

To Our Shareholders and Investors



**“The Daiwa Securities Group has made a new start
with strong solidarity and passion.”**

Shigeharu Suzuki, President and CEO
Daiwa Securities Group Inc.

鈴木茂晴

[Performance Review for FY2009]

Q1. Can you give an overview of FY2009 ?

A1. Our performance recovered, and I feel that efforts to strengthen our operating base have had solid results.

Business Environment

Corporate performance improved in FY2009, buoyed by large-scale government spending in major countries as well as favorable economic conditions in China and other emerging markets. There were also signs that the downtrend in private capital investment bottomed out in the latter half of the fiscal year. Amid such operating conditions, the equity financing market in Japan grew substantially as many corporations rushed to solidify their financial bases for the next stage of growth.

Meanwhile, in the stock market, the average daily trading value on the Tokyo Stock Exchange contracted some 20% compared with the preceding fiscal year, despite upswings in the first half and at the start of the new calendar year.

Return to Profitability, ROE to 5.3%

Under such business conditions, the operating revenues of the Daiwa Securities Group (hereafter, the “Group”) surged 30% year on year, and ordinary income turned positive to the tune of ¥102.9 billion, recovering to an even higher level than in FY2007. Furthermore, ROE reached 5.3%. In the retail business, share subscription and sales of investment trusts increased. In addition, the strong performance of underwriting in the wholesale business, combined with gains on sale of shares held in the investment business, contributed to improved results.

Steadily Expanding the Operating Base

Despite the rebound in performance, with ordinary income still at around 40% of the FY2005 level, I remain far from content. However, I think we have seen solid results in expanding our operating base. For instance, we have expanded the balance of the Group’s assets under custody, mainly in the retail business; served as lead manager for a number of large-scale deals in the wholesale business; and steadily increased the balance of our investment fund assets under management.

Examples of Daiwa’s Expanding Operating Base

	March 31, 2010	Year-on-year Change
Customer Assets (Overall Group)	¥43.8 trillion	+12.0%
Assets under Management (Overall Group)	¥13.4 trillion	+25.2%
Number of Accounts in “Daiwa Direct” Course	1,250 thousand	+13.0%

[Impact of the Dissolution of Joint Venture in the Wholesale Business]

Q2. I think the biggest topic concerning FY2009 is the dissolution of the joint venture with the Sumitomo Mitsui Financial Group (hereafter, “SMFG”) in the wholesale business. What impact does this disengagement have ?

A2. Although not without its demerits, I feel the positive side is greater. The resulting acceleration of decision-making speed and revitalization of the organization are also major positives.

Effect on Credit Rating Limited

When considering the effects of the dissolution of the joint venture, it is crucial to analyze all aspects. First of all, clearly the largest advantage of a joint venture with a major bank is the support it provides to a company’s credit rating. There were moves among rating agencies to downgrade the Group’s credit rating immediately after the announcement of the dissolution in September 2009. However, several rating agencies have recently upgraded the outlook for the Group from “Negative” to “Stable.” As an indicator of financial health, shareholders’ equity as of March 31, 2010 stood at ¥927.1 billion—representing a recovery to levels before the financial crisis—partly



owing to an issuance of new shares last July. As of March 31, 2010, we also held an ample portfolio of liquidity amounting to approximately ¥2,350 billion. Moreover, the Group incurred no direct losses in relation to subprime loans, hence we maintain a robust financial base even in comparison with investment banks in the US and Europe. The rating agencies have surely recognized these factors as well.

Ratings Action Following Dissolution of Joint Venture

	Date of Change	Daiwa Securities Group Inc.	Daiwa Securities	Daiwa Securities CM
Moody's	Nov 30, 2009	Baa2 (Negative) →Baa2 (Stable)	Baa1 (Stable)	A2 (Credit Watch Negative) →Baa1 (Stable)
S&P	Sep 11, 2009	BBB+ (Stable) →BBB (Stable)	BBB+ (Stable)	A (Stable) →BBB+ (Stable)
R&I	Feb 5, 2010	A (Negative) →A (Stable)	A (Negative) →A (Stable)	A (Negative) →A (Stable)
JCR	Dec 28, 2009	A+ (Negative) →A+ (Stable)	A+ (Negative) →A+ (Stable)	—
Fitch	Nov 9, 2009	BBB+ (Negative)*	—	A– (Negative)

* The rating Fitch gave Daiwa Securities Group Inc. was unsolicited ratings.

