

Management Systems and CSR Activities

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Message From the Chairman



Corporate Philosophy of the Daiwa Securities Group

Building trust

The trust and approval of customers forms the very foundation of the Daiwa Securities Group. The Group will always place the needs of customers first, and strive to develop the advanced, specialized skills to offer them the most attractive products and services of any securities group.

Placing importance on personnel

The source of the Group's competitiveness lies in the capabilities of its employees. The Group will promote the creativity of employees by offering them a challenging and self-directed working environment that encourages their abilities and appropriately rewards their contributions.

Contributing to society

The Daiwa Securities Group will seek to benefit the economy and society through the development of healthy financial markets. In addition to scrupulously observing both regulations and internal policies, the Group will strive to maintain a high sense of morality and duty, endeavoring to continue contributing to the sustainable growth of the societies in which we operate.

Maintaining healthy earnings results

The Group will always seek to develop healthy business operations and to increase corporate value for the benefit of shareholders. By providing customers with attractive products and services, the Daiwa Securities Group will seek to generate strong profits and healthy returns for shareholders.

The corporate philosophy of the Daiwa Securities Group is expressed in the motto "Building Trust;" this reflects the fact that our continued growth and prosperity depend heavily on the Group's ability to earn the trust and reliance of customers, as well as society in general. Management and employees of the Group take pride in the sincere contributions we make to financial and capital markets. By demonstrating these contributions to the public, we hope to establish a strong and abiding relationship with all of our stakeholders.

"Corporate Governance," as a mechanism designed to maintain the Group's steady and persistent growth, is founded on such employees respecting the Group's corporate philosophy, behaving ethically, and maintaining high standards of professionalism.

Based on such principles, the Group is committed to building an organization in which employees are highly motivated to work, and can fully realize their abilities and aspirations. We strive to cultivate a corporate culture founded on transparency, trust and cooperation, and in which all personnel exercise strong self-discipline, motivation and enthusiasm as they contribute to enhancing the corporate value of the Group.

In the future, management will do its utmost to chart a course towards continued growth and success for the Group. We appreciate the continuing support of all our stakeholders.

Shigeharu Suzuki
Chairman of the Board
Daiwa Securities Group Inc.

Corporate Governance

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 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 synergy between Group companies while showcasing the independence and unique expertise of each Group member.

In June 2004, Daiwa Securities Group Inc. made the 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 the 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 executive officers of the holding company, thereby allowing them to efficiently implement individual business strategies based on Group strategies.

The Nominating Committee met four times in FY2010 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 help ensure the independence of outside directors.

The Audit Committee met 12 times during FY2010. The committee evaluated the activities of directors and executive officers, audited documentation including financial statements and business reports, and prepared an audit report for the period under review.

The Compensation Committee met four times in FY2010 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 FY2010 and outside directors had a 100% record of attendance.

Corporate Governance System at Daiwa Securities Group Inc.



Executive Compensation More Closely Linked to Performance

Compensation for directors and 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 Executive Officers in FY2010

	Directors		Executive Officers		Total	
	Recipients	Amount	Recipients	Amount	Recipients	Amount
Amounts based on resolution of the Compensation Committee	7 persons	¥121 million	14 persons	¥537 million	21 persons	¥659 million

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

2. The above compensation amounts include a total of ¥83 million in stock acquisition rights granted as stock options to directors and executive officers.

3. Compensation paid to the five outside directors totaled ¥84 million.

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

Internal Control System

The Daiwa Securities Group defines four internal control objectives: promoting "business effectiveness and efficiency," "reliable financial reporting," "compliance with laws related to business activities," and "asset preservation." The Group is building an extensive internal control system to ensure that these processes function effectively and efficiently.

Internal auditing departments have been established at major Group companies to carry out internal audits. In addition, the Group Internal Audit Department, which is under the control of a full-time executive officer, audits Group companies that do not have their own internal auditing departments.

The Group Internal Audit Department was established in place of the former Internal Audit Department in April 2011. The motives behind this were twofold: to strengthen the internal auditing of the Group as a whole, and to address changes made to strengthen the regulatory and supervisory functions of the Group as a whole in response to revisions to the Financial Instruments and Exchange Law. In reorganizing our internal audit functions in this way, we aim to improve operating efficiency and strengthen collaboration between the relevant departments of Daiwa Securities Group Inc., Daiwa Securities Co. Ltd., and Daiwa Securities Capital Markets Co. Ltd. The same core personnel will be responsible concurrently for the internal audit of these three companies.

The Group's internal auditing departments undertake regular audits based on internal rules pertaining to internal auditing, and verify the status of internal control activities. Audits are performed periodically or as necessary following an evaluation of the extent and management of inherent risks faced by the Company and individual departments and other factors. The Group Internal Audit Department at the holding company regularly communicates with the internal auditing departments of major Group companies, and thereby coordinates efforts to upgrade the Group's internal control and internal auditing systems.

In the case of Daiwa Securities Group Inc., internal auditing plans and the results of internal audits are reported to and

approved by the Group Internal Audit Committee, directly under the control of the CEO of Daiwa Securities Group Inc.

Furthermore, the auditing plans and results for major Group companies are reported to and approved by committees such as the Legal Affairs & Compliance Committee. The Group Internal Audit Department of the holding company also reports the results of internal audits to the Audit Committee.

