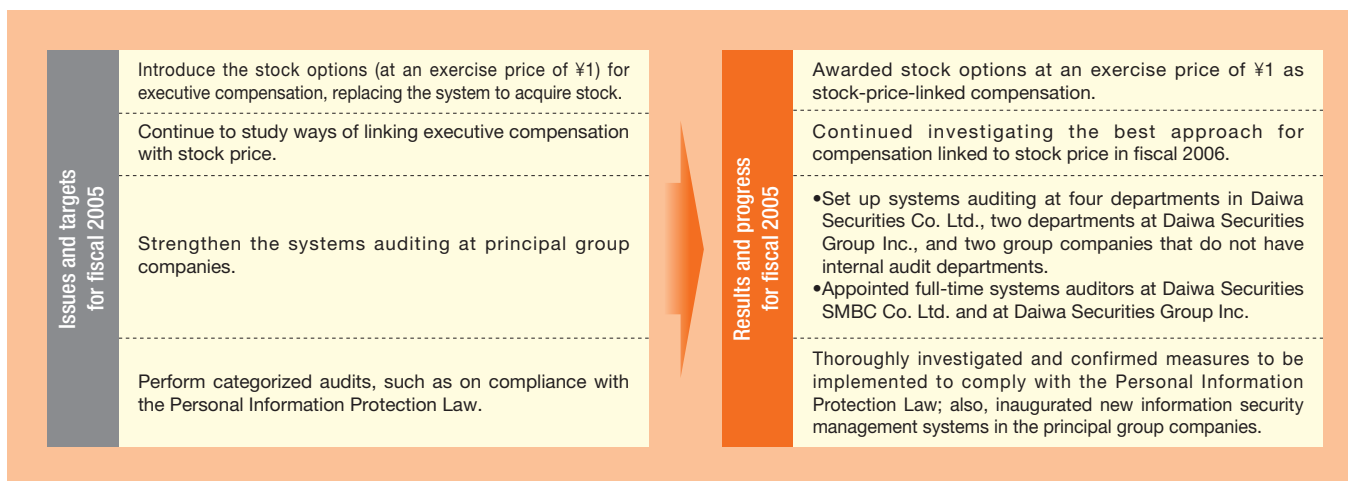


Corporate Governance

In order to maximize corporate value to its stakeholders, the Daiwa Securities Group is constantly improving its system of corporate governance to achieve greater management transparency and flexibility.



Daiwa Securities Group's approach to corporate governance

Corporate governance is how a company ensures the effective and efficient management of its business operations through the establishment of management policies, and the supervision and evaluation of top management. The Daiwa Securities Group moved to the committee system in June 2004. This was the Group's most important step toward achieving its goal of a highly transparent and agile management structure.

Corporate governance system

(1) Execution

The company is led by an Executive Committee comprising all the executive officers in the Daiwa Securities Group Inc; this committee deliberates and sets the overall group business strategy, group-wide management issues, and important financial matters. To expedite decision-making, the Executive Committee has been given the maximum authority permitted by law, without the need for prior review by the Board of Directors. As some of the Daiwa Securities Group Inc. corporate executive

officers also hold executive positions at each of the group companies, this provides a more unified and effective group management system.

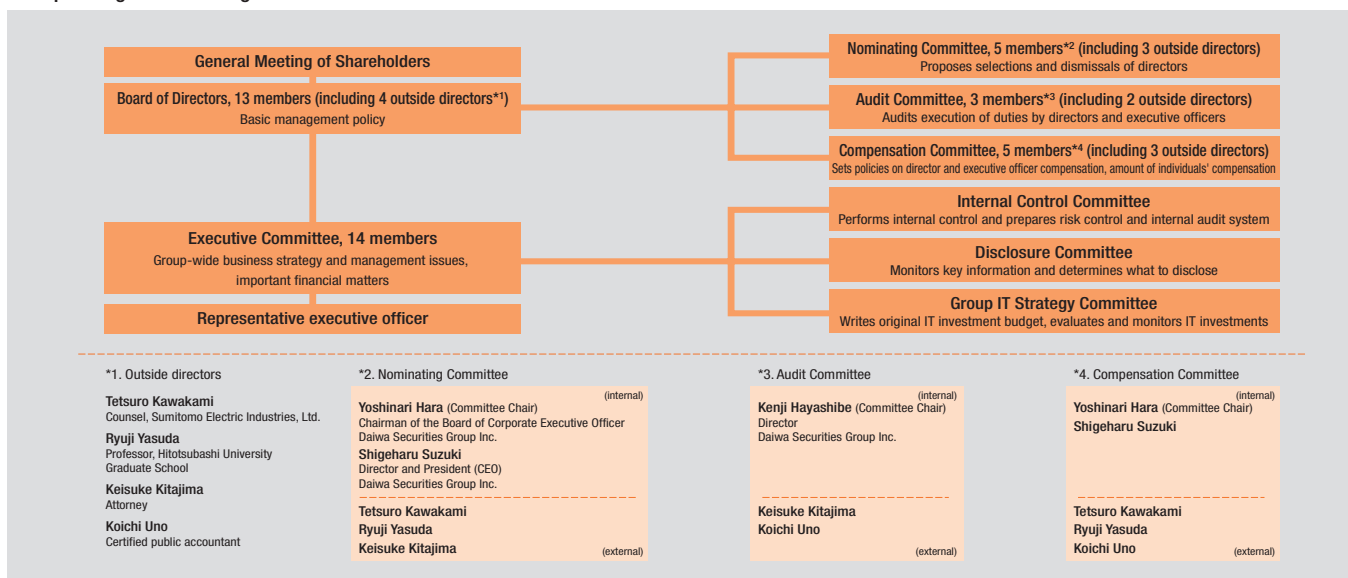
(2) Audit and supervision

Headed by the Chairman of the Board, the Board of Directors serves as the management supervisory body, and is composed of 13 members, including four outside directors. Within the Board of Directors are three committees in charge of nominations, audit, and compensation.

