

## Group Governance and Management Systems

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## Corporate Governance Committee System



**Akira Kiyota**  
Chairman of the Board



**Saburo Jifuku**  
Director

As one of Japan's leading financial groups, the Daiwa Securities Group plays a key role in supporting economic growth, as well as contributing in various ways to society, and strives to maintain the highest level of management transparency and objectivity. Daiwa Securities was the first listed company in Japan to adopt a holding company system, in 1999. Since that time, the Group has worked to develop the synergy between various businesses operated by group subsidiaries and increase the corporate value of the Group as a whole. In 2004, management took another step forward as the Group began making the transition to a "committee system" of corporate governance. Additional outside directors were appointed to the Board, and responsibilities were assigned to three management committees—the Nominating Committee, the Audit Committee and the Compensation Committee. This move helped to clarify and separate the oversight responsibilities of the Board of Directors from the operational responsibilities of executives.

As the economy becomes increasingly global, the Daiwa Securities Group is monitoring trends in corporate governance at leading overseas companies. The Group intends to continue upgrading its governance structure so that it can act more energetically and execute decisions effectively.

The role of management continues to evolve, as the Group responds to rising social pressures including the need for improved risk management control, and a strict compliance system, and complies with changing regulatory conditions such as the introduction of Japan's Financial Instruments and Exchange Law in September 2007, and the adoption of internal control reporting requirements in April 2008. In order to ensure a high level of transparency, and earn the public's trust as Japan's best securities group, all executives and employees are expected to abide by strict standards of moral propriety and adhere to internal regulations.

The Group's corporate philosophy is based on the concept of "building trust" among all stakeholders. Trust is not something that can be generated over a short period of time, but it can be lost or damaged in just one brief instant of irresponsibility. The management and staff of the Daiwa Securities Group try to keep this important fact in mind at all times, and through energetic corporate governance activities, endeavor to steadily improve the Group's value and reputation.

**Akira Kiyota**  
Chairman of the Board



**Tetsuro Kawakami**

Outside Director

Honorary Advisor, Sumitomo Electric Industries, Ltd.



**Ryuji Yasuda**

Outside Director

Professor, Hitotsubashi University, Graduate School of International Corporate Strategy



**Koichi Uno**

Outside Director

Certified Public Accountant



**Nobuko Matsubara**

Outside Director

Chairman, Japan Institute of Workers' Evolution

## Committee Members

### Nominating Committee

Akira Kiyota (Chairman)  
Shigeharu Suzuki  
Tetsuro Kawakami  
Ryuji Yasuda  
Nobuko Matsubara

### Audit Committee

Saburo Jifuku (Chairman)  
Koichi Uno  
Nobuko Matsubara

### Compensation Committee

Akira Kiyota (Chairman)  
Shigeharu Suzuki  
Tetsuro Kawakami  
Ryuji Yasuda  
Koichi Uno

As one of the pioneers in Japan's financial and capital markets, the Daiwa Securities Group has played an important role in the Japanese economy for several decades. As board members, we try to keep in mind the fact that the spirit of any organization is defined by its leaders, and leadership involves setting an example of energetic commitment and dedication.

The duty of top management is to chart the course for the organization, and to make appropriate decisions that will determine the company's future direction. The business strategies that we adopt aim to unleash the creative potential of society's resources, and those of the company. The old saying "the devil is in the details" is only half right; the details also encompass all the good that a company can do. By mastering every detail of business, organizational structure and risk management, we are able to create the elements of value and service that justify our existence as a corporation, and construct a bridge between the accomplishments of the past and the aspirations of the future.

Tetsuro Kawakami  
Outside Director

The Daiwa Securities Group is committed to creating a highly transparent and objective corporate governance system consistent with international standards. We clearly separate the supervisory and executive functions of management, and maximize each Group company's efficiency and expertise while establishing a Group management structure that highlights synergies between the Group companies.

### Features of the Corporate Governance System

In 1999, the Daiwa Securities Group became the first listed Japanese company to adopt a holding company structure. Since then, we have been pursuing a highly transparent and objective corporate governance framework that maximizes synergy between Group companies while showcasing the independence and unique expertise of each Group member.

In June 2004, the Group made the transition to a "committee system" of corporate governance and accelerated the decision-making process by transferring a substantial portion of authority from the Board of Directors to the executive officers. In addition, we strengthened the supervisory functions of management by increasing the number of outside directors and establishing the Nominating, Audit, and Compensation Committees. The representative directors of major Group companies also serve as executive officers of the holding company, allowing them to efficiently implement individual business strategies based on Group strategies.

The Nominating Committee met three times in FY 2007 to further discuss the composition of the Board of Directors and its effect on corporate governance, the basic policy for nominating candidates for directorships, and the selection of these candidates. The Nominating Committee selects candidates for directorships in light of the Group's standards for the appointment of directors. These standards include criteria that help ensure the independence of outside directors.

The Audit Committee met 12 times in FY 2007 to audit the activities of directors and executive officers, focusing on their progress in implementing internal control systems.

The Compensation Committee met four times in FY 2007 to discuss compensation policy and determine the compensation of each director, and also studied a Group-wide incentive plan aimed at improving consolidated earnings results.

The Board of Directors met 14 times in FY 2007, with 87% attendance of the outside directors.

### Executive Compensation Linked to Performance

Compensation for directors and executive officers is determined by the Compensation Committee. It generally has three components: basic compensation, performance-based compensation, and stock-price-linked compensation. Criteria used in calculating performance-based compensation include financial results, such as consolidated ordinary income and ROE, as well as operating assets and indicators of customer satisfaction and productivity. We discontinued the retirement benefit system for directors at Daiwa Securities Group Inc., Daiwa Securities, and Daiwa Securities SMBC to strengthen the correlation with performance and to enhance the transparency of executive compensation.

### Compensation Paid to Directors and Executive Officers in FY 2007

Amounts based on resolution of the Compensation Committee	Directors		Executive officers		Total	
	Recipients	Amount	Recipients	Amount	Recipients	Amount
	5 persons	¥105 million	15 persons	¥846 million	20 persons	¥951 million

Notes: 1. The above compensation amounts include performance-linked pay to reflect FY 2007 earnings.

2. The above compensation amounts include a total of ¥101 million in stock acquisition rights granted as stock options to directors and executive officers.