The Audit Committee conducts audits in collaboration with the Group Internal Audit Department and, when necessary, can ask the Group Internal Audit Department to research the items required to conduct the audits.

"Internal Control Report System" to Govern Financial Disclosure Activities

In FY2008, the government introduced legislation under the Financial Instruments and Exchange Law, which requires management to submit reports on the internal control system used to oversee financial reporting. The objective of this regulation is to support the objective of "ensuring reliable financial reporting." The reports that each company submits serve as a formal confirmation by company management that they approve of the control systems and believe that they are effective in ensuring accurate financial reporting. The Group prepared for and executed compliance with this new legislation through project teams set up at all of the major Group companies in FY2006. The efforts were organized into four main categories—control of Group companies, oversight of Group IT activities, control of business processes, and verification measures—each of which was overseen by a separate working group. From FY2008 onwards, each group compiled yearly a list of the potential risks to accurate financial reporting in their area of focus and possible internal control measures that could be used to monitor and evaluate these risks. At the end of this process, the Group determined that its internal control systems were adequate to ensure accurate financial reporting for that year. A report on the Group's internal control systems was then compiled and disclosed.

Corporate Governance Committee System

In 1999, Daiwa Securities Group Inc. became the first listed company in Japan to adopt a holding company structure. In 2004, the Group introduced a Committee System of corporate governance with three major committees that report to the Board—the Nominating Committee, Audit Committee and Compensation Committee. It also increased the number of outside directors, and established a clear separation between the oversight functions of the Board and the execution functions of executive officers.

Committee Members

Nominating Committee

Shigeharu Suzuki
(Chairman)

Takashi Hibino

Ryuji Yasuda

Nobuko Matsubara

Keiichi Tadaki

Kensuke Itoh

Audit Committee

Koichi Uno
(Chairman)

Toshihiko Onishi

Nobuko Matsubara

Keiichi Tadaki

Compensation Committee

Shigeharu Suzuki
(Chairman)

Takashi Hibino

Ryuji Yasuda

Koichi Uno

Kensuke Itoh



Toshihiko Onishi
Member of the Board

1984 Joined Daiwa Securities Co. Ltd.
2007 Managing Director and Assistant to Head of Planning of Daiwa Securities SMBC Co. Ltd.
(currently, Daiwa Securities Capital Markets Co. Ltd.)
Seconded to Daiwa Securities SMBC Principal Investments Co. Ltd.
(currently, Daiwa PI Partners Co. Ltd.)
Member of the Board and Executive Managing Director, Daiwa Securities SMBC Principal Investments Co. Ltd.
2008 Senior Managing Director, Daiwa Securities SMBC Co. Ltd.
2011 Member of the Board, Daiwa Securities Group Inc.



Ryuji Yasuda
Outside Director (Member of the Board)

1976 Joined Morgan Guaranty Trust Company of New York (currently JPMorgan Chase & Co.) as Investment Research Officer
1979 Joined McKinsey & Company
1996 Managing Director, Asia Pacific, Member of the Board of Management, A.T. Kearney, Inc.
2002 Chairman of A. T. Kearney, Far East Asia
Visiting Professor, Hitotsubashi University, Graduate School of International Corporate Strategy
2003 Chairman of the Board, J-Will Partners Co., Ltd.
Outside Director (Member of the Board), Daiwa Securities Group Inc.
2004 Professor, Hitotsubashi University, Graduate School of International Corporate Strategy



Koichi Uno
Outside Director (Member of the Board)

1967 Joined Arthur Andersen & Company Tokyo Office
1976 Transferred to Arthur Andersen & Company London Office
1977 Returned to Tokyo Office
1979 Partner, Tax Division
1981 Representative Partner, Koichi Uno Tax Accounting Office
2000 Founded CPA UNO OFFICE
Part-time lecturer, Hitotsubashi University, Graduate School of International Corporate Strategy
2004 Outside Director (Member of the Board), Daiwa Securities Group Inc.



Nobuko Matsubara
Outside Director (Member of the Board)

1964 Entered Ministry of Labor
1987 Director of International Labor Division
1991 Director-General of Women's Bureau
1997 Vice Minister
1999 President of Japan Association for Employment of Persons with Disabilities
2002 Ambassador of Japan to Italy
Ambassador of Japan to Albania
Ambassador of Japan to San Marino
Ambassador of Japan to Malta
2006 Outside Director, Mitsui & Co., Ltd.
Chairman, Japan Institute of Workers' Evolution
2008 Outside Director (Member of the Board), Daiwa Securities Group Inc.



Keiichi Tadaki
Outside Director (Member of the Board)

1969 Public Prosecutor of the Tokyo District Public Prosecutors Office
1996 Chief Prosecutor of the Oita District Public Prosecutors Office
1997 Public Prosecutor of the Supreme Public Prosecutors Office
Deputy Vice-Minister of Justice
2002 Vice-Minister of Justice
2004 Superintending Prosecutor of the Tokyo High Public Prosecutors Office
2006 Prosecutor General
2008 Special Counsel Attorney at law of Mori Hamada & Matsumoto
Chairman of Japanese Correctional Association
2009 Outside Director (Member of the Board), Daiwa Securities Group Inc.