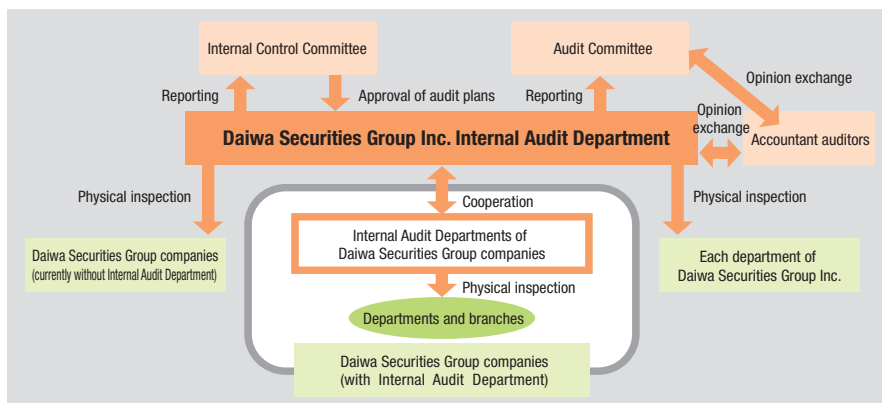
1. Nominating Committee

This committee performs investigations relating to the selection of director

• Corporate governance organization chart



• Internal audit system



candidates, as well as developing the basic approaches to director candidate nomination and deciding the composition of the Board of Directors, in accordance with corporate governance policies.

2. Audit Committee

This committee inspects the performance of internal control systems, and the decisionmaking of directors and corporate executive officers, based on the Audit Committee Audit Standards.

3. Compensation Committee

This committee studies incentive plans for the entire group, which are intended to improve the group's consolidated results. It also investigates and determines policies related to director compensation and individual compensation packages.

(3) Internal control

The Daiwa Securities Group aims to ensure 1) business effectiveness and efficiency, 2) reliability of financial reporting; and 3) compliance with laws and regulations. In order to achieve this, the Internal Audit Department, headed by the CEO of Daiwa Securities Group Inc., regularly coordinates with the internal audit departments in each of the principal group companies. Internal control is executed based on the regulations and ordinances applicable to each division. The internal audit plan and results are reported and approved by legal and compliance meetings at the principal group companies and by the Internal Control Committee, a subcommittee of the group's Executive Committee.

(4) Compensation of the directors and executive officers

Compensation for directors and executive officers includes base salaries, performance-based bonuses, and stock-price-linked bonuses. These categories are defined as follows.

1. Base

Base compensation is a fixed amount determined for the individual's position and responsibilities.

2. Performance-based

Performance-based compensation is determined by the assessed contribution of the individual to the company's success. It is measured through indicators such as the company's consolidated ordinary profit and return on equity (ROE), as well as other factors like customer assets under management, productivity, and customer satisfaction. Directors not serving as executive officers do not receive performance-based bonuses.

3. Stock-price-linked

In order to better align the executives' interests with those of its shareholders, the Group awards stock-price-linked compensation to its directors. The value of the stock options awarded is based on a fixed ratio according to the individual's base salary. Outside directors are not offered stock-price-linked bonuses.

■ **Fiscal 2005 initiatives**

(1) Stock-price-linked compensation

In order to align the executives' interests with those of its shareholders, in fiscal 2005, the previous system of outright gifts of stock

was abolished. It was replaced by a policy of allotting stock options to directors and executive officers at an exercise price of ¥1.

(2) Strengthening systems auditing

A scheme has been created to implement detailed systems audits on the principal group companies. In fiscal 2005, systems audits were carried out at four departments in Daiwa Securities Co. Ltd., two departments at Daiwa Securities Group Inc., and two group companies that do not have internal audit departments. Part of this effort was the appointment of full-time systems auditors at Daiwa Securities SMBC Co. Ltd. and at Daiwa Securities Group Inc.

(3) Enhancing the information security management approach

In September 2004 the management of information security, executed in accordance with the Minimum Standards for Information Security, was improved at the principal group companies to comply with the Personal Information Protection Law,.

(4) Measures for internal control reporting

Internal control reporting will take effect in the year ending March 31, 2009. The Group established a basic internal control policy when it moved over to the committee system and is now in the process of adapting its internal control for financial reporting to conform with the Internal Control Reporting System. A working team promotes the measures necessary for this system.

Future issues and fiscal 2006 targets

To improve the internal control reporting process, the Group will establish documentation and evaluation methods relating to financial reporting and implement them group-wide. The Daiwa Securities Group will improve its group management system; a group business continuity plan (BCP) and a performance evaluation framework will be created that reflect capital costs for each business division. It will also implement new measures for each group component to improve company structure and work procedures based on the new Japanese commercial law.