3. In addition to the above, ¥10 million in retirement benefits were paid to one director who retired from the Board of Directors in FY 2007, pursuant to a resolution of the 67th Ordinary General Meeting of Shareholders held on June 23, 2004.

4. Of the total compensation amount of ¥951 million, compensation paid to the four outside directors totaled ¥67 million.

5. As of March 31, 2008, there were 12 directors and 15 executive officers. Eight of the directors also served as executive officers (their total compensation is included in the "Executive officers" category).



### Internal Control System

The Daiwa Securities Group defines four internal control objectives: promoting business effectiveness and efficiency, reliable financial reporting, compliance with laws related to business activities, and asset preservation. The Group is building an extensive internal control system to ensure that these processes function effectively and efficiently.

Internal auditing departments have been established at major Group companies to carry out internal audits. In addition, the Internal Audit Department, which is under the direct control of the CEO of Daiwa Securities Group Inc., audits Group companies that do not have their own internal auditing departments.

The Group's internal auditing departments undertake regular audits based on predetermined auditing plans, and verify the status of internal control activities. The frequency and extent of audits are determined on a case-by-case basis, following an evaluation of risks and other factors. The Internal Audit Department at the holding company regularly communicates with the internal auditing departments of major Group companies, and thereby coordinates efforts to upgrade the Group's internal control and internal auditing systems.

In the case of Daiwa Securities Group Inc., internal auditing plans and the results of internal audits are reported to and approved by the Internal Control Committee, a subcommittee of the Executive Committee. The auditing plans and results for major Group companies are reported to and approved by committees such as the Legal Affairs and Compliance Committee. The Internal Audit Department at the holding company also reports the results of internal audits to the Audit Committee.

The Audit Committee conducts audits in collaboration with the Internal Audit Department and, when necessary, can ask the Internal Audit Department to research the items required to conduct the audits.

### "Internal Control-Related Reporting System" to Govern Financial Disclosure Activities

In addition to the measures described earlier, in FY 2008, the Japanese government instituted a system requiring management reports on internal control over financial reporting, based on the Financial Instruments and Exchange Law. The aim of this system is to support one of the four internal control objectives described earlier, namely the goal of "ensuring reliable financial reporting." The system is designed to ensure that financial reporting is accurate and conducted in an appropriate manner, and to confirm that the managements of corporations have approved the method of preparing these documents.

The Daiwa Securities Group has been laying the groundwork of its internal control system for financial reporting since FY 2006, by setting up project teams which span all of the major companies in the Group and also soliciting recommendations and feedback from outside advisors. The preparatory efforts were broken down among four project working groups, each of which addressed a separate issue: control of Group companies, oversight of a Group-wide IT system, control of business processes, and verification measures. Each working group considered and compiled a list of the risks posed to financial reporting in their area of concentration, and methods that could be used to address these risks, presenting their findings in finalized report form by March 2008. Any internal regulations that were considered necessary to provide the basis for the system were introduced at all major Group companies. In FY 2008, the Group will consider and evaluate measures to address the issues identified in the working groups' reports, and a complete report on the Group's internal control will be compiled and disclosed in June 2009.

The Daiwa Securities Group views compliance as more than simply a system to ensure that the Group “complies with laws and regulations.” Rather, compliance refers to our ongoing effort to earn the trust of customers, the market, and society, and thus fulfill the first and foremost of our corporate principles of “building trust.” Therefore, our compliance activities include efforts to educate and condition every executive and employee to constantly consider the impact of their activities, and to act in a manner that will promote trust and confidence in the Daiwa Securities Group.

### Group Compliance Initiatives

The Daiwa Securities Group aggressively conducts compliance training programs for their employees. These programs commence as soon as they enter the company and continue through regularly scheduled training sessions throughout their career, thus ensuring that every employee is aware of, and thoroughly understands, compliance issues. As the company pursues new business ventures in areas where the regulatory structure is still incomplete, employees are trained to approach all matters with strong self-discipline and legal awareness, refer to existing legal precedents whenever possible, and always adhere to accepted social norms of proper behavior.

In FY 2007, the Corporate Ethics Officer at Daiwa Securities Group Inc. continued efforts, begun in 2006, to organize a system to train employees in compliance issues. In the past, these training programs were held in major Group companies such as Daiwa Securities Co. Ltd., but they have now been extended to other Group companies including Daiwa SB Investments Ltd., Daiwa Securities Business Center Co., Ltd., Daiwa Pension Consulting Co. Ltd., and Daiwa Institute of Research Ltd. As a part of this corporate ethics training program, employees are made fully aware of the “Corporate Ethics Hotline,” an internal reporting system which the Group introduced in 2003. Thanks to these efforts, the number of reports handled by the Hotline is steadily rising, and the Group’s ability to address illegal or unethical behavior has clearly improved.

The Group is continuing its efforts to eliminate the influence of corporate racketeers and other antisocial groups. For example, we have established a monthly “General Affairs/Corporate Ethics Promotion Liaison Meeting,” which includes representatives from the departments responsible for compliance in each Group company. This meeting discusses and implements directives aimed at combating the influence of such groups. Furthermore, in response to guidelines for corporations to combat problems caused by antisocial groups, announced in June 2007 by the Japanese Cabinet Secretariat’s Ministerial Meeting Concerning Measures Against Crime, the Daiwa Securities Group adopted a basic policy on antisocial groups which it has disseminated both within and outside the Group.

### Initiatives by Major Group Companies in FY 2007

The main focus of Daiwa Securities Co. Ltd.’s compliance efforts in FY 2007 was to prepare for the full

implementation of the Financial Instruments and Exchange Law, and to train employees in applying the new regulations. To that end, the company has been working to improve the quality of its sales operations in strict accordance with the suitability rule, and enhance the effectiveness of internal control systems. For example, a new system has been introduced which helps to ensure that a customer’s basic investment stance is appropriately matched up with corresponding investment products, and trading in these products is conducted in line with the risk limitations that the customer specifies, in accordance with the suitability rule. Meanwhile, the company has taken steps to simplify its internal rules as much as possible to ensure that they better reflect the spirit of the new regulations with regard to protecting the interests of investors.

In FY 2008 Daiwa Securities plans to advance the initiatives begun in FY 2007, seeking to fulfill our role in the ongoing shift of Japanese individuals’ financial assets from savings to investment. In order to succeed in this objective, the company will make further enhancements to its internal compliance activities, to ensure that every employee is aware of, and acts in accordance with, the Financial Instruments and Exchange Law and basic social principles, conducting business in a way that places the customer first.