Kensuke Itoh
Outside Director (Member of the Board)

1959 Joined Kyoto Ceramic Co., Ltd. (currently, Kyocera Corporation)
1975 Senior Managing Director
1979 Executive Managing Director
1981 Senior Executive Managing Director
1985 Representative Director and Deputy President
1989 Representative Director and President
1999 Representative Director and Chairman of the Board
2005 Advisor and Senior Managing Director
2009 Advisor
2011 Outside Director (Member of the Board), Daiwa Securities Group Inc.

Disclosure

The Daiwa Securities Group strives to earn the trust of stakeholders by meeting the “very highest standards of disclosure among Japanese companies.” We work proactively to provide fair, prompt, and appropriate information to customers, shareholders, investors, the local communities, executives, and employees in order to ensure that all of these stakeholders receive a clear understanding and proper evaluation of the Group’s business activities.

Disclosure System

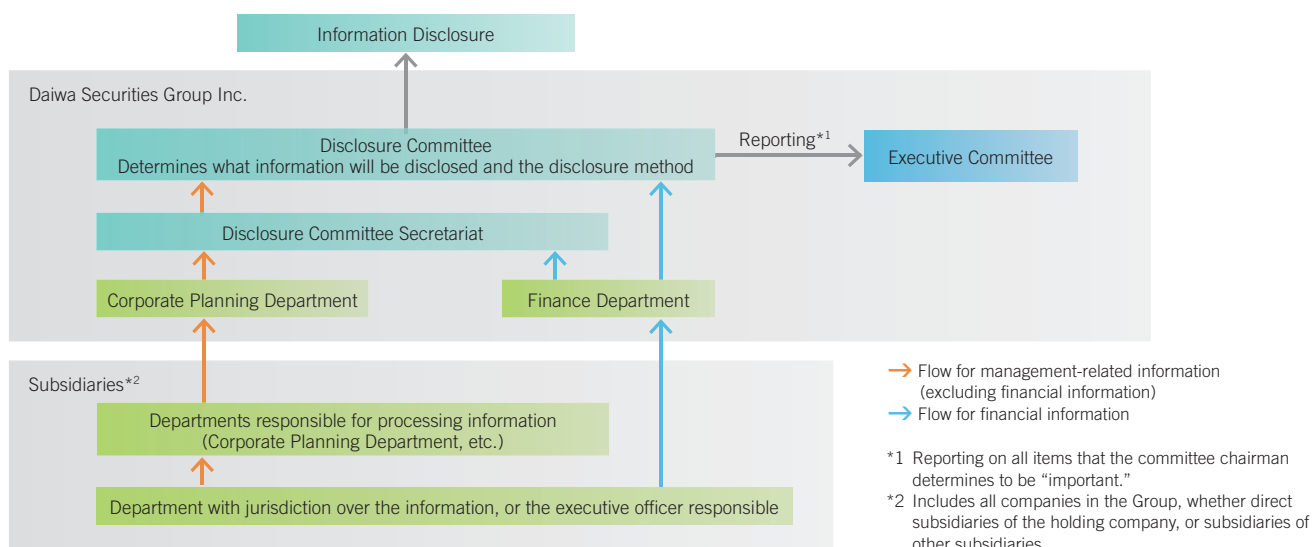
The Daiwa Securities Group has formulated the Disclosure Policy, which outlines the Group’s basic approach to information disclosure and strives to provide information that is fair, prompt, and appropriate.

In addition, Daiwa Securities Group Inc. has established the Disclosure Committee—a subcommittee of the Executive Committee—as stipulated in the Group’s Disclosure Regulations, which were established in order to ensure concrete implementation of the spirit of the Disclosure Policy. The committee is responsible for making final decisions regarding the disclosure of information. Major Group companies have also established their own regulations, or Management-related Information, which govern the

appropriate collection of information and presentation of reports to Daiwa Securities Group Inc.

The responsibilities for disclosure are clearly allocated, based on the intended recipient of the information. The Investor Relations Department handles disclosure to shareholders, investors and analysts. The Corporate Communications Department is responsible for communications with the mass media and local communities. Information is released through a variety of media, including via the Internet and in print. In addition, representatives from disclosure-related divisions of all Group companies take part in the Group PR /IR Meeting, which convenes once a month, to discuss the issues that affect disclosure activities for the Daiwa Securities Group as a whole.

Flowchart of the Daiwa Securities Group’s Disclosure Activities



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 Law 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.”

Compliance

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 enter the company 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 company 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 FY2010, the Group continued its focus on training related to insider trading from FY2009. The subject matter of this training is being made more concrete through the use of such materials as the list of fines collected from financial offenders published by the Financial Services Agency. Insider trading is a serious concern because it can severely damage the public's faith in capital and financial markets. As a major participant in capital and financial market activities, the Daiwa Securities Group has a duty to make sure that it is never involved in this sort of activity. To this end, we continue to conduct training programs related to insider trading on a yearly basis.

