

Group “Management” System

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The Daiwa Securities Group will strive to maintain its leadership role in the area of corporate governance.

Currently, our corporate governance is carried out by (1) the Board of Directors, (2) the Board of Statutory Auditors, (3) the Management Committee and the Executive Committee and (4) various advisory committees. In FY 2004, this organizational structure will be further enhanced with the aim of shifting to a committee system. This change will result in greater transparency and objectivity in the division between management/oversight, and the executive functions of corporate affairs.

At the same time, we will establish the Daiwa Securities Group Corporate Governance Principle, redoubling our efforts in support of good corporate governance. Based on the Group's medium-term management plan, we will foster a management approach that focuses even more on enhancing shareholder value, by assessing accurately the performance of each company within the Group.

Taking the Lead in Reforms of the Corporate Governance System

The Daiwa Securities Group has steadily moved towards the construction of a more ideal form of corporate governance, one that is firmly grounded on the concept that shareholders are the rightful leaders of a company. Beginning in FY 1999, the Daiwa Securities Group Inc. became the first publicly traded Japanese corporation to make the transition to the holding company system. In so doing, it created a practical system for group management, maintaining the independence and unique expertise of each company within the Group.

Management That Consciously Listens to Outside Views

The management of the Daiwa Securities Group is the responsibility of the Board of Directors, which lays down the basic management policy and supervises the Group, and the Management Committee, which is charged with the implementation of corporate administration. With its four members who play an active part in organizations outside the Daiwa Securities Group, the Advisory Board serves as an extremely useful tool for developing managerial strategies and for raising various issues. In addition, the Board of Statutory Auditors audits the Directors in the execution of their duties.

Improving the Transparency of Directors' Compensation

In FY 2002, the Daiwa Securities Group established a Compensation Committee, comprised of the CEO, two external advisors and an outside Director. The purpose of the Committee is to increase the transparency of compensation received by members of the Board of Directors and the Executive Committee and to discuss appropriate yardsticks for executive compensation.

Transition to the "Committee System"

The Daiwa Securities Group continues to advance in reforming its system for corporate governance. Three major reforms are due to be carried out as part of the new medium-term management plan. The first is the transition in FY 2004 to a "committee system" of corporate governance. In the committee system of governance, broad authority for the implementation of corporate policy devolves from the Board of Directors. Three committees – a Nominating Committee, a Compensation Committee, and an Audit Committee – will be put in place, effectively separating the management and oversight functions from corporate administration. In addition to enable the rapid and responsive execution of management decisions, this system will enhance the objectivity and transparency of management oversight due to the fact that more than half the member-

ship of each committee will consist of outside Directors. An additional outside Director was appointed at the annual shareholders meeting held in June 2003. Of the seven Directors of the Company, two are now outside Directors.

To make the transition to the committee system of corporate governance, the Daiwa Securities Group will be undertaking various internal reorganizations. Toward this end, the Internal Audit Department was established within the holding company in February 2003.

Establishment of the Daiwa Securities Group Corporate Governance Principle

The second reform initiative is the establishment of the Daiwa Securities Group Corporate Governance Principle. As markets grow more global and institutional in nature, corporate governance concerns are increasingly influencing investment decisions. Daiwa's Corporate Governance Principle, which will be established in FY 2004, is part of our efforts to clarify the standards and concepts of corporate governance.

Compensation System Linked to Shareholder Value

The third initiative relates to the reorganization of the executive compensation system. As one means of improving the effectiveness of management strategy and linking executive incentives to shareholders' interests, as expressed in the medium-term management plan, we will redirect a portion of our Directors' accrued retirement funds to annual remuneration after which 10% of the original annual remuneration will be used to purchase shares of our stock through the Executive Shareholding Association.