Daiwa Securities SMBC has identified legal compliance and the creation of a strict internal control structure as among the most important issues for management to address. The company has formulated a detailed compliance strategy, which it has implemented as part of its compliance program. In FY 2007, the full implementation of the Financial Instruments and Exchange Law and revisions to the Law on Sales of Financial Products introduced further changes to the legal and regulatory environment surrounding companies that trade in financial products—changes which required the company to develop compliance systems, and train every executive and employee in a proper awareness of, and adherence to, pertinent regulations.

In FY 2008, Daiwa Securities SMBC will take steps to respond to the partially amended “Guidelines for Financial Instruments Business Supervision,” issued by the Financial Services Agency, which reflects the new legislation and regulations mentioned above. The company is also redoubling efforts to prevent any transactions with corporate racketeers and other antisocial groups, and establish a thorough compliance system.

While the Daiwa Securities Group pursues profitability and growth, it also recognizes the importance of accurately identifying, evaluating, and effectively controlling the various risks associated with its business operations. Our objective is to improve corporate value steadily, by maintaining a sound financial base and profit structure, properly balancing risks and returns, and anticipating any possible business scenarios that might elevate risk.

### Basic Risk Management Policy

The Daiwa Securities Group has established basic risk management regulations governing all activities by Group companies to manage risk, to ensure that they conform to the following basic policies:

1. Management shall demonstrate an active concern for managing risk
2. An appropriate and comprehensive risk management structure shall be established to address the specific characteristics of risk faced by Group companies
3. All risk management processes shall be clearly identified

### Risk Classification

The Daiwa Securities Group faces various risks in the course of its business activities. The Group therefore believes that it is important to properly identify, evaluate, and manage these risks in order to maintain healthy financial and earnings structures. In line with this approach, the Group has introduced risk management systems with a particular focus on business characteristics and risk profiles in each Group company. These systems cover market risk, credit risk, liquidity risk, operational risk, system risk, information security risk, legal risk, and reputation risk.

### Risk Management System

Any changes to the risk management structure and internal regulations pertaining to overall risk management in the Daiwa Securities Group shall be subject to approval by the Board of Directors, in light of their grave importance. Risk shall be monitored constantly to maintain a grasp of the Group's overall exposure, and issues related to the risk management structure of every Group company shall be reported to and discussed by the Internal Control Committee, a subcommittee of the Executive Committee, which shall as a rule meet once every quarter.

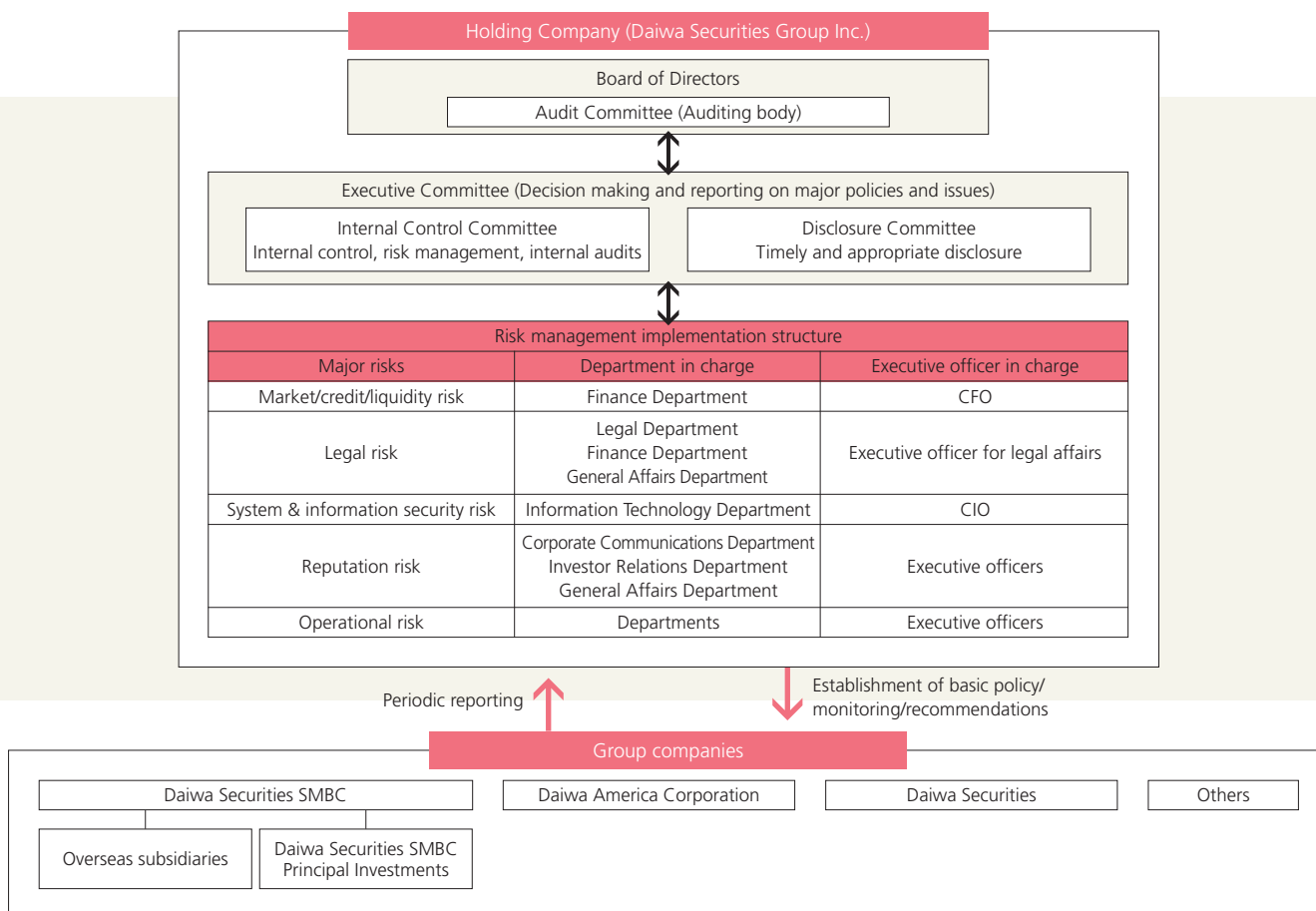
Reports on the Group's exposure to risk shall be evaluated not only in light of general risk management standards but also in terms of their relation to the Group's business strategy. Risk exposure shall therefore be considered as a very important matter by the Board of Directors, when preparing the Group's business plan, and by the Executive Committee, when deciding how to allocate capital resources.

