

December 1, 2011
Daiwa Securities Group Inc.

Report Regarding Situation of Soundness in Management
as of September 30, 2011

In accordance with the Financial Instruments and the Exchange Act Article 57-17, “Notification, etc. of Documents Describing Status of Soundness in Management”, Daiwa Securities Group Inc. reports situation of soundness in management as of September 30, 2011.

Quantitative Disclosure (Consolidated)

1. Name of company and aggregate amount of capital falls below the regulatory capital ratio with in the scope of the capital deduction specified under the provision of Article 8 Paragraph 1 (ii) (a)–(c) of the Consolidated Capital Adequacy Notification published by Japan FSA.

- Not applicable

2. Capital Structure

(Unit: 100 Million Yen)	
	Sept 30, 2011
Tier 1 (A)	7,997
Common stock	2,474
Capital surplus	2,306
Retained earnings	3,618
Minority interests in consolidated subsidiaries and affiliates	694
Step up and redeemable preferred stock	-
Subscription rights to shares	51
Foreign currency translation adjustments	△593
Treasury stock (△)	250
Planned distributions (△)	51
Valuation losses on available-for-sale securities (△)	21
Goodwill (△)	232
Goodwill derived from acquisitions (△)	-
Intangible assets acquired from mergers (△)	-
Capital increased by securitization transactions (△)	-
(Internal Ratings Based (IRB) Approach) 50% of expected losses in excess of qualified allowance (△)	-
Deduction for deferred tax assets	-
Tier 2 (B)	339
Tier 3 (C)	569
Deductions (D)	356
Total qualifying capital (E = A + B + C - D)	8,549
Total risk-weighted assets (F)	33,126
Credit risk	16,356
Market risk	9,953
Operational risk	6,817
Capital adequacy ratio (E/F)	25.8%

*Market and Operational Risk hereunder is computed by multiplying each risk amount by 12.5 (the Reciprocal of 8%)

3.Capital Adequacy

Capital requirements for credit risk

(Unit: 100 Million Yen)

	Capital requirements
On-balance transactions	868
1.Cash	-
2.Japanese government and central bank	-
3.Non-Japanese sovereign and central bank	2
4.Bank for International Settlement (BIS)	-
5.Japanese local public authorities	-
6.Non-Japanese public sector entities (excluding sovereign)	1
7.Multilateral development banks (MDBs)	-
8.Japan Finance Organization for Municipalities (JFM)	0
9.Japanese government sponsored entities	8
10.Three major local public corporations of Japan	0
11.Financial institutions and securities firms	106
12.Corporates	247
13.SMEs and individuals	-
14.Residential mortgage loans	-
15.Projects including acquisition of real estate properties	4
16.Past due exposures for three months or more	0
17.Cash items in process of collection	-
18.Exposures secured by Credit Guarantee Association in Japan	-
19.Exposures secured by Enterprise Turnaround Initiative Corporation of Japan	-
20.Equities	158
21.Others	213
22.Securitizations (as an originator)	-
23.Securitizations (not as an originator)	2
24.Funds	128
Off-balance transactions	440
1.Unconditionally or automatically cancellable commitments	-
2.Commitments with an original maturity up to one year	0
3.Short-term self-liquidating trade letters of credit arising from the movement of goods	-
4.Certain transaction-related contingent items	-
5.Note issuance facilities (NIFs) and revolving underwriting facilities (RUFs)	-
6.Commitments with an original maturity over one year	0
7.Commitments related IRB Approach	-
8.Direct credit substitutes and acceptances	2
9.Sale and repurchase agreements and asset sales with recourse	-
10.Forward asset purchases, forward deposits and partly-paid shares and securities	-
11.Lending or posting of securities as collateral	198
12.Derivative transactions	234
13.Long settlement transactions	1
14.Unsettled transactions	5
15. Securitization exposure qualifies as an 'eligible liquidity facility' or an 'eligible servicer cash advance facility'	-
16.Others (Securitization off-balance transactions)	-
Total capital requirements for credit risk	1,308

Note1: Credit risk exposures are being calculated in the Standardized Approach, hence there is no applicable credit risk exposure in which calculated under IRB approach.

