

Group Governance and Management Systems

The Daiwa Securities Group has built a strong business foundation supported by high quality and productivity. We are now entering a stage of accelerated growth, propelled by “power” and “scale.”

Rapid growth, however, comes with greater risks. To alleviate such risks, we will enhance the monitoring function and transparency of management, while reinforcing financial strategies, human resource development, and other aspects of our management system.

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Group Governance and Management Systems

Management Philosophy

To achieve sustainable growth and raise corporate value, it is crucial that we earn the unwavering trust of all stakeholders—shareholders, customers, employees, and society—in the spirit of coexistence and co-prosperity.

Corporate Principles

The Daiwa Securities Group believes that support from all stakeholders is essential for achieving consistent growth. With this in mind, the Group has established a set of “Corporate Principles” as its spiritual pillar. Translating these principles into reality is the starting point of the Group’s management philosophy. The principles cover major stakeholders, emphasizing “customer trust” for customers, “human values” for employees, “social justice” for society in general, and “sound profits” for shareholders. We believe that putting all these policies into practice will lead to an increase in corporate value.

Brand Statement

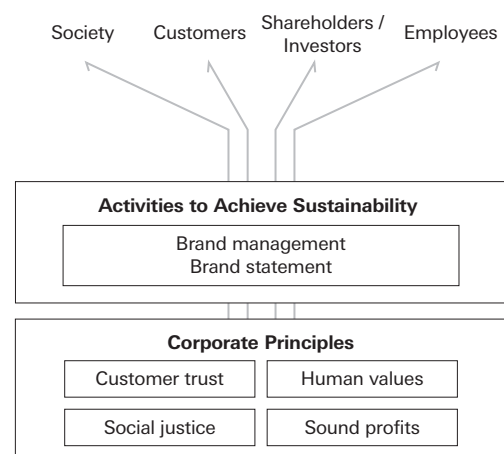
In October 2000, the Daiwa Securities Group initiated the Corporate Branding Project as part of the efforts to realize its Corporate Principles. Under this project, the Group initiated actions to establish a strong corporate brand. For a company in the financial services industry, earning the trust of stakeholders is the most important stage of the brand-building process. With this in mind, we issued a Brand Statement in March 2001, explicitly expressing our promises to customers.

Corporate Social Responsibility (CSR)

From the perspective of earning the trust of society, building a brand and pursuing CSR are fundamentally one and the same. The growing worldwide interest in CSR reflects the rise in sustainability issues caused by corporate activities on a global basis, such as environmental problems and the increasing gap between rich and poor. Corporate scandals can be traced to excessive priority placed on short-term profits at the expense of social interests.

The Daiwa Securities Group is constantly searching for ways to realize a sustainable society where the economy, society, and the environment are in harmony with each other, and we endeavor to carry out CSR through our core business—finance and investing. We regard CSR as corporate governance in a broad sense, and believe that CSR represents the key pillar of our management.

Corporate Brand Management and Sustainability



Group Governance and Management Systems

Corporate Governance

The Daiwa Securities Group fully recognizes that rapid growth entails an equivalent risk exposure. In addition to planning and implementing strategies in response to external changes, an effective framework making check-and-balance mechanisms function is essential for a transparent and sound management. This will help alleviate risks, and thus facilitate sustainable growth.

Transition to “Committee System” of Corporate Governance

In 1999, the Daiwa Securities Group became the first publicly traded Japanese company to make a transition to a holding company system. In doing so, the Group created a Groupwide management system that maximizes synergies between Group companies while taking full advantage of the independence and unique expertise of each Group member. Since then, the Group has sought to build highly transparent and objective management systems through its corporate governance framework.

In June 2004, the Group switched to a “committee system” of corporate governance, whereby the supervisory and executive functions of management were clearly separated. Consequently, the Group increased the number of Outside Directors from two to four. The Group also established three committees—the Nominating, Audit, and Compensation Committees—and Outside Directors constitute more than half the membership of each committee. This system rein-

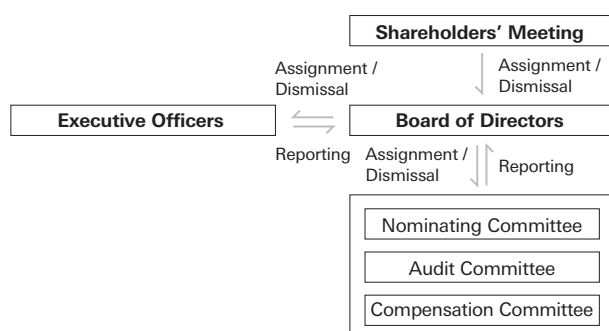
forced the supervisory function of the Board of Directors. To improve agility in decision making, the Group delegated a broad range of authorities from the Board of Directors to the Executive Officers and clarified the Officers’ management responsibilities. In addition, the representative Managing Directors of main Group companies also serve as Executive Officers of the holding company, creating a system whereby individual business strategies, which reflect Group strategies, can be implemented flexibly and efficiently.

