Consolidated Financial Statements

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Consolidated Balance Sheets

Daiwa Securities Group Inc.
March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2005	2004	2005
Cash and cash deposits (Note 9):			
Cash and cash equivalents	¥ 338,697	¥ 480,123	$ 3,165,393
Cash segregated as deposits for regulatory purposes	153,516	109,941	1,434,729
Other deposits	59,992	6,809	560,672
	552,205	596,873	5,160,794
Receivables:			
Loans receivable from customers	4,723	13,533	44,140
Loans receivable from other than customers	71,064	83,247	664,149
Trading receivables, net	9,420	580,674	88,037
Receivables related to margin transactions (Note 3)	312,145	235,535	2,917,243
Other	191,371	142,283	1,788,514
Less: Allowance for doubtful accounts	(328)	(355)	(3,065)
	588,395	1,054,917	5,499,018
Collateralized short-term financing agreements (Note 4)	5,348,916	4,391,437	49,989,869
Trading assets (Notes 5 and 9)	5,242,320	4,031,945	48,993,645
Private equity and other securities (Note 6)	142,547	87,367	1,332,215
Deferred tax assets (Note 15)	21,916	57,484	204,822
Other assets:			
Property and equipment, at cost	234,920	242,057	2,195,514
Less: Accumulated depreciation	(97,300)	(98,934)	(909,346)
	137,620	143,123	1,286,168
Lease deposits	23,410	25,523	218,785
Investment securities (Notes 6 and 9)	193,202	229,924	1,805,626
Long-term loans receivable (Note 10)	11,676	12,389	109,121
Other	125,301	147,003	1,171,040
Less: Allowance for doubtful accounts	(8,546)	(12,320)	(79,869)
	482,663	545,642	4,510,871
	¥ 12,378,962	¥ 10,765,665	$ 115,691,234

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Borrowings:			
Short-term borrowings (Notes 9, 10 and 13)	¥ 2,295,929	¥ 1,408,776	$ 21,457,280
Commercial paper	200,220	273,721	1,871,215
Long-term debt (Notes 10 and 13)	949,718	859,492	8,875,869
	3,445,867	2,541,989	32,204,364
Payables:			
Payables to customers and counterparties (Note 12)	288,688	174,537	2,698,019
Time deposits received	3,240	51,753	30,280
Payables related to margin transactions (Notes 3 and 9)	141,972	93,450	1,326,841
Other (Note 14)	21,338	19,823	199,421
	455,238	339,563	4,254,561
Collateralized short-term financing agreements (Note 4)	3,877,731	4,092,022	36,240,477
Trading liabilities (Note 5)	3,658,544	2,914,556	34,192,000
Accrued and other liabilities:			
Income taxes payable	10,596	15,406	99,028
Deferred tax liabilities (Note 15)	7,177	6,833	67,075
Accrued bonuses	22,811	19,376	213,187
Retirement benefits (Note 14)	20,273	18,867	189,467
Other	37,549	42,086	350,925
	98,406	102,568	919,682
Statutory reserves (Note 16)	5,650	5,133	52,804
Total liabilities	11,541,436	9,995,831	107,863,888
Minority interests	189,194	165,664	1,768,168
Contingent liabilities (Note 17)			
Shareholders' equity (Notes 18 and 19):			
Common stock, no par value;			
Authorized - 4,000,000 thousand shares			
Issued - 1,331,736 thousand shares as of March 31, 2005	138,432	138,432	1,293,757
Capital surplus	117,941	117,940	1,102,252
Retained earnings	362,949	330,780	3,392,047
Net unrealized gain on securities, net of tax effect	35,674	27,298	333,402
Translation adjustments	(5,877)	(9,590)	(54,925)
Treasury stock, at cost	(787)	(690)	(7,355)
Total shareholders' equity	648,332	604,170	6,059,178
	¥ 12,378,962	¥ 10,765,665	$ 115,691,234

Consolidated Statements of Operations

Daiwa Securities Group Inc.
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Operating revenues:				
Commissions (Note 21)	¥ 216,387	¥ 194,163	¥ 144,283	$ 2,022,308
Net gain on trading	151,290	122,013	91,307	1,413,925
Interest and dividend income (Note 10)	118,019	103,224	114,707	1,102,981
Service fees and other sales	33,641	34,414	37,362	314,402
	519,337	453,814	387,659	4,853,616
Interest expense (Note 10)	103,677	77,331	90,594	968,944
Cost of service fees and other sales	25,228	24,048	26,255	235,776
Net operating revenues (Note 20)	390,432	352,435	270,810	3,648,896
Selling, general and administrative expenses (Notes 20 and 22)	275,544	259,915	246,701	2,575,178
Operating income (Note 20)	114,888	92,520	24,109	1,073,718
Other income (expenses):				
Provision for statutory reserves, net (Note 16)	(518)	(1,241)	(960)	(4,841)
Other, net (Note 23)	(1,767)	(14,353)	(11,304)	(16,514)
	(2,285)	(15,594)	(12,264)	(21,355)
Income before income taxes and minority interests	112,603	76,926	11,845	1,052,363
Income taxes (Note 15):				
Current	11,933	15,170	2,671	111,523
Deferred	28,234	5,638	12,686	263,869
	40,167	20,808	15,357	375,392
Minority interests	(19,771)	(13,481)	(2,811)	(184,776)
Net income (loss)	¥ 52,665	¥ 42,637	¥ (6,323)	$ 492,195

	Yen			U.S. dollars (Note 1)
Per share amounts :				
Net income (loss)	¥ 39.03	¥ 31.66	¥ (4.75)	$ 0.36
Diluted net income	37.36	30.28	—	0.35
Cash dividends applicable to the year	13.00	10.00	6.00	0.12

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Daiwa Securities Group Inc.
Years ended March 31, 2005, 2004 and 2003

