

Management Report

Corporate Governance

The Daiwa Securities Group is united in its efforts to build a highly transparent and objective corporate governance system that will earn the confidence of all stakeholders and continually improve corporate value.



Approach and Basic Stance

The Daiwa Securities Group is convinced that earning the trust of all stakeholders is the best way to ensure that corporate value continues to grow. The Group proactively incorporates perspectives from the broader society while developing an agile, efficient corporate governance system whose transparency meets global standards. The Group's management system also fosters a sense of unity that allows Group companies to make the most of synergies.

Corporate Governance System

With the aim of ensuring efficient management and thorough corporate governance, in 1999 the Daiwa Securities Group became the first publicly listed Japanese company to make the move to a holding company system. In addition, Daiwa Securities Group Inc. adopted a committee system to accelerate decision making. Under this system, directors entrust certain decision-making authority to executive officers; the supervising function of the Board of Directors has been reinforced through the establishment of the Nominating, Audit and Compensation committees; and management transparency has been enhanced.

The corporate governance system of the Daiwa Securities Group consists of:

- The Board of Directors, which serves a supervisory function, and the Nominating, Audit and Compensation committees; and
- The Executive Committee, which serves as the executive body; and the Internal Control Committee, the Disclosure Committee and the Group IT Strategy Committee, which are subcommittees of the Executive Committee.

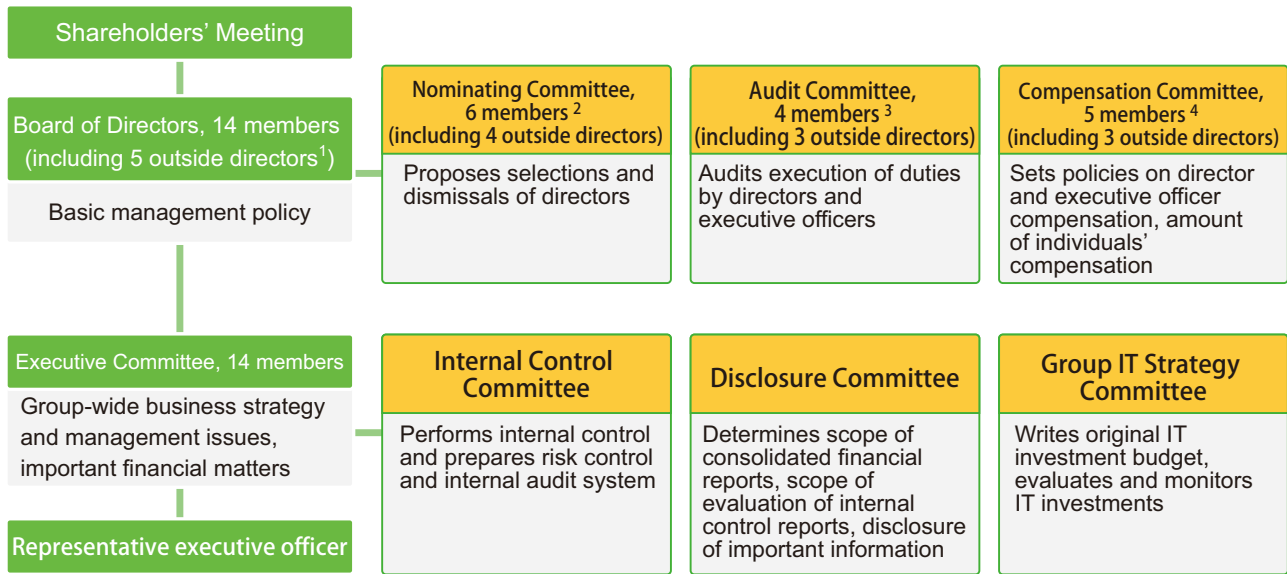
Although the chairman of the Board of Directors is also an executive officer, he does not have any specific duties as an executive officer.

During fiscal 2009, Daiwa Securities Group Inc. held Board of Directors meetings 13 times, Nominating Committee meetings 5 times, Audit Committee meetings 12 times, and Compensation Committee meetings 4 times.

Report on Corporate Governance (available only in Japanese)

<http://www.daiwa-grp.jp/japanese/pdf/governance20100701.pdf>

Corporate Governance System (As of July 1, 2010)



1 Outside directors

Tetsuro Kawakami, Honorary Adviser, Sumitomo Electric Industries, Ltd.
 Ryuji Yasuda, Professor, Hitotsubashi University Graduate School
 Koichi Uno, Certified public accountant
 Nobuko Matsubara, Chair, Japan Institute of Workers' Evolution
 Keiichi Tadaki, Lawyer

2 Nominating Committee

Internal
 Committee Chair: Akira Kiyota, Chairman of the Board and Executive Officer, Daiwa Securities Group Inc.
 Shigeharu Suzuki, Director and President (CEO), Daiwa Securities Group Inc.

External
 Tetsuro Kawakami
 Ryuji Yasuda
 Nobuko Matsubara
 Keiichi Tadaki

3 Audit Committee

Internal
 Committee Chair: Saburo Jifuku, Director, Daiwa Securities Group Inc.