Capital requirements for market risk

(Unit: 100 Million Yen)

	Capital requirements
Standardized Approach	633
Interest rate risk	468
Equity risk	144
Foreign exchange risk	19
Commodities risk	3
Option transactions	-
Internal Models Approach	163
Total capital requirements for market risk	796

Capital requirements for operational risk

(Unit: 100 Million Yen)

	Capital requirements
Basic indicator approach	545
Standardized approach	-
Advanced measurement approach	-
Total capital requirements for operational risk	545

Capital adequacy ratio and Tier 1 capital ratio

	Ratios
Capital adequacy ratio	25.8%
Tier 1 capital ratio	24.1%

Total capital requirements

(Unit: 100 Million Yen)

	Capital requirements
Credit risk	1,308
Market risk	796
Operational risk	545
Total capital requirements	2,650

4. Credit Risk Exposures (excluding exposures under IRB approach and securitization exposures)

Exposures by geographical area, industry, and residual contract maturity

(Unit: 100 Million Yen)

		Credit risk exposures						Past due exposures for three months or more
			Loans	Repo	Derivatives	Securities	Others ^(Note2)	
	Japan	118,665	1,068	42,530	43,699	13,562	17,806	19
	Overseas	71,943	5	67,670	2,044	46	2,178	2
Total (by area)		190,608	1,073	110,201	45,743	13,608	19,984	22
	Sovereign	20,167	-	5,820	496	6,793	7,057	0
	Financial institutions	122,241	10	74,515	40,922	938	5,856	-
	Corporates	38,514	240	29,866	4,324	2,311	1,773	20
	Individuals	1,967	691	-	1	-	1,275	-
	Others	7,719	132	-	-	3,565	4,022	2
	Total (by industry)	190,608	1,073	110,201	45,743	13,608	19,984	22
	≤ 1year	101,915	792	91,825	1,155	5,979	2,165	
	> 1year ≤ 3years	1,563	130	-	1,329	104	-	
	> 3year ≤ 5years	12,707	0	-	12,477	231	-	
	> 5year ≤ 7years	26,592	-	-	26,529	63	-	
	> 7year	5,328	2	-	4,253	1,073	-	
	Indeterminate	42,503	150	18,376	-	6,159	17,819	
	Total (by maturity)	190,608	1,073	110,201	45,743	13,608	19,984	

Note2: Including deposits, properties and equipments, intangible assets.

Year-end balance of general and specific allowances for credit loss, and allowances to specific foreign obligations

(Unit: 100 Million Yen)

	Geographic area	Sept 30, 2011	Against Mar 31, 2011
General allowance		2	△ 30
Specific allowance	Japan	440	14
	Overseas	0	△ 0
Allowance to specific foreign obligations		-	-
	Industry	Sept 30, 2011	Against Mar 31, 2011
General allowance		2	△ 30
Specific allowance	Sovereign	-	-
	Financial institutions	-	-
	Corporates	5	△ 2
	Individuals	0	△ 0
	Others	435	15
Allowance to specific foreign obligations		-	-

Loan write-offs by industry

- Not applicable

Exposure by risk weight after credit risk mitigation (CRM)

(Unit: 100 Million Yen)

Risk weight		Exposure amounts		
			Application of external rating	Others
0%		12,904	519	12,385
10%		1,137	-	1,137
20%		20,400	20,205	195
35%		-	-	-
50%		2,226	2,226	0
75%		2	-	2
100%		9,786	155	9,631
150%		32	0	31
Others		2,430	-	2,430
Capital deduction		-	-	-
Total		48,917	23,106	25,811

5. Credit Risk Mitigation

Exposure amounts for which credit risk mitigation techniques are applied

(Unit: 100 Million Yen)

	Exposure amounts
Cash	53,327
Debts	47,660
Equities	8,927
Mutual funds	-
Eligible Financial Collateral Total	109,914
Guarantees	-
Credit derivatives	-
Guarantees and Credit Derivatives Total	-

6. Counterparty Risk for Derivative Transactions and Long Settlement Transactions

The credit equivalent amounts are calculated by Current Exposure Method

(Unit: 100 Million Yen)

