

Review of Operations

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REVIEW OF OPERATIONS

At a Glance:

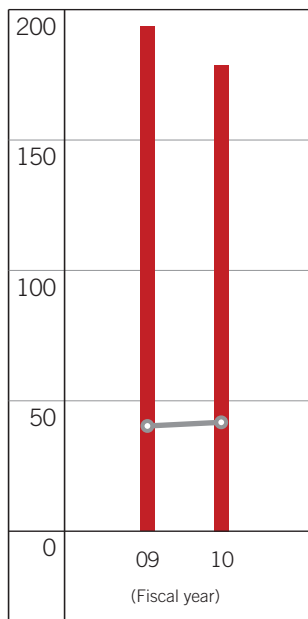
Core Business Segments of the Daiwa Securities Group

Retail

Daiwa Securities
Hinode Securities

The Group's Retail Division offers a range of products and services for asset management support through its "Daiwa Consulting" and "Daiwa Direct" courses. These two courses target mainly individual investors and unlisted companies, and together allow transactions to be made over the Internet through our call center, or face-to-face at one of our 120 branch offices in Japan.

Net Operating Revenues/Ordinary Income
(¥ billion)



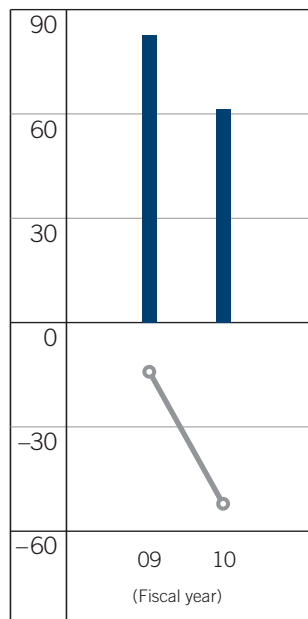
■ Net operating revenues
— Ordinary income

Global Markets

Daiwa Securities Capital Markets

This business provides brokerage services for equities, bonds, foreign exchange and derivatives, as well as the sale and trading of high-quality financial products and services, mainly for institutional investors.

Net Operating Revenues/Ordinary Income
(¥ billion)



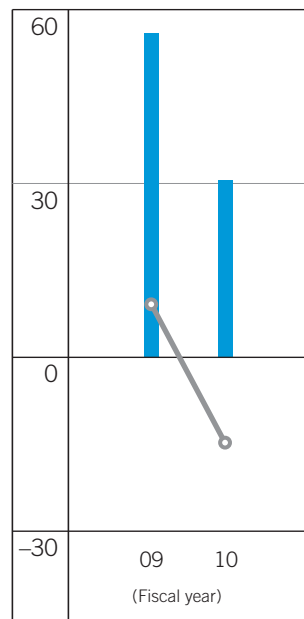
■ Net operating revenues
— Ordinary income

Global Investment Banking

Daiwa Securities Capital Markets
Daiwa Corporate Advisory Partners
Sagent Advisors

The Group's investment banking business offers support for corporations and financial institutions ranging from business expansion to finance and capital strategies by assisting financing. Services include stock and bond underwriting and M&A advisory activities.

Net Operating Revenues/Ordinary Income
(¥ billion)



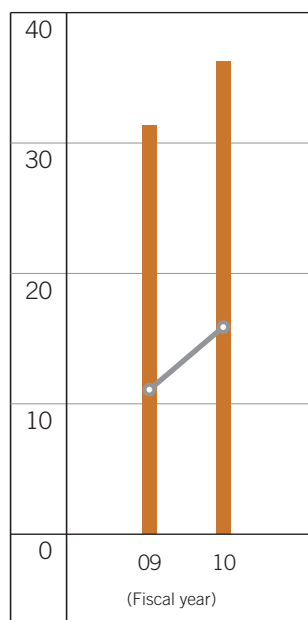
■ Net operating revenues
— Ordinary income

Asset Management

Daiwa Asset Management
Daiwa SB Investments
Daiwa Real Estate Asset Management
Daiwa Fund Consulting

This business creates and manages mutual funds, and publicly offered bond and private investment trusts, and also provides other investment management services for real estate investment trusts, pensions, and other funds.

Net Operating Revenues/Ordinary Income
(¥ billion)



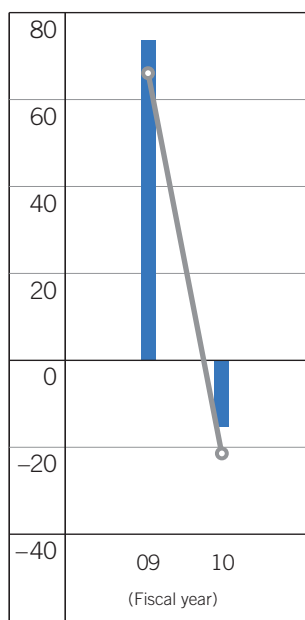
■ Net operating revenues
— Ordinary income

Investment

Daiwa Corporate Investment
Daiwa PI Partners
Daiwa Securities SMBC Principal Investments

This business invests in areas such as private equity, venture capital, business regeneration, monetary claims, and real estate using its own funds or through the formation of investment funds.

Net Operating Revenues/Ordinary Income
(¥ billion)



■ Net operating revenues
— Ordinary income

REVIEW OF OPERATIONS

Retail Division


QUESTION: What are the main challenges facing the Retail Division?

A. The Daiwa Securities Group intends to expand stable revenues by expanding customer assets under custody. The Retail Division is contributing to this effort by offering customers a wide range of asset management services and thus expanding the customer base. An important target is to expand customer assets under custody from the current balance of around ¥43 trillion. From this standpoint the Division's performance in FY2010 – particularly in terms of the net inflow of funds and sales of mutual funds – was somewhat disappointing. We recognize that there is still considerable room for improvement.