Corporate Governance of the Daiwa Securities Group under the Present System and after the Transition to the Committee System

Image of Present system

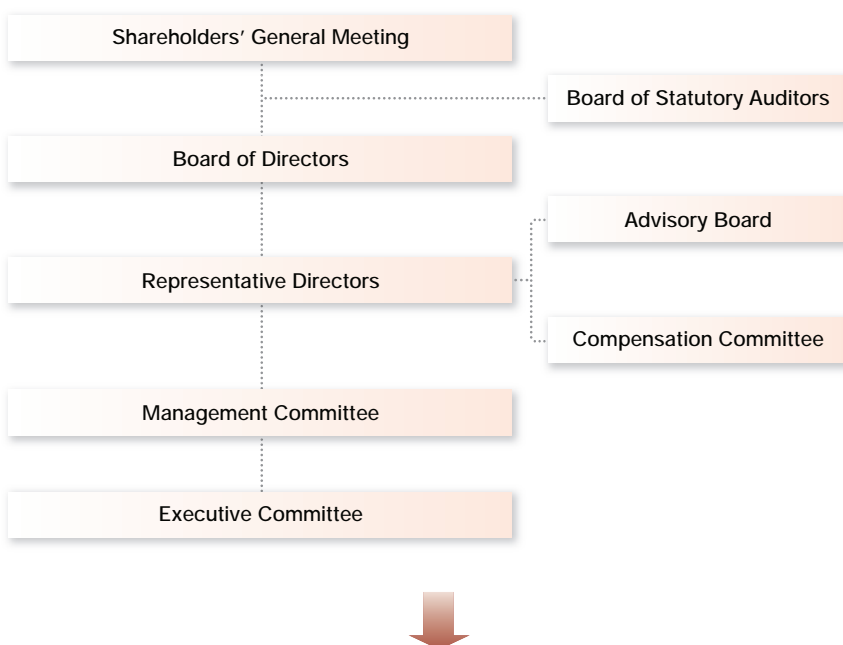
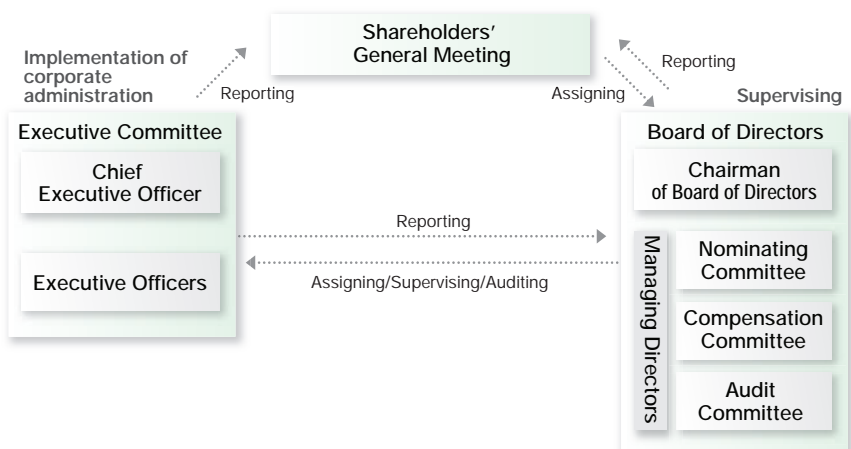


Image of New system (after transition to the committee system)



*more than half the membership of each committee will consist of outside Directors.

Compliance

To earn the trust of our stakeholders, we are further enhancing our compliance system. For example, we have implemented a "whistle-blower" system to check for and stop improper activities and to raise the level of awareness of all our executives and staff.

The Cornerstone of the Daiwa Securities Group Brand Is Compliance

Compliance lies at the foundation of the Daiwa Securities Group Brand that we aim to build. The very existence of our company will be jeopardized if we fail to win the trust of all our shareholders, customers and investors. It is on the basis of this awareness that we have established guidelines for ethical behavior. We have been inculcating these guidelines through study sessions for all Group managers and have set up a monitoring system for ethical behavior which is administered primarily by the Corporate Ethics Department and the Legal Department.

