



Group Management System

Aiming for Sustainable Growth and Development,
Together with Society

The Daiwa Securities Group is well aware that balancing growth, profitability, and stability is the key to maximizing corporate value. Under a sound management system, the Group is working to improve itself on an ongoing basis, reflect opinions from outside the Group, and contribute to society and the environment. In short, the Daiwa Securities Group is working to achieve co-prosperity with our stakeholders.

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Management Philosophy

The notion of **corporate social responsibility (CSR)** has received much attention in recent years. Although the term CSR is not new, the idea behind it is beginning to change. The Daiwa Securities Group believes **CSR is in essence a company's social "trust,"** not a "responsibility" that is to be passively dealt with. Thus the Group has positioned CSR as a cornerstone of brand management and is promoting it accordingly.

Corporate Principles

The Daiwa Securities Group values customer trust above anything else. We believe that the Daiwa Securities Group Brand can be established only after we earn their trust. With this in mind, the Daiwa Securities Group has established a set of "Corporate Principles" as its spiritual pillar. Putting "customer trust" at the top of the list, we pledge to respect "human values" as the source of our competence, pursue "social justice" to bring prosperity and pride, and generate "sound profits" to enhance corporate value through sound business development.

Brand Statement

In October 2000, the Daiwa Securities Group initiated the Corporate Branding Project aiming to establish a brand backed by customers' trust. Consequently, in March 2001 we issued a Brand Statement, expressing explicitly our promises to our customers.

Corporate Social Responsibility (CSR)

The growing interest worldwide in CSR reflects the rise in sustainability issues on a global basis, such as environmental problems, the rise in social instability and the increasing gap between the rich and poor. In order to tackle these problems, companies are expected to play an essential role. Instead of favoring certain stakeholders such as shareholders or customers, companies now require management skills that enable them to balance the needs of all stakeholders. The Daiwa Securities Group regards CSR as corporate governance in a broad sense, and believes that appropriate disclosure and communication activities are indispensable.



Corporate Governance

The Daiwa Securities Group will strive to maintain its leadership role in establishing corporate governance.

Subsequent to a resolution passed at the general shareholders' meeting in June 2004, Daiwa Securities Group Inc. has made a transition to a **"committee system"** of corporate governance which makes a clear distinction between the supervisory and executive functions of corporate affairs. **The Group will aim to further enhance the transparency and objectivity of management under this new system.**

In FY 2003, the Group established a **Disclosure Policy**, defining its attitude towards the fair, accurate, and timely disclosure of corporate information. In addition, an Internal Control Committee was founded to prepare internal control, risk management and internal auditing systems.

The Transition to a "Committee System" of Corporate Governance

In 1999, the Daiwa Securities Group became the first publicly traded Japanese corporation to make the transition to a holding company system. In doing so, the Group created a group management system that enabled maintaining both the independence and unique expertise of each company within the Group. Moreover, in June 2004, the holding company of the Group switched to a "committee system" of corporate governance, whereby a Nominating Committee, an Audit Committee, and a Compensation Committee (so called Three Committees) plus Executive Officers were set up as required by law. As a result, the supervisory and executive functions of management were clearly separated. The aim of this transition is as follows:

1. To enhance transparency by increasing the number of Outside Directors and setting up Three Committees—Nominating, Audit and Compensation Committees.
2. To effectively and efficiently implement divisional strategies, based on overall Group strategies, by posting Group Executive Officers to main executive positions of Group companies.
3. To improve the agility in decision making, by delegating a broad range of authorities from the Board of Directors to the Executive Officers and clarifying the Officers' management responsibilities.

Within Daiwa Securities Group Inc., the Board of Directors and the Three Committees has a supervisory function, while the Executive Committee and Officers will be responsible for the execution of management decisions. We aim to further enhance the transparency and objectivity of management through this new governance system.