On the other hand, sales of foreign bonds and structured bonds were strong in FY2010, demonstrating the Retail Division's skill in offering attractive investment products to customers.

With the face-to-face service and Internet-based service combined, Daiwa Securities Co. Ltd. can reach a wider range of potential customers than any competitors. We intend to try to leverage these advantages even further in the future, and maximize growth in the base of customer assets under custody.

QUESTION: Which business fields will the Retail Division focus on primarily?

A. To begin with, we are launching new financial services linking accounts at Daiwa Securities and Daiwa Next Bank, Ltd., which began operations in May 2011. Daiwa Next Bank can offer attractive interest rates on savings deposits. At the same time, it can also offer direct services through the branch offices of Daiwa Securities which will allow us to appeal to new types of customers and thereby broaden our customer base.

The continued strong inflow into mutual funds, meanwhile, generates agency commissions, which are an important source of stable revenues. We aim to continue expanding the balance of assets under custody in mutual funds to increase agency commissions further.

The Retail Division also hopes to make important contributions to the Daiwa Securities Group's ongoing strategy of expansion in Asia. We have already begun to offer new sorts of structured bonds and POWL* in cooperation with overseas offices in Asia, and intend to accelerate these cooperative efforts in the future. We also plan to offer an expanding range of investment opportunities to customers in Japan, focusing on attractive Asian products such as mutual funds related to Asia.

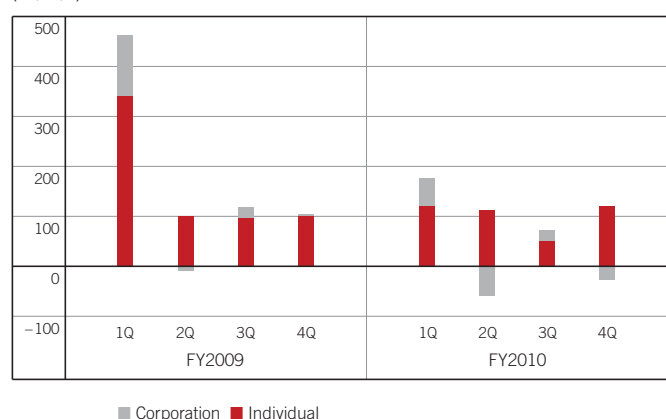
*POWL: Public Offering Without Listing – a method used by companies listed on overseas stock exchanges to raise capital in Japan.

Makoto Shirakawa
Deputy President
Deputy Head of Retail
Daiwa Securities Group Inc.

In order to suit the varied investment styles and preferences of customers, Daiwa Securities Co. Ltd. offers two main courses for products and services. The “Daiwa Consulting” course allows customers to obtain high value-added services and products from experienced sales staff in face-to-face consultations, whereas the “Daiwa Direct” course allows customers to transact their business conveniently, via the Internet or telephone call centers. In addition to offering a multitude of investment products covering stocks, bonds, and mutual funds for domestic and overseas, Daiwa Securities also offers pension insurance, wrap account services and securities-backed loans. This portfolio of products and services allows the company to meet the varying needs of each individual customer.

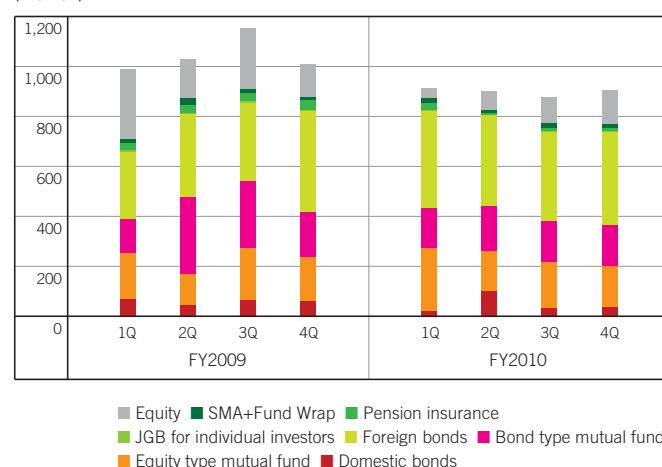
Daiwa Securities Net Inflow of Assets

(¥ billion)



Daiwa Securities Sales and Distribution Amount by Product Category

(¥ billion)



Business Conditions and Earnings Results for FY2010

Adverse macroeconomic trends, such as the financial crisis in Europe, recessionary concerns worldwide, and rapid yen appreciation, caused the Nikkei 225 stock average to decline from a level of 11,089 at the end of FY2009 to just above 8,800 in August 2010. Intervention in the foreign exchange market by the Bank of Japan, and additional monetary easing measures by Japan and the U.S., helped to reverse the trend by fall and share prices began to recover. However, the East Japan Earthquake in March 2011 pushed the index back down to close to 9,755 at the end of FY2010. Daily trading by individual investors also contracted from an average daily trading value of ¥610 billion in FY2009 to as low as ¥400 billion at one point in FY2010 (TSE, OSE, and NSE). Consequently, brokerage commissions in the Retail Division dropped off. On the other hand, though they had a negative impact on domestic market conditions, the low interest rates in Japan and the strong yen made foreign currency-denominated bonds and publicly offered structured bonds very attractive. By promoting these products aggressively, the Division was able to maintain strong sales. Net operating revenues for the period declined by 7.7% year on year, to ¥178.9 billion, but ordinary income increased 3.4%, to ¥41.8 billion.

Key Events of FY2010

The “Daiwa Consulting” course has increased its focus on the field of “impact investment,” which not only helps customers obtain a good return but also offers them suggestions on how to make investments that address social issues and environmental causes. In FY2010, we continued sales of so-called “Water Bonds” and other foreign currency-denominated bonds aimed at individual investors. The Division also arranged numerous “Green World Bank Bond” issues aimed at regional banks. Daiwa Securities also played a pioneering role in the microfinance market in Japan, launching the country’s first mutual fund that focused on microfinance*1 – the “Daiwa Microfinance Fund.” The company also expanded its lineup of monthly-dividend-payment-type mutual funds, which are designed to match the dividend income needs of customers, and launched trust products that correspond to popular investment themes or market trends, such as funds that focus on emerging economies.