Internal Control System

The Group undertakes a variety of internal activities aimed at ensuring effective and efficient business operation, reliability of financial reporting, and compliance with laws and regulations. Together, these activities form the Group’s internal control system. To upgrade the system, we have established an internal audit function for performing comprehensive audits within the Group. Major group companies have their own internal audit departments, and those without such departments are subject to audits by the Internal Audit Department, which is under the direct supervision of CEO of the Group.

In April 2003, the Group established the “Internal Audit Rule” to clarify basic internal auditing issues and ensure smooth and efficient auditing activities. In July 2003, the Group set up the Internal Control Committee, headed by the CEO, as a subcommittee of the Management Committee. The Internal Control Committee is now a subcommittee of the Executive Committee, and meets every three months in principle to deliberate and decide on issues concerning internal control, risk management, and internal auditing systems related to the Group’s operations.

The Committee System



Establishing an Effective Disclosure System

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 promoting a better understanding of the Group among its stakeholders, including shareholders and other investors. This will enable them to make realistic evaluations and judgments. In March 2004, the Group established a Disclosure Policy to explicitly state its fundamental stance regarding information disclosure. To further increase the effectiveness of this policy, Daiwa Securities Group Inc. established a set of Disclosure Regulations, which calls for the establishment of a Disclosure Committee and states methods for disclosing information. The Group's "Management-Related Information" cited in these regulations includes not only information we are obligated to provide by law or rules, but also information that is required to carry out our social responsibilities as a member of society. Such information includes those regarding compliance, corporate governance, and impacts on local communities and the environment. The Group's major subsidiaries have implemented similar regulations to ensure a consistent Groupwide disclosure policy.

In January 2005, the Group submitted a "Declaration for Timely Disclosure," which outlines its sincere pledge to provide investors with timely and appropriate information about the Group, to the Tokyo Stock Exchange. In the following month, the Group also submitted similar documents to the Osaka Securities Exchange and the Nagoya Stock Exchange.

Investor Relations

The Daiwa Securities Group discloses corporate information using various communication methods through the Corporate Communications Department and Investor Relations Department of the holding company. The Group is proactive on disclosing Group business strategies and briefings on our various businesses to share-

holders, investors, and the media. Through such initiatives, the Group's management can also obtain valuable feedback on market reactions towards the Group. This enables the Group to further raise transparency and efficiency, which is essential for improving corporate value.

Our quarterly financial results are posted on the Group's IR website immediately after announcement, and a conference call for analysts and institutional investors is held in the evening of the same day. This conference call is also made available on the IR website in real time. The Group posts similar information on the English website and makes another conference call to overseas investors and analysts during the same day. In these ways, we disclose information in a timely and appropriate manner while eliminating the communication gap between domestic and overseas stakeholders. In addition, the Group's CEO holds management strategy briefings twice a year in Japan, and the top management team also travels to Europe, North America, and Asia to visit institutional investors. These activities reflect the emphasis placed by management on direct communication.

The Group is also making efforts to increase opportunities for communication with individual shareholders and investors. The General Shareholders' Meeting provides an opportunity to interact directly with these important stakeholders. To provide more diverse options for shareholders to exercise their voting rights, the Group has allowed voting over the Internet and mobile phone. The Group also provides live broadcasts of the meeting to Osaka and Nagoya via in-house satellite facilities for shareholders away from Tokyo. In addition, the Group's semiannual business report, an important communication tool distributed to shareholders, has been issued in enlarged A4 size since FY 2001 to include more information and enhance readability. Beginning FY 2003, the Group also began offering a shareholder benefits program utilizing Daiwa Securities' mileage program points.