	Gross replacement cost	Gross add-on	Credit equivalent amounts
Foreign exchanges	4,518	5,206	9,724
Interest rates	18,828	8,175	27,003
Equities	2,629	3,583	6,211
Other commodities	2	7	9
Credit derivatives	445	2,368	2,813
Total (A)	26,421	19,339	45,760
Benefit through close-out netting agreements (B)			32,371
Credit equivalent amounts after netting (C=A-B)			13,389
Credit risk mitigation benefits (D)			3,045
Cash			1,496
Debts			1,448
Equities			101
Mutual funds			-
Credit equivalent amounts after netting and CRM benefits (C-D)			10,343

Notional amount of credit derivatives subject to the calculation of the credit equivalent amounts

(Unit: 100 Million Yen)

Credit derivatives type	Notional amounts	
	Protection bought	Protection sold
Credit default swaps	14,064	15,779

Notional amount of credit derivatives used for CRM purpose

- Not applicable

7. Securitization Exposures

A) Securitization exposures as an originator

- Not applicable

B) Securitization exposures as an investor

i. Underlying assets

(Unit: 100 Million Yen)

Underlying assets	Exposure amounts	Capital deduction
Loans and receivables	108	0
Real estates	1	0
Equities	-	-
Others	35	35
Total	145	35

ii. Exposures balance and capital requirements by risk weight

(Unit: 100 Million Yen)

Risk weight	Exposure amounts	Capital requirements
≤ 20%	108	2
> 20% ≤ 50%	-	-
> 50% ≤ 100%	1	0
> 100% ≤ 350%	-	-
> 350% ≤ 1250%	-	-
Capital deduction	35	35
Total	145	37

8. Market Risk

Internal Models Approach Value at Risk (VaR) Results

(Calculation Method)

Historical Simulation Method

(Assumption)

Holding period 1 business day and a 99% confidence level

(Unit: 100 Million Yen)

	VaR
Sept 30, 2011	14
Maximum	37
Average	17
Minimum	11

Excess number of back-testing	1 time
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Note 3: Comparing VaR for a one day holding period with daily profit and loss is conducted in order to verify accuracy of VaR model. Excess number of back testing is a number of times that losses are exceeded VaR over a given holding period.

9. Equity Exposure on Non Trading Accounts

A) Booking and market values on consolidated balance sheet

(Unit: 100 Million Yen)

	Consolidated balance sheet amount	Market value
Listed equity exposure	1,064	1,064
Others	910	

Note 4: Investment related equity exposure for which it is difficult to obtain market value is not included hereby.

B) Gains and losses from sales and write-offs on equity exposures

(Unit: 100 Million Yen)

	Gains on sales	Losses on sales	Write-offs
Equity exposure	59	13	21

C) Unrealized gains or losses recognized on the consolidated balance sheet and not on the consolidated income statement

(Unit: 100 Million Yen)

	Unrealized gains / losses
Unrealized gains or losses recognized on the consolidated balance sheet and not on the consolidated income statement	45

Note5: Only securities in which have adequate market values are disclosed hereby.

D) Unrealized gains or losses not recognized on the consolidated balance sheet and the consolidated income statement

(Unit: 100 Million Yen)

	Unrealized gains / losses
Unrealized gains or losses not recognized on the consolidated balance sheet and the consolidated income statement	△3

Note6: Only affiliated companies' securities in which have adequate market values are disclosed hereby.

E) Equity exposure amounts which are subject to the Supplementary Provision Article 6 of the Consolidated Capital Adequacy Notification published by Japan FSA, and which are sectioned by portfolio

- Not applicable.

10. Credit risk exposure calculation which set forth under Article 144 of the Consolidated Capital Adequacy Notification published by Japan FSA is applied.

- Not applicable.

11. Gain or loss in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring interest rate risk under non trading accounts.

In relation to upward and downward rate shocks according to management's method for measuring interest rate risk under assumption of change in interest rate for 10 basis point (i.e. 0.1%), we anticipate that the market value of assets or liabilities to change approximately 3.3 billion yen.

End