

## Management Report

# Social Responsibilities of the Financial Service

## Approach and Basic Stance

The mission of the financial service companies is to contribute to the development of society and the economy through daily operations that help build investors' wealth and support financial strategies across the private and public sectors. We at the Daiwa Securities Group consider strong, trusting relationships with customers, shareholders, employees, and society—as expressed by our corporate principles—foundational to the ongoing fulfillment of this mission and continuous growth.

## Role and Social Responsibilities of the Financial Service

The financial service company such as Daiwa Securities Group plays a vital social role by building a bridge between, on the one side, the need of companies to raise capital or the need of governments to finance public work projects, and on the other side, the need of individual and institutional investors, pension funds, and others for efficient investment. On the fund-raising side, the Group provides advice and assistance in implementation for companies raising money for capital expenditures and R&D, as well as for national governments, local governments, international institutions and public corporations seeking to raise funds for public works projects. It does so by issuing marketable securities such as stocks and bonds, and by creating other securitized products.

On the investment side, the Group provides appropriate investment information and advice tailored to each customer's situation and goals. It offers a comprehensive and diverse line-up of financial instruments and services to meet the various needs of individual and institutional investors as well as pension funds. Human rights, labor and environments are issues in a society. Financial service industry has a social responsibility and a key role in contributing a sustainable development in countries, regions, communities and industries by creating a flow of money through financial and capital markets in promoting circulation of blood in the economy.

## External Initiatives Using Financial capability to Resolve Social Issues

The business sector plays an important role in enhancing the sustainability of society. Financial institutions have a social mission to make the most of their core capacities to contribute to sustainable social development. At the Daiwa Securities Group, we believe that our role is not only to maintain and develop an equitable and dynamic financial market, but also to reflect a socially conscious perspective in finance and facilitate the flow of money to build sustainable societies.

On the basis of this philosophy, the Daiwa Securities Group is a signatory to UNEP FI\*1 PRI\*2 and the Carbon Disclosure Project (CDP)\*3 fulfilling this role as an upstanding member of the international community.

In January 2010, the Daiwa Securities Group became the first Japanese securities company to sign the United Nations Global Compact (GC)\*4 a platform to help companies that

have committed to sustainable and responsible business practices shape their policies. The Group pursues business activities consistent with the UN Global Compact. Further, in line with the United Nations Millennium Development Goals (MDGs)\*5 the Group is endeavoring to develop products and services that help resolve social issues.

### \*1 United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a partnership between the United Nations Environment Programme, which is a UN organization, and financial institutions around the world. Based on the recognition that the money handled by the financial industry has a major impact on the world, this initiative pursues better ways of doing business, taking into account the environment and sustainability, and seeks to spread and encourage this commitment.



### \*2 Principles for Responsible Investment (PRI)

PRI is a set of six principles launched by the UNEP Finance Initiative and the UN Global Compact in April 2006. This initiative asks corporate investors to incorporate ESG into their investment decision-making practices.



### \*3 Carbon Disclosure Project

This project is an affiliation of institutional investors concerned about climate change who demand that companies disclose information about their stance on environmental problems and initiatives addressing such problems.

CARBON DISCLOSURE PROJECT

### \*4 UN Global Compact

The UN Global Compact was established in 2000 under the UN Secretariat after an initiative launched in 1999 by then-Secretary General Kofi Annan. The membership consists of global corporate leaders who are expected to align their business practices with ten principles in the fields of human rights, labor, environment, and anti-corruption in their business activities, in partnership with UN agencies, labor, and civil society. Signatory members are required to implement these principles with a top management commitment.



### \*5 United Nations Millennium Development Goals (MDGs)

The MDGs consist of eight goals that 189 representatives from UN Member States, including 147 heads of state, participating in the UN Millennium Summit held in New York in September 2000, designated as 21st century goals for the international community. It aims to achieve numerical goals in eight fields such as Poverty alleviation, education and public healthcare and so on by 2015.

### ● **Daiwa Securities Group: Principles for Financial Action Toward a Sustainable Society (Principles for Financial Action for the 21st Century)**

The Principles for Financial Action for the 21st Century were drawn up by a committee comprising representatives from a range of Japanese financial institutions that was tasked with drafting a Japanese version of Principles for Environmental Financial Action. This was based on a recommendation issued by the Japanese environment ministry's Central Environment Council with the objective of promoting environmental finance. Signatory institutions endeavor to embed ESG into their activities to the extent that their business context allows. The Group was involved in the establishment of these principles from the drafting stage to laying out the final framework. The Daiwa Securities Group and Daiwa Asset Management signed up in November 2011.

## **Daiwa Securities Group Initiatives**

### ● **Daiwa Institute of Research: Strengthening ESG research**

The year 2011 saw ESG take on a more prominent presence within the Daiwa Institute of Research. The Environment and CSR Research Section, which had been established in August 2010 as part of the Capital Markets Research Department, was upgraded to a department in its own right (renamed the Environmental Research Department in April 2012). The Institute's website publishes reports on topics such as environment/energy issues, governance, SRI, and corporate disclosure of ESG information.

### ● **Daiwa Asset Management: Research structure**

Since March 2010, fund managers and analysts across operations and research departments have been leading the development of new research systems at Daiwa Asset Management. It is necessary to evaluate from a long-term perspective the corporate values born out of nonfinancial initiatives such as those seeking to reduce environmental burdens or consider the social impact of activities. Daiwa Asset Management seeks to improve the accuracy of company valuations by trying to clarify the purpose of using nonfinancial performance indicators in company valuations. In fiscal 2011, we gathered information on research methods used by external research institutes and engaged in debates concerning how these could be applied to our company valuations and investment research processes.

### ● **Daiwa Asset Management established investment policy against cluster munitions producers**

Since the implementation of the Oslo Convention on Cluster Munitions in August 2010, Daiwa Asset Management, as an asset management company operating in a signatory country, has followed the principles outlined below when investing in or otherwise dealing with cluster munitions producers.