Daiwa Securities Group Inc.
Board of Directors



Outside Director
Keisuke Kitajima

Outside Director
Tetsuro Kawakami

Outside Director
Ryuji Yasuda

Outside Director
Koichi Uno

Director
Takashi Hibino

Director
Hiroshi Ota

Director
Tetsuo Mae

Director
Junichiro Wakimizu

Director
Kenji Hayashibe

Director
Shigeharu Suzuki

Chairman of the Board
Yoshinari Hara

Deputy Chairman of the Board
Akira Kiyota

Director
Tatsuei Saito

Group Governance and Management Systems

Compliance

Compliance is the basis of all business activities of the Daiwa Securities Group. With “social justice” as one of our corporate principles, the Group is creating a corporate culture with the slogan “think for yourself, act for yourself,” in which top management and employees maintain a strong awareness of compliance in our day-to-day work.

Group Initiatives

The Corporate Ethics Department at Daiwa Securities Group Inc. holds a monthly Corporate Ethics Promotion Liaison Meeting, designed to foster a Groupwide ethical awareness and reject anti-social influences. We are also looking to formulate rules for a voluntary code of conduct to ensure legal compliance across the entire Group.

In January 2003, the Group introduced the Corporate Ethics Hotline (an internal reporting system) as a Groupwide initiative. This 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 it allows them to contact either the department in charge or outside law firms.

Initiatives at Daiwa Securities

In FY 2002, Daiwa Securities increased the number of staff at the Compliance Department. Following this, it appointed compliance sub-leaders for each region in FY 2003. Additionally, in FY 2004, Compliance Officers were assigned to the core branches at each regional block. In these ways, it has reinforced our internal control framework including the legal compliance system and verification of its sales approach. Starting from FY 2003, Daiwa Securities has also introduced training sessions for internal administration supervisors, practical compliance inspection training, and education for mid-career sales people, to promote awareness on compliance and widespread understanding of rules and regulations. To facilitate these efforts, the company created the training manual for internal administration supervisors in FY 2004.

Initiatives at Daiwa Securities SMBC

Daiwa Securities SMBC is working to strengthen its compliance control system, primarily through its Compliance Department. To prevent inappropriate trading activities, all management and employees are required to obtain approval from the head of the Compliance Department before trading securities. In addition, internal administration supervisors within each department belong to the Compliance Department, thereby strengthening internal control functions.

Daiwa Securities SMBC is also upgrading its compliance training systems, introducing customized sessions for different divisions and themes associated with day-to-day business operations. Since March 2004, all employees have been obligated to attend training programs on subjects such as rules on insider trading, securities trading regulations for directors and employees, response to customer complaints, and case studies of illegal administrative actions. Participants are required to continue training until they show an acceptable level of understanding.

Group Governance and Management Systems

Financial Strategy

Achieving sustainable improvements in corporate value requires a financial strategy that is balanced in terms of risk and return. Well versed in the risk characteristics of the securities industry, the Daiwa Securities Group seeks to build a break-even structure that is resistant to revenue fluctuations while appropriately managing risk to secure financial strength. Through efficient capital allocation into areas with high profit and growth potential, we will endeavor to maximize risk-adjusted returns.

Basic Strategy

The Daiwa Securities Group has so far taken a financial strategy focused on raising consolidated ROE while ensuring higher financial strength. Thanks to this strategy, by FY 2004, the Group has strengthened its financial position and improved our credit rating, and reported the highest consolidated ROE among Japan's top three major securities companies. The Group has also set a dividend policy based on a payout ratio of 30% on a consolidated basis. Going forward, the Group will further reinforce this basic financial strategy, with a focus on improving risk-adjusted financial results in addition to ROE and broadening its business foundation.

Targeting Financial Strength

When measuring the financial strength of the Group, it is important to note that a large percent of the consolidated balance sheet consists of assets and liabilities related to the Group's trading positions for making transactions with customers; operation systems and branch offices; and various types of investment assets. Consequently, the major risks affecting the balance sheets are liquidity risk, market risk, credit risk, and operational risk, which pertain to trading and transactions with customers. The Group's idea of financial strength is being able to continue business even under significant changes in the environment.

With respect to liquidity, the Group's policy is to maintain sufficient long-term capital to cover its needs over a period of about one year, without relying on new uncollateralized fund procurement. The Group also avoids excessive concentration on specific fund-

raising sources and debt maturity periods. With respect to capital, the Group maintains sufficient capital as required by law. In addition, the Group enforces internal control to enable a certain level of business sustainability, even if we face huge losses of 1% event probability or under assumed stress scenarios.

