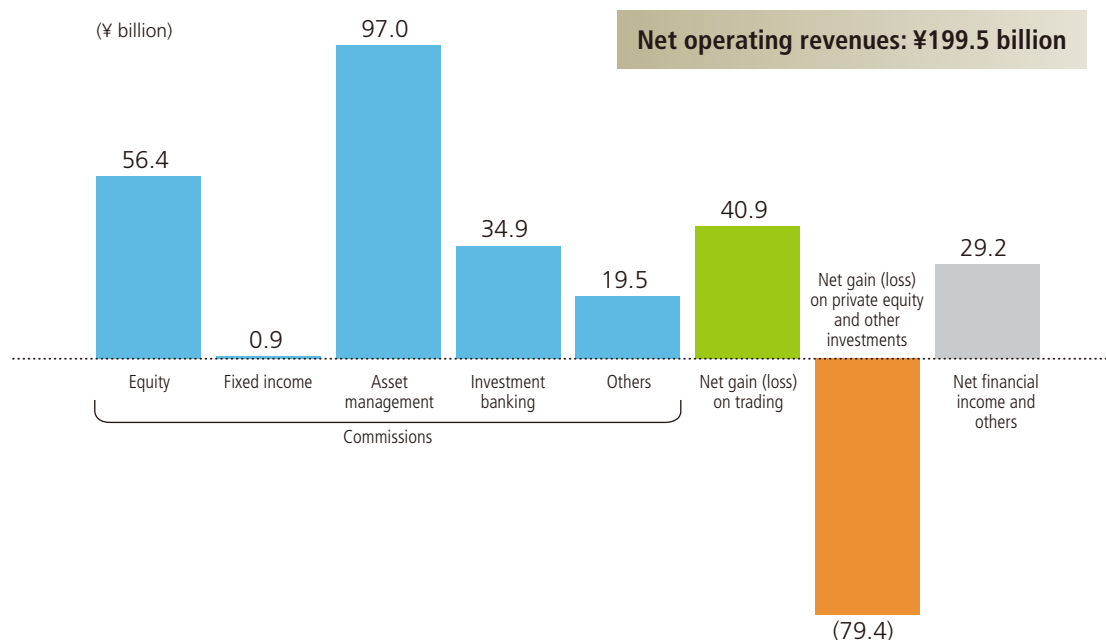
Daiwa Securities Group Inc. operates subsidiaries in three core business segments—retail securities, wholesale securities & investment, and asset management—providing a diversity of services that help customers both in Japan and overseas to address their investment and capital procurement needs. The Group has both capital and cooperative relations with the Sumitomo Mitsui Financial Group in a number of business sectors.



\* Between April 30, 2009 and June 18, 2009, Daiwa Securities Group Inc. made a takeover bid for this subsidiary's shares. Following this purchase, the Group controlled 56.7% of the subsidiary's outstanding shares, including residual shares.

## Earnings Structure of the Daiwa Securities Group

—Breakdown of net operating revenues for FY 2008



## Financial Highlights

## Consolidated Statements of Income

Daiwa Securities Group Inc.

	Millions of yen				Millions of U.S. dollars (Note 1)	
	FY2004	FY2005	FY2006	FY2007	FY2008	FY2008
<b>Operating revenues:</b>						
Commissions <sup>[1]</sup>	¥216,387	¥309,189	¥306,736	¥294,425	¥ 208,881	\$ 2,131
Net gain on trading <sup>[2]</sup>	151,118	224,912	157,333	103,361	40,921	417
Net gain on private equity and other investments <sup>[3]</sup>	12,763	21,539	32,818	19,160	(79,478)	(811)
Interest and dividend income	105,428	245,211	373,453	358,423	192,664	1,965
Service fees and other revenues	33,641	44,809	46,968	50,053	50,948	519
	519,337	845,660	917,308	825,422	413,936	4,223
Interest expense	103,677	231,572	354,245	339,784	176,034	1,796
Cost of service fees and other revenues	25,228	34,729	36,299	38,147	38,358	391
Net operating revenues	390,432	579,359	526,764	447,491	199,544	2,036
Selling, general and administrative expenses	275,544	325,199	340,373	363,859	343,270	3,502
Operating income	114,888	254,160	186,391	83,632	(143,726)	(1,466)
Ordinary income	120,433	260,651	195,415	90,143	(141,150)	(1,440)
Other income (expenses)	(2,285)	4,196	(468)	(1,681)	(20,068)	(204)
Income before income taxes and minority interests	112,603	258,356	185,923	81,951	(163,794)	(1,671)
Income taxes	40,167	78,068	69,451	40,774	(18,174)	(185)
Minority interests	(19,771)	(40,340)	(23,747)	5,234	60,581	618
Net income	52,665	139,948	92,725	46,411	(85,039)	(867)
<b>Per share amounts:</b>						
Net income (Note 2)	¥39.03	¥103.90	¥67.90	¥33.69	¥(63.16)	\$(0.63)
Cash dividends applicable to the year	13.00	34.00	28.00	22.00	8.00	0.08

Notes: 1. Translations of the Japanese yen amounts into US dollars use an exchange rate of ¥98.00 = US\$1.00 (rounded down to the nearest yen), and are provided solely for the convenience of the reader.

2. Net income per share is calculated on the basis of the average number of shares outstanding over the course of the fiscal year.

**[1] Commissions**

This covers equity brokerage commissions from securities trading activities, asset management fees from the sale and management of investment trusts, and investment banking commissions from stock and bond underwriting and M&A advisory activities.

**[2] Net gain on trading**

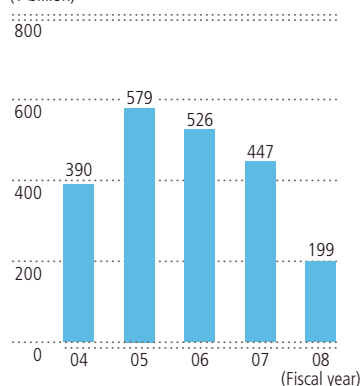
Gains (losses) on negotiable securities held for securities business purposes and derivatives trading include unrealized valuation gains or losses.

**[3] Net gain on private equity and other investments**

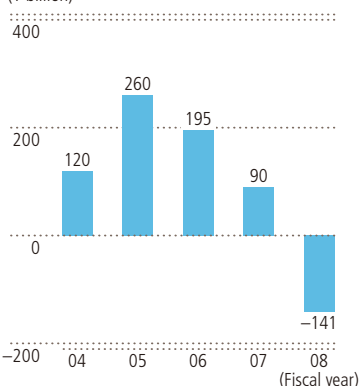
This is calculated from gains (losses) on the sale of investments in the businesses conducted by Daiwa Securities SMBC Principal Investments and Daiwa SMBC Capital.

**Net Operating Revenues**

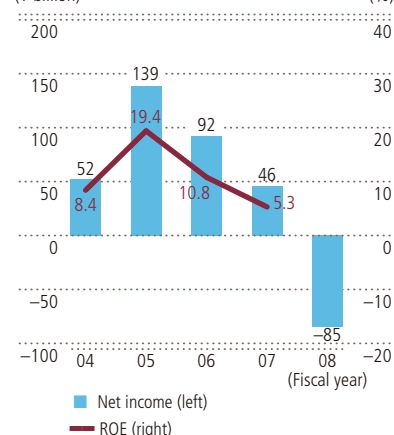
(\$ billion)

**Ordinary Income**

(\$ billion)

**Net Income and Return on Equity**

(\$ billion)





## Financial Highlights

## Consolidated Balance Sheets

Daiwa Securities Group Inc.

	Millions of yen				Millions of U.S. dollars (Note 1)	
	FY2004	FY2005	FY2006	FY2007	FY2008	FY2008
Cash and cash deposits	¥ 552,205	¥ 705,768	¥ 630,245	¥ 678,521	¥ 639,164	\$ 6,522
Receivables	588,395	780,933	842,737	1,221,314	679,095	6,929
Collateralized short-term financing agreements <sup>[1]</sup>	5,348,916	6,274,506	6,814,612	6,206,327	5,413,526	55,240
Trading assets <sup>[2]</sup>	5,242,320	6,162,243	5,082,219	7,857,122	6,203,742	63,303
Private equity and other investments <sup>[3]</sup>	142,547	382,421	440,178	471,732	515,770	5,262
Deferred tax assets	21,916	29,488	25,680	31,348	20,113	205
Property and equipment, at cost	234,920	232,284	245,590	260,104	254,962	2,601
Less: Accumulated depreciation	(97,300)	(105,753)	(111,054)	(106,711)	(104,760)	(1,068)
Other assets	345,043	436,802	441,058	472,583	431,846	4,406
Total assets	12,378,962	14,898,692	14,411,265	17,307,120	14,182,579	144,720
Debt	3,445,867	3,176,443	3,159,490	4,207,399	2,766,624	28,230
Payables	455,083	794,121	567,567	992,479	643,346	6,564
Collateralized short-term financing agreements <sup>[1]</sup>	3,877,731	4,744,007	5,159,100	6,238,684	4,893,262	49,931
Trading liabilities <sup>[2]</sup>	3,658,544	4,879,189	4,105,362	4,643,644	4,809,093	49,072
Accrued and other liabilities	98,561	269,106	188,623	133,973	113,508	1,158
Statutory reserves	5,650	7,025	7,897	8,017	4,417	45
Total liabilities	11,541,436	13,869,891	13,188,039	16,224,196	13,230,250	135,002
Net assets <sup>(Note 3)</sup>	—	—	1,223,226	1,082,924	952,329	9,717
Per share amount:					Yen	U.S. dollars (Note 1)
Net assets <sup>(Note 4)</sup>	—	—	¥665.98	¥607.64	¥534.99	\$5.45

Notes: 3. Accounting data is presented based on the revised accounting standards stipulated in the "Accounting Standard for Presentation of Net Assets in the Balance Sheet," and reflects the calculations after these revisions.

4. Net assets per share is calculated using the following formula:

Net assets per share = (net assets – stock subscription rights – minority interests) / (shares outstanding as of the fiscal year-end – treasury shares as of the fiscal year-end)

**[1] Collateralized short-term financing agreements**

Assets and liabilities related to securities repo operations (securities purchased under agreements to resell, and securities sold under agreements to repurchase) and securities loaned or borrowed

**[2] Trading assets / liabilities**

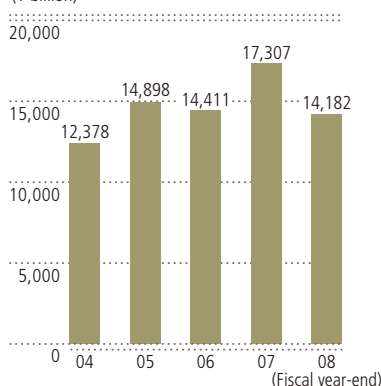
Assets and liabilities related to the trading of stocks, bonds and derivatives held for securities business purposes, and other financial products

**[3] Private equity and other investments**

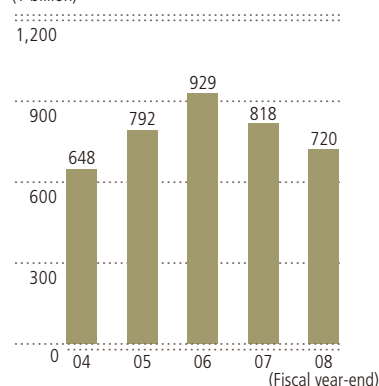
Investment in securities, monetary claims and real estate-related assets by Daiwa Securities SMBC Principal Investments and Daiwa SMBC Capital, and capital extended under limited partnership agreements

**Total Assets**

(¥ billion)

**Equity**

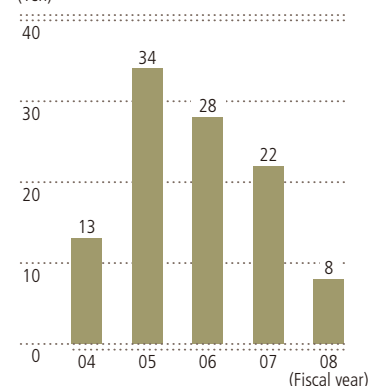
(¥ billion)



Note: Equity = owners' equity + valuation and translation adjustments

**Annual Dividends Paid by Daiwa Securities Group Inc.**

(Yen)



## Message From the CEO

### Moving One Step Ahead

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





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

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

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

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

July 2009



Shigeharu Suzuki, President and CEO  
Daiwa Securities Group Inc.

## Interview With the CEO

### “Passion for the Best” 2011

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

#### Question 1

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

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

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

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

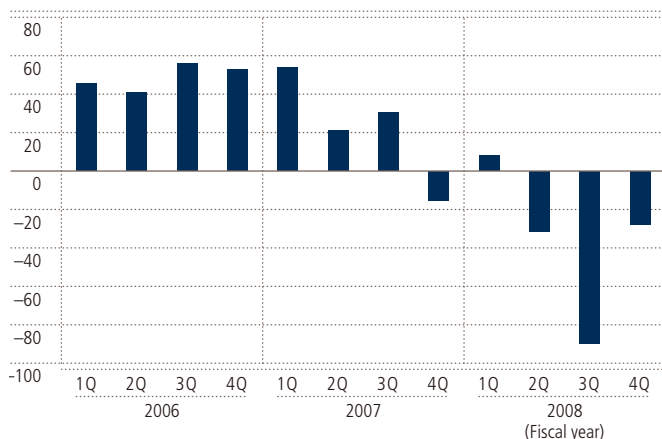
For Daiwa Securities Group, the turmoil in financial and capital markets was a major factor in the weak earnings results posted in FY 2008. Trading income at Daiwa Securities SMBC deteriorated, and investment assets held on the Group’s own account fell sharply in value, forcing us to make large additions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

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

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

**Daiwa Securities Group: Trends in Consolidated Ordinary Income**

(¥ billion)





## Question 2

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

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

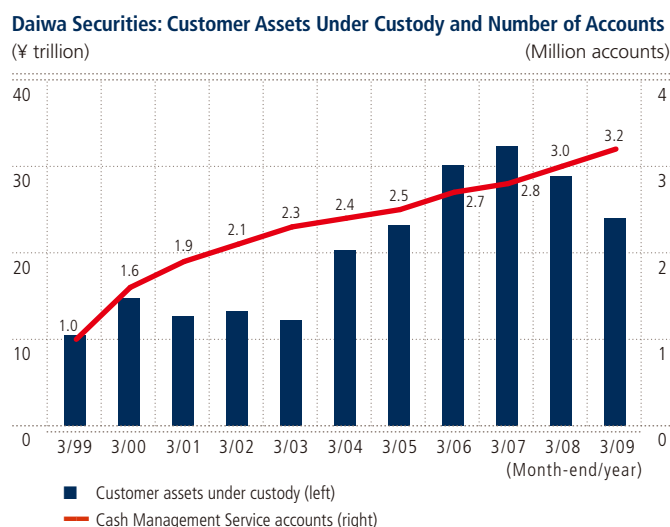
The underlying goal of the Daiwa Securities Group's last medium-term management plan was to use the Group's traditional, securities-related operations as a foundation to build unique business models for each of our main business segments—business models which are capable of generating steady, sustainable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

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

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

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

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



## Corporate Philosophy of the Daiwa Securities Group



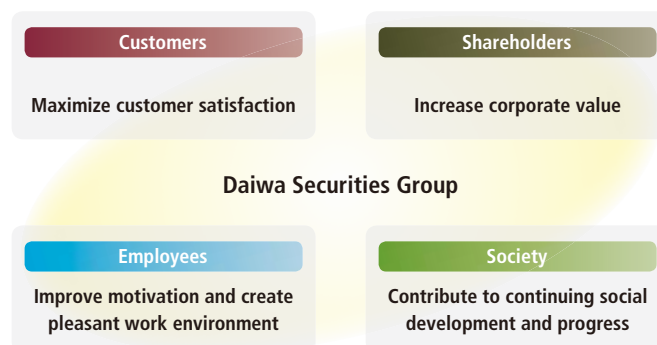
medium-term management plan, the Group continued to develop new investment trust products that meet customer needs, such as monthly dividend-type funds that invest in foreign currency-denominated bonds. In addition, we have been working to develop sales channels for these products, so that we can receive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

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

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

## Management Theme

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



## Question 3

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

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

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

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

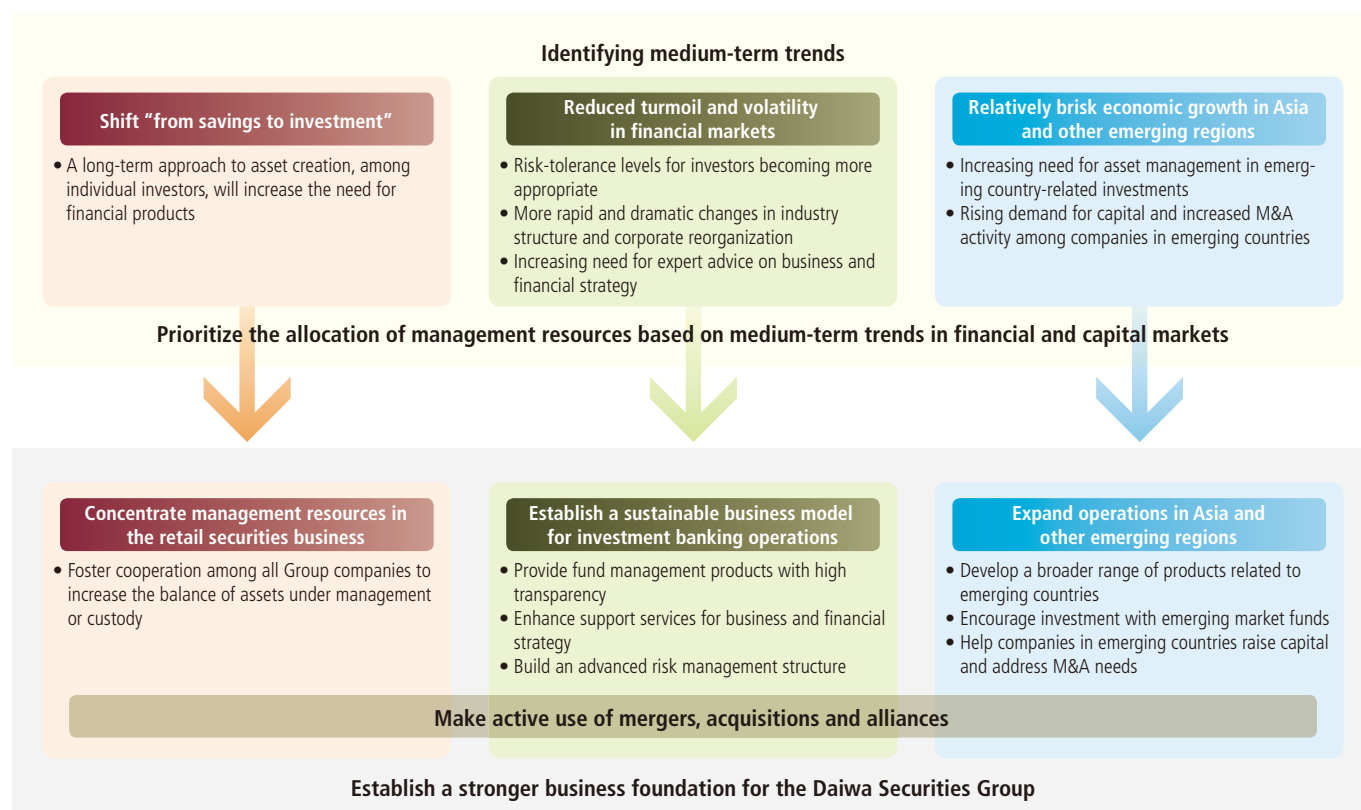
## Question 4

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

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

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

### Main Issues: Building More Effective Business Models





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

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

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

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

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

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

## Question 5

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

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

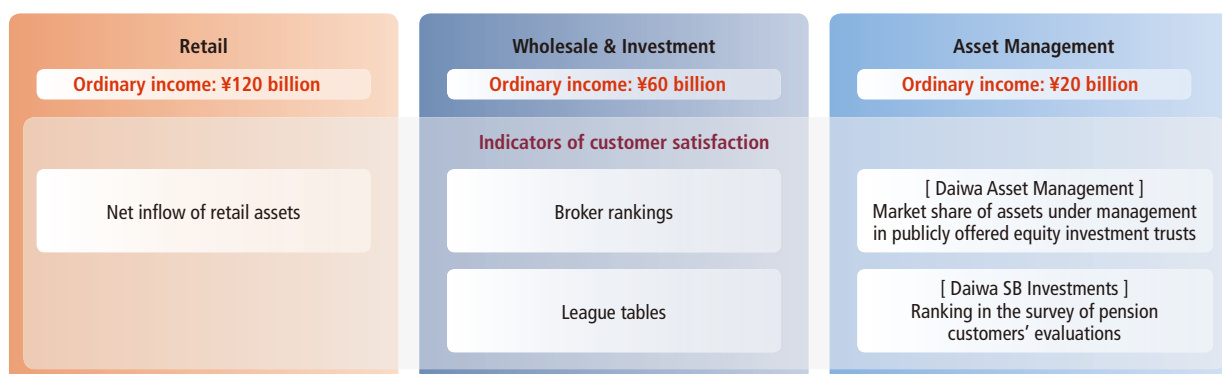
The numerical targets for each business are provided in the accompanying table. However, I think that the most notable feature of the new medium-term plan is its emphasis on envisioning the sort of

### Management Targets

**Consolidated ordinary income: ¥200 billion or over**

**Consolidated ROE: 10% or higher**

**Market capitalization: In the top 40 listed Japanese companies**





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

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

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

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

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



## Question 6

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

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

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

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

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

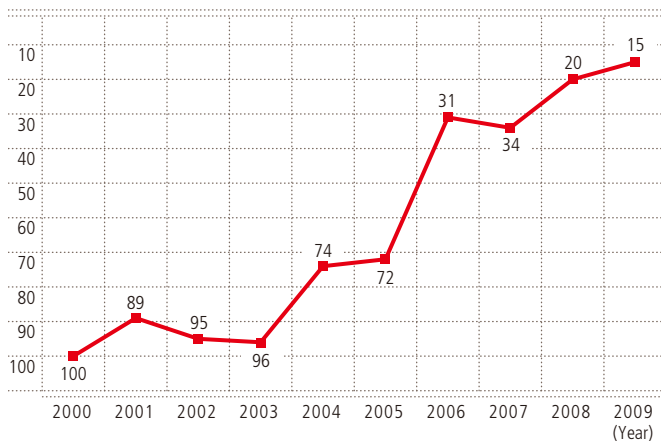
The Group also has earned a strong reputation for supporting working women. We have extensive support programs such as child-care leave, and we aggressively promote women to managerial positions. The Daiwa Securities Group has many extremely talented female employees, and if these individuals were to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

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

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

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

(Ranking)



### Question 7

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

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

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

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

# Overview of the Group's New Medium-Term Management Plan: "Passion for the Best" 2011

The new medium-term management plan—"Passion for the Best" 2011—covering the period from April 2009 through March 2012, aims to make the Daiwa Securities Group Japan's best securities group.

## 1. Management Theme: "Establish the Daiwa Securities Group as One of Japan's Top Companies by Earning the Trust of All Stakeholders"

Since 1999, when it divided operations according to business segment and adopted the current holding company structure, the Group has been steadily developing its securities-related businesses and rapidly increasing the balance of customer assets, the number of accounts, and the number of investment banking deals on which it has served as lead manager. On this firm business foundation, the Group is preparing to build to another level of growth, by raising its standards of performance, adopting higher goals in its corporate philosophy, and cultivating an even stronger relationship of trust with all of its stakeholders—customers, shareholders, employees, and society in general. The management theme underlying this stage of expansion is to "establish the Daiwa Securities Group as one of Japan's top companies by earning the trust of all stakeholders."

## 2. Priority Issues: Building More Effective Business Models for Each Business Segment

In order to accomplish the goals described above, the first step in the medium-term plan is to start from square one, by re-examining each business and considering how to strengthen the relationship of trust with customers. At present, the intermediating functions of capital and financial markets have been weakened as a result of the financial crisis, obstructing the flow of funds from investors to stock and bond issuers. Both of these groups are customers of the Daiwa Securities Group. By earning the trust of investors and providing unique value-added products and services, the Group can lead them back to the financial and capital markets, and help to restore market vitality. In order to accomplish this objective, the Group is evaluating the needs of customers in each business segment, considering how they will evolve in response to medium- and long-term changes in the business environment, and trying to develop more effective business models. The three top priorities that Daiwa Securities Group has identified are: **"Concentrating management resources on the retail securities business," "establishing a sustainable business model for investment banking operations" and "expanding operations in Asia and other emerging regions."** The Group will adopt a flexible approach to allocating management resources among each business, on the basis of these priorities.

### Summary of Assumptions Used in the "Passion for the Best" 2011 Management Plan

Compiled by the Daiwa Securities Group based on Daiwa Institute of Research medium-term economic assumptions as of December 2008

#### [Economy]

- Japanese economy to remain in an adjustment phase for the entire three-year period, with an average annual real GDP growth rate of 0.6%
- Growth rates in US and Europe remain weak, but economic growth in Asia remains relatively strong
- Overall global economic growth rate to be very weak for FY 2009

#### [Market]

- Stock prices to move upward during the 2H 2009-1H 2010 period  
→TOPIX to average 1,050 over the course of the three years, rising to 1,150 in March 2012
- Yen-dollar exchange rate to remain at about the current level (averaging ¥98=US\$1.00 over the three-year period)

#### [Investors' stance]

- Shift of assets "from savings to investment" to continue, but policy measures required to address financial crisis
- Investors' tolerance for risk to return to normal

#### [Corporate trends]

- Though demand for equity financing will remain limited, it should gradually recover
- Reorganization, consolidation and changes in industry structure to accelerate the pace of corporate M&A activity (M&A activity involving companies in Asia and other emerging regions to be particularly brisk, especially cross-border buy-outs by Japanese companies that can take advantage of the strong yen)

#### [Regulation and industry trends]

- In the short term, market to remain risk-averse, as participants continue to de-leverage
- Competitors are also likely to place greater focus on customer needs and improving risk management

### 3. Implementation Guidelines: Emphasize Speed, Cooperation, Creativity and Originality

In each business segment the Group will examine its products, its system of dealing with customers (relationship management) and its execution capabilities. All of these should be handled swiftly, in a cooperative manner that makes optimal use of the Group's overall resources. In addition, the Group will seek ways to add value and strengthen the relationship of trust with customers.

#### Implementation Guidelines



### 4. Management Targets

The Group has set both quantitative and qualitative targets for its medium-term management plan, “Passion for the Best” 2011, and will seek to adjust flexibly to changing external conditions in order to best meet these targets. These objectives include indicators which serve to monitor the level of customer satisfaction in each business segment.

#### Summary of Management Theme and Targets

Operating companies (Business segment)	Management theme (Three-year goal)	Ordinary income target for FY 2011	Other management targets and criteria for evaluation
<b>Group</b>	<b>Establish the Daiwa Securities Group as one of Japan's top companies by earning the trust of all stakeholders.</b>	<b>¥200 billion (Consolidated)</b>	<b>Consolidated ROE: 10% or higher Market capitalization: In the top 40 listed Japanese companies</b>
Daiwa Securities (Retail)	Become a highly regarded securities company, renowned for its professionalism and originality.	¥120 billion	Net inflow of retail assets Agency commissions from investment trusts
Daiwa Securities SMBC (Wholesale & Investment)	Create a sustainable growth model for the investment banking business, founded on customer trust and loyalty.	¥60 billion	Broker rankings League tables Percentage of earnings generated by overseas operations
Daiwa Asset Management (Asset Management)	Earn customer trust by thoroughly considering their investment needs, to become the asset management company investors choose to manage their funds.	¥15 billion	Relative performance Number of major new funds launched Share of total assets under management in publicly offered equity investment trusts
Daiwa SB Investments (Asset Management)	Establish a high-quality fund management structure that is capable of providing stable fund performance to institutional investors and individual investors alike.	¥5 billion	Fund management performance Survey of pension customers' evaluations Net inflow of funds

## 5. Basic Strategies for the Group

### (1) Personnel

The priority issue to be addressed under the “Passion for the Best” 2011 management plan is to build more effective business models. Effective personnel strategies are needed to back up these business models and ensure that employees are allocated effectively. In addition to managing the direct/indirect cost ratio, it will be necessary to develop a strategy for expanding the workforce on a global basis which considers the issues of personnel allocation and employee transfers.

Also, during difficult times like those that the industry now faces, it is important to have a team of true professionals. The Daiwa Securities Group will strive to cultivate the industry's most highly trained specialists, supporting employees' efforts to receive certification and providing high-quality training programs. In hiring, training and daily operations the Group will constantly instill in its employees the high principles and ethics of the Daiwa Securities Group, cultivating a professional workforce that can earn the trust of customers.

Finally, the Group will implement further measures to promote a work-life balance, aiming to ensure that each employee is satisfied, highly motivated, and able to get the most out of life, both in the workplace and at home.

### (2) Finances

The Group's financial strategy will center on a careful re-examination and allocation of funds to each division. A clear order of priorities will be established and both capital spending and operating costs will be controlled carefully in order to maintain the Group's healthy financial condition. The business conditions in which the Group operates are likely to remain difficult, but as long as the Group maintains its relatively strong financial position, there will be plenty of attractive growth opportunities to pursue. In order to make the most of such opportunities, it is essential that the Group will take care to maintain and strengthen its fundraising capacity. In addition to traditional methods of raising funds, the Group will explore new alternatives, and it will strive to maintain a balance between dividend distribution and retained earnings, rewarding investors while maintaining the capacity to invest in growth opportunities.

To implement this strategy effectively, the Group will promote cooperation and joint efforts in financial matters, and seek to improve the quality of risk management. The Group will use its financial base and infrastructure to support quick and effective communication of data on consolidated conditions, and seek to promote management flexibility.

### (3) Information Technology

The Group's IT strategy will seek to balance cost efficiency with the need to maintain a competitive edge in technology. As part of Daiwa Institute of Research's reorganization, all IT functions and personnel for the entire Group have been optimally allocated, in a move that is expected to improve the efficiency of systems development and operations. In addition to reducing cost, this is expected to strengthen the IT support structure and allow the Group to respond flexibly to changes in the operating environment. At the same time, the Group will provide training and support to improve the IT literacy of every employee, to enhance the quality and efficiency of all Group operations.



# Top Management

## Directors

Chairman of the Board

Akira Kiyota

Directors

Shigeharu Suzuki

Shin Yoshidome

Takashi Fukai

Takashi Hibino

Nobuyuki Iwamoto

Kazuo Oda

Seiji Nakata

Saburo Jifuku

Tetsuro Kawakami

Ryuji Yasuda

Koichi Uno

Nobuko Matsubara

Keiichi Tadaki

## Executive Officers



**Shigeharu Suzuki**

President and CEO  
Head of Retail  
President,  
Daiwa Securities Co. Ltd.

1971 Joined Daiwa Securities Co. Ltd.  
1997 Director, Chief Corporate Institutions Officer  
1998 Managing Director  
2001 Senior Managing Director  
2002 Senior Managing Director, Daiwa Securities SMBC Co. Ltd.  
2003 Representative Senior Managing Director  
2004 Director, President and CEO,  
Daiwa Securities Group Inc.  
Head of Retail  
President, Daiwa Securities Co. Ltd.



**Shin Yoshidome**

Deputy President and COO  
(Representative)  
Head of Wholesale  
President, Daiwa Securities  
SMBC Co. Ltd.

1974 Joined Daiwa Securities Co. Ltd.  
2000 Deputy Head of Nagoya Branch, Daiwa SBCM Co. Ltd.  
(currently Daiwa Securities SMBC Co. Ltd.)  
2001 Executive Officer  
2004 Senior Executive Officer  
Managing Director  
2006 Director and Corporate Executive  
Vice President, Daiwa Securities Group Inc.  
Representative Senior Managing Director,  
Daiwa Securities SMBC Co. Ltd.  
2007 Director, Deputy President and COO, (Representative)  
Daiwa Securities Group Inc.  
Head of Wholesale  
President, Daiwa Securities SMBC Co. Ltd.



**Takashi Fukai**

Deputy President  
Deputy Head of Retail  
Deputy President, Daiwa  
Securities Co. Ltd.

1978 Joined Daiwa Securities Co. Ltd.  
2001 Head of Kobe Branch  
2002 Executive Officer  
2005 Managing Director  
2007 Senior Managing Director  
2009 Director and Deputy President,  
Daiwa Securities Group Inc.  
Deputy Head of Retail  
Deputy President, Daiwa Securities Co. Ltd.



**Shuntaro Higashi**

Deputy President  
Deputy Head of Wholesale  
Deputy President, Daiwa  
Securities SMBC Co. Ltd.

1972 Joined The Sumitomo Bank, Limited  
1997 Head of Hong Kong Branch  
1999 Executive Officer  
2001 Executive Officer (Director),  
Sumitomo Mitsui Banking Corporation  
2003 Executive Officer (Managing Director)  
2006 Representative Director and Senior  
Managing Director  
2007 Deputy President, Daiwa Securities Group Inc.  
Deputy Head of Wholesale  
Deputy President, Daiwa Securities SMBC Co. Ltd.



**Takashi Hibino**

Deputy President  
Deputy Head of Wholesale  
Deputy President, Daiwa  
Securities SMBC Co. Ltd.

1979 Joined Daiwa Securities Co. Ltd.  
2002 Head of Corporate Planning Department,  
Daiwa Securities Group Inc.  
Executive Officer,  
Daiwa Securities SMBC Co. Ltd.  
2004 Senior Executive Officer, Daiwa Securities Group Inc.  
Director and Corporate Senior Executive Officer  
2007 Director and Corporate Executive Vice President  
2008 Deputy Head of Wholesale  
Senior Managing Executive Officer,  
Daiwa Securities SMBC Co. Ltd.  
2009 Director and Deputy President, Daiwa Securities Group Inc.  
Deputy Head of Wholesale  
Deputy President, Daiwa Securities SMBC Co. Ltd.



**Makoto Shirakawa**

Deputy President  
Deputy Head of Retail  
Deputy President, Daiwa  
Securities Co. Ltd.

1978 Joined Daiwa Securities Co. Ltd.  
2003 Head of Financial Institutions Division 1, Daiwa Securities  
SMBC Co. Ltd.  
2004 Executive Officer, Daiwa Securities Co. Ltd.  
2006 Managing Director  
2007 Senior Managing Director  
2009 Deputy President, Daiwa Securities Group Inc.  
Deputy Head of Retail  
Deputy President, Daiwa Securities Co. Ltd.





**Toshiro Ishibashi**

Deputy President  
Head of Asset Management  
President, Daiwa Asset  
Management Co. Ltd.

1973 Joined Daiwa Securities Co. Ltd.  
1998 Director, Chief Investment Banking Officer  
1999 Executive Officer, Daiwa SBCM Co. Ltd. (currently Daiwa Securities SMBC Co. Ltd.)  
2003 Managing Director, Daiwa Securities Co. Ltd.  
2005 Senior Managing Director  
2007 Representative Senior Managing Director  
2008 Director and Deputy President,  
Daiwa Securities Group Inc.  
Deputy President, Daiwa Securities Co. Ltd.  
2009 Deputy President,  
Daiwa Securities Group Inc.  
Head of Asset Management  
President, Daiwa Asset Management Co. Ltd.



**Hiroshi Ota**

Deputy President  
Head of Research  
President, Daiwa Institute of  
Research Holdings Ltd.  
President, Daiwa Institute of  
Research Ltd.  
President, Daiwa Institute of  
Research Business Innovation Ltd.

1971 Joined Daiwa Securities Co. Ltd.  
1996 Head of Kobe Branch  
1998 Director  
1999 Executive Officer  
2002 Director  
2003 Senior Executive Officer,  
Daiwa Securities SMBC Co. Ltd.  
2004 Managing Director  
2005 Director and Corporate Executive Vice President,  
Daiwa Securities Group Inc.  
Representative Senior Managing Director,  
Daiwa Securities SMBC Co. Ltd.  
2006 Deputy President, Daiwa Institute of Research Ltd.  
(currently Daiwa Institute of Research Holdings Ltd.)  
2008 Deputy President, Daiwa Securities Group Inc.  
Head of Research  
President, Daiwa Institute of Research Holdings Ltd.  
President, Daiwa Institute of Research Ltd.  
President, Daiwa Institute of Research Business  
Innovation Ltd.