1. Do not include the securities of cluster munitions producers in active funds. Promptly sell those already included.
2. In exercising voting rights associated with shares issued by cluster munitions producers, vote in favor of any shareholder proposals to withdraw from, or scale down, cluster munitions production.

### ● **Socially Responsible Investment (SRI) Funds**

SRI funds evaluate and select potential component stocks and bonds for their social and environmental efforts, ethics, and other nonfinancial performance, as well as the level of sales and profit. These include eco-funds, for which nonfinancial criteria are limited to environmental performance or which invest exclusively in companies operating environment-related businesses. Investing in such funds enables investors to indirectly support countries and firms actively engaged in environmental conservation efforts and CSR activities via the financial market.

Total net assets held in the Daiwa Securities Group's SRI funds stood at ¥90.6 billion at the end of March 2012 (Source: Daiwa Fund Consulting).

### ● **Impact Investing**

Impact Investing differs from SRI in that it places emphasis on investments directly affecting society. It is a way to allocate assets solely to activities targeted at resolving social issues such as poverty and environmental issues, in combination with generating economic gains.

As a financial institution, we have supported the resolution of problems in society by offering various types of Impact Investment bonds.

Cumulative offerings of Impact Investment bonds in Japan amounted to some ¥563.2 billion at the end of March 2012, of which ¥378.2 billion, or 67%, was arranged by the Daiwa Securities Group (Source: Daiwa Securities).

### ● **JICA Bonds: Connecting developing countries and retail investors**

Japan provides a large amount of "yen loans" to emerging economies and developing nations to support infrastructural development and the battle against climate change and infectious diseases. The Japan International Cooperation Agency (JICA) had traditionally procured the funds for these long-term, low-interest loans by issuing so-called JICA bonds to institutional investors. In December 2011, JICA bonds were issued to retail investors for the first time. This financial product is akin to a bridge connecting developing countries with the funds of Japan's retail investors, enabling them to use their personal assets to support developing countries in the form of yen loans.

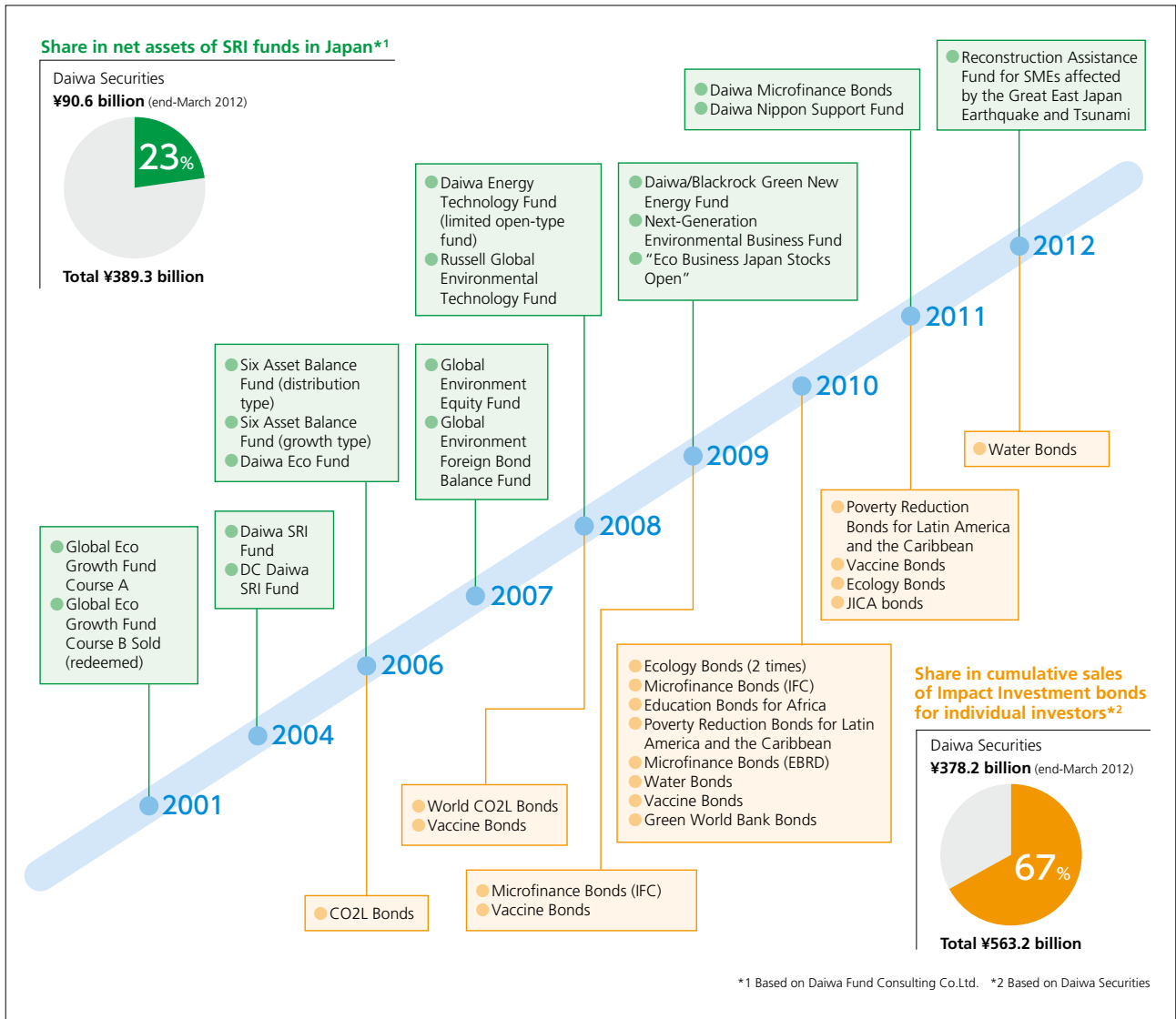
In connection with the issuing of these bonds, we organized a seminar and an exhibition at the JICA Global Plaza to present the Group's CSR activities.

### ● **Green Bonds purchased by regional banks and universities**

World Bank green bonds support projects addressing the issue of global warming in developing countries. To date, a total of \$3 billion in green bonds has been issued to investors throughout the world. The types of projects that may be supported by World Bank green bonds include renewable energy installations, funding for new technologies that reduce greenhouse gas emissions, reforestation, watershed management, and flood protection.

