Management's Discussion and Analysis

Analysis of FY 2004 Earnings

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Macroeconomic Conditions

1. Japan

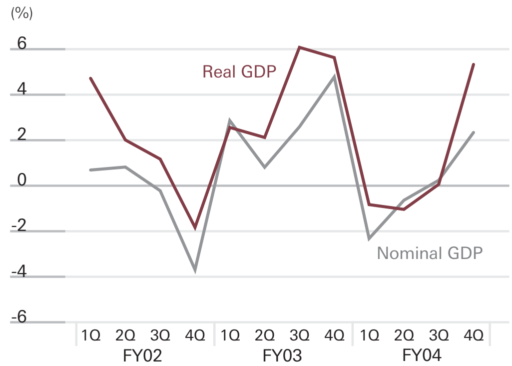
The domestic economy, which showed strong recovery in FY 2003, slowed down in FY 2004 and appeared to level off. Main factors included major inventory adjustments by IT-related companies worldwide, as well as deceleration of exports, centering on high-tech products. Capital expenditures in the high-tech sector also lost momentum, further strengthening the sentiment of economic slowdown. The latter half of the year brought typhoons, earthquakes, and other natural disasters, while prices of raw materials, including oil, reached historical highs. These factors potentially had a negative effect on the macroeconomy.

Nevertheless, some major changes became evident in FY 2004. For example, the nation has overcome the "three excesses" plaguing its economy since the "bubble" era—excess capacity, excess employment, and excess debt—and banks have effectively addressed their non-performing loan problems. In addition, land prices, though mostly in urban areas, have begun to bottom out. Moreover, corporations have sustained favorable performances, leaving some room for optimism about the medium- to long-term outlook for the domestic economy. Although the Nikkei Average moved narrowly around the ¥11,500 mark throughout the year, the average daily trading value on the the Tokyo Stock Exchange rose 21.6% compared with FY 2003, which suggested higher expectations for Japan's economic future.

2. Overseas

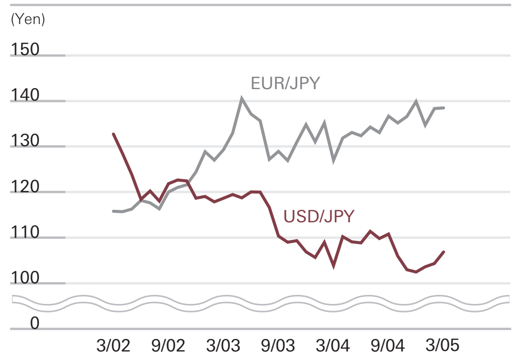
In all major geographic regions—including North America, Europe, and Asia—economies in general slowed down, despite varying performances by nation. However, the United States, the main driving force behind the world economy, maintained economic growth of over 3%, bolstered by strong capital expenditures despite having trading imbalance issues. As a result, the downtrend of the world economy was relatively moderate. In China, the authorities adopted successive measures to temper its overheating economy. While these actions had some effect, annual economic growth in China remained above 9%, further raising its presence on the global economic stage.

GDP (Annualized Quarter-on-quarter Changes)



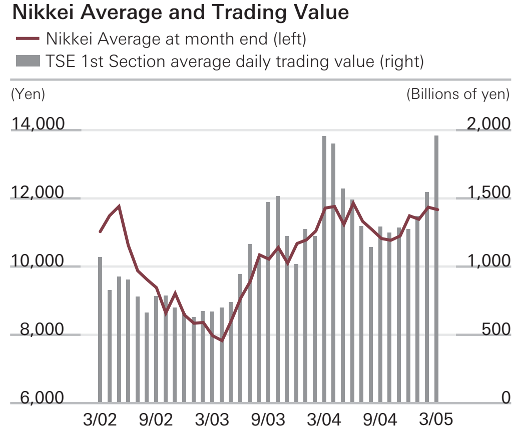
Source: Cabinet Office, Government of Japan

