

Daiwa Securities Group
CSR Report
2011 Highlight Edition
Building a Sustainable Society

What we can do

What will the world be like when these babies become adults?

The precious faces of these infants—all children of Daiwa Securities Group executives and employees—express our hopes for the future. At the Daiwa Securities Group, we are determined to take responsibility as individuals and to do our part as a company to create a sustainable society living in happiness and in harmony with an unspoiled Earth.



Leveraging financial capabilities to help Japan recover and Asia develop

We would like to extend our deepest sympathies to those affected by the Great East Japan Earthquake. We are supporting the solid recovery of the affected region through financial and capital markets as well as corporate citizenship initiatives.

The most important facet of corporate social responsibility for the Daiwa Securities Group is to use our financial capabilities to contribute to sustainable development. The earthquake, which was a national crisis, not only caused the loss of many precious lives, but also seriously hurt communities in the Tohoku region, damaged the Japanese economy, and significantly affected the global economy.

As a group of Japan's leading comprehensive financial service companies, we see it as our special mission to encourage economic activity contributing to the creation of a sustainable society and help create future prospects through capital markets in Japan, Asia, and worldwide to revitalize the economies in Japan and other regions.

The Daiwa Securities Group has always been a pioneer in reforming the Japanese securities industry. We have developed and offered Eco Funds, SRI Funds and other socially responsible investment (SRI) products with environmental or social elements since 2001. In 2008, we introduced Vaccine Bonds and other impact investment¹ products in Japan,

¹ Investment with social objectives such as poverty reduction and environmental protection that also generates financial returns for investors.

taking a leading role in this field. These products are aimed at financially supporting social objectives such as alleviating poverty and protecting the environment.

We have been providing a steady flow of information to investors through seminars and reports, seeking to foster a broad understanding of microfinance², poverty in developing nations, and other problems in society that need to be resolved. This has also been important in creating broad awareness among Japanese investors that both social returns and financial returns can be achievable from investments. We are supporting the reconstruction through financial instruments, and the Japan-version of impact investment products.

Another important social responsibility is to contribute to the development of sound capital markets by gaining the confidence of more customers through even stronger compliance.

Regarding business in Asia, we have strategically enhanced networks, systems and boosted our human resources and capital to strengthen the relationships with regional communities and local customers. We expect this to reinforce our business and help it grow at an unprecedented speed. Meanwhile, it is also important to consider resolving environmental and other issues affecting communities amid Asia's economic growth. We are contributing to sustainable development in the region through impact investment products and services funding the resolution of problems such as climate change and poverty.

The cornerstone of these efforts is fostering human resources. It is necessary to develop people with a high awareness of global concerns such as environmental problems and poverty and regional issues even for post-earthquake reconstruction. Also,

offering high-quality products and services able to help resolve problems gives executives and employees a sense of pride.

We are actively encouraging employees to establish a good work-life balance as we believe this is the foundation for such high-quality personnel as well as products and services. Part of our Asia strategy is to put more effort into creating a workplace that makes the most of the advantages of a diverse staff.

The Daiwa Securities Group is highly conscious of the importance of maintaining long-term reconstruction support following major disasters. We are carrying out a ten-year reconstruction support program following the 2004 Sumatra earthquake and tsunami. Daiwa Institute of Research has proposed a reconstruction support fund scheme in the wake of the recent earthquake in Japan. Using the power of the whole group to provide long-term support, we will contribute to social reconstruction and development, for example by helping facilitate regional financial institutions' funding and developing the Japan-version of impact investments. We hope these efforts make our executives and employees feel part of the Daiwa Securities Group and help our stakeholders feel greater pride in our companies.

We would like to ask for your understanding and continued support because these efforts will come to fruition only if we communicate with and have the cooperation of our stakeholders.



Takashi Hibino
President and CEO
Daiwa Securities Group Inc.

² General term for small-scale financial services to encourage their economic independence of impoverished people.

Editorial Policy

The Daiwa Securities Group has been publishing this report annually since 2002 with the aim of clearly disclosing our CSR activities, which are intended to support the creation of a sustainable society. We also use this opportunity to evaluate the company's current status and the challenges it is facing.

The 2011 CSR Report focuses on SRI because we wish to convey to many stakeholders that the way money is used is key to resolving society's problems.

An important objective of this report is to prompt awareness, thought, and action among stakeholders reading the report to cause money to be channeled to creating a sustainable society in order to resolve problems such as global warming and poverty.

We strive to provide accurate, easily understood information by publishing the information we would most like to convey in the Highlight Edition and comprehensive information based on the guidelines of the global reporting initiative (GRI)* on our website to ensure accountability.

* GRI (Global Reporting Initiative): An organization dedicated to proposing and promoting common international guidelines for sustainability reports.

Scope of Report

Intended Readership

This report is intended for Daiwa Securities Group's stakeholders, which primarily include customers, shareholders and investors, executives and employees, as well as business partners, government agencies, non-profits (NPOs, NGOs), local communities where Daiwa Securities has offices, educational institutions, and the families of executives and employees.

Scope of Reporting

This report basically covers the principal companies of the Daiwa Securities Group (see page 29). The report does not, however, include all data from the Group's principal companies on items reported; the information is selected based on the respective companies' size and type of business. Each set of numerical data specifies the scope of coverage.

Period Covered by Report

Fiscal 2010 (April 1, 2010 to March 31, 2011). The report also includes information on events and activities carried out prior to fiscal 2009, as well as those scheduled to take place during fiscal 2011.

Date of Publication

August 2011 (The previous report was published in August 2010; the next report is planned for August 2012).

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CSR Report 2011 Highlight Edition

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More detailed information is published in the full edition on our website. Please see page 30 for details
<http://www.daiwa-grp.jp/english/csr/report/2011/>

Daiwa Securities Group Corporate Principles and Key Issues

The Daiwa Securities Group's mission is to contribute to the sustainable development of society and the economy through daily operations, including wealth management for investors and supporting corporate clients' activities with various financial tools.

The strong bond of trust we share with our stakeholders, including customers, shareholders, employees and society, is essential to the accomplishment of our mission and sustainable growth.

Daiwa Securities Group Corporate Principles

Building Customer Trust

We stand on the trust of our customers. Prudently putting customer interests first and achieving a high standard of professional competence, we intend to become Japan's most appealing securities group at home and abroad.

Valuing Human Resources

People are the source of our competence. We highly value creative initiative by the individual, we cherish the challenging spirit, and we appreciate the capability and contributions of the individual.

Contributing to Society

Our mission is to contribute to society and the economy through our daily operation in the financial and capital markets. We will maintain high standards of ethics and self-discipline and will contribute to the sustainability of society.

Earning Sound Profits

Our fundamental objective is to enhance shareholder value through sound business operations. We will offer valuable services to our customers and earn adequate rewards for distribution to our shareholders.

Key Issues for Daiwa Securities Group

To achieve its corporate principles and realize a sustainable society, the Daiwa Securities Group seeks to initiate even more effective CSR activities. Based on the requests and opinions we have received from our stakeholders thus far, we have addressed the following key challenges:

1. Leveraging financial capabilities to contribute to a sustainable society.

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

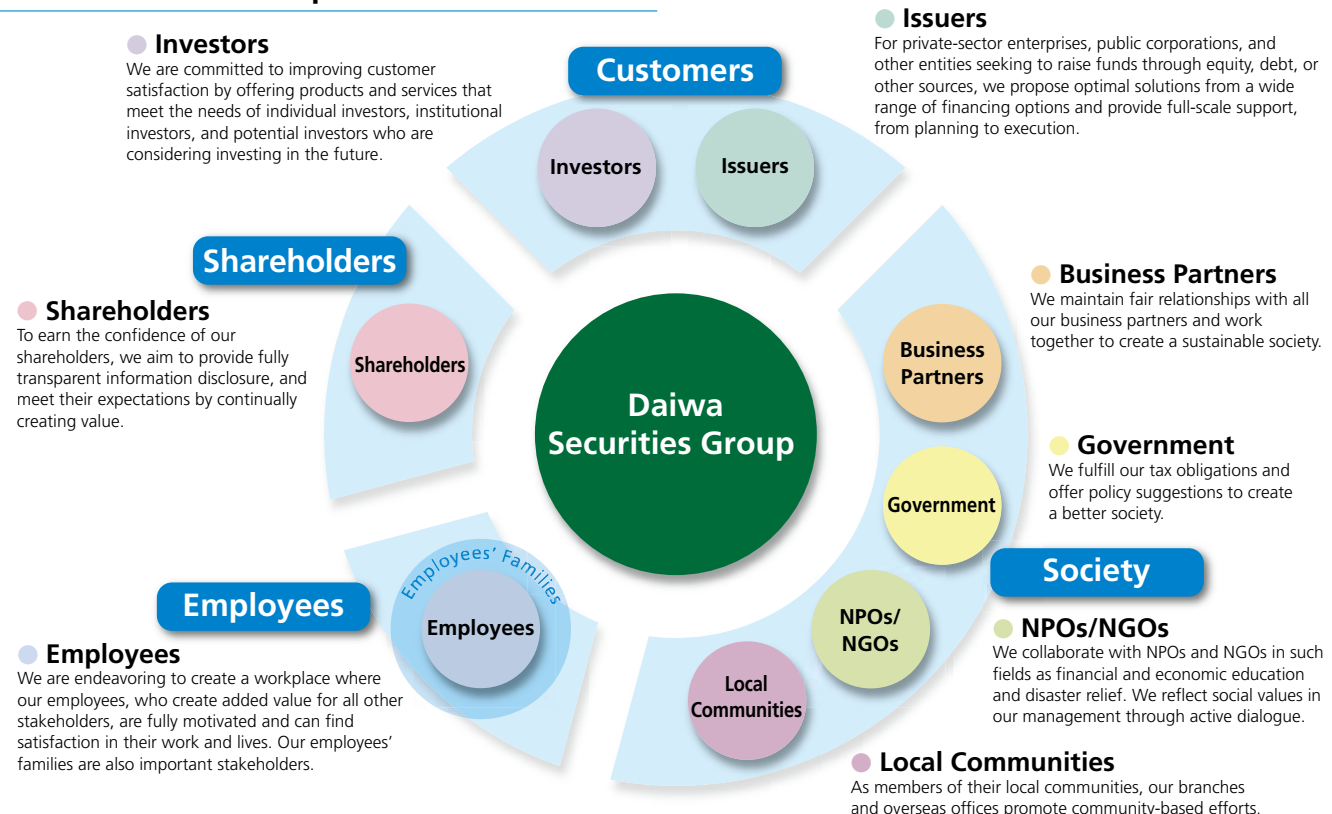
People are the key to addressing these issues. We believe keeping each and every one of our executives and employees motivated and proud of their work is essential for tackling these key issues.