Of the many risks which the Group faces, market and credit risk stemming from trading activities are especially important, since securities-related operations are central to the Group's business activities. It is imperative that the Group manage these risks effectively, in order to ensure financial stability.

Daiwa Securities SMBC, Daiwa Securities SMBC Europe, and Daiwa America Corporation conduct most of the trading within the Daiwa Securities Group. Daiwa Securities takes relatively small trading positions in situations where market risk exposure exists; market risk and credit risk emanating from this trading are therefore limited.

Margin trading activity conducted through Daiwa Securities and negotiable securities held as collateral against secured loans by Daiwa Securities Loan Co., Ltd. create exposure to credit risk associated with the transaction counterpart. However, since the collateral provided for such transactions is usually sufficient to back the credit, the degree of credit risk from these activities is 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 the trading positions of Daiwa Securities SMBC and its subsidiaries. It has set up a risk management system to monitor measured risk and ensure that it does not exceed the upper limit established for the trading departments, and report to management. Daily and monthly reports are submitted to management, detailing market risk related to trading positions and credit risk. In addition, comprehensive quarterly reports, which include other risk information, are submitted to the Risk Management Committee.



Daiwa Securities SMBC Europe and Daiwa America Corporation have built independent risk management systems based on local laws and regulations. Reports on market risk and credit risk related to trading positions are made regularly to the local management, as well as to the department in charge of risk management at Daiwa Securities SMBC in the case of Daiwa Securities SMBC Europe, and at Daiwa Securities Group Inc. in the case of Daiwa America Corporation. The management of Daiwa Securities Group Inc. receives daily risk reports on trading positions at the aforementioned subsidiaries via its department in charge of risk management. These reports give the Group's management team an accurate grasp of the risk profile of its trading positions.

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

these reports, Daiwa Securities Group Inc. monitors risk conditions, and determines whether the capital of subsidiaries—capital invested by the Daiwa Securities Group Inc.—is being exposed to excessive risk.

In order to address the rising scale and increasing complexity of risk, the Group has been working to develop more advanced statistical methods of quantifying risk, while introducing effective methods of managing the changes in risk conditions caused by changes in the market environment and revising them when appropriate. In this way, the Group ensures that risk can be kept at appropriate levels relative to management capabilities and financial strength. Furthermore, the Group manages capital in a comprehensive manner which takes into account the relative risk and return of each business segment, in an effort to generate an appropriate return at an acceptable cost of capital, thus maintaining earnings growth.



## Value at Risk

Range and Assumption of VaR • Confidence level: 99% • Holding period: 1 day • Adjusted for price correlation between products

Daiwa Securities Group Inc. (Consolidated)

(Billions of yen)

		6/06	9/06	12/06	3/07	6/07	9/07	12/07	3/08
VaR (Month-end)		2.06	2.17	1.79	2.18	1.95	2.60	2.78	2.72
Quarterly	High	3.69	2.42	2.86	3.55	4.10	5.79	3.89	3.01
	Low	1.49	1.42	1.33	1.14	1.28	1.50	2.02	1.71
	Average	2.42	1.99	2.02	2.13	1.91	2.75	2.90	2.32

By Risk Factor (Month-end)

Equity	1.05	1.48	1.48	0.98	1.24	1.78	1.65	1.57
Interest	1.71	1.09	0.88	0.80	1.51	1.23	1.93	1.78
Currency	0.18	0.78	0.62	1.63	0.54	1.28	1.48	1.61
Commodities	—	—	0.03	0.12	0.17	0.00	0.00	0.04

## Major Risks and Methods of Management

**Market risk** ▶ Market risk is the risk of incurring losses due to fluctuations in the value of financial assets or liabilities due to changes in stock prices, interest rates, exchange rates, and the value of commodities. Most of the Group's trading positions are exposed to market risk, and it is therefore of paramount importance to quantify the impact that market fluctuations have on the value of financial assets or liabilities, to gain a more objective understanding. The Group employs Value at Risk (VaR) as an index for measuring the impact on the Group as a whole, using a holding period of one day and a confidence level of 99%. This enables the Group to gauge the estimated impact based on historical data related to market fluctuations. Moreover, the Group compensates for the limitations of the VaR method by monitoring a number of additional indicators, including market sensitivity, as well as taking a multi-faceted approach to setting credit limits, allowing it to control overall risk levels. In addition, the Group deals with the risk of sharp market fluctuations that exceed its statistical assumptions by regularly verifying the soundness of the Group's trading positions as a whole, through such methods as stress testing and scenario analysis.

**Credit risk** ▶ Credit risk is the risk of losses sustained due to the failure of clients to meet their liabilities, including repayment of debt. In the wholesale securities business, among others, the Group assigns credit limits for each transaction partner based on credit evaluation standards. These standards are derived by combining quantitative rating evaluation models with qualitative judgments. In addition, the Group assesses the probability of payment by regularly monitoring the performance of each transaction partner, taking into account the transaction period, availability of collateral, the validity of associated contracts and other conditions related to the transaction. In addition, the Group has imposed restrictions to ensure that the overall value of its risk portfolio is commensurate with the Group's financial strength.

**Market risks and credit risks unrelated to trading positions** ▶ The Group also owns investment securities unrelated to its trading positions that are held from a long-term perspective for the purpose of maintaining business relationships, as well as private equity and other securities related to the venture capital and principal investment businesses. Since market- and credit-related risks associated with these investment assets vary in nature, the Group employs indicators appropriate to the particular type of risk—such as VaR,

or a classification of holdings by credit rating, as an alternative to straightforward quantification of the balances held. These indicators, in combination with regular monitoring, enable the Group to manage credit limits appropriately.