Foreign Exchange Rates



Source: Bloomberg

Nikkei Average and Trading Value



Source: Bloomberg, Tokyo Stock Exchange

Consolidated Operating Results

Overview

In FY 2004, a mixture of both positive and negative elements characterized the domestic economic environment. Low volatility in share price and interest rates was not entirely favorable for securities companies. The Daiwa Securities Group, however, again reported an improved financial performance. Ordinary income amounted to ¥120.4 billion, up 25.3% year-on-year and equivalent to 4.7 times the FY 2001 level. Consolidated return on equity (ROE) for the year was 8.4%—the highest among Japan's Top 3 major securities companies. The Group also continued making good progress in improving its cost structure and financial strength. In addition, it was able to extend its competitive advantage in the industry, with solid performances by its brokerage, investment banking, and trading activities.

(1) Net Operating Revenues

Consolidated net operating revenues in FY 2004 amounted to ¥390.4 billion, up 10.8% from FY 2003. Within this total, commissions grew 11.4%, to ¥216.3 billion. Although revenues from the fixed income division declined, the equity and asset management divisions showed steady revenue growth, driven by strong movement in the stock market and the Group's improved product development and marketing capabilities. The Group also raised its presence in the investment banking field, generating a 27.5% increase in commissions from FY 2003. Net trading gains rose 25.7% from FY 2003, to ¥151.1 billion, displaying steady gains compared with ¥93.9 billion in FY 2002 and ¥120.1 billion in FY 2003. Contributing factors included a strengthened customer base, resulting from stepped-up collaboration with Sumitomo Mitsui Financial Group, as well as an increase in order flows stemming from a reorganization that led to a more effective marketing system. Net trading gains also benefited from improved trading capabilities and stricter managerial accounting.

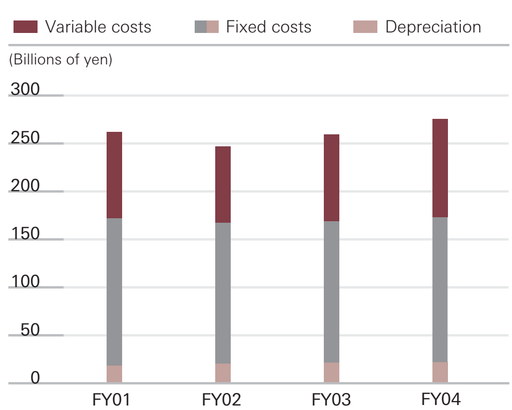
Breakdown of Net Operating Revenues (Millions of yen)

				FY2004			
	FY2003	FY2004	yoy	Q1	Q2	Q3	Q4
Commissions	194,163	216,387	11.4%	54,299	53,116	46,702	62,268
Net gain on trading	120,195	151,117	25.7%	42,437	33,831	30,452	44,397
Net financial income	25,892	14,342	-44.6%	1,571	615	2,918	9,236
Others	12,183	8,584	-29.5%	2,750	2,399	2,107	1,328
Total	352,435	390,432	10.8%	101,058	89,963	82,180	117,230

(2) Selling, General, and Administrative (SG&A) Expenses

Despite strong growth in revenues, the year-on-year increase in SG&A expenses was limited to 6.0%, for a total of ¥275.5 billion. The major portion of this rise stemmed from a 17.4% increase in commissions and other expenses, payments of performance-linked bonuses, and other variable costs. By contrast, the increases in fixed costs, such as real estate expenses (up 0.5%) and depreciation (up 2.8%) were limited. SG&A expenses accounted for 70.6% of net operating revenues, down from 73.7% in FY 2003 and 91.1% in FY 2002.

Selling, General & Administrative Expenses



(3) Ordinary Income and Net Income

Ordinary income for the year totaled ¥120.4 billion, up 25.3% from FY 2003 and the highest level since peaking at ¥177.7 billion in FY 2000. For the year, the Group posted a net extraordinary loss of ¥7.8 billion, which was ¥11.3 billion less than in FY 2003. The largest component of the extraordinary loss was losses on sales of loans receivable, which amounted to ¥7.5 billion. This resulted from a write off by the lump sale of long-term loans receivable ahead of the merger between NIF Ventures Co., Ltd. and SMBC Capital Co., Ltd. During the year, NIF Ventures accelerated its withdrawal from loan operations so that it could concentrate its resources on investment activities after the merger. Consequently, net income rose 23.5%, to ¥52.6 billion.