The Division continued to promote foreign stock-related products, such as ETFs focusing on stocks from newly emerging economies, which offer good growth prospects. Trading volume and revenues from this business expanded, boosting revenues from foreign

REVIEW OF OPERATIONS

Retail Division

stock-related trading to around 30% of Daiwa Securities' total equity-related revenues.

Meanwhile, total assets under management in Daiwa Securities' wrap accounts, discretionary asset management services – Daiwa SMA and Daiwa Fund Wrap – increased to ¥272.3 billion at the end of FY2010, putting the company in first place in the industry.

The “Daiwa Direct” course helped the company to attract an increasing number of customers who prefer to take a more active role in managing their investment portfolios. In services such as “Daiwa 365FX” and “Margin Trading Service” we set fees so low as to be among the lowest in the industry. In addition to lowering fees, the company is developing trading tools with comprehensive functions. These measures allowed the company to capture an industry-leading 17.5% share^{*2} of all trading activity on the Tokyo Financial Exchange's “Click 365” service in FY2010. Daiwa's Margin Trading Service, meanwhile, increased its share of total

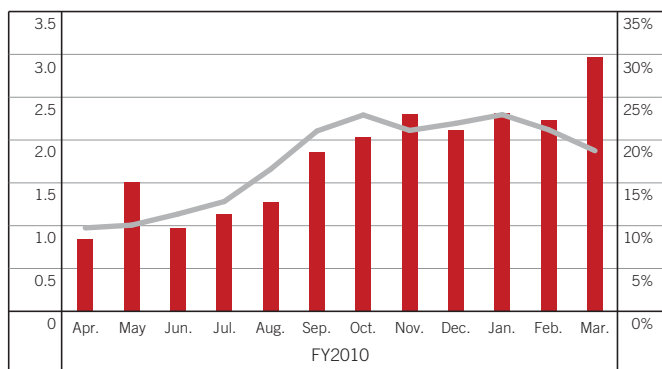
margin trading by individuals in Japan from 2.3% in the second half of FY2009 to 3.8% in the same period of FY2010.

The Retail Division is investing in IT to help rationalize administrative tasks and improve efficiency. The back office functions that used to be performed at each separate branch office are steadily being consolidated at the operations center, and a comprehensive management structure is being developed to improve efficiency while maintaining high quality. The company is also taking steps to improve customer convenience. For example, from March 2011 the “Daiwa Cards” issued to Daiwa Securities customers can be used at the ATMs of all “Seven Bank” outlets.

*1. Microfinance allows small businesses in developing or newly emerging economies to raise operating funds through unsecured borrowing. It also can be used to provide savings- or insurance- related financial services. It has attracted a great deal of attention in recent years as a way to help small struggling businesses in developing countries.

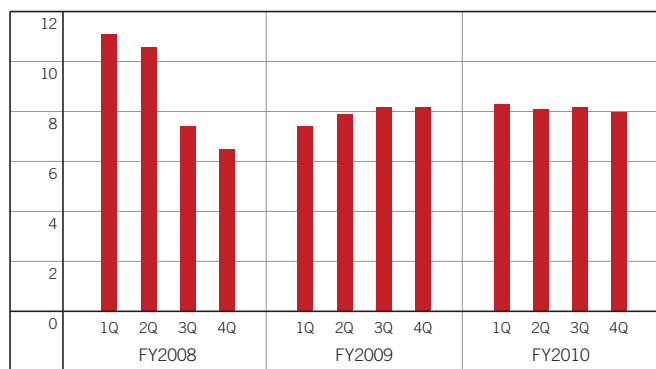
*2. Source: FY2010 Ranking of companies participating in “Click 365” trading, by Yano Research Institute Ltd.

Daiwa Securities “Daiwa 365FX”: Trade Volume and Market Share
(million)



■ “Daiwa 365FX” trade volume (left) — Daiwa's share (right)

Daiwa Securities Mutual Fund Agency Commissions
(¥ billion)



Action Plan for FY2011

In FY2011, the Retail Division will focus on attracting new customers, as well as generating more business from existing customers, in an effort to accelerate the inflow of customer assets and thus help boost the balance of total assets under custody for the Group as a whole. To achieve this, the Division intends to focus on the following measures:

<Entering into Bank Agency Business>

In May 2011, the Group launched Daiwa Next Bank and also launched a bank agency business at Daiwa Securities. The Group launched a “Daiwa Twin Account” service, which allows seamless connections between a customer's bank account at Daiwa Next Bank and their securities account at Daiwa Securities. Daiwa Next Bank will offer attractive interest rates as well as the direct service channels and convenient service provided by the Retail Division's branch offices. In this way, the Group hopes to attract new customer assets.

<Improving Mutual Fund Sales Capabilities>

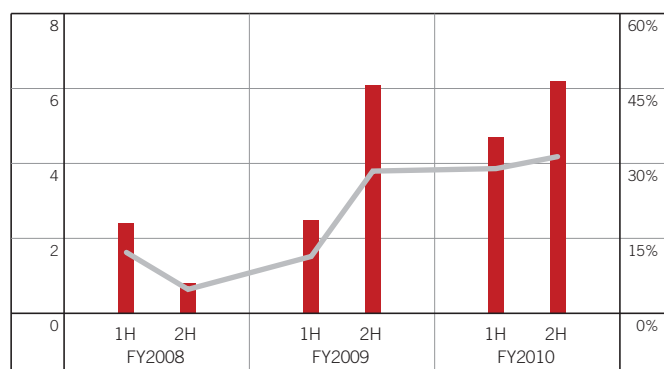
Over the next two years, over ¥20 trillion of fixed deposits and individually held JGBs will reach maturity. At least some of these assets will be reinvested in investment trusts. The Retail Division plans to step up efforts in sales of mutual funds products in order to boost agency commissions, which account for a significant portion of the Group's stable revenues. The Group has the lead in developing monthly-dividend-payment-type mutual funds, and this position will be leveraged to attract more investments. In addition, the Group has been working to expand its lineup of mutual funds that address a particular theme or market trend. Examples include the "Daiwa Harris Global Selected Stock Fund," which was established in April 2011, and low-risk products such as a JGB fund. Daiwa Securities is trying to provide a lineup of products that match a wide range of customer needs and risk tolerances.