**Liquidity risk ▶** Liquidity risk is the risk that the Group will encounter difficulty procuring funds, or that the financing cost will rise significantly higher than normal, due to changes in the market environment or an unexpected credit crunch. While the Group employs a variety of assets and liabilities in its business activities, it strives to keep liquidity at an appropriate level, taking into account the balance between financial efficiency and stability. The Group as a whole holds a liquid portfolio totaling ¥1,412.6 billion (as of March 31, 2008) consisting mainly of cash, deposits, government bonds and other highly liquid instruments. By doing so, it maintains sufficient liquidity to ensure that business activities are not interrupted, even in the event of a credit crunch.

**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 events. 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 company to address operational risk, and conferences are held to consider the necessary 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 and information security risk ▶** One form of operational risk is system and information security risk, which refers to the potential for incurring losses due to a computer breakdown or malfunction or other systems-related problems. It also covers the risk of losses caused by the inappropriate release of information or improper use of computers.

The Group has established an information security policy, centering on system and information security risk management, aimed at mitigating these types of risk. The Group has set security standards (regulations related to information security) and works to ensure that executives and employees understand, and fully comply with those standards.

In addition, the Group constantly monitors the operating status of its core systems to keep disorder to an absolute minimum. Even if problems do occur, the Group has procedures in place to respond to them swiftly.

**Legal risk ▶** Legal risk includes regulatory risk, risk regarding compliance with the law and litigation risk, and refers to the potential for incurring any of a variety of losses due to noncompliance with legal and other regulations, lawsuits, invalid contracts with third parties, or violations of corporate ethics rules. Such potential losses may include loss of reputation as a service provider or loss of business.

The Group is engaged primarily in securities-related activities, and employs group management. It must abide by Financial Instruments and Exchange Law, and observe the associated laws and regulations when executing securities transactions, and comply with various regulations in general operations outside of the securities business. Even in non-operational matters, high standards of discipline are expected of financial instruments dealers and brokers and their personnel with regard to market rules and regulations, insider trading-related and otherwise.

To ensure that these regulations are observed, the Group has set up compliance sections at each company, and established committees to discuss and resolve compliance issues and matters related to corporate ethics.

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.

**Reputation risk** ▶ Reputation risk refers to the possibility of the Group sustaining unforeseen losses due to deterioration of its reputation, caused by the spread of rumors or erroneous economic information. There are no uniform procedures for managing reputation risk, because it can emanate from a variety of sources.

The Group has established various regulations under its Disclosure Policy, with particular emphasis on the management and provision of information. It has also set up the Disclosure Committee within Daiwa Securities Group Inc.

Each Group company is charged with the task of reporting information on reputation risk to the Disclosure Committee. Information is obtained and centrally managed at Daiwa Securities Group Inc., which disseminates it in a prompt and accurate manner according to resolutions of the Disclosure Committee.

The Group works hard to keep abreast of problems and occurrences that may affect its reputation, so that if and when such problems do occur, their impact on the Group can be minimized. It also acts to ensure that erroneous and inaccurate information is properly corrected, and responds appropriately to libel and other issues. The Group has public relations and investor relations systems in place to prevent and minimize risks to its reputation.

The Daiwa Securities Group is investing aggressively and flexibly in the latest information technology (IT), which allows the Group to respond swiftly to the many challenges of its broad and diversified securities business. We view the data that flows through the organization, including information on clients, as an important management resource—the very lifeblood of the organization. Therefore, the Group has established a variety of policies and practices to protect that information from being misused by individuals either inside or outside the Group. Our high-level information security management system allows the Group to fulfill its social responsibility to protect internal information, and to increase corporate value.

### IT Strategy

The Daiwa Securities Group aggressively introduces information technology which allows the Group to respond effectively to the rapidly diversifying and increasingly sophisticated securities business. The Group has adopted an IT strategy, as part of its overall business strategy, which includes plans to expand Daiwa Securities' online trading operations, and to greatly enhance the functions and capabilities of equity and bond trading systems at Daiwa Securities SMBC. In order for the Group's IT services to fully support the IT needs of its securities business, it is essential to attract and train high-quality personnel with specialized IT skills. The Group is taking steps to enhance the capabilities of IT specialists group-wide, while also trying to improve the IT literacy of all personnel.

### IT Organization

Although it is investing aggressively in IT infrastructure, the Daiwa Securities Group is also doing its utmost to ensure that the Group's IT systems are cost-efficient. The Group tries to develop systems that can be adopted uniformly (or at least partially standardized) at all Group companies. In this way, we are making every effort to build an overall Group IT infrastructure with as little duplication and waste as possible. Even in the case of systems that have already been developed and are in use, the Group is constantly evaluating the systems architecture and operations structure in order to keep maintenance and operations costs to a minimum.

### Structures and Measures for Maintaining Information Security

The Daiwa Securities Group's Information Security Policy, which defines the Group's response to and basic stance on information security, states that all information resources within the Group, including personal information received from customers, must be handled in a safe, appropriate and proper manner. The Group has implemented a wide range of information security measures to ensure that this policy is followed to the fullest extent possible.

Organizational measures include the appointment of a "Chief Information Security Officer" at each company in the Group, as well as the establishment of a Group IT Management Council at Daiwa Securities Group, Inc., to discuss issues related to the overall information security activities of the Group. This council reports on information security risks to the Internal Control Committee. The Group has also formulated a set of "minimum standards" to ensure that the specific information security policies adopted by companies throughout the Group meet a certain basic standard of effectiveness. These minimum standards have been implemented at all companies in the Group.

The online trading systems of Daiwa Securities Co. Ltd. employ highly advanced encryption technology, both in data transmission and to verify a user's identity, thus allowing clients to use the system safely and securely. In addition, the Group has introduced thin-client computer systems and "flapper gates" to control entry to its office buildings.

### Efforts to Enhance the Level of Information Security

The Daiwa Securities Group is promoting the use of an Information Security Management System (ISMS) throughout the Group, in an effort to enhance the level of information security. In addition, some Group companies have already earned ISMS certification as well as the "Privacy Mark" evaluation and certification system, which indicates that they have implemented highly effective systems of information security.

### Educating Personnel About Information Security Issues

The Daiwa Securities Group understands the importance of human factors in effective information security systems; therefore, we have introduced programs to educate all executives and employees in the basics of information security. A range of training programs has been designed with content specially tailored to the functions of section managers, those in charge of security-related operations, and other employees. The programs offer group-sessions, as well as e-learning.

## Intellectual Property Activities

The Daiwa Securities Group actively pursues patents in an effort to develop new services and products that apply information technology. In order to maintain flexibility and establish a competitive advantage in its business operations, the Group takes steps to obtain patents and use them to strengthen its business foundation.