Ordinary Income and Net Income

(Millions of yen)

				FY2004			
	FY2003	FY2004	yoy	Q1	Q2	Q3	Q4
Ordinary income	96,130	120,433	25.3%	34,193	23,066	18,022	45,151
Net income	42,637	52,665	23.5%	14,284	9,881	9,464	19,035

Trends by Business, Group Companies, and Geographical Segments

(1) Breakdown of Commission Revenues

Equity commissions rose 4.8% year-on-year, to ¥83.8 billion. This increase was lower than the growth rate of the average daily trading value on the Tokyo Stock Exchange, because the market share among transactions made by individuals at Daiwa Securities Co. Ltd (Daiwa Securities) comparably declined while the share of transactions by individuals increased among total market transactions. In this environment, net inflow of retail funds at Daiwa Securities surged dramatically, from ¥896.1 billion in FY 2003 to ¥2,309.6 billion in FY 2004. We expect this to contribute to sustainable growth in operating revenues in FY 2005 and beyond.

Asset management commissions climbed 6.0%, to ¥45.6 billion. During the year, sales of foreign currency-denominated bond and principal-protected type equity investment trusts were strong, and the resulting expansion of assets under management led to increased management fees.

Investment banking commissions jumped 27.5%, to ¥71.1 billion, following a major increase in FY 2003. This was primarily due to the increase in underwriting commissions related to primary and secondary equity offerings, as well as commissions from M&As and other activities. Having broadened our customer base and enhanced our consulting capabilities, we are expanding our share in various lead-manager league tables.

Breakdown of Commission Revenues

(Millions of yen)

				FY2004			
	FY2003	FY2004	yoy	Q1	Q2	Q3	Q4
Equity	80,061	83,887	4.8%	27,723	16,873	16,791	22,498
Fixed income (Bond)	5,219	4,264	-18.3%	822	1,229	907	1,305
Asset management	43,046	45,640	6.0%	11,248	9,662	11,239	13,490
Investment banking	55,805	71,170	27.5%	12,100	22,798	15,274	20,996
Others	10,032	11,426	13.9%	2,405	2,552	2,489	3,978
Total	194,163	216,387	11.4%	54,299	53,116	46,702	62,268

(2) Performances of Major Group Companies

Daiwa Securities, which handles the Group's retail securities business, reported operating revenues of ¥164.7 billion, down 4.0%, and ordinary income of ¥24.2 billion, down 31.2% from FY 2003. This slowdown was considerably affected by a decline in sales of foreign currency-denominated bonds. Sales of equity investment trusts, which stalled at just below ¥300 billion in the first half of the year, surged to more than ¥500 billion in the second half, mainly due to the increase in sales of investment trusts that invest in foreign currency-denominated bonds and domestic equities. As a result, total sales of equity investment trusts for FY 2004 exceeded those for FY 2003. In addition, of the ¥2,309.6 billion in net inflow of retail assets in FY 2004, ¥1,642.3 billion was in the second half of the year. In other words, the retail business improved dramatically in the latter half of the period.

Daiwa Securities SMBC Co. Ltd., which conducts the Group's wholesale securities business, posted a 26.2% year-on-year increase in operating revenues, to ¥249.6 billion, and a 57.4% surge in ordinary income, to ¥85.1 billion. These figures include the results of its consolidated overseas subsidiaries, as well as Daiwa Securities SMBC Principal Investments Co. Ltd., a domestic consolidated subsidiary involved mainly in principal finance business. During the year, Daiwa Securities SMBC raised its presence in the investment banking fields. Daiwa Securities SMBC Principal Investments, meanwhile, posted a 71.2% jump in ordinary income and its investment balance at the year-end increased mainly in private equity, by ¥26.5 billion, to ¥90.0 billion.