<Increasing Foreign Stock Trading>

Japanese investors are showing a growing interest in ETFs which target emerging economies, where growth expectations are high, and stocks in overseas companies with good growth potential. The Retail Division is working to expand its trading in these products. However, foreign currency-denominated assets still account for a very low percentage of total household financial assets, and there is strong potential for future growth. The Retail Division is expanding its cooperation with Daiwa Securities Capital Markets Co. Ltd., which spearheads the Daiwa Securities Group's Asian expansion strategy. In this way, we hope to promote the shares of growth companies in Asia, as well as other quality financial products, to Japanese investors.

Daiwa Securities Foreign Equity Revenue

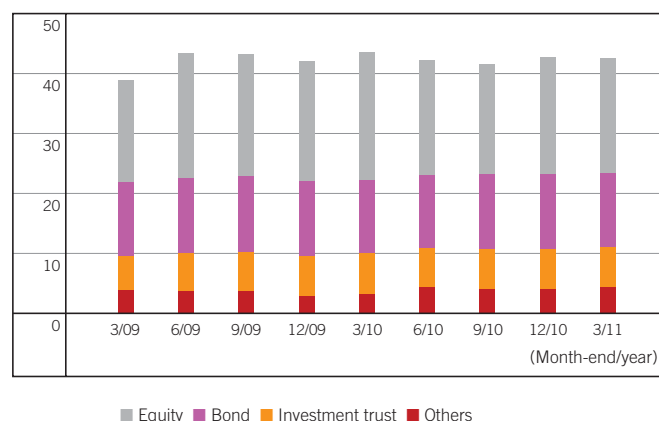
(¥ billion)



■ Foreign equity revenue (left) — Proportion of foreign equity in equity revenue (right)

Customer Assets (Overall Group)

(¥ trillion)



■ Equity ■ Bond ■ Investment trust ■ Others

<Expanding the Customer Base of "Daiwa Direct" Course>

The Retail Division continues working to attract customers to the "Daiwa Direct" course, a service plan designed for customers who like to take a more active approach in managing their investments. In June 2011, the Division launched a "Futures and Options Trading Service," and it plans to continue working to improve trading functions and services for margin trading and FX trading. To attract new customers, the Division is seeking ways to enhance our approach to novice investors and the younger generations of investors just starting to accumulate assets. In addition to offering savings accounts from May 2011, the Division intends to cooperate with Daiwa Next Bank to introduce a "mutual fund accumulation service," which makes fixed monthly investments in a mutual fund. This will help the Group to expand its customer base.

REVIEW OF OPERATIONS

Global Markets Division

QUESTION: What are the main challenges facing the Global Markets Division?

A. In recent years, Japan's stock market has remained weak. Institutional investors and other customers have therefore put increasing priority on business opportunities and stock investments in other parts of Asia. Their needs are changing; nowadays they demand information and support that spans the entire Asian region. We have responded to these changing needs by moving quickly to offer services covering all of Asia. Indeed, in autumn 2009 Daiwa Securities Capital Markets was assigned the role of spearheading Asia-related business strategy for the entire Daiwa Securities Group. We strive to be a financial services firm that places customers first, and generates high levels of satisfaction. We are aggressively channeling management resources into this effort and are reorganizing operations to try to meet their needs. Among other developments, we have introduced electronic trading for execution of orders, and acquired the KBC Group's Global Convertible Bond and Asian Equity Derivatives businesses. We have assembled a team of top-class personnel covering each market in Asia and are working to steadily expand our lineup of products and services throughout the region.

In FY2010 business results were hurt by a very adverse market environment. In addition, we were making extensive investments to further strengthen our base and build for the future. The result was a severe drop in ordinary income. However, in FY2011, we intend to leverage the infrastructure that we have built to aggressively cultivate customers and expand our business. The key challenge for the Global Markets Division is to maximize the payoffs from past investments, and revive profitability.

QUESTION: Which business fields will the Global Markets Division focus on primarily?

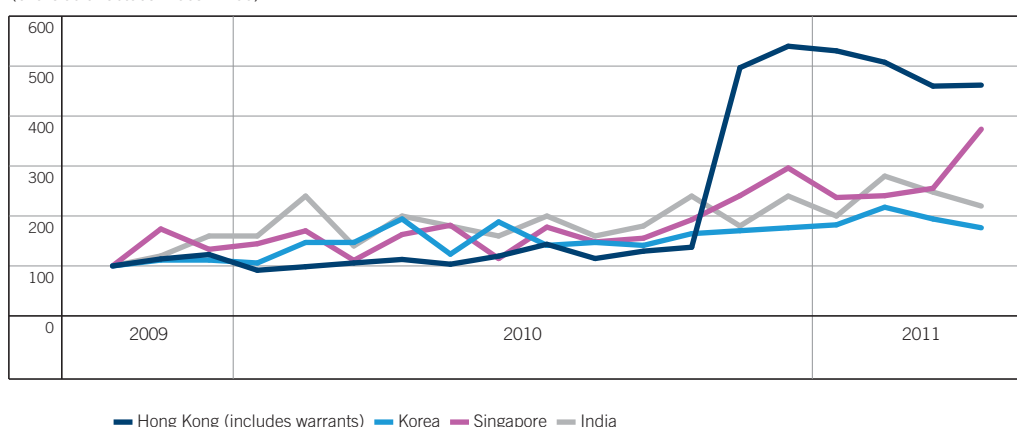
A. By expanding Pan-Asian research, we aim to improve our ranking in equity brokerage in Asia including Japan. Our market share in each of the major Asian stock markets is steadily rising. In the near term, we expect to emerge as one of the top competitors throughout the region, in terms of trading capabilities, sales activities and customer satisfaction. Many institutional investors have already begun to place Japanese stocks and other Asian stocks on an even footing when making investment decisions, and using the same standard rule for stock selection among companies in the same industry, regardless of where they are based. Our stock analysts are engaged in extensive cross-border activity and are working to establish a truly Pan-Asian research approach. This will help give the Group a competitive advantage in our coverage of the region.