**Nobuyuki Iwamoto**

Corporate Executive Vice  
President and CFO  
Chief Planning/Personnel Officer

1980 Joined Daiwa Securities Co. Ltd.  
2001 Head of International Finance Department, Daiwa  
Securities SMBC Co. Ltd.  
2005 Corporate Executive Officer and CFO,  
Daiwa Securities Group Inc.  
2006 Director and Corporate Executive Officer  
2008 Director and Corporate Senior Executive Officer  
2009 Director, Corporate Executive Vice President and CFO,  
Daiwa Securities Group Inc.  
Chief Planning/Personnel Officer



**Kazuo Oda**

Corporate Senior Executive  
Officer and CIO  
Senior Managing Director,  
Daiwa Institute of  
Research Ltd.

1976 Joined Daiwa Securities Co. Ltd.  
1994 Head of Corporate System Development Department,  
Daiwa Institute of Research Ltd. (currently Daiwa Institute  
of Research Holdings Ltd.)  
1999 Advisor  
2002 Executive Officer  
2004 Senior Executive Officer  
2007 Senior Managing Director  
2008 Representative Senior Managing Director, Daiwa Institute  
of Research Ltd.  
2009 Director, Corporate Senior Executive Officer and CIO,  
Daiwa Securities Group Inc.  
Senior Managing Director, Daiwa Institute of Research Ltd.



**Seiji Nakata**

Corporate Senior Executive  
Officer  
Deputy Chief Planning/  
Personnel Officer

1983 Joined Daiwa Securities Co. Ltd.  
2005 Head of Structured Products  
Department, Daiwa Securities SMBC Co. Ltd.  
2006 Executive Officer  
2007 Corporate Executive Officer,  
Daiwa Securities Group Inc.  
Deputy Chief Planning/Personnel Officer  
2009 Director and Corporate Senior Executive Officer



**Masaaki Goto**

Corporate Executive Officer  
Head of America Region  
Chairman,  
Daiwa America Corporation

1982 Joined Daiwa Securities Co. Ltd.  
2005 Head of Structured Finance Department,  
Daiwa Securities SMBC Co. Ltd.  
2007 Corporate Executive Officer,  
Daiwa Securities Group Inc.  
2009 Head of America Region  
Chairman, Daiwa America Corporation



**Keiko Uehara**

Corporate Executive Officer  
Head of Corporate  
Communications

1982 Joined Daiwa Securities Co. Ltd.  
2007 Head of Education and Training Department  
2009 Corporate Executive Officer, Daiwa Securities Group Inc.  
Head of Corporate Communications



**Toshihiro Matsui**

Corporate Executive Officer  
Chief Legal Officer  
Deputy Chief Planning Officer  
Head of Corporate Planning  
Department

1985 Joined Daiwa Securities Co. Ltd.  
2008 Head of Corporate Planning Department, Daiwa  
Securities Group Inc.  
2009 Corporate Executive Officer  
Chief Legal Officer  
Deputy Chief Planning Officer  
Head of Corporate Planning Department



**Akira Kiyota**

Corporate Executive Officer

1969 Joined Daiwa Securities Co. Ltd.  
1994 Director, Deputy Head of Sales Division, and Head of East  
Division  
1997 Managing Director  
Representative Managing Director  
Deputy President  
1999 President, Daiwa SBCM Co. Ltd.  
(currently Daiwa Securities SMBC Co. Ltd.)  
2004 Deputy Chairman of the Board and  
Corporate Executive Officer,  
Daiwa Securities Group Inc.  
Chairman of the Institute,  
Daiwa Institute of Research Ltd.  
2005 Director, Daiwa Institute of Research Ltd.  
2008 Chairman of the Board and Corporate Executive Officer,  
Daiwa Securities Group Inc.

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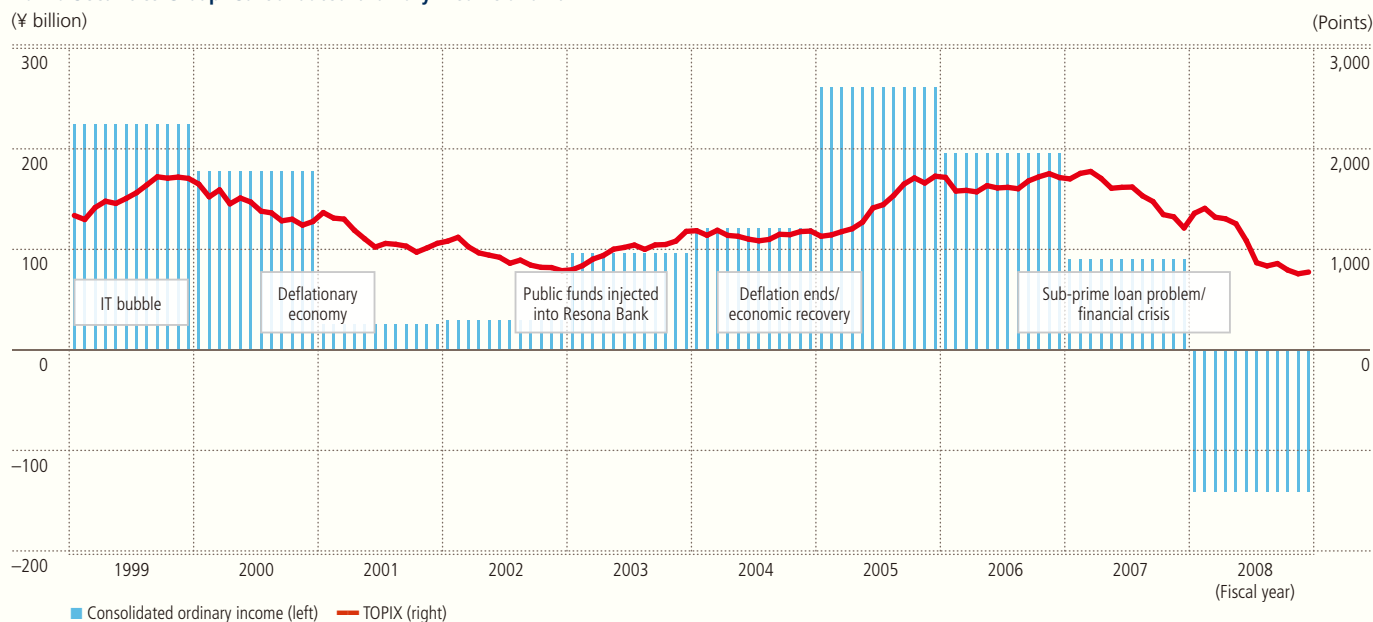
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# The Business Environment for the Daiwa Securities Group

**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.

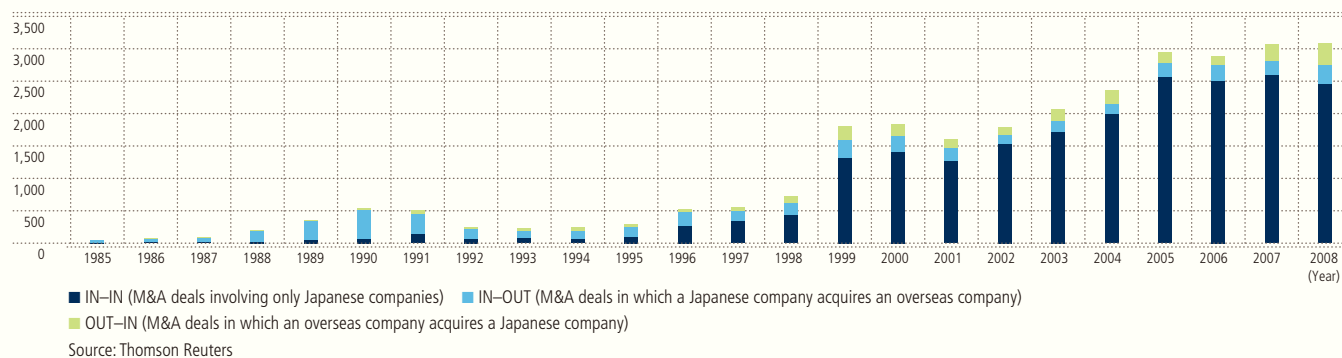
One feature of this business was that the creators of the financial products developed methods of using securitization and derivatives to transfer risk to someone else. The longer the chain of securitization grew, the harder it became to determine the true, underlying risk associated with the original

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.

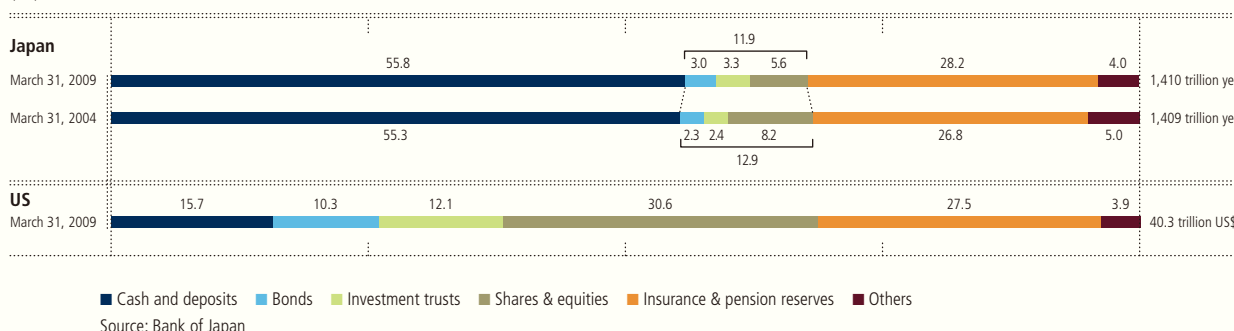
## Trends in M&A Activity Involving Japanese Companies

(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

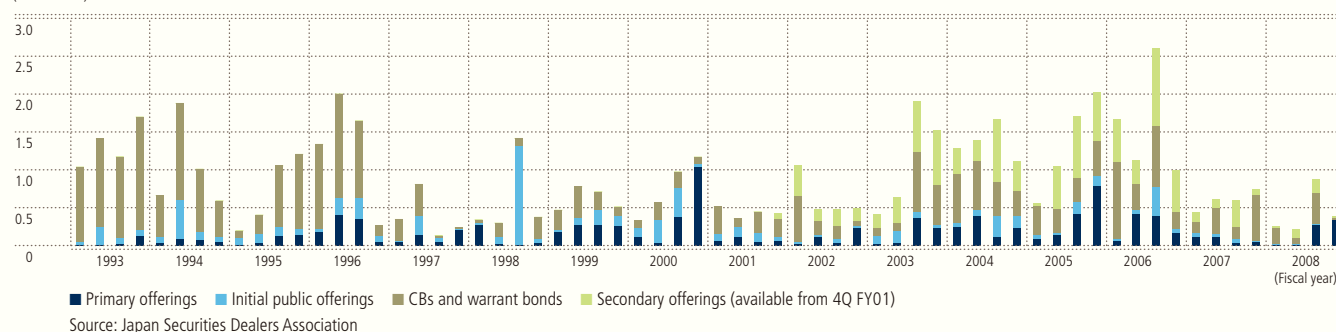
remained high, with the WTI index reaching US\$140/barrel. People began to talk about the risk of global “stagflation”—rising prices but flat economic growth. As future economic growth prospects weakened, the prices of crude oil and other raw materials eventually started to decline. The US dollar temporarily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

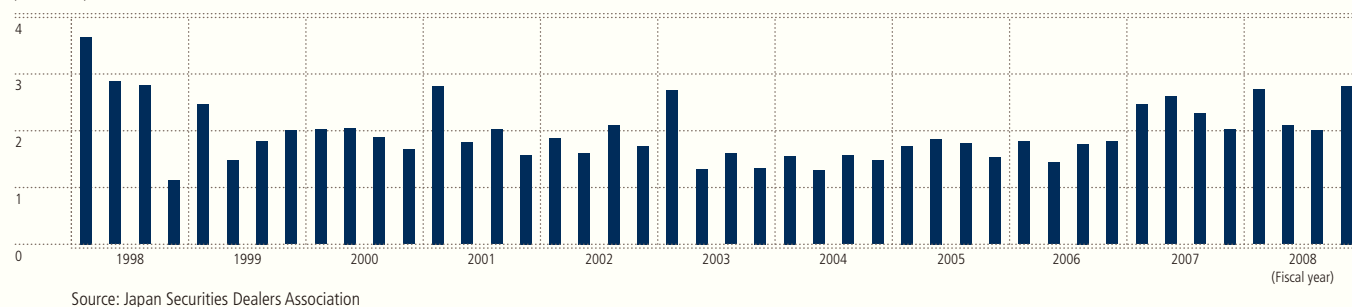
## Public Offerings in Japan

(¥ 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

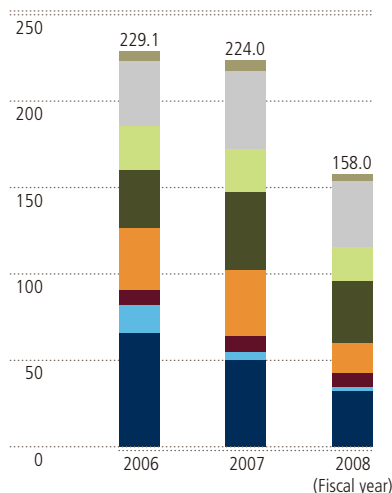
#### Turning a Profit Despite the Difficult Business Environment

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)



- Brokerage commissions
- Distribution commissions (equities)
- Distribution commissions (fixed income)
- Distribution commissions (investment trust)
- Other commissions (investment trust)
- Other commissions (others)
- Net gain on trading (equities, bonds & foreign exchange)
- Interest and dividend income, etc.

#### 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.”

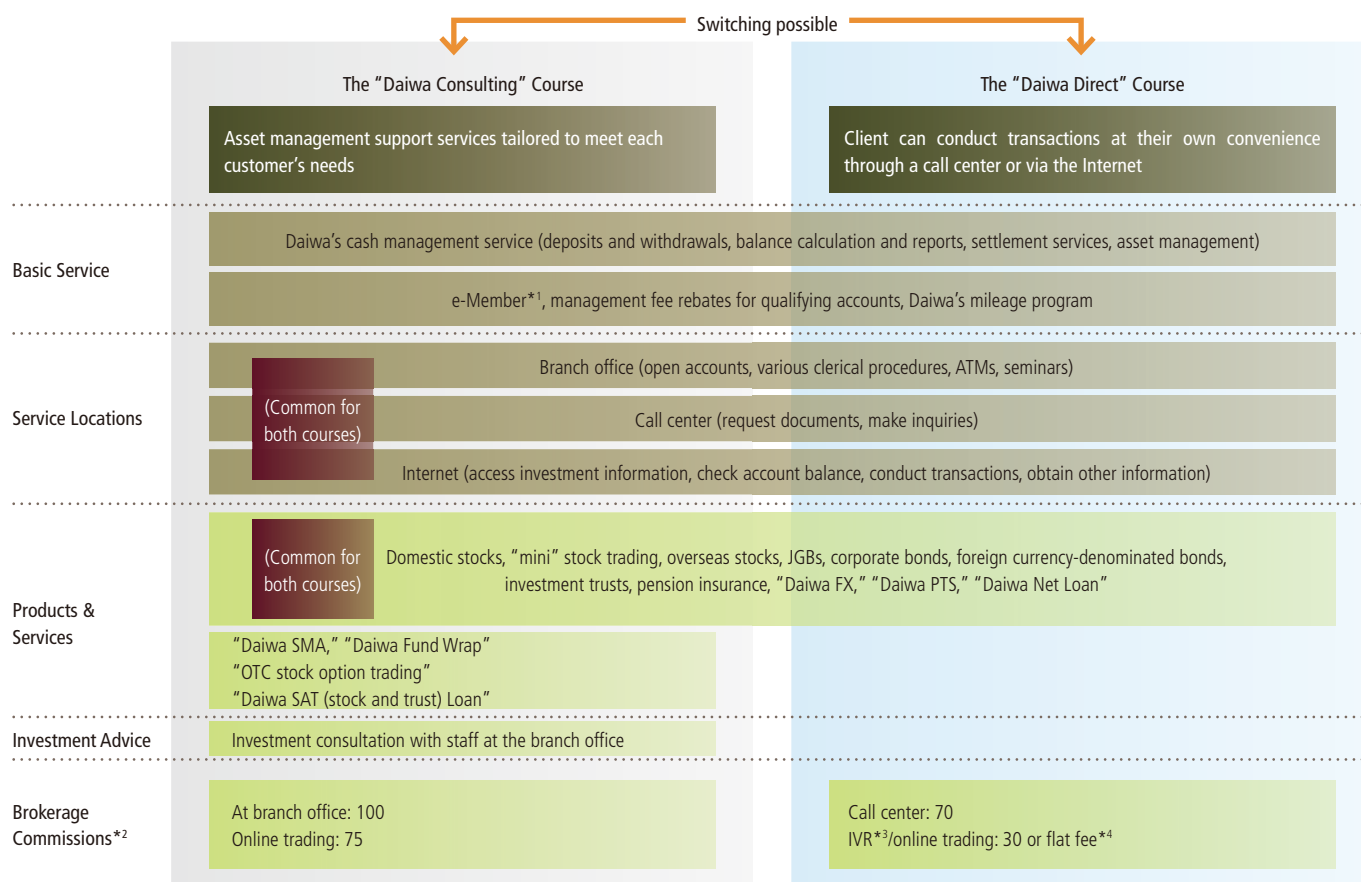
Despite the harsh business conditions that it faced in FY 2008, Daiwa Securities managed to generate relatively stable revenues from sources such as agency commissions and other commission income, and also tried to encourage bond sales. Consequently, the company was able to post a profit for the fiscal 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

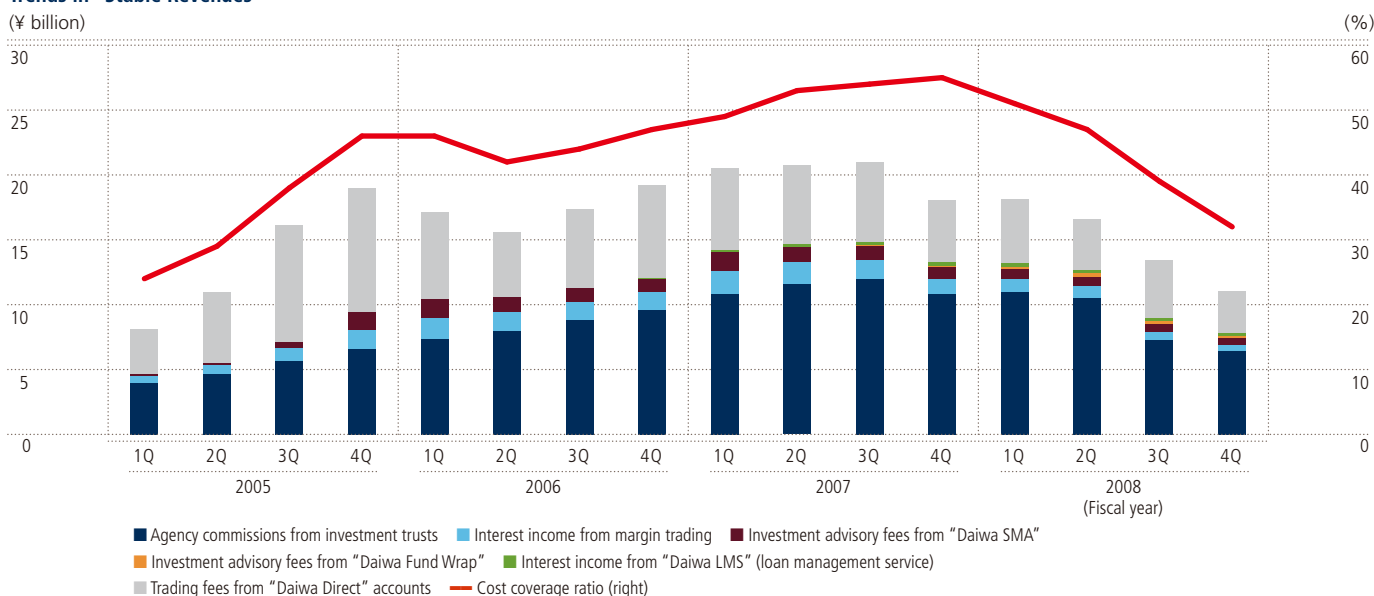
### Five Strategic Goals to Strengthen Daiwa Securities' Unique Business Model

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

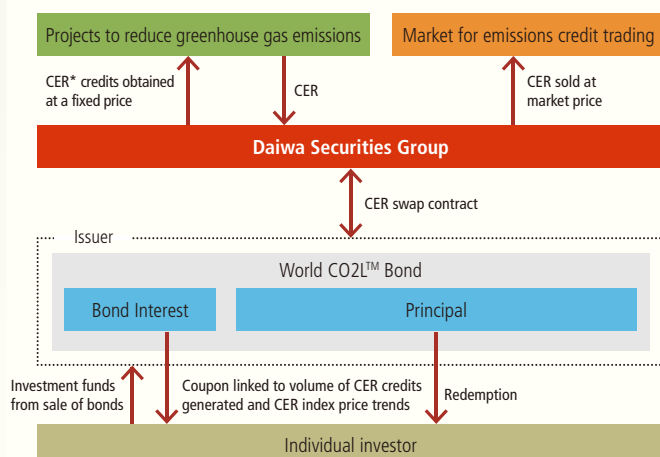
### Eco-Friendly Financial Products Provide “Earnings-Plus”

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**

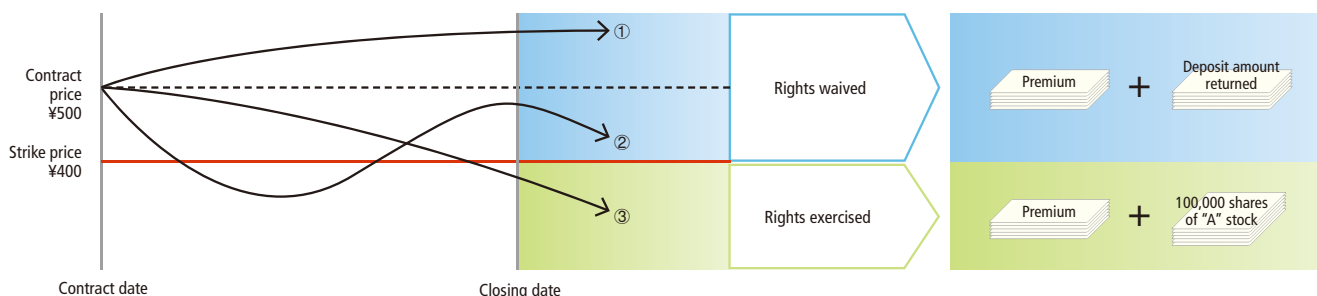
#### Basic Strategies

- 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

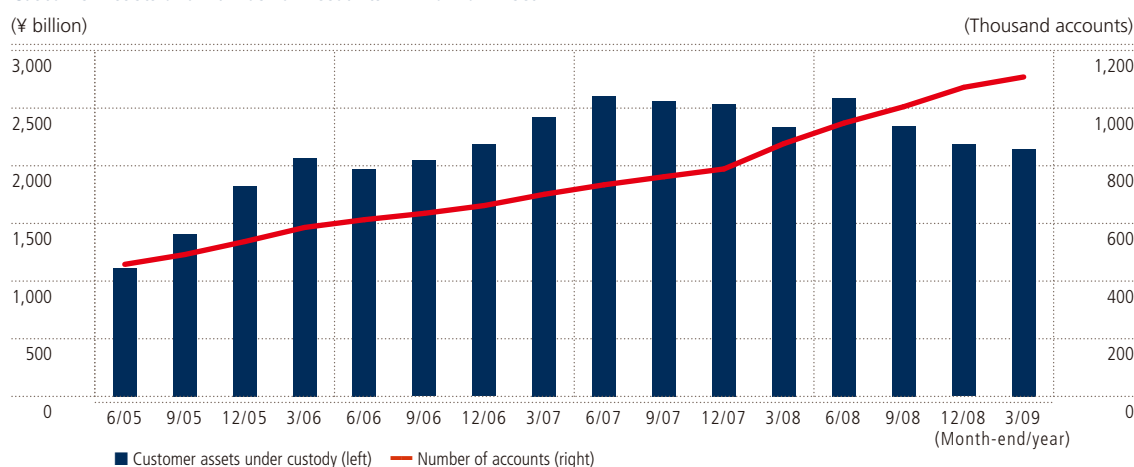
In September 2009, the company intends to launch a trading service offering JGBs for individuals using “Daiwa PTS.” This will be Japan’s first market to offer JGBs for individuals. Conventionally, JGBs for individuals are offered for sale when first issued and are redeemed by application to the Bank 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)

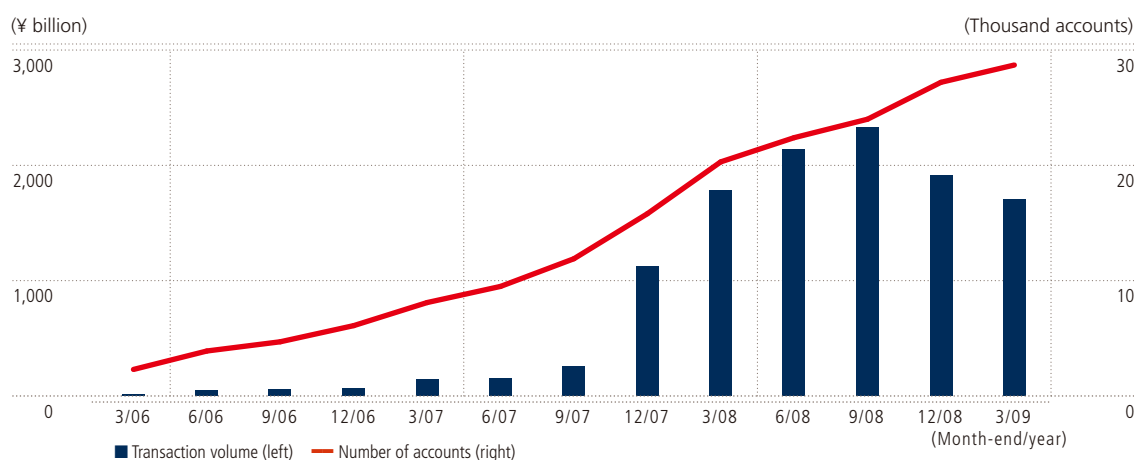
Example: Trading stock options with a strike price of ¥400 per share for 100,000 shares in company “A” with a current stock price of ¥500.



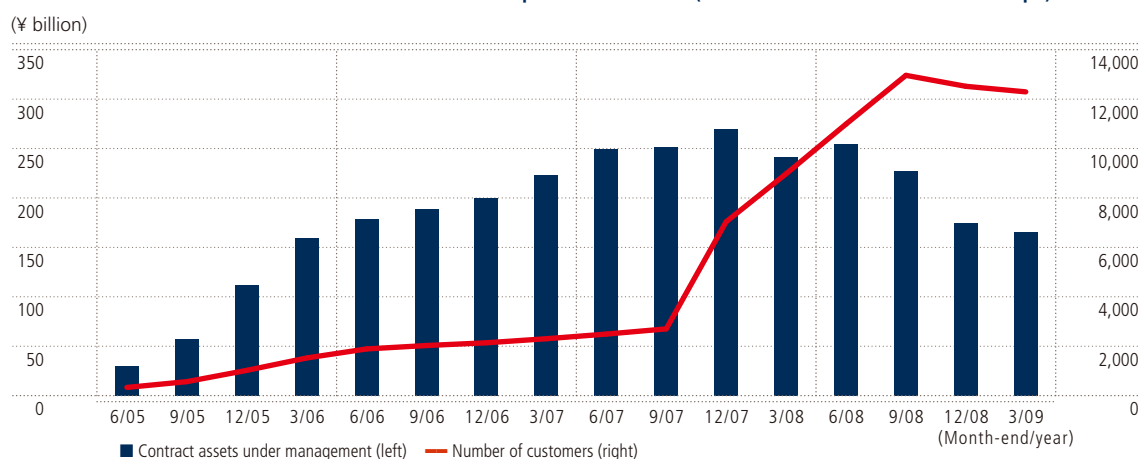
## Customer Assets and Number of Accounts in "Daiwa Direct"



## 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

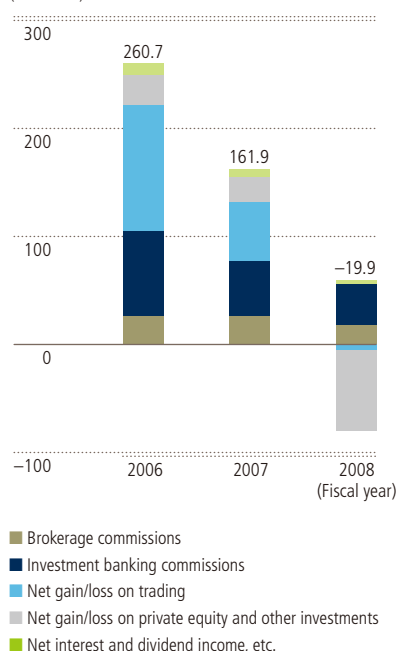
During FY 2008, the business environment affecting the Group's wholesale securities business was extremely trying. The sub-prime loan crisis, which emerged in 2007, sent ripples through the entire financial industry, prompting financial institutions to suddenly change course, and sell off assets in an 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.

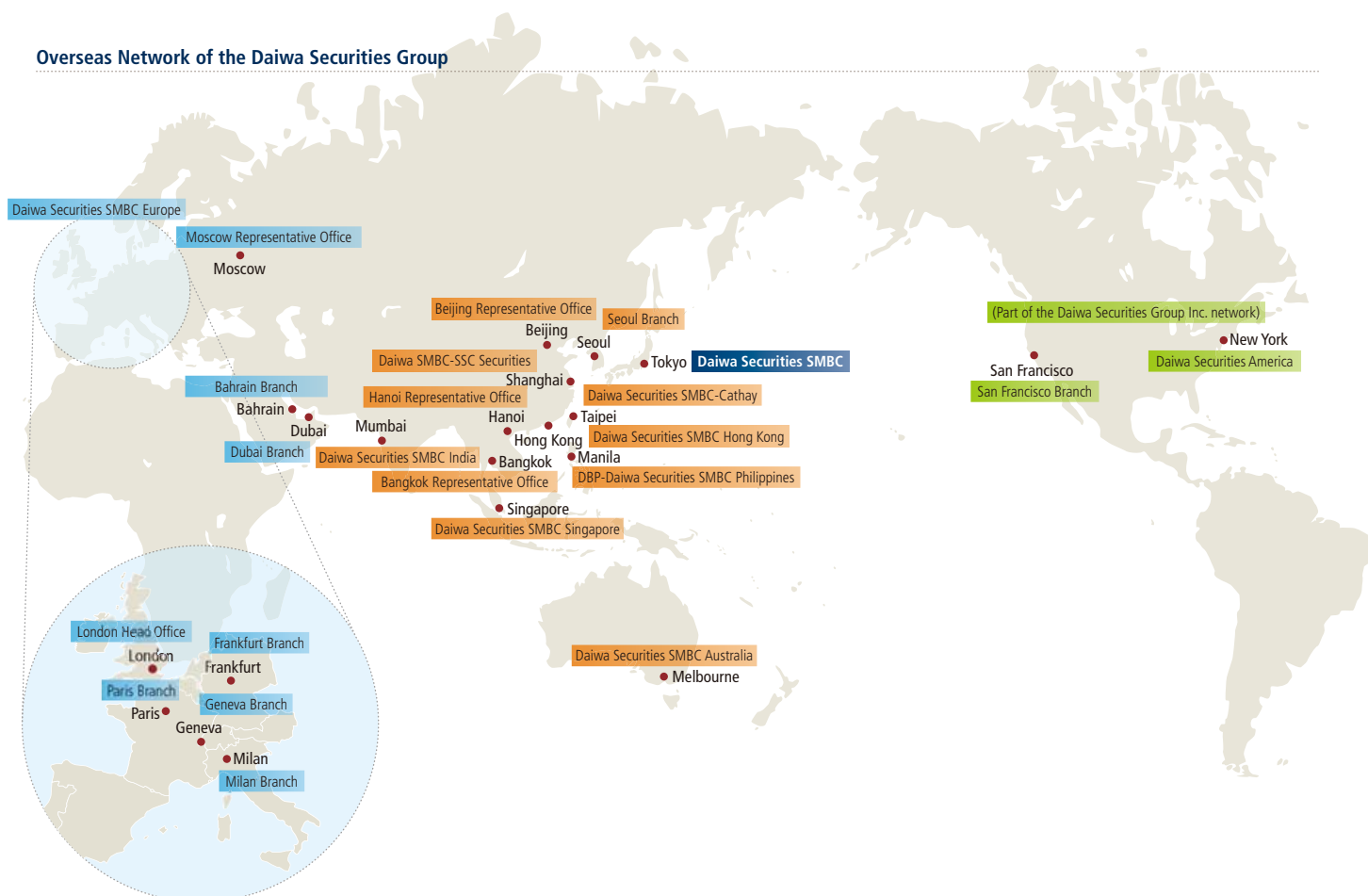
### Strategy for the Investment Banking Division

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.

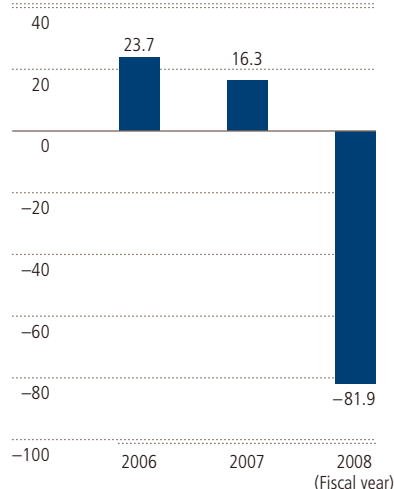
### Earnings Results for FY 2008

#### 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.

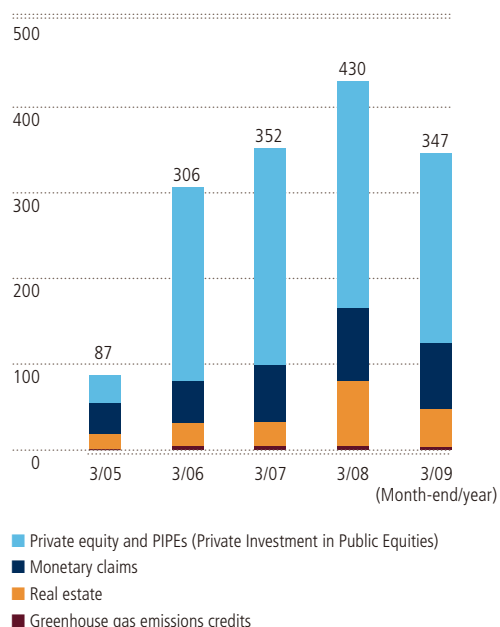
If more qualitative measures are used to evaluate the company’s performance under the medium-term management plan, we get a clearer picture. During the 2003–05 period, when there was a relative shortage of risk-seeking capital in the market, Daiwa Securities SMBC PI made numerous direct equity investments, 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.