Fiscal 2011 saw Japan's local banks and educational institutions investing in these bonds, which were arranged by Daiwa Capital Markets.

# Daiwa Securities Group's History of SRI Funds and Impact Investment Bonds



Management Report

CSR Management

Approach and Basic Stance

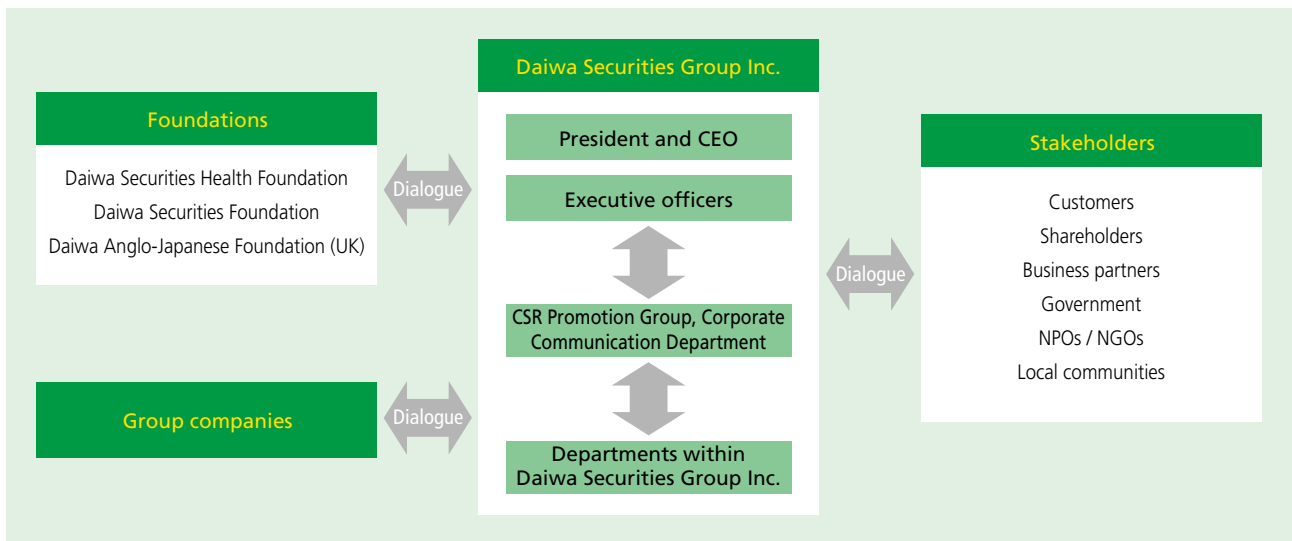
Daiwa Securities Group’s vision is to become Asia’s leading financial services group possessing and leveraging a solid business platform in Japan. With the goal of making this vision a reality, we have begun implementing a new three-year mid-term management plan, “Passion for the Best 2014.” This plan involves ensuring that all executives and employees are bringing a constant awareness of environmental, social, and corporate governance (ESG) to their daily tasks and engaging in active dialogue with stakeholders to further awareness of CSR and to make us better able to address key CSR issues. We are also creating systems to encourage related departments to work together to address key CSR issues.

CSR Promotion System

The CSR section of the Corporate Communication Department at Daiwa Securities Group Inc. compiles information in external and internal meetings and actively holds dialogues to ensure that feedback from a wide range of stakeholders is reflected in the Group’s activities. As well as through CSR lectures during the Group’s new hire

training, information on CSR is shared in department head meetings and departmental liaison meetings, thus promoting awareness of CSR throughout branches across Japan and major overseas sites and building systems for cooperation. The section also organizes dialogues on various CSR issues with opinion leaders in the broader society and posts them on the CSR website of Daiwa Securities Group Inc. as “CSR Dialogue” (only selected dialogues are available in English).

CSR Promotion System



## Management Vision

### "To become Asia's leading financial services firm possessing and leveraging a solid business platform in Japan."

Based on its established business foundation, the Daiwa Securities Group will materialize its vision and corporate principles in order to achieve higher goals.

The Daiwa Securities Group is working to achieve sustainable growth by building even stronger trust with stakeholders and contributing to the ongoing development of society. The Group aims to be an upstanding enterprise that executives and employees and their families can feel more and more proud to be part of, as it strives to "To become Asia's leading financial services firm possessing and leveraging a solid business platform in Japan."

### A new Medium -Term Management Plan- "Passion for the Best" 2014

In April 2012, the Daiwa Securities Group unveiled a new Medium-Term Management Plan entitled "Passion for the Best" 2014 to achieve one of its Corporate Principles, "Maintaining healthy earnings results".

Its management vision is to become a leading financial services firm in Asia while possessing and leveraging a solid business platform in Japan. To meet this objective, we will have to establish a robust earnings structure capable of generating profits even in times of economic stress. In addition, the Group must achieve sustainable growth by linking Japan and the growth of Asia. These two objectives form our basic management policies.

### Medium -Term Management Plan- "Passion for the Best" 2014

FY2012  
Turnaround

FY2013  
Growth

FY2014  
Expansion

#### Basic Policy I: Return to profitability by pursuing management efficiencies

(Focus of execution in the first fiscal year)

- Steadily implement the plan to reduce SG&A
- Realize greater organizational efficiencies by shifting personnel from the middle-and-back offices to the front divisions

#### Basic Policy II: Achieve client based high-quality earnings growth

- Drastically expand our client base in Japan by investing management resources in the Retail and Asset Management businesses
  - Expand stable earnings by increasing investment trusts and deposit balances-
- Strengthen revenue capacity centered around the launch of the "new" Daiwa Securities
  - Step up approaches to high net worth individuals and the middle market-
- Rebuild our Wholesale business
  - Re-strengthen the brokerage business and build an efficient global network-

## CSR Issues: Performance and Targets

Rating indicates self-evaluation of fiscal 2011 results:

◎ = success (significant), ○ = success (moderate), △ = additional effort needed, × = not achieved.