Vow to Prevent the Recurrence of Improper Activity

As mentioned earlier in this annual report, there were a number of scandals involving Group employees during FY2002. To prevent the recurrence of these incidents, we have already taken or will be taking the following steps to ensure that all Group managers and staff respect the fundamentals of compliance.

Establishment of an Internal Reporting System ("Whistle-blower" System)

The Corporate Ethics Hotline, an internal reporting system (also known as a "whistle-blower" system), was set up in January 2003 as a Group-wide initiative. This system is intended to be a self-monitoring system for the Group and to serve as a check on activities that could damage the Daiwa Securities Group brand. The protection of employees who report improprieties and the wide use of different forms of communication, such as the Group's intranet, e-mail, letters, teleconferencing, and meetings, as well as establishment of counseling system with outside lawyers will encourage the use of the system.

New Developments at Daiwa Securities

We will carry out thorough measures to prevent the occurrence of improper activities in Daiwa Securities' retail operations by more closely examining records of discussions between sales people and customers and by having compliance officers randomly sample the records of such meetings. To this end, we increased the number of staff in the Compliance Division whose responsibility is to examine retail offices by nine to a total of 60 starting in February 2003.

New Developments at Daiwa Securities SMBC

We will expand the scope of the compliance training system for the wholesale securities operations conducted by Daiwa Securities SMBC. Furthermore, employees seconded to Daiwa Securities SMBC will be obligated to participate in this training program. In addition, effective April 2003, insider-related information has started to be administrated on an individual basis (from a departmental basis), the rules governing the ability of managers' family members to open accounts were tightened, and a trading monitoring system was set up under the aegis of the Legal & Compliance Department.

Human Resource Management

Sustainable growth can only be achieved by companies that have the ability to attract talented people.

Our goal is to create an environment where employees thrive, take pride in their work and are satisfied. Along with implementing a performance-based evaluation system and offering a broader range of choices to our employees, we will establish a fair evaluation system and continue reforms aimed at enhancing employee capabilities.

Emphasis on People: The Cornerstone of the Daiwa Securities Group Corporate Principles

The source of the Daiwa Securities Group's competitive edge and the foundation of its brand building are its people. It is not simply enough to increase the capabilities of our employees; we must also create systems and an environment in which they believe in what they are doing, as well as take pride in and derive satisfaction from their work. Based on this philosophy, and within the framework of the "Best Brand Daiwa 2005" medium-term management plan running from FY 2003 to FY 2005, the Daiwa Securities Group is implementing a four-point program for human resource management within the Group: (1) enhancement of performance based evaluation system (2) providing diverse career options (3) implementing a fair evaluation system and (4) improving the quality of human resources.

Taking a More Comprehensive Approach to Performance-based Evaluation System

The first main point of the human resource strategy laid out in the medium-term management plan is the comprehensive implementation of performance-based standards. The primary aim of this is to motivate our employees by having their compensation reflect differences in performance, based upon the yardsticks of "quality of work" and "productivity." We intend to carry out the following reforms of our personnel system:

1. *Introduce a system for employee compensation based on work classification, and*
2. *Use more detailed personnel evaluations and create wider differences in salary.*

In introducing the system for compensating employees based on their job classification, the Group will develop a separate salary scale for each work classification – such as sales, administration and clerical. Bonus payments will also be differentiated under this system. Regarding personnel evaluations, the current 11-step monthly salary evaluation will be refined to a 16-step evaluation. This will help us to compensate our employees more appropriately in accordance with their work performance.

Providing Diverse Career Options

The second main point in our human resource strategy is an expansion in career choices. Along with extending the intra-group job posting system, which started in 2001, we will proactively promote management level personnel exchanges between Group companies. Daiwa Securities will provide enhanced career opportunities for employees interested in pursuing a career in sales by expanding our Area Financial Advisors – i.e., sales people who work in a specific geographic area. We will also implement career management programs that support our employees' ability to design their own careers.