	Number of shares of common stock (thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Net unrealized gain (loss) on securities, net of tax effect	Translation adjustments	Treasury stock, at cost
Balance at March 31, 2002	1,331,735	¥ 138,432	¥ 117,786	¥ 311,719	¥ 12,696	¥ (7,511)	¥ (2,283)
Net loss				(6,323)			
Cash dividends paid				(7,971)			
Bonuses to directors				(15)			
Net losses on sales of treasury stock				(6)			
Net unrealized loss on securities, net of tax effect					(10,872)		
Translation adjustments						(3,810)	
Change in treasury stock, net							(123)
Balance at March 31, 2003	1,331,735	138,432	117,786	297,404	1,824	(11,321)	(2,406)
Net income				42,637			
Cash dividends paid				(7,970)			
Net gains on sales of treasury stock			154				
Decrease in retained earnings due to addition of a consolidated subsidiary				(1,291)			
Net unrealized gain on securities, net of tax effect					25,474		
Translation adjustments						1,731	
Change in treasury stock, net							1,716
Balance at March 31, 2004	1,331,735	138,432	117,940	330,780	27,298	(9,590)	(690)
Net income				52,665			
Cash dividends paid				(19,960)			
Conversion of convertible bonds	1	0	1				
Bonuses to directors				(536)			
Net unrealized gain on securities, net of tax effect					8,376		
Translation adjustments						3,713	
Change in treasury stock, net							(97)
Balance at March 31, 2005	1,331,736	¥ 138,432	¥ 117,941	¥ 362,949	¥ 35,674	¥ (5,877)	¥ (787)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized gain on securities, net of tax effect	Translation adjustments	Treasury stock, at cost
Balance at March 31, 2004	$ 1,293,757	$ 1,102,243	$ 3,091,401	$ 255,122	$ (89,630)	$ (6,446)
Net income			492,195			
Cash dividends paid			(186,541)			
Conversion of convertible bonds	0	9				
Bonuses to directors			(5,008)			
Net unrealized gain on securities, net of tax effect				78,280		
Translation adjustments					34,705	
Change in treasury stock, net						(909)
Balance at March 31, 2005	$ 1,293,757	$ 1,102,252	$ 3,392,047	$ 333,402	$ (54,925)	$ (7,355)

See accompanying notes.

Consolidated Statements of Cash Flows

Daiwa Securities Group Inc.
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Cash flows from operating activities:				
Net income (loss)	¥ 52,665	¥ 42,637	¥ (6,323)	$ 492,195
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	22,129	21,530	21,067	206,813
Provision for doubtful accounts, net	2,289	680	4,278	21,393
Provision for retirement benefits, net	1,402	2,979	3,038	13,103
Statutory reserves, net	518	1,241	960	4,841
Losses (Gains) related to investment securities	(2,687)	208	12,058	(25,112)
Losses (Gains) related to fixed assets	(351)	13,015	217	(3,280)
Reversal of provision for real estate business reorganization	—	—	(812)	—
Deferred income taxes	28,234	5,638	12,686	263,869
Minority interests	19,771	13,481	2,811	184,776
Changes in operating assets and liabilities:				
Receivables and payables related to margin transactions	(28,087)	(88,369)	29,123	(262,495)
Other receivables and other payables	77,878	(30,291)	(6,841)	727,832
Private equity and other securities	(44,197)	(6,944)	(9,517)	(413,056)
Trading assets and liabilities	111,198	1,224,767	(1,861,067)	1,039,234
Collateralized short-term financing agreements	(1,183,394)	(1,369,799)	2,113,920	(11,059,757)
Other assets	(85,700)	40,013	43,686	(800,935)
Other, net	9,656	4,994	5,305	90,244
Total adjustments	(1,071,341)	(166,857)	370,912	(10,012,530)
Net cash flows provided by (used in) operating activities	(1,018,676)	(124,220)	364,589	(9,520,335)

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Cash flows from investing activities:				
Increase in time deposits	¥ (53,041)	¥ —	¥ —	$ (495,710)
Payments for purchases of property and equipment	(7,786)	(8,147)	(6,107)	(72,766)
Proceeds from sales of property and equipment	5,315	6,144	21,115	49,673
Payments for purchases of investment securities	(35,693)	(36,972)	(63,955)	(333,579)
Proceeds from sales of investment securities	99,469	107,541	137,071	929,617
Decrease in long-term loans receivable	149	1,067	1,065	1,393
Other, net	(18,689)	2,154	(17,788)	(174,664)
Net cash flows provided by (used in) investing activities	(10,276)	71,787	71,401	(96,036)
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings	759,982	(66,936)	(416,057)	7,102,636
Increase (decrease) in long-term debt	14,788	(16,295)	(8,697)	138,206
Proceeds from issuance of notes	225,875	318,832	167,690	2,110,981
Payments for redemption of bonds and notes	(97,102)	(112,675)	(182,138)	(907,495)
Payments of cash dividends	(19,960)	(7,970)	(7,971)	(186,541)
Payments of cash dividends to minority shareholders	(168)	(2,328)	(89)	(1,570)
Other, net	454	1,779	(130)	4,238
Net cash flows provided by (used in) financing activities	883,869	114,407	(447,392)	8,260,455
Effect of exchange rate changes on cash and cash equivalents	3,819	(4,915)	(5,895)	35,692
Net increase (decrease) in cash and cash equivalents	(141,264)	57,059	(17,297)	(1,320,224)
Cash and cash equivalents at beginning of year	480,123	422,684	439,981	4,487,131
Increase (decrease) in cash equivalents due to addition of consolidated subsidiary	(162)	380	—	(1,514)
Cash and cash equivalents at end of year	¥ 338,697	¥ 480,123	¥ 422,684	$ 3,165,393
Supplemental information on cash flows:				
Cash paid (refunded) during the year for:				
Interest	¥ 103,440	¥ 74,077	¥ 92,311	$ 966,729
Income taxes	13,690	1,749	(13,002)	127,944

See accompanying notes.

Notes to Consolidated Financial Statements

Daiwa Securities Group Inc.
Three years ended March 31, 2005

1. Basis of financial statements

The consolidated financial statements include the accounts of Daiwa Securities Group Inc. ("Company"), a Japanese corporation, and subsidiaries (collectively "Daiwa"). Daiwa's principal subsidiaries include:

—Daiwa Securities Co. Ltd. ("Daiwa Securities")
—Daiwa Securities SMBC Co. Ltd. ("Daiwa Securities SMBC")
—Daiwa Asset Management Co. Ltd. ("Daiwa Asset Management")
—Daiwa Institute of Research Ltd. ("DIR")
—NIF Ventures Co., Ltd. ("NIF")

Daiwa Securities is the retail-securities arm of Daiwa. This company operates through a network of 123 branches as well as non-face-to-face channels, including the Internet and a full-fledged call center to provide on-line and telephone-based securities-related services. Daiwa Securities SMBC is the wholesale-securities company of Daiwa, which was established in April 1999 as a 60%-owned joint venture with Sumitomo Mitsui Financial Group, Inc. Daiwa Asset Management is the asset management company of Daiwa. In addition, Daiwa has several other overseas subsidiaries, mainly engaged in the securities business.

Daiwa is primarily engaged in the business of a securities broker-dealer, pursuant to which Daiwa provides services including brokerage, trading, underwriting, strategic advice, product development, and structured finance. In addition, Daiwa provides asset and capital management, venture capital, and research through a network in major capital markets and other services.

The Company and domestic consolidated subsidiaries maintain their official accounting records in yen. The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with generally accepted accounting principles in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The accounts of overseas consolidated subsidiaries are maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2005, which was ¥107 to U.S. $1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

Consolidation — The consolidated financial statements include the accounts of the Company and significant companies which are controlled by the Company through substantial ownership of more than 50% of the voting rights or through ownership of at least 40% and less than 50% of the voting rights and the existence of certain conditions evidencing control by the Company of the decision-making body of such companies.