In the asset management business, Daiwa Asset Management Co. Ltd. reported ordinary income of ¥1.4 billion, almost double the figure of FY 2003. Its year-end outstanding assets under management of equity investment trusts jumped 31.3%, to ¥2,118.5 billion, owing to its improved product development and management capabilities—as reflected in the increase in assets of the Daiwa Global Bond Fund (monthly payment type). Daiwa SB Investments Ltd., another Group member in the asset management business, posted a 4.5-fold jump in ordinary income, to ¥2.3 billion.

Performances of Major Group Companies (Millions of yen)

	Daiwa Securities		Daiwa Securities SMBC (Consolidated)		Daiwa Asset Management		Daiwa Institute of Research	
	FY2003	FY2004	FY2003	FY2004	FY2003	FY2004	FY2003	FY2004
Operating revenues	171,605	**164,792**	197,882	**249,649**	16,638	**19,316**	65,388	**64,386**
Ordinary income	35,219	**24,216**	54,118	**85,176**	772	**1,490**	5,529	**5,329**
Net income	19,272	**13,863**	33,156	**54,034**	221	**1,220**	835	**2,871**

	Daiwa SB Investments*		Daiwa Securities Business Center		Daiwa Property		NIF Ventures	
	FY2003	FY2004	FY2003	FY2004	FY2003	FY2004	FY2003	FY2004
Operating revenues	7,336	**11,888**	8,558	**8,500**	17,402	**17,285**	5,207	**4,407**
Ordinary income	523	**2,381**	448	**505**	4,019	**3,616**	465	**32**
Net income (loss)	114	**1,434**	209	**281**	(54,137)	**320**	555	**(8,491)**

*Equity-method subsidiary

(3) Overseas Performance

Total ordinary income from the Group's overseas operations—covering the three major regions of North America, Europe, and Asia and Oceania—declined 24.5%, to ¥8.1 billion, despite a solid performance from overseas investment banking activities. The decline stemmed mainly from the inability of European operations to cover SG&A expenses, mainly commission and other expenses, as well as a slump in trading performance in North America. Operations in Asia and Oceania kept up a strong performance in both investment banking and trading.

Ordinary Income, by Geographical Region (Millions of yen)

	FY2003	FY2004
America	1,270	**270**
Europe	7,538	**5,941**
Asia & Oceania	1,977	**1,928**
Total	10,786	**8,140**

Balance Sheet and Cash Flows

(1) Assets

At the end of FY 2004, total assets of the Group stood at ¥12,378.9 billion, up ¥1,613.2 billion from a year earlier. Within that amount, total current assets grew ¥1,725.9 billion, to ¥11,936.0 billion, and non-current assets fell ¥112.6 billion, to ¥442.9 billion. Seeking to meet brisk demand from investors, Daiwa Securities SMBC increased its investment positions, leading to a large increase of ¥1,210.3 billion in trading assets at year-end from FY 2003. Receivables on collateralized securities transactions surged ¥957.4 billion year-on-year. Due to an amendment to the Securities and Exchange Law, investment in investment limited partnerships and similar partnerships, is regarded as equivalent to securities from FY 2004. As a result, other current assets and other investments declined ¥20.6 billion and ¥60.1 billion respectively, while operational investment securities and investment securities increased ¥76.7 billion and ¥4.0 billion respectively.

(2) Liabilities and Shareholders' Equity

At fiscal year-end, total liabilities stood at ¥11,541.4 billion, up ¥1,545.6 billion from a year earlier. Current liabilities rose ¥1,563.4 billion, to ¥10,685.6 billion, and non-current liabilities declined ¥18.3 billion, to ¥850.1 billion. Among current liabilities, trading liabilities rose ¥743.9 billion, and short-term borrowings were up ¥887.1 billion. The main reason for the increase in trading liabilities was a rise in short positions to hedge against long positions in government bonds. The main reason for the increase in short-term borrowings was a rise in funding activity through Bank of Japan bill purchase operations and the call money market.