Implementing a Fair Evaluation System

The third main point is the establishment of a fair personnel evaluation system. A multi-directional evaluation system was introduced to the Group holding company in January 2002. Under this evaluation system, members of one department evaluate other departments. This is in addition to the existing two-way evaluation system, in which managers evaluate their subordinates and vice-versa. Plans are in place to introduce this evaluation system beyond the holding company to include all Group companies. In addition, the Group's retail subsidiary, Daiwa Securities is considering including feedback from customers in its evaluation system.

Improving the Quality of Human Resources

The fourth aspect of our personnel strategy is to improve the quality of our personnel. In addition to bringing in outside expertise, the Daiwa Securities Group will strengthen its capabilities through a wide variety of training programs and personnel exchanges. While further enhancing management development programs such as the Daiwa Management Academy, additional programs will be introduced to prepare for the introduction of a nominating committee as we make the transition to the committee system of management in FY 2004.

Financial Strategy

The Daiwa Securities Group aims to achieve "sustainable growth." We will achieve this by focusing management resources on our core businesses and thus enhancing the quality of our services and by managing the risks inherent in each of our businesses.

We will continue to control risks, increase liquidity, and reduce financial costs by reducing non-core assets and external debt.

We will increase our exposure in businesses related to industrial revitalization and support start-up businesses while maintaining an appropriate level of shareholders' equity.

Maintaining a Balance between Growth and Financial Strength

In addition to the traditional securities and asset management businesses, our core businesses now include venture capital and principal finance. These new business lines which engage in industrial revitalization and development and the promotion of new businesses tend to have revenue flows that are closely linked to various macroeconomic factors such as movements in the equity market and interest rates. For us to improve the quality of our core businesses and achieve sustainable growth under these circumstances, it is important that we accurately monitor and carefully lay out an effective contingency plan to manage not only the price volatility and credit risks but also any financial risks.

"Selectivity and Focus" Based on Our Management Strategy

In order to attain sustainable growth by enhancing the quality of customer service in our core businesses, we will continue to dispose of assets and repay external debt not closely related to our core businesses. This will not only enable us to reduce financial risks without sacrificing our core business, but will allow us to increase the capital available to further reinforce our core businesses.

Under the previous medium-term management plan (FY 2000-2002), we reduced our consolidated fixed assets from ¥828.4 billion to ¥638.9 billion. Included in this figure are tangible fixed

assets, which fell from ¥324.5 billion to ¥162.3 billion. Accompanying our decision to withdraw from the business of leasing property to non-Group entities, we marked down the book value of related real estate to the anticipated selling price based on the discount cash flow method. Also, excluding the "bank subordinated debt, etc." acquired from DAM's MMF portfolio after the regulatory reforms instituted by The Investment Trusts Association were announced in FY2001, investment securities declined to approximately ¥142 billion by the end of FY 2002. This was a reduction of ¥77 billion in three years.

Utilizing the funds freed from these investments enabled us to reduce external debt in our non-core businesses. Our external debt, which stood at ¥916 billion at the end of FY 1999, declined by ¥381 billion to ¥535 billion by the end of FY 2002. This represented an improvement of approximately ¥8.4 billion in financial expenses for the final year of our previous medium-term management plan (see Special Feature I for details).

Efficient Allocation of Management Resources Based on Our Business Plan

The holding company will allocate the funds and capital necessary for each company in our Group to realize sustainable business development and growth. These decisions will be based on business plans formulated for both our core businesses and support divisions with the ultimate goal of achieving sustainable growth. The exceptions are the securities subsidiaries and the listed subsidiary (NIF Ventures) which are responsible for procuring and managing their own liabilities. This policy stems from the fact that for a securities company, raising funds is part of its own business activities, and for a publicly traded subsidiary, liquidity management should be conducted independently from the parent company. The Group has adopted this policy subject to an adequate risk management system being maintained at the subsidiary level.