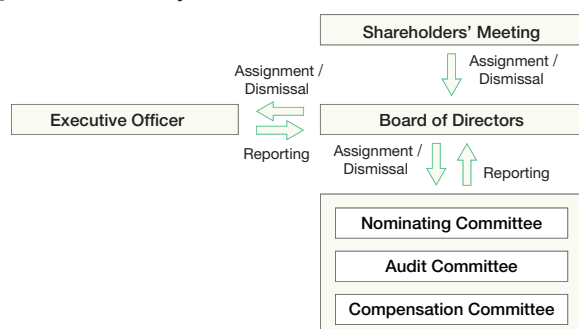
Establishing a Disclosure Policy

Practicing fair disclosure of corporate information is essential to ensuring management transparency and improving corporate governance. The Daiwa Securities Group believes that, fair, timely, and appropriate disclosure is fundamental to promote a better understanding of the Group among its stakeholders, including shareholders, investors and the local communities. Such an understanding will contribute to their ability to form realistic expectations concerning the Group. In March 2004, the Group established a Disclosure Policy to explicitly state its fundamental attitudes regarding information disclosure. Moreover, to further increase the effectiveness of this policy, Daiwa Securities Group Inc. has established Disclosure Regulations, which stipulates the Disclosure Committee's creation, as well as the processes and methods for disclosing information. In addition, the Group's major subsidiaries have implemented similar regulations to standardize the Disclosure Policy within the Group. The Group's "Management-Related Information" mentioned in these regulations includes not only information obliged by law or rules, but also information that is required of us to carry out our social responsibilities as a member of society. Such information includes information regarding compliance, corporate governance, and impacts on local communities and the environment.

Establishment of the Internal Control Committee

In its role as a subcommittee of the Executive Committee, the Internal Control Committee deliberates and decides issues concerning the preparation of internal control, risk management and internal auditing systems related to the Group's management. The Internal Control Committee is in principle held every three months to enhance the internal control system.

The Committee System



Compliance

The Daiwa Securities Group believes **compliance lies at the foundation of the Daiwa Securities Group Brand** that we aim to build and is essential to our continued existence as a corporation. Based on this belief, the Group has raised awareness of compliance issues among all executives and staff through visits to branch offices by the Group's Compliance Division and by holding study sessions. In addition, the Group has established a system for monitoring the compliance situation at each Group company.

Efforts at Daiwa Securities Group Inc.

Daiwa Securities Group Inc. introduced the Corporate Ethics Hotline (an internal reporting system) in January 2003 as a Group-wide initiative. This system is intended to be a self-monitoring system for the Group that looks into potentially illegal acts and other activities that could damage the Daiwa Securities Group Brand. The system provides protection for informants and offers a wide variety of methods for reporting, such as by telephone, e-mail, and the Group's intranet.

New Developments at Daiwa Securities

In FY 2002, Daiwa Securities Co. Ltd. (Daiwa Securities) increased the number of staff at the Compliance Department and strengthened the monitoring system and compliance guidance at its branch offices. Following this, Daiwa Securities appointed five compliance sub-leaders (regional officers) for each compliance leader in FY 2003. Additionally, in April 2004, Compliance Officers were assigned to each Satellite Branch. These Compliance Officers, who report to the Compliance Department, advise and supervise retail supervisors and internal administration supervisors in retail branches as an outsider. Daiwa Securities has also extended training sessions for internal administration supervisors, compliance inspection training and training for mid-career sales people, starting from FY 2003.

New Developments at Daiwa Securities SMBC

Daiwa Securities SMBC Co. Ltd. (Daiwa Securities SMBC) is working to strengthen its compliance control system, primarily through its Compliance Department. Since FY 2002, employees of the Investment Banking Division have been required to obtain approval from the head of the Compliance Department before trading securities. This rule has been extended to apply to all management and employees from January 2004.

Moreover, Daiwa Securities SMBC has expanded training sessions in order to encourage awareness on compliance. In FY 2003, compliance sessions were extended to include a wider range of employees. Furthermore, group training sessions were introduced for newly appointed officers, department heads and employees that have been promoted. Customized training sessions for different divisions and themes in line with operational characteristics are also conducted. In addition, internal administration supervisors within each department are now also assigned to the Compliance Department, thereby strengthening internal restraint functions.