At present, the Group is working aggressively to expand its business in principal finance and large-scale equity trading, which could result in an increase in relatively low-liquidity investment assets or risks arising from concentration in certain investments. From the perspective of financial strength, we take particular care and monitor these high-risk businesses.

Enhancing Capital Efficiency and Earnings Stability

To allocate capital more efficiently and increase ROE, the Group makes capital allocation decisions based on flexible responses to changes in the economic environment and customer needs. We seek to recover capital from businesses slated for downsizing or withdrawal, and reallocates such capital to areas with high profit and growth potential. The Group will also emphasize the quality of its earnings in addition to quantitative expansion. For example, the Group will work to broaden our customer and marketing base and to expand assets under management. It will lead to an increase in more stable revenues and diversification of its revenue sources. In addition, we will carefully control changes in fixed costs associated with systems, human resources, and sales channels due to business expansion and reform, in order to enhance the stability of the Group's bottom line profits.

Group Governance and Management Systems

Risk Management

The pursuit of profitability and growth, while meeting customer needs, gives rise to various risks. The main risks facing the Daiwa Securities Group include liquidity risk, market risk, credit risk, legal risk, computer system risk, operational risk, and reputation risk. Frameworks for controlling these risks are the key to maintaining and improving the Group's credit ratings and shareholder value.

Risk Management System

In order to increase shareholder value, it is essential to build a framework that avoids major losses by accurately identifying, evaluating, and effectively controlling risks associated with the Group's business operation. The Daiwa Securities Group's basic risk management policy encourages active participation by top management in risk control; the creation of appropriate and comprehensive risk management systems to address the risk characteristics inherent in each business; and clarification of risk management processes. Specifically, the state of each type of risk is reported by the executive officers in charge to the Internal Control Committee, a subcommittee of the Executive Committee. Major risks are liquidity risk, market risk, credit risk, legal risk, computer system risk, operational risk, and reputation risk. The Group is also formulating plans to continue and restore operations in case of natural disasters.

Each Group subsidiary is responsible for managing the risks peculiar to its own businesses, taking advantage of their specialist expertise. However, risk management systems, processes, and implementation status at the subsidiaries are monitored by Daiwa Securities Group Inc., which is in charge of Groupwide risk management.

Addressing Major Risks

Being mainly involved in the securities business, the most important risks for the Daiwa Securities Group are liquidity risk, market risk, and credit risk.

With respect to liquidity risk, the Group maintains ample liquidity of assets and carefully controls the maturity period composition of its liability portfolio. This is to enable continuous business operations for around one year even if major changes in the financial markets make uncollateralized fund procurement difficult for the

Group or its securities subsidiaries. Liquidity of the Group's subsidiaries except for securities subsidiaries and NIF Ventures, a JASDAQ-listed company, is centrally managed under the Group Cash Management System of Daiwa Securities Group Inc.

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

As for credit risk, to which the wholesale securities business has the greatest exposure within the Group, internal ratings are assigned to each institutional client, and credit limits are set according to these ratings and transaction periods. These criteria serve as a basis for judging whether or not to execute transactions or request collateral. Daily reports on market risk and monthly reports on credit risk (daily within the wholesale securities company) are made to the management of Daiwa Securities Group Inc.

Protecting Personal Information

The Group regularly obtains and uses information on a large number of customers, and is fully aware that proper management of customer information is crucial to maintain its reputation. Due to the enactment in April 2005 of the Personal Information Protection Law, Daiwa Securities Group Inc. established and announced its Privacy Policy, which outlines the Group's policies regarding the purpose of using and the way of managing personal information. Similar policy documents are being prepared by all of the Group companies, stating their pledge to comply with laws, official guidelines issued by government ministries and agencies, and internal rules, and to act responsibly when handling personal information.

Group Governance and Management Systems

Human Resource Management

Human resource management is essential for us to demonstrate “power” and “scale” and to surge ahead of our competitors. A company must realize the full potential of its employees by increasing their motivation and enhancing their capabilities. In addition to providing support to upgrade the skills of the employees, the Daiwa Securities Group also aims to establish a human resource management system that allows more accurate evaluation of employee performance.

Performance-Based Remuneration

The Group has placed great emphasis on rewarding high-performing employees, by introducing a compensation system based on job category and adopting a more segmentalized personnel evaluation process. In the case of deputy general managers, as a consequence, there is an eight-fold difference between the highest and lowest bonus, and 2.7-fold difference for annual salary (based on FY 2004 results). Moreover, a performance-based annual salary system has been introduced for analysts at Daiwa Institute of Research (DIR) and fund managers at Daiwa Asset Management (DAM) so that their salaries reflect their analyst rankings and fund performance.