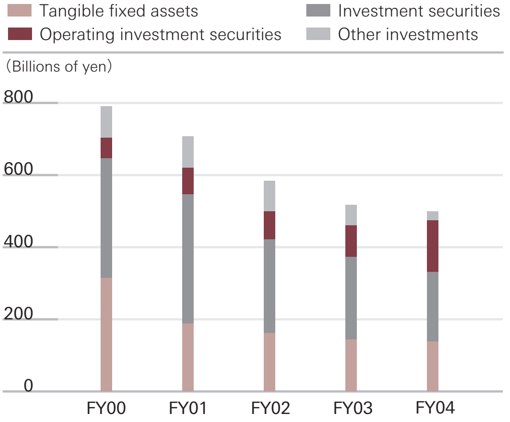
Total shareholders' equity increased ¥44.1 billion, to ¥648.3 billion. In addition to an increase of ¥52.6 billion in net income and a decrease of ¥19.9 billion for cash dividends, an ¥8.3 billion increase in net unrealized gain on securities, stemming mainly from the equity market recovery, was also the contributing factor.

(3) Cash Flows

Cash flows from operating activities posted a net outflow of ¥1,002.8 billion, compared with a ¥111.2 billion net outflow in FY 2003. The change stemmed mainly from an increase in receivables on collateralized securities transactions and a decline in payables on collateralized securities transactions.

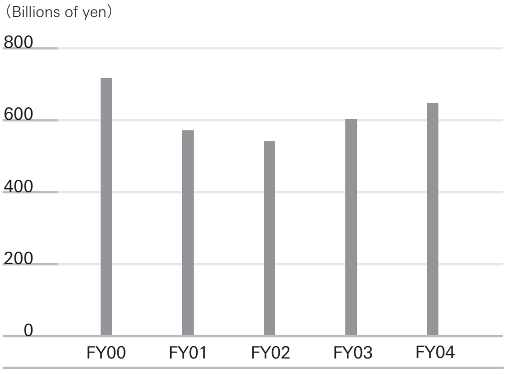
Despite proceeds from sales of investment securities, cash

Composition of Major Risk Assets*

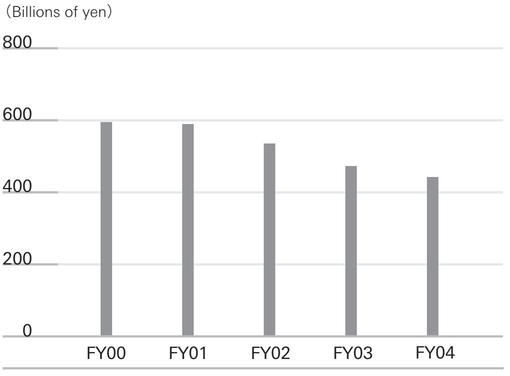


* Data for FY2000 to FY2003 has been revised to conform with the changes in presentation for FY2004.

Shareholders' Equity



External Debt



flow from investing activities showed a net outflow of ¥26.0 billion, compared with a net inflow of ¥58.8 billion in FY 2003. This was mainly due to an increase in time deposits.

Cash flow from financing activities posted a net inflow of ¥883.8 billion, compared with a net inflow of ¥114.4 billion in the previous year, owing largely to an increase in borrowings and proceeds from issuance of bonds.

Cash and cash equivalents (after deducting exchange rate changes on cash) at end of term stood at ¥338.6 billion, down ¥141.4 billion from a year earlier.

Cash Flows (Millions of Yen)

	FY2003	FY2004
Cash flows from operating activities	(111,252)	(1,002,888)
Cash flows from investing activities	58,818	(26,062)
Cash flows from financing activities	114,406	883,867
Cash and cash equivalents at end of term	480,123	338,697

Capital Investments

The Daiwa Securities Group's capital investment activities are based on several objectives, including building a foundation for reinforcing competitiveness and enhancing convenience for customers. In FY 2004, the Group made a total of ¥27.4 billion in IT-related expenditures, including investments to upgrade online trading systems and develop securities intermediation systems at Daiwa Securities and to upgrade trading systems at Daiwa Securities SMBC. As a result of these investments, the Group reinforced its infrastructure and support systems, the foundation for priority businesses after FY 2004.

