

Daiwa Securities Group Sustainability Report 2002

BUILDING SUSTAINABLE SUCCESS



About This Report

A sustainability report is a report concerning the systems established by a company to address its corporate activities from three mutually interdependent perspectives—economic, social and environmental—and the results thereof. Following the agreement reached at the World Summit held in Rio de Janeiro, Brazil, in 1992 to shift "from growth to sustainability to ensure the continued existence of the human race," the word *sustainability* has rapidly attained universal recognition. The expression "sustainable development" as used here refers to development that can meet the needs of the present without compromising the ability of future generations to meet their own needs. This is based on the recognition that "economic growth is possible only within the capacity of the global environment." Furthermore, given problems such as the widening gap between the world's rich and poor, the sustainable development concept also includes social aspects such as human rights and the eradication of poverty and can be understood as an economy designed to achieve balance between the environment and society.

In this report we focus on activities such as corporate governance; compliance (ethics and the observance of laws and regulations); response to customers, shareholders, investors and employees; environmental considerations; and conduct as a corporate citizen that represent the Daiwa Securities Group's efforts regarding sustainability.

In the writing of this report we have made reference to the Global Reporting Initiative (GRI) guidelines,¹ the international guidelines for sustainability reports.

- **Target readers:** While we have written this report primarily for our customers, shareholders and employees, we believe the information described herein will be of interest to a wide range of the Daiwa Securities Group's stakeholders, including client firms, NPOs (nonprofit organizations), citizens living near Daiwa Securities branch offices throughout Japan, and educational institutions.
- **Scope of the report:** Basically, the report covers the nine principal companies that comprise the Daiwa Securities Group.² But this does not imply that information of all nine companies is covered exhaustively; relevant information is disclosed according to the relevance of the activity of each company.
- **Reporting period:** Quantitative data are basically data for FY 2001 (April 2001 – March 2002). Because this report is the Daiwa Securities Group's first sustainability report, however, to the extent necessary, we also provide data for activities before FY 2001 and for certain activities begun in FY 2002.

¹ The June 2000 version and a rough draft of the new guidelines issued in April 2002 were used as reference material for the GRI guidelines. For more specific information, please refer to the GRI website at <http://www.globalreporting.org>.

² The nine main companies that form the Daiwa Securities Group are Daiwa Securities Group Inc., Daiwa Securities, Daiwa Securities SMBC, Daiwa Asset Management, Daiwa Institute of Research, Daiwa SB Investments, Daiwa Securities Business Center, Daiwa Property and NIF Ventures.

Daiwa Securities Group Inc. Selected as Component of DJSI World for 4th Straight Year

Daiwa Securities Group Inc. has been selected afresh for inclusion in the Dow Jones Sustainability World Indexes (DJSI World) in 2002.

DJSI World is a sustainability index (stock index) devised by Dow Jones Indexes (of the United States), which calculates and publishes stock indexes, and SAM Sustainability Group (of Switzerland), which keeps track of corporate sustainability. As of April 2002, 34 financial institutions around the world manage investment trust funds and other financial instruments, amounting to approximately \$1.9 billion, benchmarked against the DJSI World.

The selection of DJSI World components is based on an in-depth and exhaustive questionnaire survey employing sustainability criteria that incorporate environmental and social responsibility as well as financial performance records. Three hundred and ten organizations across the world have been chosen to comprise the DJSI World for 2002. Daiwa Securities Group Inc. has remained on the DJSI World list since the index was launched in 1999.

(For details, please refer to <http://www.sustainability-indexes.com>.)



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The babies in the photographs on the cover, which were published in a recent issue of the Group's in-house magazine, are the children of our employees. We believe that the focus on sustainable development, for our communities and the Daiwa Securities Group, means seeking ways to hand down a rich, rewarding society to these children's generation.

To Our Stakeholders

In May of this year, with the support and assistance of our many stakeholders, including our customers, shareholders, investors and employees, the Daiwa Securities Group was able to celebrate the 100th anniversary of the Company's founding. These first 100 years reveal a history of always challenging the possible. What we may be proud of, however, is not the many years that have passed, but our spirit of accepting challenges, a spirit that is neither content with tradition nor bound by a conventional sense of values. Because of this spirit, over the years the Daiwa Securities Group has been able to develop its business and achieve strong operating results.

Today, however, the domestic and international environment surrounding our business is entering an unprecedented period of change. To give but one example, an emphasis by management on sustainability is becoming increasingly more important. For a company to continually develop and enhance its value, it is important for that company not only to value those stakeholders who are its customers, shareholders, investors and employees; but also, as a corporate citizen, to establish harmony and coexistence with other stakeholders—such as our communities and our global environment. The message is now clear: management of those companies who focus on only short-term earnings, neglecting the needs of various stakeholders, will face serious problems. On the other hand, firms that consider and try to incorporate the needs of various stakeholders into management strategy in a harmonious manner will be able to achieve sustainable growth by earning greater trust from society and the markets. As an example, with regard to our earth's worsening environmental problems, incorporating a responsible concern for the environment into management has become an indispensable issue, even for nonmanufacturing firms.

I assumed the office of president of the former Daiwa Securities in October 1997. Since that time, every executive and employee of our Group, including myself, has deeply pondered what we must do to be a firm that is trusted and needed by our customers and communities and to execute every possible measure to attain this end. Based on such thinking, we have decided to make a commitment to practice our ideas in the actual management of our business. For example, in addition to being the first company in our industry in Japan to adopt a holding company structure, we also drafted our Medium-Term Management Plan and released this outside the Group as well as introducing corporate brand management aimed at establishing the Daiwa Securities Group brand. Our objective in drafting this latest report is to report to our stakeholders on the current status and future issues concerning the Daiwa Securities Group's commitment to manage its activities to emphasize sustainability and to improve transparency and accountability.

Since the start of the Japanese Big Bang in 1996 and with the exposure in the following year of scandals at many firms, including the Daiwa Securities Group, the securities industry has been in the grip of a major revolution. To respond to the demands of this revolution, the Daiwa Securities Group must make major changes to its traditional mechanisms and seek to construct a new business model for its



securities businesses, while simultaneously reviewing the optimal factors for conducting its business as a corporate citizen, including the building of corporate ethics, and revamping the compliance system, our attitudes toward our customers, our response to our employees, our community affairs activities, and our efforts to help save our environment. In the process of writing this report, the Daiwa Securities Group was able to again recognize, with regard to these points, its current situation and what it has been able to accomplish so far, where its efforts have been insufficient, and what it must do to improve in the future. Taking this into consideration, we will continue our efforts with renewed vigor by setting concrete objectives and implementing specific action plans. We will report our progress in these efforts to you each year in the form of a Sustainability Report.

We have positioned the publication of this report as the starting point for sustained development of the Daiwa Securities Group over the next 100 years, building on help from our wide-ranging stakeholders. Your opinions and criticisms of this report and the activities of the Daiwa Securities Group will be reflected in our future management policies and will constitute one of our most valuable resources for fulfilling our commitment to report on the Group's activities to all of our stakeholders. We will be pleased to receive your unreserved opinions and comments.

August 2002

Yoshinari Hara

President and CEO, Daiwa Securities Group Inc.



This report has been prepared mainly focusing on important stakeholders of the Daiwa Securities Group—our customers, shareholders, investors, employees, local communities and the environment.

Message to our customers

At the Daiwa Securities Group, we've declared our belief that continually increasing customer trust and satisfaction is an important management issue. We have implemented a variety of measures to promote this goal.

The customers of the Daiwa Securities Group include individuals and corporations whose goal is asset management, and corporate customers whose principal objective is capital procurement. In 1999 we split the former Daiwa Securities into Daiwa Securities Co. Ltd., which conducts our retail securities business, and Daiwa Securities SB Capital Markets Co. Ltd. (currently Daiwa Securities SMBC), which manages our wholesale securities business. At the same time, we adopted a group management approach based on a holding company structure. Our primary reason for these changes was to build organizations that place top priority on the benefits to their respective customers. In 2000 we launched our Group-wide Corporate Branding Project, and in March 2001 we publicly released our Brand Statement to clearly state our promise to our customers. Based upon this statement, we have initiated a variety of activities designed to increase customer satisfaction.¹

To become a more reliable partner, we have established a compliance system corresponding to the specific business of each Group company. Furthermore, we have incorporated compliance into our employee performance evaluations and have also implemented a compliance training program to instill thorough compliance awareness in every employee and fulfill our duty to explain to customers every aspect of their investment.² Finally, we have also put into place a sufficient organization for managing customer information and the assets consigned from our customers.³

In 2001 we established a new Customer Satisfaction (CS) Promotion Department at Daiwa Securities and introduced a Customer Support Hotline as a window where customers can give us their honest opinions directly. At Daiwa Securities we regard our customers' requests and complaints as a valuable management resource for improving customer satisfaction. In addition, following the introduction of a state-of-the-art Customer Relationship Management (CRM) system at all Daiwa Securities branch offices in March 2002, we can now offer the optimal financial products and services to each customer based on his or her situation. With regard to consultation services for our customers, in October 2001 we put into place a system to open all Daiwa Securities branches on Saturdays to better assist customers who cannot come to an office on weekdays and those who wish to take more time for consultation on asset management.³

At the Daiwa Securities Group, we are also aggressively engaged in new product development. During FY 2001, the top-selling product at Daiwa Securities SMBC was the Enman-Sai bond, a product pioneered by that company. We believe the reason for the Enman-Sai bond's success is product features that accurately address customers' needs.⁴

Daiwa Asset Management Co. Ltd. was the first Japanese company in its business to offer electronic delivery of investment trust prospectuses to customers and is also actively using its company website to disseminate information on investment details. Our efforts toward promotion of customer satisfaction are evident in a higher position in analyst rankings at Daiwa Institute of Research Ltd., while Daiwa SB Investments Ltd. has achieved positive evaluations in pension investment company rankings. Finally, Daiwa Securities Business Center Co., Ltd. was the first Japanese company to receive ISO 9001 certification in the securities back-office support business.⁴

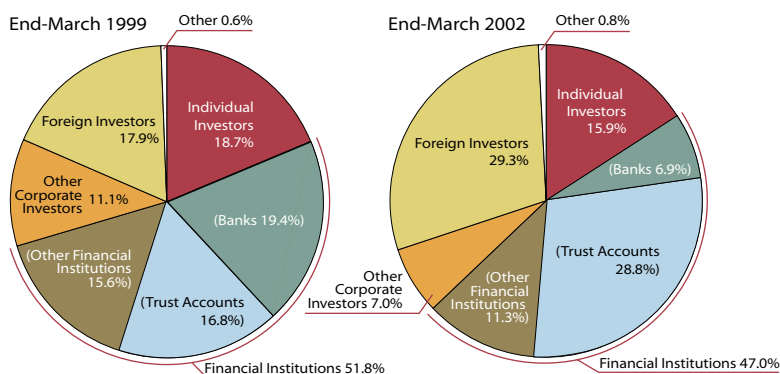
By continually building upon the Group's efforts, we will keep improving customer trust in the Daiwa Securities Group and fulfilling our Brand Statement.

Message to our shareholders and investors

In the past the Daiwa Securities Group disclosed information focusing on its business activities chiefly through its annual reports.⁵ In publicly issuing this report, our goal is to highlight our commitment regarding activities from various social and environmental perspectives that we believe are indispensable to sustained improvement in shareholder value.⁶

Since the Daiwa Securities Group moved to group management under a holding company structure in 1999,⁷ Daiwa Securities Group Inc., which is the listed holding company, has devoted its efforts to strengthening corporate governance and information disclosure. Specifically, we are pursuing the creation of an internal control system predicated on the proper functioning of corporate governance, beginning with the establishment of the Advisory Board

Graph 1
Pie chart covering 2 years showing change in shareholding ratio by type of shareholder



1 For details, please refer to Management Vision and Sustainability, p. 8 – 9.

2 For details, please refer to Compliance, p. 18 – 21, Toward Greater Customer Satisfaction, p. 23 and Daiwa People, p. 28.

3 For details, please refer to Toward Greater Customer Satisfaction, p. 22 – 24.

4 For details, please refer to Toward Greater Customer Satisfaction, p. 24 – 25

5 Annual reports may be viewed and ordered on the Daiwa Securities Group's IR website. For details, please refer to Information Disclosure, p. 16.

6 "Shareholder value" can be regarded as the total of a sustained rise in stock price, dividends, and treasury stock purchases and sales that are realized through various firm activities.

7 For details, please refer to Management Vision and Sustainability, p. 8 – 9.

and the Remuneration Committee, which include external members, and the appointment of an External Director.⁸ At the same time, to disclose information to all shareholders and investors fairly and in a timely manner and to encourage appropriate communications, we have continuously expanded our financial, public relations and IR functions. Specifically, we are expanding our IR website, centered on the release of quarterly operating results, holding company briefings both within and outside the Group, and holding telephone conferences on the days we announce the Group operating results.⁹

Against this backdrop of enhancement in our IR functions, the shareholder composition and shareholding ratio of Daiwa Securities Group Inc. have changed dramatically since 1998 (see Graph 1, previous page). As the cross-shareholding structure between firms that was centered on Japanese banks has crumbled, the percentage of shares held by foreign and institutional investors managing primarily pensions (mainly trust accounts) has greatly expanded.

On the other hand, the percentage of shares held by individual shareholders continued to decline for three years.

We recognize that pursuing innovations that will make Daiwa more appealing to individual investors is an important issue. During FY 2001 we held company briefings for individual shareholders and investors in major cities throughout Japan. Further, telephone conference calls held following the release of our operating results are also open to individuals. In addition, beginning with the General Meeting of Shareholders in June 2002, we introduced a system enabling shareholders to exercise their voting rights via the Internet as a means of improving individual shareholder convenience.⁹

In the autumn of 2001, we mailed a survey questionnaire to all of our domestic shareholders and received replies from approximately 25,000 of them. Only 10.4% of our shareholders indicated dissatisfaction when it came to the item "responsiveness to shareholders" (see Graph 2.1). Shareholders also told us that what they as shareholders would like Daiwa to do is increase dividends, show greater appreciation toward shareholders and purchase treasury stock (see Graph 2.2). We have listened earnestly to these comments and are doing our best to improve the level of shareholder and investor satisfaction.

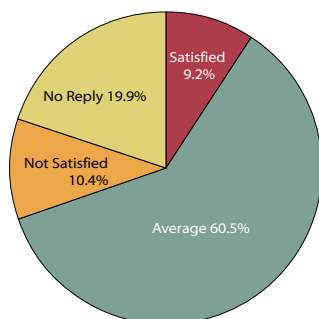
Message to our employees

This report introduces the activities required for sustainable development of the Daiwa Securities Group and construction of our corporate brand. These activities will be the fount of every employee's ability to imagine and execute ideas. For the Group, which operates in the financial services industry, employees are the source of our competitive edge and are important stakeholders who support the sustainability of the Group. The pride and satisfaction felt by each employee toward his or her work are indispensable for improving the quality of our products and services as well as customer satisfaction. The branding activities the Daiwa Securities Group is now undertaking provide a focal point for sharing the Group's sense of values among all employees and creating a corporate culture filled with confidence and conviction in one's work.