Environmental Reporting

The Daiwa Securities Group is aware that **maintaining a healthy environment is the foundation for achieving sustainable corporate growth**, and that as a member of society the Group has obligations in this regard. Based on this awareness, the Group has collected data on main environmental burdens, monitored changes over the years, and has taken appropriate action in response.

Energy Conservation

The Group's employees are working to reduce energy consumption on a daily basis by switching off office lighting and electrical appliances when they are not in use. In addition, when replacing equipment, energy-saving models are installed whenever possible. Some of the Daiwa Institute of Research Ltd. (DIR)'s facilities have installed an "Eco-Ice" system, which uses waste heat to generate hot water and to supply nighttime energy. As a result of these efforts, the Group's electricity consumption at its main office buildings, which had remained flat since FY 2000, declined by 4% in FY 2003. Consumption of city gas which has been gradually declining also dropped 13% in FY 2003.

Reducing CO₂ Emissions

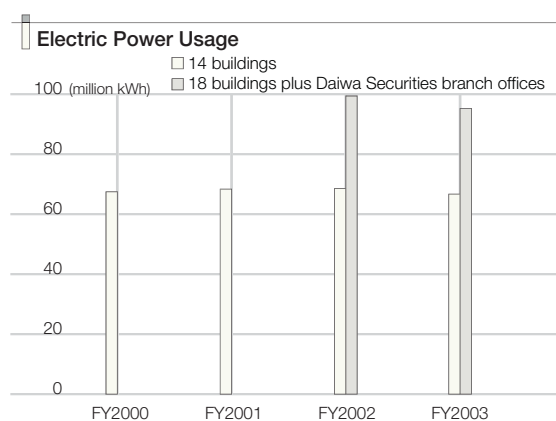
The Group submitted to the Tokyo Metropolitan Government in 2002 a "Global Warming Action Program" for three of its relatively large office buildings, the Daiwa Securities Headquarters Building, Eitai Daiya Building, and DIR Eitai Building. By FY 2004, we aim to reduce emissions of greenhouse gases (CO₂ equivalent) from these buildings by 2.0%, 0.1%, and 1.9% respectively from FY 2001 levels, and are taking appropriate actions. As of FY 2003, the figures relative to FY 2001 levels have been a reduction of 12%, 3%, and an increase of 1% respectively.

Reducing Water Usage

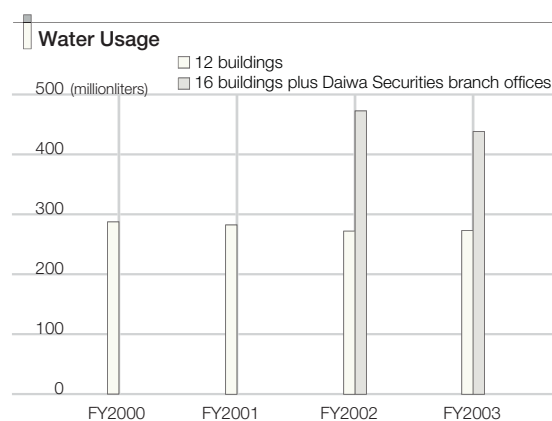
Water usage at the Daiwa Securities Group has been gradually declining since FY 2000. This is the result of both a campaign to reduce water waste, and the installation of water-saving devices at company cafeterias and lavatories. In FY 2003, water usage decreased 7% from 473 millionliters in FY 2002 to 438 millionliters.

Resource Conservation, Recycling, and Waste Reduction

The biggest issues the Daiwa Securities Group faces in "conserving resources, recycling, and reducing waste" are lowering paper usage and recycling paper waste. Utilization of e-mail and the Group intranet have greatly reduced the amount of paper documents that circulate internally. We also encourage using both sides of a paper when confidentiality is not a concern. Daiwa Securities' investment fund prospectuses have been available electronically since May 2003 so that customers can view them on their PCs instead of in paper form. The Group makes every effort to sort its paper waste and coordinates with waste management companies to monitor the recycling situation. The rate of paper recycling averages just under 90%.