Risk Management

Risk Management System

The Daiwa Securities Group faces various risks in the course of its business activities. The Group is aware that identifying, evaluating, and properly managing these risks are important for maintaining healthy financial and earnings structures. The main risks are market risk, credit risk, liquidity risk, operational risk, system risk, legal risk, and reputation risk. The primary responsibility for controlling these risks rests with the subsidiaries of the Daiwa Securities Group. Each subsidiary has established its own system for managing various types of risks according to the characteristics and risk profiles of their respective businesses. Daiwa Securities Group Inc., in turn, controls the Group's overall risks by monitoring its subsidiaries' risk management systems and processes.

At Daiwa Securities Group Inc., Group business plans, including consolidated budgets, are determined by the Board of Directors, which also decides on regulations concerning risk management and matters related to other systems. Based on the progress status of basic matters decided by the Board and business plans of each division, the Executive Committee determines allocation of capital and other managerial resources. Details of the Group's risk exposure are reported to and discussed by the Internal Control Committee. This information is important to the Executive Committee's determinations on resource allocations.

Because the Group engages in the securities business, market and credit risks stemming from trading activities are especially important. Thus, it is imperative that the Group manage these risks effectively to ensure its financial health.

Daiwa Securities SMBC, Daiwa Securities SMBC Europe Limited, and Daiwa America Corporation carry out most of the trading within the Daiwa Securities Group. Daiwa Securities takes relatively small trading positions in situations where market risk exposure exists. Moreover, because transactions with its customers are backed by sufficient collateral, market risk and credit risk emanating from such trading are limited.

Daiwa Securities SMBC is responsible for its own risk management and that of its subsidiaries. The main authority related to risk management rests with the Risk Management Committee, which determines risk management policy, procedures, and risk frameworks for trading positions at Daiwa Securities SMBC and its subsidiaries. Moreover, a system has been set up to monitor whether measured risk is not exceeding the upper-limit assigned to the trading departments and to make reports to management. Daily and monthly reports regarding market risk and credit risk related to trading positions are made to the management. Comprehensive quarterly reports, which include other risk information, are submitted to the Risk Management Committee.

In addition, Daiwa Securities SMBC Europe has built an independent risk management system based on local laws and regulations. Reports on market risk and credit risk related to trading positions are regularly made to the local management, as well as to Risk Management Department at Daiwa Securities SMBC.

A similar risk management system has been put in place at Daiwa America Corporation. It makes reports regarding the risk condition to the local management and Daiwa Securities Group Inc.

Management receives daily risk reports on trading positions at the aforementioned subsidiaries through the department in charge of risk management at Daiwa Securities Group Inc. By means of these reports, the Group's management team obtains an accurate grasp of the risk profiles related to its trading positions.

In addition, comprehensive and exhaustive quarterly reports are made to the Internal Control Committee regarding market and credit risk for financial assets other than trading positions.

Based on these daily, monthly, and quarterly reports, Daiwa Securities Group Inc. monitors whether its subsidiaries' capital, which is the Group's invested capital, is being exposed to any excessive risk.

Measures for Dealing with Major Risks

[Market Risk]

Market risk is the risk of incurring losses resulting from fluctuations in the value of financial assets or liabilities due to changes in stock prices, interest rates, exchange rates, and derivative products. The Group's trading positions are mainly exposed to market risk.

The Group employs Value at Risk (VaR), a commonly used statistical management method, as an index for measuring and monitoring the market risk of its trading positions. VaR provides an estimate of losses that will be incurred from a trading position over a certain period and at a certain confidence level. The Group uses holding periods of one day and a confidence level of 99%. This is equivalent to the probability of one day per 100 business days of trading in which actual trading losses can exceed those indicated by the VaR method.