The Group is also taking steps to eliminate any and all relations with corporate racketeers and other antisocial groups. Daiwa Securities Group Inc. has organized the "Corporate Ethics Promotion Liaison Meeting," which meets once each quarter, in principle, and includes representatives from the departments responsible for compliance at each Group company. These meetings have been used as a tool to provide guidance on how to respond to such undesirable organizations. As one facet of this, in FY2010, the meeting monitored various Group companies' response methods toward antisocial groups, upgraded relevant rules and provided guidance for their application in day-to-day operations.

Compliance Initiatives at Daiwa Securities Co. Ltd.

Daiwa Securities Co. Ltd. is taking measures, under the Group's 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 FY2010 included strengthening the internal control system of sales branches. All sales branches were switched to a structure whereby a single employee

serves exclusively as the internal control supervisor for that branch. Also, in order to ensure the efficiency and effectiveness of internal control systems, Daiwa Securities is focusing on improving the efficiency of operations such as clerical work by utilizing its system infrastructure as well as instituting various types of training and employee education programs focusing on inappropriate trade practices and antisocial groups.

In FY2011, the Group will implement initiatives aimed at bolstering internal control systems, and augmenting efficient and effective support structures for the integration of compliance functions of the Group's three companies. We believe that such measures, in addition to improvements in the quality of sales service via self-initiated remedial action at our sales branches through the execution of compliance programs, will be productive in moving us towards meeting our management targets.

Compliance Initiatives at Daiwa Securities Capital Markets Co. Ltd.

Daiwa Securities Capital Markets Co. Ltd. has identified legal compliance and the creation of a strict internal control system as among the most important issues for management to address. As a result, the company has formulated a detailed compliance strategy, which it has implemented as part of its compliance program. In FY2010, Daiwa Securities Capital Markets took steps to strengthen its systems to ensure the protection of compliance, including implementing measures geared toward fulfilling its responsibility to develop systems to address issues defined in revisions to the Financial Instruments and Exchange Law (including changes to rules on disclosure of secondary distribution of securities, professional investors associated with local governments, and solicitation of derivative transactions, etc.) and bolster structures for checking that all transactions are free from involvement with criminal elements (systems upgraded to improve the accuracy of data retrieved from search systems). It also conducted training programs for all executives and employees to ensure that they are aware of and comply with all laws and regulations. FY2010 also saw the establishment of a control room in Hong Kong designed to share compliance functions for the entire Asia and Oceania regions. In FY2011, Daiwa Securities Capital Markets will work to maintain and strengthen its compliance systems with the aim of expanding its business in Asia. At the same time, it will implement the rules regarding the revisions to the Financial Instruments and Exchange Law and strengthen its prevention systems to eliminate transactions with antisocial groups. Through such efforts, as well as through the enhancement of education programs, Daiwa Securities Capital Markets will develop an even more robust internal control system going forward.

Risk Management

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

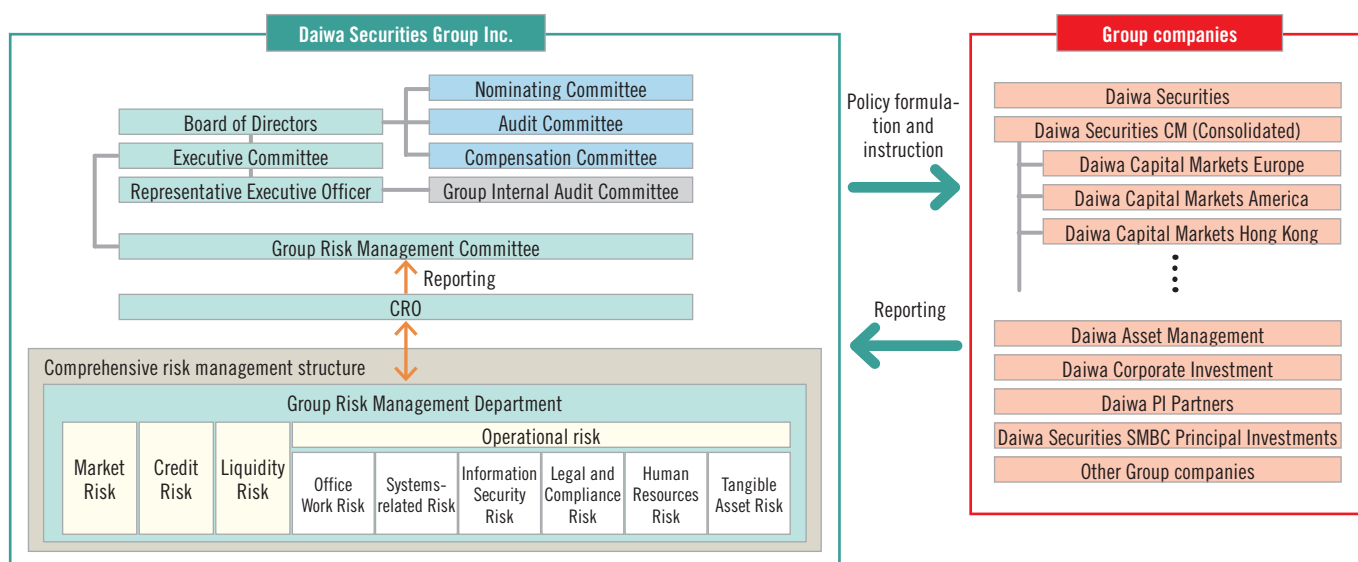
The Daiwa Securities Group faces various risks in the course of its business activities. The Group therefore believes that it is important to properly identify, evaluate, and manage these risks in order to maintain healthy financial and earnings structures. Daiwa Securities Group Inc. engages in risk 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

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 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.