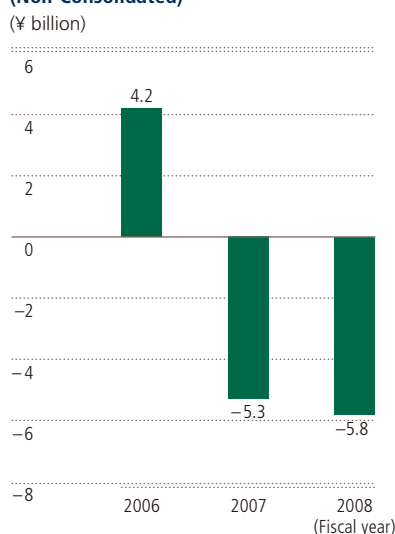
### Management Policy

#### 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

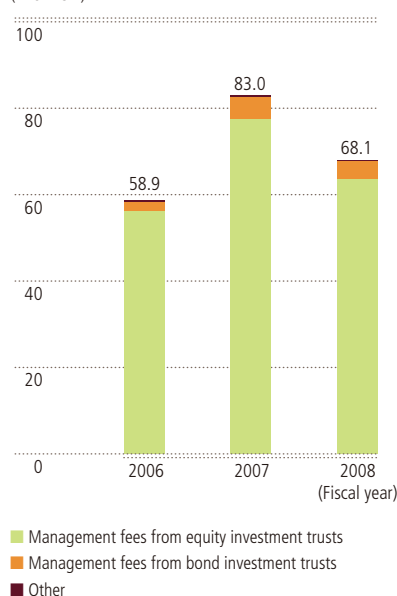
Daiwa Asset Management forms the core of the Group's asset management operations. The company develops and manages various types of investment trust products which are marketed primarily to individual investors, through a multitude of sales channels including not only Daiwa Securities and other retail 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

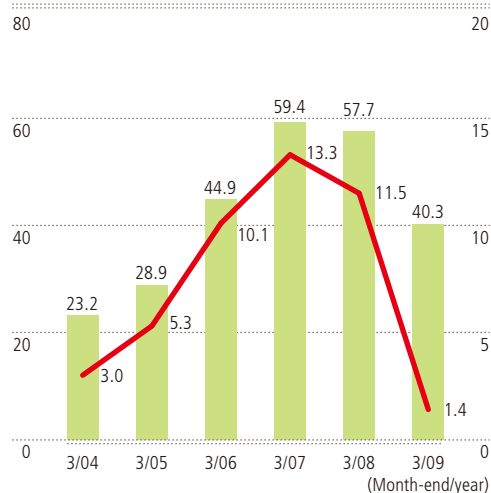
	(Billions of yen)		
	FYE 2006	FYE 2007	FYE 2008
Balance of assets under management	9,666	9,710	7,594
(Equity investment trusts)	6,388	6,503	4,602
(Bond investment trusts)	3,277	3,206	2,992

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

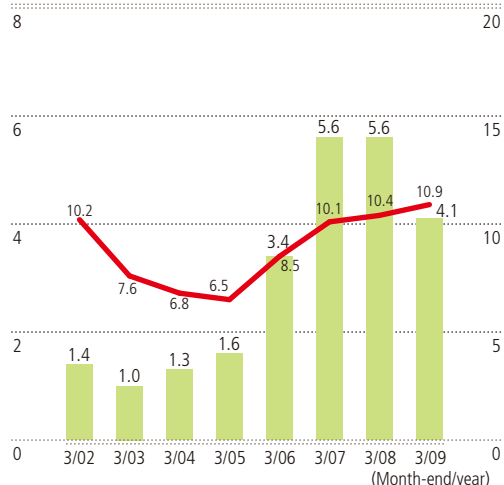
### Increased Market Share

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

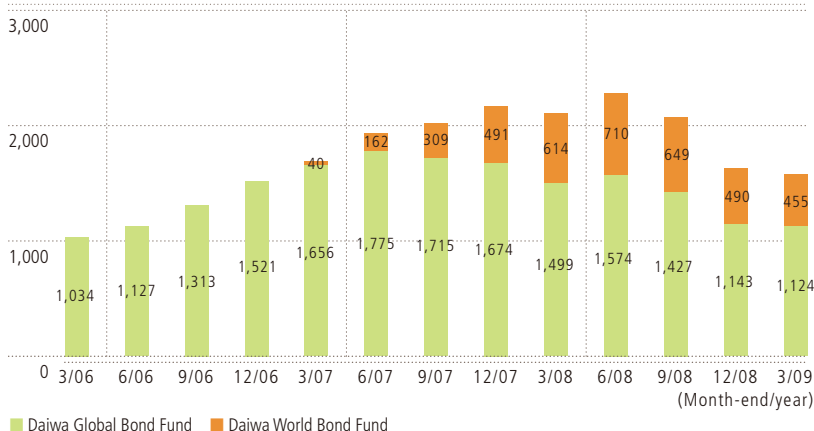
will work to develop a structure which can quickly provide clients with easy-to-understand documents and information on its Internet site. In this way, the company aims to expand its share of total publicly offered equity investment trusts.

### 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)

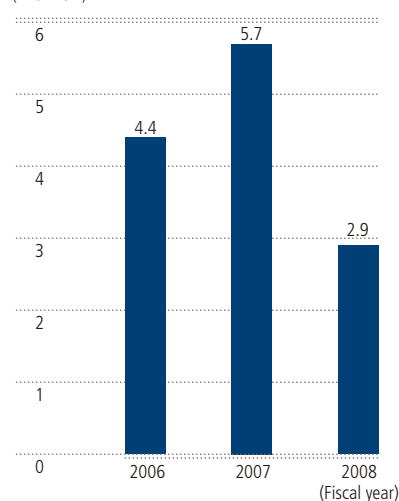




## Daiwa SB Investments

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

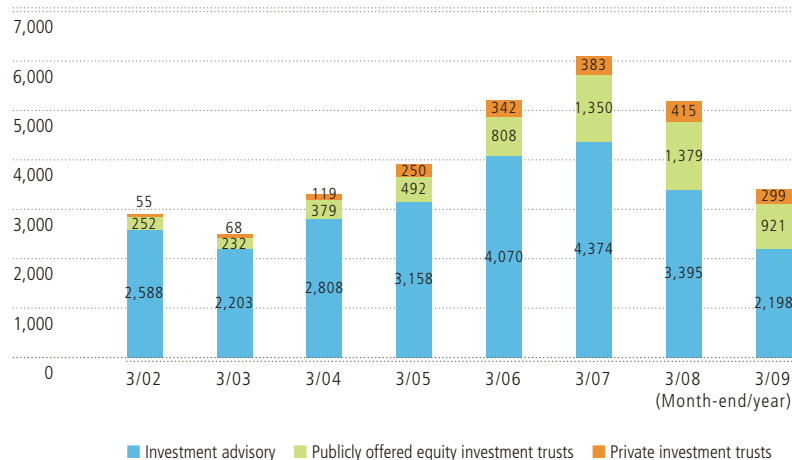
Under the Group’s new medium-term management plan, Daiwa SB Investments has set itself the goal of “Establishing a high-quality fund management structure that is capable of providing stable fund performance to institutional investors and individual investors alike.” The company’s ordinary income target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

## CSR Initiatives

### Daiwa Securities Group Stakeholders

Securities markets	Shareholders	Investors	Issuers
The Group cooperates with all those who operate or participate in the securities markets, to promote the development of healthy and reliable markets.	The Group provides shareholders with clear information in order to earn trust and loyalty, and makes a constant effort to meet their expectations by creating and enhancing value.	The Group is constantly developing products and services that can address the needs of both individual and institutional investors, as well as potential investors who are considering future investments, in an effort to steadily enhance customer satisfaction.	The Group supports the efforts of corporations and public organizations to procure capital by issuing stocks and bonds.

We believe that the Daiwa Securities Group has a corporate social responsibility (CSR) to contribute to society through our core businesses. It is important that each and every employee is always aware of social issues in his or her everyday work. We actively promote CSR awareness among all employees and publicize our CSR activities to our stakeholders to increase awareness of these efforts within the community.

### Group Initiatives to Foster a Sustainable Society

Corporations play a vitally important role in the effort to build a sustainable society, and financial institutions, through their core business activities, control the flow of financial capital which serves as the lifeblood of a healthy society. The Daiwa Securities Group not only does its best to promote and sustain fair and vibrant markets, but tries to play a positive role in developing a sustainable society by actively working to channel capital into socially beneficial ventures. To fulfill that role as a responsible member of society, the Daiwa Securities Group participates in the United Nations Environment Programme Finance Initiative (UNEP FI)<sup>\*1</sup> and is a signatory to the Principles for Responsible Investment (PRI)<sup>\*2</sup> and the Carbon Disclosure Project (CDP).<sup>\*3</sup>

<sup>\*1</sup> UNEP FI: This initiative has been in operation since 1992 with the aim of identifying, promoting and realizing the adoption of best environmental and sustainability practices based on partnerships between the United Nations Environment Programme and financial institutions in various countries.

<sup>\*2</sup> PRI: Investment principles published in April 2006 by the UNEP FI and the United Nations Global Compact, which aim to incorporate environmental, social and governance considerations into the investment decision-making process.

<sup>\*3</sup> CDP: An alliance of institutional investors concerned about climate change, this project asks other investors and corporate leaders to disclose information regarding their stance on environmental issues and measures to protect the environment.

### Important Challenges for the Daiwa Securities Group

The Daiwa Securities Group is re-evaluating its approach to CSR activities, reaffirming the importance of the Group's efforts to fulfill its social responsibility, while looking for ways to contribute through CSR activities that are more immediately feasible and which address important social issues. In the past our CSR activities focused on the following four themes: (1) Adding a social perspective to investment, (2) Commitment to the development of a sound securities market, (3) Contribution to the global environment and (4) Providing information for a sustainable society. The focus has now been revised to encompass just two themes.

1. Leverage financial capabilities to contribute to a sustainable society
2. Develop sound financial and capital markets for the next generation

### 1. LEVERAGE FINANCIAL CAPABILITIES TO CONTRIBUTE TO A SUSTAINABLE SOCIETY

#### —Developing and Selling Financial Products That Contribute to a Sustainable Society

In February 2009, the Daiwa Securities Group began marketing its second "Vaccine Bond" issue.\* In addition, Daiwa Securities SMBC worked jointly with the World Bank to create and issue the so-called "World CO2L™ Bond," which makes active use of the market for greenhouse gas emissions credits. These bonds were introduced in June 2008. Through these and other activities, the Daiwa Securities Group is trying to leverage its well-developed capabilities in the financial sector to make a sustainable and meaningful contribution to society.

\* Vaccine bonds: Bonds which provide funds to organizations such as the International Finance Facility for Immunisation (IFFIm), which are then used to provide medical and vaccination services to children in developing countries. The funds raised through these bonds are used to provide such services through the GAVI Alliance.

#### —Taking Steps to Address Environmental Issues

The Daiwa Securities Group has established and operates SRI (socially responsible investment) funds and investment funds that select stocks from companies that are developing technologies to alleviate environmental problems, reduce energy consumption, or have some other "socially responsible" benefits.

In addition, the Group is taking various steps to try to encourage investment in companies that have developed superior environmental technology. For example, Daiwa Institute of Research has assigned strategists who collaborate with equity analysts covering environment-related companies, and write research reports on environmental issues.



Customers	Government	NPOs/NGOs	Local communities	Employees and their families
The Group strives to maintain equitable relationships with all business partners, while working to promote a sustainable society.	In addition to its normal tax contributions, the Group seeks to contribute to a better society by providing advice and support to the Government on policy matters.	The Group cooperates with various organizations through training in economic and financial matters, support during disasters, and active communication that helps the Group incorporate a social commitment and concern into its basic management activities.	The branch offices and overseas subsidiaries of the Daiwa Securities Group are integral members of the local communities in which they operate, and work constantly to establish strong, friendly ties to the community.	Employees are essential to the Group's effort to provide value to its other stakeholders; therefore, the Group strives to provide them with a rewarding work environment that allows them to utilize their abilities and realize their goals. Family members are also important stakeholders since they support and motivate the employees.

#### Daiwa Securities' SRI Funds and Funds That Focus on Companies With Environment-Related Businesses

Fund Name	(As of March 31, 2009)	
	Net Assets (¥ billion)	
Russell Global Environmental Technology Fund	20.2	
Daiwa Eco Fund	17.5	
Daiwa Energy Technology Fund	16.1	
Daiwa SRI Fund	3.3	
Next-Generation Environmental Business Fund	2.7	
Total	59.8	

#### SRI Funds Launched in FY 2008



"Daiwa Energy Technology Fund"



"Next-Generation Environmental Business Fund"

## 2. DEVELOP SOUND FINANCIAL AND CAPITAL MARKETS FOR THE NEXT GENERATION

### —Efforts to Cultivate Healthy Financial and Capital Markets That Investors Can Participate in With Confidence

The Daiwa Securities Group works to bring investors together with securities issuers, and also acts as an intermediary in an effort to promote greater liquidity in financial and capital markets. In this way, we are fulfilling our responsibility to help maintain and continuously develop capital and financial markets—important elements of society's basic infrastructure—by pursuing highly effective systems of compliance and internal control.

### —Providing Information and Education to Promote a Sustainable Society

The Daiwa Securities Group does its best to pass on its extensive knowledge and experience in economic and financial fields to the next generation, supporting various ongoing education and research activities which seek to promote a more sustainable society.

For example, a part of the profits earned from the sale and management of "Daiwa Eco Fund" are donated to Japan for Sustainability (JFS), a non-profit organization with which the Daiwa Securities Group has cooperative ties. The money is used to sponsor a series of lectures for students. We also provide support to industrial-academic collaborations and various types of economic education programs.

## Corporate Citizenship Activities

The Daiwa Securities Group takes part in various community-oriented activities with the aim of supporting environmental protection efforts, volunteer work, and the local communities where the Group operates. These activities help raise awareness of good corporate citizenship activities among employees of the Group.

We also engage in activities that support regional and international communities through Group foundations. "Daiwa Securities Health Foundation" supports research aimed at preventing and treating lifestyle diseases, and works to increase awareness of health maintenance and improvement. "Daiwa Securities Foundation" supports a wide variety of volunteer activities associated with social welfare and medical treatment. "The Daiwa Anglo-Japanese Foundation" promotes mutual understanding and friendship between Japan and the UK, and each year invites "Daiwa Scholars" from the UK to visit Japan. We also cooperate with specialist non-profit organizations to support other types of benevolent activities and disaster relief operations.

## Inclusion in SRI Indices

The Daiwa Securities Group has been selected for the Dow Jones Sustainability World Index (DJSI World) for the tenth consecutive year. DJSI World is an SRI stock index devised by Dow Jones Indexes (US) and SAM Group (Switzerland), which assesses corporate sustainability. In addition, since September 2006 the Group has been selected as a component of the FTSE4Good Index, a socially responsible investment index operated by the Financial Times Stock Exchange (FTSE).



## Group Governance and Management Systems

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## Message From the Chairman



“Our outside directors are dedicated, visionary individuals who serve as a good example of corporate governance and help promote the development of financial and capital markets.”

**Q.** Tell us about the Daiwa Securities Group’s approach to corporate governance.

**A.** Daiwa Securities Group recognizes that in order to maintain business growth it is essential that we receive full support from all our various stakeholders. As a leading financial institution, we try to remain conscious of our role and responsibility to support healthy economic growth. Therefore, we are continually seeking ways to improve the transparency and objectivity of management.

As financial markets become increasingly global and dominated by institutional investors, the corporate governance of a corporation has become a decisive consideration when making investment decisions. In 1999 the Daiwa Securities Group became the first listed Japanese company to adopt a holding company structure. Following the so-called “big bang” in accounting standards, we introduced “mark-to-market” and consolidated accounting systems. These measures help the Group increase its transparency and accountability to investors. Furthermore, in 2004 the Group introduced a Committee System of corporate governance, setting up three committees—the Nominating Committee, Audit Committee, and Compensation Committee. More than half of the committee members are directors who were appointed from outside the Group. This Committee System enables the Group to provide more robust oversight functions and an outside perspective. Executive officers are delegated a high degree of authority and responsibility to facilitate swift and clear decision-making.

**Q.** Describe the specific features of the Committee System at Daiwa Securities Group.

**A.** The most important feature of the Committee System is that it adds an objective, third-party perspective to decision-making, and ensures that management is more transparent. This form of governance requires a high degree of independence and high ethical standards from its outside directors. When selecting individuals to serve on the Board of Daiwa Securities Group, one of the key criteria is to ensure that the individual will show a high degree of independence. In addition to advancing the interests of the Group, our outside directors should be dedicated, visionary individuals who serve as a good example of corporate governance and help promote the development of financial and capital markets. From this perspective, I am confident that all of our outside directors are responsive to the needs of shareholders and dedicated to the promotion of healthy financial and capital markets in Japan.

Another very important issue in enhancing the Committee System is to set up a system that can reliably provide any relevant information to outside directors. Under our current corporate governance structure, the Daiwa Securities Group has separated the oversight and execution functions. The Board of Directors and the three committees fulfill auditing and oversight functions, while the Executive Committee holds the responsibility for implementing management policies and managing day to day operations. Under this system, members of the Board of Directors and major committees are not directly involved in day-to-day operations. Therefore it is very important that they not only receive regular reports on business conditions, but also have frequent opportunities to talk directly to employees on the front lines. This is one of the reasons why we have found it useful to have both myself and President Suzuki hold executive officer positions, in addition to our positions on the Board. By attending meetings of the Executive Committee, I have a clear picture of what is taking place and I can help to ensure that the Board of Directors and the three committees fully understand the actual business situation when making key management decisions.

**Q.** The term “corporate governance” sometimes has the nuance of being a passive or receptive activity. How can it provide impetus for positive reform of both the corporation and society?

**A.** In its broadest sense, the goal of our corporate governance structure is to promote healthy and active financial and capital markets through the activities of the Daiwa Securities Group.

Since the end of World War II the Japanese public has been accustomed to steady, almost continuous economic growth. The hard work and savings of these citizens created a vast pool of wealth estimated at around ¥1,400 trillion. Up to now, bank deposits have been the most efficient means of investing the nation’s wealth. Today, as the population contracts and the economy matures, it has become very difficult to increase savings by using the traditional model of asset accumulation. Japan must find ways to tap these financial assets and invest them in the world’s most rapidly growing economies, to provide positive returns and benefits to Japanese individuals. I believe that the Daiwa Securities Group should play a key role in channeling the energy of global growth back into the Japanese economy, particularly by offering attractive, highly transparent investment products to Japanese individuals. If the Daiwa Securities Group can earn the trust of Japan’s individual investors, it can make an important contribution to both stimulating global economic growth and bolstering the domestic economy. The Board of Directors of the Daiwa Securities Group is endeavoring to build a financial institution which can effectively fulfill its role, both in Japan and on the international stage.

July 2009

Akira Kiyota  
Chairman of the Board

## Corporate Governance Committee System

In 1999, Daiwa Securities Group Inc. became the first listed company in Japan to adopt a holding company structure. In 2004 the Group introduced a Committee System of corporate governance with three major committees that report to the Board—the Nominating Committee, Audit Committee and Compensation Committee. It also increased the number of outside directors, and established a clear separation between the oversight functions of the Board and the execution functions of executive officers.

### Committee Members

#### Nominating Committee

Akira Kiyota (Chairman)  
Shigeharu Suzuki  
Tetsuro Kawakami  
Ryuji Yasuda  
Nobuko Matsubara  
Keiichi Tadaki



**Saburo Jifuku**  
Director

1982 Joined Daiwa Securities Co. Ltd.  
2006 Head of Personnel Department, Daiwa Securities Group Inc.  
2008 Director



**Tetsuro Kawakami**  
Outside Director

1952 Joined Sumitomo Electric Industries, Ltd.  
1975 Director  
1978 Managing Director  
1980 Representative Senior Managing Director  
1982 President  
1991 Chairman of the Board  
1998 Corporate Auditor, Daiwa Securities Co. Ltd.  
1999 Advisor, Sumitomo Electric Industries, Ltd.  
2002 Outside Director, Daiwa Securities Group Inc.  
2008 Honorary Advisor, Sumitomo Electric Industries, Ltd.



**Ryuji Yasuda**  
Outside Director

1976 Joined Morgan Guaranty Trust Company of New York (currently JPMorgan Chase & Co.) as Investment Research Officer  
1979 Joined McKinsey & Company  
1986 Partner  
1991 Director  
1996 Managing Director, Asia Pacific, Member of the Board of Management, A.T. Kearney, Inc.  
2002 Chairman of A. T. Kearney, Far East Asia Visiting Professor, Hitotsubashi University, Graduate School of International Corporate Strategy  
2003 Retired as Chairman of A. T. Kearney, Far East Asia Chairman of the Board, J-Will Partners Co., Ltd.  
Outside Director, Daiwa Securities Group Inc.  
2004 Professor, Hitotsubashi University, Graduate School of International Corporate Strategy  
2006 Retired as Chairman of the Board, J-Will Partners Co., Ltd.

#### Audit Committee

Saburo Jifuku (Chairman)  
Koichi Uno  
Nobuko Matsubara  
Keiichi Tadaki

#### Compensation Committee

Akira Kiyota (Chairman)  
Shigeharu Suzuki  
Tetsuro Kawakami  
Ryuji Yasuda  
Koichi Uno



**Koichi Uno**  
Outside Director

1967 Joined Arthur Andersen & Company Tokyo Office  
1976 Transferred to Arthur Andersen & Company London Office  
1977 Returned to Tokyo Office  
1979 Partner, Tax Division  
1981 Representative Partner, Koichi Uno Tax Accounting Office  
2000 Retired from Koichi Uno Tax Accounting Office  
Founded CPA UNO OFFICE  
Part-time lecturer, Hitotsubashi University, Graduate School of International Corporate Strategy  
2004 Outside Director, Daiwa Securities Group Inc.  
Retired as part-time lecturer, Hitotsubashi University, Graduate School of International Corporate Strategy



**Nobuko Matsubara**  
Outside Director

1964 Entered Ministry of Labor  
1987 Director of International Labor Division  
1991 Director-General of Women's Bureau  
1997 Vice Minister  
1999 President of Japan Association for Employment of Persons with Disabilities  
2002 Ambassador of Japan to Italy  
Ambassador of Japan to Albania  
Ambassador of Japan to San Marino  
Ambassador of Japan to Malta  
2006 Advisor to Japan Institute of Workers' Evolution  
Chairman, Japan Institute of Workers' Evolution  
2008 Outside Director, Daiwa Securities Group Inc.



**Keiichi Tadaki**  
Outside Director

1969 Became Public Prosecutor  
1996 Chief Prosecutor of the Oita District Public Prosecutors Office  
1997 Public Prosecutor of the Supreme Public Prosecutors Office  
1997 Deputy Vice-Minister of Justice  
2002 Vice-Minister of Justice  
2004 Superintending Prosecutor of the Tokyo High Public Prosecutors Office  
2006 Prosecutor General  
2008 Retired as Prosecutor General Attorney at law  
Chairman of Japanese Correctional Association  
2009 Outside Director, Daiwa Securities Group Inc.

# Corporate Governance

The Daiwa Securities Group is committed to creating a highly transparent and objective corporate governance system consistent with international standards. We clearly separate the supervisory and executive functions of management and maximize each Group company's independence and expertise while establishing a Group management structure that highlights synergies between the Group companies.

## Features of the Corporate Governance System

In 1999, the Daiwa Securities Group became the first listed Japanese company to adopt a holding company structure. Since then, we have been pursuing a highly transparent and objective corporate governance framework that maximizes synergy between Group companies while showcasing the independence and unique expertise of each Group member.

In June 2004, the Group made the transition to a "Committee System" of corporate governance and accelerated the decision-making process by transferring a substantial portion of authority from the Board of Directors to the executive officers. In addition, we strengthened the supervisory functions of management by increasing the number of outside directors and establishing the Nominating, Audit and Compensation Committees. The representative directors of major Group companies also serve as executive

officers of the holding company, allowing them to efficiently implement individual business strategies based on Group strategies.

The Nominating Committee met four times in FY 2008 to discuss the composition of the Board of Directors and its effect on corporate governance, the basic policy for nominating candidates for directorships, and the selection of these candidates. The Nominating Committee selects candidates for directorships in light of the Group's standards for the appointment of directors. These standards include criteria that help ensure the independence of outside directors.

The Audit Committee met 12 times during FY 2008. The committee evaluated the activities of directors and executive officers, focusing mainly on their efforts to implement an auditing structure and internal control systems.

## Corporate Governance System





The Compensation Committee met six times in FY 2008 to discuss compensation policy and determine the compensation of each director, and also studied a Group-wide incentive plan aimed at improving consolidated earnings results.

The Board of Directors met 11 times during the course of the year, and outside directors had a 100% record of attendance.

### Executive Compensation More Closely Linked to Performance

Compensation for directors and executive officers is determined by the Compensation Committee, in principle. It generally has three components: basic compensation, performance-based compensation, and stock-price-linked compensation. Criteria used in calculating performance-based compensation include financial results, such as consolidated ordinary income and ROE, as well as operating assets and indicators of customer satisfaction. We discontinued the retirement benefit system for directors at Daiwa Securities Group Inc., Daiwa Securities, and Daiwa Securities SMBC to strengthen the correlation with business performance and to enhance the transparency of executive compensation.

### Internal Control System

The Daiwa Securities Group defines four internal control objectives: promoting business effectiveness and efficiency, reliable financial reporting, compliance with laws related to business activities, and asset preservation. The Group is building an extensive internal control system to ensure that these processes function effectively and efficiently.

Internal auditing departments have been established at major Group companies to carry out internal audits. In addition, the Internal Audit Department, which is under the direct control of the CEO of Daiwa Securities Group Inc., audits Group companies that do not have their own internal auditing departments.

The Group's internal auditing departments undertake regular audits based on predetermined auditing plans, and verify the status of internal control activities. The frequency and extent of audits are determined on a case-by-case basis, following an evaluation of risks and other factors. The Internal Audit Department at the holding company regularly communicates with the internal auditing departments of major Group companies, and thereby coordinates efforts to upgrade the Group's internal control and internal auditing systems.

### Compensation Paid to Directors and Executive Officers in FY 2008

	Directors		Executive Officers		Total	
	Recipients	Amount	Recipients	Amount	Recipients	Amount
Amounts based on resolution of the Compensation Committee	8 persons	¥118 million	14 persons	¥567 million	22 persons	¥686 million

- Notes: 1. The above compensation amounts include a total of ¥85 million in stock acquisition rights granted as stock options to directors and executive officers.  
 2. In addition to the above compensation amounts, ¥261 million in retirement benefits were paid to two directors who retired from the Board of Directors in FY 2008, pursuant to a resolution of the 67th Ordinary General Meeting of Shareholders held on June 23, 2004.  
 3. Compensation paid to the four outside directors totaled ¥64 million.  
 4. Eight directors also served as executive officers; their total compensation is included in the "Executive Officers" category.

In the case of Daiwa Securities Group Inc., internal auditing plans and the results of internal audits are reported to and approved by the Internal Control Committee, a subcommittee of the Executive Committee. The auditing plans and results for major Group companies are reported to and approved by committees such as the Legal Affairs and Compliance Committee. The Internal Audit Department at the holding company also reports the results of internal audits to the Audit Committee.

The Audit Committee conducts audits in collaboration with the Internal Audit Department and, when necessary, can ask the Internal Audit Department to research the items required to conduct the audits.

### **"Internal Control Report System" to Govern Financial Disclosure Activities**

In FY 2008, the government introduced legislation, under the Financial Instruments and Exchange Law, which requires management to submit reports on the internal control system used to oversee financial reporting. The objective of this regulation is to support the goal of "ensuring reliable financial reporting"—one of the four goals identified above. The reports that each company submits serve as a formal confirmation by company management that they approve of the control systems and believe that they are effective in ensuring accurate financial reporting.

To comply with this requirement, the Daiwa Securities Group has been working for several years to establish such systems. In FY 2006 we set up project teams at all of the major Group companies and solicited feedback and recommendations from outside advisors. The efforts were organized into four main categories—control of Group companies, oversight of Group IT activities, control of business processes, and verification measures—each of which was overseen by a separate working group. Each group compiled a list of the potential risks to accurate financial reporting in their area of focus, and possible internal control measures that could be used to monitor and evaluate these risks. At the end of this process, the Daiwa Securities Group determined that its internal control systems are adequate to ensure accurate financial reporting. A report on the Group's internal control systems was then compiled and disclosed in June 2009.

## Compliance

The Daiwa Securities Group's corporate principles identify "building trust" and "contributing to society" as among the most important goals of our business operations. We believe that compliance is necessary to "build trust." The goal of the Group's compliance activities is not merely to comply with laws and regulations, but to earn the trust of customers, the market, and the society in which we operate. Therefore we are constantly taking steps to educate and train executives and employees to uphold external regulations, exercise self-discipline and appropriate conduct, and thereby maintain high ethical standards to fulfill our role in society.

### The Daiwa Securities Group's Approach to Compliance

The Daiwa Securities Group aggressively conducts compliance training programs for its employees. These programs commence as soon as they enter the company and continue through regularly scheduled training sessions throughout their career, thus ensuring that every employee is aware of, and thoroughly understands, compliance issues. As the company pursues new business ventures in areas where the regulatory structure is still incomplete, employees are trained to approach all matters with strong self-discipline and legal awareness, refer to existing legal precedents whenever possible, and always adhere to accepted social norms of proper behavior.

In FY 2008, the Group responded to a number of recent cases of insider trading by making the study of insider trading issues a major topic of its activities. Insider trading is a serious concern because it can severely damage the public's faith in capital and financial markets. As a major participant in capital and financial market activities, the Daiwa Securities Group has a duty to make sure that it is never involved in this sort of activity.

The Group is taking steps to eliminate any and all relations with corporate racketeers and other antisocial groups. Daiwa Securities Group Inc. has organized a "Corporate Ethics Promotion Liaison Meeting" which meets once a month, in principle, and includes representatives from the departments responsible for compliance at each Group company. This meeting has been used as a venue to provide guidance on how to avoid contact with and influence

from these shady organizations. In response to guidelines on how to combat problems caused by antisocial groups, issued to corporations by the Japanese Cabinet Secretariat's Ministerial Meeting Concerning Measures Against Crime in June 2007, in FY 2008 the Daiwa Securities Group implemented a basic policy on antisocial groups which it has disseminated throughout the Group and announced to the public. We also surveyed and monitored the activities of all companies in the Group to address this issue, to ensure that the proper measures are being taken.

In accordance with revisions to the Financial Instruments and Exchange Law regarding the use of firewalls (often referred to as "Chinese Walls"), in June 2009, the Group introduced internal management structures and policies related to the proper control and use of information, which will prevent conflicts of interest and ensure that the interests of our clients are never compromised.

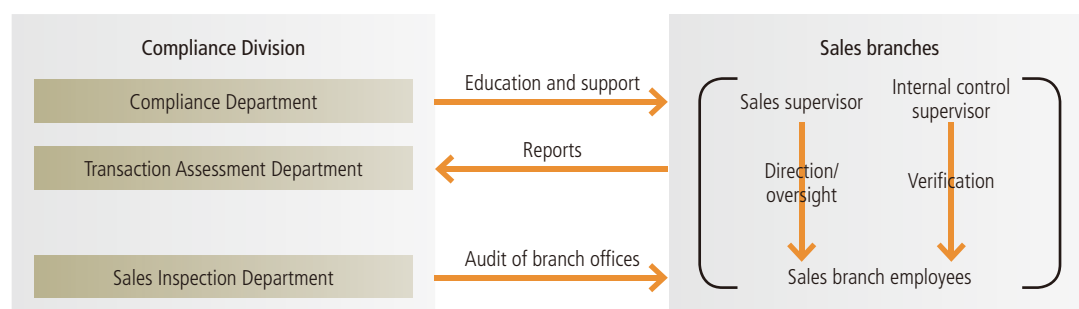
Daiwa Securities is taking measures, under the Group's compliance program, to establish an internal control system which will enforce strict compliance with laws and regulations, as well as with basic principles of proper social behavior. As part of this effort, the company established a Transaction Assessment Department whose role is to eradicate unfair trading practices and any form of coercion from antisocial groups, and thus uphold the integrity of the financial markets. This new department consolidates the former roles of several separate departments. The department is now able to analyze the background and business connections of individual clients—as

well as their stock holdings and trading activities—in a comprehensive way, to identify and take action against improper trading.

The Group is redoubling its efforts, through various types of training and employee education programs, to ensure that everyone in the company is familiar with internal control principles, while also improving the quality of sales activities and ensuring that they are appropriate.

In FY 2009, we intend to extend these programs further, in order to provide customers with the highest level of consulting and investment services possible from savings to investment. While devoting ourselves to the growth and preservation of healthy, transparent financial markets, Daiwa Securities is establishing internal control systems that can improve both the efficiency and effectiveness of operations.

#### Compliance Structure at Daiwa Securities



Daiwa Securities SMBC has identified legal compliance and the creation of a strict internal control structure as among the most important issues for management to address. The company has formulated a detailed compliance strategy, which it has implemented as part of its compliance program. In FY 2008 Daiwa Securities SMBC continued measures aimed at complying with the “Guidelines for Financial Instruments Business Supervision,” which

the Financial Services Agency issued as part of the revisions to the Financial Instruments and Exchange Law. The company also took steps to strengthen its compliance systems for eliminating transactions with antisocial groups, and conducted training programs for all employees and executives to ensure that they are aware of and comply with all laws and regulations.

# Risk Management

While the Daiwa Securities Group pursues profitability and growth, it also recognizes the importance of accurately identifying, evaluating, and effectively controlling the various risks associated with its business operations. Our objective is to steadily improve corporate value, by maintaining a sound financial base and profit structure, properly balancing risks and returns, and anticipating any possible business scenarios that might elevate risk.

## Basic Risk Management Policy

The Daiwa Securities Group has established basic risk management regulations governing all activities by Group companies to manage risk, to ensure that they conform to the following basic policies:

1. Management shall demonstrate an active concern for managing risk.
2. An appropriate and comprehensive risk management structure shall be established to address the specific characteristics of risk faced by Group companies.
3. All risk management processes shall be clearly identified.

## Risk Classification

The Daiwa Securities Group faces various risks in the course of its business activities. The Group therefore believes that it is important to properly identify, evaluate, and manage these risks in order to maintain healthy financial and earnings structures. In line with this approach, the Group has established risk management systems at each company which have a particular focus on the respective company's business characteristics and risk profiles. These systems cover market risk, credit risk, liquidity risk, operational risk, systems-related risk, legal and compliance risk, and reputation risk.

## Risk Management System

Any changes to the risk management structure, or any revisions to the internal regulations governing risk management in the Daiwa Securities Group, shall be subject to approval by the Board of Directors. Risk shall be monitored constantly to maintain a grasp of the Group's overall risk exposure, and issues related to the risk management structure of every Group company shall be reported to and discussed by the

Internal Control Committee, a subcommittee of the Executive Committee.

Reports on the Group's exposure to risk shall be evaluated not only in light of general risk management standards but also in terms of their relation to the Group's business strategy. Risk exposure shall therefore be considered as a very important matter by the Board of Directors, when preparing the Group's business plan, and by the Executive Committee, when deciding how to allocate capital resources.

Of the many risks which the Group faces, market and credit risk stemming from trading activities are especially important, since securities-related operations are central to the Group's business activities. It is imperative that the Group manage these risks effectively, in order to ensure financial stability.

Daiwa Securities SMBC, Daiwa Securities SMBC Europe, and Daiwa America Corporation conduct most of the trading within the Daiwa Securities Group. Daiwa Securities takes relatively small trading positions in situations where market risk exposure exists; market risk and credit risk emanating from this trading are therefore limited.