### Key Issue 1 Leveraging Financial Capabilities to Contribute to a Sustainable Society

Targets for Fiscal 2011	Results for Fiscal 2011	Rating	Targets for Fiscal 2012
<ul style="list-style-type: none"> <li>Expand design and sales of Impact Investment products relating to earthquakes, the environment, poverty, and other issues in Japan and abroad</li> </ul>	<ul style="list-style-type: none"> <li>Established a reconstruction assistance fund for SMEs affected by the Great East Japan Earthquake and Tsunami</li> <li>Developed and provided Impact Investment products</li> </ul>	○	<ul style="list-style-type: none"> <li>Develop and sell SRI and Impact Investment products</li> <li>Enhance provision of CSR and SRI information</li> </ul>
<ul style="list-style-type: none"> <li>Enhance disclosure of environment and CSR information to investors</li> </ul>	<ul style="list-style-type: none"> <li>Reorganized and enhanced disclosure of ESG information</li> </ul>	○	<ul style="list-style-type: none"> <li>Continue to provide reconstruction assistance for the Great East Japan Earthquake</li> </ul>

### Key Issue 2 Developing Sound Financial and Capital Markets for the Next Generation

Targets for Fiscal 2011	Results for Fiscal 2011	Rating	Targets for Fiscal 2012
<ul style="list-style-type: none"> <li>Continue alliances with Japanese and foreign universities and continue the Social Business College (participation target of 80 people per lecture)</li> </ul>	<ul style="list-style-type: none"> <li>Seven lectures on CSR and SRI at universities</li> <li>Held Social Business College (six times)</li> </ul>	○	<ul style="list-style-type: none"> <li>Contribute to economic and financial education</li> </ul>
<ul style="list-style-type: none"> <li>Bolster environment and CSR research conducted by group research departments</li> </ul>	<ul style="list-style-type: none"> <li>Upgraded environment and CSR research section to research group so as to bolster environment and CSR research (Daiwa Institute of Research)</li> </ul>	○	—
<ul style="list-style-type: none"> <li>Hold seminars and forums for ordinary customers (at least 3)</li> </ul>	<ul style="list-style-type: none"> <li>Held event in association with JICA</li> <li>Held event to commemorate 10th anniversary of sign language classes (with sign language interpretation)</li> <li>Sponsored event organized by Iwate prefecture: The Great East Japan Earthquake and Tsunami-Iwate reconstruction forum</li> </ul>	○	<ul style="list-style-type: none"> <li>Hold seminars and forums for customers (at least three)</li> </ul>

### CSR Management

Targets for Fiscal 2011	Results for Fiscal 2011	Rating	Targets for Fiscal 2012
<ul style="list-style-type: none"> <li>Maintain dialogues with specialists in specific themes and strengthen relationships with departments and sections responsible within group (target of at least 12 dialogues)</li> </ul>	<ul style="list-style-type: none"> <li>Held "CSR Dialogues" (five times)</li> <li>Put in two panelists for TBLI conference Asia 2011</li> </ul>	△	<ul style="list-style-type: none"> <li>Hold dialogues with specialists on specific themes</li> <li>Strengthen relationships between related departments and sections within the Group</li> </ul>

### Corporate Governance

Targets for Fiscal 2011	Results for Fiscal 2011	Rating	Targets for Fiscal 2012
<ul style="list-style-type: none"> <li>Maintain healthy business by disclosing adequacy of capital</li> </ul>	<ul style="list-style-type: none"> <li>Published a quarterly report on health of business as stipulated by law, demonstrating to the public the Group's higher consolidated capital adequacy ratio standards compared to other companies, and showing that the Group is financially sound.</li> </ul>	◎	—
<ul style="list-style-type: none"> <li>Increase awareness of crisis management system for disasters</li> </ul>	<ul style="list-style-type: none"> <li>Increased awareness within the Group of crisis management system by implementing training on checking employee safety together with emergency drills</li> </ul>	○	<ul style="list-style-type: none"> <li>Strengthen crisis management system for disasters</li> </ul>
<ul style="list-style-type: none"> <li>Reduce group-wide power consumption by 15% in response to power shortage this summer</li> </ul>	<ul style="list-style-type: none"> <li>Reduced electricity consumption during the summer months in excess of respective requirements set forth by Tokyo Electric Power Company, Tohoku Electric Power, and Kansai Electric Power Company*</li> <li>Reduced electricity consumption during the winter months in areas supplied by Kansai Electric Power Company and Kyushu Electric Power Company*</li> <li>* Electricity-saving measures were also enforced in areas controlled by other electric power companies.</li> <li>Maintained efforts to reduce electricity consumption during periods of lower demand</li> </ul>	◎	<ul style="list-style-type: none"> <li>Continue efforts to reduce electricity consumption</li> </ul>