Toshinao Matsushima
Senior Executive Managing Director
Head of Global Markets
Daiwa Securities Capital Markets Co. Ltd.

The Global Markets Division provides brokerage services for equities, bonds, foreign exchange and derivatives, as well as the sale and trading of high-quality financial products and services. The Division has a comprehensive presence in each of the world's main financial centers – Tokyo, Hong Kong, London, and New York – and provides brokerage and trading services in each market, as well as cutting-edge financial products. In this way, the Division can propose ideal investment and financing solutions for institutional investors, financial institutions and business corporations.

Share of Total Trading Volume in Asian Stock Markets

(Share as of October 2009 = 100)



Business Conditions and Earnings for FY2010

During the latter half of FY2010, the Global Markets Division benefitted from increased trading activity in Asian stocks and a rebound in purchases of Japanese equities by foreign investors. This boosted brokerage commissions by 29.5% year on year, to ¥23.7 billion. Trading income was hit by a loss in the fourth quarter as the East Japan Earthquake rocked both stock and bond markets and created a very uncertain market environment. As a result, trading income for the full fiscal year was down 46.6% year on year, to ¥31.7 billion. Total net operating revenues in the Global Markets Division dipped 25.7%, to ¥61.4 billion.

Over the course of the year, the Division hired a large number of new employees to strengthen operations at offices in Asia. By the end of the fiscal year, the number of personnel in the Division had nearly doubled from year-ago levels. The resulting increase in personnel expenses caused the Division to post a ¥52.1 billion ordinary loss.

Action Plan for FY2011

In FY2011, the Division will begin to leverage the global business platform it built during the previous year, offering a wider range of products and providing financial services that respond even more effectively to customer needs. Based on its leading position in Japan and an expanded business foundation in Asia, the Division will be able to help Japanese investors take greater advantage of investment opportunities in Asian stocks and convertible bonds. In this way, Asia's growth potential can be harnessed to benefit the Division and its customers alike.

The Global Markets Division has already earned a strong reputation for its order execution capabilities and other electronic trading services, such as algorithm trading and crossing networks. By further building on these capabilities, and developing a cross-border research network, the Division hopes to further enhance its reputation with customers. The development and launch of new structured bond and derivative products should help nurture new customer segments as well as better address the needs of domestic investors.

REVIEW OF OPERATIONS

Global Investment Banking Division

QUESTION: What are the main challenges facing the Global Investment Banking Division?

A. For investment banking businesses like ours, which are engaged in a variety of stock and bond underwriting and M&A activities, the most important skill is creativity – the ability to come up with creative ideas, propose the most effective solution to a client's business needs, and to leverage the company's origination skills to implement it. Each of the Division's functional units plays a critical role. Relationship Management personnel carefully monitor and manage relationships with clients, the Corporate Finance Department provides specialized expertise in industry financing, the Capital Markets Department contributes to a thorough knowledge of the financial markets, and M&A specialists help to align the needs and capabilities of two or more companies. These four departments work together to best serve the needs of clients.

The company places a high priority on reinforcing its infrastructure in the rapidly growing markets of Asia. In order to provide clients with cross-border solutions, we have established a global business platform that encompasses all the major financial centers in Asia, Europe and North America, as well as Japan. As this global strategy unfolds, we will be able to generate even stronger and more stable revenue flows.

QUESTION: Which business fields will the Global Investment Banking Division focus on primarily?

A. As mentioned before, we are taking steps to strengthen our network in Asia. We have nearly completed our goal of establishing a top-class team of specialists in each region to cover the roles of country banker, sector banker and product banker. For example, in the Hong Kong office we expanded our team of country banker staff in charge of China from just two employees at the end of FY2009 to 11 as of March 31, 2011. The same trend is progressing in other offices and sectors as well.

In FY2010, the Division handled a large volume of POWL deals as well as taking part in the underwriting of IPOs for mainland Chinese companies listing on the Hong Kong market. Some Japanese companies listed depositary receipts on the markets in Hong Kong and Taiwan, and we also attracted IPO of REIT on the Singapore exchange. In the M&A business, we cooperate closely with our European subsidiary, Daiwa Corporate Advisory Partners, and with Daiwa Securities Group affiliate, Sagent Advisors in the U.S. In Asia, meanwhile, the Division landed more than twice the volume of mandate contracts compared to the beginning of FY2010. This is why we believe the potential is there to become a truly global investment bank in FY2011.

Akio Takahashi

Deputy President
Deputy Head of Wholesale
Daiwa Securities Group Inc.

Deputy President
Head of Global Investment Banking
Daiwa Securities Capital Markets Co. Ltd.

The Global Investment Banking Division is engaged in underwriting stock and bond issues, handling IPOs and securitization, and serving as an advisor for M&A deals. The Global Investment Banking Division has accumulated extensive knowhow and a solid track record of accomplishment and can leverage a growing international network to propose global solutions that help clients increase their corporate value.