Future Financial Strategy

In the future, we also expect to see an expansion in businesses that require a large amount of capital, such as investments in start-up businesses and new opportunities related to industrial revitalization. Thus, we intend to further reduce our non-core assets and liabilities and investigate the possibility of raising equity. Going forward, our goal is to reduce fixed assets unrelated to our core business by ¥100 billion and slash our external debt by ¥120 billion.

Segment Information
 1. Net operating revenues by business segment
 The Company and its consolidated subsidiaries' revenues are derived from the following business segments: (1) Securities business, (2) Real estate business, (3) Insurance business, (4) Other business, (5) Investment and financial services.
 2. Net operating revenues by geographic area
 Net operating revenues: Selling, general and administrative income by geographic area are as follows.

	Japan	America	Europe	Asia and Oceania
Fiscal 2002 ended March 31, 2003				
1. Net operating revenues and expenses (millions of yen)				
Net operating revenues from external customers	237,464	6,976	21,130	
Intersegment revenues	2,254	699	2,300	
Net operating revenues	239,719	7,676	23,430	
S.G. & A. expenses	215,664	11,080	19,944	
Operating income (loss)	24,054	(3,403)	3,485	
2. Assets	7,270,670	1,817,690	636,448	63
Fiscal 2001 ended March 31, 2002				
1. Net operating revenues and expenses (millions of yen)				
Net operating revenues from external customers	240,541	16,434	21,022	4,933
Intersegment revenues	9,724	648	1,530	
Net operating revenues	250,265	17,082	22,552	
S.G. & A. expenses	226,435	15,106	24,111	
Operating income (loss)	23,830	1,976	(1,559)	
2. Assets	7,270,670	1,817,690	636,448	63

Timely, appropriate and fair disclosure is essential to win the confidence of our stakeholders and to establish the Daiwa Securities Group Brand. We aim to expand communication channels with each of our stakeholders and to establish a consistent disclosure policy.

Furthermore, we will improve communication with our shareholders to gain their trust. The trust of our shareholders is essential to achieve the Group's aim of management based on building the Group's corporate brand.

Utilizing Various Means of Communication

The Corporate Communications Department will endeavor to disclose management information, such as earnings figures, and its corporate strategy in a timely, appropriate and fair fashion by utilizing various means of communication.

A conference call for analysts, institutional investors and the press is held in the afternoon of the quarterly earnings announcement. This conference call is web cast live and can be accessed from the Group's investor relations website for the convenience of individual investors. In the evening of the same day, we host another conference call, this time in English for our overseas investors.

Furthermore, in order to promote understanding of the Group's strategies going forward, the CEO hosts a semi-annual Strategy Meeting for analysts, institutional investors and the press. The CEO and other members of the management also visit investors outside of Japan on a semi-annual basis.

The presentation material used at the conference calls and meetings is posted on the investor relations website (<http://www.ir.daiwa.co.jp/>) together with other press releases and earnings announcements both in English and Japanese.

We believe the Internet is an indispensable tool that allows us to reach out to both our domestic and overseas stakeholders. To this end, we will work to provide easy-to-understand information and improve the accessibility of our website.

Increasing Opportunities to Communicate with Shareholders

Gaining the trust of our shareholders is necessary to achieve our target of managing the Group based on establishing a brand. Thus we are making various efforts to increase communication channels with our shareholders.

We have taken various measures to initiate an active dialogue between management and the shareholders at our general meeting which is held every year towards the end of June. For example, we have accelerated the mailing date of the Notice of Convocation to shareholders, moved the date of the meeting forwards to avoid the day the majority of companies hold their meetings, introduced voting over the Internet, and also started live broadcasts of the meeting to Osaka and Nagoya via in-house satellite facilities. We will continue to introduce new measures to make the shareholders' meeting more accessible.

In FY 2001, we enlarged the semi-annual newsletter we send out to shareholders to allow for larger fonts and more graphics. We believe this made our newsletter easier to read.