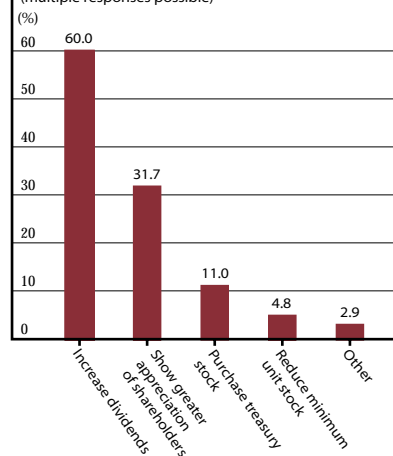
At the Daiwa Securities Group, we are aggressively promoting internal communications as a means for employees to share ideas. For example, in March 2002 we installed an Intranet system at all Daiwa Securities branches, which we are using as an important infrastructure for communications. In September 2001, we began "Letter from Yoshinari Hara," which goes out from President and CEO Hara to all Group employees nearly every week, as a vehicle for communications between top management and employees. Employees can send questions and comments directly to him by responding to these e-mails. With the employee's consent, some of these questions and answers are shown on the Intranet. During FY 2001, "Letter from Yoshinari Hara" was distributed 20 times and generated an average of 10 opinions and questions on each occasion.

For information on the personnel system, please refer to the Daiwa People section (p.26 – 29). The Daiwa Securities Group is pursuing the application of diverse talents. For example, although the percentage of female career-track and regional career-track

Graph 2.1
Responsiveness to shareholders



Graph 2.2
Requests to the Company as a shareholder
(multiple responses possible)



employees is still low for the entire Group, it is steadily increasing. By adding performance-based results to personnel evaluations and simultaneously incorporating factors such as compliance, we are working to create a fair employee evaluation system. We are also taking steps to enhance training systems for nurturing employee growth and actively encouraging employees to participate in training programs. With regard to the workplace environment, we are working to create a more employee-friendly environment through ideas such as a designated smoking area system.

Message concerning society and the environment

Businesses have an obligation to society to achieve compliance that observes laws, various regulations and other rules generally respected in the community. Consequently, compliance is a critically important activity to ensure that the Daiwa Securities Group does not betray the trust of its stakeholders, beginning with its customers.¹⁰

It is also important to actively contribute to local communities as a business group. At the Daiwa Securities Group, we are making a social contribution through support for volunteer activities and NGOs and through educational programs and policy proposal activities that take advantage of Daiwa's financial and economic expertise in the Group's main business.¹¹



On the other hand, given the nature of the finance business, awareness of the link between our business and its environmental impact has been weak at the Daiwa Securities Group. Upon compiling environmental performance data such as electricity consumption, service water consumption, and waste disposal, we have realized that our environmental burden is substantial. Even with regard to paper usage, we learned that the quantity of paper required for the large quantities of prospectuses and computer forms used to record securities transactions was far beyond the level we had imagined.

We discovered, on the other hand, that in many instances individuals responsible for purchasing at the Group compa-

nies were independently taking a "green" approach to purchasing.¹² Furthermore, opportunities for employees to be directly involved with environmental issues from a business perspective also began to appear through the planning and sales of the "Mrs. Green" eco-fund. The awareness began growing that the environment is not someone else's problem, but is also related to us and at the same time provides a business opportunity for the Daiwa Securities Group. While development of an environmental management system for the entire Group is a future issue, we are pursuing activities from the standpoint of those close at hand, such as energy conservation and reduction in the quantity of paper used.¹³

8 For details, please refer to Corporate Governance, p. 14 – 15.

9 For details, please refer to Information Disclosure, p. 16 – 17.

10 For details, please refer to Compliance, p. 18 – 21, Toward Greater Customer Satisfaction, p. 23, and Daiwa People, p. 28.

11 For details, please refer to As a Corporate Citizen and a Member of the Community, p. 30 – 31.

12 "Green purchasing" refers to making choices when selecting and buying products and services that will place as small a burden as possible on the environment. In April 2001 Japan enacted a Green Purchasing Law (Law Concerning the Promotion of Procurement of Eco-Friendly Goods and Services by the State and Other Entities) that places a green purchasing obligation on institutions, including agencies of the central and local governments, and requests that local public organizations, private companies and citizens also seek to practice green purchasing.

13 For details, please refer to Environmental Performance, p. 32 – 34.

Management Vision and Sustainability

Daiwa Securities Group Corporate Principles

Customer trust

We stand on the trust of our customers. Prudently putting customer interests first and achieving a high standard of professional competence, we intend to become Japan's most appealing securities group at home and abroad.

Human values

People are the source of our competence. We highly value creative initiative by the individual, we cherish the challenging spirit and appreciate the capability and contributions of the individual.

Total compliance

We can be proud and prosper only when we achieve total compliance and gain the trust of our customers, our market and of our world society. We will maintain high standards of professional ethics and a fair code of conduct, thereby contributing to the development of our society.

Sound profit

Our fundamental objective is to enhance shareholder value through sound business operations. We will offer valuable services to our customers and earn adequate rewards for distribution to our shareholders.

The new Daiwa and its Corporate Principles

In March 1998, the former Daiwa Securities (now Daiwa Securities Group Inc.) introduced a set of Corporate Principles founded on four pillars: customer trust, human values, total compliance and sound profit. A year earlier in 1997, Daiwa Securities and certain executives and employees were charged with violations of Japan's Securities and Exchange Law and Commercial Code because of acts such as illegal payoffs to sokaia corporate racketeers. Immediately following this incident, a new management team led by Yoshinari Hara, who assumed office as the new president (currently President and CEO of Daiwa Securities Group Inc.), sought to instill in all executives and employees a greater awareness of corporate ethics and the obligation to observe the law. In addition, by restructuring the internal control system as an organization, the Corporate Principles creating the moral framework for the new Daiwa were enacted as evidence of Daiwa's determination to fulfill the social mission of the securities business.

This was also a time when Japan's financial system was swept into a period of immense change initiated by Japan's Big Bang. With the goal of building a new business model that would enable us to survive the rough seas of financial deregulation, in April 1999 the company was separated into Daiwa Securities Co. Ltd. and Daiwa Securities SB Capital Markets Co. Ltd. (currently Daiwa Securities SMBC) and simultaneously shifted to a holding company management structure—the first among Japan's listed companies. The objective of this substantial reworking of the management structure was to thoroughly pursue customer-focused management by establishing separate companies capable of meeting the respective needs of individual investors and corporate clients. In this regard Daiwa determined that as the Daiwa Securities



Newspaper advertisement for the Daiwa Securities Group's 100th anniversary

Brand Statement

We the Daiwa Securities Group are committed to acting as our clients' best partner and promoting their financial well-being. In order to achieve this, we shall redefine currently accepted best practice drawing on the following three core values.

We Shall Provide Products and Services that Exceed Expectations

It is important that we apply detailed knowledge of customer needs, innovation in our internal processes and a strong customer focus to provide solutions that routinely exceed customer expectations.

We Shall Bring the Full Strength of the Group to Bear

Cooperation among Group companies sweeping aside traditional corporate barriers, a flexible approach to business and swift decision making will enable us to offer comprehensive financial services precisely geared to meeting our customers' financial goals.

We Shall Continually Challenge the Limits of Financial Best Practice

Exploitation of our substantial store of professional knowledge and a pro-active approach to team building will enable us to remain pioneers in our marketplace.

¹ For details, please refer to the Corporate Branding Project website (<http://www.branding.daiwa.co.jp/>). Please note that this website is only available in Japanese.

Group, "group management" under a holding company would be the optimal management organization for maximizing corporate value, managing risk and promoting communications with various stakeholders.

Corporate Branding Project

Today the mission of the securities industry is to become a reliable partner for customer asset management and smooth procurement of funds in financial markets that are being transformed by globalization and deregulation. With this in mind, at Daiwa we are keenly aware that the most critical issues we face are to focus the Daiwa Securities Group's strengths and capabilities and earn our customers' trust. To establish the core values that bind the Daiwa Securities Group and to instill these within and outside the Group companies, in August 2000 we began the Corporate Branding Project encompassing the main companies in the Group. Beginning with questionnaire surveys conducted at the Group companies as well as at outside firms, we examined the brand concept in discussions among managers and employees. In March 2001 we publicly announced our Brand

Statement, which clearly states Daiwa's promise to its customers.¹

As the second stage of the Branding Project, in FY 2001 we undertook activities designed to instill the Group's core values in every executive and employee. All directors and managers participated in a Group cross-training program (conducted 16 times during FY 2001), with approximately 500 participants and with Group President and CEO Hara himself serving as a lecturer. Management also engaged in thorough discussions with employees throughout the Group. One such effort was the Management Caravan, which enabled managers and employees to engage in frank discussions (conducted at every Daiwa Securities branch during FY 2001). A tremendous amount of energy and enthusiasm was devoted to sharing the issues facing the Daiwa Securities Group. In addition, to convey the Group brand to other firms outside of the Group, the Group also conducted a range of communications activities through various media.

Building our corporate brand is not something we will accomplish overnight. Particularly for securities

firms, whose short-term operating results may be quickly affected by market fluctuations, a sustained, cumulative effort will be necessary to establish a sound financial position as a trusted, long-term asset management partner. Consequently, we have positioned our corporate branding activity as a reform that will ensure that the Daiwa Securities Group fulfills the necessary role for society and its customers, achieves its mission as a financial institution, and as a result, generates long-term, stable and appropriate earnings.

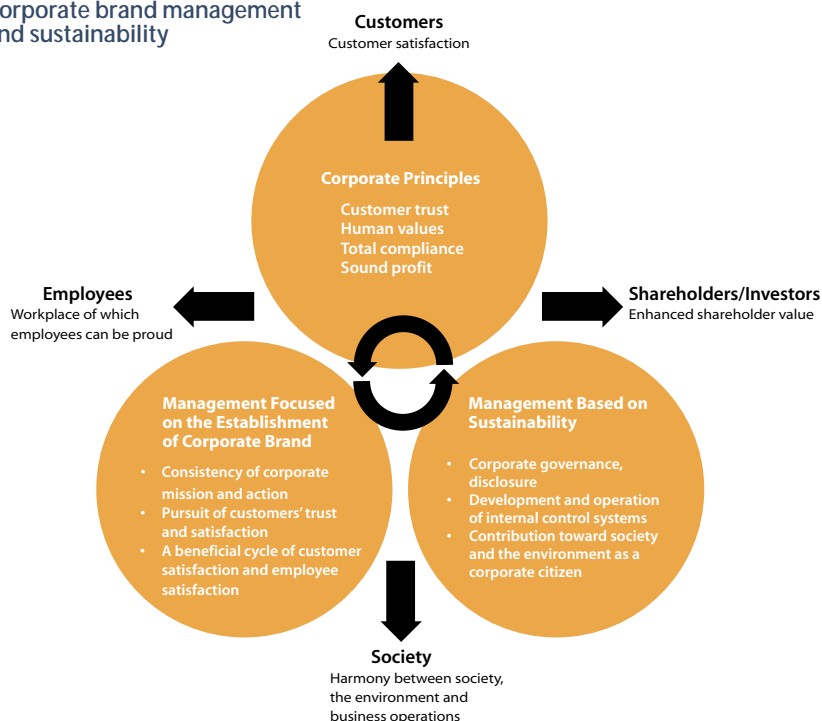
Furthermore, in January 2002 the Group Management Meeting (now the Executive Committee) decided to create a Sustainability Report that would give specific form to the brand activities and serve as a topic for promoting reform of attitudes and outlooks within the Group companies. This report is the result.

Brand and sustainability

For Daiwa to establish the corporate brand it seeks, it is essential that we manage our companies in a way that enhances value for all of the stakeholders related to the Group, including customers, shareholders, employees and society at large. This approach is consistent with the concept of sustainable management, which duly gives consideration to business from the dual perspectives of society and the environment. We believe that by managing our business from the viewpoint of sustainability, consideration of the global environment and social stakeholders such as people in the community will also become an important issue and will be linked to the establishment of a corporate brand with the broadest significance.

In May 2002, the Daiwa Securities Group celebrated the 100th anniversary of its founding. It is our conviction that to develop further as a group, reviewing the appropriate conduct of our corporate activities from the perspective of sustainability will have a direct causal relationship with improvement in our competitive power as a firm.

Corporate brand management and sustainability



The Evolution of the Daiwa Securities Group (Since 1997)

Management, Governance, Disclosure, Compliance

- Group discloses that payoffs were made to corporate racketeers
- Old management resigns and new management led by President Hara begins work (October)
- Duration of administrative penalty from corporate racketeering incident (December to April of the following year)
- Purchase of treasury stock is conducted for the first time (December)
- Business Improvement Report submitted as a result of the corporate racketeering incident (January)
- Suggestion box system (system that allows employees to directly propose ideas to the President) introduced (January)
- Corporate Principles established (March)
- Medium-Term Management Plan (through the end of March 2001) announced (March)
- IR Section established (June)
- First independent corporate auditors greeted by the company (June)
- Holding Company structure announced, and strategic partnership with Sumitomo Bank (currently Sumitomo Mitsui Banking Corporation) established (July)
- Daiwa Securities Group Inc., (the "Company") first pure holding company for a listed company, established (April)
- Group's retail division, "Daiwa Securities," and wholesale division, "Daiwa Securities SB Capital Markets" (currently Daiwa Securities SMBC), spun off (April)
- Daiwa SB Investments Ltd. established (April)
- Executive Officer System implemented at the Company and Group companies (April)
- Advisory Board established at the Company (April)
- Group Management Meeting (currently Executive Committee) established at the Company (June)
- Corporate Ethics Department established at the Company (September)
- Group Medium-Term Management Plan (through the end of March 2003) announced (March)
- System of Group Executive Officers at the Company introduced (April)
- Remuneration Committee, an advisory panel that looks at executive remuneration, established (June)
- First company information session aimed at individual investors held (August)
- Corporate Branding Project launched (October)
- Group's annual report receives highest award in "NIKKEI Annual Report Awards" (December)

Products/ Services

- Commenced the "Daiwa Cash Management Program Account Service" (October)
- Commenced automatic operations service through "Daiwa MRF" (October)
- Securities industry's first "ACM" (Automatic Certificate [Securities Transaction] Machine) established (October)
- New commission system introduced at Daiwa Securities following total deregulation of securities commissions (October)
- Daiwa Securities Three Service Packages introduced (July)
- Daiwa Securities' "Asset Plus" method, which allows customers to make one-time payments of stock commissions, introduced (October)
- Daiwa Securities Business Center Co., Ltd. acquires ISO 9001 certification (November)

Personnel Management

- New career tracks, such as specialist positions and regional-specific positions, established as part of Group's reforms to personnel system (February)
- Stock option plan implemented (March)
- As part of reforms to personnel system, salary increases and promotions based on seniority abolished (April)
- Daiwa Management Academy established with the aim being to develop management personnel for the future (May)
- Daiwa Elder System, which allowed the reemployment of experienced persons up to the age of 65, introduced (June)
- Incentive warrants issued to directors and regular employees of Group companies (August)

Corporate Citizenship

- Corporate Community Affairs Department established at the Company (July)
- Daiwa Securities Group Inc.'s shares selected to be included in the "Dow Jones Sustainability World Indexes" (September)
- Fundraising activities conducted to aid relief efforts for volcanic eruption on Miyakejima, heavy rains in Tokai region, and earthquake in western part of Tottori Prefecture (November)
- "Forest Giants" program that engages in preservation activities for giant trees supported (December –)

A Brief History of the Daiwa Securities Group

1902 – Commenced operations as Fujimoto Bill Broker in Osaka

1943 – Fujimoto Securities merged with Nippon Trust Bank to establish Daiwa Securities Co. Ltd.