Major Lead-Managed Deals and Publicly Announced M&A Advisory Activities in FY2010 (Including Participation as Joint Book-Runner)

Primary and Secondary Equity Offerings (including CBs)

Mizuho Financial Group	Global Public Offering	¥780.0 billion
Resona Holdings	Global Public Offering	¥572.0 billion
Elpida Memory	Domestic CB	¥60.0 billion
Elpida Memory	Taiwan DR (First for Japanese company)	¥12.0 billion
SBI Holdings	Hong Kong DR (First for Japanese company)	¥17.5 billion
Agricultural Bank of China	POWL	U.S.\$22.1 billion
AIA Group	POWL	U.S.\$20.6 billion
Hutchison Port Holdings Trust	POWL	U.S.\$5.5 billion

IPO

CALBEE	IPO	¥11.0 billion
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REIT

Sabana REIT	Overseas REIT (First listed Shari'ah Compliant REIT in the world)	U.S.\$0.5 billion
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Bonds

Asian Development Bank	U.S. dollar-denominated global bonds	U.S.\$3.0 billion
Republic of Turkey	Samurai bonds (guaranteed by Japan Bank for International Cooperation)	¥180.0 billion
Kommunalbanken Norway	U.S. dollar-denominated global/144A bonds	U.S.\$2.0 billion
European Bank for Reconstruction and Development	U.S. dollar-denominated global bonds	U.S.\$1.5 billion

M&A

Merger of Sumitomo Trust & Banking and Chuo Mitsui Trust Holdings	Advisor to Sumitomo Trust & Banking
Takeover bid by Panasonic to acquire Panasonic Electric Works	Advisor to Panasonic Electric Works
Acquisition of SAE Towers (U.S.) by KEC International (India)	Advisor to KEC International

Business Conditions and Earnings for FY2010

Business conditions for the Global Investment Banking Division were extremely harsh during FY2010, as M&A activity receded and equity finance by Japanese companies declined by some 50%. Net operating revenues for the period fell 45.4% year on year, to ¥30.6 billion, and the Division posted an ordinary loss of ¥14.7 billion. Nevertheless, the Division did attract some major equity finance deals, acting as book-runner on the Resona Holdings' capital increase and Elpida Memory's convertible bond issue. The Division also managed Elpida Memory's listing on the Taiwan Stock Exchange* and SBI Holdings' listing on the Hong Kong Stock Exchange* (listed in April 2011). It also helped various Japanese companies with cross-border M&A deals. For example, it assisted with Taisho Pharmaceutical's acquisition of Malaysia's Hoepharma Holdings (announced in April 2011) as an advisor to Hoepharma.

The Division continues to expand its Asian operations, especially in Hong Kong. This growth is reflected in three POWL attracted in FY2010, including deals for the Agricultural Bank of China and AIA Group, and seven book-runner contracts for equity finance issuances by Asian corporations such as Sabana REIT.

The Division even served as an advisor for a deal under which India's KEC International acquired a U.S.-based company.

* Elpida Memory and SBI Holdings listed in Asian markets with the issuance of depositary receipts (DR).

Action Plan for FY2011

The primary objective that the Division has set for itself in FY2011 is to revive earnings and improve its position in the league tables. Resources are being allocated to various operations based on client segmentation in an effort to improve efficiency. It is also building connections throughout the world to enhance origination capabilities and the company's capacity to organize bridge loans and currency exchange for underwriting opportunities and M&A. In this way, it hopes to diversify income sources to the greatest extent possible.

The Division increased personnel in Asia from around 90 employees at the end of FY2009 to around 140 at the end of FY2010. It is placing emphasis on IPOs and equity finance in the Chinese and Hong Kong markets, where potential revenues exceed those in Japan, in an effort to turn its mandates into concrete sources of revenue.

REVIEW OF OPERATIONS

Asset Management Division


QUESTION: What are the main challenges facing the Asset Management Division?

A. One of the Daiwa Securities Group's main management objectives is "to expand stable revenues," and one of the best ways to do this will be to increase the balance of assets under management in the Asset Management Division. During FY2010, Daiwa Asset Management Co. Ltd. and Daiwa SB Investments Ltd. cultivated several very popular investment funds which became a major talking point in Japan's mutual fund market as a whole. As a result, the two companies increased their combined share of the Japanese market for publicly traded mutual funds to 17.8%. Given the Group's background and experiences in this market as well as its ability to attract investment capital, we think there is still room to further expand our market share and the absolute scale of assets under management.

Despite credit concerns in Europe and uncertainty in the U.S. economy, during FY2010, Japanese investors continued to show a strong interest in mutual funds that focus on overseas bonds and stocks. The mutual fund market in Japan continues to benefit from the steady flow of individual financial assets and reaffirms its leading role in engineering a flow "from savings to investment." Daiwa Asset Management is developing a broader range of monthly-dividend-payment-type mutual funds, which have become very popular with individual investors. Furthermore, the company has earned the trust of customers by providing easy-to-understand explanations of each fund at sales agencies. By developing popular fund products, the Asset Management Division has been able to strengthen its marketing channels year by year to include banks and even the sales offices of other securities companies outside the Daiwa Securities Group. By carefully cultivating relationships with these companies, we hope to target the acquisition of further assets.

QUESTION: Which business fields will the Asset Management Division focus on primarily?