We have also introduced a point system for shareholders utilizing Daiwa Securities' mileage program (points are awarded based on transaction value as well as assets under custody and can be redeemed for goods and services). By utilizing these points, shareholders can gain access to various services such as the waiver of their account management fees.



IR website
<http://www.ir.daiwa.co.jp/>

Education, Research and Contribution to Society

The Daiwa Securities Group believes strongly in the importance of social responsibilities. Based on the conviction that our activities as corporate citizens represent an investment in society, we are working actively to make various contributions.

Promoting education and research in the finance and securities field, supporting volunteer activities by employees, aiding regional and international societies through foundations and supporting the arts and cultural activities are just some of the ways we participate in the development of education and research and contribute to society. In the area of environmental protection, we are involved in recycling, energy conservation, and setting up ecofunds. The Group, our member companies and our employees would like to contribute further to the healthy development of society and the protection and improvement of our environment.

The Prosperity of the Daiwa Securities Group Is Dependent upon Society's Understanding of Capital Markets and Its Healthy Development.

We at the Daiwa Securities Group cannot attain our goal of sustainable growth simply by expanding our business. Corporate prosperity is dependent upon society's understanding of capital markets and its healthy development. We acknowledge that the larger a company grows, the greater are its responsibilities to society. The Daiwa Securities Group, our member companies, and the Group's employees will actively promote education and research, contributions to society, and the protection of the environment. In July 1999, the Daiwa Securities Group established the Corporate Community Affairs Department to oversee and promote social contributions and environmental protection.

Cooperation with Universities

The Daiwa Securities Group believes it has an important social obligation to contribute to the development of investor education. We feel it is extremely important to maintain a certain level of activity and investment in this area, regardless of changes in the business environment or in our financial performance.

The Daiwa Securities Group engages in comprehensive academic collaboration in the areas of finance and management

with one of Japan's premier business schools, the Graduate School of International Corporate Strategy, Hitotsubashi University. The Group has also tied up with Kyoto University's Graduate School of Economics in the area of financial engineering and has sponsored or co-sponsored lectures at both schools. Plans have also been made to have Daiwa Securities' marketing strategy included as a case study at the Keio University Business School. In preparation for this, we have provided the Business School with a variety of data and information, while our Group personnel and other speakers have offered lecture series. Additionally, managers at Daiwa Securities' branch offices across Japan are engaged in business-university investor education outreach programs in the form of lectures at local universities. Furthermore, a number of executives from Group companies are involved in giving lectures at graduate schools, universities and junior colleges, promoting knowledge about finance and capital markets.

Implementation of a Social Contribution Program during Training for New Employees

In FY 2000, we introduced a Social Contribution Program as part of our training program for newly recruited employees. In this program, new employees learn sign-language, clean up the neighborhood surrounding the Tama Training Center,



540 employees and their families participated in the cleaning activity of Kuju-kurihama Beach.

and provide support at senior citizens' facilities, among other activities. Furthermore, in FY 2001, we incorporated into our executive training program a course that involves hands-on experience at a welfare facility. The objective of this is to make our Group managers aware of their responsibilities to play a leading role in contributing to society. Through these training programs, an awareness of the importance of contributing to society has expanded to Daiwa Securities' branch offices and individual employees.

Support Activities through Daiwa Securities Group Foundations

Founded in 1972, the Daiwa Securities Health Foundation supports studies and researches into the prevention and treatment of common diseases and works to increase the awareness of health maintenance and improvement. The Daiwa Securities Social Welfare Foundation, established in 1994, supports a wide variety of volunteer activities in the areas of social welfare and medical treatment. The Daiwa Anglo-Japanese Foundation, which is based in London, was established in 1988 to promote mutual understanding and friendship between Japan and the U.K.