In addition to investments in companies in excess of 20%, certain companies for which the Company has at least 15% and less than 20% of the voting rights and in cases where the Company has the ability to exercise significant influence over operating and financial policies of the investees are accounted for using the equity method.

Material inter-company balances, transactions and profits have been eliminated in consolidation.

Statements of cash flows — For purposes of consolidated statements of cash flows, the Company defines cash equivalents as highly liquid investments with original maturities of three months or less.

Trading assets and trading liabilities — Trading assets and liabilities including securities and financial derivatives for trading purposes held by a securities company are recorded on a trade date basis in the consolidated balance sheets at either market or fair value. Revenues and expenses related to trading securities transactions are recorded on a trade date basis. Changes in the market or fair values are reflected in "net gain on trading" in the accompanying consolidated statements of operations. Gains and losses generated from derivatives held or issued for trading purposes are also reported as "net gain on trading" in the accompanying consolidated statements of operations, which includes realized gains and losses as well as changes in the market values or fair values of such instruments. Securities owned for non-trading purpose are discussed below.

Securities other than trading assets and trading liabilities — Daiwa examines the intent of holding each securities and classifies those securities as (a) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies, or (c) all other securities not classified in any of the above categories ("available-for-sale securities").

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies are stated at moving-average cost. Available-for-sale securities with market value are stated at market value, based on quoted market prices. Realized gains and losses on sale of such securities are computed using the moving-average cost. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of the shareholders' equity.

Debt in available-for-sale securities for which a market value is not available, are stated at the amortized cost, net of the amount considered not collectible. Equity in available-for-sale securities for which a market value is not available, are stated at the moving-average cost.

If the market value of available-for-sale securities declines significantly, such securities are considered to be impaired and the difference between market value and the carrying amount is recognized as loss in the period of the decline. For available-for-sale securities, which do not have readily available market value, if the net book value declines significantly and if such decline is considered to be permanent, the difference between the carrying amount and the net book value is recognized as loss in the period of the decline. Impaired losses on these securities are reported in consolidated statements of operations.

Of those securities with no fair value, investments in limited partnerships and similar partnerships which are regarded as equivalent to securities by the Article2 (2) of Securities Exchange Act in 2004, share of net income raised by the partnership has been reflected on consolidated statements of operations of this fiscal year and share of net unrealized profits and losses held by the partnerships directly into stockholders' equity.

Under the amendment Securities Exchange Act in 2004, investments in limited partnerships and similar partnerships are regarded as securities. Accordingly, from this fiscal year, they are presented as securities. There were no effects to income (losses) by these changes.

Investments in private equity and other are separately presented as "private equity and other securities" in the accompanying consolidated balance sheets from this fiscal year, due to materiality of amounts. There were no effects to income (losses) by these changes.

Hedging transactions — Daiwa states derivative financial instruments at fair value and recognizes changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes. Valuation gains or losses on hedging instruments are mainly deferred as assets or liabilities until the gains or losses on the underlying hedged instruments are realized. Interest received or paid on interest swaps for hedging purposes is accrued without being marked-to-market. The premium or discount on foreign exchange forward for hedging purpose is allocated to each fiscal term without being marked-to-market.

Collateralized short-term financing agreements — Collateralized short-term financing agreements consist of securities purchased under agreements to resell ("resell transactions") or securities sold under agreements to repurchase ("repurchase transactions"), and securities borrowed or loaned. Repurchase transactions and resell transactions are carried at their contractual amounts. Securities borrowed or loaned are recorded at the amount of cash collateral advanced or received.

Provision for doubtful accounts — Provisions for doubtful accounts of the Company and domestic consolidated subsidiaries are provided based on the estimated historical default rate for normal loans, and based on individually assessed amounts for doubtful and failed loans. Overseas consolidated subsidiaries provide specifically assessed amounts for doubtful accounts.

Change in accounting policy - Early application of accounting standard for impairment of fixed assets — Effective from the year ended March 31, 2004, the Company and domestic consolidated subsidiaries made an early application of the new Japanese accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council of Japan on August 9, 2002) and the Implementation Guidance for Accounting Standard for Impairment of Fixed Assets (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003.)

As a result, income before income taxes and minority interests for the year ended March 31, 2004 decreased by ¥12,797 million compared with what would have been reported if the new accounting standard had not been early applied (See Note 23).

Property and equipment — Property and equipment are stated at cost. Impairment losses recognized have been deducted from the acquisition costs. The Company and domestic consolidated subsidiaries compute depreciation principally by the declining-balance method over estimated useful lives as stipulated by Corporation Tax Law of Japan. Depreciation for buildings purchased in Japan after April 1, 1998 is computed by the straight-line method. In overseas consolidated subsidiaries, depreciation is mainly computed by the straight-line method.

Intangible fixed assets — Intangible fixed assets are generally amortized under the straight-line method. The Company and domestic consolidated subsidiaries compute amortization over estimated useful lives as stipulated by Corporation Tax Law of Japan, and over internally estimated useful lives (5 years) for software of in-house use.

Bonuses — The Company and domestic consolidated subsidiaries follow the Japanese practice of paying bonuses to employees in June and December. Accrued employees' bonuses represent liabilities estimated as of the balance sheet date. Bonuses to directors and corporate executive officers of the Company, which are subject to approval at the Compensation Committee, represent liabilities as of the balance sheet date. Compensation Committee sets policies for deciding compensation of individual directors and corporate executive officers and determines compensation content for each individual. The Chairman of the Board chairs the committee, while three out of five committee members are outside directors. Bonuses to directors of consolidated subsidiaries, which are subject to approval at the shareholders' meeting, are accounted for as an appropriation of retained earnings.

Retirement benefits for employees — Daiwa has various benefit plans for eligible employees such as unfunded plan and closed funded plan.

Provision for real estate business reorganization — In 2002, the Company decided to withdraw from real estate business engaged by certain domestic consolidated subsidiaries. Book values of the related properties were written down to their estimated net realizable value. On October 26, 2001, the Company's Board of Directors approved a resolution to reorganize such real estate business and to initiate a financial assistance plan to those subsidiaries, including capital injection. The provision for real estate reorganization is based on anticipated financial assistance as of March 31, 2002. In the year ended March 31, 2003, such real estate reorganization was completed, and the residual portion of the provision was reversed.

Income taxes — Income taxes consist of corporation, enterprise and inhabitants taxes. The provision for income taxes is computed based on the pretax income of each of the Company and consolidated subsidiaries with certain adjustments, if necessary.