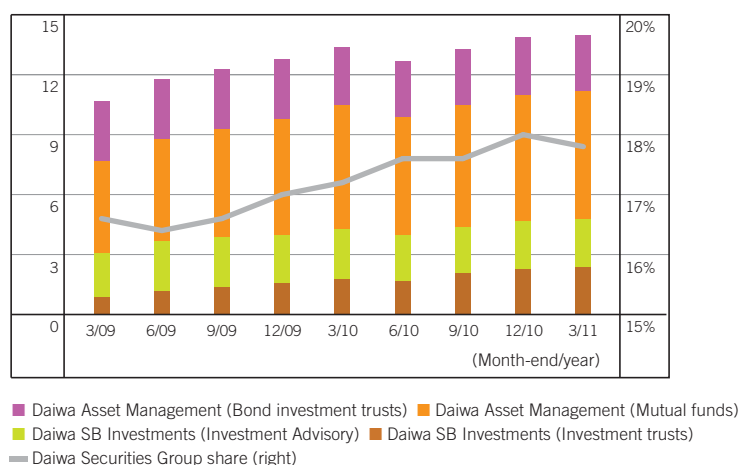
A. Daiwa Asset Management and Daiwa SB Investments are both investing in measures to further expand overseas research and fund management capability. We hope to benefit from the synergy between these operations and the Daiwa Securities Group's overall strategy of expansion in Asia. In this way, the Group will be able to offer products clearly differentiated from competing offerings.

Daiwa Asset Management already has asset management offices in Shanghai, Hong Kong and Singapore. In December 2010, we added another center for managing funds by acquiring an India-based asset management company. The company is headquartered in Mumbai, operates five offices in India's largest cities and has a network of allied sales channels throughout the country, including many local banks and securities companies. This not only allows the Daiwa Securities Group to develop new products for Japanese investors focusing on Indian companies, but also gives us access to the household assets held by India's rapidly growing middle class.

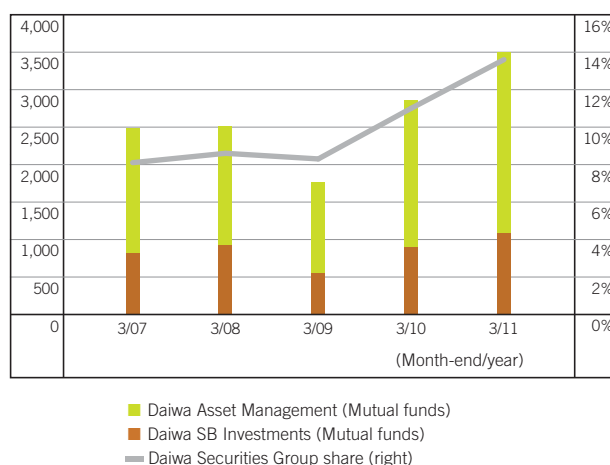
Toshio Ishibashi
Deputy President
Head of Asset Management
Daiwa Securities Group Inc.

The Daiwa Securities Group's Asset Management Division comprises three separate companies. Daiwa Asset Management Co. Ltd. has established a global research organization which allows the Group to develop and manage mutual fund products that respond directly to the financial needs of individual investors. Daiwa SB Investments Ltd. has earned a strong reputation among institutional investors for providing investment advisory services and pension fund management support. In addition, Daiwa Real Estate Asset Management Co. Ltd. was established in July 2009 to operate a J-REIT business.

Balance of Assets Under Management in the Asset Management Division
(¥ trillion)



Sales of Mutual Funds Through Bank-related Sales Channels
(¥ billion)



Business Conditions and Earnings for FY2010

In FY2010, a number of factors created some headwind for overseas investment demand, including Brazil's introduction of IOF taxes on transactions related to foreign investment in Brazil, and the sudden strengthening of the yen in the latter half of the year. Nevertheless, individual investors continued to show a strong interest in mutual funds, generating a net inflow of ¥5.3 trillion to Japan's market for publicly traded mutual funds (excluding ETFs) in FY2010.

Due to various sales channels including banks, Daiwa Asset Management succeeded in generating strong demand for its "High Grade Oceania Bond Open Fund" and the "Brazil Bond Open Fund." Other popular products included the "Daiwa Global REIT Open Fund" and the "Twin Accelerator Fund," which combines investment in Brazilian government bonds with emerging market stock issues. Daiwa SB Investments, meanwhile, attracted booming demand for its "Short-Term Australian Dollar Bond Open Fund," which surpassed the ¥1 trillion mark for total assets under management. The net inflow to Daiwa Asset Management's publicly traded mutual funds (excluding ETFs) during the fiscal year reached ¥611.2 billion, whereas Daiwa SB Investments recorded a net inflow of ¥747.9 billion.

There was a temporary drop in the net asset value of mutual funds following the East Japan Earthquake in March 2011.

Nevertheless, net operating revenues in this Division rose by 15.3% year on year, to ¥36.3 billion. Ordinary income expanded by 42.4% year on year, to ¥15.9 billion.

Action Plan for FY2011

Daiwa Asset Management's action plan for FY2011 sets three objectives: strengthening fund management capabilities, improving fund development activities, and enhancing customer support. The company has set specific targets and matrices for achieving each of these goals. For example, Daiwa Asset Management will use the percentage of funds in each category, which are among the top performers, as a benchmark to evaluate success in improving fund management performance. The company's market share of assets in publicly traded mutual funds will be used as an indicator of customer satisfaction.

Daiwa SB Investments intends to further enhance its management capabilities for Japanese stocks, while using its Hong Kong subsidiary and other overseas offices to strengthen Asian stock management capabilities. The company hopes to increase the number of pension funds it manages and expand its sales channels for mutual funds during the fiscal year. Specifically, it aims to move into the top ten in terms of its share of domestic public pension funds managed.

REVIEW OF OPERATIONS

Investment Division

The Daiwa Securities Group is active in direct investment businesses, including venture capital investments, private equity investments and fund management. These businesses not only offer a supply of capital to meet the funding needs of customers, but they also enhance their corporate value through “Hands-On Management.”

Investing in the Future Through Private Equity Stakes Daiwa Corporate Investment Co., Ltd.

Daiwa Corporate Investment Co., Ltd. was established in 1982 as a private equity firm. The company uses its extensive business network, centered on the Daiwa Securities Group, and a wealth of accumulated experience and knowhow to supply capital for venture companies or buy-outs. In this way, it has helped numerous businesses to grow and eventually to list their shares publicly. In the fund management business, which supplies capital for investments, the company also operates a highly transparent financial instruments operation (Type II Financial Instruments Business and Investment Management Business).