### Summary of Intellectual Property Activities

The Information Technology Department of Daiwa Securities Group Inc. has established an Intellectual Property Section to coordinate the activities of all Group companies in developing and protecting intellectual property. We are taking steps to obtain and utilize patents in such diverse areas as Internet trading, management of SMAs, electronic document issuance and other securities-related operations. Furthermore, the Group is reinforcing trademark and copyright management, both to protect the Group's intellectual property rights and from the compliance perspective, to ensure that Group companies do not infringe upon the intellectual property rights of other companies.

### Intellectual Property Activities and Achievements

As of the end of March 2008, the Daiwa Securities Group had registered 47 patents (48 including overseas patents), and had 328 (publicly disclosed) patent applications pending. Of the 14 patents registered in FY 2007, 10 were business-model patents related to e-commerce and management systems, and 4 were non-business-model patents.

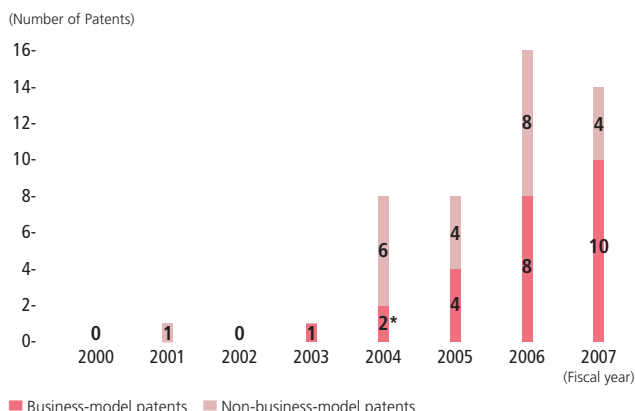
### Main Intellectual Property Measures

The Daiwa Securities Group is implementing the following measures to increase awareness of intellectual property rights, particularly patents, among executives and employees.

- **Incentive payment system for patent applications:** Set financial rewards for patent proposals at each stage—application, approval and implementation.
- **Patent awards system:** Recognize the efforts of executives, employees, divisions and offices that contribute significantly to patent activities.
- **Patent promotion activities:** Identify and develop patents in collaboration with the IT department and strategic business divisions.
- **External patent identification and protection:** Perform research to ensure that the Group does not infringe the patents of other companies.
- **Employee education and awareness:** Provide information on patents via the Group's intranet to educate employees on patent issues.

In the future, the Group intends to enhance its research functions and focus on intellectual property-related businesses, as well as patents and other forms of technical information, and reinforce its efforts to leverage the contributions of intellectual property in all Group companies. As the Group seeks to expand its global operations, we also intend to step up our efforts to address intellectual property issues in overseas countries.

Number of Registered Patents





The Daiwa Securities Group communicates proactively with shareholders, investors and the local community, in order to ensure that all stakeholders gain a proper understanding and evaluation of the Group's business activities. We aim to establish a system of disclosure that meets the very highest standards for corporate communications, providing information in a fair, prompt and appropriate manner.

### Disclosure System

The Daiwa Securities Group strives to provide information in a fair, prompt and appropriate manner, in accordance with its Disclosure Policy and Disclosure Regulations. The Group has established a Disclosure Committee—a subcommittee of the Executive Committee—as stipulated in the Disclosure Regulations. This committee is responsible for making final decisions regarding the disclosure of information. Each Group company has established its own regulations for “management-related information,” which govern the appropriate collection of information and presentation of reports to Daiwa Securities Group Inc.

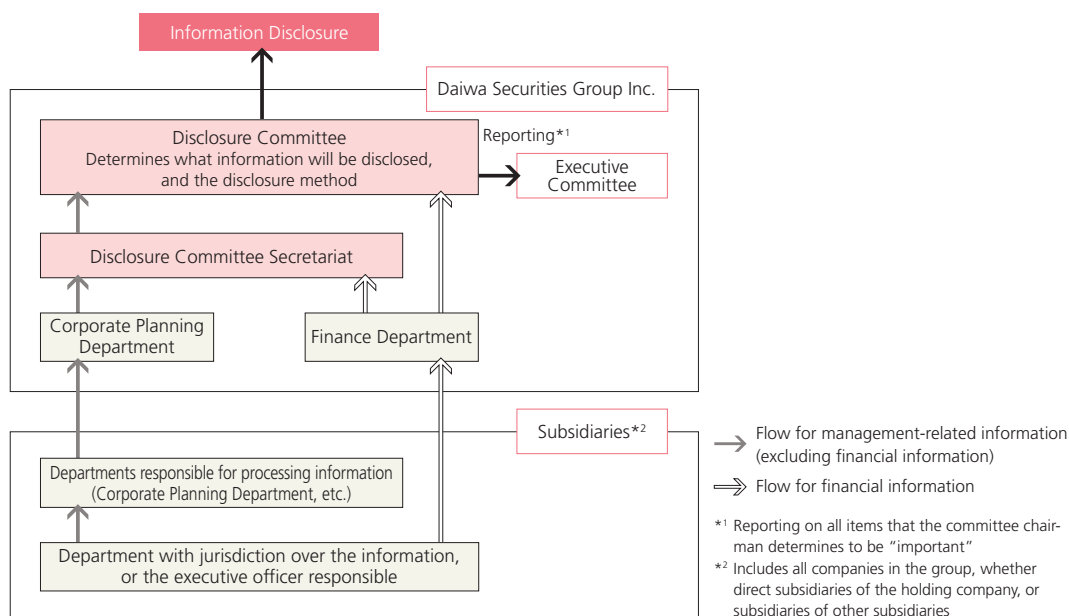
The responsibilities for disclosure are clearly allocated, based on the intended recipient of the information. The Investor Relations Department handles disclosure to shareholders, investors, and analysts. The Corporate Communications Department is responsible for communications with the mass media, and the CSR Promotion Department provides information to local communities. Information is released through a variety of media, including via the Internet and in print.

### Enhancing Investor Relations Activities

The Daiwa Securities Group supplies shareholders and investors with data and explanations of its earnings results, business strategies and progress towards strategic goals in a forthcoming manner. These disclosure activities also solicit feedback, providing management with information on market reactions and opinions to help them improve management transparency and efficiency, and thereby boost corporate value in the eyes of investors.