In addition to these two issues,

the Group strives to create a rewarding workplace in which our executives and employees can take pride.

To achieve its corporate principles, the Daiwa Securities Group anchors its CSR activities in these goals.

Daiwa Securities Group Stakeholders



Leveraging financial capabilities to resolve global issues

Changing the flow of money can change the world. Kumi Fujisawa, who is trying to create new social systems as vice president of the think tank SophiaBank, and Daiwa Securities Group Chairman Shigeharu Suzuki (then president & CEO) discussed how financial institutions are uniquely positioned to make certain efforts, such as offering products and services for impact investing and that are compliant with the Convention on Cluster Munitions.

(Interview date: February 15, 2011)



Finance is social infrastructure: Fulfilling our own role contributes to society

Fujisawa: When I attended the World Economic Forum at Davos this year, the term CSR was already outmoded—the focus has turned to how companies, as global citizens, can help resolve society’s problems through their core operations. What kinds of opportunities are there in the financial business?

Suzuki: We do not treat CSR as an accessory to our business. We have positioned contributing to society through our daily operations as the foundation of our activities. Companies have a role to play in society because they operate in the public sphere. Finance is social infrastructure and financial service companies’ role is to link unevenly distributed capital with the companies and countries that need it. I believe companies’ core value lies in contributing to society in the process of pursuing their own objectives.

Fujisawa: What can financial service companies do to help resolve the problems that exist in the world today?

Suzuki: Donations are the most widely recognized form of social contribution, but there are other options. The impact investments we offer allow clients to pursue profits while contributing to society and also generate profit for our company. I believe it is the role of companies to expand their business in areas that also contribute to society.

Fujisawa: I recently mentioned the Daiwa Microfinance Fund on Twitter because I thought it was fantastic when I heard about it. It is possible to apply for amounts starting from ¥1,000 in-store or online. Comments I received included, “It’s great that there is a company creating such products” and “I would like to support this.”

Impact investment also for employees

Fujisawa: Creating BRIC* Funds seems like a better idea for generating revenues efficiently, but creating and offering products that meet the criteria of socially responsible investment has different advantages than those of ordinary financial products.

Suzuki: In some ways, these products are also for employees. We do important work by offering financial products and services that support the foundation of society, but in our daily operation, often cannot easily recognize the value it has in society.

Fujisawa: The significance of impact investment is clear to both employees offering the products and customers purchasing them.

Suzuki: I think employees prefer to find their jobs meaningful, rather than just work to support themselves. Also, customers who may want to make donations face uncertainty about how and where the money will be used. With our products, it is clear that the money will be used where it is necessary. As financial products, they naturally entail risks, but being investments rather than donations, they also offer prospective returns. I believe they are a positive product offering significant benefits for our company, our staff, our customers, and the recipients of the funds.

Fujisawa: I think it is difficult to take the first step because impact investment type products are not highly profitable products for a financial company.

Suzuki: A company has no reason to exist if it does not generate profits. However, companies should meet various social responsibilities as well as pursuing profit. We will keep working to offer products with high social payoffs in line with our role, as a financial service company, as a part of social infrastructure and to provide our employees with rewarding work.

Fujisawa: You’re planning to offer more impact investment products, right?

Suzuki: Yes. Our microfinance products were commercialized from a plan created by a front-line employee concerned about poverty. This example of a good idea being turned into a product has served as an inspiration to employees to put in their best effort, creating a virtuous cycle.

Fujisawa: What has been the reaction from employees?

Suzuki: I think many employees in the sales departments feel they play a meaningful role in society.

Fujisawa: It’s wonderful for the sales staff of a financial service company to feel this way about their work, isn’t it?

*BRIC stands for Brazil, Russia, India, and China.

Impact investing—a good match for the unmatched Japanese national character

Fujisawa: I've heard that doctors were major buyers of Vaccine Bonds. I imagine that offering impact investment products broadens your customer base.

Suzuki: I believe Japanese people are the most kind-hearted in the world in terms of national character. Impact investing is extremely well-suited to Japanese people because they provide the opportunity to pursue social as well as financial returns. They are likely to spread more as they become known to people who have not previously been involved in investing.



Kumi Fujisawa

Cofounder and Vice President of the think tank SophiaBank

Established Japan's first investment trust rating company in 1996 after working at investment trust firms. Co-founded the think tank SophiaBank in 2000. Trying to create new social systems through a wide range of media such as seminars, TV, and magazines.

Fujisawa: It looks like you are developing products based on a belief in the good qualities of Japanese people. Creating products valuable to society sends a positive message to employees and to the Japanese people. It also sends a message abroad about the virtues of Japan. I believe it enhances the Daiwa Securities brand.

Exercising social responsibility by not investing in undesirable companies

Fujisawa: The Oslo Convention on Cluster Munitions entered into force August 2010. On July 30, 2010, Daiwa Asset Management publicly announced that it would prohibit the inclusion of securities issued by cluster munitions producers in active funds. This surprised me when I first heard it, but it's great, isn't it?

Suzuki: We cannot invest in companies involved in unacceptable or banned products and services. We exclude such companies at the due diligence stage prior to underwriting and are putting in place procedures to ensure sales personnel do not recommend them to clients.

Fujisawa: That's terrific. For a country like Japan, which has the greatest financial assets, to create the safety valve of not directing money to companies that are not beneficial to society sends a strong message to the world. This is another way in which the Daiwa Securities Group is taking the lead.

Suzuki: I think more companies are taking social responsibility seriously, but I am proud of our leading role.

Fujisawa: The Daiwa Securities Group's initiative is remarkable given the strong tendency of the Japanese, particularly in the financial and capital markets, to avoid uncharted territory. What has been the response within the company? It is generally said that middle-management opposes changes in corporate strategy.

Suzuki: I believe and hope that there has been no opposition. I have long said that we should not engage in socially unacceptable businesses even if they are not against the law or other rules, and I believe this way of thinking has permeated our company. General managers in particular showed strong support when establishing the principles for cluster munitions producers.

To create an atmosphere allowing employees to work effectively is a management mission

Fujisawa: The number of female sales personnel seems to be rising.

Suzuki: Female sales staff are highly effective in dealing with individual investors, who require meticulous service and explanations. Financial service companies have a reputation for being male bastions, but this is now completely untrue.

Fujisawa: Has the increase in female employees been deliberate or spontaneous?

Suzuki: Both, I think. We certainly deliberately set out to create a rewarding work environment. This led to greater engagement by female employees and a gradual increase in numbers.

Fujisawa: What prompted you to create a female employee-friendly environment?

Suzuki: A few things struck me poorly when I entered the company. One was the messy state of offices. Front office spaces were different, but back offices were in an awful state. I ordered a company-wide revamp when I took up the position of president.

Fujisawa: Your female employees must be happy to have someone who cares about this leading the company.

Suzuki: Another thing I didn't like was that there was no set time to leave the office. Employees are now encouraged to go home before 7:00 p.m. It is particularly difficult for women to work if they don't know what time they will return home.

Fujisawa: You have improved the things that you personally observed needed improvement. It's the leader's job to also consider shaping the environment and creating opportunities from various angles, don't you think?

Suzuki: We have been able to attract many excellent employees because our company now ranks high in surveys of desirable employers. It just goes to show what can be achieved if you offer the proper workplace. I believe it is the role of senior management to create such a workplace and atmosphere.

Fujisawa: I've learned that you have placed great importance on employees enjoying their work. This is probably why the Daiwa Securities Group can do work that contributes significantly to society.



Shigeharu Suzuki

Chairman of the Board, Daiwa Securities Group Inc.

Global Compact principles also not an accessory

Fujisawa: Finally, I'd like to ask about the Daiwa Securities Group's commitments as a member of the UN Global Compact.

Suzuki: The principles of the Global Compact are factors that should be routinely considered in managing a company. They are consistent with our mission and useful in carrying out our activities aiming for a social impact.

Fujisawa: So there was no reason not to join.

Suzuki: I think it is important for companies to be good citizens even if they don't go as far as becoming members of the Global Compact. This should be natural for managers with a Japanese mindset.

Fujisawa: I am highly impressed with what I've heard today. Thank you very much.

Just think about what you can achieve with your money



The Nature of Money and Finance

| What is finance?

Financial textbooks define finance as “making money available.” But what significance does making money available have for the economy and society? The role of finance in the economy is often compared to the role of blood in the body. Just as circulating blood keeps the body functioning, the flow of money through financial functions sustains the economy.

| Changing money flows change society

Veins in the body keep blood circulating through a fixed route. Channels for money flow, though, change according to the economy and society. To which fields the money flows and in what form affects the functioning of the economy and society.

For example, investment has been increasing in emerging markets, such as China, as well as in environmental businesses over the past few years, due to their growth potential. Increased investment boosts