Daiwa Securities SMBC is responsible for its own risk management and that of its subsidiaries. The main authority related to risk management rests with the Risk Management Committee, which determines risk management policy, procedures, and risk frameworks for the trading positions of Daiwa Securities SMBC and its subsidiaries. It has set up a risk management system to monitor measured risk and ensure that it does not exceed the upper limit established for the trading departments, and to report risk conditions to management. Reports on market risk related to trading positions are submitted to management on a daily basis, while reports on credit risk are submitted every month. Comprehensive

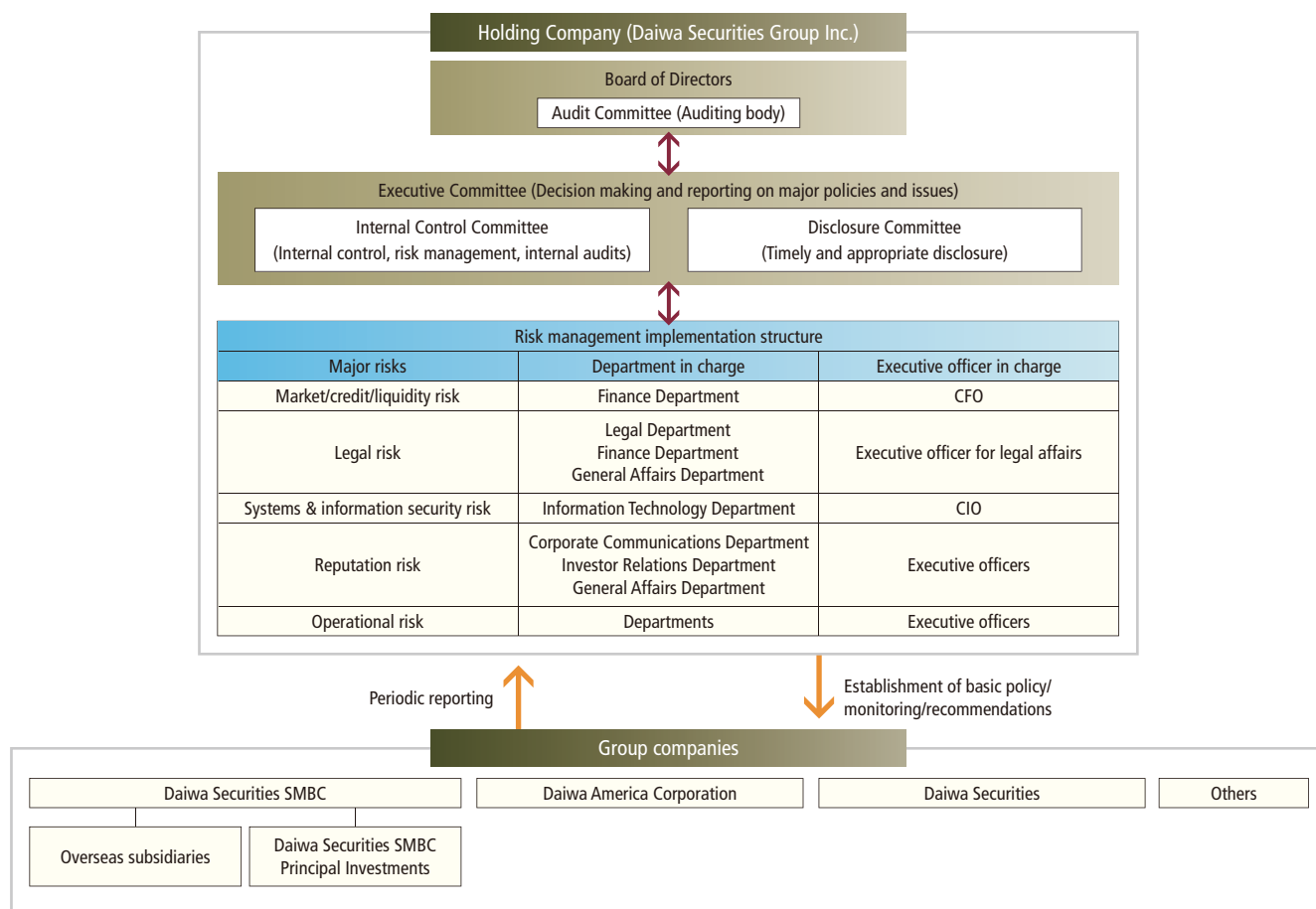
reports, including information on other elements of risk, are submitted regularly to the Risk Management Committee.

Daiwa Securities SMBC Europe and Daiwa America Corporation have built independent risk management systems based on local laws and regulations. Reports on market risk and credit risk related to trading positions are made regularly, both to local management and to the risk management division at Daiwa Securities Group Inc. The management of Daiwa Securities Group Inc. receives daily risk reports on trading positions at the aforementioned subsidiaries via its department in charge of risk management. These reports give the Group's management team an accurate grasp of the risk profile of its trading positions.

In addition, comprehensive and exhaustive reports are made to the Internal Control Committee regarding market and credit risks related to financial assets other than trading positions. Based on these reports, Daiwa Securities Group Inc. monitors risk conditions, and determines whether the capital of subsidiaries—capital invested by the Daiwa Securities Group Inc.—is being exposed to excessive risk.

In order to address the rising scale and increasing complexity of risk, the Group has been working to develop more advanced statistical methods of quantifying risk, while introducing effective methods of managing the changes in risk conditions caused by changes in the market environment and revising them when appropriate. In this way, the

### Risk Management System





Group ensures that risk can be kept at appropriate levels relative to management capabilities and financial strength. Furthermore, the Group manages capital in a comprehensive manner, which takes into account the relative risk and return of each business segment, in an effort to generate an appropriate return at an acceptable cost of capital, thus maintaining earnings growth.

## Major Risks and Methods of Management

### MARKET RISK

Market risk refers to the risk of incurring losses due to market fluctuations, which affect the value of stock prices, interest rates, foreign exchange rates and commodities prices. Most of the Group's trading positions

are exposed to market risk, and it is therefore of paramount importance to quantify the impact that market fluctuations have on the value of financial assets or liabilities, to gain a more objective understanding. Therefore, the Group employs Value at Risk (VaR), with a confidence level of 99% and a holding period of one day, as an index to help understand the potential impact on the Group as a whole. In addition, stress testing and scenario analysis are used to help the Group anticipate and control the total scale of risk that could emerge in the case of unprecedented market fluctuations. Furthermore, upper limits are set for each individual risk factor, based on the characteristics of the risk, to ensure that the Group is prepared for any change in risk profile.

### Value at Risk

Range and Assumption of VaR • Confidence level: 99% Holding period: 1 day • Adjusted for price correlation between products

Daiwa Securities Group Inc. (Consolidated)

(Billions of yen)

	3/07	6/07	9/07	12/07	3/08	6/08	9/08	12/08	3/09
VaR (Month-end)	2.18	1.95	2.60	2.78	2.72	3.16	2.65	1.83	3.89
Quarterly High	3.55	4.10	5.79	3.89	3.01	4.56	2.75	9.95	7.99
Low	1.14	1.28	1.50	2.02	1.71	2.09	1.30	1.41	1.39
Average	2.13	1.91	2.75	2.90	2.32	2.95	2.10	3.16	3.18

By Risk Factor (Month-end)

Equity	0.98	1.24	1.78	1.65	1.57	1.44	0.59	0.67	0.89
Interest	0.80	1.51	1.23	1.93	1.78	3.73	2.87	1.29	2.75
Currency	1.63	0.54	1.28	1.48	1.61	1.03	1.39	0.75	2.88
Commodities	0.12	0.17	0.00	0.00	0.04	0.02	0.00	0.01	0.24

### CREDIT RISK

Credit risk refers to the risk of any losses caused when a client, to which the Group extended credit, suffers a deterioration in financial conditions, a valuation loss on assets (including off-balance-sheet assets), or for some other reason is unable to repay its debt. In the wholesale securities business, where the exposure to credit risk is comparatively large, the Group assigns credit limits to each transaction

partner on the basis of a credit evaluation model that incorporates such factors as the credit period, availability of collateral, and validity of associated contracts, to determine the probability of repayment. In addition, VaR calculations are used to ensure that the credit portfolio is kept at appropriate levels, and periodic checks are conducted to verify the suitability of overall risk exposure.

## MARKET RISKS AND CREDIT RISKS UNRELATED TO TRADING POSITIONS

The Group also owns investment securities unrelated to its trading positions that are held from a long-term perspective for the purpose of maintaining business relationships, as well as private equity and other investments related to the venture capital and principal investment businesses. Since the market risk, credit risk, and other forms of risk associated with these investment assets vary in nature, the Group adopts indicators that are appropriate to the particular type of risk (such as the balance of assets held, classification of holdings by credit rating, or VaR), and regularly monitors risk and credit conditions, in order to manage the credit limits appropriately.

## LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty procuring funds, or that the financing cost will rise significantly higher than normal, due to changes in the market environment or an unexpected credit crunch. While the Group employs a variety of assets and liabilities in its business activities, it strives to keep liquidity at an appropriate level, taking into account the balance between financial efficiency and stability. The Group as a whole holds a liquid portfolio totaling ¥875.6 billion (as of March 31, 2009) consisting mainly of cash, deposits, government bonds and other highly liquid instruments. By doing so, it maintains sufficient liquidity to ensure that business activities are not interrupted, even in the event of a credit crunch. During the latter half of FY 2008, in particular, the Group increased liquidity on hand in order to address the uncertainty created by the global financial crisis.

## OPERATIONAL RISK

Operational risk is the risk of incurring losses due to inappropriate or malfunctioning internal processes, personnel, or computer systems, or due to adverse external events.

As the Group's business becomes more sophisticated, diversified, and systemized, the accompanying risks become more varied, and the need to manage such operational risk grows each year.

Specialized sections have been set up in each company to address operational risk, and conferences are held to consider the necessary issues.

Due to the diversifying nature of its business, the Group sets rigid rules concerning authority, automates office work processes to reduce human error, prepares business manuals, and takes other necessary measures. Each Group company strives to reduce operational risk according to the nature of its own business.

## SYSTEMS-RELATED RISK

One form of operational risk is systems-related risk, which refers to the potential for incurring losses due to a computer breakdown or malfunction or other systems-related problems. It also covers the risk of losses caused by the inappropriate release of information or improper use of computers.

The Group has established an information security policy, centering on systems risk management, aimed at mitigating these types of risk. The Group has set security standards (regulations related to information security) and works to ensure that executives and employees understand and fully comply with those standards.

In addition, the Group constantly monitors the operating status of its core systems to keep disorder to an absolute minimum. Even if problems do occur, the Group has procedures in place to respond to them swiftly.

### LEGAL RISK

Legal risk includes regulatory risk, risk regarding compliance with the law and litigation risk, and refers to the potential for incurring any of a variety of losses due to noncompliance with legal and other regulations, lawsuits, invalid contracts with third parties, or violations of corporate ethics rules. Such potential losses may include loss of reputation as a service provider or loss of business.

The Group is engaged primarily in securities-related activities, and employs group management. It must abide by the Financial Instruments and Exchange Law, and observe the associated laws and regulations when executing securities transactions, and comply with various regulations in general operations outside of the securities business. Even in non-operational matters, high standards of discipline are expected of financial instruments dealers and brokers and their personnel with regard to market rules and regulations, insider trading-related and otherwise.

To ensure that these regulations are observed, the Group has set up compliance sections at each company and established committees to discuss and resolve compliance issues and matters related to corporate ethics.

Securities transactions and other third-party agreements often require high levels of specialization to determine the legality of contracts and suitability of processes. In response to such cases, the Group has consulting agreements with law firms, including overseas firms, to obtain legal advice.

### REPUTATION RISK

Reputation risk refers to the possibility of the Group sustaining unforeseen losses due to deterioration of its reputation, caused by the spread of rumors or erroneous economic information. There are no uniform procedures for managing reputation risk, because it can emanate from a variety of sources.

The Group has established various regulations under its Disclosure Policy, with particular emphasis on the management and provision of information. It has also set up the Disclosure Committee within Daiwa Securities Group Inc.

Each Group company is charged with the task of reporting information on reputation risk to the Disclosure Committee. Information is obtained and centrally managed at Daiwa Securities Group Inc., which disseminates it in a prompt and accurate manner according to the decisions of the Disclosure Committee.

The Group works hard to keep abreast of problems and occurrences that may affect its reputation, so that if and when such problems do occur, their impact on the Group can be minimized. It also acts to ensure that erroneous and inaccurate information is properly corrected, and responds appropriately to libel and other issues. The Group has public relations and investor relations systems in place to prevent and minimize risks to its reputation.

## Financial Strategy

In order to maintain a healthy balance between financial stability and effectiveness, the Daiwa Securities Group concentrates on finding ways to use financial resources to enhance corporate value. The Group seeks to maintain an appropriate level of liquidity through effective yet flexible methods of procuring and utilizing capital that reflect market conditions. Furthermore, the Group strives to maintain a healthy balance between assets and liabilities to ensure that its financial condition remains constantly stable.

### Effective Methods of Procuring Capital

The Daiwa Securities Group uses a diverse assortment of methods to raise capital, including the issuance of straight corporate bonds, medium-term notes, loans from other financial institutions, commercial paper, call money, *gensaki* trading (repurchase agreements), repo operations, and stock lending. The Group considers market conditions and adopts an appropriate mix of these methods in order to procure capital effectively. When utilizing medium- and long-term instruments, such as straight bonds and medium-term notes, the Group maintains a constant awareness of trends in the financial markets, procuring capital at the most advantageous time possible.

### Financial Stability

The Daiwa Securities Group exercises great care to ensure that it always has access to a stable supply of funds, and thus avoid any situation that might jeopardize the Group's continued viability in the case of extreme fluctuations in economic and financial conditions. In particular, the Group continuously monitors whether there are sufficient funds on hand and funding capabilities to maintain unsecured current liabilities. Any time there are signs that the financial markets are entering a period of volatility, the Group responds promptly to increase liquidity and prepare itself for any unexpected eventualities.

### Group-Wide Capital Management

Daiwa Securities Group Inc. is responsible for monitoring and managing liquidity conditions for the Group as a whole. Although the Group's domestic and overseas securities subsidiaries (including Daiwa Securities and Daiwa Securities SMBC), and Daiwa

SMBC Capital conduct their own fund-raising activities and have their own internal systems for maintaining liquidity, the holding company nevertheless monitors their activities and conditions constantly. Daiwa Securities Group Inc. also conducts the basic capital procurement activities for other subsidiaries, and manages finances comprehensively with the goal of allocating capital effectively.

### Contingency Plan

The Group has established a contingency plan to maintain business operations for more than one year under any situation that might arise in which sudden market fluctuations make it difficult to procure capital on unsecured short-term credit. The details of this contingency plan are monitored and reviewed on a regular basis, and both the capital procurement plan and the contingency plan are adjusted, when necessary, to account for any new risk scenario which might become apparent.

### Financial Strategy Under the Medium-Term Plan, "Passion for the Best" 2011

Under its new medium-term management plan, the Daiwa Securities Group has adopted a financial strategy which aims to strengthen the Group's financial base and allow it to manage finances more flexibly. To this end, the following three measures will be adopted.

#### 1. IMPROVE FINANCIAL HEALTH AND STABILITY BY EXPANDING THE FINANCIAL BASE

In order to provide an ample financial base to support operations, the Group intends to revise its capital allocation strategy. Businesses which require large

balance-sheet commitments will be examined carefully and the Group's holdings of investment assets will be managed with greater care. The Group also plans to rein in capital investment and trim expenses, in addition to subjecting future investments to more stringent checks, to ensure that they contribute to greater profitability. In particular, the Group will establish a clear ranking of priorities for capital investment with a view to managing the overall capital spending budget more carefully, and make cost a primary consideration when deciding whether to obtain equipment or capabilities in-house or to outsource them.

## 2. ENHANCE CAPITAL PROCUREMENT ABILITY IN ORDER TO RESPOND FLEXIBLY TO GROWTH OPPORTUNITIES

The Group will take steps to enhance its ability to procure capital, giving it greater flexibility to obtain capital and operating funds, and to fund investment that could lead to growth opportunities. In addition to adopting a broader range of methods for capital procurement, and

seeking funds from a greater variety of sources, the Group will revise its management structure so that it can employ existing methods of obtaining funds more flexibly. The Group will strive to maintain an appropriate balance between dividend payments and retained earnings, so that it will always have sufficient capital to pursue growth opportunities.

## 3. STRENGTHEN THE MANAGEMENT STRUCTURE AND IMPROVE GROUP-WIDE COORDINATION

The Group intends to establish more effective accounting systems and other forms of financial infrastructure, in order to ensure that it can swiftly obtain precise consolidated financial information for the Daiwa Securities Group as a whole. In addition, it will promote greater coordination among members of the Daiwa Securities Group and a unified management structure, particularly in regard to issues such as capital procurement and risk management. In this way, the Group intends to make financial management activities more flexible and more effective.

### Financial Strategy Under "Passion for the Best" 2011 Management Plan—Capital Allocation

	As of March 31, 2009	April 2009–March 2012 (Period covered by the medium-term management plan)
Consolidated net assets	¥952.3 billion	<p>Increases in net assets will be concentrated at the holding company and used to pursue future investment opportunities.</p> <ul style="list-style-type: none"> <li>The increased capital will be allocated by the holding company to each division, taking into account the risk and anticipated return both for the Group company and on a consolidated basis.</li> <li>Limits on investment in each division will be established and managed in proportion to allocated capital.</li> </ul>
<b>Core divisions</b>		
Retail	¥238.6 billion	Maintain retained earnings levels appropriate to the scale of operations. (Steady or gradually increasing net assets; most earnings paid as dividends to holding company)
Wholesale*	¥569.3 billion	Select investment targets in each business carefully and use subordinated debt to adjust risk levels.
Asset Management	¥55.4 billion	Maintain retained earnings levels appropriate to the scale of operations. (Steady or gradually increasing net assets; most earnings paid as dividends to holding company)

\* Includes both Daiwa Securities SMBC (consolidated) and Daiwa America Corporation

## IT Strategy and Information Security

The Daiwa Securities Group is investing aggressively and flexibly in the latest information technology (IT), which allows the Group to respond swiftly to the many challenges of its broad and diversified securities business. We view the data that flows through the organization, including information on clients, as an important management resource—the very lifeblood of the organization. Therefore, the Group has established a variety of policies to protect that information from being misused by individuals either inside or outside the Group. Our high-level information security management system allows the Group to fulfill its social responsibility to protect internal information and to increase corporate value.

### IT Strategy

The Daiwa Securities Group aggressively introduces IT which allows the Group to respond effectively to the rapidly diversifying and increasingly sophisticated securities business. The Group has adopted an IT strategy, as part of its overall business strategy, which includes plans to expand Daiwa Securities' online trading operations, and to greatly enhance the functions and capabilities of equity and bond trading systems at Daiwa Securities SMBC.

In order to provide IT support to all companies in the Group more efficiently, we are taking steps to optimize IT functions and ensure that Group companies receive the most appropriate and efficient IT services possible. As a part of this effort, we have restructured the former Daiwa Institute of Research which is in charge of the core systems development and management function for the Group.

### IT Organization

Although it is investing aggressively in IT infrastructure, the Daiwa Securities Group is also doing its utmost to ensure that the Group's IT systems are cost-efficient. The Group tries to develop systems that can be adopted uniformly (or at least partially standardized) at all Group companies. In this way, we are making every effort to build an overall Group IT infrastructure with as little duplication and waste as possible.

Systems that have already been developed and introduced are also being downsized and adjusted to incorporate the latest technology. We are re-evaluating the units which operate and maintain these systems, in an effort to cut costs even further.

### Structures and Measures for Maintaining Information Security

The Daiwa Securities Group has adopted a full spectrum of information security policies at companies throughout the Group to ensure that the important personal information received from customers and all information resources within the Group are managed in a secure and appropriate manner. We are constantly taking steps to improve and maintain information security at all companies in the Group at the highest level possible.

Among the organizational measures that we have adopted is an "Information Security Policy" which dictates the basic measures that all companies in the Group must adopt for handling information. In addition to introducing these information security rules at each company, we have appointed a "Chief Information Security Officer" at each Group company to oversee information management activities, and established a Group IT Management Council at Daiwa Securities Group Inc., which is responsible for discussing any issues pertaining to information security and reporting any information security risks to the Internal Control Committee.

A variety of technical and structural measures have also been introduced to enhance security and ensure that Group information resources are managed appropriately, such as a paperless bookkeeping system and high-security access controls at the data center. The online trading systems of Daiwa Securities employ highly advanced encryption technology for data transmission and to verify a user's identity, ensuring that clients are able to use the system safely and securely.



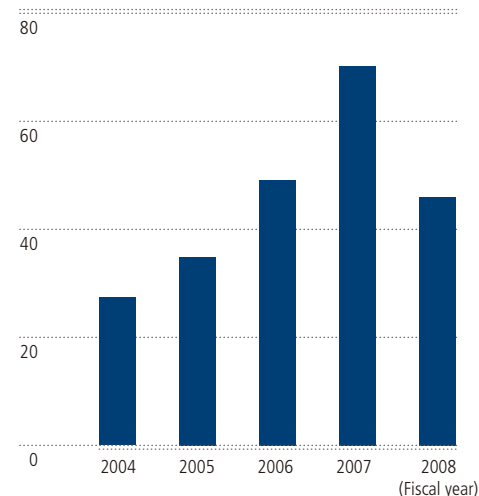
### Efforts to Enhance the Level of Information Security

The Daiwa Securities Group is promoting the use of an Information Security Management System (ISMS) throughout the Group, and we are constantly examining new ways to improve information security through a cyclical approach: “Plan → Do → Check → Act.” Some companies in the Group have already earned ISMS certification, as well as the “Privacy Mark” certification, which certify the effectiveness of their information security systems.

### Educating Personnel About Information Security Issues

The Daiwa Securities Group understands the importance of human factors in effective information security systems; therefore, we have introduced programs to educate all executives and employees in the basics of information security. A range of training programs has been designed with content specially tailored to the functions of section managers, those in charge of security-related operations, and other employees. The programs offer group-sessions, as well as e-learning.

**Trends in Group-Wide IT Investment**  
(¥ billion)



### IT Strategy Under “Passion for the Best” 2011 Management Plan

Develop an IT function and framework with a competitive advantage, developed according to Group strategies and cost considerations

- » Build an efficient and flexible systems development and management framework
  - Optimize the Group’s IT organization while reducing total cost and scale
  - Review the allocation of IT functions among Group companies and develop an IT support system that can respond to changing conditions
- » Reinforce global development
  - Cooperate with overseas IT developers and strengthen the IT development base in Asia and emerging countries
- » Pursue cost efficiency and provide stable systems services
  - Reduce systems-related costs by unifying infrastructure and improving productivity in system development and management
  - Review the service content and level of each system to achieve higher security and a lower total cost
- » Improve IT-related knowledge within the Group

### Outlook for the Group’s IT Investment

	IT investment amount (for three years)	
	New medium-term plan	Previous plan
Retail	¥37.2 billion	¥61.2 billion
Wholesale & investment	¥43.1 billion	¥73.8 billion
Asset management	¥3.3 billion	¥4.0 billion
A total of three divisions	¥83.6 billion	¥139.0 billion

Note: Includes investment by DIR. No new investment or large-scale investment related to regulatory changes is expected in FY 2010 or FY 2011.

# Disclosure

The Daiwa Securities Group strives to earn the confidence of stakeholders by meeting the very highest standards of disclosure among Japanese companies. We work proactively to provide fair, prompt and appropriate information to customers, shareholders, investors, the local community and employees in order to ensure that all of these stakeholders receive a clear understanding and proper evaluation of the Group's business activities.

## Disclosure System

The Daiwa Securities Group has formulated a Disclosure Policy which confirms the Group's basic approach to information disclosure and strives to provide information in a fair, prompt and appropriate manner.

In addition, Daiwa Securities Group Inc. has established a Disclosure Committee—a subcommittee of the Executive Committee—as stipulated in the Group's Disclosure Regulations, which were established in order to ensure concrete implementation of the spirit of the Disclosure Policy. This Committee is responsible for making final decisions regarding the disclosure of information. Major Group companies have established their own regulations

for “management-related information,” which govern the appropriate collection of information and presentation of reports to Daiwa Securities Group Inc.

The responsibilities for disclosure are clearly allocated, based on the intended recipient of the information. The Investor Relations Department handles disclosure to shareholders, investors and analysts. The Corporate Communications Department is responsible for communications with the mass media, and the CSR Promotion Department provides information to local communities. Information is released through a variety of media, including via the Internet and in print. In addition, representatives from disclosure-related divisions of all Group companies take part in the Group PR/IR Meeting, which convenes once a month, to discuss the issues that affect disclosure activities for the Daiwa Securities Group as a whole.

### Daiwa Securities Group Disclosure Policy

- The Daiwa Securities Group will disclose important financial, social and environmental information about the Group (“Management-Related Information”) in a prompt, fair and appropriate manner, so that our stakeholders, (including shareholders, investors and the communities we operate in) may understand and maintain realistic expectations of the Daiwa Securities Group.
- The Group will comply with the Financial Instruments and Exchange Law and other laws and ordinances related to securities transactions and the various rules of the financial instruments exchanges on which our stock is listed.
- The Group will strive to disclose information fairly, in terms of both content and timing.
- The Group will utilize various communication channels including presentations, telephone conferences, the Internet and printed materials to disclose information in a manner that is easy for investors to comprehend.
- The Group will keep in mind its responsibility to set an example for other listed corporations, in terms of disclosure, and will strive to promote healthy markets.
- To ensure that these policies are implemented properly, the Group has established disclosure regulations which include guidelines for disclosing management-related information and standards for establishing a Disclosure Committee.

## Enhancing Investor Relations Activities

The Daiwa Securities Group supplies shareholders and investors with data and explanations of its earnings results, business strategies and progress towards strategic goals in a forthcoming manner. These disclosure activities also solicit feedback, providing management with information on market reactions and opinions to help them improve management transparency and efficiency, and thereby boost corporate value in the eyes of investors.

The Group strives to disclose information in a fair, prompt and appropriate manner, and takes steps to eliminate any disparity between the information available to domestic stakeholders and that provided to overseas stakeholders. Information on quarterly financial results is posted on the Investor Relations (IR) page of the Group's website immediately after the official announcement. The IR Department

conducts a conference call with domestic analysts and institutional investors on the evening of the same day, which is also streamed on the IR website, in real time. A conference call with overseas investors is conducted later that same evening. Since FY 2007, the Group has organized “IR themed meetings,” at which executive officers from selected business divisions explain their activities and discuss key issues with securities analysts and institutional investors.

The Group’s CEO holds Group strategy meetings for securities analysts and institutional investors in Japan twice a year. In addition, the top management travels overseas to meet with institutional investors. In FY 2008, the team held conferences as usual with investors in Europe, the US, Hong Kong and Singapore.

The Group is also seeking ways to improve communication with individual shareholders and investors. During FY 2008, the sub-prime loan crisis in

the US set off a financial crisis which spread to markets around the globe. In Japan, as well, investors watched the value of their stock portfolios decline; this made individual investors particularly averse to investment risks and disinclined to invest in stocks and other instruments with higher exposure to risk. In an effort to communicate with these individual investors and help them to fully understand the situation, the Daiwa Securities Group took part in many large-scale IR seminars organized by Nikkei Inc. (the publishers of the “*The Nikkei*” newspaper) and the Tokyo Stock Exchange.

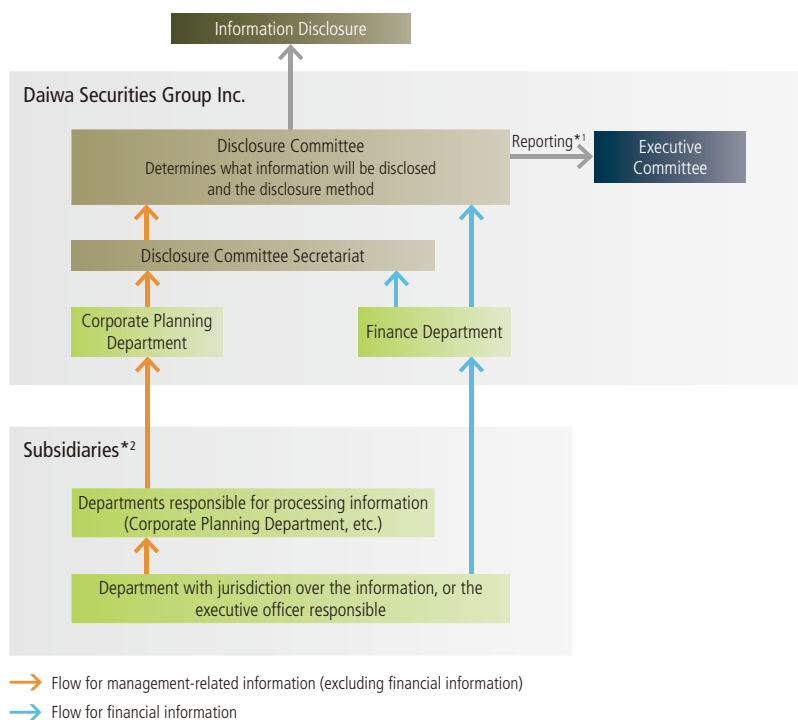
To further facilitate communication and understanding, we have taken steps to improve the convenience of the Group’s IR website, and published a “Fact Sheet” in both Japanese and English, as a tool to communicate with individual investors and offer basic information on the Daiwa Securities Group and its business activities.

In order to encourage more shareholders to attend the General Shareholders’ Meeting, which gives Group representatives an opportunity to interact directly with shareholders, since 2006 we have been holding the Meeting on a Saturday, in a spacious conference room at a hotel. For those shareholders who are unable to attend the meeting in Tokyo, the Group broadcasts this event via live satellite transmission to venues in Osaka and Nagoya, as it has done in the past. To encourage investors to exercise their voting rights, the Group allows shareholders to vote via the Internet or by mobile phone.

In FY 2006, we joined the “Electronic Voting Platform for Institutional and Foreign Investors,” which allows institutional investors both in Japan and overseas to vote quickly and directly on proposals to the General Shareholders’ Meeting via the Internet.

The Group will continue to develop an IR structure that is tailored to the needs of each type of investor, in a concerted effort to communicate frankly and proactively with all of our stakeholders. In this way, we hope to serve as an example to other listed companies of how to communicate with investors, and thereby help to promote a more vibrant securities market.

**Flowchart of the Daiwa Securities Group’s Disclosure Activities**



\*1 Reporting on all items that the committee chairman determines to be “important”

\*2 Includes all companies in the group, whether direct subsidiaries of the holding company, or subsidiaries of other subsidiaries

# Human Resource Management

The Daiwa Securities Group derives much of its competitive strength from its personnel. To maximize competitiveness, the Group fosters an environment in which all employees are motivated to enhance their abilities and realize their full potential. We actively encourage employees to upgrade their skills, and we are striving to establish a personnel management system that can evaluate employee performance more accurately.

## Group Personnel Policy

The Daiwa Securities Group is keenly aware of the importance of our employees, who are the wellspring of the Group's competitiveness. Our stated policy is to "emphasize the creativity of each employee, foster a free and vigorous corporate culture filled with the spirit of challenge, and accurately evaluate the performance and contributions of employees." It is employees who supply the effort and inspiration needed to elevate shareholder value. Therefore, one of the best ways for a company to improve the satisfaction of its investors and customers is to seek out optimal systems and methods for motivating employees.

## ADVANCED EVALUATION SYSTEM AND PERFORMANCE-BASED REMUNERATION

The Daiwa Securities Group adheres strictly to results- and performance-oriented standards of evaluation, in order to ensure that its personnel system is fair and objective. The Group uses a two-way evaluation system, in which superiors and subordinates evaluate one another, as well as a multidirectional evaluation system, in which employees are evaluated by other closely related divisions and Group companies, based on objective criteria. We also conduct "evaluator training" programs to enhance the evaluation skills of employees. In accordance with the Group's performance-oriented standards, Daiwa Securities has established the "President's Awards," which are awarded twice a year in an effort to further motivate employees. Similar awards programs have been introduced at Daiwa Securities Group Inc. and Daiwa Securities SMBC.

The Group has also adopted an employee remuneration system that is based on job category as well as performance appraisal using a detailed, job-specific evaluation process. At the deputy general manager level, this could result in up to 12-fold differences in bonuses and up to five-fold differences in salary, based on results from FY 2008. Performance-based annual remuneration systems were introduced for analysts and fund managers whose annual salaries are determined to reflect analyst rankings or fund performance.

## SKILL ENHANCEMENT OPPORTUNITIES AND CAREER DEVELOPMENT OPTIONS FOR EMPLOYEES

The Daiwa Securities Group continues to upgrade personnel support systems which encourage employees to enhance their skills and obtain qualifications related to financial services, such as financial analyst or financial planner. We also offer various programs that train employees in important skills, helping them improve their ability to give presentations or coach subordinates, and developing their leadership qualities. From FY 2008, the Group commenced full-scale introduction of a career advancement system based on employees' qualifications. Under this system, employees must earn a specified number of "qualification points" in order to receive promotion to a given job level. Points are awarded when the employee meets certain certification-based criteria, and the number of points awarded increases relative to the difficulty of earning the particular qualification. This system provides employees with greater incentives to enhance their abilities.

In addition, we have adopted an intra-Group job posting system, which allows employees to embrace new challenges by moving to a department of their choice within the Group. Since its introduction in 2000, the system has attracted 745 applicants, 135 of whom have successfully qualified for transfers.

## PROMOTING A BALANCE BETWEEN WORK AND PERSONAL LIFE

If employees are able to maintain a harmonious balance between work and private life, enjoying a healthy and rewarding lifestyle, their motivation and loyalty to the company will increase, making them valuable assets to any organization. The Daiwa Securities Group recognizes the importance of this relationship in attracting and keeping top-quality personnel, as well as in ensuring that it can achieve sustainable development as an enterprise. Consequently, the Group has continuously promoted the concept of a "Work-Life Balance."

- **The “Work-Life Balance Promotion Committee” and “Work-Life Balance Promotion Section”**

The Group’s efforts to ensure that all employees enjoy a healthy balance between work activities and their personal life have taken a more concrete step forward with the creation of a “Work-Life Balance Promotion Committee” at Daiwa Securities Group Inc. The committee is supervised by the Group CEO, who also has assumed the post of “Chief Work-Life Balance Officer” (CWO). In addition, a new section has been established within the Personnel Department of Daiwa Securities Group Inc., to coordinate this effort. The staff members assigned to this new “Work-Life Balance Promotion Section” have been given the task of helping employees of the Daiwa Securities Group achieve a better balance between work and personal life.

- **Encouraging Employees to “Leave the Office by 7 p.m.; Make Full Use of Paid Annual Leave”**

As part of its efforts to promote a work-life balance, beginning in 2007, Daiwa Securities Group Inc. and Daiwa Securities have been encouraging a “Leave the office by 7 p.m.” policy, and Daiwa Securities SMBC adopted the same policy in 2008. In addition, these three companies in 2008 adopted a policy that encourages employees to make full use of their paid annual leave.

- **Family Visits to the Workplace**

In August 2008, the Group organized an event that gave family members an opportunity to visit the office to express thanks for the support they provide to employees on a daily basis, while helping them to better understand the work that their parents/spouses do for the Daiwa Securities Group. In this way the Group hopes to promote an even better balance between work and personal life. Some 4,400 family members took part in this event.

- **Work-Life Balance Seminars**

Starting in November 2008, the Group has begun conducting internal company seminars to help promote a clearer understanding of what “work-life balance” means, and what the Daiwa Securities Group is doing to promote a better balance between work and personal life. To date, 20 such seminars have been conducted and about 1,600 employees have taken part.

- **Other Human Resource Initiatives**

In 2008, the Ministry of Health, Labour and Welfare launched a “Work-Life Balance Promotion Project.” This project recognizes the efforts of companies which are influential in Japanese society and which have adopted exemplary policies to help employees better balance their work and their personal lives. Daiwa Securities Group Inc. was selected for this recognition and we will continue efforts to help employees achieve a better balance between work and personal life.

In addition, the CEO of Daiwa Securities Group Inc. was named as joint chairman of the “Committee on Population Issues,” which was established by Nippon Keidanren in 2005. This organization tries to promote nationwide awareness of the problems caused by Japan’s low birthrate and develop strategies to guide a society that is experiencing a population decline, while pursuing activities that provide Japanese companies and organizations with a fuller understanding of the need for work-life balance.

### **Human Resource Initiatives Under the New Medium-Term Management Plan**

Under the Daiwa Securities Group’s new medium-term management plan, one of the main themes of our human resources strategy is to “encourage each employee to become a true professional in their work activities.” This strategy includes specific measures such as the following:

1. Assignment and allocation of personnel to strategic, high-priority areas
2. Measures to train true financial professionals
3. Efforts to promote a better balance between work and personal life

### **Offering Greater Job Satisfaction**

The Daiwa Securities Group aims to establish itself as one of Japan’s top corporations in terms of earning the trust of all stakeholders. Since that naturally includes employees, the human resource policies adopted as part of our medium-term management plan include efforts to achieve and maintain high employee motivation. We are taking a variety of steps to make sure that all employees who work for the Daiwa Securities Group (1) feel a strong sense of loyalty to the Group, (2) understand and take pride in their roles and responsibilities in the workplace, and (3) develop harmony and cooperation with the company they work for, as well as with their fellow employees.