1970 – Listed on the First Section of the Tokyo Stock Exchange, the Osaka Securities Exchange and the Nagoya Stock Exchange

1999 – Established Daiwa Securities Group Inc. to move to group management system

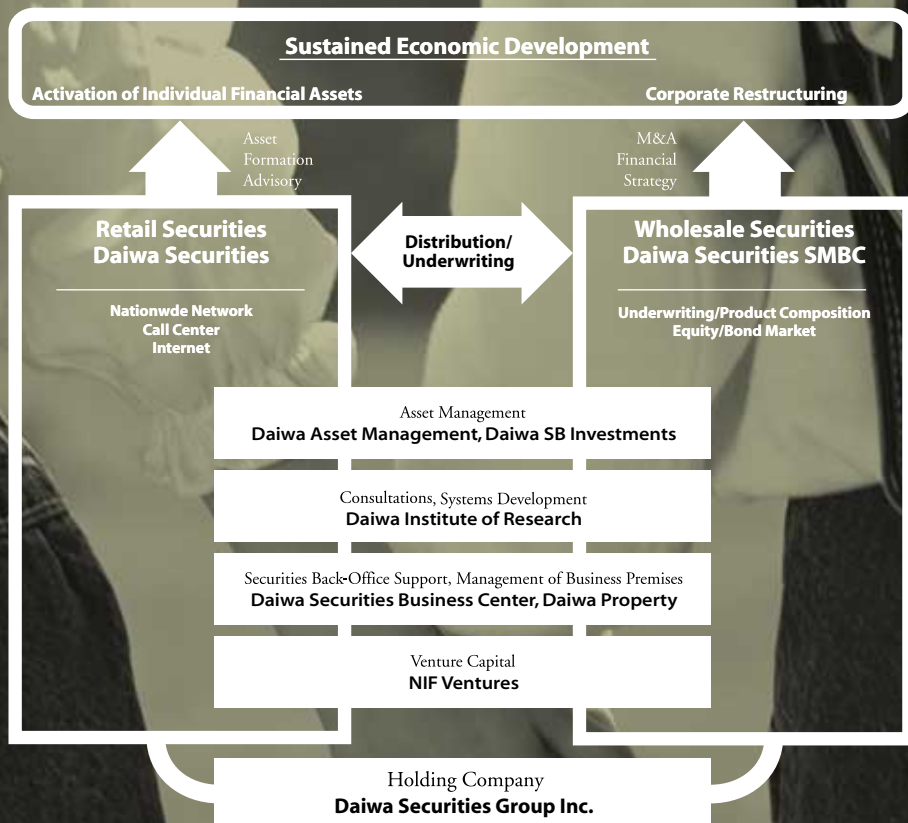
2002 – Celebrated the 100th anniversary of establishment

Daiwa Securities Group's full-fledged efforts toward sustainability began in 1997, immediately before the current group management system was launched.

- "Brand Statement," which defines the Group's core values, released to public (March)
- Daiwa Securities, Daiwa Securities SMBC and Daiwa Asset Management publicly announce their "Customer Solicitation Policy" (March)
- "Letter from Yoshinari Hara," an e-mail newsletter from President Hara to employees, begins transmission (September)
- NIF Ventures Co., Ltd. listed on JASDAQ Market (March)
- Daiwa Securities Group celebrates 100th anniversary (May)
- Online voting system introduced by the Company (June)
- First external board member of the Company appointed (June)
- Term of office for the Company's board members is shortened from two years to one year (June)
- Daiwa Securities Customer Satisfaction (CS) Promotion Department established (April)
- Industry's first electronic issuance of investment prospectuses to clients started through NeTrade, the Daiwa Asset Management's online transaction service (April)
- Eco-fund called "Global Eco Growth Fund (Mrs. Green)" established by Daiwa SB Investments (June)
- Saturday operation of all branches started by Daiwa Securities (October)
- Daiwa SB Investments ranked No. 1 in the overall evaluations of asset management ability by R&I (November)
- Customer support hotline established by Daiwa Securities (November)
- Satellite broadcasting of "Daiwa Satellite TV" begins transmission to general public (December)
- Margin transaction services via Internet commenced by Daiwa Securities (January)
- Handling of individual-defined contribution pensions plans begins (March)
- Regional index funds, such as the "Shizuoka Benchmark Fund," launched by Daiwa Asset Management (March – September)
- Branch network of Daiwa Securities in Tokyo Metropolitan Area reorganized into a satellite branch structure (June)
- Group Management Training Program that shares Group's sense of values with all directors and general managers implemented (July – March of following year)
- Internship program for college students begun (August)
- Series of lectures called "Daiwa Leadership Program" begun as screening and development training program for mid-level employees (November)
- "Japan 401k," a defined contribution pension plan system, introduced (December)
- Two-way evaluation system for superiors and subordinates introduced at the Company and other related departments also included in evaluation system to establish an all-directional evaluation system (January)
- Daiwa Securities introduced an online training system that utilizes the Intranet (April)
- In addition to study-abroad program for MBA candidates, domestic study program newly established (July)
- Daiwa Institute of Research published two reports called "Urgent Proposals for Revitalization of the Japanese Economy" and "Urgent Proposals Concerning the Share Purchase Organization Plan" (January – March)
- Comprehensive alliance formed with Hitotsubashi University's Graduate School of International Corporate Strategy with aim being to form cooperative relationship between industry and academia in areas of finance and management (May)
- Special sponsorship role taken for "Fenice Opera Performance in Japan" (Gran Teatro La Fenice: La Tournée Giappone) (June – July)
- Series of lectures at Keio University entitled "Corporate Governance in the Securities Market" begun (September)
- As part of relief efforts, Group directors and employees, Daiwa Securities Group Inc. and Daiwa Securities of America donated a total of US\$1 million to families of victims of September 11th attacks (October)
- Joint industry and academia lecture conducted with Tohoku Fukushi University (March)
- Comprehensive alliance to conduct joint research on areas relating to financial engineering formed with Kyoto University's Graduate Division (March)
- "Marc Chagall Art Exhibition" sponsored as part of the Group's 100th anniversary celebration (April – December)
- 540 employees, related family and previous staff members participated in the cleanup activities for Kujukurihama Beach in Chiba Prefecture (June)
- Global Warming Action Program submitted to Tokyo Metropolitan Government (June)

Profile of Daiwa Securities Group Companies

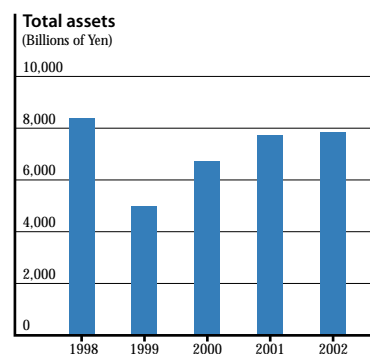
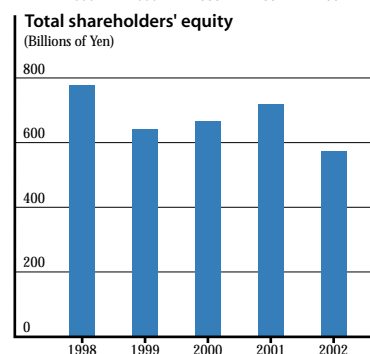
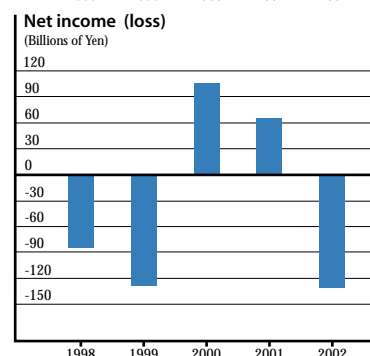
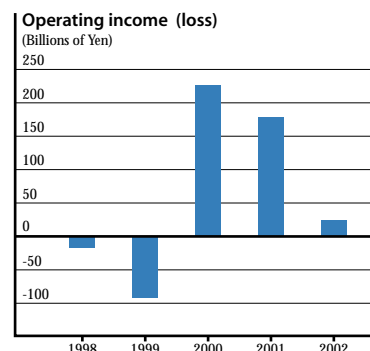
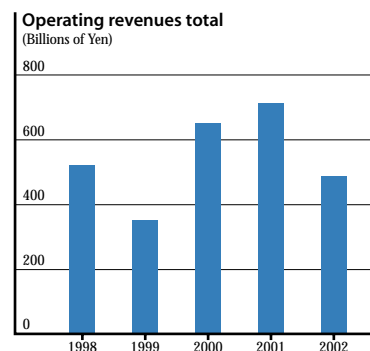
Roles of the Daiwa Securities Group Companies



The Daiwa Securities Group consists of Daiwa Securities Group Inc., which is solely a holding company, and separate Group companies to develop securities-related businesses. By creating an independent management system for each business sector, beginning with Daiwa Securities Co. Ltd. in the retail securities business and Daiwa Securities SMBC Co. Ltd. in the wholesale securities business, the Daiwa Securities Group seeks to achieve rapid decision making and provide highly specialized services.

At the same time, however, the Group companies are closely interconnected through the mutual provision of products and services, as well as information. For individual customers, for example, the Group offers Daiwa Securities Group products and services, including stocks, bonds, investment trusts and investment information through the branch offices of Daiwa Securities Co. Ltd.

Daiwa Securities Group consolidated financial data¹
(periods ended March 1998 to 2002)



- ¹ The scope of consolidation and of application of the equity method for the results from the period ending March 2000 has been changed in accordance with the Daiwa Securities Group's transfer to a holding company structure.
- ² Based on the Uniform Accounting Standards of Securities Companies amended in September 2001, we have also revised all figures for fiscal periods ended March 2001 and earlier to the same basis.

Main Domestic Group Companies

Daiwa Securities Group Inc.

Address: 6-4 Otemachi 2-chome, Chiyoda-ku, Tokyo 100-8101

Business: The Group's holding company, which governs and controls the business of each Group company. Stock Exchange Listings: Tokyo, Osaka, Nagoya, London, Paris, Frankfurt and Brussels.

Daiwa Securities Co. Ltd.

Address: 6-4 Otemachi 2-chome, Chiyoda-ku, Tokyo 100-8101

Business: Retail securities company, 100% owned by Daiwa Securities Group Inc. Operates through three distinct channels: branch offices (126 nationwide as of August 2002), Call Center and the Internet.

Daiwa Securities SMBC Co. Ltd.

Address: 3-5 Yaesu 1-chome, Chuo-ku, Tokyo 103-8289

Business: 60%-owned joint venture between Daiwa Securities Group Inc. and the Sumitomo Mitsui Banking Corporation, which operates in wholesale securities markets in Japan and overseas.

Daiwa Asset Management Co. Ltd. (DAM)

Address: 10-5 Nihonbashi Kayabacho 2-chome, Chuo-ku, Tokyo 103-0025

Business: One of the main asset management companies within the Daiwa Securities Group, which acts as the Group's development arm for investment trusts. The company is the second-largest Japanese asset manager.

Daiwa Institute of Research Ltd. (DIR)

Address: Daiwa-Soken Building 15-6 Fuyuki, Koto-ku, Tokyo 135-8460

Business: Provides research, consulting services and systems development to the Daiwa Securities Group and external clients.

Daiwa SB Investments Ltd.

Address: 7-9 Nihonbashi 2-chome, Chuo-ku, Tokyo 103-0027

Business: The center for asset-management business for both the Daiwa Securities Group and the Sumitomo Mitsui Banking Corporation. An alliance with the U.S. investment management firm T. Rowe Price was entered into following the company's formation in 1999.

Daiwa Securities Business Center Co., Ltd. (DSC)

Address: 3-2 Toyo 2-chome, Koto-ku, Tokyo 135-0016

Business: Provides securities back-office support to the Daiwa Securities Group as well as temporary staff for securities-related businesses. The company is certified under the internationally recognized ISO 9001 standard.

The Daiwa Property Co., Ltd.

Address: 1-9 Nihonbashi Kayabacho 1-chome, Chuo-ku, Tokyo 103-8219

Business: Holds and rents out the Daiwa Securities Group's office premises and other properties.

*In September 2002 the company took over the management of properties used for the Daiwa Securities Group's core business from The Daiwa Real Estate Co., Ltd.

NIF Ventures Co., Ltd. (NIF)

Address: 2-1 Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031

Business: Invests both its own capital and that of investment partnerships in domestic and overseas private equity companies. The company was listed on the JASDAQ market in March 2002.

Main Group Companies - summary data (year ended March 2002)

(Millions of Yen)

	Daiwa Securities Group Inc.	Daiwa Securities	Daiwa Securities SMBC	Daiwa Asset Management	Daiwa Institute of Research	Daiwa SB Investments	Daiwa Securities Business Center	Daiwa Real Estate*	NIF Ventures
Operating revenues	54,793	127,541	109,481	42,476	71,809	6,904	9,635	31,187	8,845
Ordinary income	42,400	(11,028)	13,231	5,156	5,542	672	1,490	4,822	3,336
Group holdings	—	100.0%	60.0%	100.0%	96.4%	44.0%	100.0%	92.1%	79.2%

* In September 2002, The Daiwa Real Estate Co., Ltd. transferred its business unit which engages in the management of properties used for the Daiwa Securities Group's core business into a fully owned subsidiary, The Daiwa Property Co., Ltd. After completion of sales of its remaining assets, The Daiwa Real Estate Co., Ltd. is to be liquidated.

Corporate Governance

To enhance the competitiveness and corporate value of the Daiwa Securities Group, it is essential that we prepare a Group-wide system that will provide the optimal balance between each company's independence and synergies and that will enable us to provide the most appropriate services as an integrated group.

Daiwa Securities Group Inc. decides the management strategy of the entire Group and evaluates whether the business of each Group company is being properly managed. In addition, the Group must satisfy its obligations to disclose information to its various stakeholders and explain the activities of the entire Group. To ensure these obligations are met, we have created a corporate governance system.

The Daiwa Securities Group's corporate governance system is composed mainly of the Board of Directors and the Board of Statutory Auditors as the Group management supervisory system, a hierarchy of meetings as the Group management activity execution mechanism, and various advisory boards.