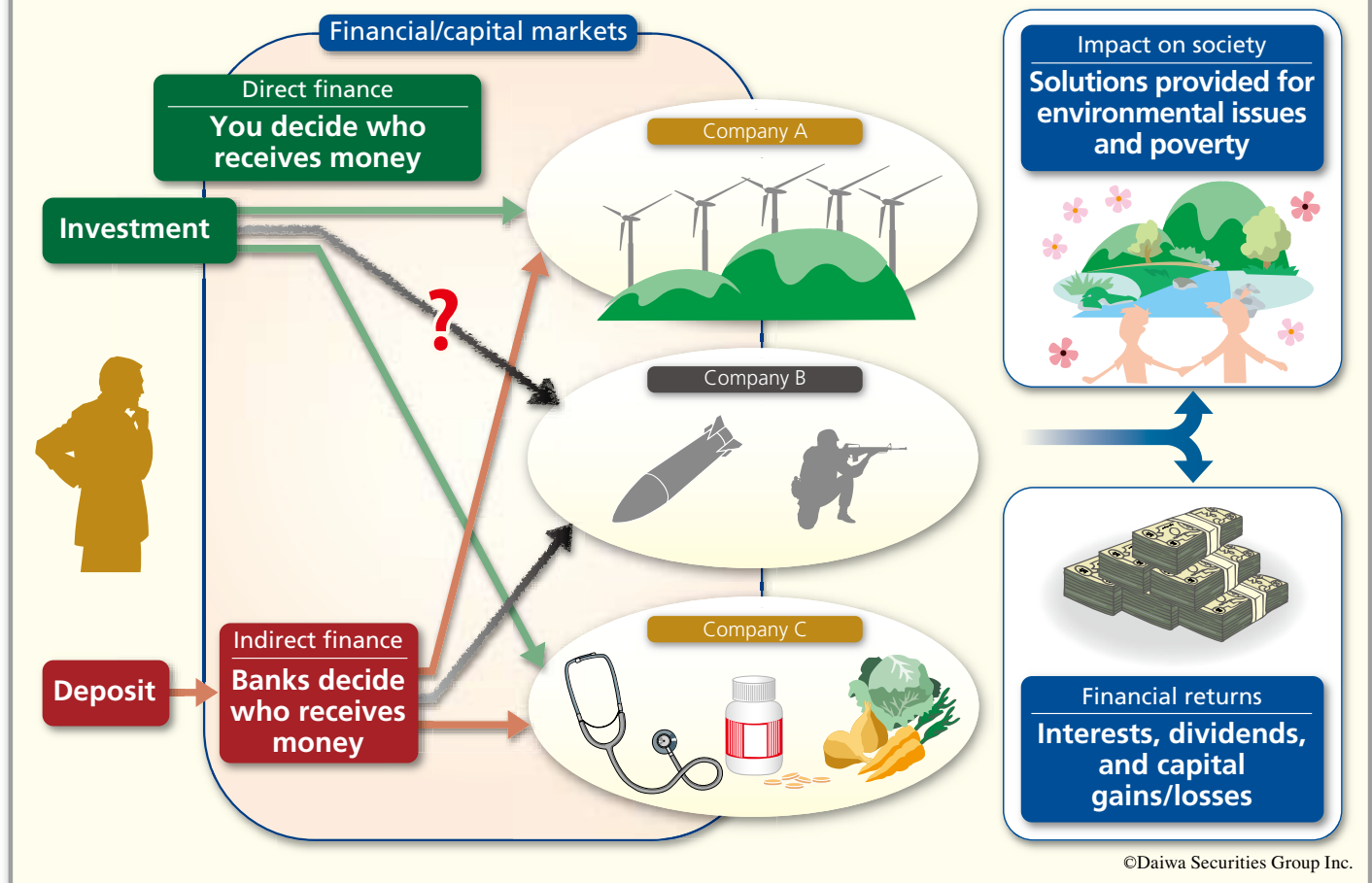
production thanks to the accumulation of capital, leading to higher incomes and accelerating economic growth. If the industries of emerging nations and environmental businesses expand, it can generate gains for investors. Progress can also be expected in environmental protection that reduces the burden on the earth.

What happens if a preoccupation with high returns leads to massive funds flow to companies and industries cutting environmental protection costs by engaging in indiscriminate deforestation and discharging waste with no effort to prevent pollution, while reducing labor costs by using child labor at plants in developing countries? Investors will no doubt earn returns.

However, such money flows are highly likely to further destroy the environment, and expand the underclass hurt by cheap child labor in developing countries—burdening the earth and society. While investors may earn the same profits regardless, the

The destination of money

Building a sustainable society (when your money is used to finance a company)



nature of the businesses and industries in which they invest could have a major impact on future society.

Responsibilities in investing and lending

Investors need to treat their own returns seriously. At the same time, they have a social responsibility to be aware that their investments wind up affecting society in various ways. This also applies to banks' lending activities. Investments are made according to investors' decisions on where to invest their money based on risks and returns, while lending involves banks making decisions on depositors' behalf about where to direct their money.

If the money is provided to companies that are reducing environmental impact through renewable energy, preservation of forests, and development of environmental technology, or those working to improve society by helping reduce poverty in developing nations and providing educational and

medical support, it could generate returns for investors and depositors while also resolving environmental and social problems.

Daiwa Securities Group's Mission

Finance is commonly considered a method of asset management by the party providing the money, but its real role is to promote the development of society by directing funds to businesses resolving environmental and social problems or to the development of new technologies. The mission of financial institutions is to maximize the profits of the party supplying the money while also creating money flows that contribute to social development.

At the Daiwa Securities Group, we consider it our mission to offer investors financial products that contribute to society and the environment. Providing information about the environment and society that is useful in investing is also a significant task.

What Is Socially Responsible Investment?

SRI mechanisms and concepts

Investment decisions that lead to money flows improving environmental, social and corporate governance (ESG) issues

SRI is an approach to making equity investment decisions incorporating an assessment of a company's environmental and social efforts—i.e., corporate social responsibility—in addition to financial data. It also includes taking an active role as a shareholder in prompting a company to become involved in social issues and operate ethically.

SRI started in the 1920s, when Christian churches in the US wanted to exclude businesses incompatible with their religious beliefs from their investments. Amid the anti-war and civil rights movements in the 1960s, the scope of SRI expanded to include shareholder advocacy—direct requests for companies to contribute to improving environmental issues and human rights. In the late 1990s, ESG became commonly accepted among investors as an essential part of assessing corporate value as firms' efforts regarding environmental management, corporate ethics, child labor in developing countries, and corporate governance came into focus. These days it is also known simply as responsible investing.

This approach of reflecting ESG issues is also useful for bond and real estate investments. SRI, characterized by ESG criteria in screening and shareholder advocacy activity, is now applied not only to stock investments, but also to investments in bonds and investment trusts, as well as to project finance, real estate investment, and community investing (investment aimed at healthy development of local communities).

SRI is aimed at gaining financial returns through investments that take into account environmental and social issues. A new approach that has evolved from SRI in recent years is impact investing—making investments targeting clear and direct contributions to solving social challenges.

World trends in socially responsible investment US and Europe ahead in SRI, Japan catching up

SRI has gradually transformed into investing with a focus on sustainability¹. Sustainable activities are those that fulfill the needs of current generations without reducing the capacity of later generations to meet their own needs. The question is how to address issues that

could threaten humanity's survival, such as the problems of environmental destruction worldwide and poverty in developing nations. In the US and Europe, the SRI market is already worth several hundred trillion yen, backed by laws requiring the disclosure of SRI information to institutional investors and the spread of lifestyles of health and sustainability (LOHAS) among individuals. In Japan, the SRI market has not yet reached ¥1 trillion (as of end-December 2010). One of the various reasons for this is that awareness of the ability of finance to affect society is not as well established as in the West. However, there has recently been a renewed push for SRI. Japan's Ministry of the Environment has decided to create guidelines for sustainable financial activities² and the Japanese Trade Union Confederation has issued Guidelines on Responsible Investment of Workers' Capital³ to encourage pension funds to make socially responsible investments.

Another major reason SRI has not grown in Japan is that financial institutions have not developed enough SRI products or provided enough information. The Daiwa Securities Group has endeavored to communicate with various stakeholders, for example participating in the UNEP Finance Initiative and other international initiatives⁴ as well as in the drafting of the Ministry of the Environment's guidelines, while making an effort to offer socially responsible investment products that are able to pursue financial returns.

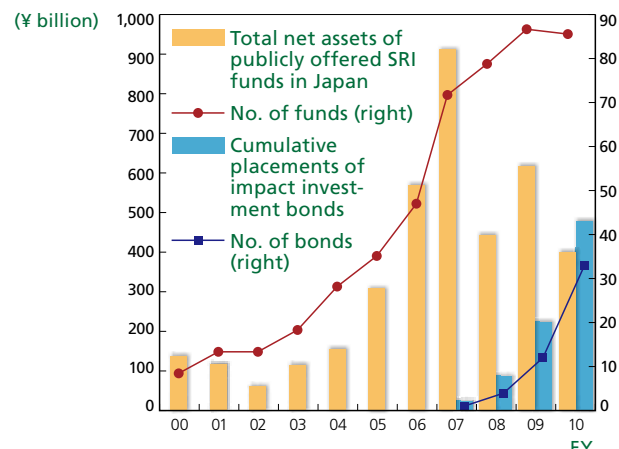
1 Sustainability (sustainable development): A concept raised in a 1987 report entitled *Our Common Future*, published by the World Commission on Environment and Development (a.k.a. Brundtland Commission).

2 Guidelines for sustainable financial activities: please see page 16.

3 Guidelines on Responsible Investment of Workers' Capital: Guidelines on the responsibility of workers (unions), as owners of financial assets, to support fair markets. The guidelines prohibit the investment of capital contributed by or on behalf of workers in corporate activities that are harmful to society or the environment.

4 Other international initiatives: please see page 15.

Total Net Assets of Publicly Offered SRI Funds in Japan and Cumulative Placements of Impact Investment Bonds



Daiwa Securities Group's Engagement in SRI

The Daiwa Securities Group has developed and offered products aimed at promoting socially beneficial investment. This section introduces some of the innovative products we have offered so far in SRI and impact investment.

SRI funds support companies that exercise social responsibility

SRI funds evaluate potential component stocks and bonds for their social and environmental efforts, ethics, and other non-financial performance as well as the level of sales and profit. These include eco-funds, for which the only non-financial criteria relate to environmental performance or those that invest only 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 ¥74.3 billion at end-March 2011¹.

Impact investment bonds help resolve society's problems through bond issues

Impact investing differs from SRI in that it places emphasis on investments directly affecting society. It is a way of allocating assets solely to activities targeted at resolving society's problems, 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 selling various types of impact investment bonds.

Cumulative sales of impact investment bonds in Japan amounted to ¥482.4 billion as of end-March 2011, of which ¥334.4 billion, or 69% was sold by the Daiwa Securities Group².

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

Share in net assets of SRI funds in Japan¹

Daiwa Securities
¥74.3 billion (end-March 2011)

18%

Total ¥399.4 billion

- Global Eco Growth Fund Course A
- Global Eco Growth Fund Course B Sold (redeemed)

- Six Asset Balance Fund (distribution type)
- Six Asset Balance Fund (growth type)
- Daiwa Eco Fund

- Daiwa SRI Fund
- DC Daiwa SRI Fund

- Daiwa Energy Technology Fund (limited open-type fund)
- Russell Global Environmental Technology Fund

- Global Environment Equity Fund
- Global Environment Foreign Bond Balance Fund

- Daiwa/Blackrock Green New Energy Fund
- Next-Generation Environmental Business Fund
- "Eco Business Japan Stocks Open"

- Daiwa Microfinance Bonds

2001

2004

2006

2007

2008

2009

2010

2011

- CO2L Bonds

- World CO2L Bonds
- Vaccine Bonds

- Ecology Bonds (2 times)
- Microfinance Bonds (IFC)
- Education Bonds for Africa
- Poverty Reduction Bonds for Latin America and the Caribbean

- Microfinance Bonds (EBRD)
- Water Bonds
- Vaccine Bonds
- Green World Bank Bonds

- Microfinance Bonds (IFC)
- Vaccine Bonds

- Poverty Reduction Bonds for Latin America and the Caribbean

Share in cumulative sales of impact investment bonds²

Daiwa Securities
¥334.4 billion
(end-March 2011)

69%

Total ¥482.4 billion

¹ Based on Social Investment Forum Japan data.

