

Aiming to be the best financial partner for our clients

PASSION FOR THE BEST

Daiwa Securities Group
Annual Report 2006
Year ended March 31, 2006

Financial Highlights

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	Millions of yen (Unless otherwise specified)			Millions of U.S. dollars ^{*1}
	FY2003	FY2004	FY2005	FY2005
Market Data				
TOPIX (annual average, index)	980	1,140	1,391	—
TSE average daily trading value	1,172,401	1,425,561	2,404,551	20,552
Ten-year Japanese government bond yield (annual average, % per annum)	1.12	1.52	1.43	—
Foreign exchange rates (annual average): Yen per U.S. Dollar	113.0	107.4	113.2	—
Yen per Euro	132.6	135.1	137.7	—
Operating Performance				
Operating revenues	453,814	519,337	845,660	7,227
Net operating revenues	352,435	390,432	579,359	4,951
Selling, general and administrative expenses	259,915	275,544	325,199	2,779
Operating income	92,520	114,888	254,160	2,172
Ordinary income	96,130	120,433	260,651	2,227
Net income	42,637	52,665	139,948	1,196
Balance Sheet				
Total assets	10,765,665	12,378,962	14,898,891	127,340
Total risk assets ^{*2}	518,331	499,084	797,458	6,815
Total shareholders' equity	604,170	648,332	792,281	6,771

Per Share Data			Yen	U.S. dollars ^{*1}
Net income ^{*3}	31.66	39.03	103.90	0.89
Total shareholders' equity ^{*3}	453.60	486.70	598.27	5.11
Cash dividends	10.0	13.0	34.0	0.29

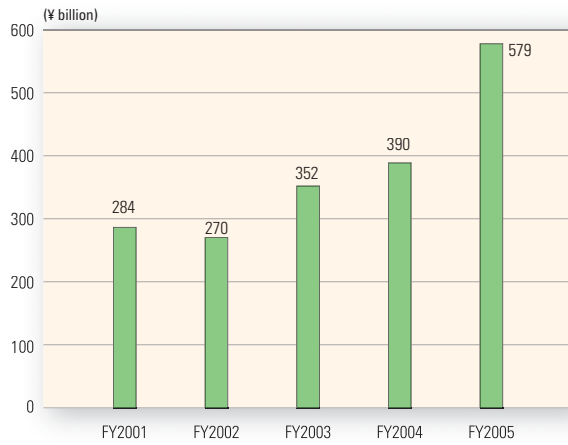
Financial Ratios			%
Return on equity (ROE) ^{*4}	7.4	8.4	19.4
Equity ratio	5.6	5.2	5.3

Other Data				
Total number of employees	11,565	11,295	11,506	

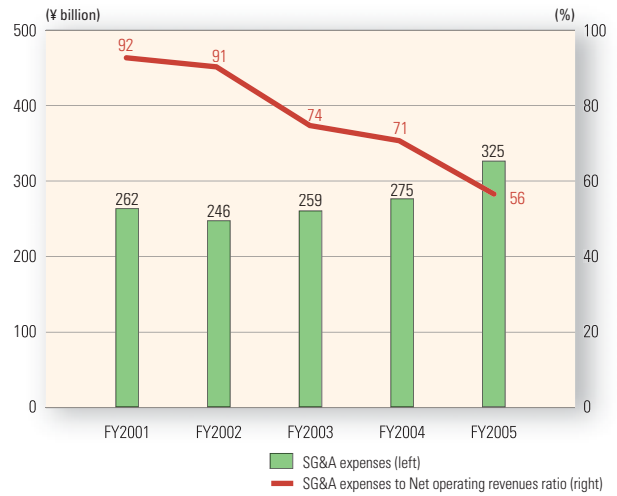
*Notes:

1. Translations of the Japanese yen amounts into U.S. dollars are made at the rate of ¥117.00 per U.S. dollar, solely for the convenience of readers.
2. Total risk assets are calculated as the sum of private equity and other securities, tangible fixed assets, investment securities, and other investments.
3. Net income and shareholders' equity per share are computed based on the average number of shares outstanding during the year.
4. ROE is computed based on the average total shareholders' equity at the beginning and end of the fiscal year.

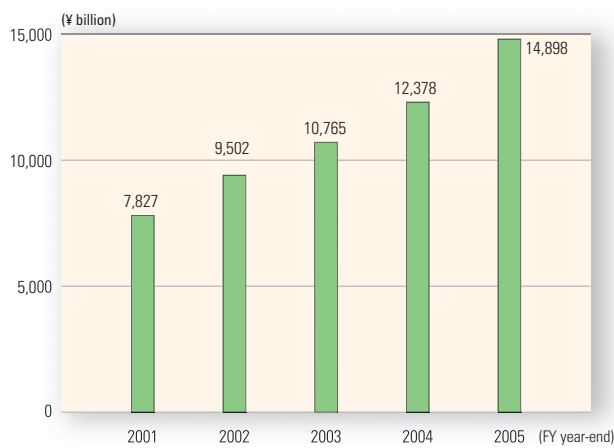
Net operating revenues



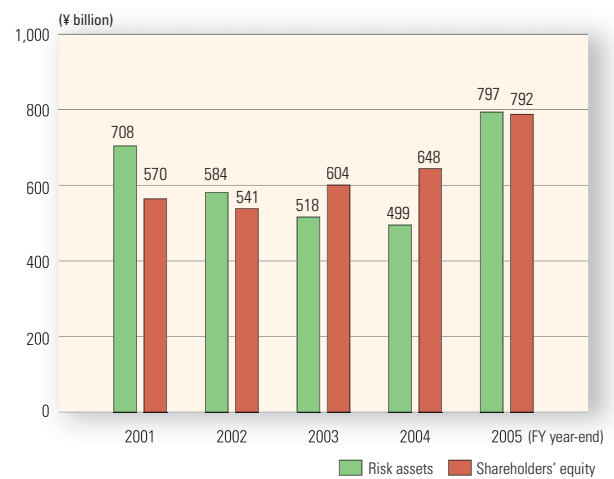
SG&A expenses and SG&A expenses to Net operating revenues ratio



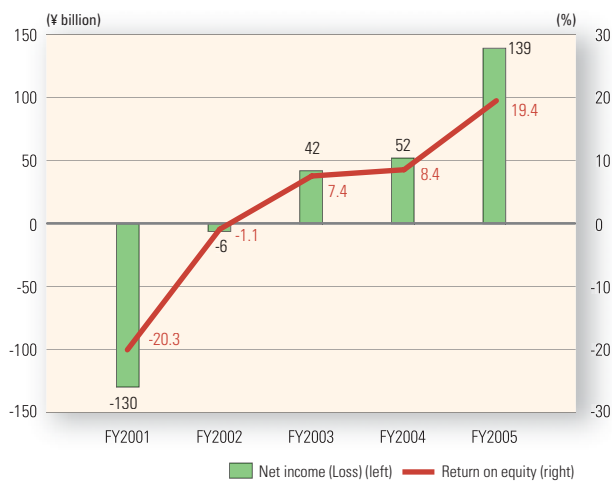
Total assets



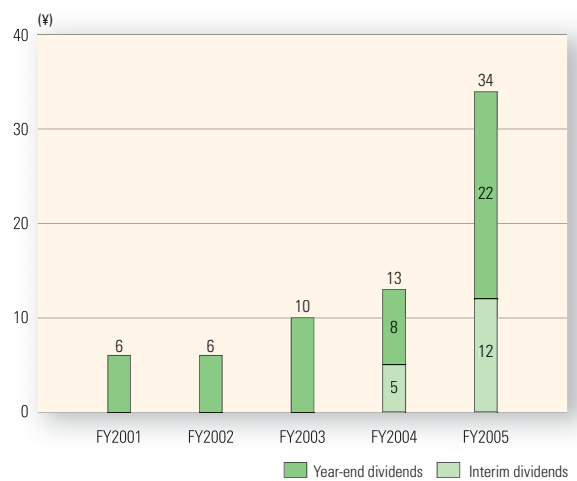
Risk assets vs Shareholders' equity



Net income (loss) and Return on equity



Dividend per share



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This annual report may contain forward-looking statements about the Daiwa Securities Group. You can identify these statements by the fact that they do not relate strictly to historic or current facts. These statements discuss future expectations, identify strategies, contain projections of results of operations or of financial condition or state other "forward-looking" information. These statements are based on currently available information and represent the beliefs of the management of the Daiwa Securities Group. These statements are subject to numerous risks and uncertainties that could cause the Daiwa Securities Group's actual results, performance, achievements or financial condition to differ materially from those described or implied in the forward-looking statements. The Daiwa Securities Group undertakes no obligation to publicly update any forward-looking statements after the date of issuance of this annual report. These potential risks and uncertainties include, but are not limited to: competition within the financial services industries in Japan and overseas, our ability to adjust our business focus and to maintain profitable strategic alliances, volatile and sudden movements in the international securities markets, foreign exchange and global economic situations affecting the Daiwa Securities Group. "FY 2005" refers to the fiscal year ended March 31, 2006, and other fiscal years are referred to in a corresponding manner.

1. Dramatic change in profit structure of securities companies over the past decade

The past 10 years have brought major changes to the business environment surrounding the Japanese securities industry and to the profit structures of securities companies.

Following large-scale reforms implemented in the United States and the United Kingdom, from 1997 the government instituted a series of “Japanese Big Bang” reforms aimed at stimulating financial markets. The reforms led to a number of market deregulation measures.

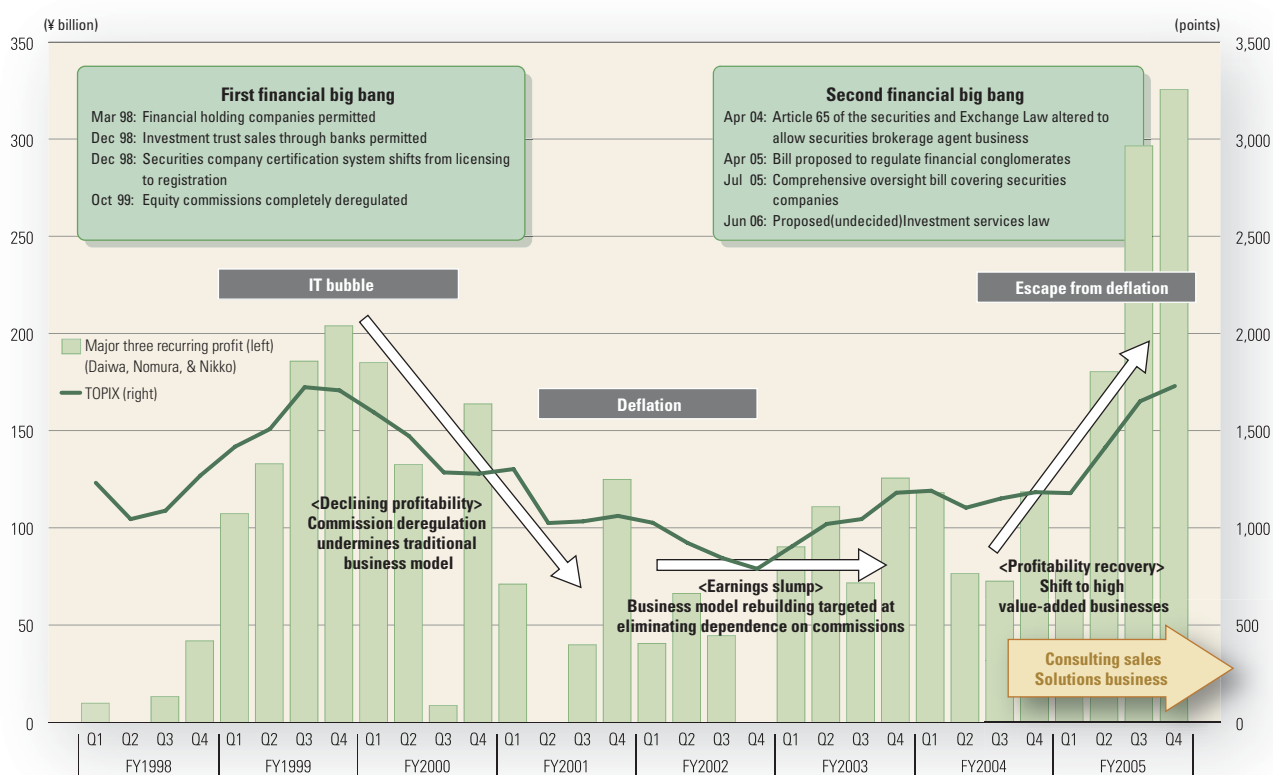
The full-scale deregulation of brokerage commissions in October 1999 had the most dramatic impact on the operations of securities companies. Prior to that, in December 1998 the industry shifted from a licensing system to a registration system, which led to a succession of new companies entering the market. Meanwhile, the widespread use of the Internet at homes sparked an increase in the market entry by online brokers, whose market share grew sharply due to considerable reductions in commissions charged. Amid the subsequent collapse of the so-called “IT bubble” in 2000 and a period of prolonged deflation, the stock market continued to languish, forcing many securities firms to create a new business model—one that breaks away from the traditional profit structure relying on brokerage commissions.

In response, the top Japanese securities companies searched for new ways to do business, notably through “consulting-focused sales” and “solutions-based services.”

In the retail market, Japanese individuals, whose combined financial assets are estimated at around ¥1,500 trillion, are seeking more effective investment vehicles for their assets amid prolonged low interest rates and uncertainty about the future of the national pension system. For this reason, they are shifting their emphasis toward foreign bonds and investment trusts, a trend also underscored by the government’s support for “savings to investment”. In response, securities companies are deploying their experience and expertise in high-risk, high-return financial products to promote consulting-focused sales tailored to the needs of individual customers, covering everything from proposal of investment plan to provision of financial products and management of assets.

In the wholesale market, there has been a growing trend for companies to choose the financial institutions as their partner, which can address the fund-raising, asset management, and other diverse financial needs by offering comprehensive solutions. Securities companies are responding by strengthening their information supply and product development capabilities.

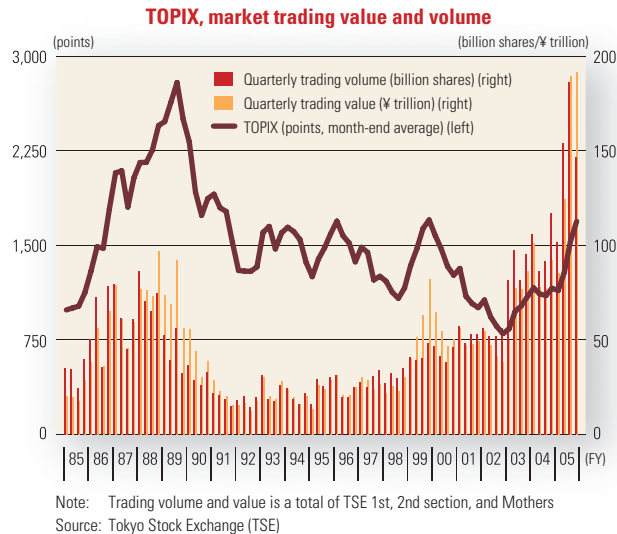
Facing such a changing business environment, the Daiwa Securities Group acted early to discard its traditional business structure and address the structural transformation of the securities industry. In this annual report, we provide a detailed explanation of the track of our evolutionary change and our future business advancement plans.



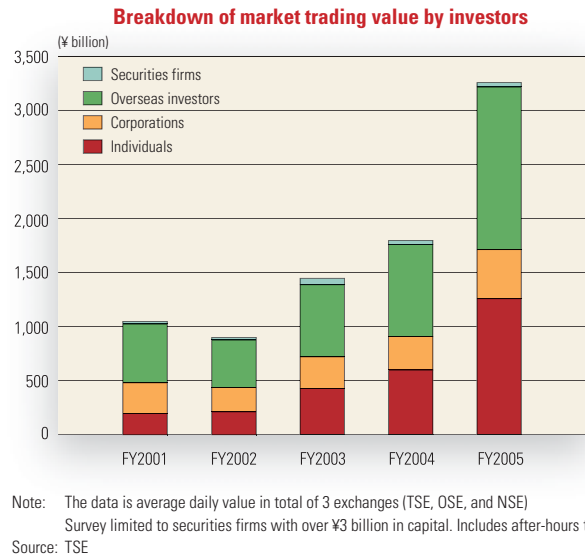
Note: Recurring profit from Q1 FY01 is on a consolidated basis (segment pretax income only for Nomura), while that prior to 4Q FY00 is on a parent basis or total of parent and main securities subsidiaries.
 Source: Company materials; compiled by DIR.

2. Market environment—“Savings to Investment” move by individuals and firm corporate earnings

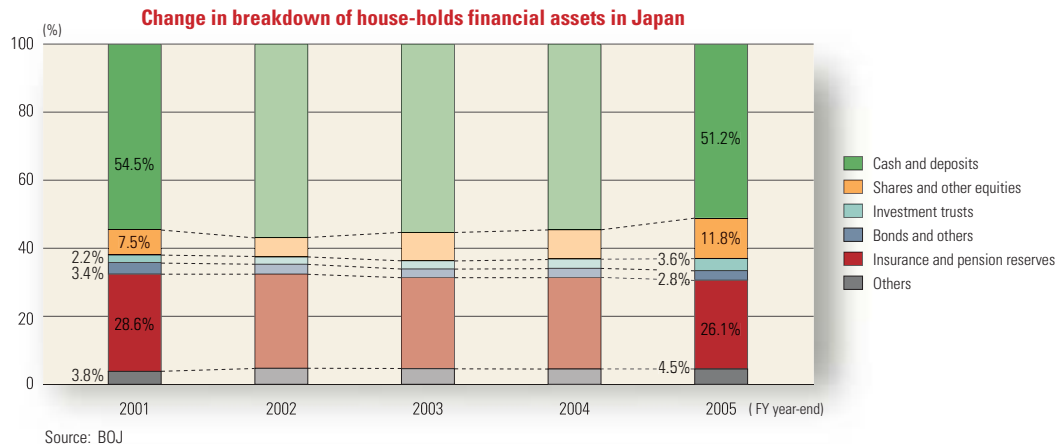
Market trading value has hit record high for three consecutive quarters while TOPIX soared.



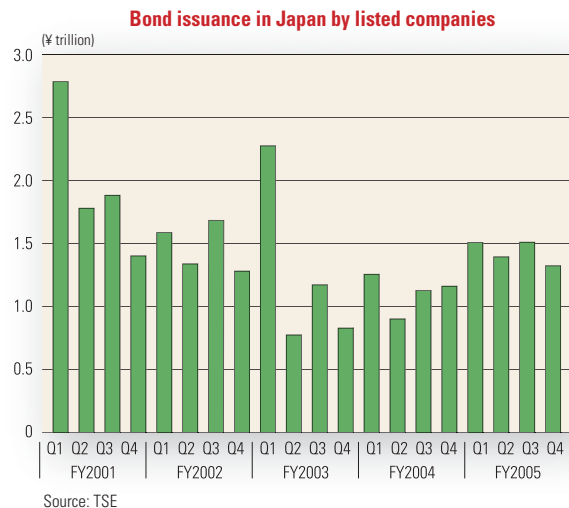
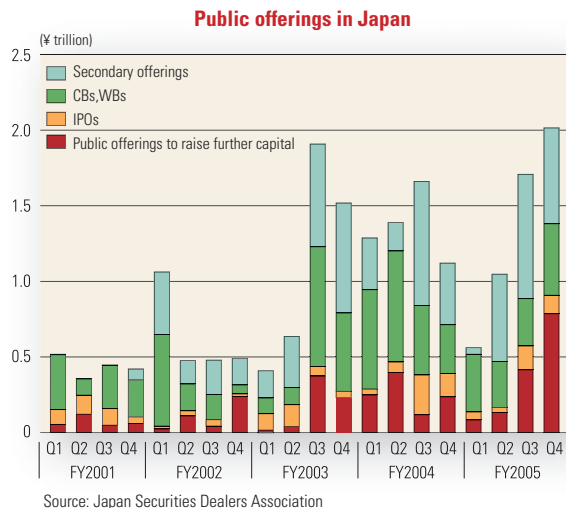
Market trading value for FY2005 was the highest in 16 years. Overseas and individual investors' active trading led the move.



“Savings to Investment” move is continuing as individual investors' interests in equity products such as stocks and investment trusts have risen.

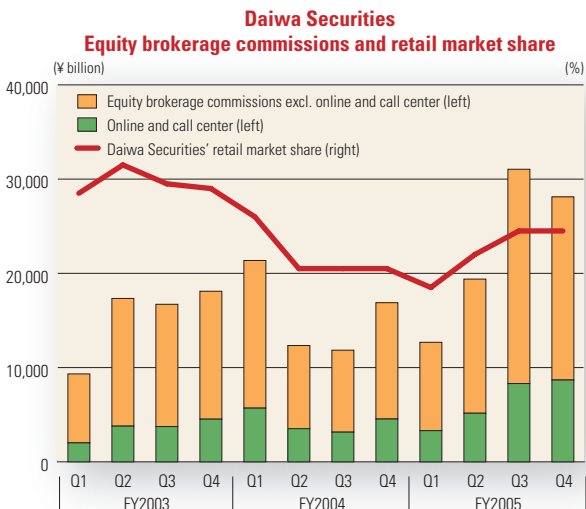


Firm corporate earnings have inspired more capital investments and fund-raisings utilizing public offerings and bond issuance.



3. Market position of the Daiwa Securities Group

Daiwa Securities' retail equity market share had declined due to the expansion of online trading, but it has recovered by renewal of its online channel platform and commission rate cut.



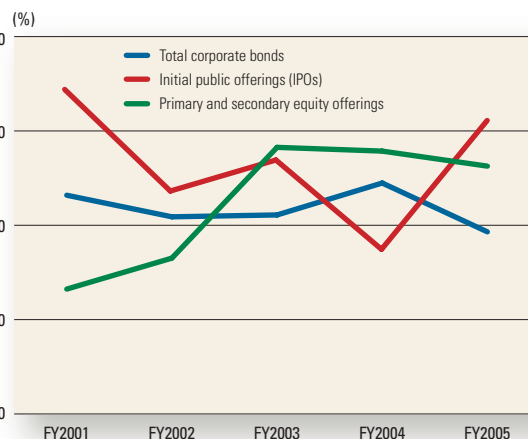
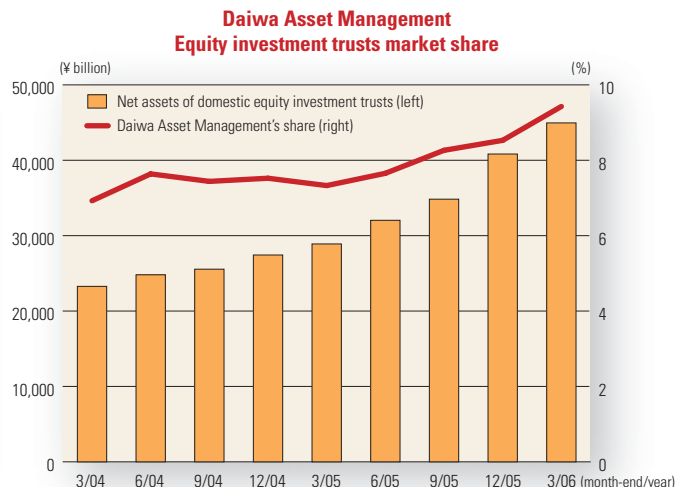
Daiwa Securities SMBC has maintained its top position in domestic investment banking business. Its share at initial public offerings (IPOs) dramatically rose in FY2005.

Daiwa Securities SMBC
Lead manager league table & Trends in market share

	FY2001	FY2002	FY2003	FY2004	FY2005
Total corporate bonds*	1st	2nd	1st	1st	1st
Initial public offerings (IPOs)	2nd	2nd	2nd	2nd	1st
Primary and secondary equity offerings	4th	2nd	2nd	1st	2nd

*Corporate bonds + Agency bonds

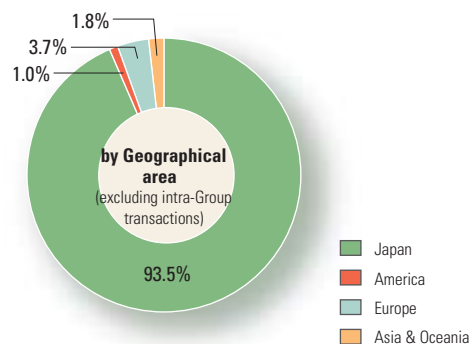
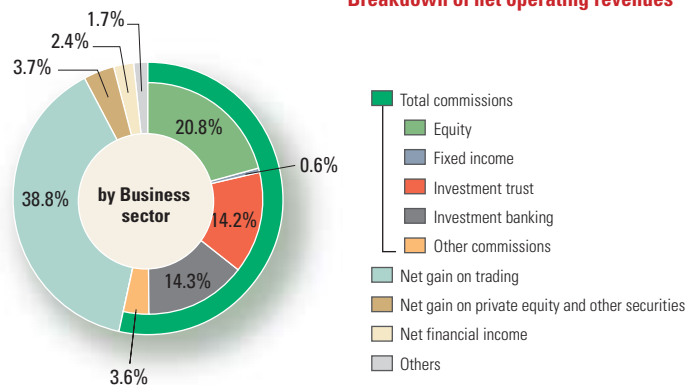
Equity investment trust assets in Japan have dramatically increased with expanding distribution channels such as banks and post offices, meanwhile market share of Daiwa Asset Management has risen by the expansion of its core products including Daiwa Global Bond Fund.



4. The Daiwa Securities Group's earnings structure

Earnings sources have been diversified and dependence on equity commissions has declined. Still Japan-related business is core but more focus on Asia and Oceania business

The Daiwa Securities Group
Breakdown of net operating revenues



Maximizing shareholder value is not going to be achieved by a single executive. The company's day-to-day activity is built on the activity of each and every employee, whose efforts are reflected in the company's business results. This is what leads to shareholder value. In FY 2005, the Daiwa Securities Group reported its best performance since the "bubble" era—a major feat and testimony to the efforts of all Group employees.

FY 2006 marks the beginning of the Group's new medium-term management plan, entitled "Passion for the Best 2008". My most important task as CEO is to create a corporate culture and working environment that enable employees to realize their full potential—one that makes them feel motivated and satisfied to work for the Daiwa Securities Group. I want to "fuel the passion" of employees to create the "greatest" organization possible and attract the type of people that can make the Group the best in the industry.

1. FY 2005 in Review

Previous strategies bear fruit under improved business conditions

In FY 2005, we enjoyed a favorable macroeconomic environment and a vibrant equity market, which had a beneficial effect for our group business. The struggling Japanese economy finally made a breakthrough and forged ahead pushing real GDP growth to 3.2% for the fiscal year. The Nikkei 225 Average surged 46% during the 12 months, driven by overseas and individual investors. The average daily trading value on the Tokyo Stock Exchange jumped 68.7% year-on-year, to ¥2,404.5 billion—the highest in history.