## Compliance

	Targets for Fiscal 2011	Results for Fiscal 2011	Rating	Targets for Fiscal 2012
Daiwa Securities	<ul style="list-style-type: none"> <li>Further strengthen self-monitoring of ethics at branches</li> </ul>	<ul style="list-style-type: none"> <li>Strengthened accountability during sales and marketing by establishing a system of checking by superiors, and strengthening cooperation between sales managers, internal control managers, and line managers</li> </ul>	◎	<ul style="list-style-type: none"> <li>Build effective and efficient internal control systems for "new" Daiwa Securities</li> <li>Further improve customer marketing and solicitation systems</li> <li>Raise the quality of internal control systems through inspection</li> <li>Implement the improvement measures set out in the Group's press release dated July 27, 2012, in a swift and steady manner (Investigation Committee's Investigation Report on the Securities and Exchange Surveillance Commission's Recommendations and Daiwa's Improvement Measures)</li> </ul>
	<ul style="list-style-type: none"> <li>Strengthen commitment to internal control in all headquarter departments and sections</li> </ul>	<ul style="list-style-type: none"> <li>Enabled horizontal visualization across headquarter departments and sections by integrating compliance functions across three Group companies</li> <li>Developed internal control systems through cooperation with Daiwa Next Bank and Banking Business Office during the launch of bank agency business</li> <li>Strengthened internal control system by appointing a new internal control officer, compliance officer, and so on within the online trading planning department</li> </ul>	◎	
	<ul style="list-style-type: none"> <li>Strengthen commitment to preventing unfair trading</li> </ul>	<ul style="list-style-type: none"> <li>Set up an integrated system for the retrieval of trading data for both Daiwa Securities and Daiwa Capital Markets with the objective of making transaction monitoring more effective</li> <li>Strengthened systems to eradicate organized crime and money laundering by implementing training to prevent these throughout branches</li> </ul>	◎	
Daiwa Securities Capital Markets	<ul style="list-style-type: none"> <li>Create and strengthen a global compliance system</li> <li>Strengthen systems to eradicate organized crime</li> <li>Establish rules relating to the Financial Instruments and Exchange Law</li> </ul>	<ul style="list-style-type: none"> <li>Strengthened global cooperation by requiring monthly compliance reports from overseas companies and developing effective systems to manage classified information by enhancing systems to manage conflicts of interest</li> <li>Developed internal control systems by consolidating within the compliance section the monitoring of crime prevention and legal amendments such as those concerning regulations on short-selling during public offering period</li> <li>Set up system for inspecting all emails sent to personal email addresses</li> </ul>	◎	

## Information Disclosure

Targets for Fiscal 2011	Results for Fiscal 2011	Rating	Targets for Fiscal 2012
<ul style="list-style-type: none"> <li>Actively disclose information, including non-financial content, demonstrating the unique or differentiating features of the Group (continued)</li> </ul>	<ul style="list-style-type: none"> <li>Clearly communicated to shareholders, investors, media, and so on details of the new basic company policy instituted following April's appointment of a new president, by giving specific details of progress at the management strategy briefing session</li> </ul>	◎	<ul style="list-style-type: none"> <li>Focus on conveying information on the "new" Daiwa Securities Inc. and the "new" mid-term management plan</li> </ul>
<ul style="list-style-type: none"> <li>Carry out cost-conscious, efficient IR activities (continued)</li> </ul>	<ul style="list-style-type: none"> <li>Reduced costs without compromising on information volume by printing multiple pages on a single sheet and minimizing printing costs in external IR documents such as annual reports and business reports</li> </ul>	◎	<ul style="list-style-type: none"> <li>Implement cost reductions and optimization regarding IR tools</li> </ul>
<ul style="list-style-type: none"> <li>Improve and make effective use of IR channels (continued)</li> </ul>	<ul style="list-style-type: none"> <li>Disseminated information in a straightforward manner to shareholders and investors by providing a clear explanation of the management strategy that was announced at the management strategy briefing session in external IR documents such as annual reports and business reports</li> </ul>	◎	<ul style="list-style-type: none"> <li>Implement IR activities that appeal to investors' every need</li> </ul>

## Relationship with Shareholders and Other Investors

Targets for Fiscal 2011	Results for Fiscal 2011	Rating	Targets for Fiscal 2012
<ul style="list-style-type: none"> <li>Take actions to expand shareholder reward program (continued)</li> </ul>	<ul style="list-style-type: none"> <li>Enhanced the shareholder rewards program by providing a clearer introduction to the reward program catalogue and adding frozen foods, products related to earthquake relief, and monetary donations to the rewards product selection. This resulted in a record high number of applications for reward products.</li> </ul>	◎	—

## Relationship with Customers

Targets for Fiscal 2011	Results for Fiscal 2011	Rating	Targets for Fiscal 2012
<ul style="list-style-type: none"> <li>Actively pursue post-sales follow-up (continued)</li> </ul>	<ul style="list-style-type: none"> <li>Held investor seminars on the 5th of every month, providing information on overseas and Japanese markets on an ongoing basis</li> <li>Held impromptu seminars when the market fluctuated, such as seminars on the foreign currency market when the yen appreciated significantly and follow-up seminars when the value of trust funds depreciated</li> <li>Presented current status and forecasts for customers' investment trusts in graphic format via the Daiwa Online Trading "notice box"</li> <li>Held New Spring Investment Forum in January 2012 across all branches, with about 6,330 customers attending</li> <li>Continuously provided up-to-date information by publishing daily market reports and fund management companies' fund reports on our website</li> </ul>	◎	<ul style="list-style-type: none"> <li>Post-sales service</li> </ul>
<ul style="list-style-type: none"> <li>Improve customer-interface skills of branch counter staff (continued)</li> </ul>	<ul style="list-style-type: none"> <li>Implemented regular verification tests using our e-learning system</li> <li>Head office staff conducted twice-yearly on-site checks and guidance across all sites</li> <li>Continuously shared and disseminated information on the intranet</li> </ul>	◎	
<ul style="list-style-type: none"> <li>Develop professional workforce that combines expertise and loyalty (continued)</li> </ul>	<ul style="list-style-type: none"> <li>Focused on business skills training, encouraged and supported staff in obtaining credentials, and enhanced foreign language training</li> </ul>	◎	