² Source: Daiwa Securities

SRI Efforts in Product Development and Sales Teams

Developing products acceptable to customers and investors and ensuring they are understood before being purchased are important in promoting SRI. Here, we introduce how employees designing and selling SRI products view SRI.

In product development

Believing in the power of money and developing products with new themes

So far, I have been involved in designing vaccine and microfinance bonds. I was confident we would be able to sell these products because they have high credit ratings and an easily understood structure in addition to the potential to benefit society. Still, I was surprised at the extent of the response these bonds received—people in their 30s and 40s, as well as female customers overall, showed especially strong interest. I also sensed that such products capture the interest of people who have not previously considered securities investments.

In the future, I would like to develop products with new themes or capacities to solve problems in Japanese society. For example, I am hoping to create mechanisms that use the power of finance to alleviate food supply problems and counter the declining birthrate, centered on the private sector. I am also interested in products that are low in risk and seem familiar to customers—for example, products denominated in yen rather than foreign currencies. I hope to enliven the market by encouraging individual investors to buy more SRI products and by cultivating SRI business from institutional investors.



Sayaka Ikegami
Director,
Product Planning Department,
Daiwa Securities Co. Ltd.

Fine-tuning until bond issuance to ensure money used for intended purpose

My job is to convince international institutions such as the IFC to issue bonds designed in Japan.

To determine which is the most important of the projects under way at international institutions, we hold repeated discussions with the institutions' employees. The most important thing is that structures are put in place to ensure the money raised is used appropriately. We repeatedly discuss and revise plans to ensure this happens.

I expect to see more microfinance and other products funding water supply and educational support for poor communities, as well as climate change mitigation. Before issuing bonds, I research exhaustively, together with the employees of the issuer entities, to assess how effectively the bonds can rectify social problems so that the issuer can fully appreciate the significance of the bonds.



Carlos Perezgrovas
Executive Director
Daiwa Capital Markets Europe
Limited

We first give explanations to the organization issuing the SRI bond, to have them understand our aims regarding things like providing finance to poor people and supporting developing countries, and then hold repeated negotiations to converge our aims and those of that organization. Microfinance bonds have so far made the strongest impression on me. I have heard many times about the importance of education and clean water from my parents who are migrants from Cuba. I keep my parents and relatives in Cuba in mind when I explain such things to bond issuers.

I am proud that my work makes a contribution in areas like these, and consider it my mission to keep facilitating the issuance of bonds that solve problems.



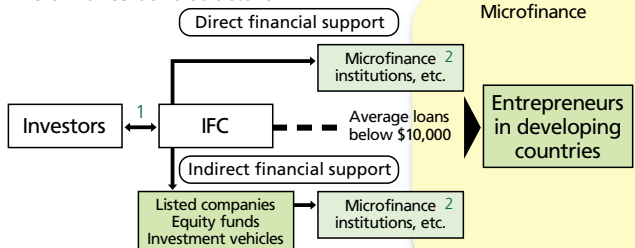
Jose Padilla
Executive Director,
Daiwa Capital Markets
America Inc.

Microfinance bonds

Bonds issued by the IFC to fund micro-entrepreneurs to foster economic independence by offering small-scale financial services without collateral. The Daiwa Securities Group arranged and sold the first microfinance bonds in November 2009.

- 1 Microfinance bond interest and principal paid based on creditworthiness of IFC alone.
- 2 Financial institutions providing microfinance.

Microfinance bond structure



In sales

Proposing meaningful ways to use money in simple terms

I believe SRI products are essential in conveying the role and importance of financial service companies as providers of social infrastructure and ensuring people know about our efforts to contribute to society.

When offering microfinance bonds, I felt many customers agreed with the bonds' objectives, but felt uneasy about providing finance in developing countries or could not imagine how the product could produce profit. My customers are individual investors and many are elderly. I see it as my job as a professional to give people a deeper understanding of the bonds and convince them that the bonds duly provide returns. There is no obligation to provide bond buyers with performance reports, but I believe it is important to report to buyers of impact investment bonds the use to which money has been put to demonstrate their effects. I think such efforts will help spread SRI products and increase confidence in Daiwa Securities.

I hope sales personnel and the product-planning staff continue to cooperate to develop proposals that will make meaningful use of customers' money.



Takeshi Yaguchi
Executive Director,
Asset Consultant Department,
Daiwa Securities Co. Ltd.

Reconfirming our own position in the flow of money

SRI products easily catch people's interest when I start to explain, but even if they support the aim of the product, this does not readily turn into a decision to buy. For example, many customers, when told that microfinance bonds are designed to provide funds to poor people in developing countries, become doubtful about borrowers' capacity to repay. There are also customers that say the explanations are difficult to understand because there are many unfamiliar terminologies. These factors suggest the products are not yet well understood.

Customers are most interested in investment returns, but many would also like to know how the money they have invested is being used. I think mechanisms for feedback to clients about the use of the capital are needed to further increase uptake of SRI products. Meanwhile, I would like to continue providing customers with correct information about SRI and communicating the Daiwa Securities Group's vision.

In our day-to-day sales activities, we tend to forget the ability of money flows to solve problems troubling the world and our own part in that money flow. I am happy that SRI products have given me a renewed opportunity to appreciate how meaningful my work is.



Aki Takeuchi
Asset Consultant Department,
Ikebukuro Branch,
Daiwa Securities Co. Ltd.

Not only bonds—Daiwa Microfinance Fund launched

We launched the Daiwa Microfinance Fund in February 2011.

The fund directly invests in microfinance institutions (MFI) and in bonds issued by international institutions working to change MFI's operating environment. The fund thus directly contributes capital to alleviate poverty in developing countries.

It combines the advantages of a strong social contribution, convenience, and reliability—customers who buy shares in the fund are sent asset management reports, and day-to-day trading is possible. The fact that the fund targets investments that contribute to society makes it no less beneficial for investors compared to conventional foreign bond funds.

It should be possible to use money flows to correct society's flaws and change the world. Finance has that power. We are hoping to spread this idea among more people.

Shuichiro Tanaka

Director, Investment Trust Department, Daiwa Securities Co. Ltd.

Please visit our website for more details. <http://www.daiwa.jp/products/fund/microfinance/>

Fulfilling Our Social Responsibilities as a Financial Institution

The Daiwa Securities Group has agreed to international initiatives to create mechanisms to direct money flows to activities supporting the creation of a sustainable society. As a financial service company, we have also integrated our research analysis unit into our ESG unit in order to provide information useful for investing.

Corporate social responsibility

Participant in UN Global Compact

In 2010, the Daiwa Securities Group became the first Japanese securities company to join the UN Global Compact, which is a global framework to create sustainable growth.

Members are required to work to adhere to the compact's ten principles. These principles are in accord with the Daiwa Securities Group's principles and most of their spirit is already reflected in our practices. However, we continue to make a group-wide effort to become a higher-quality company trusted by society.

On April 25 and 26, 2010, the UN Global Compact held a "Public Forum on the Role of the Private Sector for Peace and Development." Mariko Kawaguchi, Managing

Director of CSR Promotion at the Daiwa Securities Group, joined an expert workshop on day one. Also, as a panelist in a panel discussion, then-Executive Officer Keiko Uehara spoke about the impact investment products we have developed and offered.



Keiko Uehara speaks during panel discussion

Promoting SRI

Participating in Carbon Disclosure Project

The Carbon Disclosure Project (CDP), which has been set up by institutional investors interested in climate change, requires global companies to disclose their stance on and actions regarding environmental problems. The Daiwa Securities Group became a member of the CDP as an investor in March 2004. Daiwa Asset Management has been a member since July 2009.

Joined UNEP Financial Initiative

The United Nations Environment Programme Financial Initiative (UNEP FI), a partnership between UNEP and the global financial sector, works to identify and promote the adoption of the best environmental and sustainability practices in operating financial institutions based on the knowledge that environmental problems cannot be significantly improved without the participation of financial institutions.

Having become a UNEP FI member in November 2004, the Daiwa Securities Group also signed the Declaration on Climate Change by the Financial Services Sector in May 2007.

Signatory to Principles for Responsible Investment

The Principles for Responsible Investment (PRI), announced in April 2006 by the UNEP FI and the UN Global Compact, is a set of investment principles for institutional investors incorporating ESG into the decision-making process.

Daiwa Asset Management signed on to the PRI in May 2006 in the belief it should take the initiative as an asset management company. It had established many SRI funds and other investment trusts incorporating ESG considerations. Signing on to the principles also prompted Daiwa Asset Management to revise its guidelines for exercising shareholder voting rights, promote internal communications, and organize a non-financial information evaluation system. There were 18 Japanese signatories as of April 2011.

Daiwa Securities Group's efforts

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.

Specialist lectures were given to units in the field.

Further, we have removed companies to which the criteria apply from lists of stocks allowed to be offered to customers and those eligible for investment.

Helped draft principles for sustainable finance

The principles for sustainable finance are aimed at promoting financial activities that take into account ESG in the Japanese context. The Daiwa Securities Group has been involved in drafting the principles from the early stages.

Providing information useful in resolving society's problems

Daiwa Institute of Research's ESG Research Section

The world we live in is facing major challenges such as the rising risk posed by global warming and other climate change and global energy and food shortages as emerging nations' economies grow. These conditions are changing the roles and functions expected of companies in creating sustainable social and economic systems. Meanwhile, investors, who underpin corporate finance, are engaging with SRI, which uses a multifaceted approach to valuing companies.

With the limited supply of natural resources available for human use, it will be increasingly important for companies to create true wealth on a global scale by tackling human rights problems and social inequalities. We believe capital markets should correctly value companies adopting a proactive stance on such issues.

In August 2010, Daiwa Institute of Research established an ESG Research Section within its Capital Market Research Department. Its main purpose is to enliven capital markets by presenting the new role and activities of companies, stating new approaches to valuing companies, and providing information about new methods of communication between companies and investors.

There are many solutions to the many problems facing society. SRI, which attempts to provide solutions through finance, also encompasses many themes and activities. To make SRI more familiar without sacrificing any of that diversity, the ESG Research Section of the Capital Market Research Department aims to provide information to promote investments that will create a better society while also focusing on value and the interests of customers.

Selected research reports

Is There Further Upside to Green Stocks?
Current ESG Data Disclosure and Issues—Effectively Using Information
China's Social Problems and CSR—Government-driven CSR Measures Spreading
Monthly ESG News

This is just a sample of the reports published.