Income tax consequences of amounts that will become taxable or deductible in future years are recorded as deferred tax assets and liabilities, which are generally raised from the difference between statutory accounting and tax accounting. Daiwa recognizes deferred tax assets to the extent of amounts reasonably expected to be realized in future.

Starting from this fiscal year, the consolidated tax payments system was applied designating the Company and NIF as parent companies of the consolidated tax payments. Daiwa Securities SMBC has applied the consolidated tax payments system as parent company since the year ended March 31, 2003.

Translation of foreign currencies — The Company and domestic consolidated subsidiaries translate assets and liabilities in foreign currencies into yen at the year-end exchange rate.

Translation of foreign currency financial statements — Financial statements of overseas consolidated subsidiaries are translated into yen on the basis of the year-end exchange rates for assets and liabilities except that retained earnings are translated at historical rates. Income and expenses are translated at the average exchange rates of the applicable year. The resulting differences are reported as translation adjustments in "shareholders' equity" in the accompanying consolidated balance sheets.

Net income (loss) per share — Net income (loss) per share of common stock is based on the average number of common shares outstanding.

Diluted net income per share is computed based on the average number of common shares outstanding for the year plus the number of shares of common stock that would have been issued had the outstanding dilutive convertible bonds been converted at the beginning of the year. Diluted net income for the year ended March 31, 2003 is not presented, since net loss is reported in the consolidated statements of operations.

Reclassification — Certain reclassifications have been made in the 2004 and 2003 consolidated financial statements to conform to the presentation for 2005.

3. Margin transactions

Margin transactions at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Assets:			
Customer margin loans	¥ 126,687	¥ 92,832	$ 1,183,991
Cash deposits as collateral for securities borrowed	185,458	142,703	1,733,252
	¥ 312,145	¥ 235,535	$ 2,917,243
Liabilities:			
Payable to securities finance companies	¥ 2,981	¥ 3,636	$ 27,860
Proceeds of securities sold for customers' accounts	138,991	89,814	1,298,981
	¥ 141,972	¥ 93,450	$ 1,326,841

Customer margin loans are stated at amounts equal to the purchase amounts of the relevant securities, which are collateralized by customers' securities and customers' deposits. Proceeds of securities sold for customers' accounts are stated at the sales amounts.

4. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Assets:			
Securities purchased under agreements to resell	¥ 1,575,907	¥ 1,579,194	$ 14,728,103
Securities borrowed	3,773,009	2,812,243	35,261,766
	¥ 5,348,916	¥ 4,391,437	$ 49,989,869
Liabilities:			
Securities sold under agreements to repurchase	¥ 2,006,465	¥ 2,410,986	$ 18,752,009
Securities loaned	1,871,266	1,681,036	17,488,468
	¥ 3,877,731	¥ 4,092,022	$ 36,240,477

5. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Trading assets:			
Equities	¥ 332,397	¥ 257,410	$ 3,106,514
Government, corporate and other bonds	4,187,216	3,119,109	39,132,860
Investment trusts	130,575	111,193	1,220,327
Commercial paper, certificates of deposits and others	40,360	42,205	377,196
Option transactions	46,303	59,274	432,738
Futures and forward transactions	16,162	28,100	151,047
Swap agreements	490,546	414,779	4,584,542
Other derivatives	659	1,825	6,159
Credit reserves	(1,898)	(1,950)	(17,738)
	¥ 5,242,320	¥ 4,031,945	$ 48,993,645
Trading liabilities:			
Equities	¥ 98,690	¥ 94,128	$ 922,336
Government, corporate and other bonds	3,094,627	2,350,637	28,921,748
Investment trusts	3,316	795	30,991
Option transactions	69,551	85,106	650,009
Futures and forward transactions	13,463	21,727	125,822
Swap agreements	378,513	361,885	3,537,505
Other derivatives	384	278	3,589
	¥ 3,658,544	¥ 2,914,556	$ 34,192,000

6. Securities other than trading assets and trading liabilities

Securities other than trading assets and trading liabilities is composed of "private equity and other securities" and "investment securities" in the accompanying consolidated balance sheets.

Cost/amortized cost and market value of held-to-maturity debt securities as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen		
	Cost/amortized cost	Market value	Difference
Government bonds, local government bonds at March 31, 2005	¥ 2,126	¥ 2,118	¥ (8)
Government bonds, local government bonds at March 31, 2004	¥ 0	¥ 0	¥ 0

	Thousands of U.S. dollars		
	Cost/amortized cost	Market value	Difference
Government bonds, local government bonds at March 31, 2005	$ 19,869	$ 19,794	$ (75)

Cost and market value of available-for-sale securities as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen		
	Cost	Market value	Difference
March 31, 2005:			
Equities	¥ 74,394	¥ 137,744	¥ 63,350
Government, corporate and other bonds	150	153	3
Other	13,698	14,111	413
	¥ 88,242	¥ 152,008	¥ 63,766
March 31, 2004:			
Equities	¥ 61,882	¥ 109,244	¥ 47,362
Government, corporate and other bonds	18,554	18,301	(253)
Other	6,827	6,909	82
	¥ 87,263	¥ 134,454	¥ 47,191

	Thousands of U.S. dollars		
	Cost	Market value	Difference
March 31, 2005:			
Equities	$ 695,270	$ 1,287,326	$ 592,056
Government, corporate and other bonds	1,402	1,430	28
Other	128,019	131,879	3,860
	$ 824,691	$ 1,420,635	$ 595,944

Securities for which a market value is not readily available as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Equities	¥ 53,210	¥ 52,628	$ 497,290
Government, corporate and other bonds	501	12,205	4,682
Investments in limited partnerships	84,622	55,642	790,860
Other	19,065	42,440	178,178
	¥ 157,398	¥ 162,915	$ 1,471,010

In addition to the above, equity securities of non-consolidated and affiliated companies amounting to ¥24,217 million ($226,327 thousand) at March 31, 2005 and ¥19,922 million at March 31, 2004, respectively, were included in "investment securities" in the accompanying consolidated balance sheets.

7. Derivatives for non-trading purposes

Net unrealized gain(loss) of derivatives for non-trading purposes at March 31, 2005 and 2004 (excluding hedging transactions) consisted of the following:

	Millions of yen		
	Contract amount	Market value	Unrealized gains (losses)
March 31, 2005:			
Currency swap	¥ 11,237	¥ 1	¥ 1
Foreign exchange forward	52	(0)	(0)
March 31, 2004:			
Currency swap	¥ 8,704	¥ (12)	¥ (12)
Foreign exchange forward	2	0	0

	Thousands of U.S. dollars		
	Contract amount	Market value	Unrealized gains (losses)
March 31, 2005:			
Currency swap	$ 105,019	$ 9	$ 9
Foreign exchange forward	486	(0)	(0)

8. Risk management information concerning trading transactions

The two domestic securities subsidiaries, Daiwa Securities and Daiwa Securities SMBC (“Securities subsidiaries”), enter into transactions involving trading assets and liabilities to meet customer needs, and for their proprietary trading activities, as a broker and an end-user. These trading assets and liabilities include (1) shares and bonds, (2) financial derivatives traded on exchanges such as futures and options based on stock price indices, bonds and interest rates, and (3) financial derivatives traded over the counter such as currency and interest rate swaps, foreign exchange forward contracts, bonds with options, currency options, forward rate agreements and OTC equity derivatives.