General Meeting of Shareholders

- Beginning with the annual General Meeting of Shareholders in June 2002, a system that allows shareholders to vote their shares over the Internet was instituted.

Board of Directors

- The General Meeting of Shareholders in June 2002 adopted the following two key changes:
 - (1) Mr. Tetsuro Kawakami (counsel of Sumitomo Electric Industries, Ltd.) was elected External Director.
 - (2) The tenure of each Director now expires after one year instead of two as previously.

Board of Statutory Auditors

- Overseeing the legality of the Board of Directors' execution as well as ensuring adequate disclosure to shareholders and creditors.

Advisory Board

- The members,¹ all appointed from outside the Group, offer the CEO recommendations and advice based on their long-accumulated experience and knowledge in their respective fields.

Remuneration Committee

- The members,² all except the CEO appointed from outside the Group, are mandated to increase transparency as to how Directors' and Executive Officers' remuneration and fees are determined, and to consider appropriate levels thereof.

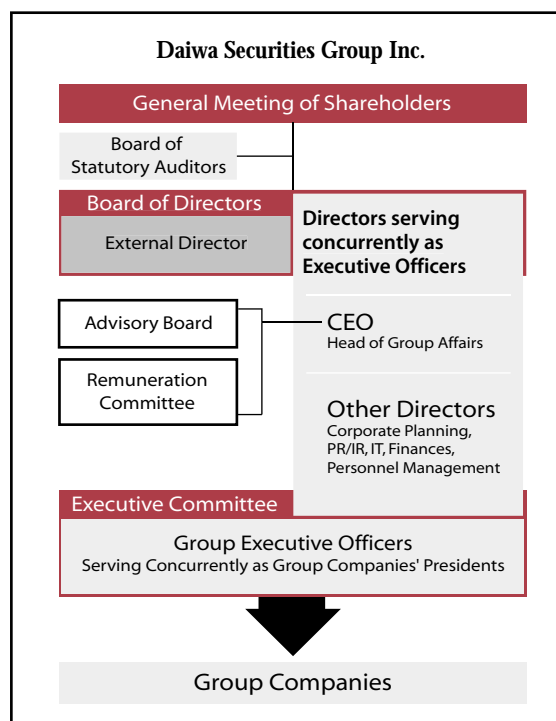
Executive Committee

- The Executive Officers, including Group companies' Presidents doubling as Group Executive Officers, consider essential strategies covering the whole Group and coordinate executive steps to overcome structural problems of importance across Group units.

Other arrangements for liaison within Group

- Regularly organized setups include Group Managers' Meeting, Group IT Strategy Meeting, Group Human Resource Meeting, Group PR/IR Meeting.

Corporate Governance System (as at end-June 2002)



Corporate governance and internal control system

For a corporate governance system to function properly, a company must first prepare an internal control system that will enable management to exercise adequate control over the firm's organization. As used here, the expression "internal control" is a generic expression that normally refers to compliance (ethics and observance of laws and regulations) and risk management. A variety of other disclosure items described in this report also fall within the purview of internal control. In other words, we believe that creating a system to properly undertake all activities, not merely those activities that are directly related to the Group's principal business of securities, is indispensable to the sustainable development of the Daiwa Securities Group.

With regard to the management of sectors such as the environment, however, which until now have not been regarded as very closely related to the main businesses of each Group company, internal control



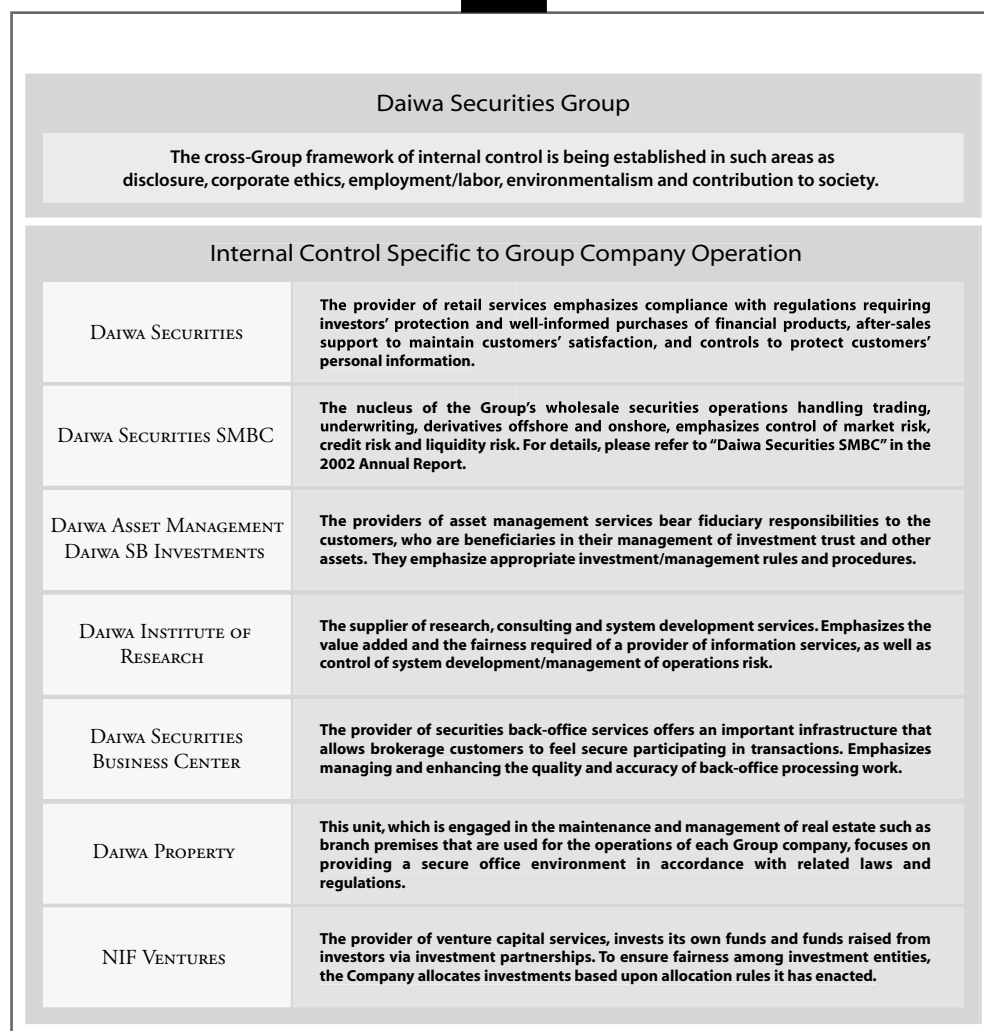
Advisory Board

has been insufficient in some instances. In the future, the Daiwa Securities Group will work to create and maintain an internal control system that emphasizes the importance of each sector from the standpoint of sustainability that values harmony between society, the environment and the conduct of our business.

Please refer to the figure below outlining the internal control system of the Daiwa Securities Group.

Corporate Governance and Internal Control

Internal Control Reinforces Corporate Governance



1 Advisory Board:

Kazuo Inamori, Founder and Chairman Emeritus, Kyocera Corporation
Jiro Ushio, Chairman and CEO, USHIO INC.
Glen S. Fukushima, President and CEO, Cadence Design Systems, (Japan) B.V.
Hirotaka Takeuchi, Dean, Hitotsubashi University Graduate School of International Corporate Strategy

2 Remuneration Committee:

Koichi Uno, CPA, Tax Accountant
Ichiro Kawamoto, Attorney-at-Law, Senior Partner, Kawamoto & Miura
Yukio Yanagida, Attorney-at-Law, Senior Partner, Yanagida & Nomura
Yoshinari Hara, President and CEO, Daiwa Securities Group Inc.

Information Disclosure

The Daiwa Securities Group Investor Relations Website

(<http://www.ir.daiwa.co.jp/>)

Discloses IR information in the form of press releases, summaries of recent operating results, company briefing materials and graphics, etc. Requests for materials and inquiries from shareholders and investors are accepted.

Disclosure of financial statements stipulated by Japan's Commercial Code (Japanese only)

(<http://www.daiwa.co.jp/ir/kessan/>)

Daiwa Internet TV (Japanese only)

(<http://www3.stream.co.jp/web/daiwa/>)

The Daiwa Securities Group's video and audio site. In addition to securities-related information for investors, this site also provides IR information such as meetings at which the financial results are reported and company briefings.

Mailing service for annual reports, business reports, social contribution reports and other materials

(ir-section@dsgi.daiwa.co.jp)

Individuals who wish to receive reports may request the materials from the IR website or apply by e-mail.

Daiwa Securities Co. Ltd. and Daiwa Securities SMBC Disclosure Magazine (Japanese only)

Securities firms are obliged under the Securities and Exchange Law to disclose information. Individuals may view this information at the head offices and branch offices of both companies, or on their websites.

In July 1998, the former Daiwa Securities (now Daiwa Securities Group Inc.) established an Investor Relations (IR) section as part of the Corporate Planning Department. Until setting up this section, Daiwa relied mainly on the mass-media for external distribution of information. Based upon its experience during the financial crisis in 1997 when a succession of major financial institutions went bankrupt, however, Daiwa has become intensely aware of the need to actively disclose information to the markets.

The Daiwa Securities Group discloses its operating results on a quarterly basis. Daiwa's IR activities also follow this quarterly cycle. In addition to releasing information on quarterly performance on the IR website, Daiwa Securities Group Inc. holds telephone conference calls for analysts and institutional investors. Because the securities industry tends to exhibit broad swings in operating results in each period, however, the Daiwa Securities Group does not publicly issue earnings estimates.

In its IR activities, Daiwa places great emphasis on timely and fair information disclosure and on equal communication with all investors. Beginning with material facts such as the financial statements, copies of press releases are published on Daiwa's IR website at the same time as they are issued to news organizations. Moreover, to eliminate to the extent possible any difference in



IR website

Ranked second in the Nikkei Business "First Annual IR Site Rankings" (November 26, 2001 issue)

information provided to institutional investors and private investors, Daiwa also archives the materials and graphics used for briefings conducted for analysts and institutional investors on its IR website. Furthermore, since the end of the third quarter in FY 2001, Daiwa has also opened to individuals (on dedicated conference lines) the telephone conferences held on days when Daiwa releases its operating results.¹ (More than 200 individual investors participated in the conference call when Daiwa released its FY 2001 operating results.) For overseas investors, Daiwa has set up an English-language IR website with content that is nearly identical to the information on its Japanese-language website and tries hard to eliminate any language-based discrepancies in the information released.

The Daiwa Securities Group believes that sharing information and maintaining good communications with a broad range of stakeholders is an indispensable



An IR presentation meeting mainly aimed at analysts and supervisors of financial institutions.

component of corporate governance. After deciding in January 2002 to publish a Sustainability Report (this document), Daiwa consolidated its IR Department and Public Relations Department in April 2002 and created a new entity, the Corporate Communications Department, tasked with disseminating information.

Communications activities for individual shareholders and investors

During FY 2001, Daiwa conducted two company briefings in Tokyo that targeted individual shareholders and investors and also held such briefings in eight other cities² throughout Japan. Approximately 1,500 individuals participated in these presentations.

Another action taken by Daiwa was a questionnaire survey mailed out to all Daiwa domestic shareholders in the autumn of 2001 and that enabled management to obtain much valuable feedback.³ The Group used these opinions when creating its FY 2001 Business Report (Japanese only),

changing the page size to A4 to make it easier to view and understand and devising additions to the descriptive contents. Finally, in prior years Daiwa expressed its appreciation to shareholders only by offering them calendars. In FY 2002 we also added a Tax Reader and a Shareholder Appreciation Gift Catalog (for domestic shareholders only).

Beginning with the General Meeting of Shareholders held in June 2002, we introduced a system to enable domestic shareholders to exercise their voting rights via the Internet, a change that was made possible by revisions to Japan's Commercial Code, mainly for the purpose of increasing convenience for individual shareholders. Altogether, 606 domestic shareholders took advantage of this innovation. Another measure that enabled shareholders who were unable to attend the General Meeting of the Shareholders held in Tokyo to follow the proceeding of the meeting was to broadcast the meeting's activities by live satellite relay to locations in Osaka and Nagoya.

¹ The procedure for participating in the telephone conferences is available on the Company's website for 2 – 3 weeks prior to release dates, such as those for announcing operating results.

² Sendai, Kanazawa, Kobe, Fukuoka, Niigata, Omiya, Yokohama and Kyoto.

³ For details, please refer to To Our Stakeholders, p. 6.



1999



2000



2001



2002

Commended for excellence for three consecutive years in the "NIKKEI Annual Report Awards," receiving the Grand Prize in 2000.

Compliance

Group-wide compliance

Establishment of compliance (ethics and observance of laws and regulations) is an important management issue that is indispensable for the sustainable development of the Daiwa Securities Group. Not only must we observe the laws and various regulations related to our key businesses, such as the securities business, but also we must abide by the spirit of the rules, including other laws and regulations, and be sincere in our relationships with all stakeholders.

Table 1: Departments at each Group Company responsible for compliance (as of March 31, 2002)

Daiwa Securities Group Inc.	Corporate Ethics Department
	Legal Department
Daiwa Securities Co. Ltd.	Compliance Department
	Full-Time Compliance Officers Assigned to Branches
	Inspections Department
Daiwa Securities SMBC Co. Ltd.	Legal and Compliance Department
Daiwa Asset Management Co. Ltd.	Legal and Compliance Department
Daiwa Institute of Research Ltd.	Compliance and Audit Department
	Research Compliance Department
Daiwa SB Investments Ltd.	Compliance Department
Daiwa Securities Business Center Co., Ltd.	Quality Control Department
The Daiwa Property Co., Ltd.	Corporate Planning Department
NIF Ventures Co., Ltd.	Internal Audit Department
	Legal Group

The total number of compliance staff in the departments indicated in the table above is approximately 220.

Table 2: Summary of the Code of Ethics

Daiwa Securities Group Companies have established the following set of rules regarding the actions of directors and employees:

- Directors and employees shall closely manage and retain information learned during operational activities.
- In a situation in which there is uncertainty over the legality or validity of any business operation, directors and employees have a responsibility to refer the case to the appropriate authorities or outside specialists.
- Directors and employees are prohibited from receiving any form of economic gain, such as cash rewards and excessive after-hours business entertainment that are considered outside the socially accepted norm.
- Directors and employees shall proactively communicate and cooperate with both internal and external inspectors.
- Directors and employees shall proactively promote and engage in activities that benefit society and environmental preservation.
- Directors and employees are prohibited from engaging in any form of abuse or harassment such as racial discrimination or sexual harassment.

- 1 For details, please refer to the January 23, 1998 press release issued by the former Daiwa Securities Co. Ltd., entitled Reform of Business Activities, which is available on the IR website (<http://www.ir.daiwa.co.jp/japanese/>). Please note that this press release is only available in Japanese.
- 2 For details of each Company's compliance system, please refer to the disclosure booklet that is available on each Company's website (Japanese version only). The URL for Daiwa Securities Co. Ltd. is <http://www.daiwa.co.jp/Corp/index-s.html> (for a booklet explaining business and asset conditions), and the URL for Daiwa Securities SMBC Co. Ltd. is <http://www.daiwa.co.jp/daiwasmbc/CorpPlan/Pdf/smbcinfo.pdf>.