The highlight of the year was the real takeoff of the "savings to investment" move by Japanese individuals, whose financial assets are estimated to total around ¥1,500 trillion. The era has arrived in which individuals understand the nature of taking risks and think seriously about managing their own assets. In the meantime, corporations, supported by solid performances, are expanding their operations and adopting a more aggressive investment approach, pursuing M&As and other proactive strategies.

FY 2005 was the final year of the Group's previous three-year management plan that began in April 2003. We are pleased to report that our results for the year greatly exceeded the targets set out in the



President and CEO

Shigeharu Suzuki

plan. For example, we posted a 2.2-fold increase in ordinary income to ¥260.6 billion—well above the plan’s target of ¥127.0 billion. In addition, consolidated return on equity (ROE) reached 19.4%— the highest among Japan’s top 3 securities houses, which I am most proud of.

2. From Previous to New Medium-term Management Plan

FY 2005 Performance Highlights

Creating a unique retail business model: Offering both face-to-face and online services

In the retail securities business, we think it is crucial to provide services that reflect the customers’ perspective. With this in mind, Daiwa Securities offers two service “courses” to retail customers: “Daiwa Consulting” course, for those who desire face-to-face consulting, and “Daiwa Direct” course, for those who prefer online trading. Customers can choose the course that best suits their trading style. We believe that the exceptional features of our unique business model led us to the success in FY 2005.

Now let me briefly discuss the three fields we have been strategically focusing on over the past year.

First of all, with Daiwa Consulting, we proposed a wide spectrum of products and services to meet the specific needs of customers. These included various equity and bond type investment trusts, foreign bonds, and SMA (Separately Managed Account). During the period we also pursued an asset gathering sales style. We are confident that this concept has penetrated well into our sales force over the past year, which is very important for us going forward in establishing a win-win relationship with our clients. As a result, Daiwa Securities had ¥27.6 trillion of retail assets under custody at fiscal year-end, considerably higher than the ¥21.5 trillion target set under the previous medium-term plan. Notably, net assets of Daiwa Global Bond Fund, managed by Daiwa Asset Management, exceeded ¥1 trillion. It is now the second largest investment trust in Japan.

Secondly, with respect to Daiwa Direct, we introduced a flat-fee system, which became effective for margin transactions in May 2005 and for cash transactions in July 2005. We have also succeeded to establish a unique business model by utilizing our branch network and providing access to our analyst reports from Daiwa Institute of Research (DIR). This is only possible because we keep the online operation within Daiwa Securities and we believe it makes it difficult for dedicated online brokers to emulate. As a consequence, we reported substantial year-on-year gains in assets under custody, number of accounts, and online margin balance.

Thirdly, “Daiwa SMA”, our wrap account service for high-net-worth individuals, is enjoying a faster-than-expected growth. We think the performance-based fee scheme, and the “custom-built” service, as we do all from consulting to management within Daiwa Securities, are the two key factors to the success of this service. The contract assets under management of Daiwa SMA surged to ¥159.1 billion, well above our target of ¥100 billion, and placing Daiwa Securities at the top of the industry (based on the data released by the Japan Securities Investment Advisers Association, as of March 31, 2006).

Wholesale and investment businesses: Increased earnings and presence

Daiwa Securities SMBC, which handles the Group's wholesale securities business, made significant progress in FY 2005. Taking full advantage of the formidable client base, built from our collaboration with Sumitomo Mitsui Banking Corporation, we stepped up cross-divisional activities, from underwriting and product development to brokerage. In particular, we expanded our business in providing high-value-added products, notably in structured bonds and derivatives, as well as financing vehicles utilizing SPS (Structured Principal Solution) Program. As a result, consolidated net gain on trading, mainly driven by Daiwa Securities SMBC, reached ¥224.9 billion, far surpassing the ¥140 billion target set under the previous medium-term plan. In the lead-manager league tables, we seized the No. 1 spot for IPOs, and for the third successive year in total corporate bonds.

We are also actively expanding our private equity investments that are mainly carried out by Daiwa Securities SMBC Principal Investments (Daiwa Securities SMBC PI). In FY2005, we made large-scale investments in companies such as SANYO Electric and Sumitomo Mitsui Construction. As a result, Daiwa Securities SMBC PI's fiscal year-end investment balance rose to ¥310 billion, highlighting our greatly enhanced presence in this field.

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New medium-term management plan: Seeking to become "Japan's best securities group"

Building on this record of success, in April 2006 the Daiwa Securities Group stepped up efforts to cement its position as "Japan's best securities group." Specifically, we initiated a new Group's medium-term management plan, called "Passion for the Best 2008."

Under the new plan, we will further reinforce our earnings foundation by adding a fourth core segment—Investment—to our three current core activities in retail securities, wholesale securities, and asset management.

In quantitative terms, we are targeting consolidated ordinary income of ¥350 billion and consolidated ROE of 15% or higher for the year ending March 2009, the third and final period of the plan. Specific targets include ¥45 trillion or higher in retail assets under custody, the No. 1 rank in the league tables in the wholesale segment, equity investment trust assets of ¥11 trillion or higher in the asset management segment, and ¥5 trillion or higher in investment advisory assets. In qualitative terms, we intend to become "Japan's best" in every aspect, including customer satisfaction, legal and ethical compliance, corporate social responsibility (CSR), and information disclosure.

* For details of the Group's new medium-term management plan, see p.28-33.

3. Earning the Public's Trust and Raising Corporate Value

Corporate governance

In 1999, we became Japan's first listed company to switch to a holding company structure. Prior to that time, we had already established an Advisory Board, which was followed by setting up the Compensation Committee in 2000. Two years later, in 2002 we appointed outside directors in an effort to further separate management and supervisory functions. As a natural progression, in 2004 we shifted to a "committee system" of corporate governance, thus clearly differentiating the business execution function from the supervision and evaluation functions. Accordingly, the Group has continued to build a highly transparent and impartial corporate governance framework. We have also worked hard to improve the quality of our internal control system. In FY 2005, for example, we set up a systems auditing framework within the internal audit division of the Group. We also established an information security management system and instituted measures to monitor and verify our responsiveness to the Personal Information Protection Law.

Ultimately, however, the goal of corporate governance is to "pinpoint and prevent systematic misconduct as well as arbitrary or uncontrolled actions by management, and to establish a trend in which all employees adhere to the Group's corporate principles". I believe that we will achieve this goal if we can ensure that all employees are constantly aware of social expectations, embrace their jobs with pride, and feel motivated to work at the Daiwa Securities Group. In my desire to promote such a mindset throughout the Group, I work year-round to visit our branches nationwide and speak directly to our employees.

CSR initiatives

I believe that the essence of corporate social responsibility (CSR) is to contribute to the creation of a better society through our regular business activities. Our role is to build bridges between companies seeking to raise funds and investors desiring more effective management of their assets. By satisfying the needs of both parties, we are performing a valuable public service by providing a function that supports smooth economic and social development. The public service attributes inherent in the securities business form the core of our CSR commitment. It is important that all employees fully appreciate the Group's social mission and perform their regular businesses accordingly.

Each year, we publish the Group's Sustainability Report. Our 2005 report won the Grand Prize for Sustainability Report (Minister of the Environment Awards), underlining the high official praise accorded to our CSR approach. Going forward, we will take CSR initiatives via our core business in an effort to support sound social development while raising the Group's evaluation in the eyes of the public.

Return to shareholders

In FY 2005, Daiwa Securities Group Inc. declared an annual cash dividend of ¥34 per share, greatly exceeding the previous record of ¥14. We also achieved a dividend payout ratio of 32.2% in FY 2005, which is above our 30% target and at a level that we believe is satisfactory for our shareholders' expectations.

We regard ROE as one of the most important performance benchmarks that illustrate how efficiently we are utilizing our shareholders' capital. Under our new management plan, we are targeting consolidated ROE of 15% or higher, and to this end we will aggressively allocate capital to areas expected to generate high returns. In the absence of investment targets that enable us to raise corporate value, our policy is to actively return profits to shareholders.

To shareholders, investors, and employees

From my perspective, conditions surrounding Japan's financial and capital markets are quite favorable. Given the acceleration of the "savings to investment" move, we have a growing opportunity to demonstrate our professionalism on our home ground—the equity field.

Meanwhile, I believe that Japanese companies, with recovering financial strength, will expand capital investments and adopt a more assertive approach to the capital market. This should lead, for example, to increases in M&As aimed at raising corporate value. Given this appropriate evolution of the capital market, the core foundation supporting the financial services sector is clearly shifting from traditional savings to the securities business—our home turf.

Improving business conditions, however, will also bring intensified competition. To win against our rivals while achieving sustained growth and raising corporate value, we must maintain a constant desire to improve and build on current achievements. As CEO, my responsibility is to provide a job environment that cultivates strong employee morale, enables workers to fully realize their creative potential, and helps them approach their jobs with passion and enthusiasm. If management and employees fail to unite and overcome formidable challenges, we cannot achieve major success.

We are steadily attaining the No. 1 position in many of our business fields. Backed by an unprecedented financial performance, I intend to forge ahead and make the Daiwa Securities Group into the "greatest" organization from the viewpoint of all stakeholders.

July 2006

Shigeharu Suzuki

President and CEO

Daiwa Securities Group Inc.

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The Daiwa Securities Group: Present and Future

- Q.01 **12** What are the features of the business structure at the Daiwa Securities Group?
- Q.02 **14** What strengths does Daiwa Securities capitalize on to win the battle for individual financial assets?
- Q.03 **16** What are the distinguishing features and strengths of Daiwa Securities' online strategy?
- Q.04 **18** What are Daiwa Securities SMBC's strengths in the wholesale securities business?
- Q.05 **20** What are the Group's current activities and future strategies for the principal investment business?
- Q.06 **22** What plans are in place for the alliance with Sumitomo Mitsui Financial Group?
- Q.07 **24** What are the capital allocation and dividend policies?
- Q.08 **26** What are the plans for new businesses?

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Group's New Medium-term Management Plan: "Passion for the Best 2008"



Q.01 What are the features of the business structure at the Daiwa Securities Group?

A. Business Structure Overview

The Daiwa Securities Group is a full line securities group of companies providing diversified financial services under a holding company structure. Daiwa Securities Group Inc. is a pure holding company that coordinates the Group's overall operations. The Group is engaged in four core businesses: retail securities, wholesale securities, asset management, and investment. Each of these core businesses and other businesses supporting them is led by independent companies in the Group.

Daiwa Securities handles the Group's retail securities business. Serving mainly Japanese individuals and unlisted companies, it provides financial products and services via a domestic network of 117 branches (as of September 4, 2006), as well as online and the call center. The Group's wholesale securities business is mainly operated by Daiwa Securities SMBC (and its overseas subsidiaries)—a joint venture with Sumitomo Mitsui Financial Group. The company provides brokerage and investment banking services, including M&A advisory services, targeting domestic and overseas institutions. The Group's asset management business, which includes investment trust and pension fund management, is handled by Daiwa Asset Management and Daiwa SB Investments. The investment business, a new core business for the Group, is led by Daiwa Securities SMBC Principal Investments, a wholly owned subsidiary of Daiwa Securities SMBC, as well as NIF SMBC Ventures*, the only publicly listed subsidiary.

Other Group companies provide support functions. These include Daiwa Institute of Research, which offers research, consulting, and systems-related services; Daiwa Securities Business Center, which provides securities back office services; and Daiwa Property, which provides property administration for the Group's branch office network.

* Formed in October 2005 through the merger of NIF Ventures and SMBC Capital.

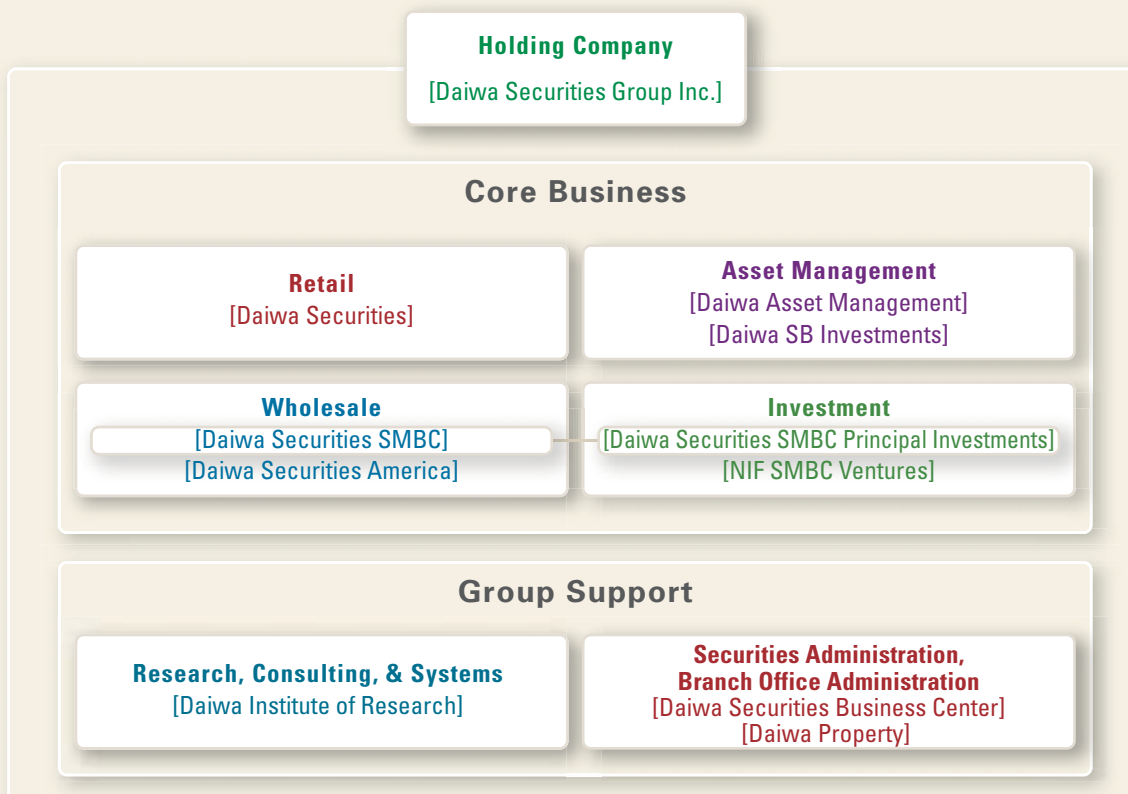
Features of the Business Structure

A major structural feature of the Daiwa Securities Group is the clear separation of the core retail and wholesale securities operations. As the respective customers in the retail and wholesale field are different to a large extent, so too are their needs. The Group meets the needs of both markets through companies that, while maintaining cooperative relationships, work independently in the delivery of services. In this way, we are able to further raise customer satisfaction and enhance operating efficiency. Moreover, having separate companies that handle the retail and wholesale businesses, or the sales and the underwriting functions, also helps to maintain the firm "Chinese wall*" between the two. In addition, under the holding company structure, Group members can easily access the abundant business resources available within the Group, including product development capabilities, and business information and know-how accumulated in each Group company.

These enable individual companies to maximize their operating efficiency and also enjoy strong cooperation and complementary relationship within the Group—such benefits represent the key strengths of the Daiwa Securities Group.

* The ethical and informational barrier between different divisions to avoid conflict of interest

The business structure of the Daiwa Securities Group



The Daiwa Securities Group in History

1902	Begin operations as Fujimoto Bill Broker
1942	Change name to Fujimoto Securities Co. Ltd.
1943	Fujimoto Securities Co. Ltd. merged with Nihon Shintaku Bank to establish Daiwa Securities Co. Ltd.
1959	First to commence overseas operations in NY
1998	Conclude final agreement with The Sumitomo Bank Limited on setting up a joint venture company
1999	First listed company to move to a holding company structure Establishment of Daiwa Securities SB Capital Markets Co. Ltd. (currently Daiwa Securities SMBC Co. Ltd.) operating the wholesale business and Daiwa SB investments Ltd. operating the asset management business, both joint ventures with The Sumitomo Bank Limited
2001	Establishment of Daiwa Securities SMBC Principal Investments Co. Ltd.
2004	Daiwa Securities Group Inc. to transit to a "Committee System"
2005	NIF Ventures Co., Ltd. and SMBC Capital Co., Ltd. merged into NIF SMBC Ventures Co., Ltd.



Q.02 What strengths does Daiwa Securities capitalize on to win the battle for individual financial assets?

A. Today, the shift of individual financial assets “from savings to investment” in Japan is gathering momentum. In this situation, the ability to attract large slices of this move will determine the ultimate winners and losers in the financial services industry. Daiwa Securities, which is in charge of the Group’s retail securities business, is offering a wide range of financial products tailored to meet a variety of customer needs. These products are delivered via two service “courses”: “Daiwa Consulting” course, for those who desire face-to-face consulting, and “Daiwa Direct” course, for those who prefer trading online or through a call center. In particular, Daiwa Consulting has two major strengths: (1) Distinct “consulting expertise”, allowing the consultants to propose combinations of products with optimal risk-return profiles suitable for each customer; and (2) Abundant and highly competitive “product and service offering capabilities”, supported by various Group companies. These strengths will enable Daiwa Securities to steadily increase its share of the growing market for securities investments by individuals.

Strong Consulting Capabilities to Handle Risk Products

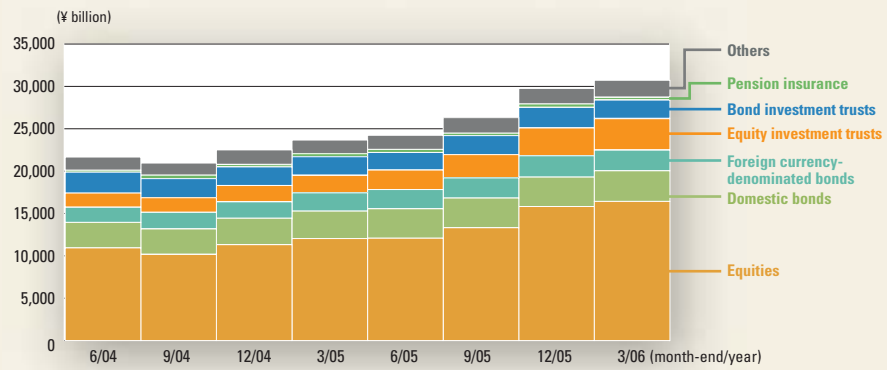
When selling equities, investment trusts, and other risk products, it is important to devise combinations of products matched specifically to each customer’s asset profile, investment policy, and risk tolerance. Such consulting expertise is the core competence of Daiwa Securities, which has many years of experience in handling risk products. Daiwa Securities has been placing top priority on building stronger trust with its customers, by offering optimal portfolios tailored to each customer and providing wide-ranging investment advice in a variety of areas such as taxation and inheritance. When recommending a portfolio, the Company’s goal is to increase customers’ assets over the medium and long term. Here, Daiwa Securities actively uses equity products with the potential to generate high returns, while also recognizing the risk of price declines. In this way, it aims to create a “win-win” situation, where customers’ financial assets expand, as does Daiwa Securities’ assets—its customer base. In FY 2005, underpinned by a strong equity market, Daiwa Securities made excellent progress, both in increasing customer assets and in attracting new cash from individuals. This was achieved by actively proposing equity products, such as stocks and equity investment trusts.

Capitalizing on these strengths, Daiwa Securities reported a substantial increase in “Daiwa SMA” contract assets under management. Daiwa SMA is the name of separately managed accounts (SMAs) tailored specifically to high-net-worth individuals. Indeed, Daiwa Securities seized the No.1 ranking in the industry for SMA contract assets (based on the data released by Japan Securities Investment Advisers Association, as of March 31, 2006).

Enhanced Product and Service Offering Capabilities Supported by Intra-Group Collaboration

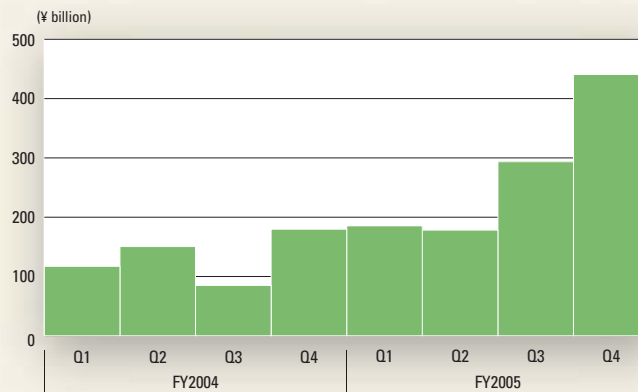
One of Daiwa Securities’ major strengths is its excellent product and service offering capabilities. Here, we draw heavily on alliances with various Group companies, each with specialized capabilities and competitive advantages. For example, Daiwa Securities SMBC’s expertise lies in underwriting and product origination, while Daiwa Asset Management and Daiwa SB Investments excel in fund development and management, and Daiwa Institute of Research has outstanding research capabilities. Daiwa Securities SMBC, which ranked top in the IPO league table in FY 2005, has enabled Daiwa Securities to handle a large number/variety of IPO shares. This has attracted much attention of individual investors. In addition, Daiwa Global Bond Fund, which is managed by Daiwa Asset Management and is highly regarded among rating agencies, has maintained its reputation as a high premium product as it is available only through the Daiwa Securities Group. Its net assets under management is still continuing to expand after it exceeded ¥1 trillion at fiscal year-end.

Daiwa Securities Assets under Custody

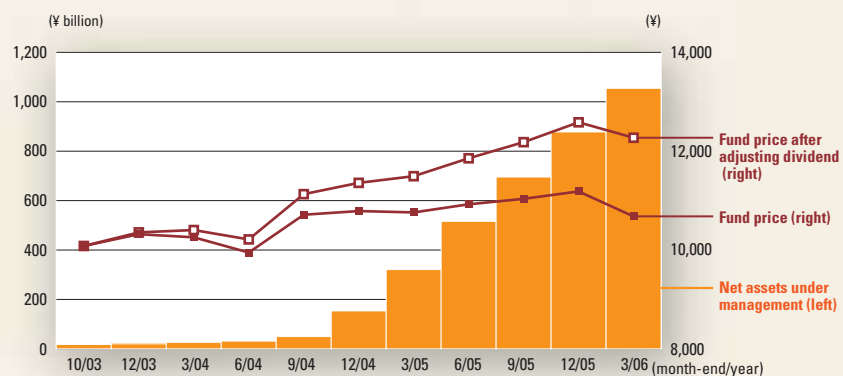


(*) "Others" includes customer assets of Daiwa Securities held under custody at Daiwa Securities SMBC.

Daiwa Securities: Net Inflow of Funds (Retail)



Daiwa Global Bond Fund: Fund Price and Net Assets under Management





Q.03 What are the distinguishing features and strengths of Daiwa Securities' online strategy?

A. The greatest strength of Daiwa Direct is its unique business model, which combines two key features. First, it offers the convenience of low-cost online trading. Second, it gives a sense of security by providing support on administrative and operating procedures through its branches and the call center. Daiwa Direct can also fully utilize the resources of other industry-leading members of the Group. They include Daiwa Securities SMBC, which has superlative underwriting and product delivery expertise, and Daiwa Institute of Research (DIR), which is known for its high-quality systems and research. Such collaboration with Group companies is the source of Daiwa Direct's competitive edge in the online securities business, enabling it to further enhance the added value of its services.

Reasonable Fees, Stable and User-friendly Systems, and Full Branch Support

In May 2005, Daiwa Securities revised the fee structure for online transactions under the Daiwa Direct course. It changed the equity brokerage commission structure and introduced a flat-fee system for margin transactions. In July, the flat-fee system was extended to cash transactions. As a result, there has been an increase in the trading value of equity transactions by individual customers, and a rise in Daiwa Securities' market share among the total trading value of individual investors in the market. In addition, Daiwa Securities fully utilizes the strengths of having DIR, a subsidiary with extensive experience in trading systems within the Group. Using DIR's expertise, Daiwa Securities has raised the stability and user-friendliness of its systems by boosting the "capacity" (number of contracts that can be handled within a fixed period of time), "availability" (stability that prevents system breakdown due to surge in transactions), and "operationality". Moreover, it has established online support desks and online trading corners throughout its 117 branches nationwide. Specialist staff at the online support desks respond to various inquiries such as about account opening procedures and system operation. Daiwa Direct customers can also take part in seminars and presentations held at branches across Japan. Furthermore, Daiwa Securities expanded its call center to 450 seats in April 2006, which is one of the largest in the industry.

In short, Daiwa Direct's greatest strength lies in the combination of services it provides—the support provided by branches and the large call center which is not available from online brokers, as well as a reasonable fee structure, and a highly stable, user-friendly online trading system.

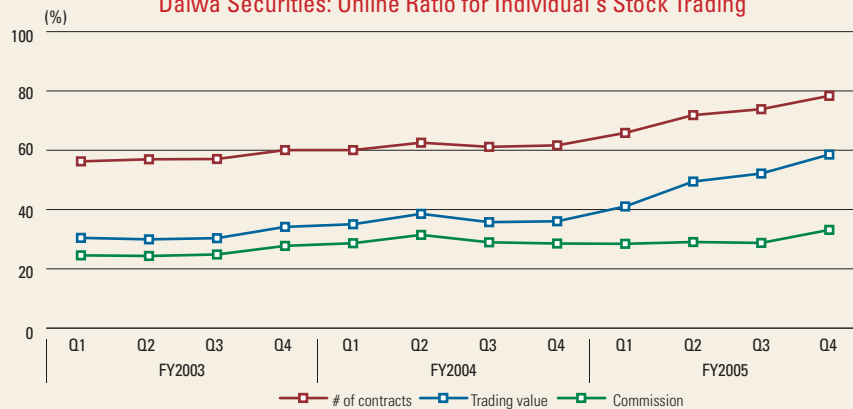
Product and Investment Information Appeal Enhanced by Group Resources

Daiwa Securities boasts a broad range of products, including domestic and overseas equities, bonds, and investment trusts. It is also an industry leader in terms of the amount of IPO stocks it provides, thanks to the underwriting prowess of Daiwa Securities SMBC. In July 2006, Daiwa Securities raised the chance of purchasing stocks through its IPO stock draw service from 5% to 20%, making the service more attractive.

Daiwa Direct also provides high-quality investment information services. For example, it established the "Daiwa Online Library", through which customers can read reports by DIR's top-class analysts and economists* on the same day these are published.