### MENTAL HEALTH CARE SUPPORT

Daiwa Securities Group Inc. has established a Mental Health Support Department, which includes on-site clinical psychotherapists stationed at the company headquarters. This department provides confidential consultation services to employees who are experiencing anxiety, insecurity or stress, in an effort to support the mental health of all Group personnel.

### EFFORTS TO FOSTER A SENSE OF COMPANY UNITY

The Daiwa Securities Group understands that employees need to maintain a harmonious balance between work and private life, and that leisure activities can be invaluable as a way to deepen friendships and a sense of solidarity among Group employees. Therefore, in FY 2007, the Group introduced a "Support System for Club Activities," and a "Support System for Internal Company Events." To date, employees have established 12 separate clubs under the "Support System for Club Activities."

### SUPPORT AND EMPLOYMENT FOR VETERAN PERSONNEL

The Daiwa Securities Group has always sought ways to leverage the skills and capabilities of older employees who have the desire to continue working, by rehiring them after the official date of their retirement. In response to the government's "Revised Law for the Stabilization of Employment of the Aged," we introduced the "Daiwa Master System," which will allow the company to benefit even further from the contributions of veteran employees, in the future.

### SUPPORT FOR WORKING MOTHERS AND OTHER SUPPORT SYSTEMS FOR WOMEN

For many years, the Daiwa Securities Group has taken an active role in supporting working women. The Group continues to actively recruit female employees and encourage their contributions. As a result, not only is the number of women rising year by year, but the Group is actively promoting many of them into managerial positions. In recognition of these efforts, *Nikkei Woman* magazine ranked Daiwa Securities Group as Japan's 7th-best company, overall, in terms of its treatment of women, as part of its "Survey and ranking of corporations in their use of female employees." Furthermore, this survey ranked Daiwa as number one among banks and securities companies, and number one in

the category "level of contribution from female employees." In FY 2009, four female members have been newly appointed as executive officers at major Group companies.

In FY 2008, the Group implemented changes to its child-care leave system which encourage men to also take child-care leave. In addition, we established a childcare and nursing care support desk in April 2009, and have held nursing care study sessions to expand the support network for employees even further.



Mark denoting official endorsement by the Ministry of Health, Labour and Welfare of a company's measures to support employees in caring for their children

### "Diamond Weekly" Magazine (Feb. 7, 2009 Issue) Popularity Ranking of Companies Where University Students Would Like to Work (Top-Tier Among Banks and Securities Companies)

#### LIBERAL ARTS MAJORS—MALE

Overall rank	Company
3	The Bank of Tokyo-Mitsubishi UFJ
5	Sumitomo Mitsui Banking Corporation
10	Nomura Securities
11	Daiwa Securities Group
13	Mizuho Financial Group

#### LIBERAL ARTS MAJORS—FEMALE

Overall rank	Company
4	The Bank of Tokyo-Mitsubishi UFJ
5	Sumitomo Mitsui Banking Corporation
13	Daiwa Securities Group
15	Mitsubishi UFJ Trust and Banking Corporation
18	Mizuho Financial Group

### "The Nikkei" Newspaper (Feb. 23, 2009 Issue) Popularity Ranking of Companies Where University Students Would Like to Work (Top-Tier Among Banks and Securities Companies)

Overall rank	Company
2	The Bank of Tokyo-Mitsubishi UFJ
6	Mizuho Financial Group
7	Sumitomo Mitsui Banking Corporation
8	Mitsubishi UFJ Trust and Banking Corporation
15	Daiwa Securities Group
33	The Sumitomo Trust and Banking
34	Nomura Securities



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## The Daiwa Securities Group in Figures

### Five-Year Financial Summary

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	Millions of yen					Millions of U.S. dollars (Note 1)
	FY2004	FY2005	FY2006	FY2007	FY2008	FY2008
<b>Operating Performance</b>						
<b>Operating revenues</b>	¥519,337	¥845,660	¥917,308	¥825,422	¥ 413,936	\$ 4,223
Commissions	216,387	309,189	306,736	294,425	208,881	2,131
Net gain on trading	151,118	224,912	157,333	103,361	40,921	417
Net gain (loss) on private equity and other investments	12,763	21,539	32,818	19,160	(79,478)	(811)
Interest and dividend income	105,428	245,211	373,453	358,423	192,664	1,965
Service fees and other revenues	33,641	44,809	46,968	50,053	50,948	519
<b>Net operating revenues</b>	390,432	579,359	526,764	447,491	199,544	2,036
<b>Operating income (loss)</b>	114,888	254,160	186,391	83,632	(143,726)	(1,466)
<b>Ordinary income (loss)</b>	120,433	260,651	195,415	90,143	(141,150)	(1,440)
<b>Income (loss) before income taxes and minority interests</b>	112,603	258,356	185,923	81,951	(163,794)	(1,671)
<b>Net income (loss)</b>	52,665	139,948	92,725	46,411	(85,039)	(867)

	Millions of yen					Millions of U.S. dollars (Note 1)
	FY2004	FY2005	FY2006	FY2007	FY2008	FY2008
<b>Balance Sheet</b>						
<b>Total assets</b>	¥12,378,962	¥14,898,692	¥14,411,265	¥17,307,120	¥14,182,579	\$144,720
Private equity and other investments	142,547	382,421	440,178	471,732	515,770	5,262
Property and equipment, at cost (excl. accumulated depreciation)	137,620	126,531	134,536	153,393	150,202	1,532
Investment securities	193,202	269,854	269,805	254,716	201,804	2,059
<b>Owners' equity</b>	618,535	718,723	844,854	801,881	696,296	7,105
<b>Net assets (Note 2)</b>	–	–	1,223,226	1,082,924	952,329	9,717

	Yen					U.S. dollars (Note 1)
	FY2004	FY2005	FY2006	FY2007	FY2008	FY2008
<b>Per Share Data</b>						
<b>Net income (Note 3)</b>	¥39.03	¥103.90	¥ 67.90	¥ 33.69	¥ (63.16)	\$(0.63)
<b>Net assets (Note 3)</b>	–	–	665.98	607.64	534.99	5.45
<b>Cash dividends</b>	13.00	34.00	28.00	22.00	8.00	0.08

	%				
	FY2004	FY2005	FY2006	FY2007	FY2008
<b>Financial Ratios</b>					
<b>Return on equity (ROE) (Note 4)</b>	8.4	19.4	10.8	5.3	–
<b>Equity ratio</b>	5.2	5.3	6.5	4.7	5.1

	FY2004	FY2005	FY2006	FY2007	FY2008
<b>Other Data</b>					
<b>Total number of employees</b>	12,243	12,561	13,264	14,456	15,224
<b>(Financial advisors) (Note 5)</b>	(948)	(1,055)	(917)	(721)	(559)

Notes: 1. Translations of the Japanese yen amounts into US dollars use an exchange rate of ¥98.00 = US\$1.00 (rounded down to the nearest yen), and are provided solely for the convenience of the reader.

2. Accounting data is presented based on the revised accounting standards stipulated in the "Accounting Standard for Presentation of Net Assets in the Balance Sheet," and reflects the calculations after these revisions.

3. Net income per share is calculated on the basis of the average number of shares outstanding over the course of the fiscal year. Net assets per share are calculated using the following formula:

Net assets per share = (net assets – stock subscription rights – minority interests) / (shares outstanding as of the fiscal year-end – treasury shares as of the fiscal year-end)

4. Return on equity is calculated using the average of equity at the start of the fiscal year and equity at the end of the fiscal year. Equity is calculated as follows: Equity = owners' equity + valuation and translation adjustments

5. The total number of employees includes individuals employed as financial advisors.

## The Daiwa Securities Group in Figures

## Breakdown by Business and Geographical Region

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	Millions of yen				
	FY2004	FY2005	FY2006	FY2007	FY2008
<b>Breakdown of Commission Income by Business</b>					
<b>Equity</b>	¥ 83,887	¥120,217	¥ 98,987	¥ 84,593	¥ 56,402
Brokerage commission	81,919	118,262	97,062	82,487	54,809
Other	1,968	1,955	1,925	2,106	1,593
<b>Fixed income</b>	4,264	3,202	2,667	2,133	991
<b>Asset management</b>	45,640	82,404	106,906	136,377	97,001
Brokerage commission	159	336	317	464	555
Distribution commission	19,688	41,799	37,210	39,342	17,968
Management fee (excluding agency commission)	11,779	17,994	33,667	49,332	41,531
Agency commission	14,014	22,275	35,711	47,238	36,947
<b>Investment banking</b>	71,170	82,735	74,986	47,551	34,915
Underwriting commission (stock and other)	44,659	54,066	43,510	14,581	10,122
Underwriting commission (bond and other)	8,573	8,554	9,407	10,371	10,542
Distribution commission	3,598	2,032	1,310	3,230	725
Other (M&A commission, etc.)	12,828	16,389	19,607	18,851	13,225
<b>Others</b>	11,426	20,631	23,190	23,771	19,572
Life insurance sales commission	1,926	6,302	6,134	6,783	6,946
Investment enterprise partnership administration fee	3,013	4,776	4,981	4,223	3,384
Other	6,487	9,553	12,074	12,765	9,240
<b>Total commissions</b>	¥216,387	¥309,189	¥306,736	¥294,425	¥208,881
<b>Net Gain (Loss) on Trading by Business</b>					
Stock and other	¥ 56,105	¥124,271	¥ 31,288	¥ 11,020	¥(25,737)
Bond, forex and other	95,013	100,641	126,045	92,341	66,658
<b>Net gain on trading</b>	¥151,118	¥224,912	¥157,333	¥103,361	¥ 40,921
<b>Geographical Segment Information</b>					
<b>Net operating revenues</b>					
Japan	¥ 351,457	¥ 543,196	¥ 475,174	¥ 400,523	¥ 157,295
America	10,612	14,286	14,684	14,593	20,905
Europe	30,405	33,758	35,904	21,912	19,610
Asia & Oceania	8,534	12,098	14,729	18,314	11,816
<b>Operating income (loss)</b>					
Japan	106,914	248,212	172,568	83,525	(143,960)
America	17	2,366	1,605	1,550	7,164
Europe	6,202	10,079	8,341	(5,035)	(5,104)
Asia & Oceania	1,753	3,626	3,878	3,597	(1,884)
<b>Total assets</b>					
Japan	10,078,853	12,239,143	10,808,697	14,307,375	11,452,445
America	2,098,376	2,807,087	3,372,712	2,990,598	2,293,672
Europe	811,192	1,145,934	1,238,352	1,260,014	832,624
Asia & Oceania	62,560	72,881	81,732	80,659	72,782
<b>Results by Group Company (Ordinary Income)*<sup>1</sup></b>					
Daiwa Securities	¥24,216	¥101,057	¥74,477	¥71,026	¥ 18,396
Daiwa Securities SMBC (Consolidated)	85,176	141,582	92,866	1,431	(167,468)
Daiwa Asset Management	1,490	4,435	13,015	17,494	11,613
Daiwa Institute of Research (3 companies)* <sup>2</sup>	5,329	7,325	9,744	13,379	9,140
Daiwa SMBC Capital	32	4,800	4,233	(5,321)	(5,895)

\*<sup>1</sup> Results by Group company have not been audited by an independent auditor.\*<sup>2</sup> Figures reflect the sum of earnings from Daiwa Institute of Research Holdings, Daiwa Institute of Research, and Daiwa Institute of Research Business Innovation.

## The Daiwa Securities Group in Figures

# Twelve-Quarter Financial Summary

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	FY2006			
	1Q	2Q	3Q	4Q
<b>Market Data</b>				
TOPIX (quarterly average, index)	1,641	1,584	1,621	1,728
TSE average daily trading value (billions of yen)	2,842	2,315	2,576	3,327
Net purchases (sales) by investors on the TSE (billions of yen)				
Institutions	878	446	1	(1,651)
Individuals	1	(1,611)	(2,483)	(402)
Foreigners	(412)	1,185	2,687	2,677
Securities companies	11	(68)	(70)	(8)
Ten-year Japanese government bond yield (quarterly average, %)	1.88	1.79	1.69	1.67
Foreign exchange rates (quarterly average)				
Yen per U.S. Dollar	114.41	116.21	117.76	119.34
Yen per Euro	143.85	148.14	151.95	156.35

**Operating Performance**

	Millions of yen			
<b>Operating revenues</b>	¥207,638	¥211,752	¥242,778	¥255,138
Commissions	67,858	67,110	90,278	81,489
Brokerage commission	26,593	19,534	23,621	28,323
Underwriting commission	6,678	12,559	25,093	9,737
Distribution commission	10,624	7,846	8,380	11,668
Other commission	23,961	27,170	33,182	31,760
Net gain (loss) on trading	35,234	37,833	37,219	47,044
Net gain (loss) on private equity and other investments	11,602	7,058	6,159	7,997
Interest and dividend income	83,400	88,361	98,432	103,258
Other sales revenues	9,542	11,388	10,688	15,348
<b>Interest expenses</b>	78,166	83,870	92,834	99,373
<b>Cost of sales</b>	7,381	8,629	8,024	12,263
<b>Net operating revenues</b>	122,090	119,252	141,919	143,501
<b>Selling, general and administrative expenses</b>	78,942	82,580	87,968	90,882
Commission and other expenses	15,037	18,080	17,954	20,367
Employees' compensation and benefits	40,143	39,364	41,811	42,059
Occupancy and rental	7,868	9,187	10,756	11,033
Data processing and office supplies	5,761	5,364	5,626	6,268
Depreciation and amortization	5,364	5,642	5,910	6,199
Taxes other than income taxes	1,856	2,016	2,375	2,016
Others	2,911	2,923	3,533	2,937
<b>Operating income (loss)</b>	43,148	36,672	53,950	52,618
Non-operating income	3,223	4,622	2,091	999
Non-operating expenses	955	261	112	583
<b>Ordinary income (loss)</b>	45,416	41,034	55,929	53,034
Extraordinary gains	834	1,081	480	1,204
Extraordinary losses	107	2,050	558	10,377
<b>Income (loss) before income taxes and minority interests</b>	46,143	40,065	55,850	43,862
<b>Net income (loss)</b>	23,118	17,008	26,754	25,842

Note: Based on unaudited financial statements included in the Group's Consolidated Financial Summary submitted to the Tokyo Stock Exchange.

FY2007				FY2008			
1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
1,736	1,646	1,547	1,297	1,349	1,236	867	778
3,068	3,057	2,839	2,783	2,522	2,222	1,896	1,445
(1,182)	1,216	1,466	1,817	(101)	477	3,941	2,904
(1,949)	117	(875)	606	(468)	(108)	988	344
3,810	1,381	(499)	(2,058)	2,274	(1,160)	(2,786)	(2,452)
(36)	(18)	(23)	68	7	20	54	36
1.74	1.72	1.56	1.39	1.64	1.47	1.34	1.29
120.75	117.86	113.15	105.32	104.54	107.52	95.90	93.56
162.76	161.88	163.81	157.82	156.23	150.50	132.13	130.56
Millions of yen				Millions of yen			
¥253,982	¥211,712	¥215,457	¥144,268	¥165,376	¥131,559	¥ 38,564	¥ 78,436
79,875	74,562	72,602	67,383	61,792	54,045	49,383	43,658
24,274	22,890	20,503	16,207	17,149	13,299	14,320	10,959
7,435	6,421	5,098	6,514	4,559	3,181	7,636	5,587
14,822	9,676	11,421	6,650	7,666	5,361	2,269	3,394
33,342	35,573	35,578	38,011	32,417	32,202	25,157	23,718
46,749	24,440	41,650	(9,479)	21,300	10,864	(22,849)	31,606
7,996	6,309	723	4,131	(1,007)	(15,206)	(37,478)	(25,785)
105,893	95,909	87,242	69,377	69,748	69,129	37,525	16,259
13,468	10,489	13,239	12,855	13,541	12,726	11,983	12,696
99,362	92,357	83,894	64,169	62,343	64,161	34,774	14,754
10,551	7,791	10,136	9,668	10,006	9,301	9,372	9,677
144,068	111,563	121,427	70,431	93,026	58,096	(5,582)	54,003
93,619	91,660	92,288	86,290	88,446	89,293	83,606	81,923
20,301	23,071	20,432	21,592	18,013	17,842	15,380	14,782
44,335	38,823	41,038	32,464	37,120	35,605	35,331	33,542
8,958	9,804	9,709	10,286	11,082	11,505	10,566	10,549
6,855	7,474	7,557	7,990	7,836	7,686	7,460	7,174
6,368	6,810	7,262	7,605	8,252	8,384	8,767	10,186
2,102	1,792	1,741	1,693	1,816	1,505	1,657	1,575
4,698	3,883	4,546	4,657	4,324	6,763	4,444	4,112
50,449	19,902	29,138	(15,858)	4,580	(31,196)	(89,189)	(27,919)
4,129	1,823	2,274	1,419	4,143	907	1,256	1,654
486	521	902	1,225	402	1,235	2,089	1,658
54,092	21,204	30,511	(15,664)	8,321	(31,525)	(90,022)	(27,923)
793	1,140	219	1,481	462	1,829	644	3,485
213	2,015	(65)	9,663	3,029	5,585	9,535	10,913
54,672	20,239	30,796	(23,847)	5,754	(35,282)	(98,913)	(35,351)
27,335	14,739	17,264	(12,928)	5,885	(20,522)	(53,039)	(17,363)

## The Daiwa Securities Group in Figures

## Operational Data

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	Billions of yen (Unless otherwise specified)			
	FY2006			
	1Q	2Q	3Q	4Q
<b>Daiwa Securities Group</b>				
<b>Daiwa Securities Group customer assets*<sup>1</sup></b>	¥46,890	¥48,376	¥50,507	¥53,256
Equities	26,820	26,926	27,914	28,797
Bonds	9,986	10,757	11,135	12,967
Asset management	6,777	7,094	7,710	7,979
Others	3,306	3,598	3,747	3,511
<b>Daiwa Securities</b>				
<b>Net inflow of retail assets*<sup>2</sup></b>	¥ 418	¥ 504	¥ 564	¥ 946
Individuals	339	309	305	422
Unlisted corporations, etc.	79	194	258	523
<b>Cash Management Service (CMS) accounts*<sup>1</sup> (thousands)</b>	2,726	2,755	2,783	2,819
<b>Online trading accounts*<sup>1</sup> (thousands)</b>	1,521	1,561	1,588	1,625
<b>Assets under custody of online accounts*<sup>1</sup></b>	10,734	11,096	11,780	12,343
<b>Online transactions (thousands)</b>	2,489	1,974	2,016	2,446
Online ratio	78.6%	80.4%	78.0%	78.3%
<b>Online trading value</b>	2,394	1,842	1,880	2,542
Online ratio	61.2%	63.3%	61.3%	62.0%
<b>"Daiwa Direct" course accounts*<sup>1</sup> (thousands)</b>	613	634	661	700
<b>Assets under custody of "Daiwa Direct" accounts*<sup>1</sup></b>	1,971	2,046	2,185	2,424
<b>Sales of core products</b>				
Equity investment trusts	498	352	435	557
Foreign currency-denominated bonds	220	264	277	298
<b>Daiwa Asset Management</b>				
<b>Net assets under management*<sup>1</sup></b>	¥7,722	¥8,155	¥9,181	¥9,666
Equity investment trusts	4,569	5,026	5,887	6,388
Bond investment trusts	3,152	3,128	3,294	3,277

\*<sup>1</sup> As of the end of each quarter\*<sup>2</sup> Net inflow of retail assets = net inflow of cash and securities

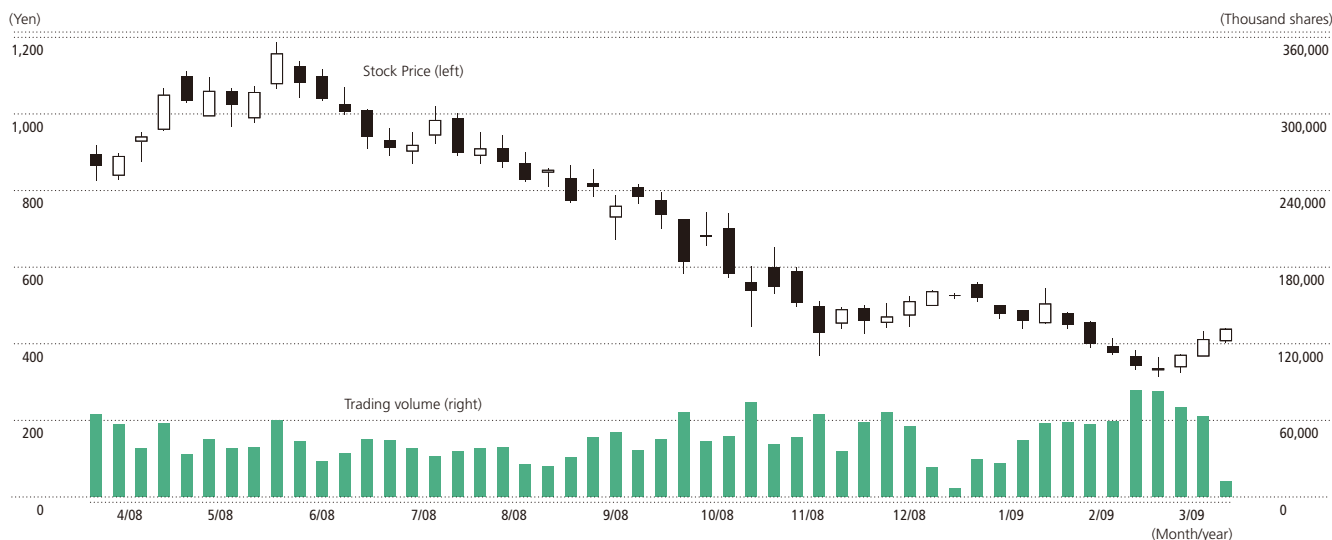


Billions of yen (Unless otherwise specified)				Billions of yen (Unless otherwise specified)			
FY2007				FY2008			
1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
¥54,675	¥54,338	¥53,032	¥47,038	¥50,195	¥45,878	¥40,472	¥39,122
29,056	27,349	25,213	21,844	23,215	20,484	18,030	17,066
12,907	13,761	13,876	13,164	13,577	12,386	11,679	12,259
8,814	8,721	8,761	7,820	8,223	7,316	5,912	5,806
3,895	4,506	5,181	4,208	5,178	5,691	4,849	3,988
¥ 741	¥ 611	¥ 322	¥ 276	¥ 250	¥ 382	¥ 303	¥ (104)
414	467	287	357	195	239	310	20
327	144	34	(81)	54	142	(6)	(124)
2,862	2,900	2,933	3,022	3,088	3,144	3,222	3,244
1,665	1,699	1,729	1,818	1,885	1,941	2,016	2,048
13,004	12,697	12,525	11,141	11,860	10,510	9,184	9,041
2,051	2,052	2,103	1,911	2,004	1,654	2,210	1,676
79.6%	80.8%	82.6%	84.5%	84.9%	85.7%	84.5%	85.6%
2,069	2,008	1,948	1,548	1,809	1,273	1,328	1,002
62.8%	65.5%	69.7%	73.4%	71.3%	73.4%	70.2%	73.0%
734	762	788	876	947	1,004	1,072	1,107
2,606	2,563	2,534	2,334	2,585	2,348	2,185	2,143
630	435	535	300	315	217	89	117
313	303	266	277	250	236	178	228
¥11,144	¥10,712	¥10,547	¥9,710	¥10,172	¥9,306	¥7,764	¥7,594
7,584	7,361	7,138	6,504	6,893	6,080	4,754	4,602
3,560	3,351	3,409	3,206	3,278	3,226	3,010	2,992

## The Daiwa Securities Group in Figures

### Stock Information

#### 1. Stock Price and Trading Volume on the Tokyo Stock Exchange (April 1, 2008–March 31, 2009)



#### 2. Major Shareholders (As of March 31, 2009)

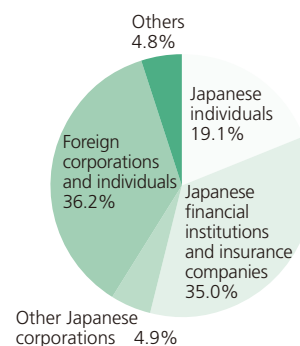
Name	Number of shares held (Thousands)	% of total outstanding shares
Japan Trustee Services Bank, Ltd. Trust Account 4G	82,551	5.88
State Street Bank and Trust Company 505223	76,961	5.48
Japan Trustee Services Bank, Ltd. Trust Account	74,579	5.31
The Master Trust Bank of Japan, Ltd. Trust Account	61,728	4.39
Daiwa Securities Group Inc.	58,316	4.15
State Street Bank and Trust Company	48,114	3.43
Sumitomo Mitsui Banking Corporation	30,328	2.16
Japan Trustee Services Bank, Ltd. Trust Account 4	27,860	1.98
Japan Trustee Services Bank, Ltd. The Sumitomo Trust & Banking Retirement Benefit Account	24,888	1.77
Taiyo Life Insurance Company	21,140	1.50

Note: Numbers of shares are rounded down to the closest thousand.

#### 3. Stock Price on the Tokyo Stock Exchange (April 1, 2008–March 31, 2009)

Open	High	Low	Close	Average daily trading volume
¥866	¥1,187	¥314	¥428	10,027 thousand shares

#### 4. Breakdown of Shareholders (As of March 31, 2009)



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# Management's Discussion and Analysis

## Macroeconomic Conditions

### Japan

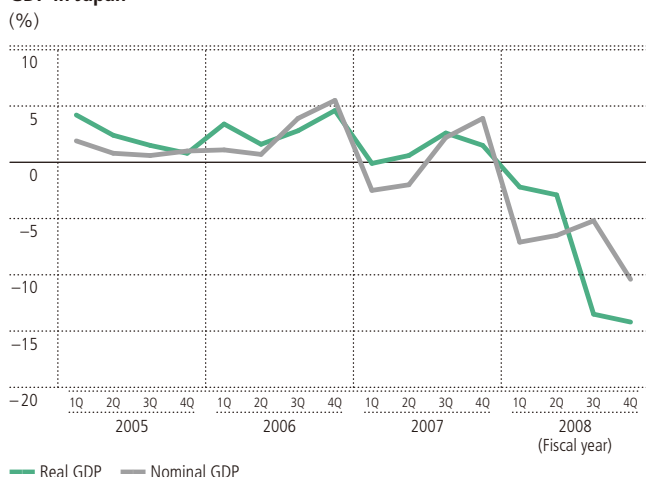
#### Hopes for recovery in the first half gave way to chaos in the second half

During FY 2008, the Japanese economy was severely affected by chaotic changes taking place in the global economy. By October 2007, the long economic expansion that had prevailed in recent years reached its climax. Rising raw materials prices, together with the impact that this had on purchasing power, began to drag economic growth lower. During the first half of FY 2008, however, there were few signs that the corporate sector's main "stock" items—inventory, labor and capital equipment—were particularly excessive, and it seemed that Japan's financial sector would escape most of the impact of the sub-prime loan crisis. The general view was that Japan's economic downturn would be brief and relatively shallow.

However, in the latter half of FY 2008 a series of severe shocks caused the global economy to deteriorate rapidly, and this had a serious impact on Japan's export-oriented economy. The sharp plunge in export volume, to both emerging economies and traditional markets alike, was swifter and more dramatic than at any time in recent memory. Corporations were caught off guard by the sudden drop in demand and management was slow to react by cutting production volume. Consequently, inventory levels swelled, and by the time they did react, export-oriented manufacturers in particular were forced to make major production cuts and start reducing their payrolls. Unemployment and concerns about job security spread swiftly.

As corporate Japan slammed on the brakes, real GDP in the October–December 2008 quarter fell at an annualized rate of 13.5% from the previous quarter, the sharpest rate of contraction of any major economy. The economic contraction continued in the January–March 2009 quarter, producing a real GDP growth rate for FY 2008 of -3.3%, the worst figure that Japan has ever recorded.

#### GDP in Japan



Source: Cabinet Office, Government of Japan

#### Government responses to the financial crisis

From a financial standpoint, the global credit crisis forced banks to adopt a more stringent policy on loaning money to corporations to fund their operations. At the same time, companies found it extremely difficult to raise money from the capital markets. Construction and real estate companies, in particular, began to slip into bankruptcy because they were unable to procure operating funds. The business environment for almost all companies deteriorated.

In response to this economic deterioration, Japan's government tried to work in concert with other countries to address the underlying problems. Among other steps, the Bank of Japan adopted unconventional monetary easing policies, which included lowering its official interest rate to 0.1% and buying corporate bonds and commercial paper to help companies obtain the funds needed to continue operating. In addition, the government passed an economic support package that included some ¥12 trillion in budgetary and tax measures to stimulate the economy.

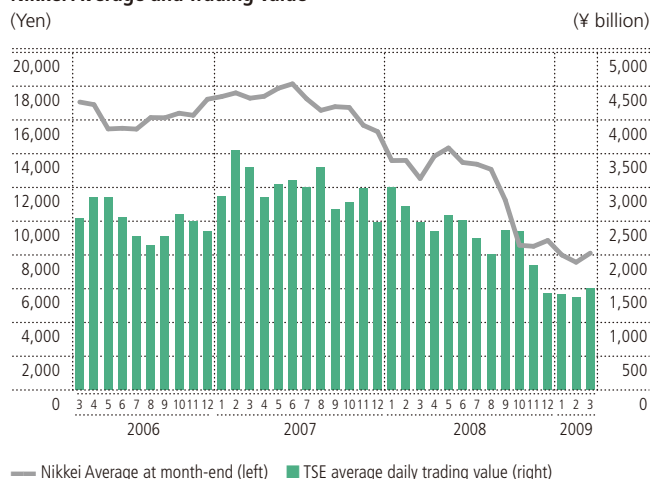
Though the Bank of Japan's *Tanken* survey of short-term business sentiment, in March 2009, found that most companies experienced further deterioration in business conditions, they expected an improvement in overseas demand and a gradual improvement in business conditions. Indicators of inventory, labor and capital stocks also were not deteriorating as rapidly and signs of stability began to emerge.

### Overseas Markets

#### Chaotic financial markets and high raw materials prices battered the global economy

During FY 2008 the sub-prime loan crisis, which began in the previous fiscal year, gathered momentum, and it eventually triggered a worldwide recession. However, the economic collapse was brought on by a combination of factors; and it emerged suddenly, with September 2008 marking the main watershed. During the first half of the year, high raw materials prices limited economic growth, particularly in

#### Nikkei Average and Trading Value



Source: Tokyo Stock Exchange, Daiwa Institute of Research

countries with few natural resources. However, in the second half the accelerating financial crisis began to take a toll on other industrial sectors, pushing the entire global economy into a recession.

Financial markets experienced high volatility throughout the year, but in mid-March 2008 an emergency financing package to rescue Bear Stearns seemed to have stabilized the situation. The roots of the sub-prime loan crisis ran deep, however, and as real estate prices continued to decline, financial institutions in the US and Europe were forced to rein in lending to both consumers and corporations. Prior to August 2008, the unemployment rate in the US, though rising, was still fairly mild, and it seemed that any downturn in the global economy would be gradual.

However, in the midst of a gathering recession, raw materials prices continued to rise. This began to affect emerging manufacturing economies like China, which had enjoyed steady economic growth up to that time. The world seemed to face the prospect of stagflation—an economic downturn amidst rising prices. As signs of an impending global recession began to coalesce, the price of crude oil reached its peak in mid-July 2008, and then oil and other materials prices plummeted.

#### Lehman Brothers' bankruptcy and a global credit crunch

In September 2008, Lehman Brothers—one of the largest investment banks in the US—declared bankruptcy. The shock of this announcement created severe distrust and uncertainty among financial institutions, and as they grew reluctant to lend to one another, the London interbank offered rate (LIBOR) soared, setting off chaos in financial markets around the world. The global financial crisis had begun. Banks began to sharply restrict credit, not only denying loans to consumers and corporations but even restricting trade credit and refinancing for investment funds. As a result, financial and capital markets ceased to function properly. This put sudden and severe strain on the real economy. International trade was particularly hard-hit, and since production facilities in emerging economies depend largely on external demand, these economies were badly damaged as well. To make matters worse, the developing economies were largely dependent on external capital for their development, and in a global credit contraction they also could not obtain the funds to drive domestic growth.

#### International cooperation and emergency measures forestall further deterioration

Faced with an expanding financial crisis, world leaders responded with cooperative efforts to prevent the crisis from intensifying. The G7 meeting in October 2008 was followed by a financial summit of 20 major countries, including the newly emerging economies, in November, where participants agreed to introduce joint policies to address the crisis. Each country announced measures aimed at addressing the crisis, including monetary easing policies and increased fiscal spending to stimulate their economies. In December 2008, the

US Federal Reserve Board followed up with a cut in the official discount rate, to effectively zero, with a target range of 0–0.25%, and encouraged banks to offer relaxed credit and lower interest rates on housing loans. Other countries also implemented monetary easing policies. On the fiscal front, meanwhile, China pledged in November 2008 to spend 4 trillion RMB in a large-scale economic stimulus package, and in February 2009 the incoming Obama administration, in the US, introduced tax cuts and fiscal spending measures worth US\$787.2 billion. By implementing these aggressive policies, the world's leading economic powers sought to calm the financial crisis.

Concerns about the international financial system still have not been dispelled entirely. However, the policy makers in governments and central banks around the world have acted to ease the uncertainty and restore some measure of calm to the markets. Although structural adjustments will dictate that the real economy remains sluggish for an extended period of time, there are already indications that the Chinese economy is rebounding and signs that economies in Europe and North America will stop contracting as 2009 proceeds.

## Analysis of Income Statements

### Overview

#### Adverse business conditions pushed earnings into the red for the full fiscal year

As financial turmoil and job uncertainty increased, later in the year, stock prices dropped sharply. By March 2009, the Nikkei 225 stock average had fallen to its lowest level since the economic bubble of the 1980s. Under these extremely adverse business conditions, earnings deteriorated. Net operating revenues totaled ¥199.5 billion, ordinary income showed a loss of ¥141.1 billion, and the Group posted a net loss of ¥85.0 billion. Total dividends for the year were reduced to ¥8 per share (including an interim dividend of ¥5).

### Net Operating Revenues

#### Deteriorating market conditions affected all business segments

Net operating revenues fell 55.4% year on year in FY 2008, to ¥199.5 billion. Due to the declining market conditions, including the drop in the stock markets and the resultant decline in investor sentiment, the Group's fee-based revenue businesses—equities, asset management and investment banking—were badly affected, causing revenues from commissions to decline by 29.1% year on year, to ¥208.8 billion. As stock prices began to tumble, in October 2008, trading losses began to mount, with total trading revenues for the period falling 60.4% year on year to ¥40.9 billion. Meanwhile, declining prices of securities and real estate managed on the Group's own account, by Daiwa Securities SMBC Principal Investments and Daiwa SMBC Capital, forced the Group to make provisions for valuation losses. This produced a loss of ¥79.4 billion on private equity and other investments, mainly at Daiwa Securities SMBC Principal Investments.

## Breakdown of Net Operating Revenues

	FY2007	FY2008	Yoy	(Millions of yen)			
				FY2008			
				1Q	2Q	3Q	4Q
Commissions	¥294,425	¥208,881	-29.1%	¥61,792	¥ 54,045	¥ 49,383	¥ 43,658
Net gain (loss) on trading	103,361	40,921	-60.4%	21,300	10,864	(22,849)	31,606
Net gain (loss) on private equity and other investments	19,160	(79,478)	-	(1,007)	(15,206)	(37,478)	(25,785)
Net financial income	18,639	16,629	-10.8%	7,405	4,967	2,751	1,504
Others	11,906	12,590	5.8%	3,535	3,425	2,610	3,019
Net operating revenues	¥447,491	¥199,544	-55.4%	¥93,026	¥ 58,096	¥ (5,582)	¥ 54,003

Note: Quarterly figures have not been audited by an independent auditor.