For this purpose each Group company has established various rules and regulations appropriate for the nature of its business. Further, departments responsible for compliance (see Table 1) have been assigned and a compliance system put in place. In addition, Daiwa Securities Group Inc. and each Group company will conduct sufficient compliance training and thoroughly address compliance issues. This will include the enactment of a Code of Ethics (see Table 2) as the rules for conduct by officers, managers and employees, from the standpoint of establishing corporate ethics on a strong basis.

Moreover, we recognize the need for continual improvement in the future in areas such as the scope of the laws and various regulations covering compliance issues and the frequency with which the status of compliance is checked.

Elimination of antisocial elements

Following the scandal involving payoffs to sokaiya corporate racketeers in 1997, the former Daiwa Securities took steps to broaden and strengthen its compliance system, including changes such as appointing internal control officers, establishing a General Affairs Management Office (as it was called at that time) for the purpose of insulating the Company and employees from antisocial elements, including sokaiya, and implementing various policies to reform its General Meeting of Shareholders.¹

With the separation into operating companies and the move to a holding company structure in April 1999, most of the General Affairs Management Office's functions were taken over by the Corporate Ethics Department within Daiwa Securities Group Inc., and controls to eliminate antisocial elements throughout the entire Group were implemented. To prevent either direct or indirect payoffs to antisocial elements, the Daiwa Securities Group continuously conducts a number of activities at each Group company, such as controlling suppliers or payees for office supplies, subscription magazines and various expenses; checking transaction counterparts and various contracts;

distributing manuals to employees and providing training designed to prevent problems.

Brokerage firms

At Daiwa Securities, which principally provides securities products and services for individual customers, and at Daiwa Securities SMBC, which is engaged in the investment banking business for institutional investors and corporate customers, directors and employees are required to observe related laws and ordinances centered around the Securities and Exchange Law and various regulations prescribed by the Japan Securities Dealers Association or securities exchanges, as well as laws such as the Law on Sales of Financial Products. In addition, both companies have been asked by the Financial Services Agency to establish an adequate compliance system formalized in a securities inspection manual.²

Among the specific items to be observed, for stocks, bonds and other securities that are used for transactions, the companies have established measures such as audits intended to prevent all unfair transactions and control insider information, beginning with checks into whether proper price formation is being maintained. The companies also check and give directions to ensure that customer solicitation activities are appropriate. (Please refer to the Daiwa Securities Solicitation Policy at right.)

Daiwa Securities publishes a Compliance Book on the Company's Intranet explaining the items required to achieve compliance and which each employee must observe, and provides appropriate online training for employees.

At Daiwa Securities SMBC, compliance efforts are centered on the Compliance Officers, who give directions to each department, office and branch. (Please refer to the following page for details on Daiwa Securities SMBC's Compliance System.)

Furthermore, the Company handles employees who have violated a law,

Daiwa Securities Co. Ltd. Solicitation Policy

Transactions with Peace of Mind

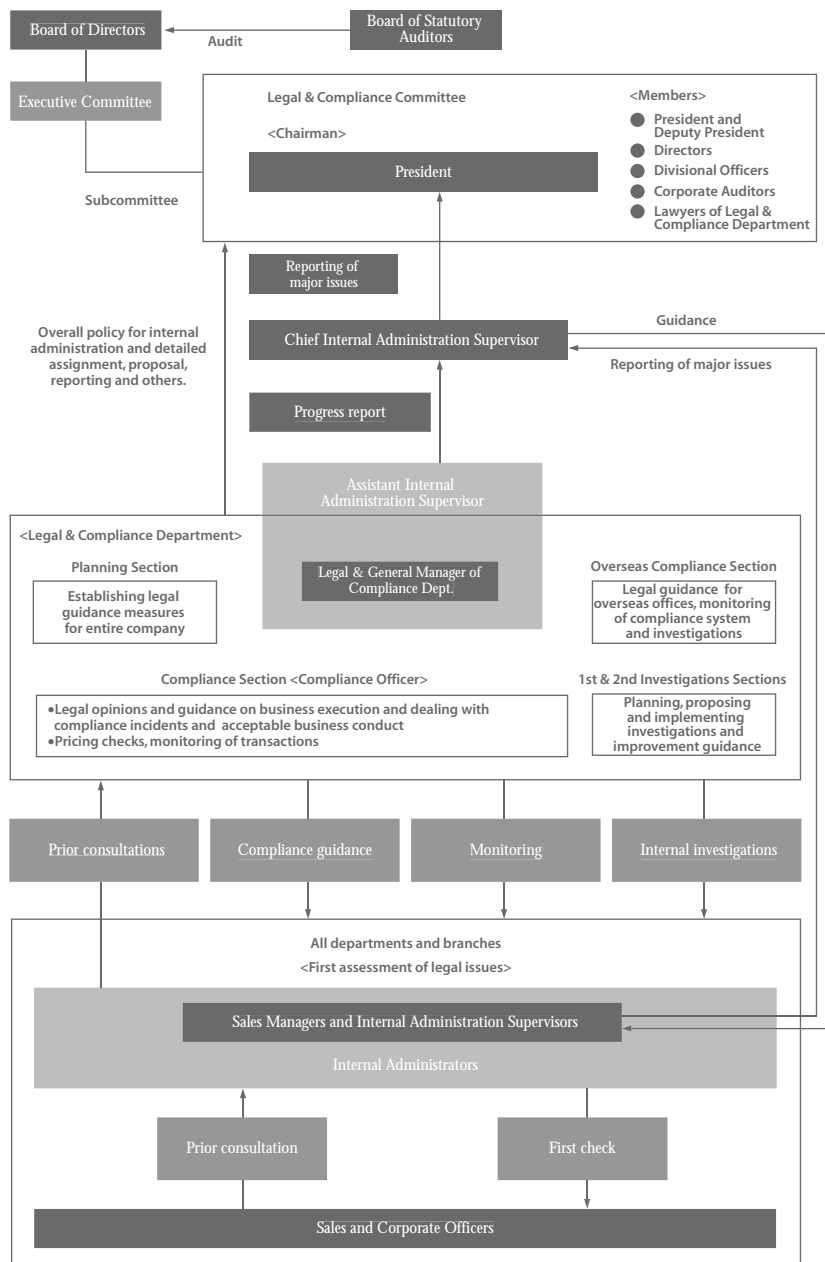
(As of August 31, 2002)

Through the key words "For the Customer," at Daiwa Securities we shall seek to understand each customer's needs quickly, offer the best proposal for each customer and strive to provide services that will satisfy each customer, and conclude transactions that will give each customer peace of mind.

1. We shall observe all laws and regulations, and seek to build a relationship of trust with each customer.
2. We shall engage in appropriate investment solicitations and continually increase our knowledge of laws and various regulations and our business.
3. We shall prepare customer records, seek to understand each customer's intentions and actual situation, and market products that are appropriate to each customer.
4. When entering a transaction, we shall try to explain the details and risks of the product in a manner that is easy for each customer to understand.
5. To create transactions that are in accordance with each customer's wishes, we shall prepare our three services—Daiwa Consulting, Daiwa Call and Daiwa Net.
6. When making solicitations by telephone and when visiting customers, we shall try to do so at a time that is suitable for the customer.
7. If you have any concerns regarding any transaction, please contact the department or branch administering the transaction or the Customer Support Hotline (Tel: 81-3-3665-5111, Japanese only).

ordinance or regulation or Company guidelines and rules internally after conducting an investigation into the facts. As of the end of August 2002, the company was investigating the facts concerning violations in several cases.

Daiwa Securities SMBC's Compliance System



Asset management companies

Daiwa Asset Management Ltd. and Daiwa SB Investments Ltd., which manage customers' assets, operate with the care required of them as experts. Both companies have the duty to take care and act as a good manager when executing their business and observe the duty to act in good faith, avoiding conduct that is contrary to the interests of their beneficiaries.

As an asset management company, Daiwa Asset Management has adopted compliance as one of its most important management issues. To implement meaningful compliance practices, we have codified our basic attitude regarding compliance in the Basic Compliance Policy. To achieve the goals set out in this policy we have drafted a Compliance Program as a practical guide. Together with the implementation of the individual practices defined, we conduct regular compliance checks. We also regularly hold a Compliance Council Meeting chaired by the company president, at which managers report on compliance status and discuss important compliance matters. Finally, by providing in-house education for employees through periodic compliance training, we promote meas-



ures that will raise awareness of laws and regulations.

Daiwa SB Investments has compiled its basic principles of conduct as an investment management company into a Compliance Manual. It seeks to establish internal controls through a basic program of observance of laws and regulations. Moreover, the Company not only complies with laws and regulations for practicing fiduciary responsibility, but has also declared “cultivating a strong sense of ethics” as a corporate goal, and is working to establish a system of corporate ethics to be applied globally as an asset management company.

Analysts

To ensure their organizational independence, analysts who provide information to customers in support of their investment decisions work under the direction of the Daiwa Institute of Research, a company that is separate from both the brokerage firm Daiwa Securities and Daiwa Securities SMBC. In addition, the Daiwa Securities Group is in the process of carrying out a number of unique measures, such as establishing a Research Compliance Department at the Daiwa Institute of Research in FY 2001, and strengthen-

ing systems for checking the impartiality and objectivity of investment-decision information from analysts.

Venture capital

As venture capitalists, the employees of NIF Ventures Co., Ltd. must be completely impartial. In addition to originating its own investment proposals, the Company has made the consistent management of all activities—from due diligence (thorough examination of proposals) to explanations of proposals to the Investment Committee, to hands-on management (support, company growth) following an investment—the foundation of its operations. Moreover, NIF has established the general principle that when a firm in which NIF has invested goes public, the selection of a lead-manager securities company shall also be left to the discretion of the managers of that company.

Copyrights and patents

At the Daiwa Securities Group, we have established rules for the management of intellectual property rights (patents, new practical application proposals, ideas, trademarks, copyrights) and work to protect the Group's own intellectual property as well as to prevent violations of intellectual-property rights belonging to other parties (other companies). For

protection of its own intellectual property rights, the Group has formulated policies and guidelines concerning its intellectual property and conducts research of the legal system and promotion of applications. Of these, control of business model patents, trademarks and copyrights forms the core of Daiwa's activities. By recommending business model patent applications, Daiwa not only defends its existing business but also gives consideration to improving its drive to develop new businesses and new services.

Status of administrative penalties, etc.

Since the former Daiwa Securities was forced to halt part of its business in 1997 following the payoff scandal mentioned earlier,³ as of the end of July 2002 there have been no instances in which a securities company or asset management company belonging to the Daiwa Securities Group has been subject to an administrative penalty from supervisory authorities.

³ For details, please refer to the press release issued on December 18, 1997 by the former Daiwa Securities Co. Ltd. under the heading “Administrative Sanction to the Company,” which can be read on the Company's IR website. (<http://www.ir.daiwa.co.jp/japanese/>)



A warm-toned photograph of a woman with dark hair, seen in profile, gently holding a small white duckling in her hands. The background is softly blurred, suggesting an outdoor setting. The overall mood is calm and caring.

Toward Greater Customer Satisfaction

Drawing on past experience, since 1997 the Daiwa Securities Group has been studying what can be done to further improve the level of customer satisfaction. As a result, the Group used separation of the operating entities and movement to a holding company structure in 2001 as an opportunity to draft its Brand Statement expressed as a promise to its customers,¹ under the corporate slogan, "Setting the Standard." Today the Daiwa Securities Group is engaged in a broad range of activities to improve customer satisfaction, including new service introductions.

Corporate slogan

"Setting the Standard."

Our corporate slogan expresses the strong will of the Daiwa Securities Group to continue providing new financial services for the 21st century that go beyond customer expectations, company and business boundaries, and present-day standards where common sense equals standards.

Daiwa Securities Co. Ltd.

Customer Satisfaction (CS) Promotion Department and Customer Support Hotline²

In April 2001, Daiwa Securities established a new CS Promotion Department. At Daiwa Securities, most services and contact with customers have conventionally been handled by sales staff members. However, we determined that expanding our communications with customers by creating an organization and systems that will enable us to promote customer satisfaction across the entire company is indispensable. At the CS Promotion Department, we have begun by creating employee awareness through training and channels such as CS Message, our in-house publication.

As a result of the First Branding Questionnaire Survey we conducted in September 2001, which we sent to 5,000 Daiwa Securities customers (1,444 individuals responded) and to all 6,200 branch office employees, we learned that when it came to after-sales service from sales staff and dominance of services compared to other companies, we still cannot say that our customers' level of satisfaction is sufficient. We will continue this research into the level of satisfaction as a benchmark for CS improvements by performing the survey again in FY 2002.

After receiving the results of the above-mentioned questionnaire survey, Daiwa securities established a Customer Support Hotline in the CS Promotion Department in November 2001. The system previously in place for receiving customer requests and complaints was unable to disseminate information throughout the entire company. By regarding the opinions received by the Customer Support Hotline as a valuable management resource, however, it has become possible to create a system to effectively use such information internally. Specifically, by exchanging concrete examples and problem-solving measures and introducing these to managers and employees at all of Daiwa

Securities' branches each week as the Customer Support Hotline News, the office is fulfilling a valuable role for CS improvement.

During the three-month period from January to March 2002, the Customer Support Hotline received 1,109 telephone calls, of which 184 (excluding repeat calls on the same issue) were customer complaints. As of July 2002, 44 of these 184 customers had closed their Daiwa accounts. On the other hand, nearly the identical number of individuals—40 customers—placed additional assets with Daiwa Securities for management. The issue facing Daiwa is to respond appropriately to customers' requests and complaints in a manner that will increase the number of customers who continue using Daiwa Securities. For example, in FY 2001, we reviewed the Call Center's automated voice instructions and revised the integrated transaction application form.

In addition, the CS Promotion Department has adopted a best practice system that publicly recognizes and honors the branch that contributed most to brand building. Through this system, awareness about customer satisfaction activities are shared throughout the entire company.

Introduction of the CRM system: Accurately capturing customers' needs

The financial products handled by Daiwa Securities include a variety of securities, such as stocks, bonds, investment trusts and insurance, which cover a broad range from low-risk to high-risk products and from products with comparatively simple design to those whose design is exceedingly complex.

Accordingly, we believe that to be a trusted securities company, it is absolutely indispensable that we carefully consider customers' needs and investment experience when recommending products to them. Nevertheless, because of the complaints received from customers, we also understand that we still must improve our effort to fulfill our duty to explain products and services until we achieve the customer's understanding and consent.

As one measure to address these issues, in March 2002 we introduced a state-of-the-art CRM system from Japan Siebel Co., Ltd. on the Intranet installed at every Daiwa Securities branch. The system makes it possible for any person in the branch to access customer information, transaction history and also a history of explanations that have been given to the customer in the past. It also makes it possible to respond adequately to consumer needs. Currently Daiwa Securities is accumulating a base of information at all branch offices so that the CRM system can function effectively.