Exploiting information in asset management and product design

Daiwa Asset Management research structure

Daiwa Asset Management has directed asset management and research staff, among others, to undertake research and development for evaluation of non-financial information since March 2010. Purposefully evaluating non-financial information, which has been merely one indicator of corporate value, makes evaluations more accurate.

In fiscal 2010, we held internal and external discussions as part of preparation to install a non-financial information evaluation system befitting an asset management company. We carried out in-depth discussions on evaluation of Japanese stocks with our analysts and fund managers, referring to studies of ESG and other non-financial information disclosures. It will be necessary to evaluate the corporate value provided by non-financial measures such as reducing environmental impact or contributing to society from a long-term perspective. We hope to focus on building a foundation for evaluating the intrinsic value of companies by analyzing non-financial information.

Employee Round Table Discussion

Ways to Promote SRI

Using finance to support sustainable social systems—socially responsible investment is the key to accomplishing this important task. On February 15, 2011, Daiwa Securities Group employees exchanged opinions on why SRI has not taken off in Japan as well as future challenges and possibilities.

* Positions are those held at time of discussion

SRI a return to basics for valuing companies; yet to gain popularity, momentum

Moderator: What are your impressions of SRI in your work?

Kikuchi: I have been involved in SRI since we established our Eco Fund in March 2006. The strongest impression I have of managing SRI funds is that it constitutes a return to basics. It is a fund manager's job to gauge companies' value. Rather than just looking at profits, SRI gives us the opportunity to revisit companies' characteristics and strengths, which are the source of those profits.

Suzuki: I also see SRI as a return to basics. Among the variety of factors that need to be considered in evaluating companies' profit are ESG activities that could present risks. With investors now using a broader range of factors to evaluate companies, I think the importance of environmental and social factors is growing.



Katsuya Kikuchi

Senior Fund Manager, Equity Management Department,
Daiwa Asset Management Co. Ltd.

Tanaka: My approach to SRI incorporates an NPO perspective, as I am a director at an NPO bank in a private capacity. I also take into consideration the direct effects on society. For the first time, we have been able to establish a fund that contributes directly to society by channeling capital straight to microfinance institutions. I would like to create a structure in which we are able to contribute directly to social objectives through core operations, like this microfinance fund.

Yanagisawa: I believe institutional investors have become aware of concepts such as CSR and ESG through seminars for institutional investors and corporate IR officers. However, their views and what they put into practice differ widely.

Saito: Right now, the sales teams are putting effort into selling microfinance funds. It seems that the importance of such funds is now much better appreciated. But it seems that, in contrast to the sales staff's high sense of purpose, awareness of SRI is still limited among individual investors.

Sluggish Japanese issues one reason SRI not growing; this offers potential for breakthrough

Moderator: Why do you think SRI hasn't caught on in Japan?

Yanagisawa: One possible reason, for products centered on the stock of Japanese firms, exists at a more basic level than SRI—the prolonged unpopularity of Japanese issues.



Kikuchi: Japanese stocks have been among the most sluggish in major global markets for the past five years. But a focus on SRI could trigger renewed interest. In Japan, the environmental and social components of ESG still tend to be viewed in terms of costs, but it is quite likely this is exactly where firms' unrecognized efforts lie. The SRI perspective could be the catalyst for an end to the despair enveloping Japanese companies.

Suzuki: ESG factors certainly come into play in the low valuations of Japanese issues. In rankings based on quantified measures of governance, Japanese companies rank behind not only European and US companies, but also most emerging countries. I believe governance in Japan being seen as so poor internationally means improvement could attract new investment.

Recently announced requirements by the Tokyo Stock Exchange for reporting on governance and the possible reform in the presentation of financial statements means new information will be available for evaluating companies. This should provide more fertile ground for investment decisions incorporating ESG considerations.

Presentation of information, ambivalence of term "SRI"; further improvements necessary

Suzuki: There is probably some ambivalence about the term "SRI." I think it tends to lead to misconception that the products give more weight to social contributions and disregard investment returns, creating hesitation among investors seeking to maximize their investment gains.

Moderator: The word "SRI" gives the wrong impression, as many people have been saying. I think it gives the impression that you sacrifice your own returns to contribute to society.

Tanaka: None of the SRI funds I have designed have even slightly sacrificed returns. Unfortunately though, SRI funds as a whole have not performed well. Many funds concerned with global warming set up before the global financial crisis have declined steeply since the crisis. This is because they had a high proportion of small-cap venture stocks, which are more sensitive to market conditions. That is, their decline had nothing to do with their being SRI funds.

Moderator: How do individual investors react to the terms "SRI" and "social contribution?"

Yanagisawa: We have the responsibility to provide proper explanations to individual investors to help them understand financial products and make investment decisions. Yet the fact is that SRI is still not widely understood or even known.



Naoko Saito
Senior Managing Director,
Daiwa Securities Co. Ltd.



Hiroshi Suzuki

Senior Researcher, Environment and CSR Research Section,
Capital Market Research Department, Daiwa Institute of Research Ltd.

Kikuchi: I have recently become painfully aware of the need for a change in the way information is presented. For example, I feel investment sentiment has been frozen by overblown claims about the dire consequences for the earth of not reducing CO₂ emissions. I believe information should be presented in a way people can relate to—indicating how intertwined our daily lives and companies’ activities are with global issues.

Consideration of non-financial gains to expand SRI

Moderator: Daiwa held a seminar for institutional investors and invited representatives from the Japanese Trade Union Confederation, which released the Guidelines on Responsible Investment of Workers’ Capital. What are these guidelines, and how was the response from investors?

Yanagisawa: The guidelines relate to pension funds, which is, in a broad sense, workers’ capital. Aimed at establishing workers’ governance over the funds, they call for ESG considerations to be incorporated into decision making, and performance monitored and followed up. While most participants responded positively, some were negative. Naturally, some asset management companies insisted that performance is inevitably the focal point in managing assets. Institutional investors’ main mission is to maximize performance. While it is ideal to take long-term growth into account when evaluating companies to make investment decisions, they actually need to deliver performance in a month or two.

Still, if fund managers at representative institutional investors such as GPIF¹ and influential pension funds refer to SRI factors when selecting stocks, I think it will have a domino effect and instantaneously change the environment.

Suzuki: I believe most investors’ true opinion is that performance is everything in managing funds, but I think that investment gains are not limited to just performance, but also the positive feedback the investment creates. People that invest for such feedback are probably interested in generating positive returns for society rather than being purely money-orientated. I think SRI will spread when investors consider profits that cannot be measured numerically.

Saito: That said, it remains the case that investors exist because there are profits to be made. On the other hand, we have recently witnessed the social phenomenon of people spontaneously sending school backpacks to orphanages around Japan. I think this shows that people need to feel connected with others even in a so-called fragmented society. By explaining in simple words to individual investors that connecting with society is a social contribution and that participation in society can occur through investment, we can probably create a win-win relationship, which will probably help spread SRI.

Tanaka: Customers can directly relate to the microfinance funds I am currently selling. I think there is extremely strong potential demand for the funds among customers ranging from individuals with a strong interest in the market to business investors.

¹ Government Pension Investment Fund: The world’s largest institutional investor, said to be managing ¥88.5 trillion in Japanese bonds (end Dec. 2008).

Giving meaning to money; much expected of financial institutions

Moderator: The lack of financial education in Japan means many people believe making money is the antithesis of contributing to society. However, the two are compatible and using money meaningfully can build a sustainable society. I believe money flows will change if we educate people about this.

Kikuchi: I am currently participating in the Multi-stakeholder Forum on Social Responsibility for a Sustainable Future², which has brought together diverse stakeholders to resolve society’s problems. The composition of stakeholders is unique in that the

financial sector is grouped separately from other companies. This stems from the idea that financial institutions, which are responsible for money flow, act as infrastructure.

To me, this shows that there are extremely high expectations of financial institutions to give meaning to money flow. I received the extremely strong impression that actors from non-financial sectors such as government, NPOs and NGOs, consumer groups, and labor organizations expect financial institutions to redirect money flows and gradually change the world through proactive initiatives and the creation of frameworks such as impact investing.

² Multi-stakeholder Forum on Social Responsibility for a Sustainable Future: Please see page 22.

Examples of successful group coordination; the shortcut to spreading SRI

Moderator: What should the Daiwa Securities Group do to spread SRI?

Kikuchi: I think it is extremely important to broaden the range of products offered. This could be bonds or direct capital flows, but I think the important thing is to develop a wide range of products and devise an effective way of communicating information. Also, we should provide basic information such as an explanation of impact investing rather than just product information, using whatever means possible to coordinate information between group companies and steadily pump out information.

Tanaka: I want to continue steadily developing funds that benefit investors and play a useful role in business.



Shuichiro Tanaka
Director, Investment Trust Division,
Daiwa Securities Co. Ltd.



Shiko Yanagisawa
Managing Director, Global Equity Sales,
Daiwa Securities Capital Markets Co. Ltd.

However, I think we need to raise awareness even within the Daiwa Securities Group, as there are variations in the understanding of, and interest in, SRI even in our company.

Saito: I strongly feel that we need to make a coordinated effort to create examples of win-win investments generating profit for investors, employees, and the Daiwa Securities Group as a whole.

Suzuki: Changes in capital flows should also change the stance of companies. I think we should therefore also facilitate positive communication between investors and companies.

Yanagisawa: I think it is also important to offer investors information on companies that are at the leading edge of socially responsible activities, but whose initiatives are not widely known, and educate equity analysts who carry out corporate research.

Suzuki: In my opinion, when we provide information to institutional investors, we need to indicate how changes in society affect individual companies' value. The most powerful way to appeal to investors would be to provide examples of successful investments in which positive social returns rebounded in investment gains. Still, because there are as many examples of failure as success, it would also be acceptable to urge customers to make such investments with an understanding of this overall picture.

Moderator: Thank you all for your highly constructive insights. We will take them into account in the Daiwa Securities Group's future activities.

Moderator: Mariko Kawaguchi
Managing Director of CSR Promotion,
Corporate Communication Department,
Daiwa Securities Group Inc.

Our relationship with money

A key function of financial institutions is to generate money flows that lead to a sustainable society, but providing education about the impact of money on the economy and society is also important. We highlight the importance of the fact that the money we each hold has meaning.

Economic and financial educational activities

Learning about the economy when you are young enables you to better understand the relationship with others and society in general and how economic activities and finance can affect society.

The Daiwa Securities Group exploits its own specialist knowledge and knowhow and cooperates with educational institutions and NPOs to support practical economics education for elementary, junior high, and senior high school students and offer programs at educational institutions.