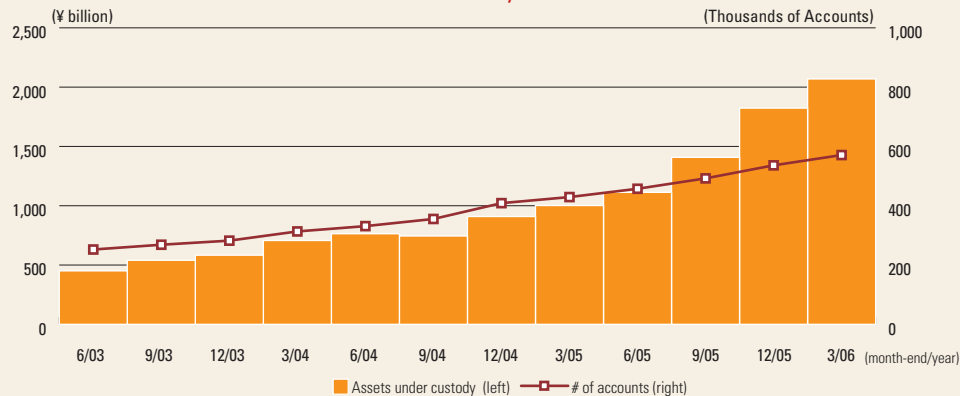
* DIR received the No.1 Analyst Ranking for 2006 by the Nikkei Financial Daily.

Daiwa Securities: Online Ratio for Individual's Stock Trading



Note: All calculated based on trading activities made by individuals at Daiwa Securities

Accounts and Assets under Custody of "Daiwa Direct" Course



10-year History of Daiwa Online Trade

1996	Apr.	Begin Japan's first online-brokerage service "Daiwa Direct", handling mini stock transactions only
	Jun.	Begin offering of unit stocks
1997	Jan.	Begin to offer Daiwa MMF and Medium-term Government Securities Funds
1998	Apr.	Begin offering of Daiwa foreign currency MMF (US\$)
1999	Jan.	Begin offering of investment trusts
	Feb.	Begin Japan's first mobile trading service
	Apr.	Begin offering of call center service for "Daiwa Direct" as its help desk (25 seats)
2000	May	Begin to offer stock price information service via e-mail
	Jul.	First domestic securities company to begin operation of a full-scale call center
		Introduce "Three-Service Package" (Three trading channels)
		Expand its mobile trading service to other carriers
	Oct.	Begin offering of Nikkei's data browsing service for "Daiwa Direct"
2001	Apr.	Begin lottery service for IPO stocks
	Sep.	Begin to provide applications for mobile phones
	Nov.	Begin offering of margin transaction service via call center
2002	Jan.	Begin offering of margin transactions service over the Internet
	Mar.	Begin to offer receiving transaction service with postal savings
2003	May	Introduce "Two trading-courses" (Two service channels)
		Begin offering of electronic issuance of prospectuses
	Aug.	Begin offering of Daiwa up-dates by e-mail service
	Sep.	Begin offering of automatic update stock price board service
2004	Apr.	Begin offering of receiving transaction service with commercial banks
	May	Begin offering of multiple-function charts and DIR analyst reports
	Jul.	Substantially enrich investment information contents
	Sep.	Begin to offer JGBs for individuals
	Oct.	Begin to offer open-end margin transactions
		Begin offering of lottery service for public offering shares
		Begin to provide stock portfolio analysis service
	Nov.	Begin to provide life plan simulation service
2005	May	"Daiwa Direct" course to revamp services, lowering commission rates and introducing flat-free system
	Jul.	Implementation of loop transactions
		Implementation of "Daiwa Online Library"
	Oct.	Begin offering of Daiwa e-Member service
		Begin to offer Hong Kong stocks and currency exchange transactions
	Nov.	Begin offering of margin transaction service via mobile
2006	Feb.	Begin "Daiwa FX", forex margin transaction service
	Mar.	Enrich services on mobile sites
		Expand to provide applications for other carrier
	Apr.	Expand size of call center to 450 operators
		Begin to offer Daiwa trading board information service
		Revise transaction display design
		Upgrade margin transaction service



Q.04 What are Daiwa Securities SMBC's strengths in the wholesale securities business?

A. The major strength of Daiwa Securities SMBC is its unique business model, being the only dedicated wholesale securities company in Japan formed through a joint venture between a major securities company and a megabank. This is because Daiwa Securities SMBC can develop its business by drawing on the broad customer bases of both the Daiwa Securities Group and Sumitomo Mitsui Banking Corporation (SMBC).

Daiwa Securities SMBC aims to become “Japan’s best investment bank” by capitalizing on the following advantages. The first is its ability to propose optimal solutions that meet the needs of both corporations and investors through the capital market. The second is its strong sales force utilizing the close link with Daiwa Securities, which has strong ties with domestic individual investors, and Daiwa Securities SMBC’s own network of domestic and overseas institutional investors.

Alliance with SMBC

The source of Daiwa Securities SMBC’s competitive edge lies in its alliance with SMBC, a prominent domestic megabank. With its extensive and robust corporate network, SMBC introduces clients requiring access to the capital market to Daiwa Securities SMBC, who is fully equipped to meet these requirements. The synergies of the alliance are particularly evident in the investment banking area. For example, Daiwa Securities SMBC seized the No.1 ranking in the IPO league table for FY 2005, and also achieved the No.1 ranking for total corporate bonds (corporate and agency bonds) for the third consecutive year.

Delivering Powerful Solutions

Collaboration between its investment banking, product development, and sales divisions enables Daiwa Securities SMBC to offer optimal solutions using the capital market. In the process, it helps client companies raise corporate value and competitiveness while providing investors a diversity of investment vehicles. For example, Daiwa Securities SMBC served as a financial adviser to Nippon Sheet Glass in this company’s friendly takeover of U.K.-based Pilkington, which was announced in February 2006. Daiwa Securities SMBC also provided financial support for this major cross-border M&A deal, valued at around ¥616 billion, by underwriting ¥77 billion, or 70% of the ¥110 billion, of unsecured third-party-allocation-type convertible bonds issued by Nippon Sheet Glass. For this deal, Daiwa Securities SMBC provided Nippon Sheet Glass with a tailor-made fund procurement solution utilizing its unique Structured Principal Solution (SPS) Program*.

Daiwa Securities SMBC also provides investment solutions that meet the various needs of investors regarding portfolios and risk tolerance. It does this through the flexible development and initiation of structured bonds, such as “Contingent Super CMS” bonds and “ENMAN” bonds.

*See P.46 “Review of Operations: Wholesale”

Domestic and Overseas Sales Networks

In the domestic investment banking field, Daiwa Securities SMBC has an advantage over major foreign investment banks due to its extensive sales network, covering investors in both Japan and overseas. In this regard, Daiwa Securities, which mainly serves domestic individual investors, plays an important role, providing a broad channel linking the ¥1,500 trillion of financial assets held by individuals with the ever-increasing fund procurement needs of corporations. Also, with a powerful network of domestic and overseas institutional investors, backed by the ability to deliver impressive research, Daiwa Securities SMBC is well positioned to demonstrate its solution prowess.

FY 2005 Lead Manager League Table for Daiwa Securities SMBC

	Total corporate bonds (Corporate & Agency bonds)	IPOs	Primary and secondary equity offerings	SAMURAI	ABS
1st	Daiwa Sec. SMBC 19.2%	Daiwa Sec. SMBC 31.0%	Nomura 34.1%	Nikko Citigroup 20.2%	Mizuho 19.5%
2nd	Nomura 18.7%	Nomura 22.3%	Daiwa Sec. SMBC 26.2%	Mizuho 20.1%	Daiwa Sec. SMBC 16.2%
3rd	Mitsubishi UFJ 17.2%	Nikko Citigroup 21.1%	Nikko Citigroup 10.3%	Nomura 12.5%	Mitsubishi UFJ 13.2%
4th	Mizuho 16.8%	Mitsubishi UFJ 9.9%	Mizuho 7.6%	Daiwa Sec. SMBC 11.2%	Nikko Citigroup 6.8%
5th	Nikko Citigroup 14.2%	CSFB 3.5%	Goldman Sachs 6.1%	Mitsubishi UFJ 10.7%	Nomura 6.3%

Note: Primary and secondary equity offerings based on settlement dates, IPOs based on listing dates, total corporate bonds and SAMURAI based on launch dates. Joint lead manager allotment based on underwritten amount. REITs are not included.

Source: Daiwa Securities SMBC, I-N Information Systems, Ltd for ABS table

M&A Advisory League Table for Any Japanese Involvement Announced

Number of deals (Jan 1, 2005 -Dec 31, 2005) Source: THOMSON FINANCIAL

Rank	Adviser	Number of deals	Market share (%)	Transaction amount (\$ million)
1	Mitsubishi UFJ Financial Group	159	5.3	55,044.40
2	Nomura	143	4.8	93,046.10
3	Mizuho Financial Group	128	4.3	18,526.00
4	Daiwa Securities SMBC	120	4.0	19,434.00
5	Nikko Cordial Securities	83	2.8	3,683.50
6	KPMG Corporate Finance	53	1.8	23,876.40
7	Goldman Sachs	39	1.3	14,353.60
8	Citigroup	31	1.0	18,249.60
9	Merrill Lynch	29	1.0	62,243.70
10	PriceWaterhouseCoopers	25	0.8	5,534.60

Examples of Structured Bonds

Name of Structured Bond	Product Features
Callable bond	A bond which may be redeemed by the issuer prior to the maturity (early redemption) at a previously agreed upon time and price. Investors may be able to receive interests higher than those of ordinary bonds while taking on the risk of earlier redemption called "call provisions."
Floater bond	A bond whose interest payment is linked to a market interest rate, such as six-month interest rate. When the market interest rate rises, the interest payment increases but when they fall, the payment interest also decreases.
Reverse dual currency bond	In this bond, the principal and redemption are paid in yen and interests during the period are paid in a foreign currency. When the yen depreciates, interest payment increase. When the yen appreciates, interest payment decreases.
CMS bond (swap rate link bond)	A bond where interest payment is linked to the difference between long-term interest (example: 10-year or 20-year swap rate) and short-term interest (example: one-year or two-year swap rate). When the yield curve steepens (increase in long-and short-term interest difference), interest payment increases and when the curve flattens (decrease in long-and short-term interest difference), interest payment decreases.
ENMAN bond	Interest payment is linked to the stock price and the principal is fully redeemed. When the stock price rises, interest payment increases but the bond is subject to earlier redemption.



Q.05 What are the Group's current activities and future strategies for the principal investment business?

A. In the principal investment business, we invest our own capital mainly in corporations, monetary claims, and real estate, with the aim of generating high returns while controlling risks. Daiwa Securities SMBC Principal Investments (Daiwa Securities SMBC PI), a wholly owned subsidiary of Daiwa Securities SMBC, is engaged in this business. Under the Group's new medium-term management plan, we are focusing on this business as one of the four pillars of the Group's operations.

As of March 31, 2006, the Daiwa Securities SMBC PI's investment amount was ¥310 billion, representing a sharp 3.4-fold jump from a year earlier. Going forward, we will seek to generate stable earnings through exits from our current investments, while identifying new investment opportunities. By March 2009, Daiwa Securities SMBC PI is targeting to increase the investment amount to more than ¥400 billion.

SMBC Alliance Leads to Lucrative Investments

Amid ongoing amendments to laws and accounting systems and growing requests from shareholders for improvements in corporate value, principal investments, which increase investment value by participating in the management of the investee company, are assuming a greater presence. Meanwhile, investment techniques are becoming more diverse, exemplified by brisk M&A activities as well as delistings through management buyouts and carve-outs (partial spin-offs) funded by the growing private equity market. In this context, opportunities for principal investments are expected to increase even further. To invest our own capital with maximum efficiency and reap high returns, we must be able to identify and seize good-quality investment opportunities. Daiwa Securities SMBC PI working closely with Sumitomo Mitsui Banking Corporation (SMBC), is constantly finding deals and compiling an impressive record of high-quality investments.

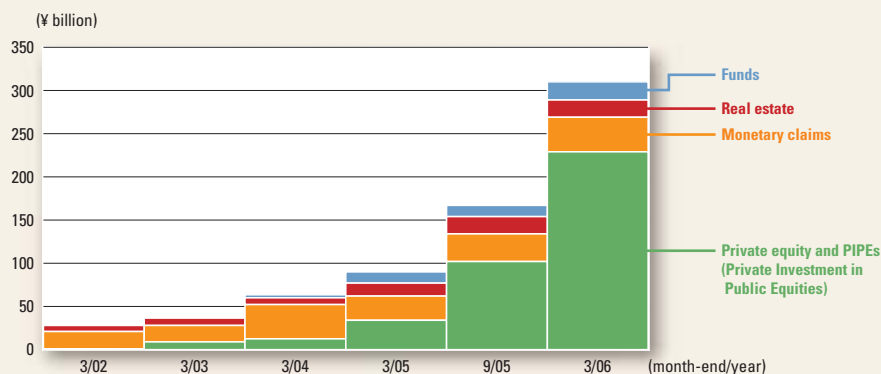
To pinpoint investment targets, we bring together the broad customer base of SMBC with the renowned due diligence (fair assessment of capital) capabilities of Daiwa Securities SMBC PI. As a result, Daiwa Securities SMBC PI has concluded numerous symbolic deals. In FY 2005, it made a number of large-scale investments, including SANYO Electric (underwriting ¥125 billion out of ¥300 billion of preferred shares) and Sumitomo Mitsui Construction (underwriting ¥49 billion of preferred shares.) As a result, Daiwa Securities SMBC PI had a fiscal year-end investment amount of ¥310 billion, a 3.4-fold increase from a year earlier. Regarding investments in Japanese corporations, Daiwa Securities SMBC PI is one of the largest players in the market.

Going forward, we will focus further resources on investments in corporations in order to maximize opportunities. At the same time, Daiwa Securities SMBC PI will establish a stable income-generating foundation through investments in monetary claims and real estate. It will also actively target new areas, such as emissions trading, to augment our income base.

Boosting Income through Constant Exits of Investments

In FY 2006 and beyond, expanding profits from ongoing exits of investments will become an increasingly important part of the Group's principal investment business. Back in September 2004, Daiwa Securities SMBC PI invested ¥3.5 billion in Cabin, a women's fashion retailer. In April 2006, it sold all of its holdings in Cabin to Fast Retailing, a casual fashion chain store operator. This was Daiwa Securities SMBC PI's first full-scale exit from a private equity investment. Daiwa Securities SMBC PI will continue to utilize its expertise accumulated over the years in corporate revitalization and value enhancement, and cooperate with Group companies to achieve remarkable earnings growth in the principal investment business.

Daiwa Securities SMBC Principal Investments: Total Investment Amount



Private Equity and PIPEs as of July 2006

Company	Investment period (beginning)	Company summary
SANYO Electric Co., Ltd. (Tokyo Stock Exchange 1st Section listed)	March 2006	Major electrical appliance company. Manufactures service products and provisions in consumer, commercial, component, and other 4 divisions. Global leader in rechargeable batteries.
Sumitomo Mitsui Construction Co., Ltd. (Tokyo Stock Exchange 1st Section listed)	September 2005	Major general contractor. In particular, PC bridges in civil engineering and high-rise apartment buildings in construction.
Maruzen Co., Ltd. (Tokyo Stock Exchange 1st Section listed)	August 2005	Major bookstore. Has bookstores nationwide, and also involved in sale of stationary and office supplies, with strength in academic information services for universities and government agencies and libraries operation outsourcing services.
Mitsui Kanko Development Co., Ltd.	August 2005	Major hotel chain. Engaged in hospitality business, mainly hotels and leisure, with 25 facilities nationwide.
Mitsui Mining Co., Ltd. (Tokyo Stock Exchange 1st Section listed)	March 2005	Major natural resource supplier. Centering on sale of coal, cokes, oil, and other energy resources, the company operates businesses in chemical engineering machinery, construction materials, transportation, environment, and other areas.
Daiwa Seiko, Inc. (Tokyo Stock Exchange 1st Section listed)	October 2004	Sporting goods manufacturer centered on fishing gear. A global leader in fishing gear. Also handles tennis, golf, and cycling gear.
Arysta Life Science Corporation	September 2003	World-class agrochemical manufacturer. Besides agrochemical business, the company engages in healthcare, organic chemical intermediates, and animal health products businesses. It also manufactures environmental measurement systems.
Meisei Electric Co., Ltd. (Tokyo Stock Exchange 2nd Section listed)	February 2003	Measures earthquakes, tsunamis, and other meteorological phenomena and develops disaster prevention systems. Its satellite measurement technology is the highest level in Japan.
OGIHARA CORPORATION,	January 2003	The world's largest press metal mold manufacturer for automobiles. Supplies press metal molds to automobile manufacturers around the world.
Nikko Electric Industry Co., Ltd.	December 2001	Automobile component manufacturer. Mainly manufactures electrical components for diesel engines.



Q.06 What plans are in place for the alliance with Sumitomo Mitsui Financial Group?

- A. The Daiwa Securities Group has a strong alliance with Sumitomo Mitsui Financial Group (SMFG). The alliance is of major strategic importance and a key factor in our competitive edge. At present, there are no plans to integrate or merge the two groups, but we intend to actively pursue further alliances and collaborations in areas where synergies can be derived.

Current Status of Alliance and Collaboration

The alliance between the two groups has led to the establishment of three companies: Daiwa Securities SMBC, Daiwa SB Investments, and NIF SMBC Ventures, established in October 2005 through the merger of NIF Ventures of the Daiwa Securities Group and SMBC Capital of SMFG.

Daiwa Securities SMBC is the only hybrid-type wholesales securities company formed jointly by a leading securities company and a megabank. It has a major presence in the industry, providing underwriting, M&A advisory, and a host of other investment banking services. In the asset management field, Daiwa SB Investments has built a solid track record in pension fund management, and especially renowned for its value-style investment approach. It also launches and manages investment trusts to be sold through banks. NIF SMBC Ventures, meanwhile, is one of Japan's most prominent venture capital firms. It has both the expertise of a bank in terms of identifying new deals and of a securities company with respect to raising corporate value.

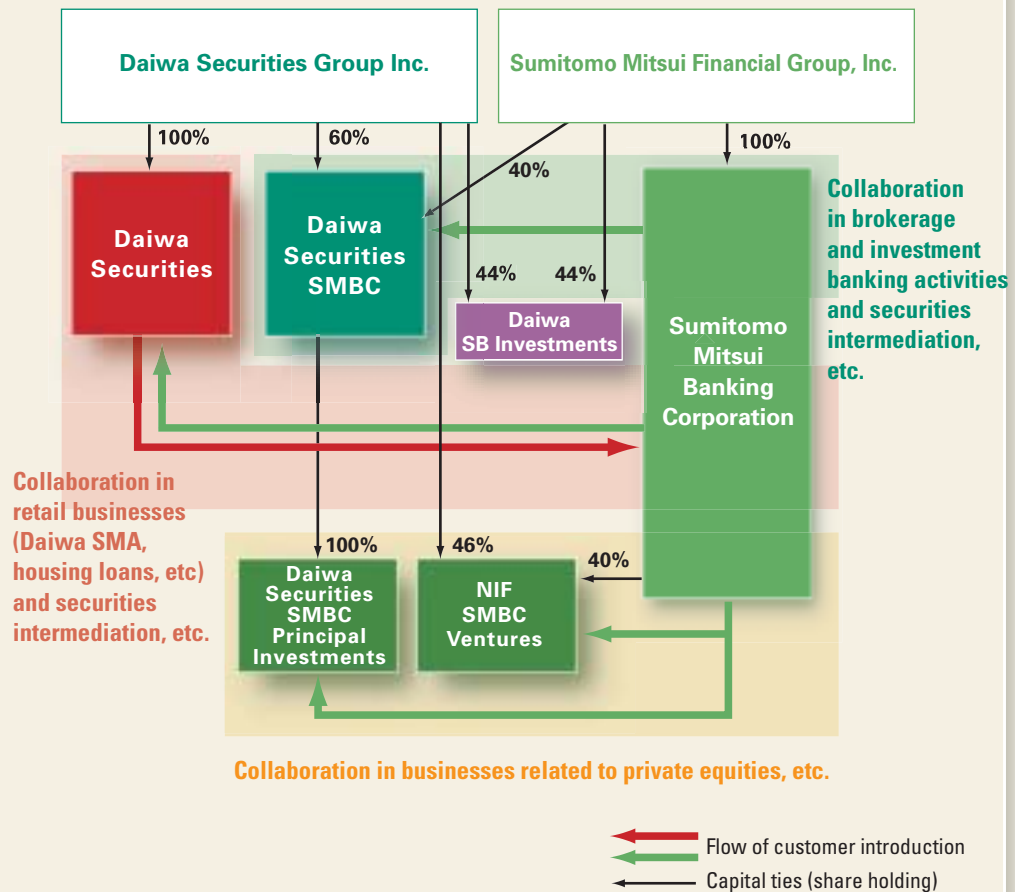
As illustrated by these joint venture companies, the Daiwa Securities Group and SMFG have alliances and collaborations in a multitude of business fields. Together, we are building a framework that allows both parties to fully demonstrate their respective strengths—most notably the broad customer bases of the two groups, and experience and expertise of the Daiwa Securities Group in the capital market. For example, in the wholesale area, we cooperate in the financing arrangement business where Sumitomo Mitsui Banking Corporation (SMBC) introduces client companies with financing needs to Daiwa Securities SMBC. In addition, structured bonds and other asset management products developed by Daiwa Securities SMBC are made available to SMBC, which acts as a securities intermediary. We also collaborate in the investment business, by providing financial solutions for corporate revitalization and supporting venture enterprises in their listing procedures.

Future Plans

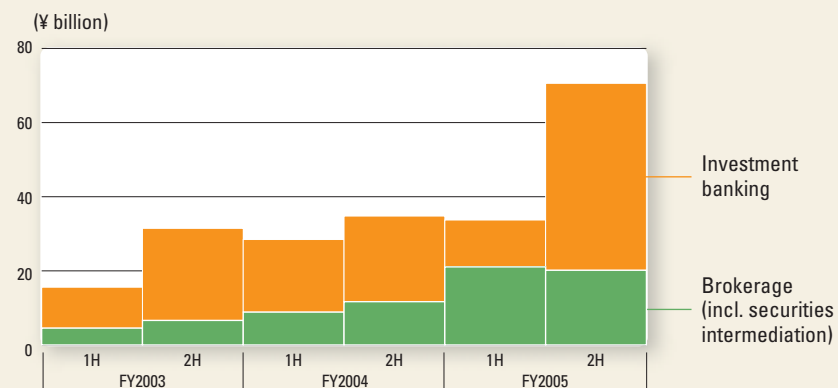
In these ways, the proactive alliances between the Daiwa Securities Group and SMFG are generating major benefits, particularly in the wholesale securities business. On the other hand, there are no capital tie-ups in the retail business between the two groups. Nevertheless, with the help of Daiwa Securities SMBC, Daiwa Securities is involved in the securities intermediation business where SMBC sells structured bonds, foreign bonds, and other products to its corporate clients. This relationship is making steady progress. Furthermore, we are expanding the scope of our alliances in various fields targeting individual investors. Through the “Daiwa SMA” service for high-net-worth individuals, for example, Daiwa Securities addresses the needs of super-wealthy customers of SMBC. We are also working together on the loan business by introducing SMBC's housing loans to Daiwa Securities' individual customers.

Stepping up these and other tie-ups in the future, the Daiwa Securities Group will actively work on the collaboration with SMFG, including capital alliances, in fields where the greatest synergies can be generated and benefits for our stakeholders can be maximized.

Capital Ties and Collaboration Chart of the Daiwa Securities Group and Sumitomo Mitsui Financial Group



Revenues from Collaboration with Sumitomo Mitsui Banking Corporation





Q.07

What are the capital allocation and dividend policies?

- A. Targeting sustainable growth in shareholder value, the Daiwa Securities Group considers return on equity (ROE) as a key benchmark for measuring how efficiently it manages its shareholders' capital. To maintain ROE at a high level, we allocate more capital to businesses that are expected to generate higher revenues, while actively returning profits to shareholders when surplus capital becomes available. We have also introduced an integrated management of risk, return, and capital, enabling us to allocate capital efficiently while carefully monitoring both risk and return. In these ways, we work to achieve a steady increase in earnings on a consolidated basis.

ROE-focus and Capital Allocation

Our policy is to allocate capital efficiently based on the cost of capital for each business division. By maintaining a profit margin in excess of the cost of capital for each division, we will realize higher consolidated ROE.

Under the Group's new medium-term management plan, we are targeting consolidated ordinary income of ¥350 billion or higher. Once we achieve this target, we expect the retained earnings alone will push up shareholders' equity to exceed ¥1 trillion by the end of FY 2008, the final year of the plan. The increased capital will be allocated efficiently in order to maintain consolidated ROE at 15% or higher.

In the retail and asset management businesses, we plan to raise ROE by increasing the operating assets of each business while keeping capital at current levels. In the wholesale and investment areas, we will actively increase capital allocation, adopting an aggressive risk approach aimed at producing high returns. We will also retain standby capital in preparation for future opportunities in areas such as new businesses, strategic investments, and M&As.

Dividend Policy

Reflecting the Group's consolidated results, we pay dividends based on a consolidated payout ratio of 30% semiannually. However, if we consider retained earnings to be sufficient for future business expansion, and our financial situation is stable, we will adopt a more proactive stance towards profit distribution, including share buybacks and dividend increase.

Integrated Management of Risk, Return, and Capital

In the integrated management of risk, return, and capital, we will implement the following strategies. First, we will retain ample capital to finance business expansion and allocate the remaining capital efficiently according to the attribute of each business. Second, we will accurately gauge risk levels for each business and determine capital costs on the basis of such risks. Third, we will raise and stabilize earnings and therefore maintain profit margins well above the cost of capital. In these ways, the Daiwa Securities Group will strive to maintain solid profitability and stability and achieve sustainable growth in its corporate value.