Supporting Cultural Activities

The Daiwa Securities Group is also a strong supporter of the arts such as opera, theater, painting exhibitions, and other cultural events. In May 2002, the Group sponsored "An Exhibition of Marc Chagall - Treasures of the Pompidou Center & the Chagall Family," inviting 210 guests, including some physically challenged individuals and families from single-mother support centers.

Recycling

The enormous quantity of food waste generated at our employee cafeteria is collected and converted into fertilizer for agricultural use. Furthermore, our Group companies are actively engaged in the recycling of garbage as well as personal computers and other hardware.

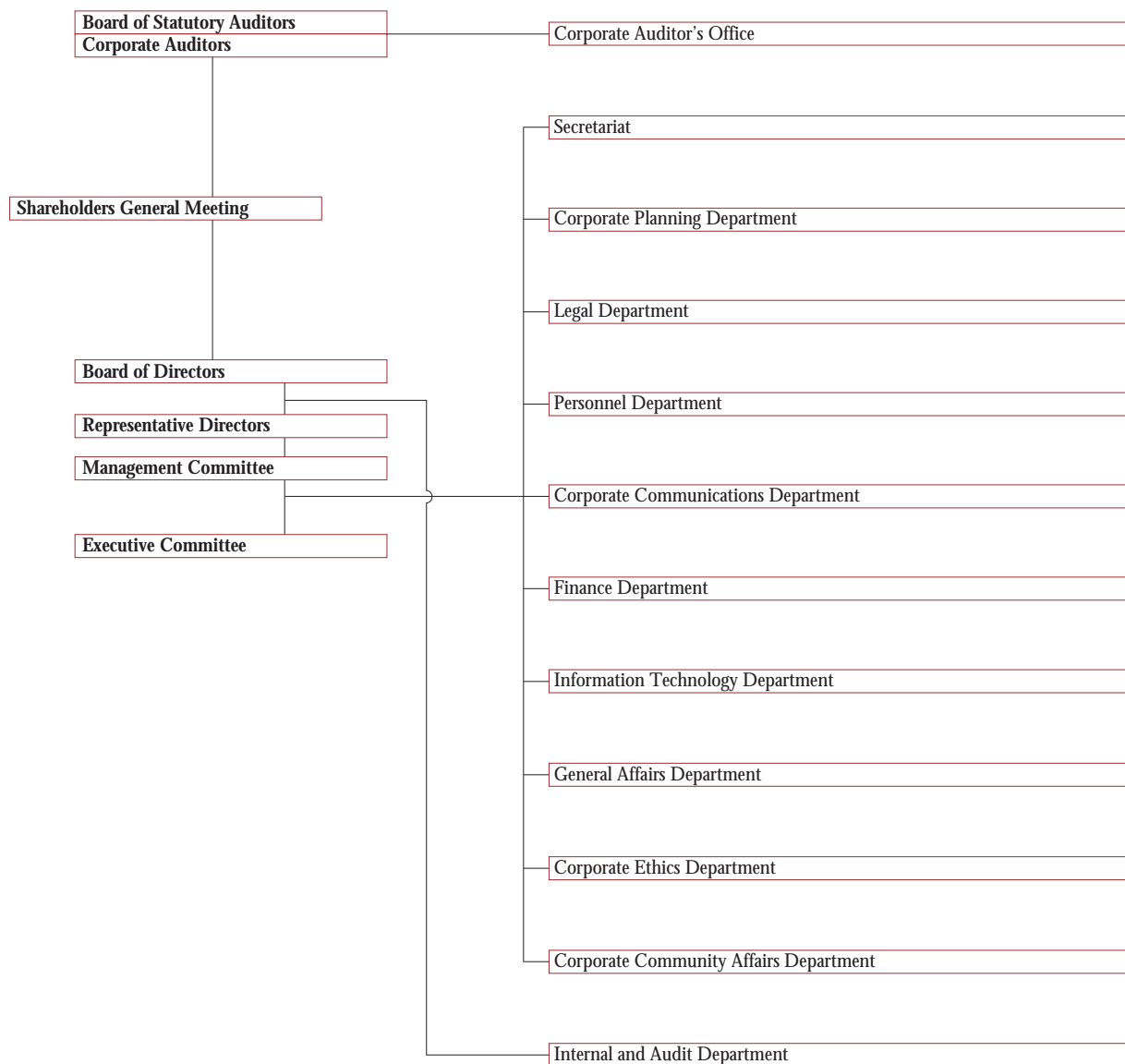
Energy Conservation

The companies of the Daiwa Securities Group and its branch offices are working actively to reduce electricity and energy consumption by consciously switching off electrical appliances and computers when they are not in use. At some of its facilities, the Daiwa Institute of Research has installed "eco-office equipment" which uses the waste heat generated by computer equipment to heat water and produce night time electricity. Moreover, by using an electronic data warehouse (EDW) to store data electronically, Daiwa Securities has achieved a 40% reduction in the amount of paper generated in its computer operations.

Socially Responsible Investing (SRI)

Daiwa SB Investments, one of the Group's asset management companies, manages the Global Eco-Growth Fund" (Mrs. Green). By investing in companies that are proactively protecting the environment, it indirectly contributes to increasing our societies' awareness of the importance of preserving the environment.

► **Daiwa Securities Group Inc. : Organization** (As of June 30, 2003)



Directors:

President and CEO

Yoshinari Hara

Senior Managing Director and Executive Officer

Tatsuei Saito

Managing Director and CFO