Results in Economic and Financial Education

Activity	Description	Started	Participants
Support for the Student Company Program (SCP)*	A program that gives high school students hands-on experiences with corporate management by simulating real-world business conditions	September 2003	174
Support for Finance Park*	Personal finance planning workshop teaching students about society and economics by managing household finances.	June 2005	23,936
Sponsorship of JA's mainstay Global Leadership Forum for elementary, middle, and high school teachers*	Case studies on recent developments in the global economy	July 2001	3,182
Support for operation of Japan Council for Economic Education (CEE-Japan)	Promoting use of <i>Life is a Series of Choices</i> hands-on economics textbook for economic education of teachers	January 2009	577

* Programs of Junior Achievement, the world's largest non-profit organization promoting economic educational activities for youth

Describing how money relates to daily life, and the philosophy of finance

Finance is closely intertwined with our daily lives. We come into contact with it every day, for example, through banks, securities companies, insurance companies, and state pensions. Despite this, there are likely few people concerned about the ways money entrusted to financial institutions (deposits, insurance, shares, pension reserves) is used.

We undertake various educational activities to inform investors and depositors that money has meaning and the power to move society and companies to action. We use lectures at high schools and universities as well as various bodies' venues for communicating with the public to teach financial literacy and the philosophy of finance, broadening understanding of SRI.

We actively engaged in financial education in fiscal 2010, holding lectures for students and working adults (at community colleges and the Junior Chamber International Osaka) on a sustainable society and the significance of money.

Examples of Financial Education Activities in Fiscal 2010

Date held	Participants	Themes
May 14	Employment Study Group, Ministry of Health, Labour and Welfare	Realities of SRI
November 5	Junior Chamber International Osaka	Future of money
November 10	Hitotsubashi University	CSR and capital providers
November 12	Seminar for community college	Sustainable society and social responsibility for seniors
November 17	Sakai High School	Future of money

Talk on the future of money at Future Expo

The Daiwa Securities Group had a stand featuring impact investing at the Future Expo 2010 for the Blue Planet held November 4-6, 2010 by the Junior Chamber International at the Osaka International Convention Center. At a panel discussion on "SRI—Innovations Creating Sustainable Money Flows," Mariko Kawaguchi, Managing Director of CSR Promotion, Corporate Communication Department, Daiwa Securities Group, acted as moderator, and Satoru Yamamoto, Director, Product Planning Department, Daiwa Securities, participated as a panelist discussing the future of money. Participants' reactions such as, "It was the first time I heard that money can be used to change society," and "I would have thought of a more useful way to use my money if I had heard these things when I was a child," reiterated the importance of our educational activities.



Introducing impact investing at the Future Expo

Participation in Multi-stakeholder Forum on Social Responsibility as steering committee member

The Multi-stakeholder Forum on Social Responsibility for a Sustainable Future, in which many bodies participate as equals, was established in 2008 with the aim of building a coordinated response to problems in society that cannot be solved by government alone. Katsuya Kikuchi, Senior Fund Manager, Daiwa Asset Management, participates in the forum, which includes business and consumer associations, labor unions, NPOs and NGOs, and government, as a representative of the financial sector and steering

committee member (as of March 2011). In the forum's first two years, discussions centered on factors needed to create a safe and stable sustainable society. Hereon, the forum plans to devise a coordinated strategy to create a safe and sustainable future and work on concrete actions spanning four issues: developing social infrastructure to nurture humanity, creating a society in which everyone can live together, participating in the resolution of global-scale problems, and developing sustainable communities.

Holding "Social Business College" lectures

The idea of social businesses, which aim to resolve specific problems affecting society as well as to generate sustainable profits, has gained attention. However, social businesses themselves are not yet widely known. At the Daiwa Securities Group, we regard providing a forum for discussion of sustainable business models and financing as highly important. In October 2010 we began the "Social Business College" series of lectures for university students and adults.

We hold the lectures in cooperation with Music Securities, a next-generation financial business providing financing to social businesses via the Internet, and we publish the proceedings and case studies on our website.

<http://www.daiwa-grp.jp/csr/citizen/support/college/backnumber.html>

The second lecture, held on December 7, was conducted by Eriko Yamaguchi, CEO, Motherhouse. Ms. Yamaguchi spoke frankly about making bags—of a quality acceptable to customers in advanced nations—in the developing nation of Bangladesh (which was not being reached by international aid) and her efforts to establish the company's brand. The lecture was received enthusiastically, with the audience empathetic and asking real questions about Motherhouse's business model.

Future lectures will also highlight social businesses with a unique business model. We plan to hold over twelve lectures during the two years of the series, ending in September 2012.

1st: October 28, 2010

Lecturer: Natsuko Shiraki, President, HASUNA Co., Ltd.

2nd: December 7, 2010

Lecturer: Eriko Yamaguchi, CEO, Motherhouse Co., Ltd.

3rd: February 14, 2011

Lecturer: Yoshiteru Takemoto, CEO, tobimushi Inc.



First Social Business College lecture

Creating a Rewarding Workplace for Employees

Making Work as Fulfilling as Possible

At the Daiwa Securities Group, we believe maximizing each employee's motivation increases customer satisfaction and in turn raises shareholder value. We are making efforts to ensure that individual employees feel satisfied in their jobs and that they, together with their families and all others concerned, feel proud to be a member of the group.

Our efforts

Achieving a good work-life balance

We are working to ensure employees have a good work-life balance as part of our business strategy. As a group, we have made concerted efforts to introduce employees to new ways of thinking about work. We have put in place systems that deliver a variety of work practices, encouraged employees to leave work by 7:00 p.m. and to take their annual leave, and instituted workplace visits by employees' families.

Encouraging women to succeed

We are trying to appeal more to women's individual interests, by introducing thriving female employees as role models in internal publications and providing opportunities for cross-company communication, in order to increase the number of women in management positions. These efforts have resulted in five female directors joining the board and women heading up about 10% of branches since fiscal 2009. The number of women transferring to the career-track employee and regional career-track employee streams has also increased significantly.

Recruitment of previous years' graduates

In fiscal 2011, we began hiring university graduates who had graduated up to three years earlier. We hope to

secure diverse personnel by recruiting year-round so that such graduates can be employed soon after receiving tentative job offers, regardless of whether they have prior work experience. These recruits receive the same level of training as new graduates.

Recruitment of people with disabilities

The Daiwa Securities Group has around 200 employees with disabilities working in a wide range of roles at its headquarters, in sales branches, and in call centers.

The group started recruiting new graduates with disabilities as regular employees (general office staff) in fiscal 2008 and in fiscal 2011, broadened recruitment into the career-track employee, regional career track employee, and customer service employment streams. We actively increased recruitment opportunities, holding briefings about the company for new graduates, participating in career expos, and implementing job placement support programs for disabled university students.

Once people with disabilities are hired, we provide support for career advancement, for example creating opportunities for them to enter the career-track and regional career-track employment streams.

Efforts to ensure and improve employees' health

We consider our employees' health essential capital for our company and society. Our human resources department, General Health Development Centers, and health insurance association have worked together to more actively promote health.

Our efforts include thorough health education, a walking campaign, joining the Cancer Screening Corporate Action project, a program to help people quit smoking, breast and uterine cancer screening, cervical cancer vaccinations, and metabolic syndrome-specific health guidance.

Past Measures and Results

Measures		Progress		
		Indicator	Before	After (as of FY2010)
February 2005	Establishment of Women's Support Action Team ¹	Number of female managers ¹	75	162
October 2005~	Expansion of childcare and nursing care programs	Number of employees taking childcare leave	115 people (no men)	383 people (incl. 25 men)
April 2007~	Job relocation system ²	Number of users (cumulative since FY2007)	–	69
June 2007~	Directive asking executives and employees to leave office before 7:00 p.m.	Overtime working hours (monthly avg.)	26.2 hours	24.0 hours
June 2008~	Policy to encourage executives and employees to take paid leave	Paid leave usage rate (per year)	37%	55%
April 2008~	Recruitment of people with disabilities as regular employees	Proportion of employees with disabilities (all employment streams)	1.87%	2.08%
October 2009~	Expansion of program for changing career path	Number of employees transferring to career-track roles (total since FY2009)	October 2009~	682 people

¹ Director or higher

² Offers position in new location when an employee must relocate due to marriage or spouse's job transfer (eligible to employees who are not subject to transfers that require change of residence).

Note: For scope of data, see: <http://www.daiwa-grp.jp/english/csr/report/2011/>

Daiwa Aid after the Great East Japan Earthquake

We extend our deepest condolences to the victims of the earthquake that took place on March 11, 2011.

The following is a report on our donations to help reconstruction and provide aid to affected areas and the direct support the Daiwa Securities Group is providing, as well as our future plans.

■ Donations

¥100 million (Daiwa Securities Group)

¥30 million each to Iwate, Miyagi, and Fukushima prefectures

¥10 million to Ibaraki Prefecture

■ Subsidies for volunteer activities

¥35 million (Daiwa Securities Foundation)

¥5 million (¥1 million each) to disaster volunteer centers in Iwate, Miyagi, Fukushima, and Ibaraki prefectures, and Sendai City

¥30 million in grants to disaster volunteer action groups (maximum ¥500,000 per grant)

Recipients are students and specialist groups engaging in activities needing specialized skills.

■ Subsidies for research into disaster medicine

¥10 million (Daiwa Securities Health Foundation)

¥10 million (maximum ¥1 million per grant) to universities, research centers, hospitals, and other individuals and groups engaged in research into disaster medicine or medical care in the disaster-stricken areas of the Tohoku region and Ibaraki, Miyagi, and Chiba prefectures.

■ Daiwa Foundation Tohoku Scholarships

£250,000 (Daiwa Anglo-Japanese Foundation)

The foundation has decided to establish a £250,000 scholarship fund for students from the Tohoku region whose educational or other circumstances were affected by the earthquake.

■ Daiwa Point Program

Donations through point exchange (Daiwa Securities)

¥7.18 million raised by 7,005 participants (as of April 30, 2011)

Used to support reconstruction in affected areas through NPO Japan Platform.

■ Charity collection

(Daiwa Securities Group)

¥40.57 million raised from executives and employees in Japan and abroad (as of April 27, 2011)

Used for reconstruction of affected areas and to support victims through Japan Platform and the Japanese Red Cross Society.

■ Policy Proposal

(Daiwa Institute of Research)

The Daiwa Institute of Research announced a proposal for the establishment of a reconstruction fund and a reconstruction solidarity tax.

(Proposal for Establishment of Reconstruction Fund and Reconstruction Solidarity Tax to Finance Rehabilitation after Great Earthquake of Unprecedented Scale).