Employee performance evaluation system and compliance for customers

Daiwa Securities' business consists of building mutual trust with customers and providing consultations on asset management. For performance evaluations of sales employees, including branch managers, the amount of assets received from customers is an important item. Response toward compliance issues also carries a large weight in such evaluations.

To instill greater consideration and knowledge regarding compliance, in 2002 Daiwa Securities began conducting legal- and compliance-knowledge training using the Company's Intranet to promote compliance training in addition to the group training provided in the past.



Daiwa Securities branch

Management of customer information

Daiwa Securities is devoting all of its capabilities to strengthening information security, including customer information. Not only does Daiwa closely control all electronic customer information at the headquarters and branch offices, Call Center and Daiwa Direct (Internet), it also classifies all written customer information such as documents into three ranks according to the level of importance and attaches a serial number to control significant documents.

Once the legal storage period for significant documents has ended, Daiwa Securities shreds all documents and further processes them by dissolving the shredded materials under the watch of attending employees.

Management of assets deposited by customers

Daiwa Securities retains the marketable securities and cash deposited by customers as customer assets, using safe and certain procedures based on legal ordinances such as the Securities and Exchange Law. For example, stock certificates received from customers are stored at the Japan Securities Depository Center, Inc., and cash is deposited with a trust bank as customer discretionary monies. In all instances, customer assets are segregated from Daiwa Securities' own assets. Daiwa Securities regards the thoroughness of its separate safekeeping to be a vitally important activity for building the highest degree of mutual trust with customers. Furthermore, Daiwa obtains reports from an independent third party certifying that client assets are being maintained in accordance with the law and in an appropriate manner.

¹ For details, please refer to Management Vision and Sustainability, p. 8 – 9, and the Corporate Branding Project website (<http://www.branding.daiwa.co.jp/>). Please note that this website is only available in Japanese.

² Daiwa Securities' Customer Support Hotline
Tel: 81-3-3665-5111 (Japanese only)



Daiwa Securities Call Center



Daiwa Satellite TV studio

Providing information to customers

The basis of securities transaction services is the provision of timely, accurate information to a broad range of customers. In addition to disseminating information through sales staff and the Company's website, the Daiwa Securities Group makes information available through a variety of media such as Daiwa Internet TV; Daiwa Market Scope, which is jointly managed with Nihon Keizai Shimbun, Inc.; and Daiwa Satellite TV (SKY PerfecTV!, channel 766).³

Providing services that address customers' needs

Three Service Packages

In July 2000, Daiwa Securities began offering its Three Service Packages. The Three Service Packages meet customers' diverse needs by allowing the transaction channel customers can use, the products and services handled and the commissions applied to differ according to the selected package. Customers can select from the three service packages—Daiwa Consulting, which offers face-to-face services at a local office; Daiwa Call, which offers Call Center transactions; and Daiwa Net, which offers Internet transactions—according to their own investment preference. What's more, customers may also change the service package used to suit their own needs. This service is unique to Daiwa Securities, where we want to increase the level of customer satisfaction by creating systems that can respond to every customer need.

Saturday business hours

Under the catchphrase "Make Saturdays Your Consultation Day," Daiwa Securities has offered Saturday office hours at every Daiwa Securities branch office since October 2001. In addition to providing investment consultations with customers at the offices,

once each month Daiwa sponsors a Saturday seminar. This approach is popular with our customers because it enables us to address the needs of customers who cannot come to an office on weekdays and customers who wish to take time when discussing their asset management needs.

Expansion of margin trading services

In response to customer requests, Daiwa Securities began margin trading services in November 2001 as a new, specialized service for customers of Daiwa Call and Daiwa Net. In addition, in July 2002 Daiwa lowered the initial deposit required for using the margin trading service from ¥3.0 million to ¥1.0 million.

Investment clubs

Investment clubs, which are clubs formed by close friends and acquaintances at offices, schools and other locations, are groups that make securities investments by pooling the group members' capital. Investment clubs first appeared in the United States, where numerous clubs have been established since the 1940s. Several tens of thousands of clubs are said to be currently active. Since backing the establishment of the first investment club in Japan in 1996 for the purpose of supporting and nurturing individual private investors, over the years Daiwa Securities has supported the establishment of 140 clubs. These clubs account for 70 percent of all domestic investment clubs currently active. In addition to distributing a guidebook at its branch offices throughout Japan that explains how to establish an investment club, Daiwa Securities also provides assistance in other ways, such as dispatching Company employees to clubs as lecturers.

Daiwa Securities SMBC Co. Ltd.

In the "Financial Institution Popularity Rankings," an overall ranking of securi-

ties companies released by the Nikkei Kinyu Shimbun on January 4, 2002, the Daiwa Securities Group earned the number two spot for the second consecutive year. This status reflects the strong, positive evaluations received from corporate customers by Daiwa Securities SMBC, the principal member of the Daiwa Securities Group covered by this ranking. In addition, in a survey conducted by a well-known consulting company in the United States, Daiwa Securities SMBC was ranked number one in customer satisfaction in multiple sectors, particularly the bond and derivatives sectors. Daiwa Securities SMBC also earned first place in the domestic corporate straight bond league tables for FY 2001.

The Company's biggest hit product in FY 2001 was the Enman-Sai bond, a type of guaranteed-principal structured bond developed and sold by Daiwa Securities SMBC. While the product name Enman-Sai bond stems from the fact that these securities are yen-denominated and the principal is guaranteed at maturity (or at redemption before maturity), it simultaneously denotes our desire to develop and sustain a harmonious relationship with investors. Behind this successful product was the activity of a new product development team, organized across division lines in order to accurately understand our customers' latest needs. The development process used by this team received a commendation as a "best practice" within the Daiwa Securities Group.

Daiwa Asset Management Co. Ltd. (DAM)

To increase the trust that beneficiaries have in Daiwa Asset Management and to improve fund performance, efforts are being made to improve the Company's operational structure and risk management system. Furthermore, DAM is strengthening the system that provides information and support for

the sales company that sells the funds DAM manages. Through this system, the Company is aiming to improve the quality and increase the quantity of information and explanations that is provided to clients who invest in the fund via the sales company.

Daiwa Asset Management conducts direct sales of funds via the Internet and its call center, and was the industry forerunner in achieving electronic delivery of fund prospectuses over the Internet. Not only has this increased customer convenience, but it has also had the added benefit of reducing the quantity of paper used. In other areas as well, DAM is aggressively pursuing ways to provide information to customers, such as preparing investment reports and making the weekly and monthly reports describing the securities included in its funds available on the Company's website (<http://www.daiwa-am.co.jp/>; only available in Japanese).

Daiwa Asset Management is also focusing on developing various financial products that meet the needs of investors. In April 2002, DAM established and began managing the Shizuoka Benchmark Fund. This fund is a local Shizuoka community-based assistance fund that seeks to invest in firms whose headquarters are located in Shizuoka Prefecture and firms that move into Shizuoka Prefecture and create new employment (including public corporations), for the purpose of enabling the prefecture's inhabitants to easily participate in the promotion of local industries. The Company also set up the Ibaraki Benchmark Fund and Kanagawa Support Fund in July and September 2002, respectively, based on the same concept. Daiwa Asset Management is currently applying for a business model patent on these funds as "regional index" funds.

Daiwa Institute of Research Ltd.

Daiwa Institute of Research, which proclaims "improving customer satisfaction" as its management policy, is engaged in a variety of efforts to provide high-quality solutions, encompassing research, consulting and systems, for a wide range of needs.

Improved performance in analysts' rankings

In the "14th Annual Analysts Popularity Survey" conducted by the Nihon Keizai Shimbun Inc. and announced on March 25, 2002, Daiwa Institute of Research ranked fourth in the overall evaluations and third in the company research analysts division. Compared with the prior year, the Company moved up in the overall rankings and jumped from eighth to third place in the analyst rankings despite having made no major changes in the research team's lineup. This reflects the strong positive assessments of DIR's abilities in areas such as providing customer-oriented investment information.

Computer system-based quality improvements

In its computer systems as well, Daiwa Institute of Research is devoting efforts to strengthening various quality assurance systems through the use of CMM (Capability Maturity Model),⁴ with the goal of further improving the level of customer satisfaction.

Daiwa SB Investments Ltd.

Daiwa SB Investments was ranked number one in the overall evaluations of asset management capabilities (including trusts and life insurance) in the "2001 Investment Trust Institutional Pension Client Evaluation Survey" conducted by Ratings & Investment Information, Inc. (R&I). This was the seventh time the survey, which studies corporate pension schemes (1,802 companies with employee pension funds and 2,182 companies with tax qualified pension plans), had been conducted. In terms of scope, the survey is the largest in the nation. For these reasons, the survey has

become an important tool for pension plan people who are looking for a new pension plan manager. There are several reasons why we think Daiwa SB Investments received such high praise in the survey. The first could be because of the synergies created as a result of the merger between two investment advisory companies that operate in two different industries (banking and securities). The second could be because the Company firmly maintains a consistent investment philosophy and style that is based on the value management of domestic stocks. Another reason could be because the Company has established a management system and process in response to the trust placed in it by our customers.

With regard to strengthening of investment activities, Daiwa SB Investments has always made efforts toward the establishment of corporate governance and, on that account, development of strong capital markets. This is achieved through the exercise of voting rights in line with rational screening standards and internal Company guidelines from the viewpoint of the responsibilities of a trustee.

Daiwa Securities Business Center Co., Ltd. (DSC)

The Daiwa Securities Business Center provides securities back-office support to Group companies such as Daiwa Securities and Daiwa Securities SMBC, as well as securities firms outside the Group. In November 2000, the Company was the first in Japan to acquire international standard ISO 9001 certification concerning quality systems as a securities back-office service provider for its service division for securities firms outside the Group. By building on know-how that earned it the ISO certification, the Company is taking steps to improve and enhance its quality control and quality assurance systems, introduce this quality management system into all business activities, and strengthen measures to enable customers of securities companies to conduct their transactions without worry and with a sense of security.

3 More detailed information regarding the information sent to customers can be obtained at <http://www.daiwa.jp/> (only available in Japanese).

4 CMM is a model developed by the Software Engineering Institute at Carnegie Mellon University under consignment from the U.S. Department of Defense.

Daiwa People

The Daiwa Securities Group has declared "valuing human resources" to be one of the pillars of the Group's corporate principles. The employees of each of the Group's companies are important stakeholders who support the sustainability of the Daiwa Securities Group. Of course, Daiwa promotes the observance of all employment-related laws, regulations and rules. For the Daiwa Securities Group, a key member of the financial services industry, individuals are the source of our competitive edge. Our emphasis on employees' pride and satisfaction in their work (ES) is indispensable for improving the quality of our products and services and for customer satisfaction.

Based on this thinking, we have made equal opportunity, fair and impartial employee evaluations and compensation, and provision of education and training opportunities the foundations of the Group's human resources management.

Employment and equal opportunity

Types of employment

The employees of the Daiwa Securities Group are broadly classified into employees, securities advisers and temporary employees, as shown in the table below, mainly according to their employment contract period. In addition, each Group company hires employees in occupational categories such as career-track employment, specialized employment and secretarial, depending upon the characteristics of its business.

Female employees

The Daiwa Securities Group actively provides positions for women. As of March 2002, the Group had 937 women employed in career-track and regional career-track employment¹ programs. In addition, the Group also employs approximately 200 Telephone Service Representatives (TSRs) at the Call Center who provide an essential service channel for Daiwa Securities. The majority of TSRs are women, and almost half of the supervisors and assis-

Domestic employee composition of the Daiwa Securities Group¹ (as of March 31, 2002)

	Employees	Securities advisers ²	Temporary employees ³
Male	6,656	116	
(Career-track employment) ⁴	(6,073)	(-)	
(Management)	(2,951)	(-)	
Female	3,559	988	
(Career-track employment) ⁴	(937)	(-)	
(Management)	(36)	(-)	
Total	10,215	1,104	1,367

1: Total number based on consolidated domestic Group companies. In addition to the employees shown in this table, Daiwa had 1,268 overseas employees and 25 temporary overseas employees as of March 31, 2002.

2: "Securities advisers" are employees engaged in sales at Daiwa Securities on the basis of a one-year employment contract.

3: "Temporary employees" are employees working a second job or part-time; the numbers shown are the average numbers of temporary employees during the year. Temporary employees are primarily women, although some men are also included in this category.

4: Includes regional career-track employees and specialized employees.



A TSR at the Daiwa Securities Call Center



Group Management Training

tant supervisors (30 in total) who are in charge of the TSRs are also women.

Nevertheless, out of 2,987 individuals in management positions at the Daiwa Securities Group, only 36 are women (as of March 31, 2002), so the issue of appointing greater numbers of women to management positions remains. The reason for this is that in the past there were only a small number of women employed in any career-track employment program. However, the group has been making full-fledged efforts to employ more women in the regional career-track employment program since FY 2002 (in April 2002 the group employed 712 new university graduates into career-track and regional career-track employment programs, of which 361 were women). Daiwa intends to steadily increase the number of female managers in the future.

Promoting employment of physically and intellectually challenged individuals

The Daiwa Securities Group is also aggressively promoting the employment of physically and intellectually challenged individuals. As one example, since FY 2000 we have continuously provided internship opportunities at Daiwa Securities Business Center (DSC) for students at schools for the hearing-impaired to receive training while working at the Company for one week, and we have hired graduates from schools for the hearing-impaired as employees. As a result, not only does Daiwa provide an opportunity for hearing-impaired individuals to demonstrate their capabilities, but also other employees have voluntarily joined sign language study meetings, and we continue to create a workplace environment that fosters mutual understanding between employees. At the Daiwa Securities Group's initiation ceremony for new employees, DSC employees are responsible for sign language interpretation. Through these sorts of activities, the Daiwa Securities Group is showing that it is committed to creating a comfortable workplace environment for people with disabilities.

As of March 2002, Daiwa Securities Group Inc. as well as Daiwa Institute of Research had separate disabled person employment rates that were higher than the 1.8% legally required employment rate. However, the remainder of the Group companies unfortunately did not meet the legal employment rate requirement. The average disabled-person employment rate was 1.54% (144

people as of March 2002). The Company cannot say that it provides ample employment opportunities for people with disabilities, and therefore we will continue our efforts to employ more physically and intellectually challenged individuals through measures such as participation in employment forums for physically and intellectually challenged individuals and hiring activities at all Daiwa Securities branch offices throughout Japan.

Employees' union

Together with the shift of the Daiwa Securities Group to group management under a holding company structure in April 1999, the employees' union of Daiwa Securities (formed in 1946) was reorganized and changed its name to the Daiwa Securities Group Employees' Union. Total union membership as of the end of March 2002 was 6,419. The union is set up with each Group company as a branch, and a Central Executive Committee has been created as an organization to manage union activities across branches.²

The Daiwa Securities Group Employees' Union acts by giving top priority to creating opportunities for its members to exchange information across the Group, and to improving the workplace environment through worker initiatives. In addition, the union seeks to improve employee satisfaction and maintain excellent labor relations through the Group's development.