The principal risks inherent in trading in these markets are market risk and credit risk. Market risk represents the potential for loss from changes in the value of financial instruments due to price and interest rate fluctuations in the markets. As to market risk, Daiwa Securities SMBC determines the balance of risk and profit or loss on each instrument and uses a value-at-risk method to manage this risk. Credit risk represents the potential for loss arising from the failure of the counter-party in a transaction to fulfill its terms and conditions. Securities subsidiaries assess the credit risk of their counter-parties applying internal credit rating and monitor their exposure by measuring notional principal and credit exposure.

Daiwa Securities SMBC has established five risk management policies: Active management participation, system of internal supervision, sound management by risk limit setting, risk management assuming emergency, and transparency in risk management process. By ensuring these five policies, Daiwa Securities SMBC expects that risks associated with trading activities are well controlled within a range of risk that the management is willing to assume.

9. Pledged assets

At March 31, 2005, short-term borrowings amounting to ¥1,817,500 million ($16,985,981 thousand) and payables related to margin transaction amounting to ¥2,981 million ($27,860 thousand) were secured by the following assets:

	Millions of yen	Thousands of U.S. dollars
Cash and cash deposits	¥ 16,652	$ 155,626
Trading assets	1,567,882	14,653,103
Investment securities	77,980	728,785
	¥ 1,662,514	$ 15,537,514

In addition to above, securities borrowed amounting to ¥674,258 million ($6,301,477 thousand) were pledged as guarantee at March 31, 2005.

Total fair value of the securities pledged as collateral at March 31, 2005 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Securities loaned	¥ 6,016,857	$ 56,232,309
Other	704,772	6,586,654
	¥ 6,721,629	$ 62,818,963

Total fair value of the securities received as collateral at March 31, 2005 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Securities borrowed	¥ 8,281,409	$ 77,396,346
Other	209,867	1,961,374
	¥ 8,491,276	$ 79,357,720

10. The Company's transactions with related parties

One of the Company's statutory auditors, who retired on June 23, 2004, was the chairman of the Taiyo Life Insurance Company and the chairman of T&D Holdings, Inc. The significant account balances with the Taiyo Life Insurance Company at June 23, 2004 were long-term loans receivable amounting to ¥5,000 million ($46,729 thousand), short-term borrowings amounting to ¥2,000 million ($18,692 thousand) and long-term debt amounting to ¥10,000 million ($93,458 thousand). The Company paid ¥51 million ($477 thousand) as interest expenses and received ¥41 million ($383 thousand) as interest income from April 1, 2004 to June 23, 2004. Interest payables and interest receivables at June 23, 2004 were ¥48 million ($449 thousand) and ¥6 million ($56 thousand), respectively.

11. Lease transactions

Financial leases, whose ownership does not transfer to the lessee at the end of the lease term are not capitalized and are accounted for in the same manner as operating leases.

Certain information concerning such non-capitalized finance leases and operating leases at March 31, 2005 and 2004 is summarized as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Non-capitalized finance leases:			
Total assets under non-capitalized finance leases	¥ 9,573	¥ 14,359	$ 89,467
Accumulated depreciation	4,869	7,830	45,505
Accumulated loss on impairment	—	2	—
Future lease payments in respect of non-capitalized leases	4,791	6,643	44,776
Due within one year	1,807	2,605	16,888
Operating leases:			
Future lease payments in respect of operating leases	11,284	11,981	105,458
Due within one year	1,922	1,892	17,963

Lessor:	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Operating leases:			
Future lease receipts in respect of operating leases	¥ 871	¥ 1,567	$ 8,140
Due within one year	233	325	2,178

12. Payables to customers and counterparties

Payables to customers at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash received for customers' accounts	¥ 92,574	¥ 80,527	$ 865,178
Cash deposits received from customers	53,303	49,208	498,159
Other	142,811	44,802	1,334,682
	¥ 288,688	¥ 174,537	$ 2,698,019

13. Bank borrowings and long-term debt

As is customary in Japan, in the case of unsecured bank borrowings, security must be given under certain conditions if requested by a lending bank. The bank has the right to offset cash deposited by the borrower against any debt or obligation that becomes due, and in the case of default and certain other specified events, against all debts payable to the bank. As of this date, no such request has been made and no such right has been exercised.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Bond payable in yen: 1.4% due 2005	¥ 100,000	¥ 100,000	$ 934,579
Bond payable in yen: 0.95% due 2008	120,000	120,000	1,121,495
Convertible bond payable in yen, convertible into common stock at ¥1,094.00 per share: 0.5% due 2006	79,986	79,986	747,533
Bond with warrants exercisable at ¥1,345.00 per share: 1.37% due 2004	—	8,400	—
Notes payable in yen issued by subsidiaries: 5.0% subordinated due 2005	—	1,011	—
Euro medium-term notes issued by the Company and domestic consolidated subsidiaries with various rates and maturities through 2035	569,429	424,132	5,321,766
Euro medium-term notes issued by overseas subsidiaries with various rates and maturities through 2007	6,108	13,149	57,084
Yen subordinated loan due 2006	20,000	40,000	186,916
Borrowings from financial institutions	54,195	72,809	506,496
Other	—	5	—
	¥ 949,718	¥ 859,492	$ 8,875,869

The conversion price and exercise price shown above are subject to adjustment in certain circumstances.

The aggregate annual maturities of long-term debt as of March 31, 2005 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 129,402	$ 1,209,364
2007	125,086	1,169,028
2008	36,616	342,206
2009	15,200	142,056
2010	8,789	82,140
2011 and thereafter	634,625	5,931,075
	¥ 949,718	$ 8,875,869

Daiwa has unused committed bank facilities amounting to ¥131,522 million ($1,229,178 thousand) under agreements with several banks at March 31, 2005.