Risk Management System



Major Risks and Methods of Management

<Market Risk>

Market risk refers to the risk of incurring losses due to market fluctuations, which affect the value of stock prices, interest rates, foreign exchange rates, and commodity prices.

The Group uses Value at Risk (VaR) which indicates maximum potential loss at a specific confidence level, position, and sensitivity for the Group's trading positions. It then uses this information to set limits on risk, and monitors whether or not these limits are being adhered to.

The Group is using backtesting to compare actual profits and losses with VaR estimates to verify the performance of VaR models. In addition, stress tests using scenarios based on actual empirical market data, as well as hypothetical stress event scenarios, are carried out to understand the scale of losses that could emerge in the case of severe market fluctuations.

<Credit Risk>

Credit risk refers to the risk of any losses caused when a client to which the Group extended credit suffers a deterioration in financial conditions, a valuation loss on assets (including off-balance-sheet assets), or for some other reason is unable to repay its debt.

In regard to transactions that involve exposure to credit risk, before the transaction is made the Group assigns the counterparty a credit limit based on its credit rating. Subsequently, the Group carefully monitors estimations of the notional value of the relevant principal and adherence to the amount of credit used.

In particular, in businesses such as the wholesale business, where the exposure to credit risk is comparatively high, the Group determines the credit standing of each counterparty by conducting quantitative and qualitative evaluations based on a credit evaluation model. The Group then assigns a credit limit to each counterparty, taking into account various transaction conditions such as the

credit period and availability and appropriateness of collateral. In addition, the Group measures credit-VaR and periodically monitors the effects of large exposure to a single counterparty.

<Market Risk and Credit Risk Unrelated to Trading Positions>

The Group also owns private equity and other investments related to principal investment businesses and venture capital, as well as investment securities unrelated to its trading positions that are held for a long-term perspective for the purpose of maintaining business relationships. Calculations are made to periodically monitor the effects of these assets on market and credit risk.

<Liquidity Risk>

Liquidity risk refers to the risk of suffering losses due to cash management difficulties or becoming subject to markedly higher financing costs than usual as a result of an abrupt change in market conditions or a worsening of the Group's finances. The Group, while employing a variety of financial assets and liabilities, conducts its business with a focus on securities related operations as its core business. Accordingly, it procures funds based on the policy of efficiently and periodically ensuring ample liquidity necessary for the continuation of its business.

In order to prevent fluctuations in the market from affecting the continuation of our business activities, the Group is constantly striving to secure the stability of fund procurement. From the latter half of FY2008, the Group has been accumulating liquidity through such means as fund procurement through the market as well as loans from financial institutions, in preparation for unforeseen events such as those caused by financial crises or credit crunches. Additionally, as it can be anticipated that such crises may make it difficult to procure new funds and reacquire existing funds, the repayment periods of procured capital are staggered with funds procured from diverse sources.

Value at Risk

Range and Assumption of VaR • Confidence level: 99% Holding period: 1 day • Adjusted for price correlation between products

Daiwa Securities Group (Consolidated)

(Billions of yen)

		6/09	9/09	12/09	3/10	6/10	9/10	12/10	3/11
VaR (Month-end)		1.77	2.81	2.99	4.33	6.47	5.63	6.01	5.13
Quarterly	High	4.08	3.71	5.13	7.07	12.00	8.48	6.91	6.86
	Low	1.77	1.62	2.53	2.63	4.38	4.39	5.44	4.62
	Average	2.89	2.44	3.64	5.26	7.31	6.27	6.08	5.90

By Risk Factor (Month-end)

Equity	0.89	0.95	0.78	0.57	0.77	1.39	1.34	2.08
Interest	1.24	0.86	2.36	4.27	4.48	4.84	5.26	4.82
Currency	1.28	2.57	1.71	1.01	4.04	2.03	1.42	0.68
Commodities	0.01	0.01	—	—	—	—	—	—

The Group is establishing a liquidity management system based on the Liquidity Coverage Ratio as defined by the Basel Committee on Banking Supervision. Under this system, daily checks are performed to ascertain that liquidity portfolios are sufficient to cover both unsecured short-term funds procured falling due within a fixed time period and the estimated outflow of funds in the event of a number of envisioned stress scenarios in that same period. This system makes it possible for the Group to continue operations even in the event that procuring funds without collateral for one whole year became an impossibility.

<Operational Risk>

Operational risk is the risk of incurring losses due to inappropriate or malfunctioning internal processes, personnel, or computer systems, or due to adverse external events.

As the Group's business becomes more sophisticated, diversified, and systemized, the accompanying risks become more varied, and as a result the need to manage such operational risk grows each year. The Group has set up a framework based on basic rules regarding operational risk management whereby each section in charge of operational risks manages individual risk factors from its particular standpoint, under the overall control of the Group Risk Management Department.

In addition, due to the diversifying nature of its business, the Group also sets rigid rules concerning authority, automates office work processes to reduce human error, prepares business manuals, and takes other necessary measures. Each Group company strives to reduce operational risk according to the nature of its own business.