## Breakdown of Commissions by Product and Business Sector

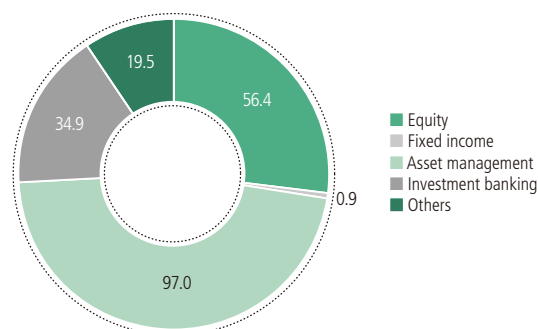
Falling stock prices and a strengthening yen made individual investors reluctant to invest

Breaking down revenues from commissions by sector, revenues in the equity business fell 33.3% year on year, to ¥56.4 billion. As the stock market slumped, average daily trading value on the Tokyo Stock Exchange during FY 2008 contracted by 30.9%, to ¥2,030.3 billion. Equity brokerage commissions in both the retail and wholesale businesses dropped off accordingly.

Asset management commissions were down 28.9% year on year, to ¥97.0 billion. The worldwide drop in stock prices, from October 2008 onward, coupled with high volatility in exchange rates caused individual investors to retreat from the markets and sharply reduce their investment activities. As a result, sales of equity investment trusts fell off and total distribution commissions from investment trusts declined. Falling stock prices and a stronger yen also pushed down the net asset value of both equity investment trusts and investment trusts specializing in foreign currency-denominated bonds. Since management fee income from these investment trusts is based on the balance of assets under management, this income declined as well.

## Breakdown of Commissions

(¥ billion)



Though companies still needed to raise funds, equity financing dropped off

Total commissions in the investment banking business were down 26.6% year on year, in FY 2008, to ¥34.9 billion. Though companies still had a strong need for funding, most did so by issuing straight bonds. As a result, underwriting commissions from corporate bond issuance remained as strong as it had been in FY 2007. However, growing uncertainty about economic conditions depressed the stock market even in the early part of the year, causing equity financing activities such as IPOs and stock issuance to drop off. When the global financial crisis took hold, in the latter half of the fiscal year, there was a slight increase in demand for funds, as financial institutions tried to increase capital. However, total stock underwriting commissions for the fiscal year fell well below FY 2007 levels.

## Revenues From Equity and Bond Trading Divisions

(¥ billion)



Note: Net gain (loss) on trading + net financial income, on a managerial accounting basis



## Breakdown of Commissions

	(Millions of yen)						
	FY2007	FY2008	Yoy	FY2008			
				1Q	2Q	3Q	4Q
Equity	¥ 84,593	¥ 56,402	-33.3%	¥17,321	¥13,424	¥14,508	¥11,147
Fixed income	2,133	991	-53.5%	398	340	148	104
Asset management	136,377	97,001	-28.9%	30,956	28,314	19,367	18,361
Investment banking	47,551	34,915	-26.6%	7,499	6,456	10,753	10,205
Others	23,771	19,572	-17.7%	5,616	5,508	4,605	3,840
Total commissions	¥294,425	¥208,881	-29.1%	¥61,792	¥54,045	¥49,383	¥43,658

Note: Quarterly figures have not been audited by an independent auditor.

## Revenues from Equity and Bond Trading

## The hedge cost for derivative positions increased

Net gains or losses on securities trading and net financial income from trading activity are recorded on a managerial accounting basis as revenues (losses) from equity and bond trading. In the equity trading division, the drop in stock prices during the second half reduced order volume, thus revenues were off 40.0% year on year, to ¥21.0 billion. In the bond trading division, meanwhile, sharp fluctuations in exchange rates and interest rates, particularly during the third

quarter, increased the cost of hedging currency and interest rate derivatives positions. As a result, the Group recorded a loss on bond trading during the quarter. Market conditions returned to normal in the fourth quarter, and earnings recovered, but overall revenues from bond trading for FY 2008 dropped 50.6% year on year, to ¥38.5 billion.

## Revenues From Equity and Bond Trading Divisions (Net Gain and Loss on Trading + Net Financial Income, on a Managerial Accounting Basis)

	(Billions of yen)						
	FY2007	FY2008	Yoy	FY2008			
				1Q	2Q	3Q	4Q
Equities	¥ 35.0	¥21.0	-40.0%	¥ 4.0	¥ 2.0	¥ 10.5	¥ 4.5
Bond	78.0	38.5	-50.6%	25.0	13.5	(31.0)	31.0
Total	¥113.0	¥59.5	-47.3%	¥29.0	¥15.5	¥(20.5)	¥35.5

Note: Revenues from equity and bond trading divisions have not been audited by an independent auditor.

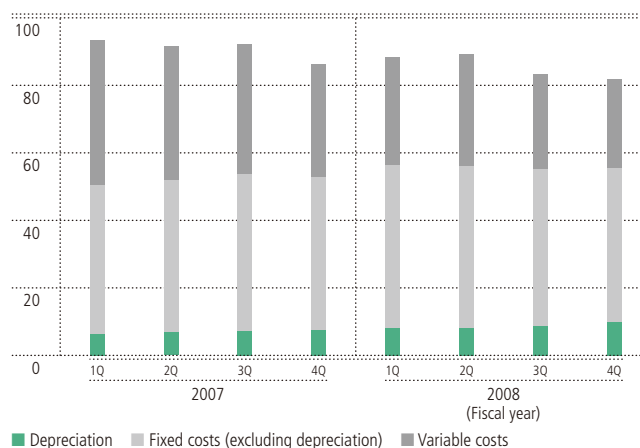
## Selling, General and Administrative (SG&amp;A) Expenses

## Rising real estate costs and depreciation were offset by cuts in personnel expenses and fees and commissions paid

Total SG&A expenses for FY 2008 declined 5.7% year on year, to ¥343.2 billion. Real estate-related expenses increased by 12.8%, to ¥43.7 billion, largely due to the increase in rental costs following the relocation of the Group headquarters. In addition, past IT investments by Daiwa Securities and Daiwa Securities SMBC generated a 26.9% rise in depreciation, to ¥35.5 billion. However, agency commissions on investment trusts, paid by Daiwa Asset Management to sales agents outside the Group, declined due to a drop in the balance of assets under management. Securities intermediation fees paid by Daiwa Securities SMBC to Sumitomo Mitsui Banking Corporation were also lower. Total fees and commissions paid amounted to ¥66.0 billion, down 22.7% year on year. Furthermore, earnings-linked bonus payments were significantly lower in FY 2008, reducing overall personnel expenses by 9.6% year on year, to ¥141.6 billion.

## Cost Structure

(¥ billion)



## Ordinary Income and Net Income

### Falling stock prices produced asset valuation losses

The ordinary income account showed a loss of ¥141.1 billion for the period. Furthermore, the drop in stock prices increased valuation losses on investment securities. As a result, the net loss for the period was ¥85.0 billion.

### Ordinary Income and Net Income

Ordinary income and Net income				(Millions of yen)			
				FY2008			
	FY2007	FY2008	Yoy	1Q	2Q	3Q	4Q
Ordinary income (loss)	¥90,143	¥(141,150)	—	¥8,321	¥(31,525)	¥(90,022)	¥(27,923)
Net income (loss)	46,411	(85,039)	—	5,885	(20,522)	(53,039)	(17,363)

Note: Quarterly figures have not been audited by an independent auditor.

## Earnings Trends at Major Group Companies

### Daiwa Securities' retail business posted a profit despite the harsh business climate

Daiwa Securities Co. Ltd., which operates the retail arm of the Group's securities business, recorded a profit in FY 2008 despite the harsh business climate. Operating revenues declined 29.3% year on year, to ¥159.8 billion, ordinary income contracted 74.1%, to ¥18.3 billion, and net income was down 75.9% year on year, to ¥9.8 billion. In addition to a decline in stock trading activity by individuals, Daiwa Securities saw a decrease in underwriting activity as the number of primary and secondary equity offerings dropped off. As a result, fee income from equity brokerage commissions and distribution commissions fell sharply. There was an increase in the number of corporate bond offerings and subordinated bond issues from megabanks aimed at individual investors, which resulted in a large volume of domestic bond subscriptions. On the other hand, sales of equity investment trusts weakened and the balance of assets in investment trusts declined, producing a drop in distribution fees and agency commissions. As a result, total income from commissions was down 32.8% year on year, to ¥115.5 billion.

Sales of foreign currency-denominated bonds decreased, and net trading income fell 15.1% year on year, to ¥38.4 billion. On the other hand, many individuals apparently viewed the drop in stock prices as a buying opportunity, producing a surge in the number of new "Daiwa Direct" accounts created. The total number of accounts continued to rise steadily, to 1.1 million as of March 2009. The increased volatility of foreign exchange markets also stimulated trading activity in "Daiwa FX" accounts (margin trading in foreign currencies) as well as an

increase in the number of accounts. As of the end of March 2009, there were 28,000 Daiwa FX accounts in operation.

### Wholesale operations were hurt by trading losses, and losses on principal investments

On a consolidated basis, including the investment operations of overseas subsidiaries and earnings from domestic subsidiaries such as Daiwa Securities SMBC Principal Investments, earnings at Daiwa Securities SMBC, which oversees the Group's wholesale operations, were as follows. Net operating revenues declined by 81.2% year on year, to ¥45.5 billion, while the company posted a consolidated ordinary loss of ¥167.4 billion and a net loss of ¥144.9 billion. Trading activities were severely hurt by falling stock prices and volatile exchange rate markets in FY 2008, and generated a ¥4.7 billion net loss.

Daiwa Securities SMBC Principal Investments, which oversees the Group's investment on its own account, records net gains and losses on private equity and other investments as income from investment operations. This account showed a net ¥75.1 billion loss in FY 2008, mainly reflecting valuation losses on private equity securities, as well as increases to the provision for losses on real estate-related investments and real estate held as collateral for investments in monetary claims. After adjustment for the additions to provisions for valuation losses, the balance of investments stood at roughly ¥347.0 billion, a decline of ¥83.0 billion year on year. In addition, Daiwa SMBC Capital recorded an ordinary loss of ¥5.8 billion due to such factors as the stagnant IPO market.

### Performance of Major Group Companies

Performance of Major Group Companies							(Millions of yen)
	Daiwa Securities		Daiwa Securities SMBC (consolidated)		Daiwa Asset Management		
	FY2007	FY2008	FY2007	FY2008	FY2007	FY2008	
Operating revenues	¥226,273	¥159,883	¥242,269	¥ 45,514	¥83,079	¥68,157	
Ordinary income (loss)	71,026	18,396	1,431	(167,468)	17,494	11,613	
Net income (loss)	41,009	9,882	(5,836)	(144,958)	10,665	6,513	

	(Millions of yen)					
	Daiwa Institute of Research (Total of 3 companies)*		Daiwa SB Investments		Daiwa SMBC Capital	
	FY2007	FY2008	FY2007	FY2008	FY2007	FY2008
Ordinary income (loss)	¥13,379	¥9,140	¥5,752	¥2,984	¥(5,321)	¥(5,895)

Note: Group company results have not been audited by an independent auditor.

\* Figures reflect the sum of earnings from Daiwa Institute of Research Holdings, Daiwa Institute of Research, and Daiwa Institute of Research Business Innovation.

### Asset management fee income declined due to falling asset values

Daiwa Asset Management, which operates the Group's asset management business, saw a drop in sales of equity investment trusts marketed through branches of Daiwa Securities and major banks. Meanwhile, falling stock prices and the strong yen pushed down the yen-denominated balance of investment fund assets under management. As of the end of March 2009, this balance stood at ¥4.6 trillion, a decline of ¥1.9 trillion from March 2008. This greatly reduced fee income from asset management activities. Ordinary income declined by 33.6% year on year, to ¥11.6 billion. Furthermore, ordinary income at the Group's equity method affiliate, Daiwa SB Investments, fell 48.1% year on year to ¥2.9 billion. This was also attributable to a decline in the balance of assets under management.

### Overseas Operations

US business performed well as investors made a "flight to quality"

Daiwa Securities America Inc., which is responsible for operations in the Americas, is a primary dealer in the US market. Following the collapse of Lehman Brothers, the US market experienced a "flight to quality," as investors sought to minimize risk. As one of the few Japanese-affiliated primary dealers in the US, Daiwa Securities America saw an increase in new accounts, created by government-related financial institutions to trade in US treasury bonds, and an associated rise in trading activity. As a result, despite the continued turmoil in US markets, ordinary income from operations in the Americas rose sharply. On the other hand, the global decline in stock prices had an adverse impact on operations in Europe, Asia and Oceania, generating ordinary losses in these regions. As a result, overseas operations as a whole recorded a net ordinary loss of ¥1.6 billion.

#### Ordinary Income (Loss) From Overseas Operations, Broken Down by Region

	(Millions of yen)	
	FY2007	FY2008
America	¥ 1,948	¥ 4,806
Europe	(4,190)	(4,898)
Asia & Oceania	3,661	(1,553)
Total	¥ 1,419	¥(1,645)

## Analysis of Balance Sheets and Cash Flow

### Assets

#### The balance of trading products declined

As of March 31, 2009, total assets for the Group amounted to ¥14,182.5 billion, a decline of ¥3,124.5 billion, year on year. Current assets declined by ¥3,076.2 billion, to ¥13,677.0 billion, and the balance of fixed assets was ¥505.5 billion, down ¥48.2 billion year on year. The drop in current assets partly reflected a sharp reduction in the Group's positions in JGBs and corporate bonds, which caused a ¥1,653.3 billion year-on-year reduction in the "trading assets" account. In addition, there was a ¥792.8 billion reduction in the balance of collateralized short-term financing agreements related to collateralized securities loan operations. In the fixed asset account, valuation losses on the securities of companies in which the Group has invested directly, caused the balance of "investments and others" to decline by ¥54.0 billion, year on year.

### Liabilities and Net Assets

#### Short-term borrowings and payables on collateralized securities loans both declined

Total liabilities declined by ¥2,993.9 billion year on year, to ¥13,230.2 billion as of March 31, 2009. The balance of current liabilities stood at ¥11,697.7 billion, down ¥3,223.1 billion from March 2008, and long-term liabilities increased by ¥232.8 billion, to ¥1,528.0 billion. A large portion of the decline in current liabilities stemmed from the company's securities loan operations. Collateralized short-term financing agreements in the bond borrowing and lending business declined by ¥1,345.4 billion year on year. The Group also reduced its balance of short-term borrowings by ¥1,426.6 billion. The increase in long-term liabilities, on the other hand, reflects the issuance of straight corporate bonds.

The balance of net assets declined by ¥130.5 billion year on year, to ¥952.3 billion. Owners' equity stood at ¥696.2 billion at the end of March 2009, down ¥105.5 billion from the previous year. Retained earnings decreased by ¥105.7 billion, to ¥421.8 billion, reflecting an ¥85.0 billion net loss and the payment of ¥20.1 billion in dividends.

## Cash Flows

Cash inflows from the decline in trading assets offset cash outflows from short-term debt

Cash flow from operations showed a net inflow of ¥1,519.3 billion. Although there was an outflow of ¥163.7 billion due to a loss in income before income taxes and minority interests, reductions in the balance of trading assets brought an inflow of ¥1,871.8 billion. Cash flow from investment activities showed a net inflow of ¥9.4 billion. Cash received from the maturation of time deposits amounted to ¥117.0 billion, considerably more than the ¥42.2 billion outflow for new time deposits. Cash flow from financing activities showed a net outflow of ¥1,459.4 billion. This mainly reflected the repayment of short-term borrowings, which reduced cash by ¥1,559.8 billion. After adjustments for the impact of exchange rate conversion, the balance of cash and cash equivalents at the end of March 2009 stood at ¥415.6 billion, an increase of ¥55.7 billion year on year.

### Cash Flows

		(Millions of yen)
	FY2007	FY2008
Cash flow from operating activities	¥(782,533)	¥ 1,519,388
Cash flow from investing activities	(189,043)	9,437
Cash flow from financing activities	991,087	(1,459,438)
Cash and cash equivalents at end of year	¥ 359,851	¥ 415,600

## Capital Investments

The Group has been making capital investments aimed at providing greater convenience to clients. During FY 2008, along with the introduction of digital stock certificates, the Group introduced a new data center and upgraded the functions of its online trading systems. Total investment in IT-related equipment amounted to ¥46.0 billion. The Group has also refurbished and upgraded facilities at its branch offices.

## Capital Procurement Conditions

During FY 2008, Daiwa Securities Group Inc. floated two straight bond issues—unsecured corporate bond issue #8 (Payment: September 5, 2008), with a total value of ¥70.0 billion, and unsecured corporate bond issue #9 (Payment: December 22, 2008), worth ¥78.0 billion. Bond issue #8 was conducted in order to obtain capital for investment and loan activities, while bond issue #9 was used to obtain operating funds, and to provide funds for investment and loan activities.

## Liquidity

### Seeking to Maintain Both Financial Efficiency and Stability

The Daiwa Securities Group maintains a very large balance of both assets and liabilities, mainly in relation to its securities trading and related businesses. Most of the operating funds that the Group procures are obtained from straight corporate bonds, medium-term notes, loans from financial institutions, commercial paper, call money, *gensaki* trading (repurchase agreements), repo operations, and stock lending. The Group considers market conditions and tries to adopt the most appropriate mix of these funding methods in order to procure capital effectively.

On the other hand, the Group places great importance on the goal of maintaining a stable financial base. The Group seeks to ensure that, even during times of dramatic change in the operating environment, it will not face any potential disruption in its regular business activities. Therefore, it strives to ensure that it is always able to obtain a steady supply of funds. For example during FY 2008, particularly in the second half, the Group responded to turmoil in financial markets and uncertain business conditions by increasing liquidity on hand. The Group currently holds a portfolio of highly liquid assets—cash, deposits, Japanese government bonds and highly liquid securities—worth ¥875.6 billion as of March 31, 2009.

### Group-Wide Capital Management

Daiwa Securities Group Inc. carefully monitors and controls liquidity conditions at all companies in the Group. The securities subsidiaries in Japan and overseas (Daiwa Securities, Daiwa Securities SMBC, Daiwa Securities SMBC Europe Limited, etc.) as well as Daiwa SMBC Capital, each conducts their own capital procurement activities and has their own internal system for maintaining liquidity. Nevertheless, the holding company constantly monitors these activities and provides additional oversight. Daiwa Securities Group Inc. directly controls the capital procurement activities of all other subsidiaries and manages conditions at each Group company to maintain an efficient distribution of capital.

For example during the second half of FY 2008, the Group responded to turmoil in the financial markets by making sure that securities-related subsidiaries, including overseas offices, increased liquidity on hand by obtaining capital from the markets or through loans from financial institutions. As of the end of March 2009, unsecured capital procurement conditions at companies in the Group were as follows:

**Unsecured Capital Procurement Conditions at the Group  
(As of March 31, 2009)**

	(Billions of yen)
Short-term borrowings from banks and other financial institutions	¥ 184
Other short-term borrowings	481
Commercial paper	320
Current portion of bonds	11
(Short-term) unsecured capital procurement	997
Long-term loans from banks and other financial institutions	237
Bonds	1,260
(Long-term) unsecured capital procurement	1,498
Owners' equity	696
Total	¥3,192

Note: In addition to the items listed above, the Group uses the pooled collateral operations of the Bank of Japan to obtain funds.

**Contingency Plan**

The Daiwa Securities Group has prepared a contingency plan in order to ensure that it is fully prepared to address liquidity risk. Based on this plan, if market conditions should change suddenly and a credit crunch ensues, making it difficult to obtain funds through short-term unsecured borrowing, it would still be able to obtain ample liquidity to continue business operations for at least one year.

Daiwa Securities SMBC maintains ample liquidity based on its trading positions, and therefore it needs to be capable of obtaining a large supply of funds at any given time. Therefore, its activities play a central role in the Group's contingency plan. If it should become difficult to obtain unsecured funds in the short term, Daiwa Securities SMBC would reduce its trading positions to within the range of net worth, long-term unsecured loans, and as much short-term unsecured financing as is available at the time, and use the funds created to provide liquidity to the Group.

Daiwa Securities Group Inc. periodically checks and adjusts the contingency plans of all Group subsidiaries, and when necessary, points out conceivable crisis scenarios which should be addressed, requiring changes to the subsidiaries' funding and contingency plans. It also takes measures proactively to increase liquidity and reduce assets when conditions dictate, to be prepared for any eventuality.

**Credit Ratings by Major Credit Rating Agencies**

Daiwa Securities Group Inc., Daiwa Securities Co. Ltd. and Daiwa Securities SMBC Co. Ltd. have been assigned long-term and short-term credit ratings by major credit ratings agencies, both in Japan and overseas. These ratings take into account the impact of multiple factors on the Group's creditworthiness. The factors considered include current macroeconomic conditions, the business environment and condition of securities markets, management strategy, the management structure of the Group, the competitive position of Group companies in their respective markets, profitability and profit volatility, cost structure and cost elasticity, the risk management structure, liquidity conditions, capital policy and adequacy of capital, corporate governance, and other considerations.

The Group companies that issue securities, in order to obtain funds, all have been assigned credit ratings by leading agencies. These Group companies include Daiwa Securities Group Inc., Daiwa Securities Co. Ltd. and Daiwa Securities SMBC Co. Ltd. As of June 10, 2009, the credit ratings assigned to these Group companies were as follows:

**The Daiwa Securities Group's Credit Ratings**

	Daiwa Securities Group Inc.		Daiwa Securities		Daiwa Securities SMBC	
	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term
Moody's	Baa1	–	Baa1	P-2	A1	P-1
Standard & Poor's	BBB+	A-2	BBB+	A-2	A	A-1
Rating and Investment Information (R&I)	A	a-1	A	a-1	A+	a-1
Japan Credit Rating Agency (JCR)	A+	–	A+	–	–	–

## Consolidated Balance Sheets

DAIWA SECURITIES GROUP INC.

March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2009	2008	2009
<b>Cash and cash deposits:</b>			
Cash and cash equivalents (Note 6)	¥ 415,600	¥ 359,851	\$ 4,240,816
Cash segregated as deposits for regulatory purposes	214,455	233,545	2,188,316
Time deposits	9,109	85,125	92,949
	639,164	678,521	6,522,081
<b>Receivables:</b>			
Loans receivable from customers	69,593	75,422	710,133
Loans receivable from other than customers (Note 8)	9,146	117,894	93,327
Receivables related to margin transactions (Note 3)	248,059	369,312	2,531,214
Other	352,530	660,071	3,597,247
Less: Allowance for doubtful accounts	233	1,385	2,378
	679,095	1,221,314	6,929,543
<b>Collateralized short-term financing agreements</b> (Note 4)	5,413,526	6,206,327	55,240,061
<b>Trading and private equity investments:</b>			
Trading assets (Notes 5 and 8)	6,203,742	7,857,122	63,303,490
Private equity and other investments (Notes 6 and 8)	515,770	471,732	5,262,959
	6,719,512	8,328,854	68,566,449
<b>Trade account receivables, net</b>	143,309	219,314	1,462,337
<b>Other assets:</b>			
Property and equipment, at cost	254,962	260,104	2,601,480
Less: Accumulated depreciation	104,760	106,711	1,068,806
	150,202	153,393	1,532,674
Intangible fixed assets	110,829	101,880	1,130,908
Investment securities (Notes 6 and 8)	201,804	254,716	2,059,224
Deferred tax assets (Note 13)	20,113	31,348	205,235
Other (Note 8)	112,119	113,720	1,144,071
Less: Allowance for doubtful accounts	7,094	2,267	72,388
	587,973	652,790	5,999,724
	¥14,182,579	¥17,307,120	\$144,720,195

See accompanying notes.



	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
<b>LIABILITIES AND NET ASSETS</b>			
<b>Debt:</b>			
Short-term borrowings (Notes 8 and 11)	¥ 919,346	¥ 2,312,699	\$ 9,381,082
Commercial paper	320,400	488,300	3,269,388
Long-term debt (Notes 8 and 11)	1,526,878	1,406,400	15,580,388
	2,766,624	4,207,399	28,230,858
<b>Payables:</b>			
Payables to customers and counterparties (Note 10)	492,126	763,293	5,021,694
Payables related to margin transactions (Notes 3 and 8)	133,872	202,010	1,366,041
Other	17,348	27,176	177,020
	643,346	992,479	6,564,755
Collateralized short-term financing agreements (Note 4)	4,893,262	6,238,684	49,931,245
Trading liabilities (Note 5)	4,809,093	4,643,644	49,072,378
<b>Accrued and other liabilities:</b>			
Income taxes payable	1,823	21,538	18,602
Deferred tax liabilities (Note 13)	18,621	4,556	190,010
Accrued bonuses	12,527	17,326	127,827
Retirement benefits (Note 12)	25,941	24,016	264,704
Other	54,596	66,537	557,101
	113,508	133,973	1,158,244
Statutory reserves (Note 14)	4,417	8,017	45,071
Total liabilities	13,230,250	16,224,196	135,002,551
<b>Contingent liabilities (Note 15)</b>			
<b>Net assets</b>			
Owners' equity (Note 16)			
Common stock, no par value;			
Authorized—4,000,000 thousand shares			
Issued—1,404,665 thousand shares as of March 31, 2009	178,324	178,324	1,819,633
Capital surplus	157,679	157,679	1,608,969
Retained earnings	421,819	527,579	4,304,276
Treasury stock at cost	(61,526)	(61,701)	(627,816)
	696,296	801,881	7,105,062
Valuation and translation adjustments			
Net unrealized gain on securities, net of tax effect	51,752	24,470	528,082
Deferred gain on hedges, net of tax effect	499	801	5,092
Translation adjustments	(28,275)	(9,062)	(288,520)
	23,976	16,209	244,654
Stock subscription rights (Note 17)	2,369	1,430	24,173
Minority interests	229,688	263,404	2,343,755
Total net assets	952,329	1,082,924	9,717,644
	¥14,182,579	¥17,307,120	\$144,720,195

# Consolidated Statements of Income

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
<b>Operating revenues:</b>				
Commissions (Note 22)	¥ 208,881	¥294,425	¥306,736	\$ 2,131,439
Net gain on trading (Note 23)	40,921	103,361	157,333	417,561
Net gain (loss) on private equity and other investments	(79,478)	19,160	32,818	(811,000)
Interest and dividend income	192,664	358,423	373,453	1,965,959
Service fees and other revenues	50,948	50,053	46,968	519,878
	413,936	825,422	917,308	4,223,837
<b>Interest expense</b>	176,034	339,784	354,245	1,796,265
<b>Cost of service fees and other revenues</b>	38,358	38,147	36,299	391,408
<b>Net operating revenues</b> (Note 19)	199,544	447,491	526,764	2,036,164
<b>Selling, general and administrative expenses</b> (Notes 12, 19 and 24)	343,270	363,859	340,373	3,502,755
<b>Operating income (loss)</b> (Note 19)	(143,726)	83,632	186,391	(1,466,591)
<b>Other income (expenses):</b>				
Provision for statutory reserves, net (Note 14)	3,600	(52)	(566)	36,735
Other, net (Note 25)	(23,668)	(1,629)	98	(241,510)
	(20,068)	(1,681)	(468)	(204,775)
<b>Income (loss) before income taxes and minority interests</b>	(163,794)	81,951	185,923	(1,671,366)
<b>Income taxes</b> (Note 13):				
Current	4,383	40,475	65,794	44,724
Deferred	(22,557)	299	3,657	(230,173)
	(18,174)	40,774	69,451	(185,449)
<b>Minority interests</b>	60,581	5,234	(23,747)	618,173
<b>Net income (loss)</b>	¥ (85,039)	¥ 46,411	¥ 92,725	\$ (867,744)

	Yen			U.S. dollars (Note 1)
<b>Per share amounts:</b>				
Net income (loss)	¥(63.16)	¥33.69	¥67.90	\$(0.63)
Diluted net income	—	33.63	66.07	—
Cash dividends applicable to the year	8.00	22.00	28.00	0.08

See accompanying notes.

# Consolidated Statements of Changes in Net Assets

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2009, 2008 and 2007

		Millions of yen									
		Owners' equity					Valuation and translation adjustments				
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Paid-in money for treasury stock	Net unrealized gain (loss) on securities, net of tax effect	Deferred gain (loss) on hedges, net of tax effect	Translation adjustments	Stock subscription rights	Minority interests
Balance at March 31, 2006	1,332,460	¥138,828	¥118,339	¥476,216	¥(14,660)	¥ –	¥72,694	¥(199)	¥ 864	¥ –	¥236,719
Conversion of convertible bonds	72,205	39,496	39,496								
Cash dividends paid				(45,806)							
Bonuses to directors and executive officers				(1,828)							
Net income				92,725							
Change in treasury stock, net			(156)	(1,239)	3,032						
Increase in retained earnings due to merger of a non-consolidated subsidiary				406							
Other						5					
Net changes of items other than owners' equity							2,964	667	7,682	611	56,370
Balance at March 31, 2007	1,404,665	178,324	157,679	520,474	(11,628)	5	75,658	468	8,546	611	293,089
Cash dividends paid				(38,788)							
Net income				46,411							
Change in treasury stock, net				(346)	(50,073)						
Decrease due to addition of a consolidated subsidiary				(172)							
Other						(5)					
Net changes of items other than owners' equity							(51,188)	333	(17,608)	819	(29,685)
Balance at March 31, 2008	1,404,665	178,324	157,679	527,579	(61,701)	–	24,470	801	(9,062)	1,430	263,404
Cash dividends paid				(20,195)							
Net income (loss)				(85,039)							
Change in treasury stock, net				(250)	175						
Decrease due to addition of a consolidated subsidiary				(276)							
Other											
Net changes of items other than owners' equity							27,282	(302)	(19,213)	939	(33,716)
Balance at March 31, 2009	1,404,665	¥178,324	¥157,679	¥421,819	¥(61,526)	¥ –	¥51,752	¥ 499	¥(28,275)	¥2,369	¥229,688

	Thousands of U.S. dollars (Note 1)									
	Owners' equity					Valuation and translation adjustments				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Paid-in money for treasury stock	Net unrealized gain (loss) on securities, net of tax effect	Deferred gain (loss) on hedges, net of tax effect	Translation adjustments	Stock subscription rights	Minority interests
<b>Balance at March 31, 2008</b>	\$1,819,633	\$1,608,969	\$5,383,459	\$(629,602)	\$ –	\$249,694	\$ 8,173	\$(92,469)	\$14,592	\$2,687,796
Cash dividends paid			(206,071)							
Net income (loss)			(867,744)							
Change in treasury stock, net			(2,551)	1,786						
Decrease due to addition of a consolidated subsidiary			(2,817)							
Other										
Net changes of items other than owners' equity						278,388	(3,081)	(196,051)	9,581	(344,041)
<b>Balance at March 31, 2009</b>	\$1,819,633	\$1,608,969	\$4,304,276	\$(627,816)	\$ –	\$528,082	\$ 5,092	\$(288,520)	\$24,173	\$2,343,755

See accompanying notes.

# Consolidated Statements of Cash Flows

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
<b>Cash flows from operating activities:</b>				
Net income (loss)	¥ (85,039)	¥ 46,411	¥ 92,725	\$ (867,744)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	39,727	28,047	23,117	405,378
Allowance for doubtful accounts, net	5,559	3,445	317	56,724
Allowance for retirement benefits, net	1,925	836	1,234	19,643
Stock subscription rights	939	819	611	9,582
Statutory reserves, net	(3,600)	51	567	(36,735)
Losses (gains) related to investment securities	22,542	5,240	(3,926)	230,020
Losses related to fixed assets	1,430	1,952	5,880	14,592
Allowance for relocation costs of headquarters office	—	1,354	4,681	—
Deferred income taxes	(22,557)	299	3,657	(230,173)
Minority interests	(60,581)	(5,234)	23,747	(618,173)
Changes in operating assets and liabilities:				
Receivables and payables related to margin transactions	53,115	174,806	27,247	541,990
Other receivables and other payables	114,052	(147,279)	(113,773)	1,163,796
Collateralized short-term financing agreements	(569,791)	1,721,872	(150,764)	(5,814,194)
Trading assets and liabilities	1,871,841	(2,561,539)	79,204	19,100,418
Private equity and other investments	70,732	(76,273)	(45,410)	721,755
Other, net	79,094	22,660	36,416	807,079
Total adjustments	1,604,427	(828,944)	(107,195)	16,371,702
Net cash flows provided by (used in) operating activities	1,519,388	(782,533)	(14,470)	15,503,958
<b>Cash flows from investing activities:</b>				
Increase in time deposits	(42,212)	(120,181)	(36,290)	(430,735)
Decrease in time deposits	117,044	56,042	30,995	1,194,327
Payments for purchases of property and equipment	(14,900)	(34,295)	(18,439)	(152,041)
Proceeds from sales of property and equipment	361	240	539	3,684
Payments for purchases of intangible fixed assets	(36,174)	(44,006)	(34,648)	(369,122)
Payments for purchases of investment securities	(32,155)	(86,731)	(47,527)	(328,112)
Proceeds from sales of investment securities	16,454	52,909	36,553	167,898
Purchase of subsidiary's stock due to change in scope of consolidation	—	—	1,357	—
Increase in long-term loans receivable	(2,841)	(3,655)	(876)	(28,990)
Other, net	3,860	(9,366)	(4,952)	39,388
Net cash flows provided by (used in) investing activities	9,437	(189,043)	(73,288)	96,297

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
<b>Cash flows from financing activities:</b>				
Increase (decrease) in short-term borrowings and commercial paper	(1,559,873)	945,660	(97,430)	(15,917,071)
Proceeds from issuance of notes	296,344	442,593	509,087	3,023,918
Payments for redemption of bonds and notes	(218,239)	(294,317)	(362,305)	(2,226,929)
Increase (decrease) in other long-term debt	42,625	(2,682)	10,360	434,949
Proceeds from issuance of stocks to minority shareholders	—	—	40,080	—
Payments of cash dividends	(20,194)	(38,787)	(45,806)	(206,061)
Payments of cash dividends to minority shareholders	(71)	(10,894)	(12,039)	(724)
Other, net	(30)	(50,486)	1,216	(306)
Net cash flows provided by (used in) financing activities	(1,459,438)	991,087	43,163	(14,892,224)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(13,847)</b>	<b>(13,582)</b>	<b>4,788</b>	<b>(141,296)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>55,540</b>	<b>5,929</b>	<b>(39,807)</b>	<b>566,735</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>359,851</b>	<b>352,779</b>	<b>392,350</b>	<b>3,671,949</b>
<b>Increase in cash and cash equivalents due to merger of a non-consolidated subsidiary</b>	<b>—</b>	<b>655</b>	<b>236</b>	<b>—</b>
<b>Increase in cash equivalents due to addition of a consolidated subsidiary</b>	<b>209</b>	<b>488</b>	<b>—</b>	<b>2,132</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥ 415,600</b>	<b>¥ 359,851</b>	<b>¥ 352,779</b>	<b>\$ 4,240,816</b>

See accompanying notes.

# Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2009, 2008 and 2007

## 1. Basis of financial statements

The consolidated financial statements include the accounts of Daiwa Securities Group Inc. ("the Company"), a Japanese corporation, and its subsidiaries (collectively "Daiwa"). Daiwa's principal subsidiaries include:

- Daiwa Securities Co. Ltd. ("Daiwa Securities")
- Daiwa Securities SMBC Co. Ltd. ("Daiwa Securities SMBC")
- Daiwa Asset Management Co. Ltd. ("DAM")
- Daiwa Institute of Research Holdings Ltd.  
(Former Daiwa Institute of Research Ltd., a consolidated subsidiary of the Company was separated into 2 companies: Daiwa Institute of Research Ltd. and Daiwa Institute of Research Business Innovation Ltd. Both of these companies became 100% owned subsidiaries of Daiwa Institute of Research Holdings Ltd. as of October 1, 2008.)
- Daiwa SMBC Capital Co., Ltd. ("DSC")  
(NIF SMBC Ventures Co., Ltd., a consolidated subsidiary of the Company, changed its name to Daiwa SMBC Capital Co., Ltd. on October 1, 2008.)