*Scope of data collection was expanded in FY 2002.



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Social Reporting

Corporate Social Responsibility

Based on the belief that **the healthy development of society is the foundation of its business activities**, the Daiwa Securities Group will further engage in Corporate Social Responsibility (CSR) activities, through both its core businesses and social activities.

Corporate Social Responsibility Activities through the Group's Core Businesses

Socially Responsible Investment (SRI)

SRI is a means of using market mechanisms to channel funds in areas that benefit the society. This is a field in which the Daiwa Securities Group can contribute through its core securities business. In June 2001 the Group commenced offering Mrs. Green, an eco-fund launched and managed by Daiwa SB Investments Ltd. that selects stocks based on their environmental awareness. In October 2003, the Group also commenced sales of the UBS Global Equity 40 investment trust fund, which selects stocks based on the degree to which they have implemented CSR. In May 2004, the Group also started offering the Daiwa SRI Fund, a fund established and managed by Daiwa Asset Management Co. Ltd. (DAM). This fund selects stocks based on their corporate integrity and transparency.

Education and Research Activities

Another area in which the Daiwa Securities Group's core business can contribute to society is through providing investment education and supporting research in economics and finance. The Group provides support for industry-academia alliances and university ventures. The Daiwa Securities Group has formed a partnership with Waseda Graduate School of Finance, Accounting and Law, which opened in April 2004. As part of this, an endowment chair, "Bond Investment," was established. Going forwards, the partnership will contribute to the development of capital markets through joint research, the dispatch of lecturers, and internships. In addition, Daiwa Securities' branch managers and Group company executives and staff lecture at numerous graduate schools, universities, and junior colleges, helping to promote knowledge regarding finance and capital markets. Moreover, the Group provides support for hands-on economic education for junior-high and high school students through Junior Achievement, the U.S.-originated youth economic education NPO.

Social Activities

Support for Employees Performing Volunteer Activities

The Daiwa Securities Group sponsors a variety of volunteer activities, primarily through its CSR Promotion Department at Daiwa Securities Group Inc., and participates in cultural activities sponsored by other organizations and corporations. In addition, the Group has introduced a Social Contribution Program as part of the training session for new employees. It is also working to increase awareness among executives and staff regarding social contribution by incorporating into its executive training program a course that involves hands-on experience at a welfare facility.

Support Activities through Three Foundations

The Daiwa Securities Group engages in regional and international support activities through three Group foundations. Founded in 1972, the Daiwa Securities Health Foundation supports studies and research in the prevention and treatment of lifestyle diseases, and works to increase the awareness of health maintenance and improvement. The Daiwa Securities Foundation, established in 1994, supports a wide variety of volunteer activities in social welfare and medical treatment. The Daiwa Anglo-Japanese Foundation, established in 1988, promotes 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 and June 2003 the Group sponsored Tokyo and Shiga performances by the Fondazione Teatro Lirico "Giuseppe Verdi" Trieste opera company from Northern Italy.

Human Resource Management

The source of the Daiwa Securities Group's competitive edge and the foundation of its efforts to establish brand recognition are its people. To enable employees to believe in what they are doing, as well as to take pride in and derive satisfaction from their work, **enhancing the Group's human resource management system** was made a priority issue in its medium-term management plan.

Enhancing Performance-Based Remuneration Systems

The Daiwa Securities Group has worked to increase the motivation of its employees by having their compensation reflect differences in performance, based on the "quality of work" and "productivity." In addition, the Group has introduced a system for employee compensation based on work classification, and, by increasing the layers of evaluation has created wider differences in salary. Moreover, a performance-based annual salary system has been introduced for analysts at DIR and fund managers at DAM.

Providing Diverse Career Options

To widen the range of possibilities for employees with particular interest and skills, the Daiwa Securities Group is expanding the scope of its intra-group job posting system, which started in 2000. This system allows employees to transfer to the department of their choice within the Group, provided they meet the necessary job qualifications and pass a written examination and a face-to-face interview. Intra-group job posting has been conducted six times up to FY 2003, with the number of employees applying and accepted steadily increasing.