External
 Koichi Uno
 Nobuko Matsubara
 Keiichi Tadaki

4 Compensation Committee

Internal
 Committee Chair: Akira Kiyota
 Shigeharu Suzuki

External
 Tetsuro Kawakami
 Ryuji Yasuda
 Koichi Uno

Supervisory function

The Board of Directors consists of 14 directors, including five outside directors.* The Board of Directors determines key management policy and supervises executive duties. In order to perform this supervisory role from multiple viewpoints in accordance with the demands of society, the policy for selecting new board members states that candidates must have a strong sense of ethics and demonstrate initiative and leadership. Additionally, external directors are experts in such fields as executive management and accounting.

In addition, the supervisory function of Daiwa Securities Group Inc. is reinforced by the Audit Committee and the Office of the Audit Committee. The Audit Committee, which consists of a majority of outside directors,* plays a pivotal role in the supervision of executive duties. The Audit Committee is assisted by the Office of the Audit Committee, which is an independent department.

* Outside directors as defined by Article 2-15 of Japan's Companies Act.

Executive body

The Executive Committee, consisting of 14 executive officers, is operated by Daiwa Securities Group Inc. The Executive Committee discusses and makes decisions regarding executive management, including the business strategy of the Group as a whole and Group-wide management issues. The Executive Committee has been entrusted with the greatest possible level of decision-

making authority by the Board of Directors and holds monthly meetings, in principle. Some of the executive officers of Daiwa Securities Group Inc. also serve as key directors in Group companies in order to secure efficient and effective department strategies based on the overall Group strategy and from the perspective of Group management.

Preventing conflicts of interest between group companies

Conflicts of interest between group companies can occur in situations such as intra-Group trading. The Daiwa Securities Group applies rules regarding conflicts of interest stipulated by Japan's Companies Act to Executive Committees. Conflicts

of interest within the Group are prevented through a rule prohibiting an executive officer from voting when he or she is also the director of an interested group company.

Internal Control

With the implementation of the internal control and reporting system for financial reports, all Daiwa Securities Group companies have executed the documentation of standards in three areas: company-wide control, business process control, and general IT control. Regulations for the internal control and reporting system and related regulations were amended accordingly.

Based on these regulations, Group companies' internal control divisions take the lead in evaluating the effectiveness of internal control,

while the evaluation results are confirmed in councils at each Group company and reported to Daiwa Securities Group Inc. After these reports are received, the Internal Control Committee discusses them and makes decisions and, based on these decisions, the Disclosure Committee determines the effectiveness and validity of the system. Taking the report on the results into account, the CEO and the CFO draw up an internal control report and only then declare to investors and other stakeholders that financial reporting is accurate.

Business Continuity Plan

In anticipation of possible damage to its sales branches or head office/head office functions and/or data center due to serious outbreaks of infectious diseases, such as a new type of influenza, as well as social infrastructure shutdowns caused by earthquakes, fires, wind and water damage, and abnormal weather, the Daiwa Securities Group drew up a business continuity plan (BCP) prioritizing important operations¹ to be restored or continued in the event of a natural disaster, in order to keep the securities market functioning and protect customers' economic activities.

In accordance with this plan, the Group will ensure the safety of customers and Group executives and employees and protect assets while continuing to pursue vital operations based on the public-interest aspect of its business as a financial services firm. Specifically, the Group has promoted the digitization of data necessary for its business operations to establish a state-of-the-art business continuity system in the financial industry. Equipped with Japan's highest-level backup center, Daiwa Securities Group Inc. has already completed the installation of thin client technology.² This enables the Group to easily switch to an alternate system in case the headquarters cease to function

and thereby continue vital operations through a substitute office location.

In fiscal 2009, during the major outbreak of the H1N1 strain of influenza, the Group prepared guidelines and disseminated them to employees to ensure all understood the countermeasures to be taken to prevent infection and deter the spread of infection in an outbreak.

The Group will continue to enhance coordination between Group companies' BCP systems to prepare for accidents.

1 Priority operations to be restored or continued:

1. Market settlement of securities transactions contracted but not yet delivered
2. Payment operations
3. New orders from customers to sell or to liquidate long positions on margin transactions for the products below
 - Domestic listed equities
 - MRF (money reserve funds), MMF (money market funds), Japanese government bonds for individual investors

2 Thin client:

A technology for the storage and administration of the totality of data on a single server instead of having individual employees control application software and files distributed among various terminals. This can streamline administration process and costs while reducing operational risks.

Information Security Management

The Daiwa Securities Group is aware of its social responsibility to protect information assets, including customers' personal information, from various threats and to handle information in a manner appropriate to the purpose for which it was originally obtained. The Group endeavors to maintain the highest standards in information security management.

In order to maintain a secure information management system, the Group has formulated a basic information security policy and a privacy policy for protecting personal information. Going beyond these policies, the Group has established minimum standards for measures to be adopted and has implemented security training regarding these policies and measures for all executives and

employees in accordance with the responsibilities of their posts.

In terms of organizational response, individuals responsible for information security at each Group company participate in the Group IT Strategy Committee meetings of Daiwa Securities Group Inc., where they discuss Group information security measures and report information security risks to the Internal Control Committee.

In addition, to raise the level of information security, the Group operates in conformity with the Information Security Management System (ISMS). A number of Group companies have already obtained ISMS and privacy mark certification in accordance with the evaluation certification system.