Daiwa Securities is the retail-securities arm of Daiwa. This company operates through a network of 117 branches as well as non-face-to-face channels, including the Internet and a full-fledged call center to provide online and telephone-based securities-related services. Daiwa Securities SMBC is the wholesale-securities company of Daiwa that holds a 60% capital stake, while the other 40% is controlled by the Sumitomo Mitsui Financial Group, Inc. DAM is the asset management company of Daiwa. In addition, Daiwa has several overseas consolidated subsidiaries, mainly engaged in the securities business.

Daiwa is primarily engaged in the business of a securities broker-dealer, pursuant to which Daiwa provides services including brokerage, trading, underwriting, strategic advice, product development, and structured finance. In addition, Daiwa provides asset and capital management, principal investment, venture capital, and research through a network in major capital markets and other services.

The Company and its domestic consolidated subsidiaries maintain their official accounting records in yen and in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with generally accepted accounting principles in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards ("IFRS"). The accounts of overseas consolidated subsidiaries are maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. The accompanying consolidated financial

statements have been prepared by incorporating the accounts of the domestic companies prepared under Japanese GAAP and the accounts of the overseas subsidiaries maintained on the basis described above by adjusting the difference in accounting policies from Japanese GAAP, if any.

### (Accounting change)

The Company has adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force No. 18, "PITF") from April 1, 2008. Previously the accounting policies applied to a parent company and those of foreign subsidiaries were tentatively not required to be uniform, even if the accounting policies locally applied to foreign subsidiaries in their domicile differed from the accounting policies uniformly applied to the parent company and other subsidiaries.

Under PITF, the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should be unified for the preparation of the consolidated financial statements, in principle. Meanwhile, the financial statements prepared by foreign subsidiaries in accordance with IFRS or the generally accepted accounting principles in the United States (U.S. GAAP) tentatively can be used for the consolidation process with adjusting certain items such as amortization of goodwill.

However, this change has no effect on the consolidated financial statements as of March 31, 2009.

The accompanying consolidated financial statements have been restructured and translated into English (with some additional explanations described solely for the convenience of the readers outside of Japan) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not considered necessary for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2009, which was ¥98 to U.S.\$1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could be, converted into U.S. dollars at this or any other rate of exchange.



## 2. Significant accounting policies

**Consolidation**—The consolidated financial statements include the accounts of the Company and the entities which are controlled by the Company, directly or indirectly. Control exists generally when the Company holds more than 50% of the voting rights of the entity. Also, control is regarded to exist when the Company holds 40% or more of the voting rights of an entity and there are certain facts and circumstances which indicate that the Company controls the decision making body of the entity. However, certain investee entities are excluded from the consolidation even though the Company has control of them, when the investee entity is held as part of the principal investment or for venture capital investment business purposes where the objective for Daiwa to have control of it is to merely look for capital gain opportunities, Daiwa does not intend to operate its business with the entity as a group.

The Company accounts for its investment by the equity method of accounting if the Company does not have control of an entity but can exercise significant influence over the entity's operating and financial policies. Being able to exercise such significant influence is generally regarded to exist when the Company holds 20% or more but 50% or less of the voting rights of the entity, or 15% or more voting rights, and there are certain facts and circumstances which indicate that the Company can exercise significant influence over the entity's operating and financial policies. As in the same policy and considerations for consolidation, certain investee entities are excluded from the scope of the equity method even though the Company holds significant influence, when the investee entity is held as part of the principal investment or for venture capital investment business purposes.

Under Japanese GAAP, goodwill must be amortized over its estimated useful life within the maximum of 20 years. However, Daiwa has no goodwill balance because any goodwill was immaterial and written off immediately.

Material inter-company balances, transactions and profits have been eliminated in consolidation.

**Statements of cash flows**—For purposes of the consolidated statements of cash flows, the Company defines cash equivalents as highly liquid investments with original maturities of three months or less.

**Trading assets and trading liabilities**—Trading assets and liabilities including securities and financial derivatives for trading purposes held by securities companies are recorded on a trade date basis at fair value in the consolidated balance sheets. Gains and losses including unrealized gains and losses related to transactions for trading purposes are reported as "Net gain on trading" in the accompanying

consolidated statements of income. Fair value is determined based on market prices, quoted prices, internal pricing models (utilizing indicators of general market conditions or other economic measurements), or management's estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. Securities owned for non-trading purposes, shown in the accompanying consolidated balance sheets as "Cash and cash equivalents," "Private equity and other investments" and "Investment securities," are discussed below.

**Securities other than trading assets and trading liabilities**—Daiwa examines the intent of holding investments and classifies those investments as (a) securities intended to be held for trading purposes by non-securities companies which are carried at fair value with recognized unrealized gain or loss included in the consolidated statements of income, (b) debt securities intended to be held to maturity ("held-to-maturity debt securities") which are carried at amortized cost, and (c) all other securities not classified in any of the above categories ("available-for-sale securities"). Marketable available-for-sale securities are stated at their fair values based on quoted market closing prices with unrealized gain or loss reported in a separate component within the net assets on a net-of-tax basis, or other non-marketable investments and other (non-marketable "available-for-sale securities") are carried at cost. Investment business partnerships which are regarded as equivalent to securities by Article 2 (2) of the Financial Instruments and Exchange Act are reported as "Private equity and other investments" in the accompanying consolidated balance sheets. The share of net income of investment business partnerships has been reflected in the consolidated statements of income and the share of net unrealized gains and losses held by investment business partnerships is directly reported in a separate component within the net assets on a net-of-tax basis in proportion to the Company and its subsidiaries' share of the investment business partnership. The cost of those investments is determined by the moving average method.

Daiwa holds, as is common practice in Japan, non-marketable equity securities generally for the purpose of maintaining a good relationship and also aiming to promote Daiwa's securities businesses with the investee companies.

Impairment is assessed for investments (including private equity holding). For marketable securities, if the year-end market value declines 30% or more but less than 50% from the carrying value for individual securities, an impairment loss is recognized if there is no chance of recoverability in value. Recoverability is assessed whether the decline is temporary by considering the movements of the market

price and the financial conditions of the issuer. If the year-end market value declines 50% or more from the carrying value, then an impairment loss is recognized immediately. For non-marketable equity investments, Daiwa generally compares the carrying amount and the net asset value of the issuing company attributable to Daiwa's holding share, and recognizes an impairment loss if the net asset value attributable to Daiwa's holding share is significantly lower from the carrying value and such decline is considered other than temporary. For non-marketable investments other than equities, Daiwa reviews the financial conditions of the issuers and provides for allowance for possible investment losses, if necessary.

**Derivatives used for non-trading purposes**—Daiwa records derivative financial instruments at fair value except for certain cases as described below, and recognizes changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes. Valuation gains or losses on hedging instruments are deferred in the separate component within the net assets until the gains or losses on the underlying hedged instruments are realized. For plain vanilla hedging interest swap agreements which satisfy the required conditions under Japanese GAAP, they are not required to be marked-to-market. Interest received or paid on such exempt interest rate swap agreements for hedging purposes is accrued without being marked-to-market under special treatment. Also, certain forward foreign exchange contracts are exempted from marked-to-market valuation. The premium or discount on such exempt forward foreign exchange contracts for hedging purposes is allocated to each fiscal term without being marked-to-market under special treatment.

**Collateralized short-term financing agreements**—Collateralized short-term financing agreements consist of securities purchased under agreements to resell ("resell transactions") or securities sold under agreements to repurchase ("repurchase transactions"), and securities borrowed or loaned. Repurchase transactions and resell transactions are carried at their contractual amounts. Securities borrowed or loaned are recorded at the amount of cash collateral advanced or received.

**Allowance for doubtful accounts**—Allowance for doubtful accounts is provided for probable losses on loans and receivables, based on the actual historical default rate for general loans, and based on individually assessed amounts for doubtful and default loans.

**Property and equipment**—Property and equipment are stated at the acquisition cost, net of accumulated depreciation. Daiwa computes depreciation principally by the straight-line method over the estimated useful lives.

(Accounting change)

In connection with the current Japanese corporate tax law reform, the Company and its domestic consolidated subsidiaries and affiliates have reviewed their policies and estimates related to depreciation, and determined to change the depreciation method reflecting the new corporate tax law for property and equipment purchased on or after April 1, 2007. The principal changes include that the estimated remaining values have been revised to ¥1 from the former general level of 5% of the original costs, and that useful lives of certain assets are shortened. For the assets that existed as of March 31, 2007, which are depreciated to the former depreciable limit, the remaining value is amortized over five years pro rata from the following fiscal year when the accumulated depreciation reached the former depreciation limit, until its book value is reduced finally to ¥1.

The effect on the consolidated financial statements as of March 31, 2008 was immaterial.

**Intangible fixed assets**—Intangible fixed assets are generally amortized by the straight-line method. Daiwa computes the amortization over estimated useful lives. The useful lives of software for in-house use, which is the most significant intangible fixed asset, is generally five years.

**Leased assets**—Leased assets in finance lease transactions other than the ones that transfer ownership to the lessee are amortized under the straight-line method over estimated useful lives for as long as the leasing period and they are amortized to zero residual value.

(Accounting change)

The Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13) and "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16) from April 1, 2008. Finance lease transactions other than the ones that transfer ownership to the lessee are changed to be applied from the manner similar to the accounting treatment for ordinary rental transactions to the manner similar to the accounting treatment for ordinary sale transactions and are capitalized as leased assets.

The effect on the consolidated financial statements as of March 31, 2009 was immaterial.

Concerning finance lease transactions other than the ones that transfer ownership to the lessee, which started before the fiscal year that "Accounting Standard for Lease Transactions" (ASBJ Statement No.13) were applied for the first time, were accounted for by the

accounting treatment similar to that of ordinary rental transactions. Certain information regarding these non-capitalized finance lease transactions is stated in Note 9.

**Impairment**—Non-current assets, principally property and equipment, assets used under finance lease contracts, intangible fixed assets, and goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to future undiscounted net cash flows expected to be generated by the asset or certain asset group. If an asset is considered to be impaired, then an impairment loss is recognized for the difference between the carrying amount and the fair value of the asset or the related asset group.

**Bonuses**—Accrued bonuses for employees and directors represent liabilities estimated as of the balance sheet date.

(Accounting change)

The Company adopted “Accounting Standard for Directors’ Bonus” (ASBJ Statement No. 4) from the fiscal year ended March 31, 2007. According to ASBJ Statement No. 4, Directors’ bonus is expensed when it is incurred, instead of the appropriation of its retained earnings upon approval of each consolidated subsidiary’s annual shareholders’ meeting. “Operating income” and “Income before income taxes and minority interests” decreased by ¥1,553 million, respectively, in the consolidated statements of income in the year ended March 31, 2007, due to this accounting change.

**Share-based payment**—Daiwa allocates share-based compensation costs, which are measured at fair value of the options at grant date, over the period in which the related requisite service is rendered.

(Accounting change)

The Company adopted “Accounting Standard for Share-based Payment” (ASBJ Statement No. 8) and “Implementation Guidance on Accounting Standard for Share-based Payment” (ASBJ Guidance No. 11) from the fiscal year ended March 31, 2007. Formerly, share-based payments were recorded in the capital account to the extent the related payments by employees were made when stock options were exercised; thus no expense was recognized. “Operating income” and “Income before income taxes and minority interests” decreased by ¥611 million, respectively, in the consolidated statements of income in the year ended March 31, 2007, due to this accounting change.

**Retirement benefits**—The Company and most domestic subsidiaries have unfunded retirement benefit plans for eligible employees, under which the benefit amount is determined annually based on the performance during the year in which the related service is

rendered, plus interest earned to date. Accordingly, this liability does not change subsequently due to the changes in compensation level in the subsequent years. The annually earned benefits and the related interest to the accumulated benefits are expensed annually.

The Company and most domestic consolidated subsidiaries also have defined contribution plans for which annual contributions are charged to expense.

The Company and its domestic consolidated subsidiaries closed their defined benefit plan as of April 1, 1999 and accordingly, no new employees have been added to the plan and no service cost has been charged for the plan; however, the amounts that then existed are still on the balance sheets until the time the payment is made to related employees when they retire.

Retirement benefits for directors and corporate auditors are recognized based on the amount as calculated in accordance with the internal rule.

**Allowance for relocation costs of headquarters**—An allowance for relocation costs of the headquarters of the Company and some consolidated subsidiaries was booked based on a reasonable estimation. No balance was on the accompanying consolidated balance sheet as of March 31, 2009 because the Company and some consolidated subsidiaries used the allowance for relocation costs of the headquarters for this purpose.

**Allowance for litigation losses**—In the normal course of business Daiwa is subject to claims and litigations resulting from securities and other transactions. The estimation for loss related to such contingency events requires inherently significant judgment. The allowance for litigation loss is provided for based on the likelihood and estimated amounts for such losses for the existing claims, based on the current status, historical experiences and management judgment.

**Income taxes**—Income taxes consist of corporation, enterprise and inhabitants’ taxes. The provision for current income taxes is computed based on the pre-tax income of the Company and each of its consolidated subsidiaries with certain adjustments, as appropriate. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards, if any. A valuation allowance is recognized for any portion of the deferred tax assets if it is considered not realizable based on its tax planning, other studies, and referring to certain set requirements under Japanese GAAP.

**Translation of foreign currencies**—The Company and its domestic consolidated subsidiaries translate assets and liabilities in foreign currencies into yen at the year-end exchange rate, and translate income and expenses in foreign currencies into yen using generally the applicable exchange rate on the day when the related transaction occurred. Any gains and losses resulting from such translation are included in current income or expense. The financial statements of overseas consolidated subsidiaries and affiliates are translated into yen using the year-end exchange rates. Income and expenses are translated at the average exchange rates of the applicable year.

**Net income (loss) per share**—Net income (loss) per share of common stock is based on the average number of common shares outstanding. Diluted net income per share is computed based on the

average number of common shares outstanding for the year with an adjustment for dilutive convertible bonds and stock subscription rights based on the number of shares of common stock that would have been issued provided that the outstanding dilutive convertible bonds and stock subscription rights were converted at the beginning of the year. The diluted net income per share amount for the year ended March 31, 2009 is not presented, since a net loss is reported in the consolidated statements of income.

**Reclassifications**—Certain reclassifications have been made in the 2008 and 2007 consolidated financial statements to conform to the presentation for 2009.

### 3. Margin transactions

Margin transactions at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
<b>Assets:</b>			
Customers' margin loans	¥ 79,094	¥192,001	\$ 807,082
Cash deposits as collateral for securities borrowed	168,965	177,311	1,724,132
	¥248,059	¥369,312	\$2,531,214
<b>Liabilities:</b>			
Payable to securities finance companies	¥ 3,852	¥ 8,617	\$ 39,306
Proceeds of securities sold for customers' accounts	130,020	193,393	1,326,735
	¥133,872	¥202,010	\$1,366,041

Customers' margin loans are stated at amounts equal to the purchase amounts of the relevant securities, which are collateralized by customers' securities and customers' deposits. Proceeds of securities sold for customers' accounts are stated at the sales amounts.

#### 4. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
<b>Assets:</b>			
Securities purchased under agreements to resell	¥ —	¥ 202	\$ —
Securities borrowed	5,413,526	6,206,125	55,240,061
	¥5,413,526	¥6,206,327	\$55,240,061
<b>Liabilities:</b>			
Securities sold under agreements to repurchase	¥ 664,743	¥ 703,578	\$ 6,783,092
Securities loaned	4,228,519	5,535,106	43,148,153
	¥4,893,262	¥6,238,684	\$49,931,245

#### 5. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
<b>Trading assets:</b>			
Equities	¥ 164,194	¥ 133,153	\$ 1,675,449
Government, corporate and other bonds	3,178,908	5,801,937	32,437,838
Investment trusts	127,851	90,184	1,304,602
Commercial paper, certificates of deposits and others	93,048	245,979	949,469
Option transactions	267,359	208,844	2,728,153
Futures and forward transactions	105,903	133,858	1,080,643
Swap agreements	2,182,276	1,225,291	22,268,122
Other derivatives	92,199	19,499	940,806
Risk reserves	(7,996)	(1,623)	(81,592)
	¥6,203,742	¥7,857,122	\$63,303,490

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
<b>Trading liabilities:</b>			
Equities	¥ 90,385	¥ 110,997	\$ 922,296
Government, corporate and other bonds	2,554,291	3,332,362	26,064,194
Investment trusts	44	16	449
Option transactions	269,816	182,575	2,753,224
Futures and forward transactions	289,226	121,178	2,951,286
Swap agreements	1,523,596	875,700	15,546,898
Other derivatives	81,735	20,816	834,031
	¥4,809,093	¥4,643,644	\$49,072,378

Government, corporate and other bonds include convertible bonds.

## 6. Securities other than trading assets and trading liabilities

Securities other than trading assets and trading liabilities are composed of "Cash and cash equivalents," "Private equity and other investments" and "Investment securities" in the accompanying consolidated balance sheets.

Cost and fair value of securities intended to be held for trading purposes by non-securities companies as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2009	¥4,445	¥3,493	¥(952)
March 31, 2008	¥4,662	¥4,011	¥(651)

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2009	\$45,357	\$35,643	\$(9,714)

Amortized cost and fair value of held-to-maturity debt securities as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Corporate bonds	¥1,300	¥1,300	\$13,265

Cost and fair value of marketable available-for-sale securities as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2009:			
Equities	¥232,048	¥376,961	¥144,913
Government, corporate and other bonds	1,486	1,486	0
Other	14,955	12,066	(2,889)
	¥248,489	¥390,513	¥142,024
March 31, 2008:			
Equities	¥121,618	¥155,707	¥34,089
Government, corporate and other bonds	13,720	11,937	(1,783)
Other	17,550	17,058	(492)
	¥152,888	¥184,702	¥31,814

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2009:			
Equities	\$2,367,837	\$3,846,541	\$1,478,704
Government, corporate and other bonds	15,163	15,163	0
Other	152,602	123,122	(29,480)
	\$2,535,602	\$3,984,826	\$1,449,224



Non-marketable available-for-sale securities as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Equities	¥ 73,889	¥240,309	\$ 753,969
Government, corporate and other bonds	36,129	3,268	368,663
Investments in business partnerships	141,388	199,997	1,442,735
Other	38,571	56,408	393,582
	¥289,977	¥499,982	\$2,958,949

In addition to the above, equity securities of non-consolidated subsidiaries and affiliated companies amounting to ¥32,291 million (\$329,500 thousand) at March 31, 2009 and ¥36,453 million at March 31, 2008, respectively, were included in "Investment securities" in the accompanying consolidated balance sheets.

## 7. Derivatives used for non-trading purposes

Net unrealized gains of derivatives used for non-trading purposes at March 31, 2009 and 2008 (excluding hedging transactions) consisted of the following:

	Millions of yen		
	Contract amount	Fair value	Unrealized gains
<b>March 31, 2009:</b>			
Forward exchange contracts	¥ 127	¥ 1	¥ 1
Interest rate swap agreements	40,000	(51)	(51)
Currency swap agreements	7,988	33	33
<b>March 31, 2008:</b>			
Forward exchange contracts	¥ 4,810	¥ 83	¥ 83
Currency swap agreements	14,181	31	31

	Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gains
<b>March 31, 2009:</b>			
Forward exchange contracts	\$ 1,296	\$ 10	\$ 10
Interest rate swap agreements	408,163	(520)	(520)
Currency swap agreements	81,510	337	337

## 8. Pledged assets

Secured obligations at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Short-term borrowings	¥270,423	¥1,144,917	\$2,759,418
Long-term debt	20	20	204
Payables related to margin transactions	3,852	8,618	39,306
	¥274,295	¥1,153,555	\$2,798,928

Daiwa also has secured obligations for borrowings of non-consolidated subsidiaries amounting to ¥3,213 million (\$32,786 thousand) at March 31, 2009.

All above obligations at March 31, 2009 and 2008 are secured by the following assets:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Loans receivable from other than customers	¥ —	¥ 34,721	\$ —
Trading assets	423,145	1,165,097	4,317,806
Private equity and other investments	14	314	143
Investment securities	61,961	62,247	632,255
Other assets—Other	—	10,522	—
	¥485,120	¥1,272,901	\$4,950,204

In addition to the above, securities borrowed amounting to ¥165,159 million (\$1,685,296 thousand) and ¥609,273 million were pledged as guarantees at March 31, 2009 and 2008, respectively.

Total fair value of the securities pledged as collateral at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Securities loaned	¥4,448,294	¥6,782,109	\$45,390,755
Other	1,263,998	1,287,930	12,897,939
	¥5,712,292	¥8,070,039	\$58,288,694

Total fair value of the securities received as collateral at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Securities borrowed	¥5,761,635	¥7,542,741	\$58,792,194
Other	388,890	466,116	3,968,265
	¥6,150,525	¥8,008,857	\$62,760,459

## 9. Lease transactions

Assets used under finance leases other than the ones that transfer ownership to the lessee at the end of the lease term, which started before March 31, 2008, are accounted for in the same manner as ordinary rental transactions. Certain information concerning such non-capitalized finance leases and operating leases at March 31, 2009 and 2008 are summarized as follows:

Lessee:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
<b>Non-capitalized finance leases:</b>			
Total assets under non-capitalized finance leases	¥ 2,106	¥ 4,052	\$ 21,490
Accumulated depreciation	1,482	2,723	15,122
Future lease payments in respect of non-capitalized leases	636	1,371	6,490
Due within one year	230	651	2,347
<b>Operating leases:</b>			
Future lease payments in respect of operating leases	71,709	80,492	731,724
Due within one year	11,668	11,201	119,061

Lessor:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
<b>Operating leases:</b>			
Future lease receipts in respect of operating leases	¥1,585	¥632	\$16,173
Due within one year	444	237	4,531

## 10. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Cash received for customers' accounts	¥125,505	¥112,127	\$1,280,663
Cash deposits received from customers	339,891	152,859	3,468,276
Other	26,730	498,307	272,755
	¥492,126	¥763,293	\$5,021,694

## 11. Long-term debt

As is customary in Japan, in the case of unsecured bank borrowings, security must be given under certain conditions if requested by a lending bank. The bank has the right to offset cash deposited by the borrower against any debt or obligation that becomes due, and in the case of default and certain other specified events, against all debts payable to the bank. Such request has never been made and such right has never been exercised.

The weighted average interest rate on total outstanding short-term borrowings principally from banks at March 31, 2009 and 2008 was 0.60% and 0.78%, respectively.

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Bond payable in yen: 0.95% due CY2008	¥ —	¥ 120,000	\$ —
Bond payable in yen: 1.30% due CY2011	70,000	70,000	714,286
Bond payable in yen: 1.80% due CY2011	50,000	50,000	510,204
Bond payable in yen: 1.65% due CY2011	78,000	—	795,918
Bond payable in yen: 1.50% due CY2012	50,000	50,000	510,204
Bond payable in yen: 1.43% due CY2013	60,000	60,000	612,245
Bond payable in yen: 1.66% due CY2013	70,000	—	714,286
Bond payable in yen: 2.08% due CY2016	30,000	30,000	306,122
Euro medium-term notes issued by the Company and a domestic consolidated subsidiary, maturing through CY2038	864,159	814,355	8,817,949
Subordinated borrowings from banks in yen, maturing through CY2014	105,000	70,000	1,071,429
Long-term borrowings principally from banks in yen, maturing through CY2038	149,670	142,045	1,527,245
Lease obligation	49	—	500
	¥1,526,878	¥1,406,400	\$15,580,388

The amount for euro medium-term notes issued by the Company and a domestic consolidated subsidiary as of March 31, 2009 includes \$97,350 thousand of foreign currency notes.

Interest rates of euro medium-term notes range from 0.45% to 4.24% at March 31, 2009 and from 0.50% to 5.07% at March 31, 2008. The weighted average interest rate on total outstanding yen

subordinated borrowings and borrowings principally from banks at March 31, 2009 and 2008 was 1.70% and 1.49%, respectively. The weighted average interest rate on total outstanding lease obligations at March 31, 2009 was 5.05%.

The aggregate annual maturities of long-term debt as of March 31, 2009 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥ 28,441	\$ 290,214
2011	116,562	1,189,408
2012	217,072	2,215,020
2013	178,646	1,822,918
2014	152,162	1,552,673
2015 and thereafter	833,995	8,510,155
	¥1,526,878	\$15,580,388

Daiwa had an unused commitment line amounting to ¥99,794 million (\$1,018,306 thousand) under agreements with several banks at March 31, 2009.

## 12. Retirement benefits

### Retirement benefits for employees

#### Unfunded plan

Accumulated contribution plus interest to this unfunded plan are included in "Retirement benefits" in the consolidated balance sheets as of March 31, 2009 and 2008, in the amount of ¥23,569 million (\$240,500 thousand) and ¥21,351 million, respectively. Benefit expenses recorded in the consolidated statements of income for the years ended March 31, 2009, 2008 and 2007 were ¥3,399 million (\$34,684 thousand), ¥3,157 million and ¥3,305 million, respectively.

#### Closed funded plan

The effect on the consolidated financial statements was immaterial.

### Retirement benefits for directors

Directors' retirement benefits in consolidated subsidiaries of ¥466 million (\$4,755 thousand) and ¥439 million are included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2009 and 2008, respectively. Benefit expenses recorded in the consolidated statements of income for the years ended March 31, 2009, 2008 and 2007 were ¥193 million (\$1,969 thousand), ¥205 million and ¥199 million, respectively.

## 13. Income taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes levied on income. The effective statutory tax rate in Japan was approximately 40.7% for the years ended March 31, 2009, 2008 and 2007. Overseas consolidated subsidiaries are subject to income taxes of the countries in which they operate.

A reconciliation of the difference between the Japanese statutory income tax rate and the effective income tax rate reflected in the consolidated statements of income for the years ended March 31, 2008 and 2007 are as follows:

	2008	2007
Japanese statutory income tax rate	40.7%	40.7%
Valuation allowance	12.4	(9.0)
Permanent difference (Non-deductible)	2.2	0.9
Permanent difference (Non-taxable)	(1.3)	(0.3)
Lower tax rate applicable to income of overseas consolidated subsidiaries	(0.5)	(1.0)
Adjustment of unrealized inter-company profit	(0.2)	5.2
Other, net	(3.6)	0.9
Effective income tax rate	49.7%	37.4%

Reconciliation of the difference between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2009 is not presented, since net loss is reported in the consolidated statements of income.

Details of deferred tax assets and liabilities at March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
<b>Deferred tax assets:</b>			
Net operating losses carry-forward	¥ 87,011	¥ 42,688	\$ 887,868
Write-down of investment securities	17,022	13,738	173,695
Retirement benefits	10,420	8,990	106,327
Compensation and bonuses	2,888	4,938	29,469
Allowance for doubtful accounts	4,574	2,473	46,673
Impairment losses on fixed assets	6,980	7,582	71,224
Elimination of unrealized gain	6,517	7,333	66,500
Loss on private equity and other investments	40,671	8,975	415,010
Loss on trading	5,474	–	55,857
Other	12,928	16,357	131,918
Gross deferred tax assets	194,485	113,074	1,984,541
Less: Valuation allowance	130,725	72,281	1,333,929
Total deferred tax assets	63,760	40,793	650,612
<b>Deferred tax liabilities</b>	62,268	14,001	635,388
<b>Net deferred tax assets</b>	¥ 1,492	¥ 26,792	\$ 15,224

The Company and certain consolidated subsidiaries provided valuation allowance to reflect the estimated unrealized amount of gross deferred tax assets. The valuation allowance was provided mainly against deferred tax assets recorded at the Company and Daiwa's domestic subsidiaries with tax loss carry-forwards. In assessing the realizability of

deferred tax assets, management considers, as part of its scheduling exercise, factors such as expected taxable income, reversal of temporary differences and utilization of tax loss carry-forwards, and determines whether it is more likely than not that the assets are not realizable in which case the valuation allowance is provided.

#### 14. Statutory reserves

The Financial Instruments and Exchange Act of Japan requires a securities company to set aside a reserve in proportion to its securities transactions and other related trading to cover future eventual operational losses caused by the securities company for customer transactions.

#### 15. Contingent liabilities

Daiwa had contingent liabilities amounting to ¥3,038 million (\$31,000 thousand) and ¥1,691 million at March 31, 2009 and 2008, respectively, mainly arising as guarantors of employees' borrowings.

#### 16. Owners' equity

In principle, the Companies Act of Japan ("the Act") requires a company to credit the entire amount of issued shares to common stock (and preferred stock, if any); however, a company may classify an amount not exceeding one-half of the entire issued amount of shares as additional paid-in capital, which is included in capital surplus, with a resolution of the Board of Directors.

According to the Act, a company should set aside 10% of cash dividends and other cash appropriations as "Additional paid-in capital" or "Earned surplus" until the total becomes one quarter of the common stock (and preferred stock, if any). "Additional paid-in capital" and "Earned surplus" are allowed to be utilized to eliminate or reduce a deficit with a resolution of the shareholders' meeting or



may be transferred to common stock with a resolution of the Board of Directors, and also may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. "Additional paid-in capital" and "Earned surplus" are included in "Capital surplus" and "Retained earnings" in the accompanying consolidated balance sheets.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Act. The total amount of

retained earnings available for dividends in the Company's statutory book of accounts as of March 31, 2009 amounted to ¥214,598 million (\$2,189,776 thousand).

Under Article 459-1 of the Act, the articles of incorporation of the Company stipulate that the Board of Directors is to determine dividends. Cash dividends of ¥5 (\$0.05) per share amounting to ¥6,731 million (\$68,684 thousand) and ¥3 (\$0.03) per share amounting to ¥4,039 million (\$41,214 thousand) were approved by the Board of Directors on May 19, 2009 and October 31, 2008, respectively.

## 17. Share-based payment

Daiwa has various stock option plans.

The shareholders of the Company approved granting stock options to directors and certain key employees on June 23, 2004. The plan provides for the issuance of up to 4,500 thousand shares in the form of options to directors and executive officers, and the amount paid in upon exercise of such subscription rights is ¥756 per share. The options may be exercised during the period from July 1, 2006 until August 31, 2011. On the same day, the shareholders' meeting of the Company approved a change in the articles of incorporation so that the Company may be entitled to repurchase its shares by the resolution of its Board of Directors.

The shareholders of the Company on June 24, 2005, June 24, 2006, June 23, 2007, June 21, 2008 and June 20, 2009 approved granting stock options. These options are categorized into two types

depending on the scope of the individual persons covered by the plans and exercise conditions. The first is the stock subscription rights that were issued free to directors and executive officers of the Company, its subsidiaries and its affiliated companies, and the amount paid in upon exercise of such subscription rights is ¥1 per share. The second is the stock subscription rights that shall be issued to directors, executive officers and certain employees of the Company, its subsidiaries and its affiliated companies, excluding the persons to whom the first stock subscription rights were issued. The amount paid in upon exercise of such subscription rights shall be determined based on the market price of the Company's common stock at the time of the issuance of such subscription rights.

The date of approval at the shareholders' meeting, the balance of the exercisable options, exercise price and exercise period for the stock options of the Company at March 31, 2009 are as follows:

Date of approval at the shareholders' meeting	Balance of the exercisable options (The number of shares)	Exercise price (Yen/share (U.S. dollars/share))		Exercise period
June 23, 2004	1,535,000	¥ 756	(\$ 7.71)	from July 1, 2006 to August 31, 2011
June 24, 2005	499,000	¥ 1	(\$ 0.01)	from July 1, 2005 to June 30, 2025
	1,889,000	¥ 781	(\$ 7.97)	from July 1, 2007 to August 31, 2012
June 24, 2006	293,000	¥ 1	(\$ 0.01)	from July 1, 2006 to June 30, 2026
	—	¥1,515	(\$15.46)	from July 1, 2011 to June 23, 2016
June 23, 2007	306,000	¥ 1	(\$ 0.01)	from July 1, 2007 to June 30, 2027
	—	¥1,224	(\$12.49)	from July 1, 2012 to June 22, 2017
June 21, 2008	350,000	¥ 1	(\$ 0.01)	from July 1, 2008 to June 30, 2028
	—	¥ 917	(\$ 9.36)	from July 1, 2013 to June 20, 2018

DSC also has stock option plans. The date of approval at the shareholders' meeting, the balance of the exercisable options, exercise price and exercise period for such plans at March 31, 2009 are as follows:

Date of approval at the shareholders' meeting	Balance of the exercisable options (The number of shares)		Exercise price (Yen/share (U.S. dollars/share))	Exercise period
June 24, 2004	28,100	¥2,018	(\$20.59)	from July 1, 2006 to August 31, 2011
June 28, 2005	24,600	¥ 1	(\$ 0.01)	from December 1, 2005 to November 30, 2025
	26,700	¥4,263	(\$43.50)	from July 1, 2007 to August 31, 2012
June 27, 2006	3,100	¥ 1	(\$ 0.01)	from September 8, 2006 to September 7, 2026
	4,700	¥ 1	(\$ 0.01)	from September 8, 2006 to September 7, 2026
	–	¥4,303	(\$43.91)	from July 1, 2011 to June 26, 2016
June 26, 2007	6,700	¥ 1	(\$ 0.01)	from September 14, 2007 to June 26, 2027
	12,000	¥ 1	(\$ 0.01)	from September 14, 2007 to June 26, 2027
	–	¥1,713	(\$17.48)	from July 1, 2012 to June 25, 2017
June 24, 2008	14,400	¥ 1	(\$ 0.01)	from September 12, 2008 to September 11, 2028
	21,200	¥ 1	(\$ 0.01)	from September 12, 2008 to September 11, 2028
	–	¥ 992	(\$10.12)	from July 1, 2013 to June 23, 2018

DSC implemented a stock split on January 4, 2009. The above figures for the balance of the exercisable options and exercise price are reflected with an adjustment for the stock split.

## 18. Capital adequacy requirements

In Japan, a securities company is subject to risk-based capital adequacy rules established and administered by the Financial Services Agency. Securities subsidiaries report their capital adequacy ratio as defined pursuant to these rules. The authorities will take certain administrative measures if such ratio declines below 140%. The capital adequacy ratios of Daiwa Securities were 390.7% (unaudited) and 319.7% (unaudited) for March 31, 2009 and 2008, respectively, and those of Daiwa Securities SMBC were 343.9% (unaudited) and 307.6% (unaudited) for March 31, 2009 and 2008, respectively.

## 19. Segment information

Daiwa operates predominantly in a single industry segment. Daiwa's primary business activities include (1) trading in securities and derivatives, (2) brokerage of securities and derivatives, (3) underwriting and distribution of securities, (4) other business related to securities transactions and (5) private offering of securities.