The Group strives to disclose information in a fair, prompt and appropriate manner, and takes steps to eliminate any disparity between the information available to domestic stakeholders and that provided to overseas stakeholders. Information on quarterly financial results is posted on the Investor Relations (IR) page of the Group's website immediately after the official announcement. The IR Department conducts a conference call with domestic analysts and institutional investors on the evening of the same day, which is also carried on the IR website, in real time. A conference call with overseas investors is conducted later that

Flowchart of the Daiwa Securities Group's Disclosure Activities



same evening. During FY 2007, we also held "IR themed meetings" at which executive officers from relevant departments offered analysts and institutional investors explanations of selected business segments.

The Group's CEO holds briefings for institutional investors and analysts in Japan twice a year. In addition, the top management team travels overseas to meet with institutional investors on a regular basis. In FY 2007, the team once again held conferences with investors in Europe, the US, Hong Kong, Singapore and the Middle East.

The Group is also taking steps to improve communications with individual shareholders and investors. For example, we hold regular briefings by the CEO for individual investors, and have increased the number of opportunities to interact with individual shareholders through participation in large-scale IR seminars held by Nikkei Inc. (the publisher of *The Nihon Keizai Shimbun* newspaper) and the Tokyo Stock Exchange, as well as by holding IR seminars aimed primarily at shareholders in Daiwa Securities' regional branches. Moreover, we are upgrading our portfolio of investor communication tools through improvements to the usability of the IR website and compilation of a "Fact Sheet" that provides simple explanations of the Group's businesses.

In order to encourage more shareholders to attend the General Shareholders' Meeting, which gives Group representatives an opportunity to interact directly with shareholders, since 2006 we have been holding the Meeting on a Saturday, in a spacious conference room at a hotel. For those shareholders who are unable to attend the meeting in Tokyo, the Group broadcasts this event via live satellite transmission to venues in Osaka and Nagoya, as it has done in the past. To encourage investors to exercise their voting rights, the Group allows shareholders to vote via the Internet or by mobile phone. In FY 2006, we joined the "Electronic Voting Platform for Institutional and Foreign Investors," which allows institutional investors both in Japan and overseas to vote quickly and directly on proposals to the General Shareholders' Meeting via the Internet.

We will continue to conduct IR activities tailored to the needs of different types of investors in a concerted effort to promote sincere communication with our various stakeholders. Through these efforts we aim to build "Japan's best IR framework," to serve as an example for other listed companies and to promote a vibrant securities market.

The Daiwa Securities Group derives much of its competitive strength from its personnel. To maximize competitiveness, the Group fosters an environment in which all employees are motivated to enhance their abilities and realize their full potential. We actively encourage employees to upgrade their skills, and we are striving to establish a personnel management system that can evaluate employee performance more accurately.

### Group Personnel Policy

The Daiwa Securities Group is keenly aware of the importance of our employees, who are the wellspring of the Group's competitiveness. Our stated policy is to "emphasize the creativity of each employee, foster a free and vigorous corporate culture filled with the spirit of challenge, and accurately evaluate the performance and contributions of employees." It is employees who supply the effort and inspiration needed to elevate shareholder value. Therefore, one of the best ways for a company to improve the satisfaction of its investors and customers is to seek out optimal systems and methods for motivating employees.

### Advanced evaluation system and performance-based remuneration

▶ The Daiwa Securities Group adheres strictly to results- and performance-oriented standards of evaluation, in order to ensure that its personnel system is fair and objective. The Group uses a two-way evaluation system, in which superiors and subordinates evaluate one another, as well as a multi-directional evaluation system, in which employees are evaluated by other closely related divisions and Group companies, based on objective criteria. We also conduct "evaluator training" programs to enhance the evaluation skills of employees. In accordance with the Group's fair evaluation policy, Daiwa Securities has established the "President's Awards," which are awarded twice a year in an effort to further motivate employees. Similar awards programs have been introduced at Daiwa Securities Group Inc. and Daiwa Securities SMBC.

The Group has also adopted an employee remuneration system that is based on job category as well as performance appraisal using a detailed, job-specific evaluation process. At the deputy general manager level, in FY 2007, there was an approximately 20-fold disparity between the smallest and the largest bonus, and a five-fold difference in annual salaries. Performance-based remuneration systems were also introduced for analysts at Daiwa Institute of Research and fund managers at Daiwa Asset Management, in which annual salaries are determined to reflect analyst rankings or fund performance.

### Skill enhancement opportunities and career development options for employees

▶ The Daiwa Securities Group continues to upgrade personnel support systems which encourage employees to enhance their skills and obtain qualifications, particularly certifications related to financial services, such as financial analyst or financial planner. We also provide career development training to cultivate administrative and business leaders. From FY 2008, the Group commenced full-scale introduction of a career advancement system based on employees' qualifications. Under this system, employees must earn a specified number of "qualification points" in order to receive promotion to a given job level. Points are awarded when the employee meets certain certification-based criteria; for example, when they obtain accreditation as a financial analyst or other qualifications that are useful in the securities industry. The number of points awarded increases relative to the difficulty of earning the particular qualification. This system provides employees with greater incentives to enhance their abilities.

In addition, we have adopted an intra-Group job posting system, which allows employees to embrace new challenges by moving to a department of their choice within the Group. Since its introduction in 2000, the system has attracted 702 applicants, 132 of whom have successfully qualified for transfers.

### Human Resource Initiatives Under the Medium-Term Management Plan

The Group's basic human resources policy, as spelled out in the medium-term management plan, is "to attract the most competent personnel in the industry and provide them with highly motivating working environments that allow them to pursue new challenges." There are five main elements of this policy:

1. Establish compensation standards and systems which rank among the best in the industry, in order to attract and keep top-quality employees and contribute to improved corporate performance;
2. Develop an ongoing program of recruitment to attract talented and loyal employees, promoting communication with students and raising the Daiwa Securities Group's profile as an attractive career option for new graduates;

3. Carry out training programs to cultivate the industry's most highly specialized team of financial professionals;
4. Maintain a stimulating working environment for all employees, regardless of gender, and thereby seek to elevate the morale and tap the latent potential of female employees in particular. We will make ongoing efforts to ensure that our workplaces cater to the particular needs of women; and
5. Promote a work environment that rewards employees equally for equivalent contributions, regardless of their age, thus ensuring that the Group can fully benefit from the extensive experience of veteran employees.