Capital Allocation under New Medium-term Management Plan

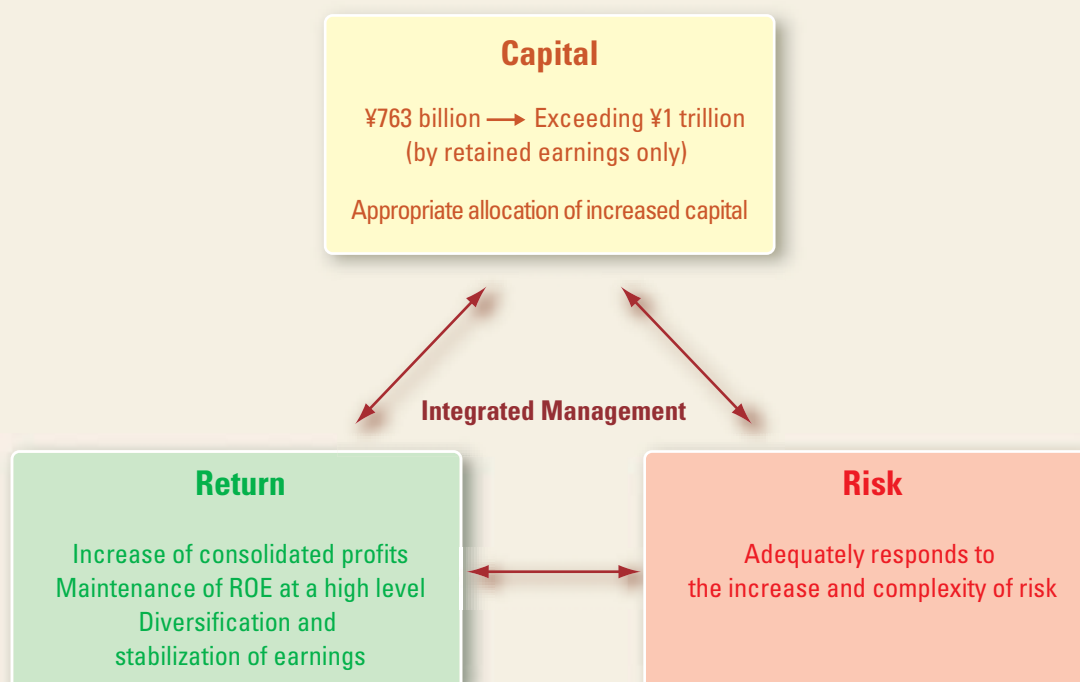
(¥ billion)	End of FY 2005 (after dividends)		Ordinary income target under the plan	End of FY 2008 (after dividends)	
	Shareholders' equity	ROE		Assumed shareholders' equity	ROE (expected)
Consolidated	763	19.4%	350	1,090	15%
Consolidated (incl. minority interest)	988	—	—	1,380-1,440	—
Retail	203	25.9%	130	250	26%
Wholesale	516	18.2%	190	650-800	14%-17%
Asset Management	42	12.1%	21	60	21%
Others	226	—	—	330-420	—

Note1: Need to be discussed and adjusted between capital providers for wholesale and investment divisions under implementation of the new medium-term management plan

Note2: Shareholders' equity for the period ending March, 2009 is estimated based only on an increase in retained earnings assuming profit targets under the new medium-term management plan are achieved

Note3: ROE for the period ending March, 2009 is calculated by using estimated shareholders' equity assuming that profit targets under the new medium-term management plan are achieved

Integrated Management of Risk, Return, and Capital





Q.08 What are the plans for new businesses?

A. We expect securities-related businesses, which represent the Group's main focus of operations, to expand in a number of directions. We have identified four potential domains for future business development: loans, commodities, real estate, and businesses linking finance and the Internet and media. To prepare for growth in these areas, we will make strategic investments and seek alliances with companies in other industries.

Loans

In the retail area, Daiwa Securities has for some time provided securities-backed loans as an auxiliary business. We plan to step up these activities and reinforce our loan business. By offering customers quick and simple procedures to meet their diversified fund-raising needs, we will be well-poised to deliver more comprehensive asset management advice. To this end, we will seek to provide loan services fully within the Group, in which the loans will be collateralized by customers' assets (securities) in our custody. At the same time, we will consider alliances with outside parties in areas where our lending expertise is inadequate, such as mortgage-backed loans. As a first step, we established Daiwa Securities Loan, a wholly owned subsidiary of Daiwa Securities Group Inc. We are also pursuing an alliance with Sumitomo Mitsui Banking Corporation in the housing loan field.

Commodities

The Group is planning to expand the list of available investment products beyond traditional items, such as stocks and bonds, to include a range of primary commodities such as precious metals and energy. We are looking to establish a framework that will ultimately allow trading in all products related to the macro economy.

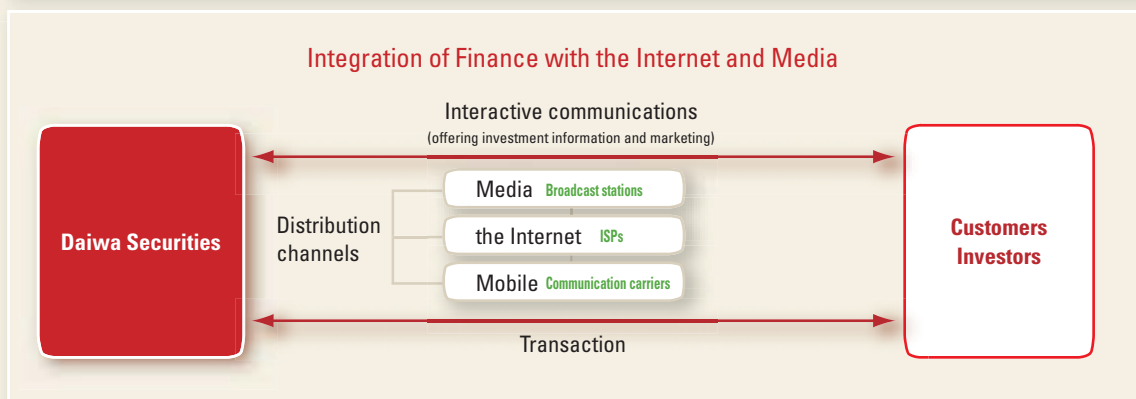
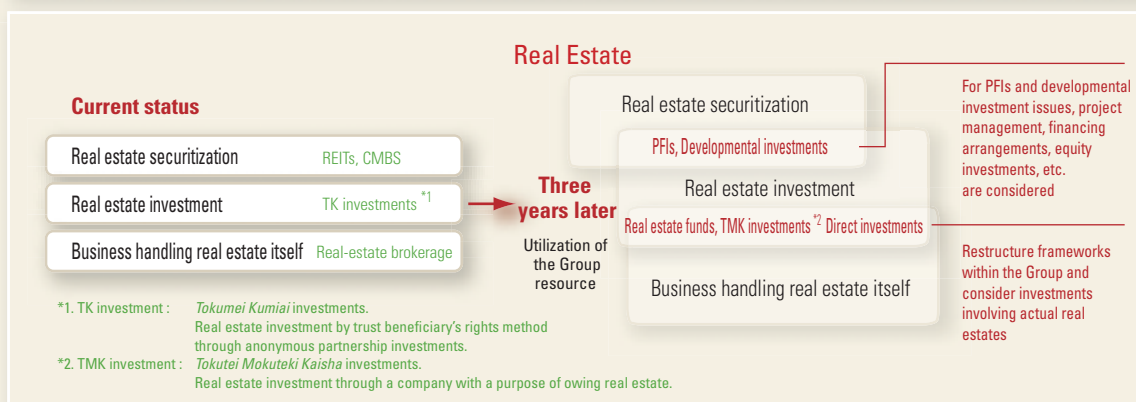
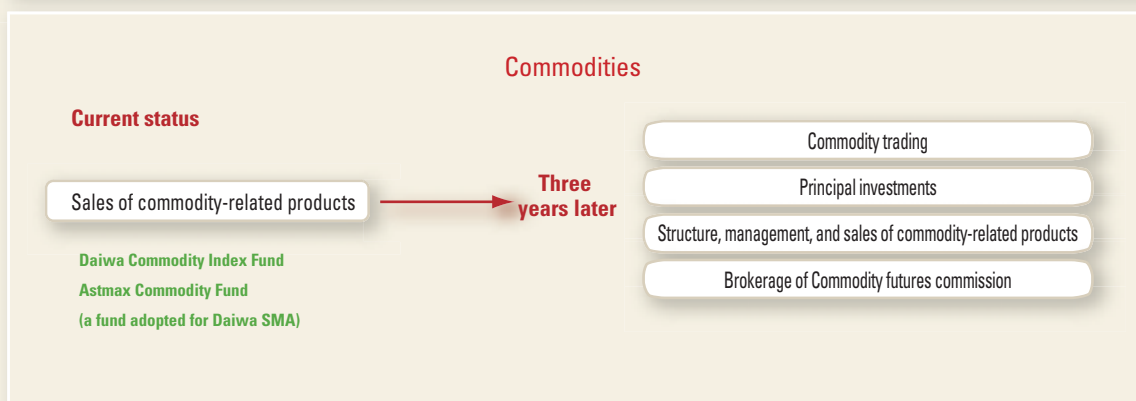
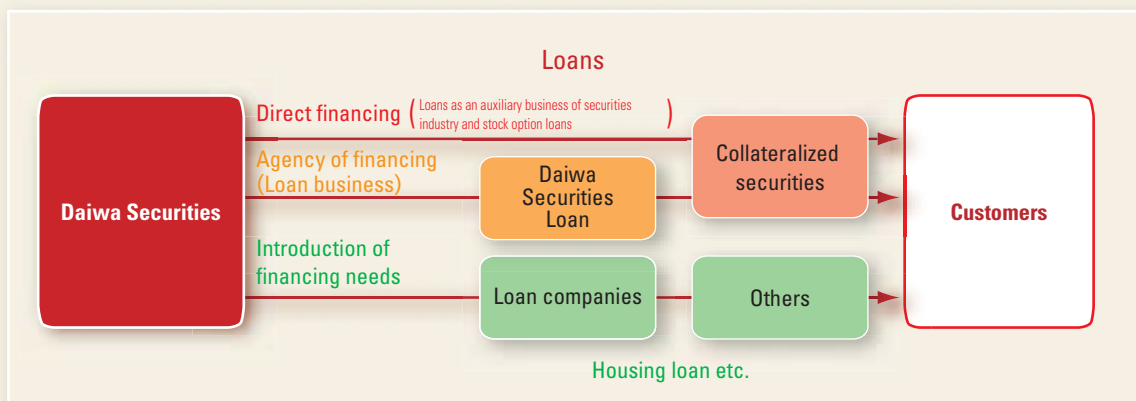
Real Estate

The Group has accumulated considerable know-how in businesses related to real estate, including real estate investment trusts (REITs), commercial mortgage-backed securities (CMBS), and other securitized products. Also we have some experience in real estate investment, as well as real estate brokerage and other businesses where we actually handle the real estate itself. Going forward, we will harness this know-how to cultivate new businesses.

For example, private finance initiatives (PFIs) and the arrangement of project finance are two areas in which the Group can utilize its expertise in real estate securitization and real estate investment. We will also consider creation of real estate funds, where we can use our know-how related to real estate investment and handling of real estate itself.

Integrating the Finance world with the Internet and Media

The Daiwa Securities Group will set up new sales channels by reinforcing alliances with broadcasting networks, telecommunications carriers, and Internet service providers (ISPs). We will also provide customers with video pictures and other high-value-added information contents. Through these measures, the Group will enhance convenience for customers and sharpen its competitive edge as a result. Currently, we have initiated projects such as investment in and delivery of financial and economic contents to NEC BIGLOBE, the ISP spin-off of NEC Corporation, and video broadcasts of securities news via Microsoft's Media Online service.



Group's New Medium-term Management Plan: "Passion for the Best 2008"



The Daiwa Securities Group is pleased to announce that it greatly surpassed the performance targets set out in its previous medium-term management plan, "Best Brand Daiwa 2005", which ended in the year under review. Building on this achievement, we launched a new Group's medium-term management plan for the three years from FY 2006 to FY 2008, entitled "Passion for the Best 2008". Under the new plan, we are aiming to be "Japan's best securities group", built on customers' trust and employees' passion. In the following pages, we provide a review of the previous plan and an outline of the new plan.

Review of Previous Plan

Under the previous plan, we targeted the No. 1 in "quality" and "productivity", focusing on five key areas of our operations: the retail business, trading revenues, businesses related to Japan's economic revival, human resource management, and corporate governance. For these areas, we set four numerical targets to be achieved by March 2006 (see Table 1).

To further reinforce our initiatives in these areas, we also devised five core targets, centering on the retail business, for FY 2005, the final year of the plan (see Table 2).

While benefiting from favorable stock market conditions, we undertook multiple proactive initiatives aimed at achieving these targets. For example, we reinforced our online trading systems and pursued synergies between our online and branch operations. We also sought to expand our net assets under custody by promoting equity investment trusts such as "Daiwa Global Bond Fund" and other products. In addition, we promoted "Daiwa SMA", our wrap account services for high-net-worth individuals and fortified our "value chain" by stepping up intra-Group collaborations. To meet the diversified needs of individuals and asset management needs of corporations, we developed and delivered a number of high-value-added products, such as structured bonds. As a result, we largely exceeded the targets of the previous management plan (shown in Table 1), and achieved four of the five targets set for FY 2005 (shown in Table 2).

Meanwhile, the Group made outstanding progress in various league tables for investment banking operations and analyst rankings (see Table 3), which provide an objective benchmark for evaluating "quality" and "productivity."

Table1: Achievements for the Previous Plan "Best Brand Daiwa 2005"

	Performance in FY 2002 (reference)	Target in FY 2005	Performance in FY 2005
Consolidated ordinary income	¥29.2 billion	¥127 billion	¥260.6 billion
Consolidated ROE	(Final loss ¥6.3 billion)	10%	19.4%
Consolidated trading revenues	¥93.9 billion	¥140 billion	¥224.9 billion
Daiwa Securities assets under custody	¥12.1 trillion	¥21.5 trillion	¥27.6 trillion

Table2: Achievements in FY 2005

	Target	Performance
Online margin balance	¥200 billion	¥168.0 billion (March 31, 2006)
"Daiwa SMA" contract assets under management	¥100 billion	¥159.1 billion (March 31, 2006)
Net assets of Daiwa Global Bond Fund	¥1 trillion	¥1.03 trillion (March 31, 2006)
Investment trust agency commission	¥ 2 billion per month	¥2.3 billion (March, 2006)
Market capitalization ranking	In the top 50	47th (March 31, 2006)

Table3: Key Indicators for No.1 Position in "Quality" and "Productivity"

		FY 2002	FY 2003	FY 2004	FY 2005
Lead manager league table (Daiwa Securities SMBC)	Total corporate bonds	2nd	1st	1st	1st
	IPOs	2nd	2nd	2nd	1st
	Primary and secondary equity offerings	2nd	2nd	1st	2nd
	M&A* (calendar year basis)	3rd	7th	1st	8th
Analyst ranking ** (Daiwa Institute of Research)		2nd	1st	1st	1st

* Thomson Financial ["M&A advisory league table for any Japanese involvement" (based on trading value)]

** Analyst ranking by Nikkei Financial Daily

Overview of the New Plan “Passion for the Best 2008”

At present, major changes are seen in markets, investors, and corporations, which are surrounding the Group. Particularly noteworthy is the unprecedented shift of individual financial assets into the securities markets, reflecting an acceleration of the “savings to investment” move, as well as aggressive fund-raising by corporations and increasingly vibrant M&A activities.

Based on its understanding of this business environment, the Daiwa Securities Group launched a new Group’s medium-term management plan,—“Passion for the Best 2008”.

In developing the plan, we first envisaged how the environment will evolve over the next three years. Based on this, we formulated a “Group Vision” of the entire Group and its various business divisions three years from now. We then set “Performance Targets” aimed at realizing the vision. Finally, we devised personnel, financial, IT, and other basic Group strategies for achieving the performance targets.

Business Environment Assumptions

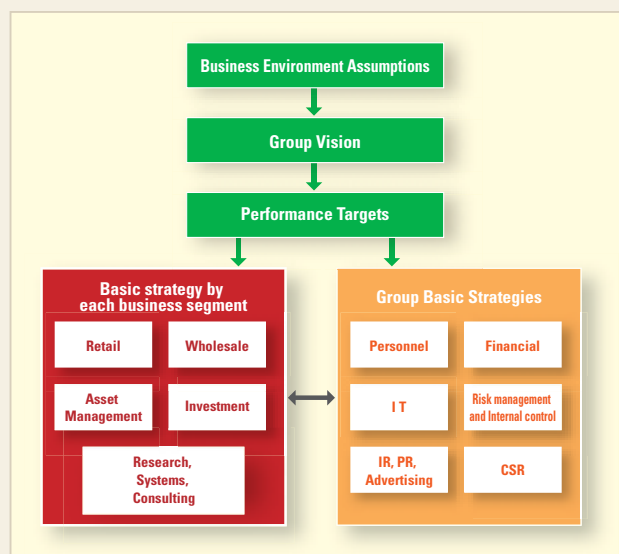
With respect to the business environment, we envisage the following changes in economy, market, and competition, as well as in regulatory frameworks and trends among individuals and corporations.

- The Japanese economy will leave behind the deflationary era and enter into post steady growth.
- The consumer price index (CPI) will turn upwards in 2006, although subsequent inflation will only be moderate.
- Reflecting healthy corporate results, Japanese companies will continue to attract investments from overseas, and the stock market will follow a rising trend.
- Due to difficult financial conditions, the Japanese government will be pressured to maintain a low-interest-rate environment, meaning that rate rises in both short-term and long-term will be limited.
- The enactment of the New Company Law will increase opportunities in the investment banking field, as M&As and fund-raising, and asset management techniques will be diversified.
- The shift in individual financial assets from savings to investment will continue.
- Companies with solid results will step up capital expenditures and M&A activities. Weaker companies, by contrast, will seek to restructure or sell off businesses and assets.

Group Vision

The Group’s vision is to be “Japan’s best securities group”, built on the customers’ trust and employees’ passion. By “Japan’s Best,” we mean achieving the top domestic position in multiple areas—not only financial performance but also productivity and customer and employee satisfaction levels.

Three years from now, the Daiwa Securities Group will have four core businesses: its three current core businesses in retail securities, wholesale securities, and asset management, as well as the investment business, which is growing into a core domain. The Group will have a unique business model and build an unassailable competitive position in the industry. Moreover, we will have generated record-high profits and posted ordinary income that is worthy of our position as Japan’s best securities group. We will also



have developed our business overseas, centering on Asia, to a level unrivaled among Japanese securities firms.

With respect to financial strength, three years from now the Group will have established a stable and diversified income base, allowing it to consistently generate earnings above the cost of shareholders’ capital, even in deteriorating market conditions. Customers will be fully satisfied with our services. This will be reflected in our position at the top of various customer satisfaction surveys and rankings pertaining to the securities business. In addition, our pursuit of CSR initiatives and rigorous control of compliance will earn us the deep trust of all stakeholders. Equally important, our employees will be brimming with pride and self-respect, keenly aware of their role in Japan’s best securities group and embracing their work with resolve and passion.

Performance Targets

Under the Groups’ new medium-term plan, the Daiwa Securities Group has set a consolidated ordinary income target of ¥350 billion or higher for FY 2008—surpassing the previous all-time high of ¥339.1 billion, achieved in FY 1989. We are also pursuing consolidated ROE of 15% or higher. By business segment, we are targeting at least ¥45 trillion in Daiwa Securities’ assets under custody in the retail business and No. 1 in various lead manager league tables in the wholesale business. In the asset management business, our objectives are to have ¥11 trillion or higher in equity investment trusts and ¥5 trillion or higher in investment advisory assets. All of these numerical targets are set as absolute minimums that we must achieve. For more specific aspects of our business, such as online margin balance and “Daiwa SMA” contract assets, we will set targets year-by-year as we address changes in the operating environment.

The management visions, performance targets, and basic strategies of each business division are detailed in the “Review of Operations” section of this report from page 35 to 64.

Review of Previous Medium-term Management Plan: “Best Brand Daiwa 2005”

Core Objectives	Action Plans	
Strengthen retail securities business		
	Sharpen competitive edge in retail business by enhancing service quality. Remain at the forefront of the industry by reinforcing ability to supply products from wholesale and asset management divisions to the retail division.	Improve consulting capabilities
		Expand channels for customer contact and enhance its quality
		Boost product supply capabilities
		Enhance customer satisfaction level
		Pursue higher operating efficiency
Strengthen ability to develop and deliver high-value-added products and services		
	Raise ability to seize business opportunities and develop and supply products through collaboration between retail and wholesale divisions, in order to maximize net gain on trading.	Create and supply high-value-added products
		Improve net gain on trading
Enhance presence in businesses supporting Japan’s economic revival		
	Expand businesses in M&As, principal finance, and other areas related to corporate restructuring. Further raise profile as an investment bank that contributes to Japan’s economic revival.	Focus on M&As
		Focus on principal investments
Upgrade human resource management system		
	Pursue highly effective human resource management by comprehensively implementing performance-based standards and providing career planning support to expand career choices. Design and operate systems that realize the entire Group’s full potential, and establish a leading-edge personnel system model for the Group management.	Upgrade human resource recruiting, education, and training
		Enhance personnel evaluation system
		Expand career management opportunities
		Reform personnel incentive system in response to Law for Measures to Support the Development of the Next Generation
Establish effective corporate governance framework		
	Increase the number of outside directors to ensure highly transparent and objective management from the perspective of shareholders and other stakeholders inside and outside the Group. Shift to a “committee system” in FY 2004.	Shift to a “committee system”
		Increase the number of outside directors
		Set up the Group-wide internal control system
		Introduce new executive compensation system

Achievements

- Developed nationwide network of the satellite-branch system: Implemented area-marketing system for nationwide branch network, with 12 metropolitan areas and 12 regional groups (as of March 31, 2006)
- Appointed senior consultants: Assigned 226 consultants with high-level qualifications (S-Level) as senior consultants to 22 branches (as of March 31, 2006)
- Expanded SMA Division: Upgraded section in charge of SMAs to division status, and assigned 30 SMA consultants (as of March 31, 2006) to develop services for high-net-worth individuals
- Strengthened online business: Enhanced “Daiwa Direct” course (reduced brokerage rate for equity transactions, upgraded service contents, and reinforced online trading system)
- Developed securities intermediation business: Formed securities intermediary alliances or alliance agreements with SMBC, The Sumitomo Trust & Banking, and 30 regional banks; formed online trading alliance with Nissen (direct- and mail-order sales company)
- Expanded equity investment trust assets under custody: Daiwa Global Bond Fund assets under management surpassed ¥1 trillion
- Broadened “Daiwa SMA” (wrap accounts for high-net-worth individuals): ¥159 billion in contract assets of “Daiwa SMA” (as of March 31, 2006)
- Continued conducting surveys to gauge customer satisfaction level
- Continued improving after-sales follow-up services
- FY 2005 ROE of Daiwa Securities: 25.9%

- Daiwa Securities SMBC seized top rankings in lead manager league tables: No. 1 in both total corporate bonds and IPOs
- Expanded SPS (Structured Principal Solution) Program (high-value-added principal financing program for corporations): Underwrote 22 issues, valued at around ¥230 billion, in FY 2005
- Expanded sales of structured bond products to corporate clients: Sold ¥680 billion in FY2005
- Consolidated net gain on trading in FY 2005: ¥224.9 billion

- Income from M&A advisory business surpassed ¥10 billion for first time in FY 2005
- Thomson Financial “M&A advisory league table for any Japanese involvement”: Ranked 4th in number of deals and 8th in trading value (calendar 2005)

- Made large-scale investments in corporations, notably SANYO Electric (¥125 billion) and Sumitomo Mitsui Construction (¥49 billion)
- Increased presence in domestic investments: Total investment amount of ¥310 billion (as of March 31, 2006)

- Raised quality of new-graduate recruits: Major jump in employer brand ranking among college students
- Upgraded systems for nurturing leaders, such as Daiwa Management Academy (for general managers) and Daiwa Leadership Program (for deputy general managers)
- Provided incentives for acquisition of qualifications through introduction of “qualification points” system for promotions
- Launched the “President’s Awards” in FY 2004 (Daiwa Securities) and “Daiwa Securities Group Inc. President’s Awards” in FY 2005
- Comprehensively adopted performance-based incentives, including compensation based on job category and more segmentalized personnel evaluation process
- Expanded intra-Group job posting system: 114 qualified since system introduced in 2000 (out of 572 applicants)
- Introduced “Support Plan for Working Mothers”
- Introduced other new systems, including a salesperson rehiring system; extended maternity leave and child-rearing periods; launched subsidy scheme for sending children to child-minding facilities; upgraded vacation system

- Completed in FY 2004

- Has increased from two in FY 2002 to four in FY 2004

- Set up Internal Control Committee in FY 2003 to discuss and make decisions on Group-wide risk management and internal control (Internal Control Committee became subcommittee of Executive Committee in FY 2004 upon switch to a “committee system”): Met four times in FY 2005 (once every three months)

- Performance-based compensation: Provided based on consolidated ordinary income and consolidated ROE, taking into account customer assets, productivity, customer satisfaction level, and individual contribution
- Share-price-linked compensation: Provided stock options, equivalent in value to certain proportion of basic salary, to strengthen link with shareholder value



Overview of New Medium-term Management Plan: “Passion for the Best 2008”

Business Environment Assumptions	Company Name	Daiwa Securities Group Strategies
		Performance Targets (FY 2008)
Economy <ul style="list-style-type: none"> Steady domestic economic growth following end of deflationary era CPI to turn upwards in 2006, but subsequent inflation to only be moderate High levels of capital investment, following sluggish investing in past and labor shortage caused by massive retirement of baby-boomers <p>GDP growth rate: 3.7% (nominal); 2.8% (real) Annual CPI: 0.8%</p> Market Conditions <ul style="list-style-type: none"> Reflecting healthy corporate results, Japanese companies will continue attracting investments from overseas; stock market will follow a rising trend Japanese government will be pressured to maintain low-interest-rate environment due to financial difficulties; short- and long-term rate rises will be limited Yen to appreciate, but not to an extreme <p>[Averages for FY 2006-2008] Call rate: 0.3% 10-year JGB yield: 2.4% Exchange rate: ¥99.5/US\$</p> <p>TOPIX: 1,870 points (March 31, 2009) TSE trading value (1st Section): ¥2.0-2.5 trillion/day (one way)</p> Competitive Environment <ul style="list-style-type: none"> Megabank-affiliated investment banks to expand operations Financial institutions to continue focusing on retail securities business Competition among online securities companies to intensify as share of online transactions in individual share trading approaches upper limit Individual Investors <ul style="list-style-type: none"> Total individual assets: ¥1,714 trillion (March 31, 2009) Average retail trading value: ¥1.1-1.5 trillion/day (FY 2008) Retirement allowances of baby-boomers: Around ¥40 trillion (baby-boomers: those born between 1946 and 1951) Corporations <ul style="list-style-type: none"> Fund-raising and asset management techniques to diversify Companies with solid results to step up capex and M&A activities Weaker companies to restructure or sell off businesses and assets Importance of investment funds (pension, real estate, etc.) to grow Regulation <ul style="list-style-type: none"> New Company Law enactment to boost investment banking opportunities as corporations pursue M&As and more diverse fund-raising and asset management techniques Privatization of postal services may enable post offices to rival banks as sales channels Adoption of general bond transfer system and complete switch to electronic stock certificates by 2009 will encourage greater patronage of securities companies Newly formulated Financial Products Trading Law to mainly involve review of solicitation rules, so will have minimal impact on Group's business 	Entire Group	
	Daiwa Securities Group Inc. and Group companies	Consolidated ordinary income: ¥350 billion or higher Consolidated ROE: 15% or higher
	Retail	
	Daiwa Securities	Ordinary income: ¥130 billion or higher Assets under custody: ¥45 trillion or higher (March 31, 2009)
	Wholesale	
	Daiwa Securities SMBC	Consolidated ordinary income : ¥190 billion or higher No. 1 rankings in league tables (Total equities, total bonds, M&A advisory)
	Asset Management	
	Daiwa Asset Management	Ordinary income (Total for 2 companies): ¥21 billion or higher Equity investment trust assets: ¥11 trillion or higher (March 31, 2009)
	Daiwa SB Investments	Investment advisory assets: ¥5 trillion or higher (March 31, 2009)
	Investment	
	Daiwa Securities SMBC Principal Investments	
	NIF SMBC Ventures	
	Research, Consulting, and Systems	
	Daiwa Institute of Research	

Basic Strategies

- **Personnel:** Attract most competent people in industry and provide them with highly motivating work environments where they can embrace new challenges
- **Financial:** Undertake integrated management of risk, return, and capital to achieve major growth and raise corporate value under the medium-term plan, thus maintaining solid and stable profitability
- **IT:** Further raise Group's IT value to address its business expansion
- **Risk management and internal control:** Manage economic assets and enhance performance evaluation by business division; establish internal control report system
- **IR, PR, advertising:** Establish corporate communications system worthy of "Japan's best securities group"
- **CSR:** Raise social evaluation and contribute to sound economic development

- **Build on track record as No. 1 in consulting, online, and "Daiwa SMA"**
[Targets for March 31, 2007]
 - Consulting** Equity investment trust assets: ¥500 billion (Daiwa Ryusei); ¥500 billion (Daiwa Japan High Dividend Equity Fund)
Foreign bond investment trust assets: ¥2 trillion (Daiwa Global Bond Fund)
 - Online** Online margin balance at "Daiwa Direct" course: ¥500 billion
 - Daiwa SMA** Contract assets under management: ¥300 billion
- **Reinforce corporate business:** Strengthen brokerage, investment banking, institutional businesses, and corporate pension fund businesses
- **Human resources:** Increase number of younger salespeople; improve work-environment for female employees

- **Boost absolute level of income**
Expand net gain on trading; promote solutions (such as SPS Program) tailored to customer needs; secure large-scale projects
- **Broaden customer base and strengthen origination capabilities through alliance with Daiwa Securities and SMBC**

- **Expand base of equity investment trust assets:** Equity investment trust assets under management of ¥8.5 trillion (March 31, 2009)
- **Further boost asset management capability**
- **Reinforce customer support and non-group channel sales**
- **Strengthen product supply capability:** 15 funds with asset under management of ¥100 billion or higher each;
6 funds ranked within industry top 30s (March 31, 2009) in asset under management
- **Improve asset management ranking:** Within top 3s for overall ranking by Rating and Investment Information (R&I)
- **Diversify products for domestic pension funds:** Pension fund assets under management of ¥3.1 trillion (March 31, 2009)
(including private placement investment funds)
- **Develop business in overseas markets**
- **Strengthen marketing of equity investment trusts:** ¥1.05 trillion in corporate assets (including investment advisory assets);
¥1.85 trillion in equity investment trust assets (March 31, 2009)

- **Expand investments:** Investment amount of ¥400 billion or higher (March 31, 2009)
- **Boost income through ongoing exits of existing investments:** ¥40 billion in revenues (FY 2008)
- **Use broad securities and banking networks to step up identification of high-quality investments**
- **Pursue increases in quality and scale**

- **Maintain and improve presence in research services:** Maintain No. 1 domestic analyst ranking
- **Materialize the Group IT strategies and provide reliable systems**
- **Nurture and provide system experts**



Review of Operations

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Retail

Daiwa Securities Co. Ltd.