Junichiro Wakimizu

Managing Director and Executive Officer

Junji Takasaki

Director and Executive Officer

Kenji Hayashibe

Outside Director

Tetsuro Kawakami

(Counsel of Sumitomo Electric Industries, Ltd.)

Outside Director

Ryuji Yasuda

(Chaired Visiting Professor, Hitotsubashi University Graduate School.)

Group Executive Officer

Tetsuo Mae

(Deputy President, Daiwa Securities Co. Ltd.)

Group Executive Officer

Akira Hasegawa

(Senior Managing Director, Daiwa Securities Co. Ltd.)

Group Executive Officer

Toshiro Ishibashi

(Managing Director, Daiwa Securities Co. Ltd.)

Group Executive Officer

Kenjiro Noda

(Deputy President, Daiwa Securities SMBC Co. Ltd.)

Group Executive Officer

Shigeharu Suzuki

(Senior Managing Director, Daiwa Securities SMBC Co. Ltd.)

Group Executive Officer

Michihito Higuchi

(Senior Managing Director, Daiwa Securities SMBC Co. Ltd.)

Corporate Auditors:

Hiroyasu Kawaguchi

Mitsugi Kishimoto

Masahiro Yoshiike

(President, Taiyo Life Insurance Co.)

Isao Takemura

Advisory Board:

Kazuo Inamori

Founder and Chairman Emeritus, Kyocera Corporation

Jiro Ushio

Chairman and CEO, USHIO INC.

Glen S. Fukushima

Chairman, Cadence Design Systems, (Japan) B.V.

Hiroataka Takeuchi

Dean, Hitotsubashi University Graduate School
of International Corporate Strategy

Executive Officers:

Executive Officer

Ikuo Mori

Group Executive Officer

Akira Kiyota

(President, Daiwa Securities SMBC Co. Ltd.)

Group Executive Officer

Teruo Hatano

(President, Daiwa Asset Management Co. Ltd.)

Group Executive Officer

Tatsuhiko Kawakami

(President, Daiwa Institute of Research Ltd.)

Compensation Committee:

Ichiro Kawamoto

Attorney-at-Law, Senior Partner, Kawamoto & Miura

Yukio Yanagida

Attorney-at-Law, Senior Partner, Yanagida & Nomura

Ryuji Yasuda

Outside Director, Daiwa Securities Group Inc.

Yoshinari Hara

President and CEO, Daiwa Securities Group Inc.