Value at Risk for Daiwa Securities SMBC

<Range and Assumption of VaR>

• Confidence level: 99% • Holding period: 1 day • Adjusted for price correlation between products

	Billions of yen								
(Month end)	3/03	6/03	9/03	12/03	3/04	6/04	9/04	12/04	3/05
Equity	0.63	0.39	1.11	0.78	0.52	0.62	0.98	0.66	1.77
Interest	0.58	0.68	0.85	0.51	0.54	0.60	0.93	0.46	0.35
Currency	0.02	0.05	0.04	0.10	0.05	0.06	0.07	0.08	0.06
Total	1.23	1.12	2.00	1.39	1.11	1.28	1.98	1.20	2.18
Diversification effect	-0.46	-0.18	-0.26	-0.45	-0.36	-0.45	-0.39	-0.35	-0.37
VaR	0.77	0.94	1.74	0.94	0.75	0.83	1.59	0.85	1.81

FY 2003 high: ¥1.99 billion, low: ¥0.46 billion, average: ¥0.96 billion
FY 2004 high: ¥5.98 billion, low: ¥0.60 billion, average: ¥1.28 billion

The Group uses numerous assumptions when measuring VaR and believes that such assumptions are rational and appropriate. However, different assumptions can cause major changes in VaR measurements. In addition, the usefulness of VaR is limited in the following ways.

— Past market fluctuations do not necessarily provide an accurate guide for future market movements.
— Actual market price fluctuations of a trading position can differ from the result produced by the VaR model, due to changing market conditions.
— VaR based on one-day holding periods do not sufficiently account for market risk affecting positions that cannot be liquidated or hedged in one day.
— The reliability of VaR declines when market conditions during the period covered by collection of data differ from actual market conditions.

The above factors highlight the limitations of VaR. For this reason, the Group adopts comprehensive risk management using various techniques in addition to VaR, such as stress testing and scenario analysis. The Group also undertakes risk monitoring and control according to the respective levels at the trading desk and the departments and companies involved.

• Market Risks Unrelated to Trading Positions

The Group also holds investment securities that are unrelated to trading positions but nonetheless are exposed to market risks. These include investment securities held from a long-term perspective for business relationship purposes, operational investment securities related to the venture capital business, and investment assets related to the principal finance business. With respect to listed stocks among these securities, a system has been set up for measuring their VaR and making quarterly reports to the Internal Control Committee. Moreover, the balance of holdings of unlisted stocks, for which VaR cannot be used to estimate market risk, is also reported as investment risk.

[Credit Risk]

Credit risk is the risk of losses sustained as a result of a client being unable to repay its debt according to the contract.

In its wholesale securities business, the Group sets credit limits for each counterparty to limit the credit risk exposure. The Group also assigns its own internal ratings, similar to those given by external rating agencies, to its clients. These internal ratings serve as a standard for judging whether or not to execute transactions with each counterparty. The usage of these credit limits is monitored regularly.

Furthermore, the Group manages credit risk associated with its wholesale securities business by regularly reviewing the financial situation of each counterparty, having them all sign comprehensive netting contracts, providing collateral, and limiting the periods of transactions.

[Liquidity Risk]

Liquidity risk is the risk that the Group will run into difficulty procuring funds, or that the cost of fund-raising will rise significantly higher than normal, as a result of changes in the market environment or a deterioration in the balance sheet.

The Group carries out its business activities using many assets and liabilities. The majority of its assets are highly liquid. As for liabilities, the Group endeavors to employ diversified fund-raising methods and multiple maturity periods in order to minimize the risks associated with refinancing. In addition to straight bonds, convertible bonds, and medium-term note programs, the Group's main fund-raising avenues include borrowings from financial institutions, issue of commercial paper, call money, and repurchase agreements and transactions.

The amount and cost of funds raised is influenced by market conditions and the Group's credit rating. The Group believes it is important to have an appropriate asset-liability balance and to maintain and manage liquidity.

To ensure that business activities are not interrupted, even in the event of a credit crunch stemming from large fluctuations in financial markets, the Group maintains a liquid portfolio allowing it to meet its funding needs for about one year, without relying on new uncollateralized fund procurement. Moreover, the Group has arranged various commitment facilities with Japanese and foreign banks that will enable it to procure funds in the case of an emergency.