<Systems-related Risk, Information Security Risk>

Systems-related risk and information security risk refer to the potential for incurring losses due to a computer breakdown or malfunction, or other systems-related problem, or the inappropriate use of a computer. It also covers the risk that the security of information resources (confidentiality, completeness, availability) is not properly protected against threats from inside or outside of the Company.

The Group has developed regulations and manuals that define the basic procedures for reducing and preventing the occurrence of such risks as well as the management of information resources. Internal audits are used as an opportunity to periodically confirm whether or not these regulations are being adhered to. At the same time, the Group is working to maintain and strengthen the precautionary measures that enable it to quickly uncover problems related to computer systems and properly repair them. Further, steps are being taken to improve the understanding and awareness of information security held by executives and employees.

<Legal and Compliance Risk>

Legal and compliance risk includes regulatory risk, which is the risk regarding compliance with the law, and litigation risk, and refers to the potential for incurring any of a variety of losses due to noncompliance with laws and other regulations, lawsuits, invalid contracts with third parties, or violations of corporate ethics rules. Such potential losses may include loss of reputation as a service provider or loss of business.

The Group is managed through the principles of Group management with securities-related operations as its core business. It must abide by the Financial Instruments and Exchange Law, as well as observe the associated laws and regulations when executing securities transactions and comply with various regulations in general operations outside of the securities business. Even in nonoperational matters, high standards of discipline are expected of financial instruments dealers and brokers and their personnel with regard to market rules and regulations, such as those related to insider trading.

To ensure that these regulations are observed, the Group has set up compliance sections at each Group company and established committees to discuss and resolve compliance issues and matters related to corporate ethics.

Securities transactions and other third-party agreements often require high levels of specialization to determine the legality of contracts and suitability of processes. In response to such cases, the Group has consulting agreements with law firms, including overseas firms, to obtain legal advice.

<Reputation Risk>

Reputation risk refers to the possibility of the Group sustaining unforeseen losses due to a deterioration of its reputation, caused by the spread of rumors or erroneous economic information. There are no uniform procedures for managing reputation risk because it can emanate from a variety of sources.

The Group has established various regulations under its Disclosure Policy, with particular emphasis on the management and provision of information. It has also set up the Disclosure Committee within Daiwa Securities Group Inc.

Each Group company is charged with the task of reporting information on reputation risk to the Disclosure Committee. Information is obtained and centrally managed at Daiwa Securities Group Inc., which disseminates it in a prompt and accurate manner according to the decisions of the Disclosure Committee.

The Group works hard to keep abreast of problems and occurrences that may affect its reputation so that if and when such problems occur, their impact on the Group can be minimized. It also acts to ensure that erroneous and inaccurate information is properly corrected, and responds appropriately to libel and other issues. The Group has public relations and investor relations systems in place to prevent and minimize risks regarding its reputation.

IT Strategy and Information Security

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 Strategy

<IT Governance System>

The Group has established the Group IT Strategy Committee, chaired by the CIO, as a subcommittee of the Executive 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 rigorously selects the investment necessary for each individual operating division. Budget resources are then allocated based on the strategic importance to the Group of each investment.

Additionally, the Group IT Management Council has been established as a preliminary discussion forum for this committee. The council discusses IT-related matters of importance at the executive level, such as the control of systems-related risk and the construction of Group-wide infrastructure systems.

<IT Strategy>

The Group uses IT strategically to achieve its main goal of improving its competitive edge while maintaining the effectiveness of control over the quality and costs of system services. Our focus in FY2010 in particular was on a number of initiatives including the strengthening of our global business base, the enrichment of products and services for online trade, and preparations for entering the banking business, in tandem with cut-backs in systems-related costs.

FY2011 will see the Group address the need for cost reductions in systems maintenance, as well as to make improvements in the strategic allocation of IT resources. This will involve improving the efficiency of our system operations through better accommodation efficiency in our data centers, and utilization of our internal cloud computing infrastructure. In addition, the Group will seek to establish efficient IT support frameworks to better support global businesses. In constructing such frameworks, the Group will integrate and consolidate global IT resources such as personnel, infrastructure, hardware and software.

Information Security

<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.

Financial Strategy

In order to maintain a healthy balance between financial stability and effectiveness, the Daiwa Securities Group concentrates on finding ways to use financial resources to enhance corporate value. The Group seeks to maintain an appropriate level of liquidity through effective yet flexible methods of procuring and utilizing funds that reflect market conditions. Furthermore, the Group strives to maintain a healthy balance between assets and liabilities to ensure that its financial condition remains constantly stable.

Financial Stability

The Group exercises great care to ensure that it always has access to a stable supply of funds, and thereby avoids any situation that might jeopardize the Group's continued viability in the case of extreme fluctuations in economic and financial conditions. In particular, the Group constantly monitors whether there are sufficient funds on hand and its funding capabilities corresponding to unsecured current liabilities in order to prepare itself for any unexpected eventualities.

The Group has established a contingency plan as part of its response to deal with liquidity risk. This plan provides for a system through which the Group can respond speedily to maintain liquidity. Elements of this system include a mechanism for reporting the severity of internal stress factors such as a fall in creditworthiness, and external stress factors such as turmoil in financial markets. The plan also determines methods of fund procurement. Furthermore, an individual contingency plan is formulated for each of the Group's main subsidiaries, which is then monitored and reviewed on a regular basis, and if necessary, revised.