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Wholesale

Daiwa Securities SMBC Co. Ltd.

48

Asset Management

Daiwa Asset Management Co. Ltd.

Daiwa SB Investments Ltd.

55

Investment

Daiwa Securities SMBC Principal Investments Co. Ltd.

NIF SMBC Ventures Co., Ltd.

60

Group Support

Daiwa Institute of Research Ltd.

Daiwa Securities Business Center Co., Ltd.

Daiwa Property Co., Ltd.

Retail

Daiwa Securities Co. Ltd.

Business Features

Daiwa Securities provides its customers, mainly individuals, with a wide array of financial products and services that meet their diversified asset management needs. These offerings are provided through multiple sales channels, including branches, a call center, and the Internet. Daiwa Securities also serves unlisted companies, as well as financial institutions and other listed companies outside the sales territory of Daiwa Securities SMBC, the wholesale business arm of the Daiwa Securities Group.

The competitive edge of Daiwa Securities resides in its ability to provide highly competitive products and services through a wide variety of channels in cooperation with other members of the Group, which have industry-leading capabilities in such areas as product development, asset management, and research.

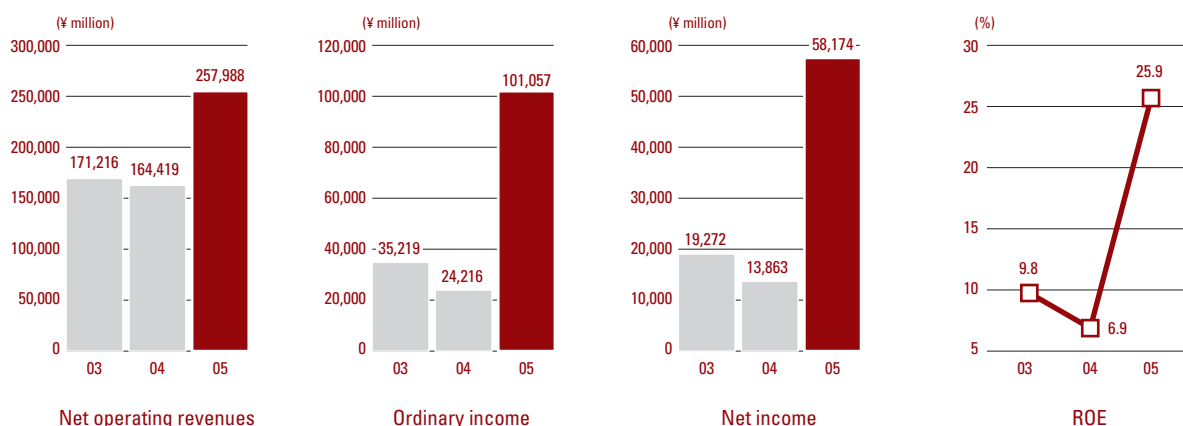
Individual customers, in particular, may choose from two service “courses,” depending on their specific needs: (1) “Daiwa Consulting” course, where specialized services are provided by sales staff through face-to-face consulting; and (2) “Daiwa Direct” course, a highly convenient, reasonably priced service where an abundance of information and financial products are offered mainly online. In either course, customers have free access to a wide range of investment information and products and services offered by Daiwa Securities.

“Daiwa SMA”, a separately managed account service targeting high-net-worth individuals, was launched in September 2004. It is now in the top position in the industry* and is growing into one of the core services of Daiwa Securities.

*Based on the data released by Japan Securities Investment Advisers Association (as of March 31, 2006)

Financial Summary of Daiwa Securities

| Daiwa Securities Group *Annual Report 2006*



FY 2005 Business Environment and Highlights

Business Environment

Since the summer of 2005, the Japanese stock market have benefited from increasingly brisk trading activity among overseas and individual investors, reflecting growing expectations of an end to deflation. The average daily trading value of the Tokyo Stock Exchange in FY 2005 was a record-high ¥2,404.5 billion, surging around 70% from the previous fiscal year.

As of March 31, 2006, 18.2% of total individual financial assets were securities—including stocks, bonds, and investment trusts, compared with 14.1% a year earlier. While the increase may be partly attributable to the rise in stock prices, it definitely shows gathering momentum in the shift “from savings to investment.”

Highlights

In FY 2005, net operating revenues of Daiwa Securities amounted to ¥257.9 billion, up 56.9% year-on-year. Ordinary income jumped 4.2-fold, to ¥101 billion, the highest level since the ¥106.8 billion figure posted in FY 1999. Net income soared 4.2-fold, to ¥58.1 billion, and ROE jumped to 25.9%, from 6.9%.

Factors contributing to these results included (1) an increase in brokerage commissions due to the upturn in the stock market, (2) an rise in equity distribution

commissions owing to an increase in underwriting deals by Daiwa Securities SMBC, (3) a gain in investment trust distribution commissions thanks to strong sales of equity investment trusts, and (4) an increase in agency commissions due to expansion of equity investment trust assets under custody. Daiwa Securities’ effort to boost net assets has led to a steady inflow of new funds. In FY 2005, the net inflow of retail funds was ¥1,367.9 billion, rising a significant ¥671.8 billion over the previous year. Consequently, retail customers’ assets (excluding those of financial institutions) under custody of Daiwa Securities was ¥27.6 trillion at March 31, 2006, an increase of ¥6.6 trillion from a year earlier.

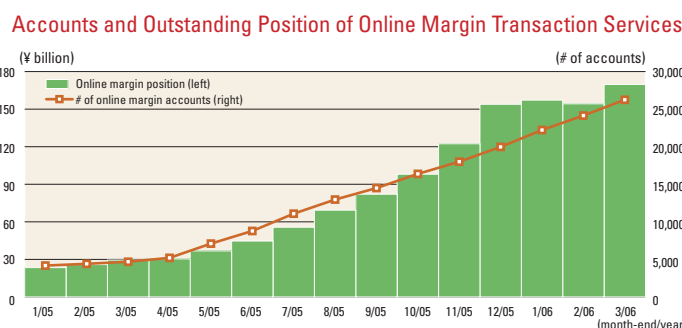
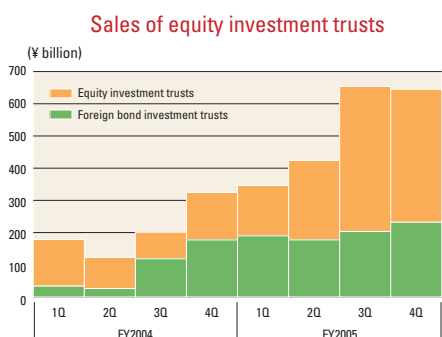
—Achievements of Key Targets

Daiwa Securities set performance targets for FY 2005 in each of its three core business areas. Its performances for those targets are as follows.

Achievement in FY2005

	Target	Performance
Daiwa Global Bond Fund assets under management	¥1 trillion	¥1.03 trillion* March 31, 2006
Investment trust agency commission	¥2 billion per month	¥2.3 billion per month March, 2006
"Daiwa SMA" contract assets under management	¥100 billion	¥159 billion March 31, 2006
Online margin balance	¥200 billion	¥168 billion March 31, 2006

*Net assets under management of Daiwa Asset Management.



•Net increase in investment trust assets [1]

— Daiwa Global Bond Fund: Assets under management target of ¥1 trillion

Against the backdrop of excellent management performance and favorable dividends, net assets under management were ¥1.03 trillion at the end of March 2006, reaching the targeted ¥1 trillion.

•Net increase in investment trust assets [2]

— Agency commissions (investment trusts): Target of ¥2 billion monthly

Agency commissions receivable are a stable revenue source with little fluctuation, in proportion to the amount of investment trust assets under custody. Commissions received in the month of March 2006 totaled ¥2.3 billion, exceeding the ¥2 billion target, thanks to the efforts, primarily of sales staff, to increase investment trust assets under custody.

•Expansion of high-net-worth customer services

— "Daiwa SMA": Contract assets under management targeted at ¥100 billion

Both the number of accounts and assets under management maintained steady increase throughout FY 2005. Assets under management exceeded the targeted ¥100 billion in December 2005, and further grew to as much as ¥159 billion by the end of March 2006.

•Expansion of online trading

— Daiwa Direct: Balance of margin positions outstanding target of ¥200 billion

The balance of margin positions outstanding hit ¥180 billion in mid-January, but was subsequently tempered by a downturn in emerging markets in the wake of the livedoor scandal. Although the balance recovered to ¥168 billion by March 31, 2006, it fell short of the ¥200 billion target.

Outline of New Medium-term Management Plan Business Environment Assumptions

The combined financial assets of Japanese individuals will exceed ¥1,700 trillion by the end of FY 2008, from the current level of over ¥1,500 trillion. The percentage of securities within total individual financial assets is expected to continue rising, reflecting the full-scale shift "from savings to investment." Moreover, Japan's first-generation baby boomers will step up their search for attractive investment vehicles for their retirement benefits, estimated to be around ¥40 trillion, as they approach retirement—a trend that will peak in 2007. As such, interest in asset management, centering on securities, will further increase going forward.

Consulting : Pursuing the expansion of stable profits in association with the increase in net assets of investment trusts.

	FY2005 (March 31, 2006) Performance	FY2006 (March 31, 2007) Target
Equity investment trusts		
Daiwa Ryusei (Japan Equity Open)	¥167.1 billion*	¥500 billion
Daiwa Japan High Dividend Equity Fund	¥223.7 billion*	¥500 billion
Foreign bond investment trusts		
Daiwa Global Bond Fund	¥1.03 trillion*	¥2 trillion
Investment trust agency commission	¥2.3 billion (March, 2006)	¥3.5 billion per month

*Net assets under management of Daiwa Asset Management.

Online : Establishing No.1 position in the industry, supported by improved customer usability.

	(March 31, 2006) Performance	(March 31, 2007) Target
Online margin balance	¥168 billion	¥500 billion

SMA : Further strengthening No.1 position for SMA, supported by improved operational capability and systems and human resources.

	(March 31, 2006) Performance	(March 31, 2007) Target
"Daiwa SMA" contract assets under management	¥159 billion	¥300 billion

Corporate Vision

The new medium-term management plan envisions Daiwa Securities evolving over the next three years into "Japan's best securities house," built on customers' trust and employees' passion.

Performance Target

Under the plan, Daiwa Securities is targeting ordinary income of ¥130 billion or higher by FY 2008, and customer assets under custody of ¥45 trillion or higher by March 31, 2009.

Basic Strategy

—Build No. 1 Performance Track Record

The basic strategy of Daiwa Securities under the new medium-term management plan is to post No. 1 performances in each of its core businesses. To this end, Daiwa Securities will seek to differentiate itself from its competitors by building unrivaled business models, such as (1) Daiwa Consulting, which provides high-value-added services by salespeople, (2) Daiwa Direct, which offers a wide array of products and abundant information, and

(3) Daiwa SMA, which is strongly supported by high net-worth individuals for its outstanding originality. Performance targets for these products in FY 2006 are shown in the above table.

—Corporate business—Strengthen earnings power

In the corporate segment, Daiwa Securities will reorganize its operations to reinforce its brokerage and investment banking businesses. It will strengthen its brokerage business by stepping up cooperation with Daiwa Securities SMBC, Sumitomo Mitsui Banking Corporation, and regional banks. In the investment banking business, it will enhance earnings by reinforcing alliances with other Group members and seeking referral of clients with financing needs in collaboration with banks. In the investment program business, Daiwa Securities will pursue synergistic benefits by utilizing its own sales channels and those of Group members in the areas of employees stock ownership plans and corporate pension plans.

Contract assets of Daiwa SMA, an asset management service targeting high-net-worth individuals, have rapidly expanded since the launch of the service in September 2004. At March 31, 2006, contract assets under management reached ¥159 billion, well above the FY 2005 target of ¥100 billion. The primary features of Daiwa SMA are as follows:

1. A premium investment-advisory service tailored for high-net-worth individuals,

Daiwa SMA is an asset management service for separately managed accounts, with a minimum deposit of ¥50 million. It differs from “fund wraps,” where assets are managed by combining existing investment funds. Because Daiwa Securities handles all of the functions, including in-house fund management, it can offer more customized and fine-tuned services for each customer.

2. One-on-one support from personal consultants

Specialized SMA consultants take care of each customer’s needs and concerns regarding investment and asset management. They provide rigorous follow-up and give careful attention to each customer to maximize satisfaction and sense of security.

3. Performance-based fee system

Customers can choose either a fixed-fee system in proportion to the amount of contract assets, or a performance-based fee system, in which a portion of the total fee varies with the investment performance of the managed account. Under the performance-based fee sys-

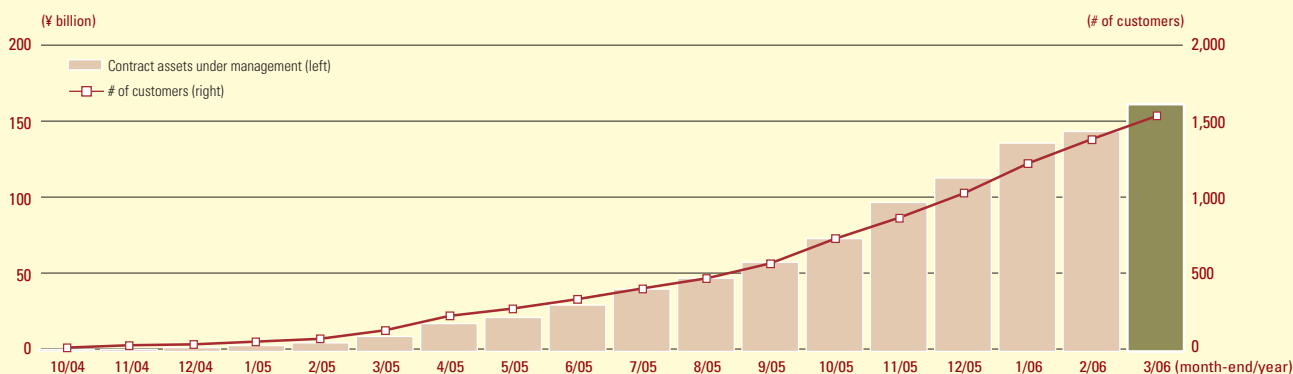
Topic 1: Strengths of “Daiwa SMA”

tem, Daiwa Securities can boost its compensation by delivering better investment returns. In this respect, it provides both Daiwa Securities and its customers with a “common destiny,” sharing the same goals. This unique service structure gives customers greater comfort in trusting their assets to Daiwa SMA.

4. Wide variety of investment styles

Leveraging the expertise and networks of the Daiwa Securities Group built up over many years, Daiwa SMA offers an array of unrivaled unique investment styles to meet the needs of customers and keep up with the latest investment trends.

Daiwa SMA: Number of customers and contract assets under management



The most important factor in face-to-face consulting is “people.” This is because the salesperson in charge is the customer’s only contact point with Daiwa Securities and so represents nothing less than the Company itself. Daiwa Securities embraces a people-oriented management approach, and a culture of nurturing people pervades the whole company. The following gives some specific examples of our commitment to human resources.

1. Introducing the President’s Awards

In order to develop a professional spirit and strong morale among employees, and also encourage motivation to expand customer assets, Daiwa Securities established the President’s Awards in FY 2004 to augment existing salaries and bonuses. The President’s Awards, which are accompanied by the special bonus, are provided only to those employees who have met strict compliance criteria and have achieved an outstanding performance in such areas as contributing to an increase in net assets. Given the government’s policy of promoting a shift “from savings to investment,” the objective behind the President’s Awards is to encourage a greater contribution by employees to society through the securities business. In this respect, the President’s Awards clearly differ from commonplace awards systems that focus on performance only. By the end of FY 2005, the President’s Awards had been held on three occasions, with the number of recipients

increasing each time, illustrating the growing role played by the Awards in raising motivation and enhancing the social-contribution mindset of employees.

2. Building an education system for young salespeople

Due to stepped-up recruitment of new graduates, the number of young salespeople is increasing, underscoring the importance of building an effective system for developing their skills. Daiwa Securities nurtures young salespeople through continual upgrading of its training system. These efforts are led by the Personnel Department and Sales Training Department, which strongly emphasizes on-the-job training. By promoting cooperation between the rapidly growing young employees and its more seasoned senior staff, Daiwa Securities aims to nurture an energetic culture where “people” foster “people.” Thanks partly to these efforts, our ranking among companies popular with job-seeking college students has risen sharply.

Topic 2: Nurturing and Utilizing Human Resources

3. Improving the work environment for female employees

Daiwa Securities has long been working hard to improve the work environment for female employees and enable them to work more freely. In 1998, we introduced a region-specific “fast-track” career system, which exempts employees, primarily women, from being reassigned to regions other than where they currently reside. In 2005, we unveiled the “Support Plan for Working Mothers*” to

provide support for female employees who return to the workplace after having a child. In addition to expanding the work fields for female workers, we will continue to proactively promote their assignment to managerial positions and improve their work environment, so that they can realize their full potential.

* See “Human Resource Management” on Page 77.

Changes in the position at “Employer brand ranking”

	2004	2005	2006
1	The Bank of Tokyo-Mitsubishi	Sumitomo Mitsui Banking Corporation	Mizuho Financial Group
2	The Tokio Marine & Fire Insurance	The Bank of Tokyo-Mitsubishi	The Bank of Tokyo-Mitsubishi UFJ
3	UFJ Bank	Tokio Marine & Nichido Fire Insurance	Daiwa Securities Group
4	Sumitomo Mitsui Banking Corporation	Nomura Securities	Sumitomo Mitsui Banking Corporation
5	Sompo Japan Insurance	Mizuho Financial Group	Nomura Securities
6	Mizuho Financial Group	Sompo Japan Insurance	Tokio Marine & Nichido Fire Insurance
7	Nippon Life Insurance	Daiwa Securities Group	Sompo Japan Insurance
8	Nomura Securities	Nikko Cordial Securities	The Dai-ichi Mutual Life Insurance
9	Morgan Stanley (Japan)	Goldman Sachs (Japan)	Bank of Japan
10	Daiwa Securities Group	Mitsui Sumitomo Insurance	Aflac Japan

Source: Employer brand ranking of TOYO KEIZAI (Financial Institutions)

Wholesale

Daiwa Securities SMBC Co. Ltd.

Business Features

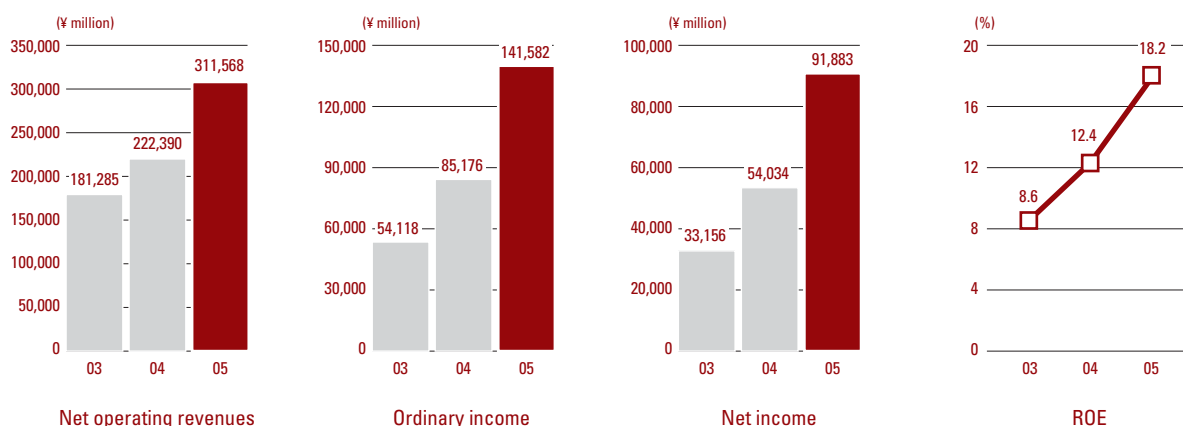
Daiwa Securities SMBC is a joint venture between the Daiwa Securities Group, which owns a 60% stake, and Sumitomo Mitsui Financial Group (SMFG), which holds 40%.

Daiwa Securities SMBC provides both domestic and overseas institutional investors, business corporations, financial institutions, and public organizations with advice, products, and services for optimum asset management. It also offers advice and solutions to meet its client's financial strategy needs. These services, which include assistance in fund-raising, business reorganization, and balance sheet improvement, help enhance the value of its client companies. It also helps revitalize the economy through the capital markets.

Daiwa Securities SMBC's business line consists broadly of (1) brokerage and trading of equities, bonds, and derivatives and (2) investment banking services, including such corporate finance functions as underwriting of equities and bonds, initial public offerings (IPOs), M&A advisory, and structured finance. Mobilizing the expertise of the Daiwa Securities Group, it develops competitive products and solutions and also provides high-value-added information, which in itself delivers a competitive edge.

Daiwa Securities SMBC's strongest point is its unique business model among Japanese firms. It is a joint venture between a leading securities company and a "megabank" and specializes in the wholesale securities business. Since its inception, Daiwa Securities SMBC has steadily accumulated experience and a strong track record by utilizing the customer bases of both the Daiwa Securities Group and Sumitomo Mitsui Banking Corporation. It aims to become "Japan's best investment bank," building on its strong customer base and further enhancing its solution-providing capabilities.

Financial Summary of Daiwa Securities SMBC (Consolidated)



FY2005 Business Environment and Highlights

Business Environment

Despite soaring prices of crude oil and other raw materials, Japanese companies reported their fourth consecutive year-on-year earnings increase in FY 2005. Capital spending also grew strongly, driven by improved earnings and higher capacity utilization against the backdrop of increased demand at home and abroad. Corporations aggressively raised funds in the capital markets and reorganized their businesses through strategic M&As, in order to further expand production output and facilities and reinforce competitiveness.

Highlights

—Earnings results

In FY 2005, Daiwa Securities SMBC reported net operating revenues of ¥311.5 billion, up 40.1% year-on-year. Both ordinary income and net profit showed significant increases over the previous year, reaching ¥141.5 billion, up 66.2%, and ¥91.8 billion, up 70.0% respectively. ROE jumped to 18.2%, from 12.4% in FY 2004.

A breakdown of revenues reveals a sharp increase in investment banking revenues, driven by growth of underwriting commissions from major equity offerings and numerous IPO deals. This pushed up total commissions to ¥111.2 billion, up 21.3% year-on-year. Trading revenues hit ¥175.5 billion, up a substantial 48.4%, fueled by corporations' expanded use of fund-procurement solutions using our Structured Principal Solution (SPS) Program, as well as a growing desire among financial institutions to utilize structured bonds incorporating derivatives in meeting their asset management needs.

—League tables

In the lead manager league tables for FY 2005, Daiwa Securities SMBC maintained its No.1 position in total corporate bonds (total of agency bonds and corporate straight bonds) for the third consecutive year, and also acquired the No.1 position in IPOs.

In the agency bond arena, Daiwa Securities SMBC participated in a number of major deals, including a ¥260.0 billion issue by Japan Highway Public Corporation and a ¥242.4 billion issue by The Government Housing Loan Corporation. In corporate straight bonds, it served a number of companies for the first time, including Fuji Television Network (1st and 2nd series bonds: total ¥50 billion), SBI E*TRADE SECURITIES (1st series: ¥50 billion), and SBI Holdings (¥42 billion). It also secured major deals for such clients as Tokyo Electric Power Company (¥100 billion) and ORIX Corporation (¥100 billion).