## Relationship with Executives and Employees

Targets for Fiscal 2011	Results for Fiscal 2011	Rating	Targets for Fiscal 2012
<ul style="list-style-type: none"> <li>• Improve customer-interface skills of branch counter staff (continued)</li> <li>• Develop professional workforce that combines expertise and loyalty (continued)</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing skills training and cross-Group training opened up to more Group companies</li> <li>• Delivered group training and e-learning training for new hires and implemented campaigns for each product</li> <li>• Continued to develop a working environment conducive to high motivation</li> <li>• Revised system for supporting acquisition of credentials</li> <li>• 5,255 and 452 staff obtained AFP and CFP certifications respectively</li> <li>• Showed an increase in staff trying to improve language skills (1,418 took the TOEIC test)</li> </ul>	○	<ul style="list-style-type: none"> <li>• HR development through targeted recruiting and appointing</li> <li>• Demand high levels of specialist skills to merit customers' trust</li> <li>• Create a working environment conducive to high levels of motivation among all employees</li> </ul>
<ul style="list-style-type: none"> <li>• Achieve a far-reaching work-life balance program (continued)</li> </ul>	<ul style="list-style-type: none"> <li>• Worked to change employee awareness by encouraging employees to leave work before 7 p.m., welcoming family visits (3,868 family members participated), and encouraging staff to take childcare leave (408 staff members did)</li> <li>• Increased awareness of systems (e.g., revised and circulated guidelines on returning to work among managers; broadcast information internally to staff; showed an increase in visitors to revamped Daiwa WLB Station)</li> <li>• Increased numbers using the Job Location Change system (cumulative total of 82)</li> </ul>	○	
<ul style="list-style-type: none"> <li>• Accelerate appointment of female managers who will assume leadership roles in the Japanese financial industry (continued)</li> </ul>	<ul style="list-style-type: none"> <li>• Increased number of female managers (170 at end of fiscal 2011)</li> <li>• Increased number of female staff aspiring to advance their careers (total of 659 female staff members transferred to career-track employee or regional career-track employee streams between fiscal 2009 and fiscal 2011)</li> <li>• Female employee success promotion team considered additional measures</li> </ul>	○	

## Relationship with Society

Targets for Fiscal 2011	Results for Fiscal 2011	Rating	Targets for Fiscal 2012
<ul style="list-style-type: none"> <li>• Raise employees' interest in volunteering, including in earthquake relief efforts, and improve provision of appropriate information regarding volunteering</li> </ul>	<ul style="list-style-type: none"> <li>• Published information on internal volunteer activities as well as those planned by external groups on the intranet</li> </ul>	○	<ul style="list-style-type: none"> <li>• Raise awareness of volunteering—including earthquake relief work—among staff and strengthen dissemination of appropriate information</li> </ul>
<ul style="list-style-type: none"> <li>• Enhance volunteering system</li> </ul>	<ul style="list-style-type: none"> <li>• Reached a consensus with employee unions on "volunteer leave" and currently working toward its introduction</li> </ul>	△	<ul style="list-style-type: none"> <li>• Enhance systems to enable employees to get involved in voluntary work</li> </ul>
<ul style="list-style-type: none"> <li>• Improve coordination with employee unions</li> </ul>	<ul style="list-style-type: none"> <li>• As a result of dialogue with employee unions: Coordinated with charity events, encouraged union members to get involved in voluntary work, and developed cooperative relations working toward introduction of systems to promote volunteering</li> </ul>	○	<ul style="list-style-type: none"> <li>• Strengthen coordination with employee unions</li> <li>• Promote programs that the whole Group can get involved in</li> </ul>

## Environmental Initiatives

Targets for Fiscal 2011	Results for Fiscal 2011	Rating	Targets for Fiscal 2012
<ul style="list-style-type: none"> <li>• Introduce new environment management system</li> </ul>	<ul style="list-style-type: none"> <li>• Introduced new energy data management system to get a quicker overview of energy use across Japanese branches</li> </ul>	○	<ul style="list-style-type: none"> <li>• Further exploit energy data management system</li> </ul>
<ul style="list-style-type: none"> <li>• Enhance energy conservation efforts</li> </ul>	<ul style="list-style-type: none"> <li>• Renewed air conditioning units in Osaka branch building</li> <li>• Reduced intensity of lighting to appropriate levels</li> <li>• Switched off the lights on signs and stock-price boards</li> <li>• Set photocopiers to energy-saving mode</li> <li>• Promoted use of double-sided printing and printing multiple pages on one sheet</li> <li>• Promoted the clear desk and clear screen policy</li> <li>• Separated office waste and reused resources</li> </ul>	◎	<ul style="list-style-type: none"> <li>• Strengthen energy conservation efforts</li> </ul>

Management Report

Corporate Governance

Approach and Basic Stance

The Daiwa Securities Group clearly separates the supervisory and executive functions of management to create a highly transparent and objective corporate governance system. The Group is pursuing a management structure that improves the efficiency of head office operations and maximizes synergies between the Group companies. Under this structure, employees responsible for head office functions also perform similar roles for securities subsidiaries, in addition to the corporate executive officers of Daiwa Securities Group Inc.

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 system that maximizes synergies between Group companies while showcasing the independence and unique expertise of each Group member. In June 2004, Daiwa Securities Group Inc. made a 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 corporate executive officers. In addition, we strengthened the supervisory functions of management by increasing the number of outside directors and establishing the Nominating Committee, Audit Committee, and Compensation Committee. The representative directors of the major Group companies also serve as corporate executive officers of the holding company, thereby allowing them to efficiently implement individual business strategies based on Group strategies.

The Nominating Committee met three times in FY2011 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 selection standards for the appointment of directors. These standards include criteria that ensure the independence of outside directors. The Audit Committee met 12 times during FY2011. The committee evaluated the activities of directors and corporate executive officers, audited documentation including financial statements and business reports, and prepared an audit report for the period under review. The Compensation Committee met six times in FY2011 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 10 times during FY2011 and outside directors had a 98% record of attendance.

Corporate Governance System at Daiwa Securities Group



**Web** Report on Corporate Governance (available only in Japanese)

## Executive Compensation More Closely Linked to Performance

Compensation for directors and corporate executive officers is determined by the Compensation Committee. It generally has three components; basic compensation, performance-

based compensation, and stock-price-linked compensation. Comprehensive criteria used in calculating performance-based compensation include consolidated ordinary income and ROE, as well as other factors such as which of the management goals outlined in the Medium-Term Management Plan have been met.

### Compensation Paid to Directors and Corporate Executive Officers of Daiwa Securities Group Inc. in FY2011

Amounts based on resolution of the Compensation Committee	Directors		Corporate Executive Officers		Total	
	Recipients	Amount	Recipients	Amount	Recipients	Amount
	9 persons	¥107 million	14 persons	¥424 million	23 persons	¥531 million

Notes: 1. No performance-based compensation was paid in this fiscal year.

2. The above compensation amounts include a total of ¥94 million in stock acquisition rights granted as stock options to directors and corporate executive officers.