Some Positive Aspects for Business

Secondly, in terms of real business, there were concerns about the impact of the dissolution on underwriting services in our wholesale operations. While of course not escaping all of the negative influence, the positive aspects for underwriting business are starting to seem more prominent, judging from developments since the dissolution of the joint venture. For example, Daiwa Securities Capital Markets Co. Ltd. (hereafter, “Daiwa Securities CM”) served as joint lead manager in Japan for the Mitsubishi UFJ Financial Group’s primary and secondary equity offerings after the dissolution. Previously such a deal would have been very difficult for Daiwa Securities CM to take part in, partly because it held equity interest in a bank. Meanwhile, since the joint venture was dissolved, Daiwa Securities CM has continued to serve as lead manager of underwriting even for corporations whose main bank is Sumitomo Mitsui Banking Corporation. I believe this result is owed to the relationships of trust Daiwa Securities CM has forged with its corporate customers over the years, and to those customers’ recognition of the company’s true capabilities.

Reorganization of Overseas Businesses

The Group has promoted organizational reshuffling since the dissolution of the joint venture, including the reorganization of its overseas businesses. Before the dissolution, the US operation was a subsidiary of Daiwa Securities Group Inc., because the US regulations prevented its inclusion in the joint venture with SMFG, Daiwa Securities SMBC (now Daiwa Securities CM). With the dissolution, Daiwa Securities Group Inc. transferred control of the Group’s US subsidiary to Daiwa Securities CM. This transfer consolidated the Group’s overseas wholesale operations under Daiwa Securities CM, thereby enhancing our global business structure.

Faster Decision-making and Reinvigorated Organization as Major Advantages

The acceleration of decision-making speed and the rejuvenating effects on the organization are also significant benefits. By their very form, joint ventures inevitably restrict the freedom and speed of management decisions. Dissolving the joint venture removed these restrictions and enabled the Group to develop its operations more rapidly and with greater latitude. Furthermore, I cannot say the reduction in personnel due to the dissolution has had no impact, but there is now that much more room for younger employees to blossom. The resulting boost to employee motivation has revitalized the organization.

[Responding to Upcoming Changes in the Operating Environment]

Q3. What is your view on the upcoming operating environment, and how do you intend to respond to it ?

A3. I think the business environment within Japan will improve from its current state, but I am certainly not overly optimistic. I think it will be important to stimulate demand by offering attractive products and services, and to maintain a corporate structure that secures stable profits.

Foreseeing a Turnaround in the Operating Environment

According to forecasts by Daiwa Securities CM's Financial Research Center, the ordinary income for FY2010 of 300 major companies on the First Section of the Tokyo Stock Exchange will increase 45.8% year on year, and capital investment will recover, albeit gradually. Amid such conditions, the stock market is also expected to remain firm. These considerations point toward a refueling of the trend of Japanese individuals moving their assets "from savings to investment," which had been decelerating in recent times.



Unleashing Demand through Attractive Solutions

Despite the recent slow-down, the shift "from savings to investment" continues, and given that only about 13% of the ¥1,456 trillion in personal assets held by Japanese individuals is invested in securities products, there is certainly substantial potential investment demand. Therefore, I think it is important to provide attractive products and services to encourage that demand. In our wholesale business as well, it is essential to provide solutions that have customers saying, "This is just what I wanted."

Building New Revenue Base Also Important

It is also important to build a new revenue base. I think it is crucial to increase the stability of the Group's earnings by reinforcing the foundation of our earnings through expansion of our overseas customer base and forays into new business fields.

[Long-term Strategy Going Forward]

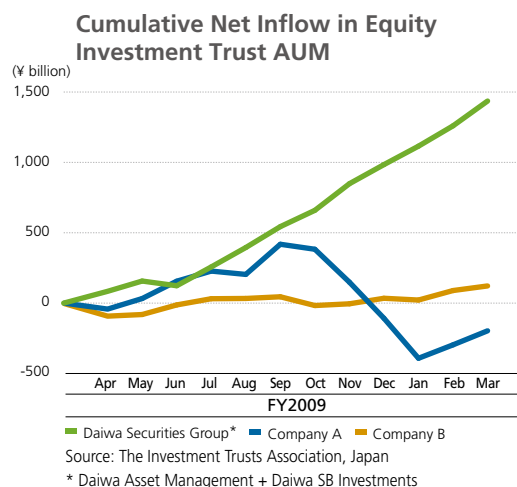
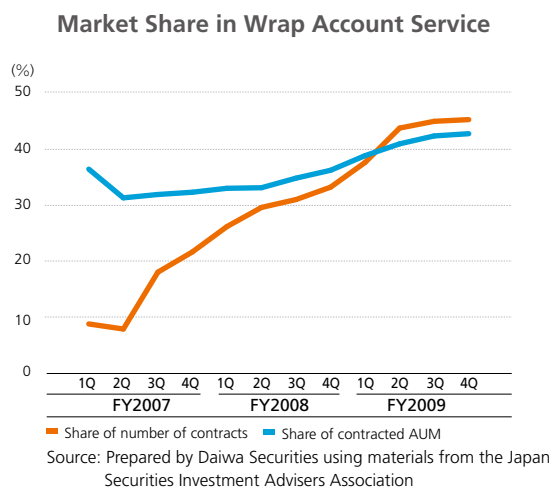
Q4. Please be a little more specific about your growth strategy. What kind of products and services will you offer ? What type of new business developments are you considering ?