Group management negotiates with the employees' union and exchanges opinions regarding working conditions, such as employee compensation, the per-

¹ Regional career-track employment is locally-restricted career-track employment, including transfers within Daiwa Securities, but without requiring the employee to relocate.

² Excludes Daiwa Asset Management Co. Ltd., where a separate employees' union has been set up, and The Daiwa Property Co., Ltd., which does not have an employees' union.

formance evaluation system, working hours and the workplace environment. Proposals created through initiatives such as employee opinion and attitude surveys conducted by the employees' union are a valuable source of information for upper management.

Personnel evaluation and compensation

With the move to a holding company structure in April 1999, the Daiwa Securities Group reformed its personnel system and abolished the compensation and promotion systems based on seniority. The Group has continually carried out improvements to its personnel system that are designed to evaluate each individual employee fairly and to directly reflect the results through differences in individual compensation and the pace at which individuals are promoted. As a mechanism to improve the fairness of evaluations and help all of the individuals involved agree upon the results, in January 2001, Daiwa Securities Group Inc., Daiwa Securities, Daiwa Securities SMBC and Daiwa Asset Management instituted a "180-

degree evaluation system" in which managers are also evaluated by their subordinates. (Daiwa Securities Group Inc. has instituted a "360-degree evaluation system," by which managers are also evaluated by employees in other divisions with whom managers interact in the course of business.)

As part of its employee evaluation process, Daiwa is moving to establish an evaluation system that takes into account compliance and customer responsiveness. With the exception of temporary employees, Group companies include compliance-related evaluation categories in their evaluations of all employees. Daiwa Securities is also currently examining ways to reflect customers' evaluations in employee evaluations.

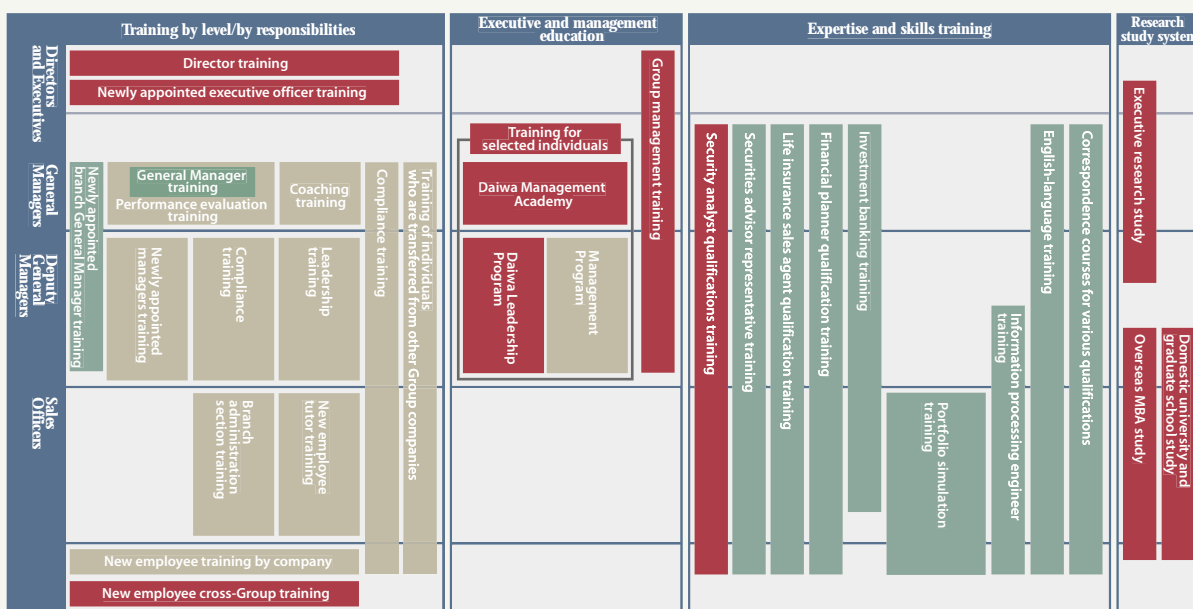
The present trend in employee compensation is to reflect each individual's evaluation in his or her monthly salary, bonus and retirement allowance, as well as to allow compensation to vary more broadly according to evaluations. In light of this fact and based upon the

Group's management thinking, the total bonus amount paid to all employees is determined with reference to the consolidated operating results of the Daiwa Securities Group. The ultimate bonus for each individual employee is decided by allocating this total bonus amount based on an evaluation that considers the level of individual contribution to the consolidated operating results of the Group, an evaluation of each division and of each individual. In addition, Daiwa Securities SMBC also uses a mechanism to provide a separate bonus as a special reward to individuals or teams that make an outstanding contribution to Company performance.

Training system

Each Group company is responsible for providing the education and training necessary for employees to acquire the knowledge and skills required in the pursuit of the Company's business. These education and training opportunities are wide-ranging, from Group training carried out at the Training Center to training by satellite broadcast and assistance to help employees obtain

Principal training systems of the Daiwa Securities Group



Training shown in red boxes is chiefly cross-Daiwa Securities Group training.
Except for group training, training is provided by means such as satellite broadcasts and Intranet.

various outside qualifications. Daiwa Securities, for example, conducts an online training program called "@DESK," which uses the Intranet and enables employees to study any topic they wish at any time. Another example is Portfolio Simulation Training at Daiwa Asset Management, which that company provides as a touchstone for appointing young employees as fund managers.

Daiwa Securities Group Inc. in particular works to broaden cross-Group training. Several representative examples of such training are described below.

Cross-Group training for new employees

Since FY 2002, training for new career-track employees is provided for all nine Group companies on a combined basis. In this training, new employees study topics such as the corporate principles and value system of the Daiwa Securities Group, social responsibility and corporate ethics, in addition to acquiring knowledge of the business. They can also experience voluntary activities.

Group Management Training

Group Management Training is provided to share the Group's value system.³ At each training session, proposals raised by the attendees are shared with executives and employees via the Intranet and utilized as a valuable knowledge resource for the Group.

Daiwa Management Academy

Since FY 2000, the Group has operated the Daiwa Management Academy. Intended chiefly for division, office and branch general managers, the goal of

this program is to foster the growth of talented individuals who will be the next generation of Group leaders and to improve their logical-thinking and analytical capabilities. More than 70 individuals have graduated from the four terms held through March 2002, including six as of the end of June 2002 who are now serving as directors or executive officers at Group companies.

Daiwa Leadership Program

The Daiwa Leadership Program has been offered since FY 2001 with the aim of enhancing the intellectual horizons of middle management employees (one rank below persons who have attended and passed courses at the Daiwa Management Academy). The Group plans for approximately 20% of all Group middle management employees to graduate from this program over the next two years.

Improvements to health, safety, labor and working environment

The Daiwa Securities Group is undertaking a number of initiatives to create an excellent workplace environment. The Health Development Center set up at Daiwa Securities Group Inc., for example, employs full-time counselors to provide counseling on employees' physical and mental health. In addition, many employees make use of systems established by the Group to take time off for maternity leave, child care and elderly care. During FY 2001, a total of 74 employees took time off for maternity leave, of whom 69 returned to work but also took time off for child care; however, no leave was taken for elderly care.

In addition, in FY 2001 the Group took steps to prohibit smoking in the workplace and establish separate smoking areas.

With regard to overtime work after hours and on holidays, the Daiwa Securities Group is currently implementing reforms because some instances have occurred in which overtime exceeded the maximum working hours established by the Group's Agreement with the Employees' Union Concerning Control of Overtime Hours and Holiday Work, which is based on Article 36 of The Labor Standards Law. As one example, for Daiwa Securities offices that are open on Saturdays, the Company has made it mandatory that offices grant compensatory holidays prior to requiring employees to work on Saturdays and is taking steps to ensure that this rule is observed by all offices. For weekday overtime as well, the Group is responding with measures such as work-efficiency improvements to reduce overtime hours, based on the same agreement. Moreover, based on specific conditions, employees who take child care or elderly care leave may eliminate or limit the number of overtime hours they work.

The prohibition against sexual harassment is explained clearly in the Group's Employment Rules and Regulations, and the Group is promoting the elimination of all sexual harassment through training and guidance. Because 9% of all employees responded in a survey conducted by the employees' union in February 2002 that they feel they have been sexually harassed, the Group plans to concentrate on expanding training in this area in the future.

³ For details, please refer to Management Vision and Sustainability, p. 8 – 9.

As a Corporate Citizen and a Member of the Community

We believe that the part of our conduct as a corporate citizen that is most welcomed and accepted by local communities encompasses two activities. One is community affairs activities, represented most typically by contributions and volunteer activities by employees, and the other is our influence on society through our principal business in the securities industry.

The Daiwa Securities Group has engaged in social contribution activities for many years through institutions such as the Daiwa Securities Health Foundation (established in 1972) and the Daiwa Securities Foundation (established in 1994). In addition, the Daiwa Anglo-Japanese Foundation was established in England in 1988 as a medium for international exchange. Furthermore, in July 1999 we set up a Corporate Community Affairs Department within Daiwa Securities Group Inc. to support independent volunteer work by Group employees. As a Group we are fully involved in activities that infuse the entire Group with the spirit of volunteer effort.

Moreover, we recognize that the management resources of the Group, such as our knowledge, know-how and information about the economy, finance and the securities business, are not merely business resources but are also extremely useful as resources for creating a better society. The Daiwa Securities Group is actively working to contribute to society through these principal business activities.



Corporate Community Affairs Department website (Japanese only)



"FreeStyle - Working for the Community 21st Century Style," a Corporate Community Affairs Department pamphlet (Japanese only)

Community affairs activities

Activities to educate employees and increase employee awareness

In the three years since we established the Corporate Community Affairs Department at Daiwa Securities Group Inc., we have laid the groundwork for volunteer activities within the Group. The first step was to reform employee awareness, and since April 2001 we have included community affairs programs as part of new employee training. In addition to sign language classes taught by outside teachers, lectures and concerts, in April 2002 we incorporated community activities such as a cleanup of the local area surrounding the Training Center and care support at a local old-age home, all of which have increased employee awareness of and interest in volunteer activities. We also understand that for employees to continue their involvement in social contribution activities on a volunteer basis, the understanding of their local management team is absolutely indispensable. In December 2001, therefore, we added welfare experience lectures to management training courses and now managers themselves are offered opportunities to think about what they can do as citizens and as Group employees to help create a more caring society.

Besides training intended for specific employees, in Tokyo, Osaka and Nagoya we also offer a beginners sign language workshop twice a month after working hours. (The total number of participants in FY 2001 was 410.) The first group of individuals among the participants to pass the sign language certification exam has also completed their training. Moreover, while Daiwa Securities has held its "New Year's Economic Forum" annually each spring in cities such as Tokyo, Osaka and Nagoya, in 2002 we introduced sign language interpreters, a first in the industry. Group employees participated as interpreters at the Tokyo and Nagoya venues.

Providing activity locations and information to employees

The Corporate Community Affairs Department is introducing a variety of community affairs activities for Group

employees. For example, for the following emergency assistance fund-raising activities, the department also disseminated information on the Group's Intranet.

2000: The volcanic eruptions on Miyakejima (approximately ¥2,600,000), the torrential rains and flooding in the Tokai region (¥1,000,000) and the western Tottori Prefecture earthquake (¥1,000,000)

2001: The earthquake in western India (approximately ¥1,700,000) and the multiple terrorist attacks on the United States (a total of US\$100,000 from Group directors and employees, Daiwa Securities Group Inc. and Daiwa America Securities Inc.)

At the Daiwa Securities Group, much attention and effort are directed toward volunteer work that involves recycling, and the above-mentioned programs are just a few examples in which this approach was taken. In addition to seeking monetary contributions, employees use this approach to solicit contributions of items such as books, CDs and videos that they convert into cash at recycling stores and donate to the fund-raising efforts. Using recycling provides a mechanism that takes into consideration environmental protection and resource conservation and that enables everyone to easily get involved in community affairs activities.

Furthermore, special-purpose collection boxes for recycling of used postage stamps and cards have been set up at the headquarters and branches of Daiwa Securities since May 2000. Daiwa donates the stamps and cards collected to volunteer groups, which convert them into cash to use as funds for their vital activities. Customers are encouraged to make use of these collection boxes whenever they visit a Daiwa branch office.

Influence on society through Daiwa's core businesses

Social contribution that leads to the revitalization of both financial and capital markets

The Daiwa Securities Group is promoting industry – academia alliances that aim to train people in specialized skills

and to conduct research that contributes to the development of both financial and capital markets. The Group hopes that these sorts of activities will help to revitalize the Japanese economy and spread awareness about securities.

In FY 2001, the Group formed comprehensive alliances with Hitotsubashi University's Graduate School of International Corporate Strategy (ICS) in the areas of finance and management and with Kyoto University's Graduate School of Economics in the field of financial engineering.

In terms of ICS, the Group established a series of sponsored lectures, dispatched lecturers from the Company and conducted joint research with ICS. The Group will also begin similar activities with Kyoto University from October 2002.

Furthermore, Hitotsubashi University welcomed the arrival of the guru of corporate strategy theory, Michael Porter of Harvard University, as an advisor, and Daiwa Institute of Research is making a concerted effort to support the Porter Award, which is awarded to companies that execute superior management strategies.

In addition, the Group has established the "Daiwa Securities Group Foreign Exchange Scholarship Program," which presents foreign students studying at ICS with scholarship support.

Apart from the above activities, the Group has established or will be establishing a series of lectures at other universities including Keio University and Tohoku Fukushi University. These lectures will be taught by executives from within the Daiwa Securities Group.

Proposals

Daiwa Institute of Research (DIR) is conducting research in closely monitored areas such as the direction of the Japanese economy, ideal economic policies and development of capital markets. DIR also released a special report entitled "Proposals" that outlined the above research. In 2001 DIR issued

papers entitled "Urgent Proposals for Revitalization of the Japanese Economy" (January) and "Urgent Proposals Concerning the Share Purchase Organization Plan" (March).

Participating in the Japanese Association of Individual Investors (JAI)

The Daiwa Securities Group supports the activities of the Japanese Association for Individual Investors (JAI), a special nonprofit organization. In July 2002, the Group participated in events such as the 15th Annual Members Convention. On the day of the event, various lectures on the main topic of "How Individual Investors will Respond to the New Era in Securities Taxation" were given, and direct communication between individual investors and companies occurred.

Support for cultural activities

Sponsored performances in Japan by La Fenice Opera

The Daiwa Securities Group supported special performances in Japan by Italy's Teatro La Fenice during June and July 2001. Separately, on July 3 Daiwa held a special charity gala concert to support the reconstruction of the Venice Opera House, which was destroyed by a fire in 1996. A total of 20 individuals were invited to the concert, including visually challenged individuals accompanied by guide dogs and physically challenged wheelchair users.