3. Compensation paid to the six outside directors totaled ¥80 million.

4. Seven directors also served as corporate executive officers; their total compensation is included in the "Corporate Executive Officers" category.

## Internal Control System and Internal Audit

In recognition that management is responsible for maintaining an effective internal control system to ensure the sound and proper execution of business, the Group, under the main initiative of Daiwa Securities Group Inc., has established a system for managing the Group's major business risks.

The Group also maintains this internal control system for ensuring "business effectiveness and efficiency," "reliable financial reporting," "compliance with laws related to business activities," and "asset preservation." The Internal Audit Department verifies the internal control system.

This department, established independently from all other departments and reporting to a full-time corporate executive officer, ensures internal audits to act as an important function of raising Group value through the creation of sound and efficient internal controls. The department's internal auditing plans and the results of internal audits are reported to and approved by the Group Internal Audit Committee, which is directly under the control of the CEO of Daiwa Securities Group Inc.

The department also reports the results of internal audits to an Audit Committee. This Audit Committee, comprised of members of the Board of Directors of Daiwa Securities Group Inc., in turn has the authority to conduct internal audits in collaboration with the Internal Audit Department and have the department perform its research. The Internal Audit Department directly audits major Group companies. Major Group companies also have internal auditing departments of their own, which are subject to monitoring and alignment by the Internal Audit Department.

The Group's internal audits, in following a common Group internal audit policy and audit plan formulated on a risk-by-risk basis, are managed and monitored primarily by the Internal Audit Department. The internal audits that Group companies perform are monitored and directly audited as required by the Group in view of the status of control over the Group and collaboration within the Group. The Group seeks to raise corporate value by conducting internal audits that pay special attention to the legal and regulatory compliance and risk management position of Daiwa Securities Co. Ltd. and the Group's overseas securities business sites as a global financial instruments business operator, and Daiwa Next Bank, Ltd. as a bank.

To maintain oversight and ensure the proper and efficient conduct of Group internal auditing activities, the Internal Audit Department holds periodic meetings and collaborates in auditing activities with the internal auditing segment of each Group company, and maintains contact and coordination with the Group's Audit Committee and accounting auditor.

## Supervisory function

The Board of Directors consists of 12 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.

## Preventing conflict-of-interest transactions between group companies

Conflict-of-interest transactions 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 as well as Board meeting. 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.

## Management Report

# Compliance

### Approach and Basic Stance

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 society.

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

The Daiwa Securities Group is 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 its role in society. We aggressively conduct compliance training programs for our employees. These programs commence as soon as employees join the Group 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 Group 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 FY2011, Group companies continued to hold training related to insider trading regulations from FY2010. Furthermore, the Group promoted the integration of head office functions in pursuit of efficiency by consolidating the overlapping functions within Daiwa Securities Co. Ltd., Daiwa Securities Capital Markets Co. Ltd., and Daiwa Securities Group Inc. The consequent unification of management structures of the companies enabled the Group to strengthen its compliance systems further.

Initiatives the Group took to eliminate any and all relations with corporate racketeers and other antisocial groups involved collecting information on their increasingly sophisticated methods by working in close contact with mainly police organizations and legal experts, and enhancing the Group's various outward procedures for scrupulously severing contact with such undesirable groups. As a result, a system of cooperation among Group companies to perform checks preventing the outflow of funds to antisocial forces is now in place.

**Web** Basic Policy on Avoiding Any Involvement with Criminal Elements (available only in Japanese)

### Compliance Initiatives at Daiwa Securities Co. Ltd.

Daiwa Securities Co. Ltd. is taking measures, under the compliance program, to ensure the effective operation of its internal control system in order to ensure strict compliance with laws and regulations.

Measures taken in FY2011 included strengthening the selfcorrecting mechanism of sales branches, an internal control system for head office departments as a whole, a structure to prevent unjust trade practices, and a compliance system that is being used on a global basis. In FY2012, the Company will formulate the following three compliance programs aimed at bolstering internal control systems further, in moving us towards meeting our management targets.

1. Program for building effective and efficient internal control systems
2. Program for further improving customer sales and marketing manners
3. Program for raising the quality of internal control systems through thorough inspection

We will implement the improvement measures set out in the Group's press release dated July 27, 2012, in a swift and steady manner (Investigation Committee's Investigation Report on the Securities and Exchange Surveillance Commission's Recommendations and Daiwa's Improvement Measures)

**Web** Investigation Committee's Investigation Report on the Securities and Exchange Surveillance Commission's Recommendations and Daiwa's Improvement Measures (available only in Japanese)

Management Report

Risk Management

Approach and Basic Stance

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 by properly balancing risks and returns and by implementing effective risk control and management.