Implementing a Fair Evaluation System

Fair personnel evaluation is a critical part of human resource management. At the Daiwa Securities Group, both a two-way and a multi-directional evaluation system are used. While superiors and their subordinates evaluate each other in the two-way evaluation system, the multi-directional evaluation system further improves fairness by including evaluation from other relative departments. The multi-directional evaluating system is currently used at Daiwa Securities Group Inc. and Daiwa Securities SMBC, and is planned to be implemented in other Group companies in the future.

Elevating Human Resources

In addition to actively hiring employees with specialized skills, the Daiwa Securities Group is working to enhance its training system, which augments the specialized knowledge and skills of employees. Daiwa Securities and Daiwa Securities SMBC introduced an e-learning system in FY 2002 and FY 2003, respectively. The system supports the efforts of the Group managers and employees to upgrade their skills. The Group is also promoting the acquisition of specialized knowledge and the upgrading of skills by enhancing support for employees seeking to acquire external credentials, as well as by introducing an internal credential system. To help managers upgrade their skills, the Group offers the Daiwa Management Academy program to selected general managers and branch managers and the Daiwa Leadership Program to selected deputy general managers. Additionally, from FY 2003 the Group has started offering a Career Management program.

Economic Reporting

Financial Strategy

The Daiwa Securities Group's most important objective is to achieve sustainable growth of shareholder value. To this end, **management strategies are centered on ROE** for which management is held accountable. To be more specific, sustainable growth will be pursued by concentrating management resources on securities-related businesses and through appropriate financial management that monitors risks inherent to each of these businesses.

Balancing Growth and Financial Stability

To achieve our goal of sustainable growth, the Daiwa Securities Group is concentrating its management resources on securities-related operations. And at the same time, the Group must monitor and control risks directly related to its core securities-related businesses, such as market risk and credit risk. In addition, it is essential to effectively address financial risk. To that end, we are disposing of assets that bear little relation to our core business.

Improving the Balance Sheet

In the four years from the end of FY 1999 to the end of FY 2003, the Daiwa Securities Group reduced its consolidated non-current assets from ¥828.4 billion to ¥555.6 billion. Included in this figure are tangible fixed assets, which fell from ¥324.6 billion to ¥143.1 billion. This was due to our decision to withdraw from the real estate leasing business, and to the adoption of accounting for impairment of fixed-assets two years ahead of its mandatory implementation in FY 2005. Over the same period, the Group reduced its portfolio of investment securities from ¥220.1 billion to ¥187.4 billion. The Group then used the surplus capital resulting from these asset reductions to reduce external debt in its non-core businesses from ¥916 billion at the end of FY 1999 to ¥473 billion by the end of FY 2003.

Efficient Allocation of Management Resources

While reducing financial risk, Daiwa Securities Group Inc., in accordance with the Group's business plans, allocates funds and capital necessary

for each Group company to realize sustainable businesses development and growth. However, the Group's securities subsidiaries (Daiwa Securities and Daiwa Securities SMBC) and its listed subsidiary (NIF Ventures Co., Ltd.) have established their own risk management systems, and procure and manage funds independently. This is because for a securities company, raising funds is part of its business activities, and for a publicly traded subsidiary, liquidity management should be conducted independently from the parent company.

Tracking Operating Results

Sustainable growth of shareholder value is the Daiwa Securities Group's top priority. To achieve this the Daiwa Securities Group formulates management strategies, and tracks operating results utilizing ROE as the most important indicator. To date, virtually the entire amount of consolidated shareholders' equity has been appropriately allocated to Group companies. However, as a result of implementing financial and business restructuring, this is likely to become a surplus from FY 2004 onwards. The Group will allocate this surplus equity to businesses that are viewed as having a higher growth potential and profitability. In doing so, the Group will attempt to exceed the medium-term management plan target of 12% by FY 2005, a year before the target date, and further aim for 15%, as a medium term target, considering return to shareholders at the same time.