Over the three years covered by the plan, the Daiwa Securities Group intends to increase its domestic workforce by around 2,000 employees.

### Offering Greater Job Satisfaction

The Daiwa Securities Group has adopted the slogan "promoting passion, pride and job satisfaction to make Daiwa Japan's best securities group," to express the goal of its human resources policy. In conjunction with the medium-term management plan, the Group aims to promote a corporate environment that will stimulate and motivate employees. The objective is to give each employee who works for the Daiwa Securities Group a strong feeling of trust in their company, a sense of pride in their work responsibilities and contributions, and a feeling of solidarity with the Daiwa Securities Group and its members. A number of individual programs have been implemented as part of this plan.

**The "Daiwa Festival" ▶** In fall 2007, all of the companies in the Daiwa Securities Group relocated their head offices to the "GranTokyo North Tower" building, located directly in front of Tokyo Station. The aim of this move was to promote greater solidarity among various companies in the Group, enhancing cooperation and coordination to improve productivity and usher in a new and more energetic era for Daiwa Securities and its affiliates.

The Daiwa Securities Group marked this new start by organizing the "Daiwa Festival" in November 2007. The purpose of the festival, with the theme of "Family, Relationships and Health," was to help management in their efforts to foster loyalty and company spirit, and to express our appreciation for the support that family members provide to our employees on a daily basis.

**Mental health care support ▶** Daiwa Securities Group Inc. has established a Mental Health Support Department, which includes on-site clinical psychotherapists stationed at the company headquarters. This department provides confidential consultation services to employees who are experiencing anxiety, insecurity or stress, in an effort to support the mental health of all Group personnel.

**Promotion of temporary and part-time staff to permanent employee status ▶** The Group has instituted a program under which temporary and part-time workers who have been employed for a specified period of time, demonstrating loyalty and making positive contributions to the Group, are offered the opportunity to enhance their careers by passing an examination and becoming permanent employees. The Group plans to conduct these reviews of qualifying temporary and part-time staff periodically, over the coming years.

**Efforts to foster a sense of company unity ▶** The Daiwa Securities Group understands that employees need to maintain a harmonious balance between work and private life, and that leisure activities can be invaluable as a way to deepen friendships and a sense of solidarity among Group employees. Therefore, in FY 2007, the Group introduced a "Support System for Club Activities," and a "Support System for Internal Company Events." To date, employees have established 12 separate clubs under the "Support System for Club Activities."

**Support and employment for veteran personnel ▶** In order to take full advantage of the skills of older employees who show the desire to continue working, the Daiwa Securities Group has often rehired employees after their official date of retirement, under the "Daiwa Elderly Support System." In addition, the Group responded to the government's "Revised Law for the Stabilization of Employment of the Aged" by introducing the "Daiwa Master System." The Group will continue to seek ways to make active use of the skills and experience of veteran employees.

**Support for working mothers and other support systems for women ▶**

For many years, the Daiwa Securities Group has taken an active role in supporting working women. The Group has established a "Women's Advancement Action Team" within its Personnel Department, which introduced a "Support Plan for Working Mothers," and has taken a variety of other steps to help employees balance the demands of their job and their family. The Group continues to actively recruit female employees and encourage their contributions. Not only is the number of women rising year by year, but the Group is actively promoting them into managerial positions.

In recognition of these efforts, the Ministry of Health, Labour and Welfare presented its "Director of Tokyo Labour Bureau Award" to three Group companies in 2006—Daiwa Securities Group Inc., Daiwa Securities, and Daiwa Securities SMBC—at its "Corporation Award for the Promotion of Gender Equality." During FY 2007, the Group extended the period of time for which it provides allowances to cover day-care fees, and extended the period during which working mothers are eligible for overtime work exemption or restriction, thus providing even more support to employees who are struggling to balance the demands of work with those of child care. In November 2007, the company introduced a bonus system which offers a ¥2 million stipend for the birth of a third child (and each subsequent child), to help address the financial burden of parents with large families.

Mark denoting official endorsement by the Ministry of Health, Labour and Welfare of a company's measures to support employees in caring for their children



**Promoting a balance between work and personal life ▶**

If employees are able to maintain a harmonious balance between work and private life, enjoying a healthy and rewarding lifestyle, their motivation and loyalty to the company will increase, making them valuable assets to any organization. The Daiwa Securities Group recognizes the importance of this relationship in attracting and keeping top-quality personnel, as well as in ensuring that it can achieve sustainable development

as an enterprise. Consequently, the Group has continuously promoted the concept of a "Work-Life Balance."

**The "Work-Life Balance Promotion Committee" and "Work-Life Balance Promotion Section"**

The Group's efforts to ensure that all employees enjoy a healthy balance between work activities and their personal life have taken a more concrete step forward, with the creation of a "Work-Life Balance Promotion Committee" at Daiwa Securities Group Inc. The committee is supervised by the Group CEO, who also has assumed the post of "Chief Work-Life Balance Officer" (CWO). In addition, a new department has been established within the Personnel Department of Daiwa Securities Group Inc., to coordinate this effort. Specialist staff members have been assigned to this new "Work-Life Balance Promotion Section."

**Encouraging a "Leave office by 7 p.m." policy**

The Daiwa Securities Group already had an "all lights out by 9:30 p.m." policy at its head office building, to discourage excessive overtime work. As part of its efforts to promote a work-life balance, this encouragement of shorter working hours has taken another step forward. Beginning in 2007, Daiwa Securities Group Inc. and Daiwa Securities Co. Ltd. have been encouraging a "Leave office by 7 p.m." policy.

**Other human resources initiatives ▶** In 2008, Daiwa Securities Group Inc. was one of ten companies named by the Ministry of Health, Labour and Welfare as a "model company promoting harmony between work and personal life." All ten companies were selected for their influence on Japanese society in adopting exemplary policies that balance work and personal life.

In addition, the CEO of Daiwa Securities Group Inc. was named as joint chairman of the "Committee on Population Issues," which was established by Nippon Keidanren in 2005. This organization tries to promote nationwide awareness of the problems caused by Japan's low birth rate and develop strategies to guide a society that is experiencing a population decline, while pursuing activities that provide Japanese companies and organizations with a fuller understanding of the need for work-life balance.