With respect to IPOs, Daiwa Securities SMBC acted as lead manager in 33 issues, ranging from major deals, such as SUMCO (¥158.4 billion) and Alpen Company (¥52 billion), to small venture IPOs. Aside from the lead manager league tables, it gained the No.1 position in successful bidder rankings for government bonds. In these ways, Daiwa Securities SMBC is increasing its presence in the wholesale business areas.

Major Deals in FY 2005

Primary and secondary equity offerings	SMFG (¥607.2 billion); Rakuten (¥129.7 billion); SBI E*TRADE SECURITIES (¥62 billion); IBIDEN (¥44.6 billion); Tokyu Land (¥42.5 billion); Hankyu Holdings (¥41.4 billion)
IPOs	SUMCO (¥158.4 billion), Alpen (¥52 billion), ATRIUM (¥27.2 billion), Toyo Tanso (¥17.1 billion)
Corporate straight bonds	SMBC (¥165 billion in total), ORIX (¥100 billion in total), TEPCO (¥100 billion), J-POWER (¥100 billion in total), NIPPON TELEGRAPH AND TELEPHONE (¥70 billion), SOFTBANK (¥60 billion in total)
Agency bonds	Japan Highway Public Corporation (¥260 billion in total), The Government Housing Loan Corporation (¥242.4 billion in total), Japan Finance Corporation for Municipal Enterprises (¥60 billion in total), Japan Bank for International Cooperation (¥50 billion in total)
Structured finance	Series 5 RMBS issued by SMBC (Issue & Underwriting ¥171 billion), Federation of National Public Service Personnel Mutual Aid Associations, ABS for individual investors (Issue ¥100 billion, Underwriting ¥90 billion), Series 8 RMBS issued by The Chuo Mitsui Trust and Banking (Issue ¥106 billion, Underwriting ¥58.3 billion)
M&As	Nippon Sheet Glass's friendly takeover of Pilkington, a leading glass manufacturer in UK (joint advisor with Lazard and UBS for Nippon Sheet Glass); Merger between BANDAI, a leading toy maker, and NAMCO, a leading game maker (advisor for BANDAI); Merger between TOMY and TAKARA. TOMY made stock split (advisor for TOMY); Skylark completed a TOB for Kozosushi So-Honbu, the leading take-home sushi chain operator (advisor for Skylark: TOB agent)
POWL* (Public Offering Without Listing)	Chunghwa Telecom (¥66.9 billion), Electricité De France (¥56.2 billion), China Construction Bank (¥34.6 billion), Enel (¥22.1 billion), China COSCO Holdings (¥17.6 billion)

*POWL allocation amount. Yen conversion (foreign exchange rate differs depending on the issuance date).

Outline of New Medium-term Management Plan

Business Environment Assumptions

While well-performing companies will adopt a more aggressive approach to capital spending and M&As to expand their businesses, we expect weak-performing companies to consolidate their operations by restructuring or selling off businesses and assets in order to restore their competitiveness. The emergence of increasingly diversified and complex techniques for fund-raising, asset management, and M&As—enabled by the implementation of the New Company Law in May 2006—will lead to greater business opportunities for investment banking. Furthermore, the asset management needs of institutional investors will become even more sophisticated in the face of rising volatility and correlativity among worldwide markets.

Corporate Vision

Over the next three years, Daiwa Securities SMBC envisions itself evolving into “Japan’s best investment bank,” built on customers’ trust and employees’ passion.

Performance Target

Under the new medium-term management plan, Daiwa Securities SMBC aims to generate consolidated ordinary income of ¥190 billion or more in FY2008, the third year of the plan, by acquiring the support of customers, bolstered by strong origination capabilities, and by establishing a balanced revenue structure. In the process, it will become “Japan’s best investment bank” and be recognized as a top-tier investment bank from an international perspective. It aims to be ranked No.1 in the league tables for total equity, total debt, and M&As.

Pursuing No.1 Position in League Table

	FY2008 Target
Equities* ¹	No.1 (each FY)
Debts* ²	No.1 (each FY)
M&A	No.1 (each FY)

*1 Equities=PO+IPO+domestic CB+foreign equities+foreign CB+third-party-allocation-type scheme+REIT

*2 Debts=SB+Agency bonds+Yen-denominated foreign bonds +ABS

Key Business to Strengthen

	FY2008 Target
Trading Business (Equity / Bonds)	
Investment amount of Daiwa SMBC Principal Investments**	¥400 billion or more (March 31, 2009)

*See "Investment" on pages 55-56

Basic Strategy

In order to become Japan's best investment bank and attain top-tier recognition internationally, it must raise its absolute revenue base. To this end, Daiwa Securities SMBC must develop new revenue sources and enhance existing business earnings.

— Raise absolute revenue base by expanding trading gains

Daiwa Securities SMBC will expand its trading gains by (1) enhancing its trading capabilities using sophisticated management techniques, (2) promoting solutions that meet customer needs (such as the SPS Program), and (3) securing large block trading deals.

— Strengthen origination capabilities through inter-divisional collaboration

In the case of strategic M&As, the expertise required to conclude a deal ranges from calculating the value of the subject company and forecasting the effect of cost reductions and synergies after the merger, to procurement of funds for the acquisition. In some cases, it becomes necessary to utilize a sophisticated fund-raising scheme in addition to the usual practice of issuing equity and bonds,

in order to match the fund-raising needs of the acquiring company and the asset management needs of investors funding the acquisition. Given the strong performances of Japanese corporations and the implementation of the New Company Law, we expect value-enhancing M&As and fund-raising activities to gain further momentum. To address the more diversified and complicated needs of corporations and institutional investors, Daiwa Securities SMBC will step up collaboration among its investment banking, product development, and brokerage divisions. Through such collaboration, it will develop, propose, and provide solutions, products, and services that enhance its clients' corporate value. These will include M&A advisory services, the SPS Program, and creation of structured bonds.

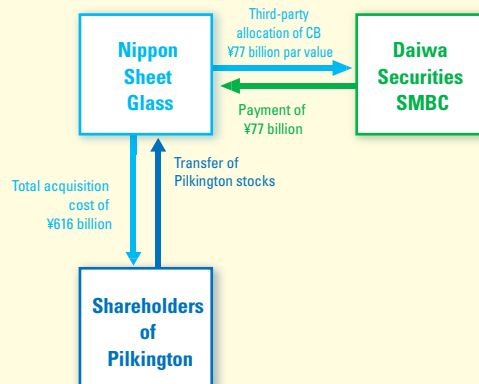
— Secure No.1 positions in major league tables

Daiwa Securities SMBC will aim to secure and maintain the No. 1 position in the three core investment banking league tables: equities, debt, and M&As.

Daiwa Securities SMBC served as financial adviser to Nippon Sheet Glass for the latter's friendly takeover of U.K.-based Pilkington plc, a major British glass manufacturer. (Nippon Sheet Glass already had a 20% stake in Pilkington, and the two companies had capital and business alliances.) Pilkington's shares were purchased for cash, and it subsequently became a wholly owned subsidiary. The total cost of the large-scale cross-border M&A deal was ¥616 billion. It involved a ¥110 billion unsecured convertible bond issue, of which Daiwa Securities SMBC underwrote ¥77 billion, or 70%. We used our Structured Principal Solution (SPS) Program to issue the convertible bonds as part of an order-made financial proposal to Nippon Sheet Glass.

With this acquisition, Nippon Sheet Glass has taken the leading share in the world's sheet glass market. Using a combination of scale and technology, it aims to become a truly global player in terms of cost, quality, and service.

Nippon Sheet Glass's SPS Program Scheme Diagram



Note 1: No conversion of stock to Nippon Sheet Glass will be made before the acquisition of Pilkington.
 Note 2: The upper limit and the lower limit of the conversion price were decided based on the five-day average stock price of Nippon Sheet Glass up to May 8, 2006.
 Note 3: Daiwa Securities SMBC will not sell the CBs to third parties.

Topic 1: Application of the SPS Program—Cross-border M&A transaction by Nippon Sheet Glass

*SPS Program

(Structured Principal Solution Program)

The SPS program utilizes Daiwa Securities SMBC's own capital, combining a third party allocation scheme, allowing a flexible response to the financial needs of different companies.

Features of Third Party Allocation Scheme

- (1) The issuing company makes a convertible bond issue, and allocates it to the underwriter
- (2) Taking the business environment and investors' needs into account, the underwriter converts the bonds into ordinary shares and sells them to domestic or overseas investors, or through the market.
- (3) The bond conversion and share sales are handled in multiple stages, lessening the impact on the market.

Benefits of SPS Program

1. Facilitates equity finance while controlling the impact on the market
 - Reduces market impact at the point of issue (compared with ordinary public offerings)
 - The conversion/sale is spread over multiple period and at multiple prices, meaning that the post-issue share price performs well in many cases

—Compared with ordinary public offerings, therefore, it is often possible to procure a larger amount of funds from a single transaction

2. Enables a flexible response to a wider range of customer needs, because conditions for each deal are determined separately
3. Allows an ample level of fund-raising even in cases where ordinary public offerings may be difficult, and also offers additional equity financing options for a wide range of issuing companies

Types of finance	Impact on the market	Possibility of conversion
Public offering	Temporary selling pressure depending on the case	Immediate placement
Third-party-allocation CB or new share subscription rights (Because the CBs are very likely to be converted into common stock, they have a characteristic similar to public offerings.)	<ul style="list-style-type: none"> •Daiwa Securities SMBC purchases the CB in bulk •The promotion of selling the CBs to investors in a diversified way will lead to a decrease in selling pressure. 	High
CB placement (public placement)	Temporary selling pressure from short hedges, etc.	Medium

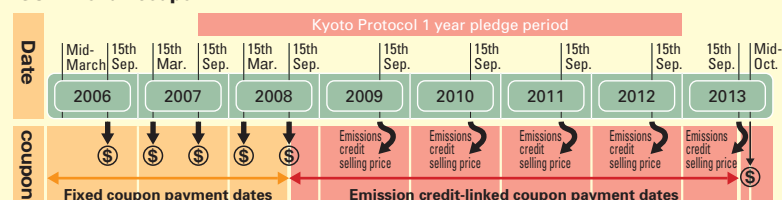
any financial product. It offers a way for individuals and other investors with an interest in reducing global warming, but no means of making a direct contribution, to utilize their funds to help reduce greenhouse gas emissions. At the same time, it can deploy personal and private funds to assist in achieving Japan's emission reduction targets.

Structure of the CO2L Bond

The CO2L Bond is a 7.5-year Eurodollar bond with a coupon tied to the value of emission reduction credits from five years prior to redemption. During those five years, proceeds from the sale of emission reduction credits, initially purchased in a forward agreement for a fixed price, will be paid out as interest.

In this way, the coupon value increases in line with the future increase in the price of emission reduction credits. Since the trading of such credits is at the cutting edge of human activity, there is both systemic and business risk involved. However, the principal has received an AAA rating, providing an ample level of security.

Scheme of CO2L Bond



Daiwa Securities SMBC PI conducts dispositions of emission rights.

The patent for "CO2L Bond" is applied by Daiwa Securities SMBC PI and pending.

An institutional system that supports the reduction of greenhouse gases (CO₂, etc.) identified in the Kyoto Protocol. The system urges advanced nations, which are obliged to reduce greenhouse gases, to provide such technology and funds to non-advanced countries in order to cut greenhouse gases there instead of in advanced nations. The portion of volume reduced in a non-advanced country can be counted as the volume of reduction in the advanced nation, and can be traded as emissions credits.

Asset Management

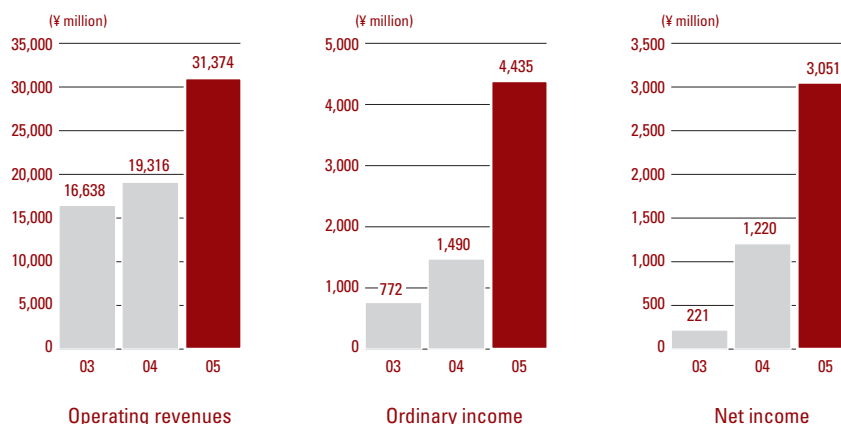
Daiwa Asset Management Co. Ltd.

Business Features

Daiwa Asset Management (DAM) is responsible for asset management, one of the core businesses of the Daiwa Securities Group. Utilizing various fund management methods, DAM launches and manages a wide range of investment trusts, investing in domestic and foreign equities, bonds, derivatives, and alternative assets. As of March 31, 2006, DAM's net assets under management of publicly offered investment trusts totaled ¥7,574.3 billion, representing a 13% market share among net assets under management of publicly offered investment trusts in Japan. DAM has a sound reputation for its fund management style, which is based on medium-to-long-term perspectives and emphasizes detailed research and analysis on the economy, markets, and corporate fundamentals conducted by its in-house economists and analysts.

Investment trusts managed by DAM are offered through a wide range of sales channels, including the core channels of Daiwa Securities and Daiwa Securities SMBC, as well as banks and defined-contribution corporate pension funds (Japanese 401k). Since October 2005, Japan Post has sold Daiwa Stock Index 225 Fund over the counter at post offices nationwide.

Financial Summary of Daiwa Asset Management



Daiwa Asset Management Main Funds launched during FY 2005

	Name of the Fund	Launch date	Launch amount (¥ billion)
1Q	Daiwa Cash-rich 2005 (Limited Open-Type Fund)	April, 2005	48.1
	Daiwa Small and Medium Cap Growth Equity Fund (Limited Open-Type Fund)	June	24.8
	Daiwa Global REIT Open (Monthly Distribution Fund)	June	3.9
2Q	Daiwa Japan High Dividend Equity Fund	July	52.1
	Daiwa Cash-rich 2005-II (Limited Open-Type Fund)	August	39.4
3Q	Income & Cash II 2005-10	October	17.3
	Resona Global Asset Allocation Fund	November	29.5
	FIT-Net Three Prefectures Support Fund (Monthly Distribution Fund)	December	17.4
	Daiwa Cash-rich Fund	December	12.1
	Income & Cash II 2005-12	December	10.5
4Q	Daiwa Expanding Growth Equity Fund	January, 2006	69.3
	Income & Cash II 2006-01	January	10.8
	Daiwa Value-Up Fund	February	95.0
	Daiwa Eco Fund	March	31.3

FY 2005 Highlights

FY 2005 Results

In FY 2005, DAM's operating revenues increased 62.4% year-on-year, to ¥31.3 billion. Ordinary income almost tripled, to ¥4.4 billion, and net income more than doubled, to ¥3.0 billion. These significant gains are attributable mainly to an increase in net assets under management of equity investment trusts.

DAM's total net assets under management of publicly offered investment trusts as of March 31, 2006, stood at ¥7,574.3 billion, up 33.4% from ¥5,675.9 billion a year earlier.

At fiscal year-end, net assets of publicly offered equity investment trusts managed by DAM totaled ¥4,238.5

billion, up two-fold from a year earlier. Open-type foreign bond funds and domestic equity funds showed particularly marked growth in net assets. For example, net assets of Daiwa Global Bond Fund, a monthly payment type of investment trust, reached ¥1,034.6 billion, up ¥719.9 billion year-on-year. In addition, Daiwa Ryusei, which invests in companies with superior capital efficiency, and Daiwa Japan High Dividend Equity Fund showed strong growth in net assets.

By contrast, net assets of publicly offered bond investment trusts were down 6.2%, to ¥3,335.7 billion, due mainly to declines in net assets of Daiwa MMF and the medium-term government bond (Chu-ki Kokusai) fund.

New products in FY 2005

In FY 2005, DAM launched various new products designed to meet investor needs, centering on open-type investment trusts investing in Japanese equity. In July 2005, DAM launched Daiwa Japan High Dividend Equity Fund, which targets high levels of dividends and capital gains. Net assets in this fund at fiscal year-end stood at ¥223.7 billion. In January 2006, DAM took advantage of favorable stock market conditions to launch Daiwa Expanding Growth Equity Fund, which invests in companies with proactive capital investments and business-strengthening measures in place. By fiscal year-end, net assets of this fund had reached ¥84.2 billion. In February 2006, DAM unveiled Daiwa Value-Up Fund, which attracted net assets of ¥111.1 billion by fiscal year-end. In March 2006, it launched Daiwa Eco Fund, one of Japan's largest eco-funds.

In addition, DAM launched two funds for sale over-the-counter at bank branches: Resona Global Asset Allocation Fund, a balanced fund investing in foreign bonds, REITs, and equities (net assets of ¥119.9 billion at fiscal year-end); and Daiwa Global REIT Open (net assets of ¥11.8 billion). In this way, DAM is actively introducing funds with multiple asset components and developing products featuring not only domestic and foreign equities and bonds, but also REITs.

Outline of New Medium-term Management Plan

Under the Group's new medium-term plan, DAM aims to be "Japan's best asset management company" regarding net assets under management of domestic publicly offered equity investment trusts, market presence in the management of Japanese equities and global bonds, and diversity of products and sales channels.

Performance Target

DAM's main target over the next three years is to raise its total assets under management of publicly offered equity investment trusts to ¥8.5 trillion or more by March 31, 2009.

Basic Strategy

— Expand equity investment trusts

In order to further strengthen its position as the industry's leading asset management company, DAM intends to increase its fund assets under management to a level significantly above the industry average, centering mainly on publicly offered equity investment trusts. It will also seek to maintain a minimum 10% market share in publicly offered equity investment trusts.

— Further strengthen investment capabilities

As a fund manager, DAM's competitiveness lies in its investment expertise. DAM intends to further strengthen its capabilities and deliver more superior performances than other competitors.

— Reinforce customer support and distribution channels via banks

Seeking to increase net assets, DAM will strengthen and enhance its support for companies selling and distributing its products. In particular, it will press ahead to expand sales through branches of megabanks and Japan Post. DAM will also further increase its share of the defined-contribution corporate pension market.

— Improve product development capability

DAM will further improve its product development capability to meet the diversifying demands of customers and address the needs of new customers. It will also increase the number of large-scale funds.

From an interview with the chief fund manager of Daiwa Global Bond Fund

Net assets under management of Daiwa Global Bond Fund have exceeded ¥1 trillion (¥1,034.6 billion as of March 31, 2006). What do you think is the main driver for this?

— A unique characteristic of Daiwa Global Bond Fund is that it focuses on public and corporate bonds from three major currency regions—North America, Europe, and Oceania. By equally dividing the investment funds between currencies of these regions rather than hedging against exchange risk, we aim for maximum yield and lowering the foreign exchange risk, and generate stable profits. As a result, the fund has achieved a consistently stable price and generated high dividends. Due to its middle-risk/middle-return management policy and strong performance, the fund has become extremely popular among individual investors, many of whom consider the yield on domestic fixed-term savings to be too low but are averse to the higher risk accompanying equity funds. The fund's success derives not only from the hard work of DAM's managers but also the combined marketing efforts of the Daiwa Securities Group, including Daiwa Securities, a main sales channel for the fund.

Similar funds launched by other companies have attracted significant recognition, greatly expanding their assets under management. How do you differentiate your product from others offered in the market?

— When Daiwa Global Bond Fund was launched, an other similar type of fund was already being offered by our competitor and was growing rapidly. Moreover, the idea of monthly-payment investment trusts was rapidly gaining in popularity. When planning the fund, therefore, we realized that we would have to outperform the competing products, or our customers would not support us. For this reason, we decided not to manage the fund by asset allocation based on general global government bond index, as other products do. Instead, we decided to proactively include a high-interest currency. At the same time, we invested in several currencies in a balanced manner, in order to generate a solid performance while maintaining relatively low volatility in fund price. As a result, we were able to soften the resistance of customers inexperienced in foreign bond investments. By also continually disclosing appropriate information regarding the fund, we have earned the strong support from customers.

Topic: Strengths of Daiwa Global Bond Fund

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What is the system and process for managing the fund?

— Because Daiwa Global Bond Fund invests in multiple currency regions, we manage it on a team, each member working on a different region. We all hold meetings early every morning to ensure that everyone in the team knows what is happening in each region. In addition, we run periodic checks to confirm that the fund is managed in line with the monthly management plan. If something unexpected happens, we analyze the situation to see if it is temporary.

What are your objectives for the future?

— The first-generation baby boomers, born between 1946 and 1951, are now retiring—a trend that will peak in 2007—and management of their retirement benefits will shift into full swing. Owing to its stable performance, Daiwa Global Bond Fund is an ideal vehicle for managing the assets of these baby boomers. Indeed, many such customers already invest in the fund.

In the foreign bond fund category, funds offered by overseas asset management companies are generally more popular than those managed by Japanese companies, even if they are managed exactly in the same way. For this reason, we need to deliver superior performances and expand our business operations as a Japanese fund manager.

Daiwa Global Bond Fund: Fund price and net assets under management



(Note 1) "Fund price after adjusting dividend" is the adjusted price assuming that fund dividend is reinvested.

(Note 2) In calculating fund price, trust fee (1.3125% against total net assets (plus tax)) is deducted.

Asset Management

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Daiwa SB Investments Ltd.

Business Features

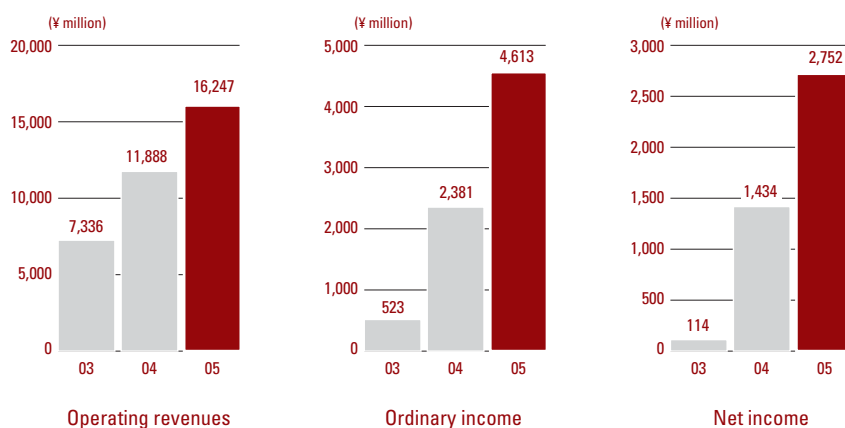
Daiwa SB Investments serves as the core asset management arm of the Daiwa Securities Group and Sumitomo Mitsui Financial Group. Its main businesses are (1) securities investment advisory services, and (2) investment trust management. The Company provides asset management services to both domestic and overseas clients. It has many years of experience and achievement in pension fund management, based on a consistent investment philosophy and management style and a partnership with T. Rowe Price Group, one of the leading investment management firms in the United States. The Company is well positioned, therefore, to provide a range of global-standard management and research offerings.

Daiwa SB Investments is particularly strong in management of pension funds, which account for 67% of net assets under management in its investment advisory business. For the fifth consecutive year since 2001, the Company has been ranked as a top-class manager in overall evaluation of pension fund management ability by “Newsletter on Pension and Investments”, published by Rating and Investment Information (R&I). The Company is also well experienced in overseas pension fund management.

Daiwa SB Investments has a strong track record in managing domestic equity value-type funds. In addition, the Company is the only Japanese fund manager selected by Japan Post to manage the Japanese equity component of both its postal savings and postal life insurance funds. It was also chosen to manage the foreign equity component of Japan Post’s postal life insurance funds.

In the investment trust management business, It develops and provides attractive investment trust products, drawing on its many years of experience in pension fund management.

Financial Summary of Daiwa SB Investments



Daiwa SB Investments Main Funds launched during FY 2005

	Name of the Fund	Launch date	Launch amount (¥ billion)
2Q	Global High Dividend Equity Open	July, 2005	24.0
	M&A Value Fund	September	47.0
3Q	Japan High Dividend Equity Open	October	13.0
4Q	SMBC Friend Aging Society related Japan Equity Fund '06-02	February, 2006	13.8
	Daiwa SB Investments Premier Fund I	March	5.1
	M&A Focus Fund	March	30.5

FY 2005 Highlights

Daiwa SB Investments generated operating revenues of ¥16.2 billion in FY 2005, up 36.7% year-on-year. Ordinary income surged 93.7%, to ¥4.6 billion, and net income jumped 91.9%, to ¥2.7 billion.

Total assets under management at March 31, 2006, amounted to ¥5,221.6 billion, up 33.8% from ¥3,901.8 billion a year earlier. Of this amount, total assets in the investment advisory business stood at ¥4,070.1 billion, up 28.9% from ¥3,158.4 billion. Net assets of investment trusts reached ¥1,151.5 billion at fiscal year-end, up 55%

from ¥743.4 billion. Benefiting from the bullish stock market, Global High Dividend Equity Open, launched in July 2005, attracted net assets of ¥146.3 billion by fiscal year-end. Also selling well in FY 2005 were M&A-themed funds, such as M&A Value Fund (launched in September 2005) and M&A Focus Fund (March 2006).

Outline of New Medium-term Management Plan

Under the plan, Daiwa SB Investments aims to become “Top in Quality”. Specifically, it will seek to be a world-class, high-quality asset management company that can represent Japan on the world stage. To this end, the Company will endeavor to earn a strong reputation in the market and win the trust of clients, by providing a superior pension fund management capability backed by rich experience and highly meticulous services. In addition, the Company will continue expanding its investment trust management services and build a stable and efficient business platform. Daiwa SB Investments’ quest is to become a top-class Japanese asset management company in both quality and quantity.

Performance Target

As its main target, Daiwa SB Investments aims to increase net assets of domestic pension funds and overseas customers’ funds to ¥4.4 trillion or more by March 31, 2009. During the same period, it will also seek to increase net assets of equity investment trusts (including investment advisory assets of corporate clients) to ¥2.9 trillion or more.

Basic Strategy

— Further strengthen fund management capability

Daiwa SB Investments will strengthen and review its fund management, research, and risk management systems to further boost its reputation in the market. It aims to consistently rank in the top 3 for overall evaluation of pension fund management ability by R&I.

— Diversify lineup of domestic pension fund products

Daiwa SB Investments believes in the importance of maintaining and increasing its presence in the pension market, including defined-contribution corporate pension funds (Japanese 401k) and variable annuities. In addition to Japanese equities, the Company intends to diversify its product lineup to include bond-type instruments and contingency-fee-type alternative investment products, in order to expand its domestic pension fund management business.