A4. We will take the lead in providing what customers truly seek. Regarding business deployment, we intend to augment our presence in Asia and also enter the banking business.

Focusing on Offering Products and Services that Anticipate Customer Needs

For our retail operations, it is important to provide what the customer truly seeks. On that point, the Group has been anticipating customer needs, and offering innovative and attractive products and services for some time. For instance, in 1986 we launched Japan's first "PC-based home trading service," which was the forerunner of present-day Internet trading services. At Daiwa Securities, customers can freely choose between face-to-face asset management consultation with sales personnel, and transactions that customers conduct themselves via the Internet or through our call center. In particular, the non-face-to-face "Daiwa Direct" course not only has low commissions, it also lets customers take advantage of branch offices and research information. Furthermore, for its face-to-face "Daiwa Consulting" course, we launched wrap accounts as a discretionary asset management service in 2004, and currently control more than 40% of the market in terms of both the number of contracts and the balance of assets under management.

In terms of offering attractive products, we have been focusing on sales of products for which customer demand is high, such as monthly-dividend-payment-type investment trusts that invest in foreign currency-denominated bonds and investment trusts that invest in stocks and bonds in emerging countries. Consequently, the cumulative net increase in the value of equity investment



trusts at the Group's asset management companies continues to surpass that of our competitors. Moreover, our engagement in sales promotions for overseas stocks early on has recently resulted in commissions from overseas stocks accounting for nearly 30% of Daiwa Securities' total equity brokerage commissions. In November 2009, we augmented the "Daiwa Direct" course by launching "Daiwa 365FX" (FX margin trade on exchange) to appeal to active investors and expand market share by reducing brokerage fees, and we enriched our service selection through "Daiwa CFD" (contract for difference trading). In this way, we stay a step ahead of our competitors through initiatives to enhance convenience for our customers by developing products and services that anticipate their diversifying needs.

Making Asia Our "Home Market" and Entering the Banking Business

Regarding new business deployment, first of all, we are engaged in a full-scale strengthening of our operations in Asia. The Group has put down roots over a long period in Asia—40 years in Hong Kong, 38 years in Singapore, and 27 years in Beijing—where we have supported local economic growth, securities market creation, and personnel cultivation. We also have the advantage of the interactions and relationships of trust we have built up over this long history with government-related entities, major corporations, and key people in each Asian country in which we have operations. The Group will leverage this competitive edge to channel management resources into these regions on a larger scale and with greater speed than ever before. Daiwa Securities CM has already placed the Hong Kong subsidiary as its second headquarters, and five executives lead the business in this region. We have also resolved to double the number of our personnel in Asia by the end of FY2011, and double the amount of capital at business sites in Asia and other overseas regions during FY2010. In this way, we aim to make Asia our "home market" by substantially boosting our presence in the region. By expanding sales in Japan of Asian stocks and investment trusts that include such stocks, the Group will be able to significantly strengthen its earnings structure.

In addition, we are gearing up for entry into the banking business as a foray into a new field of operations. We have started a company tasked with preparing for the establishment of an Internet bank slated to commence operations in 2011. In coordination with its agent, Daiwa Securities, the new bank will provide even more attractive products and services to our customers.

[Message to Stakeholders]

Q5. Finally, what would you most like to convey to stakeholders at this time ?

A5. FY2009 was a year of organizational reinforcement for the Daiwa Securities Group. Now is the time when we will mobilize the combined powers of the Group toward our business objectives and solidify our framework for sustained growth going forward.

The Daiwa Securities Group has been providing products and services that anticipate customer needs. We have also constructed a robust network presence in Asia as part of our global business deployment.

Now that we have dissolved our former joint venture and made a new start as a Daiwa Securities Group reborn, we will tackle our business objectives with the full, united capabilities of the Group. We are committed to realizing sustained growth as one of the leading comprehensive financial services companies in Japan, as well as in Asia.

I ask for your continued support in these endeavors.

July 2010

Shigeharu Suzuki,

President and CEO
Daiwa Securities Group Inc.

Corporate Philosophy of the Daiwa Securities Group

- Daiwa Securities Group's mission is to contribute to the development of society and economy through daily operations, including wealth management and supporting corporate clients' activities.
- A strong trust from stakeholders including Customers, Shareholders, Employees and the Society is essential to accomplish our mission.