Basic Risk Management Policy

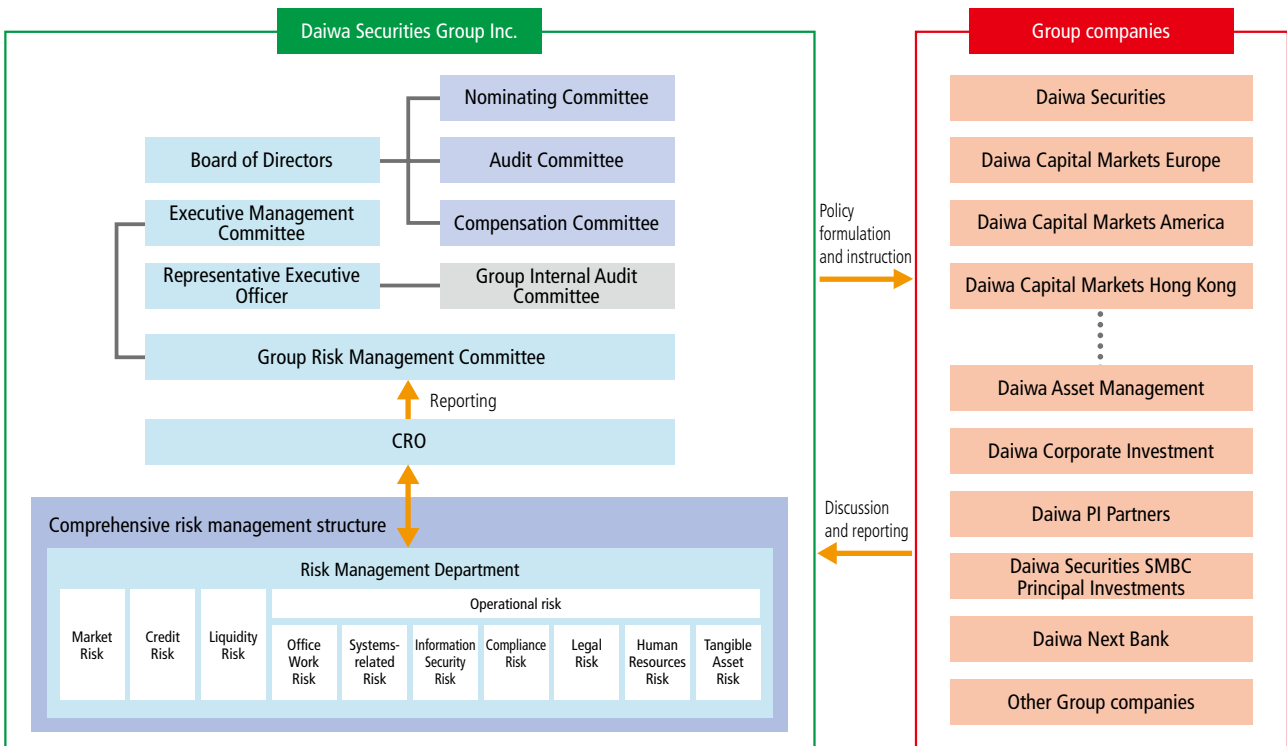
The Daiwa Securities Group Inc. has established “basic risk management regulations” governing all activities by the Group companies to manage risk in order to ensure that they conform to the following basic policies:

1. Management shall demonstrate an active concern for risk management.
2. A risk management system shall be established to address the specific characteristics of risk faced by the Group.
3. Management shall, through the aforementioned comprehensive risk management structure, ascertain the aggregate risk faced by the Group and enhance capital adequacy accordingly.
4. All risk management processes shall be clearly identified. Limits are set for each type of risk so as to control risk within an amount suitable for the management strength of the Group.

Types of Risks

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. Daiwa Securities Group Inc. engages in risk management to clearly identify risks based on the respective Group company’s business characteristics and risk profile. The types of risks that have been deemed important to manage include market risk, credit risk, liquidity risk, operational risk, and reputation risk.

Risk Management System



## Risk Management System

The Board of Directors of Daiwa Securities Group Inc. has approved "basic risk management regulations." These regulations define basic policies related to risk management, the types of risk that are necessary to be managed, and the executive and department for each major risk. Each subsidiary conducts risk management suitable for the risk profile and size of each business in accordance with these basic policies related to risk management. Daiwa Securities Group Inc. monitors the system and situation of its subsidiaries' risk management. Also, the Group Risk Management Committee, as a sub-committee of the Executive Management Committee of Daiwa Securities Group Inc., receives reports about risk exposures obtained via the aforementioned monitoring of subsidiaries and themes concerning their risk management system and discusses and resolves those issues. In addition, major Group companies regularly hold risk management committees in order to strengthen their risk management.

## Business Continuity Plan

In anticipation of possible damage to its sales branches or head office/head office functions and/or data center due to social infrastructure shutdowns caused by earthquakes, fires, storm and flood damage, and abnormal weather, as well as serious outbreaks of infectious diseases, such as new strains of influenza, the Daiwa Securities Group drew up a business continuity plan (BCP) prioritizing important operations\*<sup>1</sup> to be restored or continued in the event of a natural disaster, in order to keep the financial 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.\*<sup>2</sup> 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.

\*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), medium-term government bond 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 processes and costs while reducing operational risks.

## Management Report

# IT Governance, Disclosure, and Information Security

## Approach and Basic Stance

The Daiwa Securities Group aims to provide customers with high value-added products and services quickly, precisely, and reasonably priced. To this end, it uses IT strategically. As an active participant in the financial and capital markets, the Group possesses information resources, including personal information. In order to protect these information resources from outside threats, the Group is working to maintain and improve the level of its information security.

## IT Governance System

The Group has established the Group IT Strategy Committee as a subcommittee of the Executive Management Committee. This committee deliberates and makes decisions on such issues as budgets for IT investment and the allocation of IT functions. In regard to IT investment planning, the Group IT Strategy Committee rigorously selects the IT investments necessary for the Group and allocates budgets based on the strategic importance of each investment. Additionally, the Group IT Strategy Committee is strengthening Group IT governance by primarily bolstering the management and control function in connection with managing systems construction projects within the Group.

## Disclosure System

The Daiwa Securities Group has formulated the Disclosure Policy, which outlines the Group's basic approach to information disclosure and strives to provide information that is fair, prompt, and appropriate.

### 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 Act 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."

## Measures for Maintaining Information Security

In order to fulfill its social responsibility as an active participant in the financial and capital markets, as well as gain the trust of customers, the Group has adopted a full spectrum of information security policies at companies throughout the Group to ensure that important personal information received from customers and all other information resources are managed in a secure and appropriate manner. Among the organizational measures that we have adopted is the Information Security Group Minimum Standard, which dictates the basic rules 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. 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 office automation through the use of thin clients and high-security access controls at the data center. The online trading systems of Daiwa Securities Co. Ltd. employ highly advanced encryption technology for data transmission and for user ID verification, thereby ensuring that clients are able to use the system safely and securely.

## Efforts to Enhance the Level of Information Security

The Group has put in place a self-assessment scheme for employees in order to maintain and build upon the current level of information security across the Group as a whole. Each Group company has formulated further initiatives tailored to meet the information security needs of the products and services they offer. Additionally, in recognition of the importance of human factors in effective information security systems, the Group has introduced training programs to educate all executives and employees in the basics of information security. The programs are offered periodically as group training sessions, as well as through e-learning.