To lower procurement costs and minimize liquidity risk in the event of deteriorating market conditions, the Group has introduced a group cash management system (group CMS) to procure and centrally manage funds for the entire Group, including funds needed to cover the business activities of Daiwa Securities Group Inc. and its subsidiaries. However, three of these subsidiaries—Daiwa Securities, Daiwa Securities SMBC, and NIF Ventures Co., Ltd.—carry out their own fund procurement and management because fund procurement is a part of a securities company's business activities (in the case of Daiwa Securities and Daiwa Securities SMBC), and because listed subsidiaries (NIF Ventures) are required to procure funds independently from the parent company. Meanwhile, Daiwa Securities Group Inc. continuously monitors the fund-raising plans and activities of these three subsidiaries as part of the group CMS. Other subsidiaries, however, integrate their fund procurement with that of the parent company under group CMS.

[Operational Risk]

Operational risk is the risk of incurring losses due to inappropriate or malfunctioning internal processes, personnel, or computer systems, or due to adverse external occurrences. As the Group's business becomes more sophisticated, diversified, and systemized, the accompanying risks become more varied, and the need to manage such operational risk grows each year.

Specialized sections have been set up in each Group company to address operational risk, and conferences are held as necessary to consider relevant issues. Due to the diversifying nature of its business, the Group sets rigid rules concerning authority, automates office-work processes to reduce human error, prepares business manuals, and takes other necessary measures. Each Group company strives to reduce operational risk according to the nature of its own business.

[System Risk]
One form of operational risks is system risk, which refers to the potential for incurring losses due to computer breakdown or malfunction or other system-related inadequacies. It also covers the risk of losses caused by leakage of information or improper use of computers.

The Group has established an information security policy, centering on system risk management, aimed at mitigating these types of risk. To implement this policy, the Group has set security standards (regulations related to information security) and works to ensure that executives and employees are well versed and fully compliant with those standards.

In addition, the Group constantly monitors the operating status of its core systems to keep disorders to an absolute minimum. Even if a problem occurs, the Group has set up frameworks to respond swiftly to the problem.

[Legal Risk]
Legal risk refers to the potential for incurring losses due to non-compliance with legal and other regulations, lawsuits, invalid contracts with third parties, or violations of corporate ethics rules.

The Group pursues group management with securities-related activities as its core business. There are laws and regulations that we must comply with when executing securities transactions. In general business other than securities business, as well, the Group is required to comply with various regulations.

To ensure against infringements of these regulations governing securities and other businesses, the Group has set up sections in charge of compliance at each company, and established committees to discuss and decide on compliance issues and matters related to forming corporate ethical rules.

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

[Reputation Risk]
Reputation risk refers to the possibility of losing customers and income as a result of rumors and any resulting loss of reputation. This risk can emanate from various factors, including improper actions by executives and employees, weak financial results, and the spread of rumors not based on truth. As such, there are no uniform procedures for managing reputation risk.

The Group has established various regulations based on its Disclosure Policy, with particular emphasis on information management and provision. It also set up a Disclosure Committee, charged with the tasks of monitoring information that may identify reputation risk and installing appropriate mechanisms to minimize the impact of such risk on the Group. In these ways, the Group works hard to keep abreast of problems and occurrences that may affect its reputation, and undertakes public relations and disclosure initiatives to prevent and minimize reputation risk.

The Daiwa Securities Group's Credit Ratings

(As of July 25, 2005)

	Daiwa Securities Group Inc.		Daiwa Securities		Daiwa Securities SMBC	
	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term
Moody's Investors Service	Baa3	—	Baa2	P-2	A2	P-1
Standard & Poor's	BBB	A-2	BBB	A-2	A-	A-2
Fitch Ratings	BBB+	F-2	—	—	A-	F-1
Rating and Investment Information	A-	a-1	A-	a-1	A	a-1
Japan Credit Rating Agency	A	—	A	—	—	—