Risk Management

The companies of the Daiwa Securities Group will **maximize returns while managing the various risks they encounter in their business activities**. In addition, relevant departments at the Daiwa Securities Group Inc. and other Group companies will work together to manage the overall risk for the Group. The following is a brief description of the Group's risk management systems. For further details, please refer to page 81 of this annual report, "Risk Management" of "Management's Discussion and Analysis."

Market Risk

The Group employs Value at Risk (VaR), which is a commonly used statistical management method, as an index for measuring and monitoring the market risk of its trading positions.

Market Risks Unrelated to Trading Positions

The Group sets limits to the amount of listed stocks it holds from a long-term perspective for business relationship purposes rather than for trading. The Group also measures its VaR which is reported to the Internal Control Committee on a quarterly basis.

Credit Risk

In the Group's wholesale securities business, credit limits are set for each client to restrain the amount of credit risk it is exposed to. In addition, the Group assigns clients its own internal ratings similar to those given by external ratings agencies. These internal ratings serve as a standard for judging whether or not to execute transactions.

Liquidity Risk

The majority of the Group's assets are highly liquid, but to secure solvency, it is important to maintain and manage liquidity. The Group maintains a liquid portfolio that will allow it to handle demand for funds over a period of about one year, without relying on new uncollateralized fund procurement. This it to ensure that business activities can continue even in the event of a credit crunch stemming from sharp fluctuations in the market environment.

Operational Risk and Computer System Risk

The Group is working to reduce the operational risks of each business line by establishing necessary measures, such as setting rigid rules concerning authority, the automation of manual clerical work to reduce human error, and the reexamination of its business manuals.

Legal Risk

To ensure no infringement of laws and regulations governing securities-related and other businesses, the Group has set up sections in charge of compliance at each company and will discuss compliance issues at committees consisting of Directors from the Management Committee, etc.

Reputation Risk

The Group has issued a Disclosure Policy, which lays out the Group's policy for control and disclosure of corporate information. It has also established internal regulations based on this disclosure policy and has set up a Disclosure Committee, which is a subcommittee of the Executive Committee.

Investor Relations (IR)

Timely, fair and appropriate disclosure of financial and management-related information is a prerequisite. The Daiwa Securities Group aims to **win the trust of its stakeholders and build a brand** by providing easy to understand explanations of strategies and business trends, as well as by improving transparency of management.

Utilizing the Website

The Daiwa Securities Group, primarily through the holding company's Corporate Communications Department and Investor Relations Department, discloses corporate information using various communication methods and attempts to eliminate information gaps between stakeholders. Earnings information, which is reported quarterly, is posted to the Group's IR Website immediately after announcement. Furthermore, conference calls for institutional investors and analysts are held on the day the results are announced. The first, held late in the afternoon, is in Japanese, while the second, in the evening, is in English. This conference call is also made available on the IR Website in real time. The majority of information posted on the IR Website is also available in English for the benefit of overseas investors and analysts.

The CEO holds management strategy briefings twice a year in Japan. The CEO and CFO, as well as staff from Investor Relations, also travel to Europe, North America, and Asia to meet with investors individually and hold company briefings. The presentation materials used at these briefings are posted to the IR Website, as are streaming videos of management strategy briefings.

Increasing Opportunities to Communicate with Shareholders and Investors

The Daiwa Securities Group is also making efforts to increase opportunities for communication with individual shareholders and investors. Given the fact that the majority of shareholders of the Group have never attended the general shareholders' meeting, the Group has taken steps to make the meeting more accessible. Examples of this include the introduction of voting over the Internet and live broadcasts of the meeting to Osaka and Nagoya via in-house satellite facilities. In addition, the Group has made its semi-annual business report easier to read and understand by enlarging it to A4 size. Beginning FY 2003, the Group also began offering shareholders mileage points utilizing Daiwa Securities' mileage program.



Daiwa Securities Group IR website
(<http://www.daiwa.jp/ir/english/>)