Sponsored a special exhibition of Marc Chagall as a commemorative event of the 100th anniversary

In commemoration of the 100th anniversary of the Group's founding, in May 2002 the Daiwa Securities Group sponsored a special exhibition entitled "An Exhibition of Marc Chagall – Treasures of the Pompidou Center & the Chagall Family." A total of 210 disabled persons and people from the single-mother life support center were invited to come to the Tokyo exhibition.

Environmental Performance

While relevant divisions have responded to individual environment-related laws and regulations, and many activities have been undertaken in which the Group has been able to focus its capabilities and make a serious effort, such as providing capital and volunteers for nature conservation, there are still issues to be addressed in the Daiwa Securities Group's approach to the environment. Through steps such as creation of a Global Warming Action Program, which the Group submitted to the Tokyo Metropolitan Government in June 2002, and efforts to collect data on our main environmental impact, we are also pursuing the preparation of a system for gathering environmental performance information. Currently, we are studying the construction of a broad environmental management system, including the need to obtain ISO 14001 certification.

Environment-related social contribution activities¹

Since December 2000, the Daiwa Securities Group has been assisting "Forest Giants," a giant tree preservation program. By displaying posters and calling on customers to join us by setting out special-purpose fund-raising boxes at Daiwa Securities branches throughout Japan, we've been expanding a ring of cooperation. In March 2001, we held an "Eat Ice Cream and Preserve a Giant Tree" charity bazaar for executives and employees at the Daiwa Securities Headquarters Building that collected donations from money spent on ice creams purchased. In addition, an exhibition of giant tree paintings was held at the Utsunomiya and other branches. The Group also participated in "Forests: Experience the Mystery of the Great Forests," an exhibition held at the Mitsukoshi department store in Nihonbashi, Tokyo during August 2001 in which we introduced the efforts of the Group.

Electricity consumption/Service water consumption

	Electricity consumption	Service water consumption
FY 2000	67,292,086 kwh	101,906,846 liters
FY 2001	68,010,346 kwh	102,304,132 liters
	1.07% increase	0.4% increase

Note: The scope of the survey included the following 14 buildings used by the Daiwa Securities Group: Daiwa Securities Headquarters Building; Kabutocho Building; Daiwa Securities SMBC Headquarters Building; Eitai Daiya Building; Osaka Branch; Nagoya Branch; DAM Headquarters Building; DIR Head Office; DIR Annex; DIR Tokyo Center; DIR Kiyosumi Building*; DIR Izumi Eitai building*; DIR Osaka Center; and DSC Headquarters Building. Figures for the amount of water use, however, exclude the two buildings marked with an asterisk.

¹ For details, please refer to the Daiwa Securities Group Inc.'s Corporate Community Affairs Department website (<http://www.daiwa.co.jp/group/kouken/index-s.html>; only available in Japanese) and the Group's community affairs pamphlet entitled "FreeStyle – Working for the Community 21st Century Style" (Japanese only).

救おう森の巨人たち

私たちは、巨樹・巨木保護活動を応援しています。

本館に於いて、樹の保護を目的として、巨樹・巨木を保護するための活動を行っています。巨樹・巨木の保護は、自然環境の保全に重要な役割を果たしています。巨樹・巨木の保護は、自然環境の保全に重要な役割を果たしています。巨樹・巨木の保護は、自然環境の保全に重要な役割を果たしています。



"Forest Giants," a giant tree preservation program



Cleanup activity at Kujukurihama Beach

In November 2001, approximately 50 Group employees and their families participated in a cleanup and nature-viewing walk rally held at the Shinjuku Imperial Gardens. On another occasion, approximately 100 employees and their families participated in a cleanup mountain climb (weed- and miscellaneous-brush-clearing activity) on Mount Takao in June 2002. And in the same month, 540 employees, family and previous staff members joined together to clean up Kujukurihama Beach in Chiba Prefecture before the swimming season opened.

Efforts to improve environmental performance and collect related data

The effort to gather data on environmental performance (environmental impact) is limited to certain areas such as the Daiwa Securities Headquarters Building. We plan to expand the scope of this effort in the future.

Although the quantity of electric power consumption in the Group's main buildings was nearly level from FY 2000 to FY 2001, it did increase by approximately 1%. The main cause is supposed to have been progress in office automation. The Group is currently taking steps toward energy conservation, as described below, and the Group's policy is to enhance this effort in the future in ways that enable the Group to achieve more substantial reductions.

- At facilities such as the Daiwa Securities Headquarters Building, we regularly check that all unnecessary lighting and office equipment is turned off.
- We turn off vending machine lights, reduce the number of fluorescent lighting tubes and partially turn off lights at the Daiwa Securities Headquarters Building, Daiwa Securities Business Center (DSC) Headquarters Building, etc.

- We introduce energy conservation equipment, such as devices to boil water with residual heat from computers, at the Daiwa Institute of Research Tokyo Center.

- At the DIR Osaka Center we installed eco-air conditioning equipment running on late-night electricity.

Although we do not fully comprehend the current data about the environmental impact created from our logistics operations, the Group is taking the following steps to ensure that this impact is being reduced to the extent possible.

- We are proceeding to rationalize in-house mail between the branches and offices within the Group.
- We are working to reduce traffic movement by installing a telephone conferencing system for our main buildings. We expect these measures to indirectly contribute to a reduction in the quantity of CO₂ and other gas emissions.

Quantity of waste disposal

(Unit: Tons)

	(Excluding recycled paper waste)	Waste disposal (Breakdown)		Recycled paper waste
		Municipal waste	Industrial waste	
FY 2000	498.8	379.2	119.6	3,402.6
FY 2001	508.2	376.3	131.9	3,895.9

Note: Applicable scope of waste reduction efforts is as follows.

Municipal waste: Nine buildings (Daiwa Securities Headquarters Building; Kabutocho Building; Eitai Daiya Building; Osaka Branch; DAM Headquarters Building; DIR Head Office, DIR Annex; DIR Tokyo Center; and DIR Osaka Center)

Industrial waste: The above buildings, excluding the Kabutocho Building, the Osaka Branch and the DAM Headquarters Building

Recycled paper waste: Nine buildings, consisting of the above buildings and DSC Headquarters Building, but excluding the DAM Headquarters Building

We have also submitted a Global Warming Action Program for the Group's three main offices (the Daiwa Securities Headquarters Building, DIR Tokyo Center and Eitai Daiya Building) to the Tokyo Metropolitan Government, based on environment-related ordinances to ensure citizens' health and safety (December 2000, measure revising the Tokyo Metropolitan Environmental Pollution Control Ordinance). Over the next three years, we plan to reduce the quantity of greenhouse gas emissions at all three offices by about 1.3%.

With regard to the quantity of waste disposal, the volume of recycled paper waste has been increasing remarkably, while other waste has exhibited only a marginal rise. The increase in paper waste is presumed to be the result of greater use of special-purpose computer and office automation (OA) forms. DIR Tokyo Center, which handles the bulk of large-scale computer system processing for the Group, used 1,122 tons of computer printout paper in FY 2000 and 1,047 tons in FY 2001.

The Daiwa Securities Group is currently undertaking the following efforts aimed at cutting waste and reducing the volume of paper used.

- Around 40 kg of food waste is generated per day at the employee cafeteria in the Daiwa Securities Headquarters Building; this is currently recycled as animal feed by stockbreeders.
- In May 2001, Daiwa Securities carried out a survey to determine ways to reduce paper use throughout the entire company. Moreover, the System & Operations Planning Department at Daiwa Securities has been successively moving into full-scale operation of the EDW (Electronic Data Warehouse) electronic slip system since June 2001. As a result the Company has reduced its average monthly computer output slips at all branches from approximately 6,000,000 pages in March

1998 to about 3,400,000 pages in February 2002.

- Daiwa Securities SMBC has taken the following steps :
 - It abolished incineration disposal of documents and slips in August 2000 and established rules for using such materials as recycled resources.
 - System rationalization has been a principal objective since February 1996. The Company is strongly promoting a paperless system to decrease the types of slips and quantities printed, and has set a goal to reduce by 80% the roughly 6,000 different types of computer output forms through the introduction of a next-generation system in 2003.
 - It has been computerizing various operations since June 2000, such as computerization of activities for legal affairs examinations of the Legal & Compliance Department, "ringi" requests for decisions, personnel-related applications, and systematized proposal and planning documents.
 - Although not an effort directly related to reducing waste disposal volume and the quantity of paper used, as a general rule the Company has been using kenaf paper for business cards since April 2001. It has also been using 100% recycled paper for all OA paper needs.
 - Since February 2002, Daiwa Institute of Research moved away from the idea that PCs can be disposed of only by crushing and DIR has moved to dispose of PCs by recycling whenever possible. DIR has also been computerizing all activities to handle various types of applications (travel and transportation expenses, overtime work processing, etc) via the Company's Intranet since September 1998.



Contribution to the environment through our principal business

Eco Fund: Mrs. Green

The term "eco-fund" refers to an investment trust that invests in firms that conduct their business by giving principal consideration to the environment or aggressively making efforts for environmental protection and improvement. The Global Eco Growth Fund (commonly called "Mrs. Green"), launched in June 2001 and managed by Daiwa SB Investments, uses the concept of "environment and growth in harmony" to select investment targets from among firms that are listed in the environmental rankings produced by Innovest, a research firm that evaluates companies from an environmental viewpoint. At the same time, the fund also invests in companies that provide leading environmental services or have cutting-edge environmental technologies. Total net assets under management in "Mrs. Green" as of March 31, 2002, were ¥17,585 million. The fund's top-ranked investment selections are shown in the weekly and monthly reports published on the Daiwa SB Investments website.²

² For details, please refer to the Mrs. Green Report from the Daiwa SB Investments website. (<http://www.daiwasbi.co.jp/product/mrsgreen/report.html>) Please note that this report is only available in Japanese.

Third-Party Opinion

This report has been reviewed and critiqued from the standpoint of an NPO familiar with sustainability reports by Mr. Toshihiko Goto, Chair of the Environmental Auditing Research Group and Director of Global Reporting Initiative (GRI), and from the standpoint of an expert in corporate ethics by Professor Iwao Taka of Reitaku University.

Toshihiko Goto

Chair, Environmental Auditing Research Group (EARG)

Member, Board of Directors, GRI

Interest in corporate social responsibility (CSR) is high these days. The "social" in "corporate social responsibility," as it is commonly used, connotes the environmental, as well as human-rights and labor, aspects of corporate sustainability. The recent surfacing of corporate irregularities in Japan and the United States is not the only reason why CSR has come into the limelight. A bigger picture reveals a broad-based movement to review the role of corporations in the current structure of society. For example, Britain and France have already created a new Cabinet-level position—a minister responsible for CSR.

Against this background, the Daiwa Securities Group has begun issuing its sustainability report. This exercise in leadership is highly welcome, especially in Japan's financial-services industry, which is said to be lagging behind the world in this area. Creation of corporate value depends greatly upon the awareness of employees. In view of this, the first issue's choice of employees as the stakeholder group upon which to focus to promote a reorientation of institutional awareness, is considered a decision appropriately made. This

report, whose producer is a financial institution, is structured primarily to cover ethics and regulatory compliance and information disclosure, and this is considered appropriate since it is in keeping with the trends growing globally.

At the same time, some areas seem to be in need of further improvement, as indicated by the following points of advice I would offer for reference when producing future issues:

- An environmental management system should be established, and numeric data should be tracked for constant reporting.
- Understandably, social aspects tend to be expressed in qualitative terms, but efforts should be made to express them, as far as possible, in quantitative or numeric terms.
- Stated ideals must avoid ending up being empty slogans. For this reason, for example, in a report a program to achieve an ideal should be closely linked to a management mechanism to implement that program.



- Emulating the comparability of financial reporting is difficult, but heed should be given to designing a report to, at least, facilitate year-to-year comparisons.

Notwithstanding the above, reading the report reveals the serious attitude adopted by the Group, from top management downward, toward sustainability reporting. I hope that this reporting will contribute to improving the performance of the Group as a whole and lead to an improvement in the reputation it enjoys.

Iwao Taka

Professor, Reitaku University, International School of Economics



Corporate management must be friendly to both the environment and society; otherwise, corporate growth cannot be sustained. With this concern in mind, the world's leading companies have begun issuing "reports on sustainable development." These companies have begun committing themselves to overcoming problems of global proportions and reporting on the progress. This should be highly welcomed. The same applause should greet the Daiwa Securities Group, which has recently issued its "sustainability report."

Reading this report, I find it particularly commendable that the Daiwa Securities Group honestly notes the missteps it has committed previously, scrutinizes them seriously, and articulates improvement efforts to prevent their recurrence. Companies issuing reports on sustainable development tend to allocate many pages to highlighting the positive or favorable aspects of corporate behavior, such as contribution to society. In contrast, the Daiwa Securities Group chose to note its past mismanagement and explain its all-out effort to regain confidence. This kind of reporting should get high marks in Japan's society today, where the honesty and integrity of companies is more and more rigorously tested.

Still, at the risk of appearing to be nit-picking, I would like to point out three areas that could be improved to guide the preparation of future issues. First, if

an English-language edition of this report is prepared, reference should be made to the question of why the report does not allocate many pages to discussing subject matters of great interest to the investors of Europe and America. It may be necessary, for instance, to briefly explain the fact that Japan's society and markets are more concerned about management's honesty than about such subjects as "diversity" or "contribution to community."

Second, again as a point to keep in mind when preparing English editions, the same words do not always convey the same meaning or concept when used in Japanese and in English. "Compliance" is a term whose usage requires extra caution. In Japan it is used to connote observance of law to the extent that not only the letter but also the spirit must be honored, whereas in Europe and America, it means mere observance of law. Therefore, an English edition which claims that the Group emphasizes compliance, while giving a backseat to such subjects as diversity or contribution to community, might implant in the minds of European and American investors the wrong images of the Daiwa Securities Group.

Third, this report articulates Daiwa Securities' "Solicitation Policy," but in future issues, a further step should be taken by explaining arrangements to control sales/marketing operations in

accordance with that policy. For example, the Company's key performance evaluation criteria for promotion of sales staff include, along with the number and amount of contracts won, accurate descriptions of risks inherent to products and services, and the number of complaints received from customers. Future issues should note this. Shifting the circulation of funds to increase direct financing vis-à-vis indirect financing is a high priority in the interest of the national economy and society. Because of this, efforts to establish sales/marketing rules and arrangements that give investors increased peace of mind when purchasing financial products should be welcomed by every quarter of Japanese society.

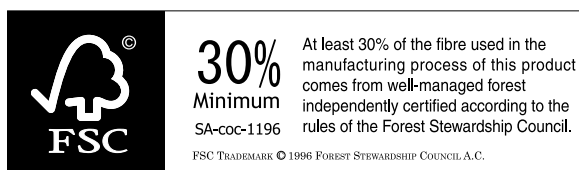
I proposed three points for improvement as above, but my suggestions for improvement are not designed to detract from the worth of this report. Rather, I would express my exultation at the Daiwa Securities Group's exercise of leadership in promoting accountability to its stakeholders at this time when most Japanese companies have not issued a report on sustainable development.



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