Please see the following website for more information (in Japanese).

<http://www.daiwa-grp.jp/data/current/press-2955-attachment.pdf>

■ Support through financial products

The Daiwa Securities Group is giving a portion of trust fees from the Daiwa Nippon Ouen Fund (Phoenix Japan)¹ to earthquake victim support groups.

The group is also supporting finance aspects of the massive reconstruction funds and developing impact investment financial products.

¹ Daiwa Nippon Ouen Fund (Phoenix Japan): Japanese stock fund offered by Daiwa Asset Management. Invests only in Japanese stocks to support strong Japanese companies and invigorate the Japanese economy.

■ Future support

Interest in building a sustainable economy has grown since the earthquake and accident at the Fukushima Daiichi Nuclear Power Plant brought into focus sustainable energy and regional economies that take into consideration the surrounding environment and communities. We strive to offer companies and investors information spanning a wide range of perspectives such as the environment and CSR.

There are many additional ways, such as the Daiwa Institute of Research's policy proposal, for the Daiwa Securities Group to contribute through capital markets.

We plan to share our experiences in the reconstruction of Sumatra, using knowledge gained in our project supporting reconstruction after the 2004 tsunami².

We also plan to encourage employee's activities long-term by providing employee volunteer information through our intranet.

² Daiwa Securities Group Tsunami Reconstruction Fund

Please see the following websites for more information about the Daiwa Securities Group Tsunami Reconstruction Fund (in Japanese).

<http://www.daiwa-grp.jp/csr/citizen/support/tsunami/>
<http://www.acc21.org/act/act-specialfund-daiwa.html>

CSR also becoming more prominent in communications

We report all our CSR activities on our website.

Daiwa Securities Group CSR web pages

Impact investment efforts

● Impact investments *Investments building the future*

Impact investments

Contributing to society through investment
Providing information about investments intended to alleviate poverty, environmental problems, and other social issues while delivering economic gains.

<http://www.daiwa.jp/impact/>



● Resolving social issues through bond investments

- Ecology Bonds
- Microfinance Bonds
- Poverty Reduction Bonds for Latin America and the Caribbean
- Education Bonds for Africa
- Vaccine Bonds
- Water Bonds
- CO2L Bonds
- World CO2L Bonds

● Resolving social issues through investment trusts

■ Daiwa Microfinance Fund

Daiwa Microfinance Fund

A Japanese first!*
Introduces investment trust features designed to alleviate poverty and examples of loans.

* According to Tokio Marine Asset Management, as of end-December 2010

<http://www.daiwa.jp/products/fund/microfinance/>



- Russell Global Environmental Technology Fund
- Daiwa SRI Fund
- Next-Generation Environmental Business Fund
- Daiwa Eco Fund

Learning about CSR and SRI

● Exploring CSR through dialogues

- No. 32: CSR and biodiversity
- No. 26: Inhumane weapons and SRI

Exploring CSR through dialogues

Serial publication of dialogues between frontline CSR experts and Mariko Kawaguchi, Managing Director of CSR Promotion, Corporate Communication Department. Transcripts of 36 dialogues spanning eight years available. (As of end March 2011)

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



● ESG reports

- Environment
- Society (CSR and SRI)
- Corporate governance

ESG reports

Collection of Daiwa Institute of Research reports on ESG from multiple perspectives. Includes ESG glossary.

<http://www.dir.co.jp/souken/research/esg/index.html>



● Eco² reports

Eco² reports

Seeking to draw together two "ecos," ecology and economy, Daiwa Asset Management fund managers introduce eco companies and topics.

http://www.daiwa-am.co.jp/guide/eco/eco_index.html



Regular Web updates!

We regularly publish information and reports. Please have a look.

Get involved!

Participation is free. You can view schedules and apply online.

Social engagement

● Joined UN Global Compact

(January 2010)



● Supporting UN Millennium Development Goals

● Daiwa Asset Management signed on to Principles for Responsible Investment

(May 2006)



● Joined United Nations Environment Programme Finance Initiative

(November 2004)



● Signed on to Carbon Disclosure Project (CDP)

(March 2004)

CARBON DISCLOSURE PROJECT

Corporate citizenship activities

● Economic and financial education

- Economic and financial education for young people
- Daiwa-JFS Sustainability College

● Encourage employees to volunteer

- Engaging with Forests 2010
- Sign language classes in Tokyo, Osaka, and Nagoya



Sign language classes in Tokyo, Osaka, and Nagoya

We hold sign language classes for novices in three cities. Participant numbers are rising annually, as are the number of people passing higher-grade skills tests.

<http://www.daiwa-grp.jp/csr/citizen/support/volunteer/sign.html>



● Major culture and arts support

- Central Contest for Book Review Painting
- Tomomi Nishimoto Conducts "Romeo & Juliet" presented by Daiwa Securities Group Inc.
- Todayji Otobutai, 1250th Buddhist memorial ceremony for Empress Komyo
- Post-Impressionism: 115 Masterpieces from the Musée d'Orsay
- Design to Change the World Exhibition
- Other events

● Aid and support to regional and international communities through foundations and NPOs

■ Social Business College



Social Business College

Provides a forum for discussing healthy business models and financing methods for "social businesses," which resolve social issues while generating sustainable earnings.

<http://www.daiwa-grp.jp/csr/citizen/support/college/>



- Daiwa Securities Health Foundation
- Daiwa SRI Fund Financial Assistance Program
- Daiwa Securities Foundation
- Daiwa CI Biodiversity Conservation Fund
- Daiwa Anglo-Japanese Foundation
- And other programs
- The Daiwa Securities Group Tsunami Reconstruction Fund

Forums held

(since 2010)

- February 13, 2011
- September 9, 2010
- July 21, 2010
- March 19, 2010

Daiwa Microfinance Fund Forum 2011 Impact Investment Forum

Daiwa Africa Forum 2010—For Better Access to Education and Medical Care Daiwa Water Forum 2010—Water for All—

Videos of these forums are available on Daiwa Internet TV.

CSR Issues: Performance and Targets

This section reports the fiscal 2010 results and fiscal 2011 targets for the wide range of initiatives conducted to help build a more sustainable society.

		Targets for Fiscal 2010	
Key Issue 1 Leveraging Financial Capabilities to Contribute to a Sustainable Society		● Arrange and distribute at least ¥100 billion in impact investment bonds ● Consider other impact investment products such as investment trusts	
Key Issue 2 Developing Sound Financial and Capital Markets for the Next Generation		● Strengthen ties with domestic and overseas universities and also monitor and further promote the performance of these relationships ● Provide employees with training in financial philosophy (ethics as financial supporter) ● Pursue wide distribution of the "Life is a Series of Choices" text to teachers ● Hold study sessions for students on the topic of social business	
		● Communicate more information about environmental issues (continued)	
		● Enhance information dissemination through Daiwa Securities Information TV and website	
Corporate Governance		● Establish a firmer global internal control scheme to further strengthen the trust of stakeholders and thus ensure sustained growth	
		● Establish groupwide BCP scheme	
CSR Management		● Hold dialogues with experts at least once a month to improve executive and employee awareness, and promote internal and external communication through the dissemination of information	
Compliance	Entire Group	● Further ensure thorough awareness of corporate ethics and compliance	
		● Strengthen efforts to eradicate organized crime and block relationships with any such elements	
	Daiwa Securities	● Make ongoing improvements to operating quality (continued)	
		● Revise internal rules, operating procedures, and other guidelines	
		● Strengthen scheme to eliminate unfair trade	
		● Support branch efforts to beef up internal controls	
	Daiwa Securities Capital Markets	● Take actions to address amendments to the Financial Instruments and Exchange Law	
		● Step up related initiatives, including actions against organized crime	
Information Disclosure		● Actively disclose information, including non-financial content, demonstrating the unique or differentiating features of the Group (continued) ● Carry out efficient IR activities (continued) ● Improve and make effective use of IR channels (continued)	
Relationship with Shareholders and Other Investors		● Take actions to expand shareholder reward program (continued)	
Relationship with Customers		● Actively pursue post-sales follow-up (continued)	
		● Improve customer-interface skills of branch counter staff (continued)	
		● Develop professional workforce that combines expertise and loyalty (continued)	
Relationship with Executives and Employees		● Achieve a far-reaching work-life balance program (continued)	
		● Accelerate appointment of female managers who will assume leadership roles in the Japanese financial industry (continued)	
Relationship with Society		● Collaborate with external NPOs to provide richer information internally and increase opportunities for action, with the aim of allowing more executives and employees to participate in corporate citizenship activities	
Environmental Initiatives		● Establish system to increase green purchases. Promote efforts internally and work with suppliers ● Establish system for efficiently gathering environmental impact data	

Rating indicates self-evaluation of fiscal 2010 results: ◎ = success (significant), ○ = success (moderate), △ = additional effort needed, × = not achieved.