Group-wide Capital Management and Effective Methods of Procuring Funds

Daiwa Securities Group Inc. is responsible for monitoring and managing liquidity conditions for the Group as a whole. In congruence with the basic policy of maintaining the financial stability of the Group, the Group's domestic and overseas securities subsidiaries (including Daiwa Securities Co. Ltd. and Daiwa Securities Capital Markets Co. Ltd.) as well as Daiwa Next Bank conduct fund procurement based on the characteristics of their business, and work to maintain the liquidity necessary to continue their business activities. Daiwa Securities Group Inc. also conducts basic fund procurement activities for other subsidiaries, and manages Group-wide finances comprehensively with the goal of allocating capital effectively.

The Group uses a diverse assortment of methods when procuring funds, including through straight corporate bonds, medium-term

notes, loans from other financial institutions, commercial paper, call money, *gensaki* trading (repurchase agreements), and repo operations. The Group adopts an appropriate mix of these methods in order to procure capital effectively. When utilizing medium- and long-term instruments, such as straight corporate bonds and medium-term notes, the Group maintains a constant awareness of trends in the financial markets, thereby procuring funds at the most advantageous time possible.

Maintaining Both Financial Efficiency and Stability

The Group uses a diverse assortment of methods when procuring funds and adopts an appropriate mix of these methods in order to ensure a stable, effective supply of funds.

To ensure financial stability, the Group is establishing a liquidity management system based on the Liquidity Coverage Ratio as defined by the Basel Committee on Banking Supervision. Under this system, daily checks are performed to ascertain that liquidity portfolios are sufficient to cover both unsecured short-term funds procured falling due within a fixed time period and the estimated outflow of funds in the event of a number of envisioned stress scenarios in that same period. As a result, we are able to maintain a regime whereby we would be able to continue operations even in the event that procuring funds without collateral for one whole year became an impossibility.

Maintaining and Bolstering a Healthy Financial Base

In order to maintain a healthy, stable financial base, the Group intends to revise its capital allocation strategy. The Group will strive to enhance fund procurement ability in order to respond flexibly to growth opportunities. At the same time, the Group will adopt a broader range of methods for fund procurement and seek funds from a greater variety of sources. It is believed that such measures will be successful in shoring up the Group's financial base.

Human Resource Management

The Daiwa Securities Group derives much of its competitive strength from its personnel. To maximize competitiveness, the Group fosters a working environment in which all employees are motivated to enhance their abilities and realize their full potential. We actively encourage employees to upgrade their skills, and we are striving to establish a personnel management system that can evaluate employee performance more accurately.

Group Personnel Policy

The Group is “keenly aware of the importance of our employees,” who are the wellspring of the Group’s competitiveness. Our stated policy is to “emphasize the creativity of each employee, foster a free and vigorous corporate culture filled with the spirit of challenge, and accurately evaluate the performance and contributions of employees.” One of the best ways for a company to improve customer satisfaction, which in turn will raise shareholder value, is to seek out optimal systems and methods for motivating employees. In addition to maximizing their job satisfaction, the policies we are putting in place aim to create a company that each and every Group employee, and their families, can feel proud of.

Advanced Evaluation System and Fair Treatment of Employees

The Group aims to ensure that its personnel system is fair and objective. In response to changes in the Group’s personnel distribution and social environment, the Group reviewed and revised all aspects of its personnel system in April 2010. The goal of this undertaking was to develop a working environment in which all employees can remain highly motivated in their work, from entering the Group until retiring.

In order to ensure the fair and objective treatment of employees, the Group uses a Multi Dimension Feedback System in which managers are evaluated by their subordinates and other closely related divisions based on objective criteria. Daiwa Securities Co. Ltd. has established the President’s Awards, which are awarded twice a year in an effort to further motivate employees. A similar award program has been introduced at Group companies.

The Group has also adopted an employee remuneration system that is based on job category as well as performance appraisals using a detailed, job-specific evaluation process. At the Director level, this could result in up to a 17-fold difference in bonuses and up to a three-fold difference in salary based on results from FY2010.

Training for True Financial Professionals

The Group continues to upgrade its personnel support systems, which encourage employees to enhance their skills and obtain qualifications related to financial services, such as toward becoming a securities analyst or financial planner. We also have implemented various programs that train employees in important skills, including helping them to acquire practical business skills such as giving presentations or coaching subordinates, as well as training for the next generation of managers. Additionally, we are developing a working environment in which employees can learn English through such means as e-learning programs. Employees must earn a specified number of “qualification points” in order to receive promotion to a given job level. Points are awarded when the employee meets certain certification-based criteria, and the number of points awarded increases relative to the difficulty of earning the particular qualification. This system provides employees with greater incentives to enhance their abilities.

Promotion of a Better Balance Between Work and Personal Life

The Group has initiated a number of measures aimed at helping our employees better understand the importance of a more harmonious balance between work and personal life. In addition to providing a range of available work patterns, we are encouraging our employees to leave the office by 7 p.m. as well as to take their annual leave. The Group organizes events whereby family members of employees can visit the workplace and experience the work of their parents/spouses. We intend to continue with such policies as we see them as key to maintaining a high-performing team of top-quality professionals.