— Expand into overseas markets

The asset management needs of overseas public and private pension funds and institutional investors will continue to grow in line with the increasing attractiveness of the Japanese and other Asian economies. In response, Daiwa SB Investments will offer appealing products, including Asian equities and alternative investment instruments, utilizing its strength in Japanese equity fund management. In the process, the Company will expand the base of overseas customer assets under management.

— Strengthen marketing of equity investment trusts

The asset management needs of corporations—especially financial institutions and Japan Post and its postal life insurance funds—will continue to increase, as will the needs of the baby-boom generation. Against this background, Daiwa SB Investments expects demand for equity investment trusts, including defined-contribution corporate pension funds, to expand. To meet such demand, Daiwa SB Investments will aggressively market its equity investment trusts to both corporate clients and retail customers by focusing on the development of high-quality products.

Investment

Daiwa Securities SMBC Principal Investments Co. Ltd.

Business Features

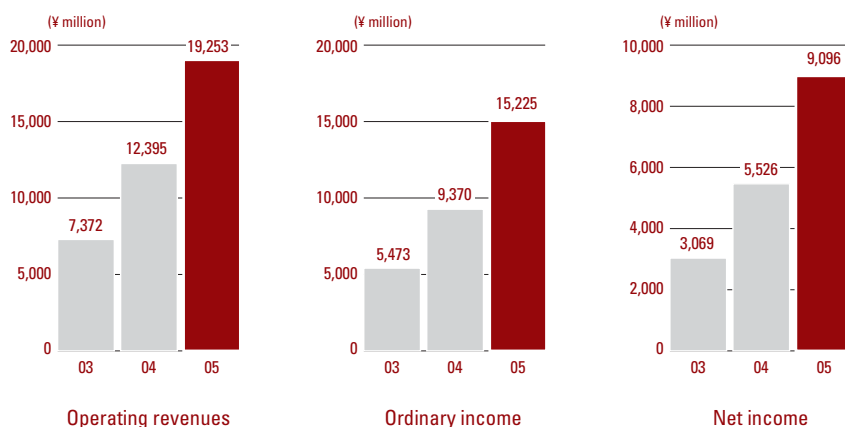
Daiwa Securities SMBC Principal Investments (Daiwa Securities SMBC PI) is a wholly owned subsidiary of Daiwa Securities SMBC, a joint venture between the Daiwa Securities Group and Sumitomo Mitsui Financial Group (SMFG).

A “principal investment” is one in which the investing entity takes the risk in using its own funds to make investments in order to reap returns. Daiwa Securities SMBC PI addresses the broad-ranging needs of clients endeavoring to restructure their businesses, including financial institutions and corporations seeking to improve their balance sheets and sell assets. To meet these needs, it invests in a variety of instruments, including non-performing loans and other monetary claims, as well as real estate and listed and unlisted private equities. It also creates and manages various funds, notably regional corporate revitalization funds. In these investment activities, our professionals in finance, real estate, accounting, tax, and other specialized consulting fields work together as a team, contributing to the growth and revitalization of Japanese corporations and the rejuvenation of the domestic economy.

FY 2005 Highlights

Owing primarily to an increase in revenues from real estate investments, Daiwa Securities SMBC PI posted a substantial 62.5% jump in ordinary income in FY 2005, to ¥15.2 billion. At March 31, 2006, its balance of investments stood at ¥310 billion, a 3.4-fold surge from ¥90 billion a year earlier. This rise stemmed mainly from large-scale investments made during the year, including in SANYO Electric and Sumitomo Mitsui Construction. The year-end investment balance consisted of ¥229 billion in private equities, ¥40 billion in monetary claims, ¥20 billion in real estate, and ¥21 billion in funds for which Daiwa Securities SMBC PI is involved in management.

Financial Summary of Daiwa Securities SMBC Principal Investments



Main Investments and Fund Launch in FY 2005

Private equity and PIPEs*	Mitsui Kanko Development (non-listed company): MARUZEN (listed on the 1st section of TSE): Sumitomo Mitsui Construction (listed on the 1st section of TSE): SANYO Electric (listed on the 1st section of TSE):	¥7 billion ¥10 billion ¥49 billion ¥125 billion
Real estate	Joint investments in office buildings and other real estate with overseas investors	
Funds	Hokkaido corporate recovery funds "Hamanasu Power Equity Fund" jointly organized with Hokuyo Bank for the purpose of strengthening the capital base for small to medium companies.	
Others	Euro dollar bond (CO2L Bond) with a coupon linked to the price of emissions credits; jointly developed with Daiwa Securities SMBC	

*PIPEs=Private Investment in Public Equities

Key Business to Strengthen

Investment balance

Target for FY2008

¥400 billion or more (end of March 2009)

Outline of New Medium-term Management Plan

Business Environment Assumptions

Going forward, the excess of players in the market will create intensified competition, causing the number of attractive bargains and simple straight deals to level off. In this situation, only players with comprehensive capabilities, ranging from identifying attractive deals to devising exit strategies, will prevail. Those lacking expertise, meanwhile, will not survive. On the other hand, the increasing number of M&A deals, expanding private equity market, and legal provisions to facilitate organizational restructuring will increase demand for solutions using diversified investment methods, such as stock market delistings, management buyouts (MBOs), and carve-outs (partial spin-offs).

Performance Target

Daiwa Securities SMBC PI aims to achieve an investment balance of ¥400 billion or higher by March 31, 2009.

Basic Strategy

One of Daiwa Securities SMBC PI's strengths is its ability to uncover lucrative investment targets by leveraging the networks of Daiwa Securities SMBC and Sumitomo Mitsui Banking Corporation (SMBC). Specifically, it brings together the broad customer base of SMBC and the advanced due diligence capabilities of Daiwa Securities SMBC to conclude numerous ground-breaking deals. Going forward, it will allocate substantial management resources, such as personnel and capital, mainly to the private equity investment division, while sustaining other revenue sources—investments in monetary claims and real estate. Moreover, it will work to develop new revenue sources by moving into new businesses, such as trading in emission reduction credits.

In March 2006, Daiwa Securities SMBC PI, together with the Goldman Sachs Group and SMBC, underwrote preferred shares issued by SANYO Electric (Daiwa Securities SMBC PI underwrote ¥125 billion of the ¥300 billion total issue). Along with the investment, Daiwa Securities SMBC PI sent two board directors and seven management staff to SANYO Electric to help enhance that company's corporate value.

SANYO Electric

— From a home electrical appliance maker to “a leading manufacturer in the environment and energy sectors”

SANYO Electric (SANYO) has manufactured and marketed home electrical appliances, industrial products, and electronic parts since its establishment in 1950. Unlike an ordinary home appliance manufacturer, however, SANYO today has unique business lines covering such items as batteries, condensers, mobile phones, and showcases for supermarkets. Moreover, it has more than 160 manufacturing and sales subsidiaries and affiliates worldwide, and their business is expanding globally.

In recent years, SANYO has faced very difficult business conditions. Its profitability has declined due to

intensifying global competition across the electronics sector, as well as the damage caused to manufacturing facilities by the Niigata Chuetsu Earthquake. Responding to these adverse circumstances, in July 2005 it launched the “SANYO Evolution Project,” a three-year restructuring project aimed at overcoming its crisis. And in November 2005, it formulated a medium-term management plan (FY 2005 to 2007).

Seeking to be a “corporation that would truly please the earth and life”, the SANYO Electric Group developed its “Think GAIA” vision. Guided by the vision, it is applying its proprietary technologies and offering imaginative solutions, with particular focus on the environment, energy, and lifestyles.

Increase in Capital

— Focus on core businesses and strengthen balance sheet

SANYO posted net losses in FY 2004 and FY2005 due to declining revenues stemming from adverse business conditions. Its equity capital decreased significantly as a result. To sustain its business operations in this critical situation, SANYO needed to find ways to strengthen its balance sheet, by increasing equity capital and reducing interest-

Topic: Investment in SANYO Electric

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bearing debt. Previously, Daiwa Securities SMBC had served as lead manager in extending support to SANYO for its restructuring efforts. Given the nature of SANYO's situation, however, Daiwa Securities SMBC began considering an injection of equity via Daiwa Securities SMBC PI. Because Daiwa Securities SMBC PI was confident in SANYO's ability to recover from its situation, it decided to participate in the SANYO's ¥300 billion issue of preferred share, along with the Goldman Sachs Group and SMBC, and to work together with SANYO in implementing its medium-term management plan. The investment was completed on March 14, 2006.

Outline of Capital Increase (preferred shares)

— Support the implementation of the medium-term management plan

SANYO issued two classes of preferred shares—Class A Preferred Shares and Class B Preferred Shares—on the condition that conversion to common stock and transfer to third parties are prohibited for one year after issuance and that a certain holding ratio of voting rights accompanying the shares are kept for two years. These conditions were designed to minimize the impact on the stock price and management of SANYO during the implementation of its medium-term plan.

Contents of Preferred Shares

Name of shares	No.1 Class A Preferred Shares of SANYO Electric Co., Ltd.	No.1 Class B Preferred Shares of SANYO Electric Co., Ltd.
Total value of issuance	¥127,779,540 (thousand)	¥172,220,510 (thousand)
Amount allocated to Daiwa Securities SMBC PI	¥62,863,430 (thousand)	¥61,136,610 (thousand)
Voting rights at the Shareholders Meeting (Yes/No)	Yes	No
Paid-in date of preferred shares	March 14, 2006	March 14, 2006
Period to convert to common shares	From March 14, 2007 or later until March 13, 2026 (inclusive)	From the following day of the paid-in date until March 13, 2026 (inclusive) (However, common shares converted cannot be transferred to a third party until March 13, 2007 without the consent of the contracting parties.)

Investment

NIF SMBC Ventures Co., Ltd.

Business Features

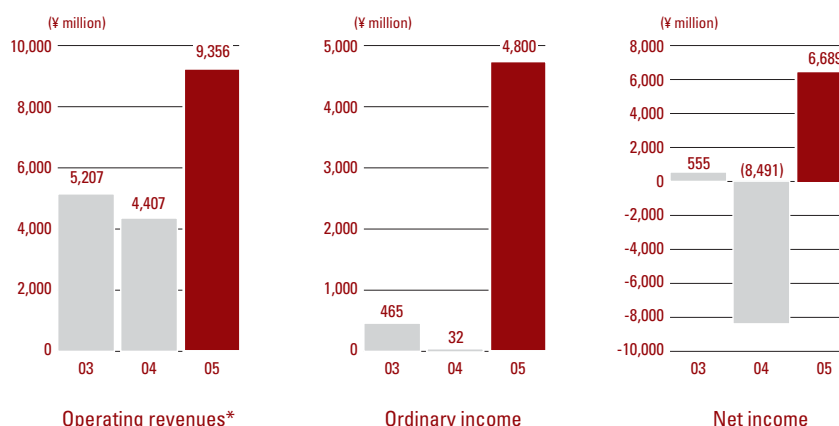
NIF SMBC Ventures is a private equity firm that specializes in venture and buyout investments as its core businesses. It was founded in October 2005 through the merger of NIF Ventures, member of the Daiwa Securities Group, and SMBC Capital, member of Sumitomo Mitsui Financial Group (SMFG).

With respect to venture investments, NIF SMBC Ventures basically seeks to make hands-on investments that entail in-depth involvement in the entire management of the venture business, ranging from capital investment, introduction of personnel, and provision of advice on capital policy and stock exchange listing. Major investment prospects include corporations equipped with cutting-edge technologies in such areas as digital technologies and life sciences, as well as venture companies with unique business models in such areas as contents and services.

Regarding buyout investments, NIF SMBC Ventures provides support to large enterprises seeking to spin-off or spin-out subsidiaries and business divisions. It also assists companies aiming to delist their shares, and it helps small and medium-size enterprises with high-quality resources but having succession problem, for example, to restructure their operations through MBOs or other means. Its abundant experience and expertise in venture investments is valuable in buyout investments that require active involvement in the management of the investee entity.

In addition to a strong customer base, NIF SMBC Ventures has amassed a wealth of knowledge in such areas as fund management and providing managerial support to investee companies. NIF SMBC Ventures is seeking to become “Japan’s best private equity firm” by utilizing synergies derived from combining the networks of the Daiwa Securities Group and SMFG.

Financial Summary of NIF SMBC Ventures



*Using figures compiled for the consolidated financial statements of Daiwa Securities Group Inc.
Note: Results in FY 2003 and FY 2004 were for NIF Ventures.

FY 2005 Highlights

In FY 2005, NIF SMBC Ventures reported operating revenues of ¥9.3 billion, up ¥4.9 billion year-on-year, owing to an increase in capital gains amid favorable conditions in the equity and IPO markets. Although SG&A expenses increased due to the merger in October 2005, ordinary income totaled ¥4.8 billion. Net income was ¥6.6 billion, compared with an ¥8.4 billion net loss in FY 2004.

During the year, NIF SMBC Ventures invested in 148 corporations (an increase of 33 from FY 2004), making total investments of ¥25 billion (up 56.1% year-on-year.) Specifically, it invested in 145 venture companies, mainly in Japan (up 33 year-on-year), for total of ¥19.9 billion (up 52.6%). In the buyout category, it invested a total of ¥5.1 billion in three companies, including the takeover of Gakken Credit Corporation and an investment in HALC. This compares with three investments, totaling ¥2.9 billion, in FY 2004.

NIF SMBC Ventures supported 23 investee companies in Japan to be newly listed, up from 19 in FY 2004, and six overseas, up from four.

With respect to fund management, the balance of funds outstanding as of March 31, 2006, was ¥162.8 billion, up ¥54.9 billion from a year earlier.

Outline of New Medium-term Management Plan

Business Environment Assumptions

Against the backdrop of a steadily recovering Japanese economy, opportunities for venture and buyout investments will increase as need to create new industries and restructure corporations become more widely recognized. Facilitating this trend will be significant advances in relevant legal systems and other social mechanisms.

Basic Strategy

— Use broad securities and banking networks to better identify investment opportunities

NIF SMBC Ventures intends to increase its portfolio of investments that will generate revenue in the future. Here, it will draw on the customer bases and networks of the Daiwa Securities Group and Sumitomo Mitsui Banking Corporation. NIF SMBC Ventures will also expand its fund management activities to address the growing need among their business partners for investment in private equity funds.

— Seek enhanced quality and scale

NIF SMBC Ventures will upgrade its various networks in an effort to improve the performances of its investments. In addition to their business network, which was broadened due to the merger, it will seek stronger ties with universities in line with the trend toward industry-academia collaboration, and it will build closer relations with fund investors and business partners. In addition, it will draw on ties with business offices and local venture capitalists in Asia, the United States, and Europe.

NIF SMBC Ventures will enhance its system for accurately evaluating advanced digital technologies and life science technologies, by strengthening its industry-specific team framework and the Technical Adviser Office of NIF SMBC Ventures, which is staffed with specialists. It will also promote full-scale investments in corporations in all types of businesses and at different growth stages. Through these efforts, it will build a balanced portfolio and ensure stable earnings.

Moreover, NIF SMBC Ventures will step up investments in Asia, focusing on that region's high growth potential. To this end, it established a liaison office in Shanghai in November 2004.

Group Support

Research, Consulting, and Systems

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Daiwa Institute of Research Ltd.

Business Features

Daiwa Institute of Research (DIR) is the comprehensive think tank of the Daiwa Securities Group. DIR provides Group companies with high-quality information services in the areas of research, consulting, and systems to help enhance their business value, while offering the best solutions to meet the needs of customers outside the Group.

Research at DIR is led by Japan's top-ranking analysts, who issue timely reports based on economic and corporate fundamentals. DIR also conducts market analysis from the various viewpoints of economists, quants, and technical analysts. Moreover, DIR analyzes policies and makes proposals for reforming legal systems and financial and capital markets.

In the area of consulting, DIR provides a broad range of services related to corporate strategy, restructuring of businesses and organizations, and corporate revitalization, while also making advanced proposals. Furthermore, it offers consulting on pension systems to help each of its client companies design an optimal pension plan.

As for systems, DIR serves as the core IT arm of the Daiwa Securities Group, offering stable and advanced systems that bolster the Group's evolving financial and securities businesses.

FY 2005 Highlights

In FY 2005, DIR posted a 22.6% year-on-year increase in operating revenues, to ¥78.9 billion. Ordinary income rose 37.5%, to ¥7.3 billion, and net profit jumped 50.3%, to ¥4.3 billion.

In research, DIR was ranked No. 1 for the third consecutive year in both the analyst ranking by the Nikkei Financial Daily and analyst/economist ranking by the weekly Mainichi Economist magazine.

In consulting, DIR set up research committees on corporate governance, CSR, risk management, and internal control reporting systems, in order to provide corporations with appropriate advice on management practices. It also helped companies formulate medium-term management plans, and proposed and carried out business restructuring of various corporations.

In systems, DIR reported an increase in sales from system development services owing higher strategic IT investments by Group companies. Sales of systems to financial institutions and firms outside the Group also showed a steady rise, as DIR successfully met the needs of such entities.

Outline of New Medium-term Management Plan

DIR will strive to become the “Japan’s best information service company”, built on customers’ trust and employees’ passion. By providing the highest-quality information service in both research and systems, DIR will play a significant role in supporting the expansion of the Group’s businesses.

Basic Strategy

The research and consulting divisions of DIR will help the Daiwa Securities Group maintain its steady growth, while contributing to the sound development of the capital markets.

DIR will further enrich its research function, which forms the core of securities-related businesses, in order to deepen relationships with its customers and to accurately address their increasingly sophisticated and diversified needs in securities-related businesses. It will focus specifically on establishing and reinforcing the DIR brand in the brokerage field. Here, DIR will demonstrate its foresight, based on its research expertise and analysis skills, to make sophisticated proposals. In consulting, DIR will step up its contribution to the Group’s origination business, which is the domain of Daiwa Securities SMBC’s investment banking division. DIR will achieve this by enhancing its solution-provision capabilities, backed by research functions and professional consulting tools in advanced fields.

The systems division of DIR will cooperate with other Group companies to put the Group’s IT strategy into practice, swiftly respond to environmental changes, and improve overall system security. It will also train talented personnel in order to improve its services and support the development of client companies, both in and outside the Group.

In FY 2005, DIR's Emerging Industries Research Division, which identifies emerging companies, began offering a course at Waseda University to nurture entrepreneurs. This course is funded by Daiwa Securities Group Inc.

Although the course was originally designed to admit 25 students, it had to increase the number of places because the course's popularity greatly exceeded its expectations, with more than 200 students applying. The final class of the course included a business plan competition, where 12 students received awards. The winner of the competition went on to found his own company in February 2006, receiving significant media coverage and boosting the reputation of the course.

During the year, DIR also provided comprehensive assistance to a project to support female entrepreneurs, which was cosponsored by Fujisankei Communications Group and Daiwa Securities Group Inc. With the aim of "revitalizing Japan," the project involved seminars at eight venues (2,402 applicants) nationwide and a business plan competition (1,563 applicants). The competition and the subsequent awards ceremony were widely covered in the press.

Lecture by a lecturer from Daiwa Institute of Research



Group Support

Securities Business Administration

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Daiwa Securities Business Center Co., Ltd.

Business Features

Daiwa Securities Business Center (DSC) is a comprehensive outsourcing vendor and provider of back office services related to the securities business. DSC deploys its expertise and systems, accumulated through its handling of Daiwa Securities' entire back office functions, to help Group companies and other clients enhance the efficiency of their business operations at low cost.

In December 2002, DSC became the first back office service provider in the industry to obtain ISO 9001:2000 certification*, an international standard for quality management systems, for its back office operations on behalf of Daiwa Securities and Daiwa Securities SMBC. Taking this opportunity, DSC successfully transferred its ISO 9001:1994 certification, previously obtained for its services to securities firms outside the Group, to the ISO 9001:2000 certification. DSC also obtained the "Privacy Mark" certification from Japan Information Processing Development Corporation (JIPDEC) in September 2005 for its appropriate handling of personal information.

* With "quality management systems" as its concept, the ISO 9001:2000 standard is an upgraded version of the ISO 9001:1994 standard, which focused on "quality assurance." The objective of ISO 9001:2000 is to "improve customer satisfaction" at a high level through ongoing improvements in quality management systems.

Group Support

Branch Office Administration and Real Estate Consulting

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Daiwa Property Co., Ltd.

Business Features

Daiwa Property is a real estate company that provides property management services, mainly for branch offices, corporate dormitories, and other buildings used by the Daiwa Securities Group. It specializes in building new facilities and refurbishing, rebuilding, and replacing existing ones. With abundant expertise in real estate management, accumulated since its foundation more than 50 years ago, Daiwa Property offers high-quality real estate services by reinforcing its property management infrastructure and actively promoting its “business solution” services.

In property management, Daiwa Property maintains data on buildings and other facilities owned or rented by the Daiwa Securities Group (data control), implements earthquake-resistance and other disaster-prevention measures, and performs risk management for leased properties. In the solutions business, it works with Daiwa Securities SMBC PI to expand its real estate consulting capabilities, providing advice on such matters as reducing real estate investment costs and impairment accounting.

In November 2007, the Group plans to relocate its head office building to consolidate the presently dispersed functions of Group companies. To ensure the smooth completion of this project, Daiwa Property is extending full support to the Headquarters Relocation Department of Daiwa Securities Group Inc.

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Disclosure Strategy

Corporate Governance

The Daiwa Securities Group is committed to creating a highly transparent and objective corporate governance system commensurate with international standards. By clearly separating the supervisory and executive functions of management, and building a highly efficient, specialized internal auditing framework, we will endeavor to establish the Group management structure that highlights synergies between Group companies.

Features of the Corporate Governance System

In 1999, the Daiwa Securities Group became the first listed Japanese company to adopt a holding company structure. In the process, it created a highly transparent and objective corporate governance framework that maximizes synergies between Group companies while showcasing the independence and unique expertise of each Group member.

In June 2004, the Group switched to a “committee system” of corporate governance and raised the flexibility of decision-making by transferring authority to a large extent from the Board of Directors to executive officers. In addition, we strengthened the supervisory function of management by increasing the number of outside directors and establishing the Nominating, Audit, and Compensation Committees. Representative managing directors of main Group companies also serve as executive officers of Daiwa Securities Group Inc., enabling efficient implementation of individual business strategies based on Group strategies.

The Nominating Committee met three times in FY 2005* to discuss the composition of the Board of Directors and the basic policy for nominating candidates for director. The Nominating Committee deliberates on and selects candidates for director in light of the Group’s standards for the appointment of directors. These standards include criteria for guaranteeing the independence of outside directors.

The Compensation Committee met five times in FY 2005* to discuss the compensation policy and determine the individual compensation of directors, and also studied a Group-wide incentive plan aimed at improving consolidated results.

The Audit Committee met 12 times in FY 2005* to audit the decision-making of directors and executive officers and monitor the implementation status of internal control systems at Group companies.

The Board of Directors met 12 times in FY 2005*, with 98% attendance of the four outside directors.

* Between June 24, 2005 and June 24, 2006.

Compensation Paid to Directors and Executive officers in FY2005

Division	Directors		Executive officers		Total	
	Recipients	Value	Recipients	Value	Recipients	Value
Amounts based on resolution by the Compensation Committee	5 persons	¥107 million	14 persons	¥758 million	19 persons	¥865 million

Notes:

In addition to the above, directors and executive officers received stock options without consideration.

As of March 31, 2006, there were 13 directors and 14 executive officers. Eight of the directors also served as executive officers. (Their total compensation is counted under “Executive officers.”)

Of the total compensation amount of ¥865 million, compensation paid to the four outside directors totaled ¥67 million.

Executive Compensation Linked to Performance

Compensation for directors and executive officers, which is set by the Compensation Committee, has three components: basic compensation, performance-based compensation (bonuses), and stock-price-linked compensation. Criteria for calculating performance-based compensation include financial results, such as consolidated ordinary income and ROE, as well as assets under custody, customer satisfaction levels (determined by surveys), and productivity per employee. In June 2004, we discontinued the retirement gratuity system for directors to strengthen the link with performance and enhance the transparency of executive compensation at the three group companies, Daiwa Securities Group Inc., Daiwa Securities, and Daiwa Securities SMBC.

Internal Control System

The Daiwa Securities Group defines “internal control” as a collection of processes aimed at securing business effectiveness and efficiency, reliability of financial reporting, and compliance with laws and regulations. The Group is building an extensive internal control system to ensure that such processes function effectively and efficiently.

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

internal audit departments.

The internal audit departments, including that of Daiwa Securities Group Inc., undertake regular audits according to predetermined auditing plans and verify the status of internal control. The frequency and extent of audits are determined on a case-by-case basis, following evaluation of risks and other factors. The Internal Audit Department regularly communicates with the internal audit departments of main Group companies. In this way, it performs a coordinating role aimed at upgrading the Group’s internal control and internal auditing systems.

In the case of Daiwa Securities Group Inc., internal audit plans and the results of internal audits are reported to and approved by the Internal Control Committee, a subcommittee of the Executive Committee. In the case of main Group companies, the plans and results are reported to and approved by the Committee such as the Legal Affairs and Compliance Committee. The Internal Audit Department also reports on the results of internal audits to the Audit Committee.

The Audit Committee also conducts audits in collaboration with the Internal Audit Department and, as necessary, can ask the Internal Audit Department to make investigations required for audits.

In FY 2005, system audits were carried out at Group companies. To strengthen information security, the Group examined the status of control systems according to its Minimum Standard for Information Security, which was formulated in September 2004, and checked the levels of response of Group companies to the enactment of the Personal Information Protection Law.

Top Management

Directors



Yoshinari Hara
Chairman of the Board

1967 Joined Daiwa Securities Co. Ltd.
1991 Director, Deputy Head of Corporate Institutional Sales Division
1995 Managing Director
1997 President
1999 President and CEO, Daiwa Securities Group Inc.
President, Daiwa Securities Co. Ltd.
2004 Chairman of the Board and Corporate Executive Officer, Daiwa Securities Group Inc.



Akira Kiyota
Deputy Chairman of the Board

1969 Joined Daiwa Securities Co. Ltd.
1994 Director, Deputy Head of Sales Division, and Head of East Division
1997 Deputy President
1999 President, Daiwa SBCM Co. Ltd. (currently Daiwa Securities SMBC Co. Ltd.)
2001 President, Daiwa Securities SMBC Co. Ltd.
Group Executive Officer, Daiwa Securities Group Inc.
2004 Deputy Chairman of the Board and Corporate Executive Officer, Daiwa Securities Group Inc.
Chairman, Daiwa Institute of Research Ltd.
2005 Deputy Chairman of the Board and Corporate Executive Officer, Daiwa Securities Group Inc.
Chairman of the Institute and Director, Daiwa Institute of Research Ltd.