Defining Qualifications for Promotions and Introducing New Senior Position for Deputy General Managers

In June 2005, the Group introduced a system whereby employees must earn certain “qualification points” in order to be promoted. Points are given mainly for qualifications useful in the securities business such as those of securities analysts. The number of points given is set in ascending order according to the difficulty of acquiring each qualification, in order to raise employees’ motivation to further enhance their capabilities. We have also established a new position, senior deputy general manager, one rank above deputy general manager. By increasing promotion opportunities for deputy general managers, we expect to further raise their motivation.

Providing Diverse Career Options

To widen the range of possibilities for employees with particular interests and skills, the Daiwa Securities Group is expanding the scope of its intra-group job posting sys-

tem. 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. The system helps employees create their own career paths. The most recent intra-group job posting was conducted in the spring of 2005, when 24 employees qualified—the highest number since the system was introduced.

Fair and Objective Evaluation System

Fair and objective personnel evaluation is a critical part of human resource management. At the Daiwa Securities Group, both two-way and multi-directional evaluation systems are used. While bosses and their subordinates evaluate each other in the two-way evaluation system, the multi-directional evaluation system encourages evaluation from other close departments. The aim of these systems is to increase the fairness and objectiveness of personnel evaluation.

Improving Human Resources

In addition to actively hiring employees with specialized skills, the Daiwa Securities Group is working to enhance its training system to augment the specialized knowledge and skills of employees. Daiwa Securities and Daiwa Securities SMBC have employed an e-learning system, which supports the efforts of employees to upgrade their skills. Daiwa Securities has also introduced the Professional Certification System in asset management and taxation. It will conduct its first certification in April 2006. In addition, to help managers upgrade their skills, the Group offers the Daiwa Management Academy Program for general managers and branch managers and the Daiwa Leadership Program for senior deputy general managers and deputy general managers.

Group Governance and Management Systems

Environmental Initiatives

The Daiwa Securities Group is aware that maintaining a healthy environment is the starting point for achieving sustainable corporate growth, and that it is an important responsibility as a member of society. While continuing to expand the scale of its business, the Group undertakes a variety of initiatives to minimize any adverse effects on the environment.

Energy and Resource 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 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 declined 6% year-on-year in FY 2004, while its consumption of city gas was up 2.1%.

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 in company cafeterias and lavatories. In FY 2004, water usage decreased 6.2%, to 411 million liters.

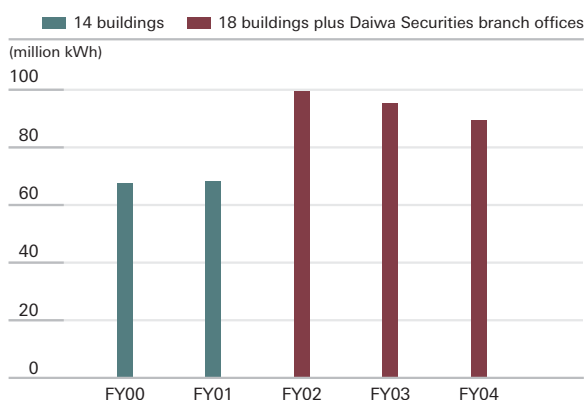
Use of e-mail and the Group intranet have greatly reduced the amount of paper documents that circulate internally. The Group also makes sure to sort out its paper waste and cooperates with waste management companies to promote recycling. The rate of paper recycling averages just under 90%.

Environmental Protection Initiatives

In June 2002, the Group submitted to the Tokyo Metropolitan Government a "Global Warming Action Program" for three of its larger office buildings: the Daiwa Securities Headquarters Building, Eitai Daiya Building, and DIR Eitai Building. Under the Program, our aim has been to reduce emissions of greenhouse gases (CO₂ equivalent) from these buildings for FY 2004 by 2.0%, 0.1%, and 1.9% respectively from FY 2001 levels. In FY 2003, we achieved these targets for two of the buildings, and reached the goal for the remaining building in FY 2004.