by the Daiwa Securities Group

Results for Fiscal 2010	Rating	Targets for Fiscal 2011
● Distributed around ¥334.4 billion in impact investment bonds ● Arranged and distributed Daiwa Microfinance Fund	◎	● Expand design and sales of impact investment products relating to earthquakes, the environment, poverty, and other issues in Japan and abroad ● Enhance disclosure of environment and CSR information to investors
● Offered course endowments, dispatched group employees as lecturers, and engaged in university venture support and other industry-education collaborations ● Social Business College (3 lectures since October 2010, with 286 participants) 13 lectures at universities and other institutions	○	● Continue alliances with Japanese and foreign universities and continue the Social Business College (participation target of 80 people per lecture)
● Established ESG Research Section (6 people) at Daiwa Institute of Research. Improved provision of environmental and CSR information to investors and general public	○	● Bolster environment and CSR research conducted by group research departments (at Daiwa Securities, Daiwa Securities Capital Markets, and two asset management firms)
● Broadcast footage of microfinance and Africa education forums on Daiwa Internet TV and published ESG reports written by the ESG Research Section on company website. Published proceedings and case studies of Social Business College lectures	○	● Hold seminars and forums for ordinary customers (at least 3) ● Reorganize presentation of group environment, CSR, and SRI information on website and increase quality and volume of information
● Revised risk rules in internal control system to match global standards	○	● Maintain healthy business by disclosing adequacy of capital
● Two group companies began using Tama Training Center as back-up office ● Improved methods for checking employee safety during disasters	◎	● Increase awareness of crisis management system for disasters ● Reduce group-wide power consumption by 15% in response to power shortage this summer
● Held 14 dialogues with experts on specific CSR themes (Exploring CSR Through Dialogues) ● Established group policy banning investment in cluster munitions producers	◎	● Maintain dialogues with specialists in specific themes and strengthen relationships with departments and sections responsible within group (target of at least 12 dialogues)
● Established internal rules regarding prohibition of insider trading and conducted training ● Conducted compliance training through e-learning	◎	● Ensure thorough awareness of corporate ethics and compliance (continued)
● Established rules on avoiding all contact with organized criminal elements ● Assessed situation by exchanging information with public bodies ● Increased effectiveness by gathering data and using systems	◎	● Further coordinate group measures to avoid contact with organized criminal elements
● Used PDCA cycle to improve quality of operations ● Improved system of checking by superiors ● Provided support tools for branch counter staff themselves to review transactions	◎	● Further strengthen self-monitoring of ethics at branches
● Overhauled internal rules ● Changed rules for dealing with customer information ● Revised sales branches' data management methods	◎	● Strengthen commitment to internal control in all headquarter departments and sections
● Strengthened unfair trading monitoring systems ● Beefed up training opportunities and contents of programs such as training on insider trading regulations	◎	● Strengthen commitment to preventing unfair trading
● Provided guidance and support through personal visits to branches ● Held group training sessions for internal control managers ● Provided guidance and support in daily operations	◎	● Strengthen commitment to preventing unfair trading
● Responded to amendments to the Financial Instruments and Exchange Law such as revision of disclosure rules for secondary offering of securities and rules for designating investors as professional or general investors and the creation of the alternative dispute resolution system	◎	● Create and strengthen a global compliance system ● Strengthen systems to eradicate organized crime
● Newly established rules on avoiding all contact with organized criminal elements and strengthened systems for identifying them	◎	● Establish rules relating to the Financial Instruments and Exchange Law
● Actively disseminated non-financial information such as strengthening the company's Asia business, work-life balance, and social contributions in annual reports and other brochures and company briefings	◎	● Actively disclose information, including non-financial content, demonstrating the unique or differentiating features of the Group (continued)
● Bolstered communication with Japanese and foreign investors by expanding IR site and holding company briefings	◎	● Carry out cost-conscious, efficient IR activities (continued)
● Improved IR site, emphasizing user-friendliness	◎	● Improve and make effective use of IR channels (continued)
● Tailored approach to shareholders, expanding shareholder reward program	◎	● Take actions to expand shareholder reward program (continued)
● Routinely provided timely information through seminars and website	○	● Actively pursue post-sales follow-up (continued)
● Installed hospitality representatives in all 120 branches, undertaking group training and direct guidance and supervision ● Disseminated information through intranet	◎	● Improve customer-interface skills of branch counter staff (continued)
● Established human resource system to create a work environment creating high level of motivation among all employees ● Introduced focus on business skill training, supported and promoted gaining of qualifications, and expanded language training	◎	● Develop professional workforce that combines expertise and loyalty (continued)
● Encouraged change of attitude among employees by encouraging them to leave the office before 7:00 p.m. and take their annual leave, instituting family visits to the office, and encouraging men to take parental leave ● Newly established short-time working system and expanded vacation and nursing care system, and increased awareness of these systems	◎	● Achieve a far-reaching work-life balance program (continued)
● Increased number of women in management positions ● Increased number of people transferring to career-track and regional career-track employment streams ● Work-life balance promotion committee and female employee success promotion team considered additional measures ● Started career counseling	◎	● Accelerate appointment of female managers who will assume leadership roles in the Japanese financial industry (continued)
● In FY2010, 732 employees participated in 39 volunteer and educational activities for employees ● 71 employees attended Social Business College lectures	○	● Raise employees' interest in volunteering, including in earthquake relief efforts, and improve provision of appropriate information regarding volunteering ● Enhance volunteering system ● Improve coordination with employee unions
● Started considering rebuilding environment management system ● Planned to report 2010 environmental impact data on website	△	● Introduce new environment management system ● Enhance energy conservation efforts

Daiwa Securities Group Profile

Company Overview

Name

Daiwa Securities Group Inc.

Headquarters

GranTokyo North Tower
9-1, Marunouchi 1-chome,
Chiyoda-ku Tokyo 100-6751,
Japan

Telephone

+81-3-5555-1111 (main)

Established

December 27, 1943
(Founded 1902)

President and CEO

Takashi Hibino

Capital

¥247.3 billion

Number of employees (consolidated)

15,310

Number of consolidated subsidiaries

58

Number of equity-method affiliates

6

Shares issued and outstanding

1,749,378,772

(As of March 31, 2011. President and
CEO as of April 1, 2011)

Description of the Daiwa Securities Group's Businesses

The Daiwa Securities Group is composed of Daiwa Securities Group Inc., the holding company controlling the group companies, and two securities companies, Daiwa Securities Co. Ltd. and Daiwa Securities Capital Markets Co. Ltd. along with various other companies providing securities-related services in order to offer a comprehensive range of investment and financial services.

1. Retail Securities Business

Through its domestic network of 120 branches (as of April 2011), a call center, and the Internet, Daiwa Securities offers two retail services, Daiwa Consulting and Daiwa Direct, which provide a wide range of financial products and services as well as support for customer asset management, mainly for individuals and unlisted companies. (Principal company: Daiwa Securities)

2. Global Markets Business

This business, engaged in sales and trading, provides brokerage of securities and other financial products mainly for institutional investors. (Principal company: Daiwa Securities Capital Markets)

3. Global Investment Banking GBusiness

This business offers support for corporations and financial institutions in business expansion to finance and capital strategies, by assisting financing activities. (Principal company: Daiwa Securities Capital Markets)

4. Asset Management Business

This business creates and manages stock, bond, and private investment trusts, and provides other

investment management services for real estate investment trusts, pensions, and other funds.

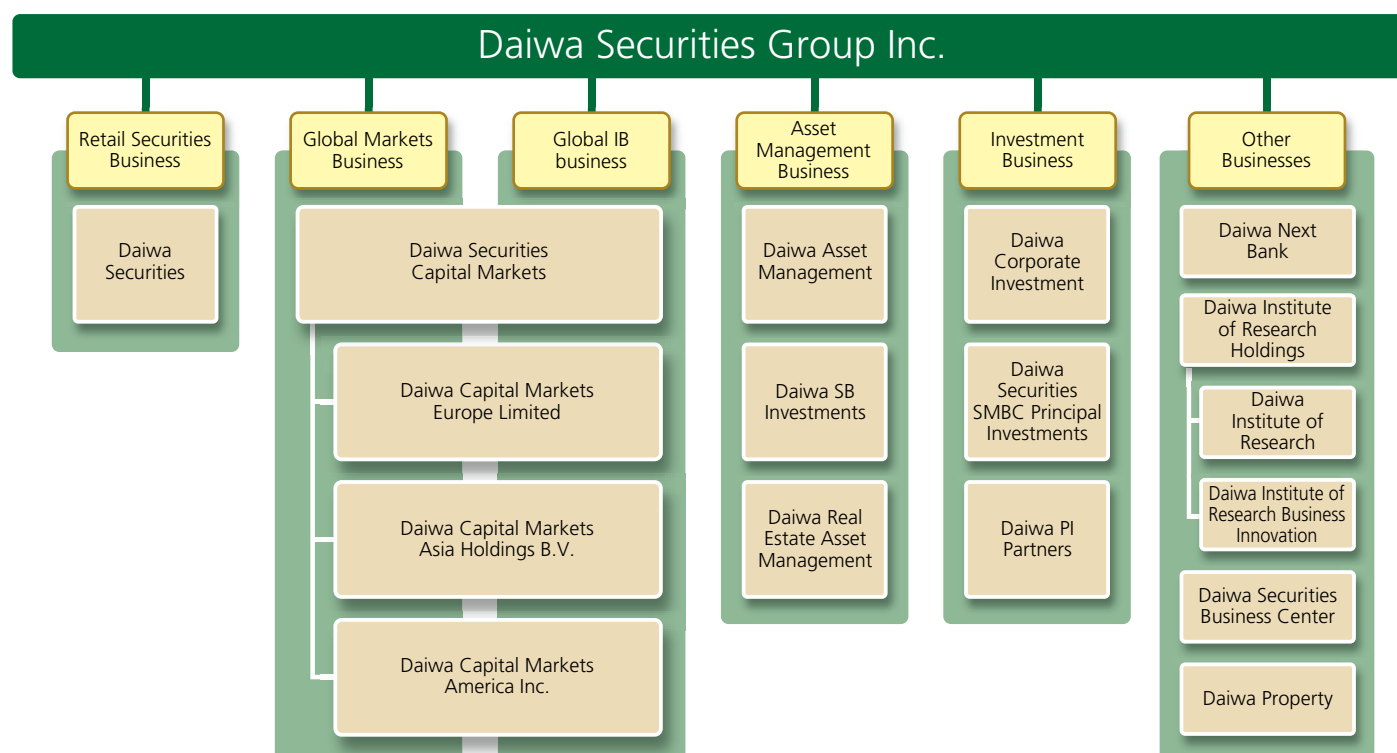
(Principal companies: Daiwa Asset Management, Daiwa SB Investments, Daiwa Real Estate Asset Management)

5. Investment Business

This business invests in areas such as private equity, venture capital opportunities, business regeneration, monetary receivables, and real estate using its own funds or through the formation of investment funds. (Principal companies: Daiwa Corporate Investment, Daiwa Securities SMBC Principal Investments, and Daiwa PI Partners)

6. Other Businesses

The Daiwa Securities Group provides information via research reports and other documents, management consulting, IT services, and other offerings to institutional investors, corporate clients, financial institutions, and public organizations in Japan and overseas. (Principal companies: Daiwa Institute of Research, Daiwa Institute of Research Business Innovation)



*Daiwa Next Bank began operation on May 13, 2011.

About CSR Report 2011

This is the Highlight Edition. More detailed information relating to specific stakeholders is available in the Full Edition.

Full Edition

Detailed information on our CSR management as well as social and environmental activities

Highlight Edition

Message from the President and CEO
Highlights



Full Edition [Information Disclosure, Tool for Accountability]

- Breakdown of CSR initiatives, challenges, and goals for each stakeholder group
- Report based on GRI Guidelines

Highlight Edition [Communication Tool]

- Easy-to-read format
- Focused on key issues

CSR Report 2011 Full Edition

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

Available September 2011

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Please submit any comments regarding CSR Report 2011 at our website

Third-party Opinion

Toshihiko Goto, Chief Executive, Sustainability Forum Japan, a nonprofit organization, comments on CSR Report 2011 Highlight and Full Editions. His comments and opinions are available in the Full Edition.





PASSION
FOR THE
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