14. Retirement benefits

Retirement benefits for employees

Daiwa has various retirement benefit plans for eligible employees as follows:

Unfunded plan

The Company and most of domestic consolidated subsidiaries provide an unfunded defined contribution plan to their employees in return for services rendered each year, where the amount to be contributed to the individual employee's account is defined by the plan. Contributions by the Company and most of domestic consolidated subsidiaries under the unfunded defined contribution plan are accumulated on an annual basis and earn a guaranteed hypothetical return at a rate predetermined by the Company and most of domestic consolidated subsidiaries each year. Accumulated contribution plus interest to this unfunded plan are included in retirement benefits in the consolidated balance sheets as of March 31, 2005 and 2004, in the amount of ¥16,121 million ($150,664 thousand) and ¥ 14,735 million, respectively. Benefit expenses recorded in the statements of operations for the years ended March 31, 2005, 2004 and 2003 were ¥2,946 million ($27,533 thousand), ¥3,278 million and ¥2,915 million, respectively.

Closed funded plan

The Company and domestic consolidated subsidiaries closed their defined benefit plan as of April 1, 1999 and accordingly, no new employees have been added to the plan and no service cost has been charged for the plan. The effect on the consolidated financial statements was immaterial.

Retirement benefits for directors

Directors' retirement benefits in consolidated subsidiaries of ¥1,100 million ($10,280 thousand) and ¥1,565 million are included in "retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2005 and 2004, respectively. Benefit expenses recorded in the consolidated statements of operations for the years ended March 31, 2005, 2004 and 2003 were ¥439 million ($4,103 thousand), ¥368 million and ¥509 million, respectively.

The board of the Company resolved to abolish the retirement gratuities system for retiring directors in May 2004. In June 2004, the shareholder's meeting of the Company approved the payments of retirement allowance to Directors who were nominated for re-election. The payments will be made in accordance with standards prescribed by the Company and service rendered to the Company during their respective terms of office up to the end of the shareholder's meeting. The payments will be made at the time of their respective retirements from the Board of Directors. In consequence, the Company's directors' retirement benefits of ¥291 million ($2,720 thousand) were reclassified from "retirement benefits" to "payable: other" in the accompanying consolidated balance sheet as of March 31, 2005.

15. Income taxes

The Company and domestic consolidated subsidiaries are subject to a number of taxes levied on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 40.7%, 42.1% and 42.1% for the years ended March 31, 2005, 2004 and 2003, respectively.

Due to the revised local tax law issued on March 31, 2003, effective for the year commencing on April 1, 2004 or later, assessment by estimation on the basis of the size of business such as the added value and the shareholders' equity was introduced, and income tax rates for enterprise taxes were reduced. Taking into consideration the future change in income tax rates, the Company and domestic consolidated subsidiaries used the tax rates of approximately 42.1% and 40.5% for current items and non-current items, respectively, at March 31, 2003, for their calculation of deferred tax assets and liabilities. The tax rate of 40.5% represents the estimated tax rate of the revised local tax law, since it was still subject to minor detailed clarification. Thus, as at March 31, 2003, the estimated revised tax rate had been subject to change. As the result of the anticipated change in the tax rates as at March 31, 2003, "deferred tax assets" decreased by ¥2,208 million and "income tax-deferred" and "net unrealized gain on securities, net of tax effect," increased by ¥2,271 million and ¥63 million, respectively, compared with what would have been recorded under the previous local tax law.

After the clarification of the local tax law, the new tax rate for the year beginning April 1, 2004 was finalized at approximately 40.7%. Taking into account the finalized income tax rates, the Company and domestic consolidated subsidiaries used the tax rates of approximately 40.7% for current and non-current items at March 31, 2004 for the calculation of deferred tax assets and liabilities. Due to the change in the tax rates, "deferred tax assets" increased by ¥158 million and "income tax-deferred" and "net unrealized gain on securities, net of tax effect," decreased by ¥260 million and ¥101 million, respectively, compared with what would have been recorded under the previous local tax law.

Overseas consolidated subsidiaries are subject to income taxes of the countries in which they operate.

Details of deferred tax assets and liabilities at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Deferred tax assets:			
Net operating losses carried-forward	¥ 46,059	¥ 116,984	$ 430,458
Write-down of investment securities	13,232	12,922	123,664
Temporary difference of investment in consolidated subsidiaries	51,979	—	485,785
Expenses for real estate business reorganization	913	7,459	8,533
Employees' retirement benefits	8,231	7,232	76,925
Employees' compensation and bonuses	7,931	6,979	74,121
Provision for doubtful accounts	4,406	5,285	41,178
Other	21,347	26,003	199,504
Gross deferred tax assets	154,098	182,864	1,440,168
Less: Valuation allowance	(107,348)	(108,584)	(1,003,252)
Total deferred tax assets	46,750	74,280	436,916
Deferred tax liabilities	32,011	23,629	299,169
Net deferred tax assets	¥ 14,739	¥ 50,651	$ 137,747

The Company and certain consolidated subsidiaries provided a valuation allowance to reflect the estimated unrealized amount of gross deferred tax assets.

A reconciliation of the difference between the statutory income tax rate and the effective income tax rate reflected in the consolidated statements of operations for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen	
	2005	2004
Japanese statutory income tax rate	40.7%	42.1%
Valuation allowance	(7.0)	(12.5)
Permanent difference (Non-deductible)	1.2	1.3
Permanent difference (Non-taxable)	(0.6)	(0.9)
Lower tax rate applicable to income of overseas consolidated subsidiaries	(0.8)	(1.7)
Adjustment of unrealized gain	3.8	—
Other, net	(1.6)	(1.2)
Effective income tax rate	35.7%	27.1%

Reconciliation of the difference between the statutory income tax rate and the effective income tax rate for the years ended March 31, 2003 is not presented, since net loss is reported in the consolidated statements of operations.

16. Statutory reserves

The Securities and Exchange Law of Japan requires a securities company to set aside a reserve in proportion to its securities transactions and other related trading to cover possible customer losses incurred by default of the securities company on securities transactions.

17. Contingent liabilities

At March 31, 2005, Daiwa had contingent liabilities amounting to ¥3,514 million ($32,841 thousand), mainly arising as guarantors of employees' borrowings.

18. Shareholders' equity

In principle, the Commercial Code of Japan ("Code") requires a company to credit entire amount of issued shares to common stock (and preferred stock, if any); however, a company may classify the amount not exceeding one-half of the entire issued amount of shares as additional paid-in capital, which is included in capital surplus with a resolution of the Board of Directors.

According to the Code, a company should save 10% of cash dividends and other cash appropriated as legal earnings reserve until its amount together with capital surplus become up to one quarter of common stock (and preferred stock, if any). The legal earnings reserve is allowed to eliminate or reduce a deficit with a resolution of the shareholders' meeting or may be capitalized with a resolution of the Board of Directors. The excess amount of legal earnings reserve of one quarter of capital requirement is available for appropriation with a resolution of shareholders' meeting. The legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Code. The total amount of retained earnings available for dividends in the Company's statutory book of account as of March 31, 2005 amounted to ¥243,297 million ($2,273,804 thousand).