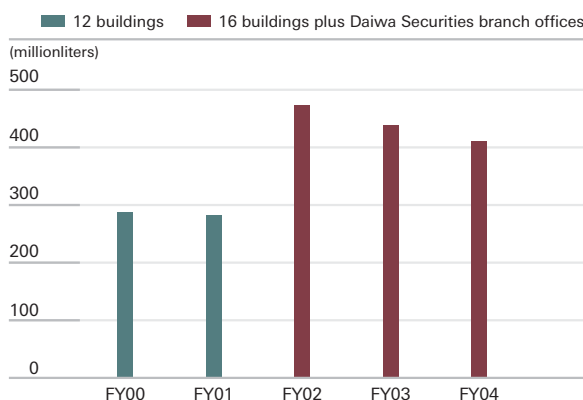
The Group also became a signatory to the United Nations Environment Programme Finance Initiative (UNEP FI) and signed the "UNEP Statement by Financial Institutions on the Environment & Sustainable Development" at the International Environment Forum, held on November 26, 2004. As of the end of December 2004, 208 financial institutions, mainly from Europe and around the world, had signed the Statement. We will work with other signatory financial institutions in our shared quest to create an environmentally friendly financial services industry.

Electric Power Usage



*Scope of data collection was expanded in FY 2002.

Water Usage



*Scope of data collection was expanded in FY 2002.

Group Governance and Management Systems

CSR Initiatives

In recent years, the Daiwa Securities Group has sought to reinforce its corporate social responsibility (CSR) commitment by seeking ways to play a more active role in society. We believe that earning the trust of the community—both through our core business and corporate citizen activities—will ultimately lead to increased shareholder value and the sustainable growth of the Group.

CSR through Core Business Activities

Socially Responsible Investment (SRI)

SRI provides a means of using market mechanisms to channel funds into areas that benefit society. The Daiwa Securities Group offers three SRI funds and five regional index funds. In “Daiwa SRI Fund” in particular, the fund management and sales companies of the Group contribute part of their management fees to the society. A total of ¥4 million from the fund was donated to victims of the October 2004 Niigata Chuetsu Earthquake.

Educational and Research Activities in Economic and Financial Areas

Another area in which the Daiwa Securities Group’s expertise and experience can contribute to society is through education and research in economics and finance. These include joint industry-academia collaboration, such as offering free college courses, giving lectures at universities across Japan, and supporting ventures that originate within universities. As part of the initiatives to provide basic economic education to elementary, middle, and high school students, the Group provides support for hands-on economic education for junior-high and high school students through Junior Achievement, a youth economic education NPO that originated in the United States. Through these activities, the Group helps raise students’ knowledge of finance and economics and fosters the development of financial specialists, thus contributing to the continuous development of the Japanese economy.

Corporate Citizenship

The Daiwa Securities Group variously supports regional society, environmental protection, and volunteer activities, primarily through the CSR Promotion Department at Daiwa Securities Group Inc. The Group aims to raise awareness among its executives and employees of the importance of good corporate citizenship.

The Group also engages in regional and international support activities through three Group foundations: Daiwa Securities Health Foundation, Daiwa Securities Foundation, and The Daiwa Anglo-Japanese Foundation. 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. Daiwa Securities Foundation supports a wide variety of volunteer activities in social welfare and medical treatment. The Daiwa Anglo-Japanese Foundation promotes mutual understanding and friendship between Japan and the United Kingdom, and each year invites “Daiwa Scholars” from the United Kingdom to visit Japan.

In addition, executives and employees of Group companies have donated approximately ¥8.5 million for victims of the Sumatra earthquake and the Indian Ocean tsunami disasters which occurred on December 26, 2004. In February 2005, the Group established the “Daiwa Securities Group Tsunami Reconstruction Fund” within the Asian Community Trust (ACT), a charitable trust, to help restore the disaster-affected areas. Through this fund, the Group will donate ¥10 million annually for 10 years from 2005, for a total contribution of ¥100 million.

SRI and Regional Support Funds of the Daiwa Securities Group

Fund Name	Criteria	Asset Management Company	Net Assets (June 30, 2005)
Mrs. Green	Care for the environment	Daiwa SB Investments Ltd.	¥4.0 billion
UBS Global Equity 40	CSR performance level	UBS Global Asset Management (Japan) Ltd.	¥4.7 billion
Daiwa SRI Fund	Corporate sincerity and transparency	Daiwa Asset Management Co. Ltd.	¥21.5 billion
Regional Index Funds (Ibaraki, Kanagawa, Saitama, Shizuoka, and Toyama prefectures)	Contribution to boosting regional economy	Daiwa Asset Management Co. Ltd.	¥21.2 billion (total)