A summary of revenues by geographic area for the years ended March 31, 2009, 2008 and 2007 and a summary of total assets by geographic area at March 31, 2009 and 2008 are as follows:

						Millions of yen
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
<b>Year ended March 31, 2009:</b>						
Net operating revenues:						
Outside customer	¥ 156,645	¥19,673	¥13,601	¥ 9,625	¥ –	¥ 199,544
Inter-segment	650	1,232	6,009	2,191	(10,082)	–
Total	157,295	20,905	19,610	11,816	(10,082)	199,544
Selling, general and administrative expenses	301,255	13,741	24,714	13,700	(10,140)	343,270
Operating income (loss)	¥(143,960)	¥ 7,164	¥ (5,104)	¥ (1,884)	¥ 58	¥(143,726)
<b>At March 31, 2009:</b>						
Total assets by geographic area	¥11,452,445	¥2,293,672	¥832,624	¥72,782	¥(468,944)	¥14,182,579
<b>Year ended March 31, 2008:</b>						
Net operating revenues:						
Outside customer	¥406,520	¥10,195	¥13,448	¥17,328	¥ –	¥447,491
Inter-segment	(5,997)	4,398	8,464	986	(7,851)	–
Total	400,523	14,593	21,912	18,314	(7,851)	447,491
Selling, general and administrative expenses	316,998	13,043	26,947	14,717	(7,846)	363,859
Operating income (loss)	¥ 83,525	¥ 1,550	¥ (5,035)	¥ 3,597	¥ (5)	¥ 83,632
<b>At March 31, 2008:</b>						
Total assets by geographic area	¥14,307,375	¥2,990,598	¥1,260,014	¥80,659	¥(1,331,527)	¥17,307,119
<b>Year ended March 31, 2007:</b>						
Net operating revenues:						
Outside customer	¥483,875	¥ 9,588	¥19,870	¥13,431	¥ –	¥526,764
Inter-segment	(8,701)	5,096	16,034	1,298	(13,727)	–
Total	475,174	14,684	35,904	14,729	(13,727)	526,764
Selling, general and administrative expenses	302,606	13,079	27,563	10,851	(13,726)	340,373
Operating income (loss)	¥172,568	¥ 1,605	¥ 8,341	¥ 3,878	¥ (1)	¥186,391

	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Thousands of U.S. dollars Consolidated
<b>Year ended March 31, 2009:</b>						
Net operating revenues:						
Outside customer	\$ 1,598,419	\$200,745	\$138,786	\$ 98,214	\$ –	\$ 2,036,164
Inter-segment	6,633	12,571	61,316	22,357	(102,877)	–
Total	1,605,052	213,316	200,102	120,571	(102,877)	2,036,164
Selling, general and administrative expenses	3,074,031	140,214	252,184	139,795	(103,469)	3,502,755
Operating income (loss)	\$(1,468,979)	\$ 73,102	\$(52,082)	\$(19,224)	\$ 592	\$(1,466,591)

**At March 31, 2009:**

Total assets by geographic area	\$116,861,685	\$23,404,817	\$8,496,163	\$742,673	\$(4,785,143)	\$144,720,195
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Geographic overseas revenues for the years ended March 31, 2009, 2008 and 2007 are as follows:

	America	Europe	Asia & Oceania	Millions of yen Total
<b>Year ended March 31, 2009:</b>				
Overseas revenues	¥26,092	¥14,005	¥10,163	¥ 50,260
Net operating revenues				199,544
Percentage of net operating revenues	13.1%	7.0%	5.1%	25.2%

**Year ended March 31, 2008:**

Overseas revenues	¥19,169	¥10,048	¥15,281	¥ 44,498
Net operating revenues				447,491
Percentage of net operating revenues	4.3%	2.2%	3.4%	9.9%

**Year ended March 31, 2007:**

Overseas revenues	¥19,325	¥13,101	¥11,902	¥ 44,328
Net operating revenues				526,764
Percentage of net operating revenues	3.7%	2.5%	2.3%	8.4%

	America	Europe	Asia & Oceania	Thousands of U.S. dollars Total
<b>Year ended March 31, 2009:</b>				
Overseas revenues	\$266,245	\$142,908	\$103,704	\$ 512,857
Net operating revenues				2,036,164
Percentage of net operating revenues	13.1%	7.0%	5.1%	25.2%

## 20. Transactions with related parties

The information on a subsidiary's material transactions with related parties and individuals for the year ended March 31, 2009 and the resulting account balances with such related party at the balance sheet date are as follows:

Name of related company	Paid-in Capital Millions of yen	Voting rights for the related company	Description of transactions		Accounts balances	
					Millions of yen	
					2009	
Tokyo Tanshi Co., Ltd.	¥10,000	(Totan Holdings Co., Ltd. subsidiary)	Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	¥157,058
			Interest dividend income	¥ 4	Receivables—other	2
			Interest expense	16	Accrued and other liabilities—other	4
Thousands of U.S. dollars						
2009						
			Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	\$1,602,633
			Interest dividend income	\$ 41	Receivables—other	20
			Interest expense	163	Accrued and other liabilities—other	41

The Company has 17.43% of direct voting rights for Totan Holdings Co., Ltd., which is the parent company of Tokyo Tanshi Co., Ltd.

## 21. Special purpose entities subject to disclosure

Daiwa utilized 5 special purpose entities for the year ended March 31, 2009 (9 for year ended March 31, 2008) principally for the securitization of structured notes in order to support securitization of monetary assets of customers. Daiwa acquires and transfers bonds to those special purpose entities (incorporated in the Cayman Islands) and issues structured notes collateralized by those bonds.

Daiwa does not own any shares with voting rights in any of these special purpose entities and has not dispatched any director or employee to them. Notes issued by those special purpose entities subject to disclosure as of the fiscal year ended March 31, 2009 and 2008 are ¥191,410 million (\$1,953,163 thousand) and ¥237,302 million, respectively.

## 22. Commissions

Commissions derived from each department for the years ended March 31, 2009, 2008 and 2007 are as follows:

						Millions of yen
	Equity	Fixed income (Bond)	Asset management	Investment banking	Others	Total
<b>Year ended March 31, 2009:</b>						
Brokerage	¥54,809	¥364	¥ 555	¥ —	¥ —	¥ 55,728
Underwriting	—	—	—	20,965	—	20,965
Distribution	—	—	17,968	725	—	18,693
Other	1,593	627	78,478	13,225	19,572	113,495
	¥56,402	¥991	¥97,001	¥34,915	¥19,572	¥208,881

						Millions of yen
	Equity	Fixed income (Bond)	Asset management	Investment banking	Others	Total
Year ended March 31, 2008:						
Brokerage	¥82,487	¥ 925	¥ 464	¥ –	¥ –	¥ 83,876
Underwriting	–	–	–	25,470	–	25,470
Distribution	–	–	39,342	3,230	–	42,572
Other	2,106	1,208	96,571	18,851	23,771	142,507
	¥84,593	¥2,133	¥136,377	¥47,551	¥23,771	¥294,425

<b>Year ended March 31, 2007:</b>						
Brokerage	¥97,062	¥ 694	¥ 317	¥ –	¥ –	¥ 98,073
Underwriting	–	–	–	54,069	–	54,069
Distribution	–	–	37,210	1,310	–	38,520
Other	1,925	1,973	69,379	19,607	23,190	116,074
	¥98,987	¥2,667	¥106,906	¥74,986	¥23,190	¥306,736

						Thousands of U.S. dollars
	Equity	Fixed income (Bond)	Asset management	Investment banking	Others	Total
Green ended March 31, 2009:						
Brokerage	\$559,276	\$ 3,714	\$ 5,663	\$ –	\$ –	\$ 568,653
Underwriting	–	–	–	213,929	–	213,929
Distribution	–	–	183,347	7,398	–	190,745
Other	16,255	6,398	800,796	134,949	199,714	1,158,112
	\$575,531	\$10,112	\$989,806	\$356,276	\$199,714	\$2,131,439

### 23. Net gain on trading

Net gain on trading for the years ended March 31, 2009, 2008 and 2007 is as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Stock and other	¥(25,737)	¥ 11,020	¥ 31,288	\$(262,622)
Bond, forex and other	66,658	92,341	126,045	680,183
	¥ 40,921	¥103,361	¥157,333	\$ 417,561



## 24. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2009, 2008 and 2007 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Employees' compensation and benefits	¥141,600	¥156,662	¥163,379	\$1,444,898
Commissions and brokerage	33,696	45,671	37,672	343,837
Communications	21,045	22,166	19,749	214,745
Occupancy and rental	43,704	38,759	38,846	445,959
Data processing and office supplies	30,157	29,878	23,021	307,724
Taxes other than income taxes	6,554	7,330	8,265	66,878
Depreciation and amortization	35,590	28,047	23,117	363,163
Other	30,924	35,346	26,324	315,551
	¥343,270	¥363,859	¥340,373	\$3,502,755

## 25. Other income (expenses)

Details of "Other, net" in the accompanying consolidated statements of income for the years ended March 31, 2009, 2008 and 2007 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Gains on sales of investment securities	¥ 2,330	¥ 3,228	¥ 3,602	\$ 23,776
Losses on sales of investment securities	(60)	(205)	(363)	(612)
Write-down of investment securities	(24,812)	(8,263)	(736)	(253,184)
Gains or losses on sale or disposal of fixed assets	(1,430)	(1,415)	(1,395)	(14,592)
Equity in earnings of affiliates	(1,106)	1,738	1,424	(11,286)
Impairment losses on fixed assets	(452)	(537)	(2,975)	(4,612)
Relocation costs of headquarters	—	(1,354)	(4,681)	—
Other	1,862	5,179	5,222	19,000
	¥(23,668)	¥(1,629)	¥ 98	\$(241,510)

The breakdown of impairment losses recognized in the years ended March 31, 2009, 2008 and 2007 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Fixed assets to be held and used	¥452	¥537	¥2,975	\$4,612

The book values of fixed assets to be held and used were reduced to their estimated recoverable amounts based on mainly the present values of expected cash flows using the discount rate of 2%.

## 26. Subsequent events

**Granting stock options**—The shareholders of the Company approved the issuance of stock subscription rights as stock options on June 20, 2009. In accordance with Articles 236, 238 and 239 of the Companies Act of Japan, the stock subscription rights

were issued free to directors, executive officers and employees of the Company and its affiliated companies, and the amount paid in upon exercise of such subscription rights is ¥1 (\$0.01) per share.



## Independent Auditors' Report

### To the Shareholders and Board of Directors of Daiwa Securities Group Inc.:

We have audited the accompanying consolidated balance sheets of Daiwa Securities Group Inc. and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2009, expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daiwa Securities Group Inc. and subsidiaries as of March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2009, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA & Co.*

Tokyo, Japan  
June 22, 2009

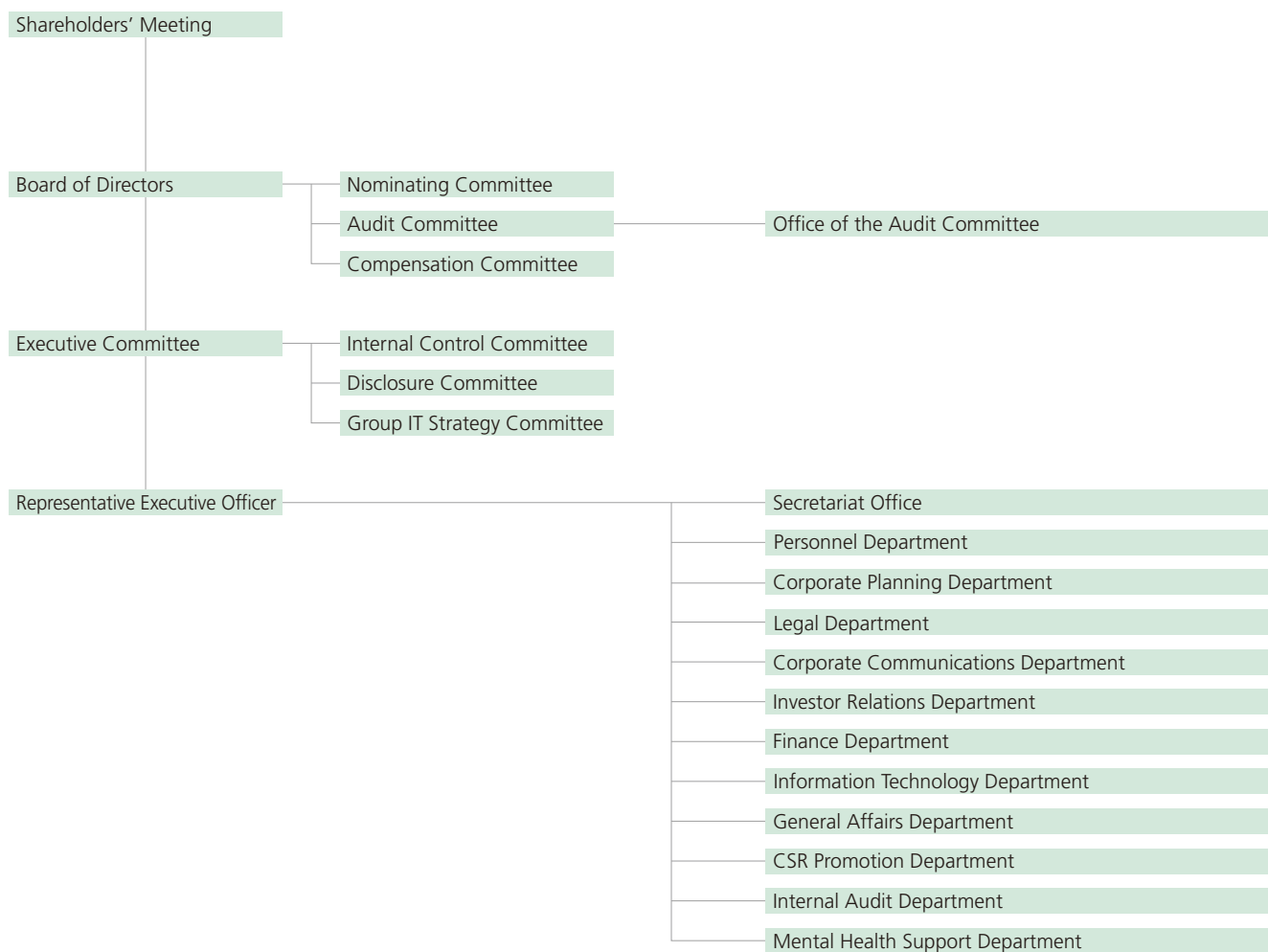
## Other Information

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## Organization and Officers

Daiwa Securities Group Inc.

1) Organization (As of July 1, 2009)



## 2) Officers (As of July 1, 2009)

## Directors



Chairman of the Board  
Akira Kiyota

Director  
Shigeharu Suzuki

Director  
Shin Yoshidome

Director  
Takashi Fukai

Director  
Takashi Hibino

Director  
Nobuyuki Iwamoto

Director  
Kazuo Oda

Director  
Seiji Nakata

Director  
Saburo Jifuku

Outside Director  
Tetsuro Kawakami

Outside Director  
Ryuji Yasuda

Outside Director  
Koichi Uno

Outside Director  
Nobuko Matsubara

Outside Director  
Keiichi Tadaki

## Committee Members



Nominating Committee  
Akira Kiyota (Chairman)  
Shigeharu Suzuki  
Tetsuro Kawakami  
Ryuji Yasuda  
Nobuko Matsubara  
Keiichi Tadaki

Audit Committee  
Saburo Jifuku (Chairman)  
Koichi Uno  
Nobuko Matsubara  
Keiichi Tadaki

Compensation Committee  
Akira Kiyota (Chairman)  
Shigeharu Suzuki  
Tetsuro Kawakami  
Ryuji Yasuda  
Koichi Uno

## Executive Officers



President and CEO  
Shigeharu Suzuki  
Director, Daiwa Securities Group Inc.  
President, Daiwa Securities Co. Ltd.

Deputy President and COO  
(Representative)  
Shin Yoshidome  
Director, Daiwa Securities Group Inc.  
President, Daiwa Securities SMBC  
Co. Ltd.

Deputy President  
Takashi Fukai  
Director, Daiwa Securities Group Inc.  
Deputy President, Daiwa Securities  
Co. Ltd.

Deputy President  
Shuntaro Higashi  
Deputy President, Daiwa Securities  
SMBC Co. Ltd.

Deputy President  
Takashi Hibino  
Director, Daiwa Securities Group Inc.  
Deputy President, Daiwa Securities  
SMBC Co. Ltd.

Deputy President  
Makoto Shirakawa  
Deputy President, Daiwa Securities  
Co. Ltd.

Deputy President  
Toshiro Ishibashi  
President, Daiwa Asset Management  
Co. Ltd.

Deputy President  
Hiroshi Ota  
President, Daiwa Institute of Research  
Holdings Ltd.  
President, Daiwa Institute of  
Research Ltd.  
President, Daiwa Institute of Research  
Business Innovation Ltd.

Corporate Executive Vice  
President and CFO  
Nobuyuki Iwamoto  
Director, Daiwa Securities Group Inc.

Corporate Senior Executive  
Officer and CIO  
Kazuo Oda  
Director, Daiwa Securities Group Inc.  
Senior Managing Director, Daiwa  
Institute of Research Ltd.

Corporate Senior  
Executive Officer  
Seiji Nakata  
Director, Daiwa Securities Group Inc.

Corporate Executive Officer  
Masaaki Goto  
Chairman, Daiwa America Corporation

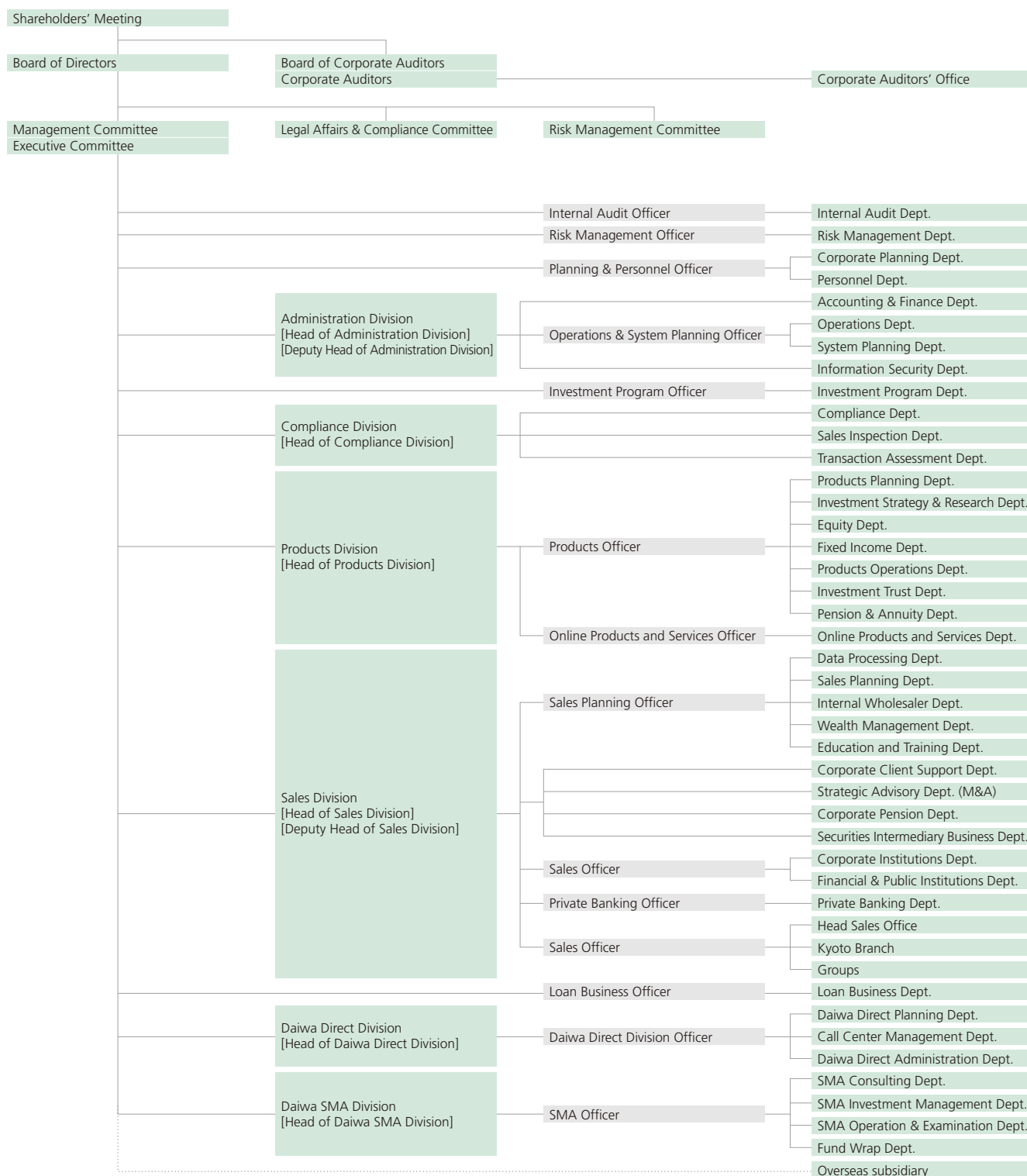
Corporate Executive Officer  
Keiko Uehara

Corporate Executive Officer  
Toshihiro Matsui

Corporate Executive Officer  
Akira Kiyota  
Chairman of the Board, Daiwa  
Securities Group Inc.

## Daiwa Securities Co. Ltd.

## 1) Organization (As of July 1, 2009)



## 2) Officers (As of July 1, 2009)

## Directors



President  
Shigeharu Suzuki

Deputy President  
Takashi Fukai

Deputy President  
Makoto Shirakawa

Representative Senior  
Managing Director  
Masaki Shimazu

Senior Managing Director  
Yoriyuki Kusaki

Senior Managing Director  
Yoshimi Murakami

Managing Director  
Koichi Suzuki

## Corporate Auditors



Shohei Takashima

Zenichiro Onishi

Saburo Jifuku

## Executive Officers



Senior Executive Officers  
Osamu Abiru

Hiroshi Nakamura

Keiji Komagata

Keiichi Sakai

Naofumi Idei

Ikuo Shoda

Hideto Sakao

Executive Officers  
Yosuke Sakai

Keiichi Takezaki

Koichi Matsushita

Hiroyuki Kasahara

Junichi Okura

Junichi Aizawa

Naoko Saito

Kazuo Hayasaki

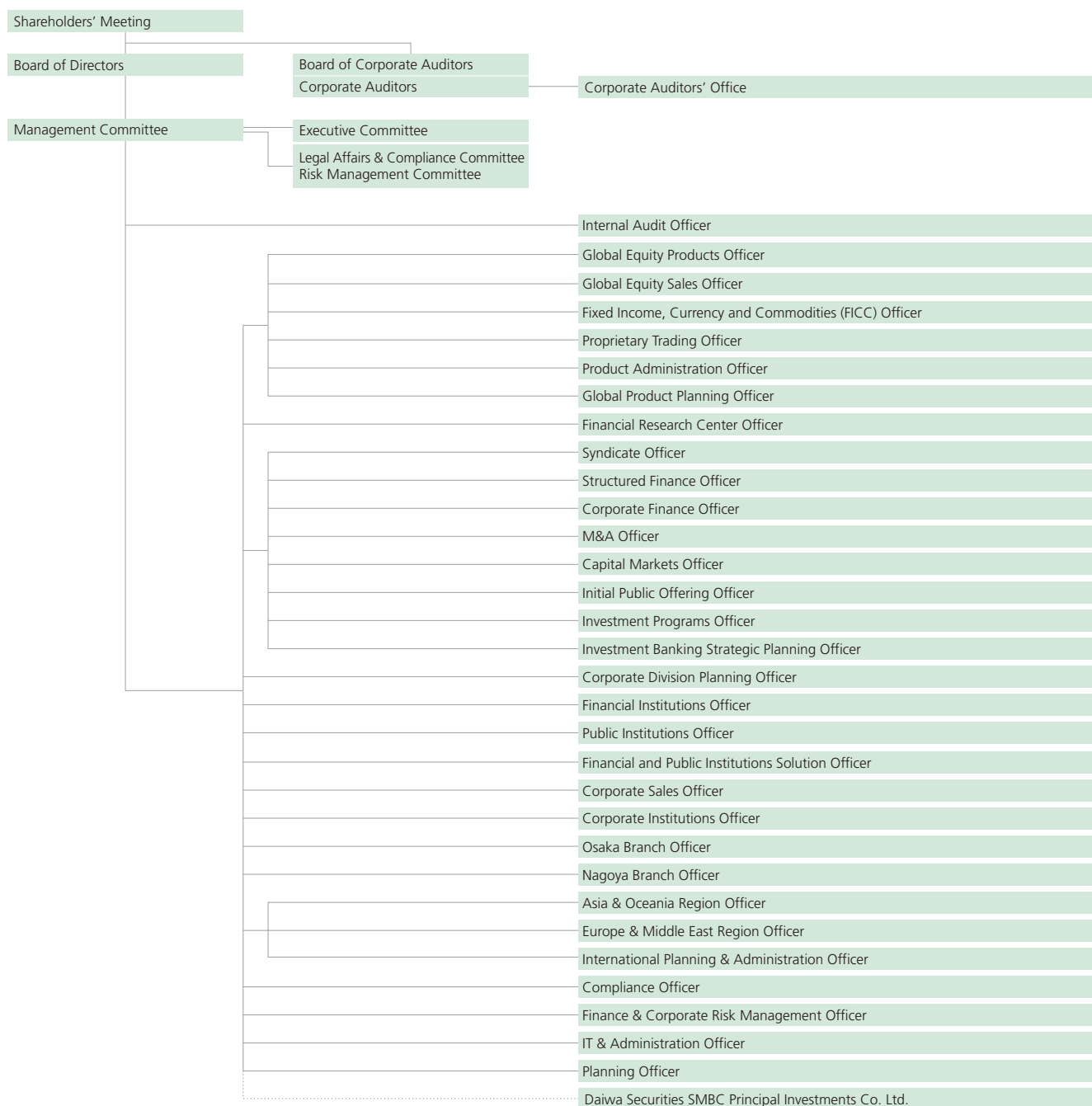
Noriaki Kusaka

Keiko Tashiro



## Daiwa Securities SMBC Co. Ltd.

## 1) Organization (As of August 24, 2009)



## 2) Officers (As of July 1, 2009)

## Directors



President  
Shin Yoshidome

Deputy President  
Shuntaro Higashi

Deputy President  
Takashi Hibino

Senior Managing Director  
Kazuhiko Akamatsu

Senior Managing Director  
Akio Takahashi  
Chairman, Daiwa Securities SMBC  
Principal Investments Co. Ltd.

Senior Managing Director  
Masamichi Yokoi  
President, Daiwa Securities SMBC  
Asia Holding B.V.

Managing Director  
Mitsuharu Tanaka

Managing Director  
Toshinao Matsushima

Managing Director  
Shigeo Koike

Director  
Tetsufumi Fujisawa

## Corporate Auditors



Shigeharu Tominaga

Satoshi Otsu

Shigeru Ishida

Yoshio Nagamoto

## Executive Officers



Senior Executive Officers Kenichi Miki	Executive Officers Yoshimasa Tsunei
Motoi Takahashi	Hiroaki Saito
Takatoshi Wakabayashi	Kazuo Takahashi
Eishu Kosuge Chairman, Daiwa Securities SMBC Europe Limited	Akira Inoue President, Daiwa Securities SMBC Principal Investments Co. Ltd.
Shinya Nishio	Yoshio Urata
Shinya Kusaba	Akihiko Kanamura Chairman, Daiwa Securities SMBC Hong Kong Limited Chairman, Daiwa Securities SMBC- Cathay Co., Ltd.
Yoshimasa Nagase	Kunio Sato
	Hisanobu Sonoda
	Hisato Oiwa
	Yuichi Akai Chairman, Daiwa Securities SMBC Singapore Limited Chairman, Daiwa Securities SMBC Futures Pte Ltd. Deputy Chairman, Daiwa Securities SMBC Hong Kong Limited
	Toshihiko Onishi Deputy President, Daiwa Securities SMBC Principal Investments Co. Ltd.
	Seiya Miyamoto
	Takeaki Mori
	Koichi Maruo
	Kenji Kawamura

## Domestic Group Companies

(As of July 1, 2009)

### Daiwa Securities Co. Ltd.

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6752, Japan  
Tel: (81) 3-5555-2111

### Daiwa Securities SMBC Co. Ltd.

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6753, Japan  
Tel: (81) 3-5555-3111

### Daiwa Asset Management Co. Ltd.

10-5, Nihonbashi-Kayabacho 2-chome, Chuo-ku, Tokyo 103-0025, Japan  
Tel: (81) 3-5695-2111

### Daiwa Institute of Research Holdings Ltd.

15-6, Fuyuki, Koto-ku, Tokyo 135-8460, Japan  
Tel: (81) 3-5620-5501

### Daiwa Institute of Research Ltd.

15-6, Fuyuki, Koto-ku, Tokyo 135-8460, Japan  
Tel: (81) 3-5620-5100

### Daiwa SB Investments Ltd.

2-1, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo 100-0013, Japan  
Tel: (81) 3-6205-0200

### Daiwa Securities Business Center Co. Ltd.

3-2, Toyo 2-chome, Koto-ku, Tokyo 135-0016, Japan  
Tel: (81) 3-5633-6100

### Daiwa Property Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan  
Tel: (81) 3-5555-4700

### Daiwa SMBC Capital Co., Ltd.

8-10, Kudankita 1-chome, Chiyoda-ku, Tokyo 102-0073, Japan  
Tel: (81) 3-6910-2600

### Daiwa Institute of Research Business Innovation Ltd.

36-2 Hakozaiki-cho, Nihonbashi, Chuo-ku, Tokyo 103-0015, Japan  
Tel: (81) 3-5931-8600

### Daiwa Securities SMBC Principal Investments Co. Ltd.

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6754, Japan  
Tel: (81) 3-5555-6111

### Daiwa Securities Loan Co., Ltd.

3-2, Toyo 2-chome, Koto-ku, Tokyo 135-0016, Japan  
Tel: (81) 3-5683-9589

### Daiwa Fund Consulting Co. Ltd.

6-1, Otemachi 2-chome, Chiyoda-ku, Tokyo 100-0004, Japan  
Tel: (81) 3-6225-3200

### Daiwa Real Estate Asset Management Co. Ltd.

2-1, Ginza 6-chome, Chuo-ku, Tokyo 104-0061, Japan  
Tel: (81) 3-6215-9500

### Daiwa Pension Consulting Co., Ltd.

3-2, Toyo 2-chome, Koto-ku, Tokyo 135-0016, Japan  
Tel: (81) 3-3615-7771

### Daiwa Investor Relations Co. Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan  
Tel: (81) 3-5555-4111

### Daiwa Securities Media Networks Co. Ltd.

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6751, Japan  
Tel: (81) 3-5555-1175

### Daiwa Office Management Co., Ltd.

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan  
Tel: (81) 3-5555-1400

### Daiwa Sanko Co., Ltd.

5-9, Sotokanda 2-chome, Chiyoda-ku, Tokyo 101-0021, Japan  
Tel: (81) 3-5256-4111

### HINODE SECURITIES CO., LTD.

2-14, Awajicho 2-chome, Chuo-ku, Osaka-shi, Osaka 541-0047, Japan  
Tel: (81) 6-6205-7711

### DIR System Management Co., Ltd.

14-6, Eitai 1-chome, Koto-ku, Tokyo 135-8461, Japan  
Tel: (81) 3-3820-3295

### DIR System Technology Co., Ltd.

14-5, Fuyuki, Koto-ku, Tokyo 135-0047, Japan  
Tel: (81) 3-5621-4140

# Overseas Group Companies

(As of July 1, 2009)

## Daiwa Securities Group Inc.



### Daiwa Securities America Inc.

#### Head Office

Financial Square, 32 Old Slip, New York, NY 10005, U.S.A.  
Tel: (1) 212-612-7000

#### San Francisco Branch

555 California Street, Suite 3360, San Francisco, CA 94104, U.S.A.  
Tel: (1) 415-955-8100

### Daiwa Securities Trust and Banking (Europe) PLC

5 King William Street, London EC4N 7JB, United Kingdom  
Tel: (44) 20-7320-8000

### Daiwa Securities Trust Company

One Evertrust Plaza, Jersey City, NJ 07302, U.S.A.  
Tel: (1) 201-333-7300

### Daiwa Europe Fund Managers (Ireland) Ltd.

Level 3, Block 5, Harcourt Centre, Harcourt Road, Dublin 2, Ireland  
Tel: (353) 1-603-9900

### Daiwa Europe Trustees (Ireland) Ltd.

Level 3, Block 5, Harcourt Centre, Harcourt Road, Dublin 2, Ireland  
Tel: (353) 1-603-9900

## Daiwa Securities SMBC Co. Ltd.



### Daiwa Securities SMBC Europe Limited

#### Head Office

5 King William Street, London EC4N 7AX, United Kingdom  
Tel: (44) 20-7597-8000

#### Frankfurt Branch

Trianon Bldg., Mainzer Landstrasse 16, 60325 Frankfurt am Main,  
Federal Republic of Germany  
Tel: (49) 69-717080

#### Paris Branch

112, Avenue Kléber, 75116 Paris, France  
Tel: (33) 1-56-26-22-00

#### Geneva Branch

50, rue du Rhône, P.O. Box 3198, 1211 Geneva 3, Switzerland  
Tel: (41) 22-818-74-00

#### Milan Branch

Via Senato 14/16, 20121 Milan, Italy  
Tel: (39) 02-763271

#### Bahrain Branch

7th Floor, The Tower, Bahrain Commercial Complex, P.O. Box  
30069, Manama, Bahrain  
Tel: (973) 1753-4452

#### Dubai Branch

The Gate Village Building 1, 1st Floor, Unit 6, Dubai International  
Financial Centre, P.O. Box 506657, Dubai, UAE  
Tel: (971) 4-7090401

#### Moscow Representative Office

25/9, build. 1, Per. Sivtsev Vrazhek, Moscow 119002, Russian  
Federation  
Tel: (7) 495-617-1960

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#### Daiwa Securities SMBC Hong Kong Limited

26th Floor, One Pacific Place, 88 Queensway, Hong Kong  
Tel: (852) 2525-0121

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#### Daiwa Securities SMBC Singapore Limited

6 Shenton Way #26-08, DBS Building Tower Two, Singapore  
068809, Republic of Singapore  
Tel: (65) 6220-3666

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#### Daiwa Securities SMBC Australia Limited

34th Floor, Rialto North Tower, 525 Collins Street, Melbourne,  
Victoria 3000, Australia  
Tel: (61) 3-9916-1300

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#### Daiwa Securities SMBC India Private Limited

10th Floor, 3 North Avenue, Maker Maxity, Bandra Kurla Complex,  
Bandra East, Mumbai 400051, India  
Tel: (91) 22-6622-1000

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#### DBP-Daiwa Securities SMBC Philippines, Inc.

18th Floor, Citibank Tower, 8741 Paseo de Roxas, Salcedo Village,  
Makati City, Republic of the Philippines  
Tel: (632) 813-7344

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#### Daiwa Securities SMBC-Cathay Co., Ltd.

14th Floor, 200, Keelung Road, Sec.1, Taipei, Taiwan, R.O.C.  
Tel: (886) 2-2723-9698

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#### Daiwa SMBC-SSC Securities Co., Ltd.

15th Floor, Aurora Plaza, 99 Fucheng Road, Pudong, Shanghai,  
People's Republic of China 200120  
Tel: (86) 21-6859-8000

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#### Seoul Branch

6th Floor, DITC Building, #27-3, Youido-dong, Yongdungpo-gu,  
Seoul, Republic of Korea  
Tel: (82) 2-787-9100

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#### Beijing Representative Office

Room 3503/3504, SK Tower, No. 6 Jia Jianguomen Wai Avenue,  
Chaoyang District, Beijing, People's Republic of China 100022  
Tel: (86) 10-6500-6688

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#### Bangkok Representative Office

18th Floor, M. Thai Tower, All Seasons Place, 87 Wireless Road,  
Lumpini, Pathumwan, Bangkok 10330 Thailand  
Tel: (66) 2-252-5650

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#### Hanoi Representative Office

Suite 405, Pacific Place Building, 83B Ly Thuong Kiet Street,  
Hanoi, Vietnam  
Tel: (84) 4-3-946-0460

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# Daiwa Securities Group Inc. Corporate Data

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## Head Office

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6751,  
Japan  
Tel: (81) 3-5555-1111

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## Website

<http://www.daiwa-grp.jp/ir/english/>

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## Commencement of Operations

May 1, 1902

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## Date of Founding

December 27, 1943

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## Common Stock

Issued and Outstanding  
1,404,664 thousand shares  
(as of March 31, 2009)

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## Number of Shareholders

100,393 (as of March 31, 2009)

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## Independent Public Accountant

KPMG AZSA & Co.

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## Stock Exchange Listings

Tokyo, Osaka, Nagoya

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## Transfer Agent and Registrar

The Sumitomo Trust and Banking Company, Limited  
Stock Transfer Agency Department  
3-1, Yaesu 2-chome, Chuo-ku,  
Tokyo 104-8476, Japan

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For further information, please contact: Daiwa Securities Group Inc.  
Investor Relations

Tel: (81) 3-5555-1300  
Fax: (81) 3-5555-0661  
Email: [ir-section@dsgi.daiwa.co.jp](mailto:ir-section@dsgi.daiwa.co.jp)  
URL: <http://www.daiwa-grp.jp/ir/english/>