The Article 293-5 of the Code permits a company to distribute profits by way of interim dividends if the articles of incorporation of a company so provide. The Company's articles of incorporation were amended by the resolution at the shareholders meeting held on June 23, 2004 in order to permit the Company to implement interim dividends. Interim cash dividends of ¥5 ($0.05) per share amounting to ¥6,653 million ($62,178 thousand) were approved by the Board of Directors held on October 26, 2004. Using the newly introduced committee system, the Board of Directors is to determine the year-end dividends. Year-end cash dividends of ¥8($0.07) per share amounting to ¥13,307 million ($124,363 thousand) were approved by the Board of Directors held on May 19, 2005

The shareholders of the Company approved a stock incentive plan on June 23, 2004. The plan provides for the issuance of up to 4,500 thousand shares in the form of options to directors and key employees. The options may be exercised during the period from July 1, 2006 until June 23, 2014, and the exercise price is determined at the grant date. On the same day, the shareholders' meeting of the Company approved a change in the articles of incorporation so that the Company may be entitled to repurchase its shares by the resolution of its Board of Directors.

The shareholders of the Company approved a stock incentive plan on June 24, 2005. There are two kinds of stock subscription rights as stock options to directors, executive officers and employees. The first is the stock subscription rights that were issued free to directors and executive officers of the Company and subsidiaries, and the amount paid in upon exercise of such subscription rights is ¥1 per share. The second is the stock subscription rights that shall be issued to employees of the Company, and of affiliated companies, and to directors and executive officers of the Company's affiliated companies, excluding the persons to whom the first stock subscription rights were issued. The amount paid in upon exercise of such subscription rights shall be determined based on the market price of the Company's common stock at the time of the issuance of such subscription rights.

19. Capital adequacy requirements

In Japan, the securities company is subject to risk-based capital adequacy rules established and administered by the Financial Services Agency. Securities subsidiaries report their capital adequacy ratio as defined pursuant to these rules. The authorities will take certain administrative measures if such ratio declines below 140%. Capital adequacy ratios of Daiwa Securities were 351.3% (unaudited) and 363.3% (unaudited) for 2005 and 2004, respectively, and those of Daiwa Securities SMBC were 355.6% (unaudited) and 336.9% (unaudited) for 2005 and 2004, respectively.

20. Segment information

Daiwa operates predominantly in a single industry segment. The Company and its consolidated subsidiaries' primary business activities include (1) trading in securities and derivatives, (2) brokerage of securities and derivatives, (3) underwriting and distribution of securities, (4) other business related to securities transactions and (5) private offering of securities.

A summary of revenues by geographic area for the years ended March 31, 2005, 2004 and 2003 and a summary of total assets by geographic area at March 31, 2005 and 2004 were as follows:

	Millions of yen					
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended March 31, 2005:						
Net operating revenues:						
Outside customer	¥ 353,827	¥ 3,971	¥ 25,378	¥ 7,256	¥ —	¥ 390,432
Inter-segment	(2,370)	6,641	5,027	1,278	(10,576)	—
Total	351,457	10,612	30,405	8,534	(10,576)	390,432
Selling, general and administrative expenses	244,543	10,595	24,203	6,781	(10,578)	275,544
Operating income	¥ 106,914	¥ 17	¥ 6,202	¥ 1,753	¥ 2	¥ 114,888
At March 31, 2005:						
Total assets by geographic area	¥ 10,078,853	¥ 2,098,376	¥ 811,192	¥ 62,560	¥ (672,019)	¥ 12,378,962
Year ended March 31, 2004:						
Net operating revenues:						
Outside customer	¥ 314,190	¥ 7,749	¥ 23,956	¥ 6,540	¥ —	¥ 352,435
Inter-segment	1,389	3,468	3,413	1,132	(9,402)	—
Total	315,579	11,217	27,369	7,672	(9,402)	352,435
Selling, general and administrative expenses	232,269	10,197	20,413	6,111	(9,075)	259,915
Operating income	¥ 83,310	¥ 1,020	¥ 6,956	¥ 1,561	¥ (327)	¥ 92,520
At March 31, 2004:						
Total assets by geographic area	¥ 8,617,452	¥ 1,948,621	¥ 768,712	¥ 63,531	¥ (632,651)	¥ 10,765,665
Year ended March 31, 2003:						
Net operating revenues:						
Outside customer	¥ 237,465	¥ 6,977	¥ 21,130	¥ 5,238	¥ —	¥ 270,810
Inter-segment	2,254	700	2,201	624	(5,779)	—
Total	239,719	7,677	23,331	5,862	(5,779)	270,810
Selling, general and administrative expenses	215,665	11,081	19,945	5,795	(5,785)	246,701
Operating income (loss)	¥ 24,054	¥ (3,404)	¥ 3,386	¥ 67	¥ 6	¥ 24,109

	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
	Thousands of U.S. dollars					
Year ended March 31, 2005:						
Net operating revenues:						
Outside customer	$ 3,306,794	$ 37,112	$ 237,178	$ 67,812	$ —	$ 3,648,896
Inter-segment	(22,149)	62,065	46,981	11,944	(98,841)	—
Total	3,284,645	99,177	284,159	79,756	(98,841)	3,648,896
Selling, general and administrative expenses	2,285,449	99,019	226,196	63,374	(98,860)	2,575,178
Operating income	$ 999,196	$ 158	$ 57,963	$ 16,382	$ 19	$ 1,073,718
At March 31, 2005:						
Total assets by geographic area	$ 94,194,888	$ 19,610,991	$ 7,581,234	$ 584,673	$ (6,280,552)	$ 115,691,234

Geographic overseas revenues for the years ended March 31, 2005, 2004 and 2003 were as follows:

	America	Europe	Asia & Oceania	Total
	Millions of yen			
Year ended March 31, 2005:				
Overseas revenue	¥ 8,552	¥ 21,149	¥ 8,890	¥ 38,591
Total revenue				390,432
% of total revenue	2.2%	5.4%	2.3%	9.9%
Year ended March 31, 2004:				
Overseas revenue	¥ 10,945	¥ 20,353	¥ 8,249	¥ 39,547
Total revenue				352,435
% of total revenue	3.1%	5.8%	2.3%	11.2%
Year ended March 31, 2003:				
Overseas revenue	¥ 8,144	¥ 21,589	¥ 6,951	¥ 36,684
Total revenue				270,810
% of total revenue	3.0%	8.0%	2.5%	13.5%

	America	Europe	Asia & Oceania	Total
	Thousands of U.S. dollars			
Year ended March 31, 2005:				
Overseas revenue	$ 79,925	$ 197,654	$ 83,084	$ 360,663
Total revenue				3,648,896
% of total revenue	2.2%	5.4%	2.3%	9.9%

21. Commissions

Commissions derived from each department for the years ended March 31, 2005, 2004 and 2003 were as follows:

	Millions of yen					
	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Year ended March 31, 2005:						
Brokerage	¥ 81,919	¥ 1,464	¥ 159	¥ —	¥ —	¥ 83,542
Underwriting	—	—	—	54,744	—	54,744
Distribution	—	—	19,688	3,598	—	23,286
Other	1,968	2,800	25,793	12,828	11,426	54,815
	¥ 83,887	¥ 4,264	¥ 45,640	¥ 71,170	¥ 11,426	¥ 216,387
Year ended March 31, 2004:						
Brokerage	¥ 78,194	¥ 1,242	¥ 209	¥ —	¥ —	¥ 79,645
Underwriting	—	—	—	46,094	—	46,094
Distribution	—	—	21,904	1,662	—	23,566
Other	1,867	3,977	20,933	8,049	10,032	44,858
	¥ 80,061	¥ 5,219	¥ 43,046	¥ 55,805	¥ 10,032	¥ 194,163
Year ended March 31, 2003:						
Brokerage	¥ 45,403	¥ 1,163	¥ 276	¥ —	¥ —	¥ 46,842
Underwriting	—	—	—	27,946	—	27,946
Distribution	—	—	14,059	608	—	14,667
Other	1,839	3,422	26,535	11,084	11,948	54,828
	¥ 47,242	¥ 4,585	¥ 40,870	¥ 39,638	¥ 11,948	¥ 144,283

	Thousands of U.S. dollars					
	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Year ended March 31, 2005:						
Brokerage	$ 765,598	$ 13,682	$ 1,486	$ —	$ —	$ 780,766
Underwriting	—	—	—	511,626	—	511,626
Distribution	—	—	184,000	33,626	—	217,626
Other	18,393	26,168	241,056	119,888	106,785	512,290
	$ 783,991	$ 39,850	$ 426,542	$ 665,140	$ 106,785	$ 2,022,308

22. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2005, 2004 and 2003 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Employees' compensation and benefits	¥ 142,751	¥ 136,964	¥ 123,904	$ 1,334,122
Commissions and brokerage	19,607	14,573	14,867	183,243
Communications	18,174	17,444	17,317	169,851
Occupancy and rental	32,697	32,519	33,348	305,579
Data processing and office supplies	16,805	14,899	14,708	157,056
Taxes other than income taxes	6,756	5,617	4,671	63,140
Depreciation and amortization	22,129	21,530	21,067	206,813
Other	16,625	16,369	16,819	155,374
	¥ 275,544	¥ 259,915	¥ 246,701	$ 2,575,178

23. Other income (expenses)

Details of "Other, net" in the accompanying consolidated statements of operations for the years ended March 31, 2005, 2004 and 2003 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Gains on sales of investment securities	¥ 5,559	¥ 6,704	¥ 8,241	$ 51,953
Write-down of investment securities	(3,472)	(2,691)	(20,298)	(32,449)
Valuation losses on fixed assets	(114)	(58)	(272)	(1,065)
Gains or losses on sale or disposal of fixed assets	465	(159)	55	4,346
Losses on sales of loans receivable	(7,595)	(557)	—	(70,981)
Reversal of stock purchase warrant	502	—	—	4,692
Multiemployer pension plan settlement cost in consolidated subsidiaries	(188)	—	—	(1,757)
Provision for doubtful accounts	(1,639)	(648)	(4,152)	(15,318)
Reversal of reorganization expenses for real estate operations	—	—	812	—
Equity in earnings of affiliates	1,894	90	265	17,701
Impairment losses on fixed assets	—	(12,797)	—	—
Losses on liquidation of affiliates	(51)	(4,221)	—	(477)
Expenses related to merger, integration or relocation of branches	—	(2,473)	—	—
Expenses for reorganization of overseas banking subsidiary	(779)	(595)	—	(7,280)
Other	3,651	3,052	4,045	34,121
	(1,767)	¥ (14,353)	¥ (11,304)	$ (16,514)

For the purpose of identifying impairment of fixed assets, the Company and domestic consolidated subsidiaries grouped their fixed assets principally according to the unit on which decisions for investment are made. The recoverability of book values of the fixed assets was evaluated for each asset group. As a result, fixed assets listed below were identified as being impaired and their book values were reduced to their recoverable amounts. The breakdown of impairment losses recognized in the year ended March 31, 2004 was as follows:

	Millions of yen
Fixed assets to be held and used	¥ 9,103
Fixed assets to be disposed of by sale	3,694
	¥ 12,797

The book values of fixed assets to be held and used were reduced to their recoverable amounts based on mainly the present values of expected cash flows using the discount rates of 5% to 8%.

The book values of fixed assets to be disposed of by sale were reduced to net realizable values based on mainly publicly-assessed values.

24. Subsequent events

Merger agreement — A merger agreement (the scheduled merger date: October 1, 2005) has been made between NIF and SMBC Capital Co., Ltd., which deals with venture capital work in the Sumitomo Mitsui Financial Group, on May 13, 2005. Additionally, issuance of new shares to Sumitomo Mitsui Banking Corporation (the payment date: July 29, 2005, the total issue price of the new shares: ¥9.9 billion ($92.5 million) has been approved by the Board of Directors of NIF on May 13, 2005.

Shareholder agreement — The shareholder agreement has been made among the Company, Sumitomo Mitsui Financial Group, Inc. and Sumitomo Mitsui Banking Corporation regarding basic matters related to the management of the newly formed company after the merger between NIF and SMBC Capital Co., Ltd.

Stock incentive plan — The shareholders of the Company approved the issuance of the stock subscription rights as stock options on June 24, 2005. In accordance with Articles 280-20 and 280-21of the Code, the stock subscription rights were issued free to directors and executive officers of the Company and subsidiaries, and the amount paid in upon exercise of such subscription rights is ¥1 per share.

Independent Auditors' Report

KPMG

To the Shareholders and the Board of Directors of Daiwa Securities Group Inc.:

We have audited the accompanying consolidated balance sheets of Daiwa Securities Group Inc. and subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2005, expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daiwa Securities Group Inc. and subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
(1) As discussed in Note 2 to the consolidated financial statements, Daiwa Securities Group Inc. and domestic subsidiaries made an early application of the new Japanese accounting standards for recognition of impairment of long-live assets in the year ended March 31, 2004.
(2) As discussed in Note 24 to the consolidated financial statements, on May 13, 2005, NIF Ventures Co., Ltd., one of the major subsidiaries of the Company, entered into a merger agreement with SMBC Capital Co., Ltd., and decided to issue new shares on the same day.
On May 13, 2005, a shareholder agreement was made among the Company, Sumitomo Mitsui Financial Group Inc. and Sumitomo Mitsui Banking Corporation regarding basic matters related to the management of the newly formed company after the merger mentioned above.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 27, 2005