CSR Initiatives

The Daiwa Securities Group's mission is to contribute to the sustainable development of society and the economy through daily operations, including wealth management and supporting corporate clients' activities. We believe that a strong relationship based on trust with stakeholders including customers, shareholders, employees and society as a whole is essential to accomplish this mission.

Important CSR Challenges for the Daiwa Securities Group

The Group aims to realize a higher level of effectiveness in its CSR activities in order to build a sustainable society. For this reason, we have established the following two important CSR challenges based on feedback received from stakeholders.

1. Leverage financial capabilities to contribute to a sustainable society

Currently, the world we live in is facing a host of social issues that threaten its sustainability. These include environmental challenges such as climate change and the loss of biodiversity, as well as issues regarding the widening gap between rich and poor within the global economy. In addition, Japan also has to face a number of other issues closer to home, not least the damage caused by the East Japan Earthquake and the power shortages that followed, to name but two. We believe that solutions to these issues require an economy revitalized via the flow of capital to businesses and their technology, the construction of new frameworks, and bold policies.

We believe that the financial sector has a responsibility to create capital flows whereby society can satisfy its need for funds at the same time as optimizing returns to the investor of those funds. As such, we have contributed to the creation of such flows, and by extension to the solution of social issues, by offering socially responsible investing options, through which investors can fund corporations engaged in socially-responsible activities, and, from 2008, Impact Investment vehicles such as Vaccine Bonds and Microfinance Bonds—allowing investors to pursue a

financial return in the knowledge that, at the same time, they are contributing to social improvement.

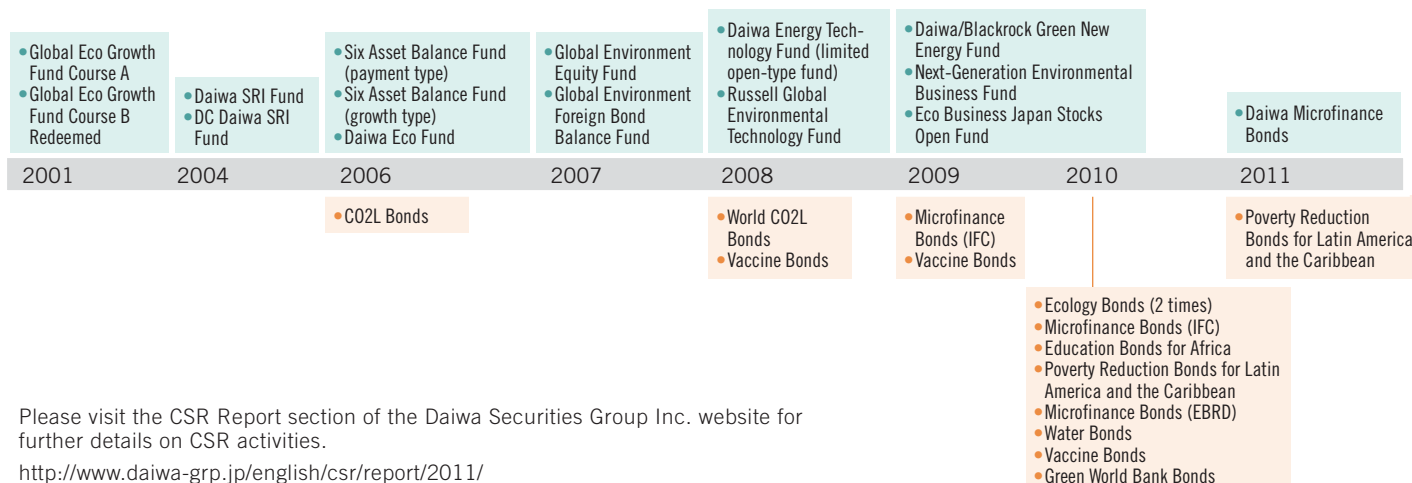
Going forward we intend to intensify our efforts to address the new challenges we now face in Japan's post-earthquake restoration.

2. Develop sound financial and capital markets for the next generation

Financial and capital markets are a part of the social infrastructure that has become indispensable in recent years. In order to build a sound and sustainable society, we consider the ongoing development of fair and transparent markets to be the core social mission of financial institutions.

One way in which we work to accomplish this mission is through providing high-quality financial information. Further, we recognize that improving the level of financial literacy, especially among young people, is crucial in order to develop sound financial markets. While for most people the world of finance seems a stiff, somber place far removed from everyday life, it is important that they understand that sound financial and capital markets are premised on the behavior of individuals, acting in accordance with their personal values and beliefs as they take part in economic activities and make financial decisions based on a proper understanding of the significance and value of money and financial instruments. Toward this end, we continue to participate in corporate training programs, build academic-industrial alliances, and hands-on training programs for students of all school grades in cooperation with Junior Achievement (JA), the world's largest non-profit organization (NPO) promoting economic educational activities for youth.

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



Please visit the CSR Report section of the Daiwa Securities Group Inc. website for further details on CSR activities.

<http://www.daiwa-grp.jp/english/csr/report/2011/>