Daiwa Corporate Investment focuses on companies that are considered likely to list their shares on the stock market or to become a target for a merger or acquisition. After locating such companies Daiwa Corporate Investment performs due diligence, evaluates the business model and technology of the target company and identifies potential risk factors, and if everything is in order, it then acquires a direct capital stake by purchasing shares in the company. A “Hands-On Management” approach is generally adopted, with directors appointed to help the target company enhance its corporate value, and when this process has made sufficient headway, Daiwa Corporate Investment begins seeking an exit, through such methods as the listing of the company’s shares, to complete the investment process.

<Venture Capital Investment>

Daiwa Corporate Investment generally provides support to companies with advanced technologies, such as digital technology companies and life sciences ventures, or companies with unique business models, content or services. Its approach is to offer venture companies a “Hands-On” support package that includes not only investment capital but also contacts to prospective executives or employees, advice on listing the company’s shares, and a full array of other types of management assistance.

<Buy-Out Investment>

This business focuses on business reorganization and reformation of medium-sized businesses with valuable management assets, often through MBOs or MBIs. Investment focuses on companies with no clear management succession, the subsidiaries of large corporations, business divisions that are being spun off, or companies which aspire to become privately-held. The experience and knowhow cultivated at Daiwa Corporate Investment through venture investment is leveraged in directly assisting the buy-out investment of target companies.

Developing Solutions Through Investment Activities Daiwa PI Partners Co. Ltd.

Daiwa PI Partners Co. Ltd. was launched in 2001, under the name Daiwa Securities SMBC Principal Investments Co. Ltd. The company was involved in private equity investment, monetary claims investment, real estate investment, investment in green-house gas emissions credits and regional recovery funds. In February 2010, the investment portfolio was transferred to a company that retained the original name, Daiwa Securities SMBC Principal Investments Co. Ltd., whereas the current company adopted the name Daiwa PI Partners Co. Ltd., and began pursuing new investment activities. Daiwa PI Partners has accumulated extensive and specialized experience in a number of business sectors. By leveraging its existing experience, knowhow and relationship network, it can address the varying needs of target companies for raising capital and selling off assets.

<Monetary Claims Investment>

The Daiwa Securities Group has been a pioneer in monetary claims investments since 1998. It acquires loan contracts and nonperforming loans from financial institutions and business corporations throughout Japan. The Group has transacted such deals with more than half of the banks in Japan, and has a top-class track record in this business.

<Private Equity Investment>

The Group has made more than ¥300 billion in private equity investments in over 20 Japanese and Asian companies. In 2010 it also began investing in J-REITs through Daiwa Office Investment Corporation.

<Investment Funds>

The Group has established Daiwa Quantum Capital Partners I – an investment fund operated jointly with Quantum Leaps Corporation, the venture capital firm founded by former Sony CEO, Mr. Nobuyuki Idei. This fund invests mainly in growing companies in Japan and other parts of Asia.

IT/Think Tank Division

One of Japan's Leading Think Tanks

Daiwa Institute of Research Group

The Daiwa Institute of Research Group encompasses a number of companies involved in research, information services and other support functions. The group includes Daiwa Institute of Research Holdings Ltd., the administrative parent of the group; Daiwa Institute of Research Ltd., which offers research and consulting services as well as providing systems support to companies in the Daiwa Securities Group; and Daiwa Institute of Research Business Innovation Ltd., which provides systems support to companies outside the Daiwa Securities Group. The synergy between these companies has made the group one of Japan's leading think tanks, addressing sectors ranging from economics and social issues to corporate business strategy and IT solutions. In FY2010, the three main group companies generated a combined ordinary income of ¥8.3 billion, up 5.5% from the previous year.

Enhanced Skills in Disseminating Information Are Making the Group an "Opinion Leader" in Japan

The Daiwa Institute of Research Group has over 40 years of experience in researching macroeconomic topics and regulatory factors that affect financial and capital markets both in Japan and overseas. The group is working to enhance the knowledge and expertise it possesses, and its capacity to make proposals and recommendations based on such research. Furthermore, it is developing its ability to disseminate this information, in order to serve as a Think Tank and an opinion leader in Japan and overseas.

Consulting Services Help Clients Enhance Their Corporate Value

As business adopts an increasingly global focus, the consulting needs of corporations are growing more diverse and yet more specific. To meet these needs, the Daiwa Institute of Research Group offers a broad assortment of different consulting services, from management consulting to business strategy, corporate financing strategy and IT consulting. The group also assists Japanese companies with their efforts to expand into Asian markets, with research on local business and investment conditions and consulting support for new business expansion plans. Using its accumulated consulting experience, the group can help customers make decisions and enhance corporate value.

Optimizing the Cost-Effectiveness of IT Systems to Make the Daiwa Securities Group More Competitive

The IT systems support business has adopted cost-value optimization methods such as building cutting-edge offshore development structures and one of the most advanced cloud computing environments in Japan, to help make the Daiwa Securities Group more competitive. The offshore development structure was established in cooperation with a Chinese systems development company, SinoCom Software Group Ltd. The joint venture, SinoCom DIR Business Innovation Technology (Beijing) Co., Ltd., specializes in developing and introducing standardized systems security platforms and communications platforms, and has improved systems development efficiency. Efforts to develop the domestic cloud computing environment include not only the expanded use of cloud computing at the Daiwa Securities Group companies, but also collaboration with other IT companies to develop "Alliance Cloud" – a consortium that is working to apply cloud computing technology to core systems. In the future, steps will be taken to enhance the quality of operations.

In step with the Group's overall global strategy, IT governance for global systems are being upgraded to provide fuller IT support to the Daiwa Securities Group's business activities.

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