Shigeharu Suzuki
Director

1971 Joined Daiwa Securities Co. Ltd.
1997 Director, Chief Corporate Institutions Officer
1998 Managing Director
1999 Managing Director, Daiwa Securities Group Inc.
2001 Senior Managing Director
2002 Senior Managing Director, Daiwa Securities SMBC Co. Ltd.
2004 Director and President and CEO, Daiwa Securities Group Inc.
President, Daiwa Securities Co. Ltd.



Tatsuei Saito
Director

1971 Joined Daiwa Securities Co. Ltd.
1996 Director, Head of Financial Institutional Sales I Dept.
1998 Managing Director
1999 Managing Director
2001 Senior Managing Director
2002 Senior Managing Director, Daiwa Securities Co. Ltd.
Group Executive Officer, Daiwa Securities Group Inc.
2003 Senior Managing Director and Corporate Executive Officer, Daiwa Securities Group Inc.
2004 Director and Deputy President and COO, Daiwa Securities Group Inc.
President, Daiwa Securities SMBC Co. Ltd.



Tetsuo Mae
Director

1969 Joined Daiwa Securities Co. Ltd.
1996 Director, Head of Corporate Institutional Sales Division
1998 Managing Director
1999 Managing Director, Daiwa Securities Co. Ltd.
2000 Senior Managing Director
2002 Senior Managing Director, Daiwa Securities Co. Ltd.
Group Executive Officer, Daiwa Securities Group Inc.
2003 Deputy President, Daiwa Securities Co. Ltd.
Group Executive Officer, Daiwa Securities Group Inc.
2004 Director and Deputy President, Daiwa Securities Group Inc.
Deputy President, Daiwa Securities Co. Ltd.



Shin Yoshidome
Director

1974 Joined Daiwa Securities Co. Ltd.
1999 Branch Manager, Yokohama Branch
2000 Deputy Branch Manager, Nagoya Branch, Daiwa SBCM Co. Ltd. (currently Daiwa Securities SMBC Co. Ltd.)
2001 Executive Officer, Nagoya Branch Officer, and Branch Manager, Nagoya Branch, Daiwa Securities SMBC Co. Ltd.
2004 Managing Director
2006 Director and Corporate Executive Vice President, Daiwa Securities Group Inc.
Senior Managing Director, Daiwa Securities SMBC Co. Ltd.



Takashi Hibino
Director

1979 Joined Daiwa Securities Co. Ltd.
1999 Head of Corporate Planning Dept, Daiwa Securities Group Inc.
2002 Executive Officer, Equity Officer, Daiwa Securities SMBC Co. Ltd.
2004 Director and Corporate Senior Executive Officer, Daiwa Securities Group Inc.
Director, Daiwa Asset Management Co. Ltd.
2005 Director and Corporate Senior Executive Officer, Daiwa Securities Group Inc.



Nobuyuki Iwamoto
Director

1980 Joined Daiwa Securities Co. Ltd.
2001 Head of International Finance Dept, Daiwa Securities SMBC Co. Ltd.
2005 Corporate Executive Officer and CFO, Daiwa Securities Group Inc.
Director, Daiwa Asset Management Co. Ltd.
2006 Director and Corporate Executive Officer and CFO, Daiwa Securities Group Inc.
Director, Daiwa Asset Management Co. Ltd.



Kenji Hayashibe
Director

1974 Joined Daiwa Securities Co. Ltd.
1996 Head of Corporate Institutions VI Dept.
1998 Director, Chief Corporate Planning Officer
1999 Executive Planning Officer, Daiwa SBCM Co. Ltd. (currently Daiwa Securities SMBC Co. Ltd.)
2002 Director, Daiwa Securities Group Inc.
2003 Director and Corporate Executive Officer, Daiwa Securities Group Inc.
2004 Director, Daiwa Securities Group Inc.



Tetsuro Kawakami
Outside Director

1952 Joined Sumitomo Electric Industries, Ltd.
1982 President, Sumitomo Electric Industries, Ltd.
1991 Chairman of the Board, Sumitomo Electric Industries, Ltd.
1998 Chairman of the Board, Sumitomo Electric Industries, Ltd.
Corporate Auditor, Daiwa Securities Co. Ltd.
1999 Advisor, Sumitomo Electric Industries, Ltd.
Corporate Auditor, Daiwa Securities Group Inc.
2002 Advisor, Sumitomo Electric Industries, Ltd.
Outside Director, Daiwa Securities Group Inc.



Ryuji Yasuda
Outside Director

1976 Joined Morgan Guaranty Trust Company of New York (currently JPMorgan Chase & Co.), Investment Research Officer
1979 Joined McKinsey & Company, Director
1996 Managing Director, Asia Pacific, A.T. Kearney, Inc.
2002 Managing Director, Far East Asia, A.T. Kearney, Inc.
Professor, Hitotsubashi University, Graduate School of International Corporate Strategy
2003 Chairman, J Will Patners Co., Ltd.
Professor, Hitotsubashi University, Graduate School of International Corporate Strategy
Outside Director, Daiwa Securities Group Inc.
2004 Chairman, J Will Patners Co., Ltd.
Professor, Hitotsubashi University, Graduate School of International Corporate Strategy
Outside Director, Daiwa Securities Group Inc.



Keisuke Kitajima
Outside Director

1961 Appointed as a Public Prosecutor
1998 Public prosecutor general
2001 Retired public prosecutor general, Registered as a Lawyer
2004 Lawyer
Outside Director, Daiwa Securities Group Inc.



Koichi Uno
Outside Director

1967 Joined Arthur Andersen and Company
1979 Partner, Tokyo tax department at Arthur Andersen and Company
1981 Managing Partner,
Tokyo tax department at Arthur Andersen and Company
2000 Retired Arthur Andersen and Company, Founded CPA UNO OFFICE
2004 CPA UNO OFFICE
Outside Director, Daiwa Securities Group Inc.

Executive Officers



Shigeharu Suzuki
President and CEO
Head of Retail
(President, Daiwa Securities Co. Ltd.)

1971 Joined Daiwa Securities Co. Ltd.
1997 Director, Chief Corporate Institutions Officer
1998 Managing Director
1999 Managing Director, Daiwa Securities Group Inc.
2001 Senior Managing Director
2002 Senior Managing Director, Daiwa Securities SMBC Co. Ltd.
2004 Director and President and CEO, Daiwa Securities Group Inc.
President, Daiwa Securities Co. Ltd.



Tatsuei Saito
Deputy President and COO
Head of Wholesale
(President, Daiwa Securities SMBC Co. Ltd.)

1971 Joined Daiwa Securities Co. Ltd.
1996 Director, Head of Financial Institutional Sales I Dept.
1998 Managing Director
1999 Managing Director
2001 Senior Managing Director
2002 Senior Managing Director, Daiwa Securities Co. Ltd.
Group Executive Officer, Daiwa Securities Group Inc.
2003 Senior Managing Director and Corporate Executive Officer, Daiwa Securities Group Inc.
2004 Director and Deputy President and COO, Daiwa Securities Group Inc.
President, Daiwa Securities SMBC Co. Ltd.



Tetsuo Mae
Deputy President
Deputy Head of Retail
(Deputy President, Daiwa Securities Co. Ltd.)

1969 Joined Daiwa Securities Co. Ltd.
1996 Director, Head of Corporate Institutional Sales Division
1998 Managing Director
1999 Managing Director, Daiwa Securities Co. Ltd.
2000 Senior Managing Director
2002 Senior Managing Director, Daiwa Securities Co. Ltd.
Group Executive Officer, Daiwa Securities Group Inc.
2003 Deputy President, Daiwa Securities Co. Ltd.
Group Executive Officer, Daiwa Securities Group Inc.
2004 Director and Deputy President, Daiwa Securities Group Inc.
Deputy President, Daiwa Securities Co. Ltd.



Kenjiro Noda
Deputy President
Deputy Head of Wholesale
(Deputy President, Daiwa Securities SMBC Co. Ltd.)

1969 Joined The Sumitomo Bank Limited
1996 Director, Head of International Division, The Sumitomo Bank Limited
2000 Senior Managing Director and Senior Managing Executive Officer, The Sumitomo Bank Limited
2003 Deputy President, Daiwa Securities SMBC Co. Ltd.
Group Executive Officer, Daiwa Securities Group Inc.
2004 Deputy President, Daiwa Securities Group Inc.
Deputy President, Daiwa Securities SMBC Co. Ltd.



Michihito Higuchi
Deputy President
Head of Asset Management
(President, Daiwa Asset Management Co. Ltd.)

1969 Joined Daiwa Securities Co. Ltd.
1995 Director, Deputy Head of Corporate Institutions Division
1999 Managing Director, Daiwa SBCM Co. Ltd. (currently Daiwa Securities SMBC Co. Ltd.)
2000 Senior Managing Director
2002 Senior Managing Director, Daiwa Securities SMBC Co. Ltd.
2004 Deputy President, Daiwa Securities Group Inc.
Deputy President, Daiwa Securities SMBC Co. Ltd.
2005 Deputy President, Daiwa Securities Group Inc.
President, Daiwa Asset Management Co. Ltd.



Yoshiyuki Takemoto
Deputy President
Head of Research
(President, Daiwa Institute of Research Ltd.)

1968 Joined Daiwa Securities Co. Ltd.
1987 President, Daiwa Securities SMBC Hong Kong Limited
1993 Director, Deputy Head of International Operations Division, Daiwa Securities Co. Ltd.
1997 Managing Director, Daiwa Securities Co. Ltd.
Chairman, Daiwa Europe LTD.
1999 Senior Managing Director, Daiwa SBCM Co. Ltd.
(currently Daiwa Securities SMBC Co. Ltd.)
2001 Deputy President, Daiwa Securities SMBC Co. Ltd.
2002 Deputy President and Corporate Executive Officer, Daiwa Securities Group Inc.
2003 Deputy President and Chairman, Daiwa Institute of Research Ltd.
2004 Deputy President, Daiwa Securities Group Inc.
President, Daiwa Institute of Research Ltd.



Shin Yoshidome
Corporate Executive Vice President
Deputy Head of Wholesale
(Senior Managing Director, Daiwa Securities SMBC Co. Ltd.)

1974 Joined Daiwa Securities Co. Ltd.
1999 Branch Manager, Yokohama Branch
2000 Deputy Branch Manager, Nagoya Branch, Daiwa SBCM Co. Ltd. (currently Daiwa Securities SMBC Co. Ltd.)
2001 Executive Officer, Nagoya Branch Officer, and Branch Manager, Nagoya Branch, Daiwa Securities SMBC Co. Ltd.
2004 Managing Director
2006 Director and Corporate Executive Vice President, Daiwa Securities Group Inc.
Senior Managing Director, Daiwa Securities SMBC Co. Ltd.



Takashi Hibino
Corporate Senior Executive Officer
Chief Planning / Personnel Officer

1979 Joined Daiwa Securities Co. Ltd.
1999 Head of Corporate Planning Dept, Daiwa Securities Group Inc.
2002 Executive Officer, Equity Officer, Daiwa Securities SMBC Co. Ltd.
2004 Director and Corporate Senior Executive Officer, Daiwa Securities Group Inc.
Director, Daiwa Asset Management Co. Ltd.
2005 Director and Corporate Senior Executive Officer, Daiwa Securities Group Inc.



Akira Nakamura
Corporate Senior Executive Officer and CIO
Deputy Chief Planning Officer
(Director, Daiwa Institute of Research Ltd.)

1975 Joined Unitika Ltd.
1983 Joined Daiwa Securities Co. Ltd.
1994 Head of System Solutions Promotion Dept., Daiwa Institute of Research Ltd.
1999 Executive Officer, Head of System Solutions Operation Division
2003 Senior Executive Officer
2005 Managing Director
2006 Corporate Senior Executive Officer and CIO, Daiwa Securities Group Inc.
Director, Daiwa Institute of Research Ltd.



Nobuyuki Iwamoto
Corporate Executive Officer and CFO
Deputy Chief Planning Officer
(Director, Daiwa Asset Management Co. Ltd.)

1980 Joined Daiwa Securities Co. Ltd.
2001 Head of International Finance Dept, Daiwa Securities SMBC Co. Ltd.
2005 Corporate Executive Officer and CFO, Daiwa Securities Group Inc.
Director, Daiwa Asset Management Co. Ltd.
2006 Director and Corporate Executive Officer and CFO, Daiwa Securities Group Inc.
Director, Daiwa Asset Management Co. Ltd.



Takatoshi Wakabayashi
Corporate Executive Officer
Chief Legal Officer and Deputy Chief Personnel Officer

1980 Joined Daiwa Securities Co. Ltd.
2004 Head of Personnel Dept, Daiwa Securities Group Inc.
2005 Corporate Executive Officer
Chief Legal Officer and Deputy Chief Personnel Officer
Head of Personnel Dept.



Masamichi Yokoi
Corporate Executive Officer and Head of America Region
Chairman & CEO, Daiwa America Corporation and Chairman, Daiwa Securities America Inc.

1975 Joined Daiwa Securities Co. Ltd.
1990 President, Daiwa Europe (Belgium) S.A.
2001 President, Daiwa Securities SMBC Europe Limited
Corporate Executive Officer, Head of America Region, Daiwa Securities Group Inc.
Chairman and CEO, Daiwa America Corporation
Chairman, Daiwa Securities America Inc.



Yoshinari Hara
Corporate Executive Officer

1967 Joined Daiwa Securities Co. Ltd.
1991 Director, Deputy Head of Corporate Institutional Sales Division
1995 Managing Director
1997 President
1999 President and CEO, Daiwa Securities Group Inc.
President, Daiwa Securities Co. Ltd.
2004 Chairman of the Board and Corporate Executive Officer, Daiwa Securities Group Inc.



Akira Kiyota
Corporate Executive Officer
Chairman of the Institute and Director, Daiwa Institute of Research Ltd.

1969 Joined Daiwa Securities Co. Ltd.
1994 Director, Deputy Head of Sales Division, and Head of East Division
1997 Deputy President
1999 President, Daiwa SBCM Co. Ltd. (currently Daiwa Securities SMBC Co. Ltd.)
2001 President, Daiwa Securities SMBC Co. Ltd.
Group Executive Officer, Daiwa Securities Group Inc.
2004 Deputy Chairman of the Board and Corporate Executive Officer, Daiwa Securities Group Inc.
Chairman, Daiwa Institute of Research Ltd.
2005 Deputy Chairman of the Board and Corporate Executive Officer, Daiwa Securities Group Inc.
Chairman of the Institute and Director, Daiwa Institute of Research Ltd.

CSR Initiatives

For the Daiwa Securities Group, corporate social responsibility (CSR) means contributing to society through the everyday business activities. We believe the most important thing is that each and every employee is always aware of our society in their everyday work. We are actively promoting CSR awareness among all employees and engaging in more proactive communication with stakeholders to enhance recognition of our CSR activities in the community.

Promotion of CSR and Internal and External Communication

CSR Promotion System and Internal Communication

The CSR Promotion Department at Daiwa Securities Group Inc. conceives, plans and leads the Daiwa Securities Group's CSR initiatives. It participates as needed in department head meetings at Daiwa Securities Group Inc. and in departmental liaison meetings held throughout the Group, where it reports on the Group's CSR activities and raises CSR-related issues. It also serves as the secretariat for the Environmental Management Committee, which aims to improve the accuracy of the environmental management system, and acts as a hub for internal communication related to CSR.

In May 2005, staff from both the Corporate Ethics Department (now the General Affairs Department) of Daiwa Securities Group Inc. and the Compliance Division at Daiwa Securities began holding compliance training sessions at branch offices of Daiwa Securities to deepen employees' understanding of these important issues. By the end of FY 2005, it had held sessions at 95 branch offices. They plan to visit all of the Group's branch offices (numbering 117 as of September 2006) by the end of FY 2007.

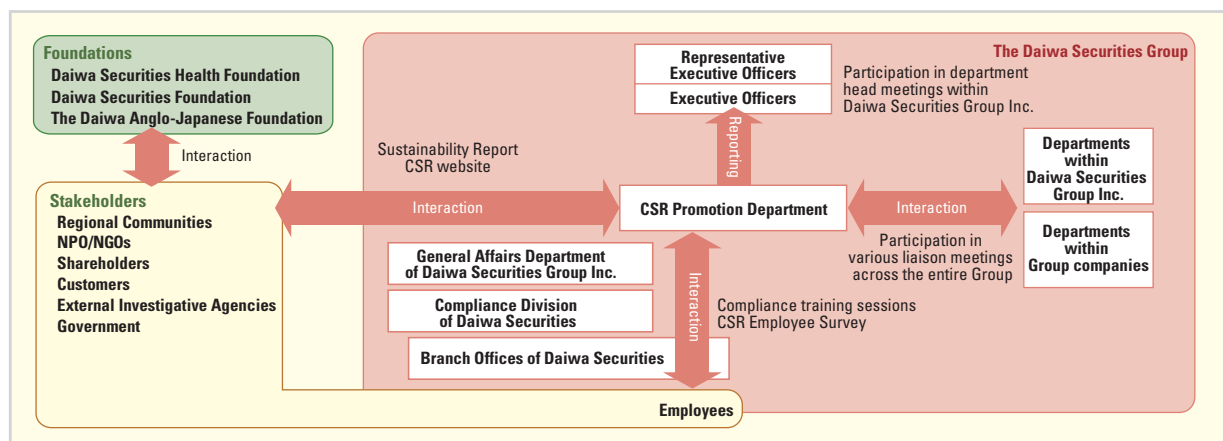
External Communication: Sustainability Report Wins Prize

The CSR Promotion Department publishes an annual Sustainability Report as a means of communicating information on CSR-related activities to those outside the Group. The Department also responds to CSR surveys conducted by NPOs, NGOs, and other outside organizations. Through these activities, the Department serves as the Group's point of contact for communicating with outside stakeholders.

Being responsible for corporate citizenship activities, the CSR Promotion Department also serves as the Group's point of contact for three foundations: Daiwa Securities Health Foundation, Daiwa Securities Foundation, and The Daiwa Anglo-Japanese Foundation. It also runs education and training programs related to corporate citizenship activities, and provides information on volunteer opportunities to employees through the Group's intranet.

In January 2006, the Group's Sustainability Report 2005 received the Grand Prize for Sustainability Report (Minister of the Environment Awards) at the 9th Environmental Communication Awards (Environmental Report Category), sponsored by Japan's Global Environmental Forum. We were the first financial institution to receive the prize. The report was highly

CSR Promotion System of the Daiwa Securities Group



acclaimed for its easy-to-understand presentation of information on CSR and sustainability issues. Other points highly commended included reporting on solving social problems through core business activities—the true meaning of CSR—and the prominence of the Group’s diverse stakeholders and employees in the report.

CSR Initiatives through Core Business Activities

1. Socially Responsible Investments (SRIs) —Largest SRI Funds in the Industry

Socially responsible investments (SRIs) are a means of generating fund flows that benefit society using market mechanisms. The market for SRIs is expanding year by year.

The Daiwa Securities Group has four SRI funds, including Daiwa SRI Fund and Daiwa Eco Fund. As of

March 31, 2006, the total net assets of these funds amounted to ¥77.9 billion. Daiwa Eco Fund, which was launched in March 2006, targets investment in companies that are recognized for environmental initiatives, such as raising energy efficiency and environmentally friendly technological development. As of March 31, net assets of the Daiwa Eco Fund stood at ¥53.3 billion, making it one of the largest SRI funds in Japan. In addition to these SRI funds, the Group also has regional support funds.

2. Education and Research Activities in Economic and Financial Areas

Another area in which the Daiwa Securities Group’s expertise and experience can contribute to society is through education and research in economics and finance.

As for joint industry-academia collaboration, these include offering college courses, giving lectures at universities across Japan, and supporting ventures that

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SRI Funds of the Daiwa Securities Group

Name of the Fund	March 31, 2006	
	Net Assets (¥ billion)	
Daiwa Eco Fund		53.3
Daiwa SRI Fund		16.5
Global Eco Growth Fund (Mrs. Green)		4.1
UBS Global Equity 40		4.0
Total		77.9

Regional Support Funds of the Daiwa Securities Group

Name of the Fund	Region	March 31, 2006	
		Net Assets (¥ billion)	
Shizuoka Benchmark Fund	Shizuoka Prefecture		9.7
Toyama Support Fund	Toyama Prefecture		7.7
Ibaraki Fund	Ibaraki Prefecture		5.3
Saino-Kuni Support Fund	Saitama Prefecture		4.8
Kanagawa Support Fund	Kanagawa Prefecture		1.3
Total			28.8

originate within universities. In April 2005, we established a basic course at Waseda University to train venture entrepreneurs. We also held lectures at Meiji University on the Daiwa Securities Group's SRIs. Furthermore, in March 2006 we completed a joint research with Hitotsubashi University's Graduate School of International Corporate Strategy on developing a model to assess the fair value of stock options.

We also support basic economic education for students at elementary, junior high, and senior high schools. As part of this program, we have been supporting the Student Company Program, a practical education program originally devised in the United States and run by Junior Achievement, an economic education NPO targeting youth. By raising the level of economic and financial literacy and helping nurture financial experts through these activities, we are contributing to sustainable economic growth and a stronger economic foundation in Japan.

In June 2005, we provided special support for Finance Park, a hands-on economics education program offered by Junior Achievement in Shinagawa ward in Tokyo. Under this program, students take on the roles of citizens, each with their own characteristics, and learn about regional communities and the economy as well as stocks and volatility of share prices as part of asset management.

Corporate Citizenship Activities

The Daiwa Securities Group supports regional society, environmental protection, and volunteer activities, primarily through the CSR Promotion Department at Daiwa Securities Group Inc. The Group aims to raise awareness among its executives and employees of the importance of good corporate citizenship.

Support Activities through Daiwa Group Foundations

The Group also engages in regional and international support activities through three Group foundations. Daiwa Securities Health Foundation supports studies and research in the prevention and treatment of lifestyle diseases, and works to increase the awareness of health maintenance and improvement. Daiwa Securities Foundation supports a wide variety of volunteer activities in social welfare and medical treatment. The Daiwa Anglo-Japanese Foundation promotes mutual understanding and friendship between Japan and the United Kingdom, and each year invites "Daiwa Scholars" from the United Kingdom to visit Japan.

Main Initiatives in FY 2005 —Assistance to Disaster Areas

In February 2005, we established the Daiwa Securities Group Tsunami Reconstruction Fund, which supported programs launched by local NGOs in September 2005. The Group also gave assistance to victims of Hurricane Katrina, which devastated parts of the southern United States in August 2005, and victims of the October earthquake in Pakistan, both through donations to the Japan Red Cross Society.

Environmental Initiatives

The Group's employees are working to reduce energy consumption on a daily basis by switching off office lights and electrical appliances when they are not in use. In addition, when replacing equipment, energy-saving models are installed wherever possible.

As a result of these efforts, the Group's electricity consumption declined 3.6% year on year in FY 2005, while its consumption of town gas dropped 19.5%. Water usage in FY 2005 totaled 324,527 kiloliters, down 21.0% from the previous year.

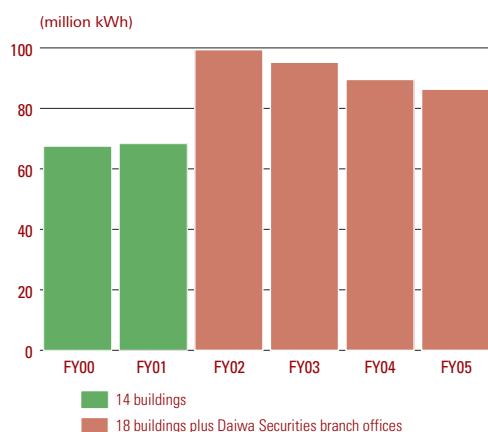
CSR Promotion under the New Medium-term Management Plan

By actively increasing communication with its stakeholders, the Daiwa Securities Group is raising awareness about its activities to benefit society and contributing to sound economic growth.

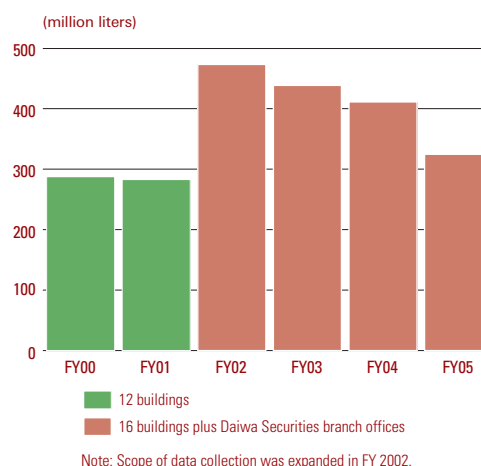
Specifically, we are stepping up efforts in three areas. (1) Economic and financial education—supporting education and research and promoting economic literacy through partnerships with educational institutions and NPOs; (2) SRIs—promoting socially responsible investments; and (3) Environment—creating an environmental management system, such as formulating environmental measures, in three stages, beginning with the Group's main domestic companies, followed by the domestic consolidated subsidiaries and then its overseas subsidiaries. Under the new medium-term management plan, we are reinforcing CSR activities through collaboration with entities inside and outside the Group.

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Electric Power Usage



Water Usage



Risk Management

As the Daiwa Securities Group pursues profitability and growth, it also recognizes the importance of accurately identifying, evaluating, and effectively controlling the various risks associated with its business operations. Our quest is to sustainably improve shareholder value by maintaining a sound financial and profit structure with a proper risk-return balance while managing assumed risks affecting all of our business situations.

Risk Management System

The Group's risk management policy encourages active participation by top management to ensure that risks inherent in its business operations are controlled appropriately and comprehensively according to their specific attributes. To this end, the status of risk management is reported regularly to the Internal Control Committee, a subcommittee of the Executive Committee.

Major risks affecting our businesses are market risk, credit risk, liquidity risk, system risk, operational risk, reputation risk, and legal risk. (See the Compliance section on page 75 for more information on legal risk.)

Each Group subsidiaries are responsible for managing the risks peculiar to their own businesses, taking advantage of their specialist expertise. In charge of Group-wide risk management is Daiwa Securities Group Inc., which monitors the systems, processes, and status of implementation of risk management activities undertaken by the subsidiaries.

Going forward, the Group will tackle various tasks including capital management based on economic capital (required capital commensurate with volume of risk) and evaluation of operating performance by business division, quantifying operational risk, and improving risk management systems on a consolidated basis. In addition, we will seek to build an appropriate framework for risk management, including emergency control system such as formulation of a business continuity plan (BCP).

Addressing Financial Risk (Market, Credit, and Liquidity Risks)

Regarding market risk, the Group states various limits and employs Value at Risk (VaR), a commonly used statistical management method, as an index for measuring and monitoring the risk of its trading operations. Our comprehensive risk management approach also employs stress-tests and scenario analyses.

Within the Group, the wholesale securities business, which has the greatest exposure to credit risk, judges whether or not to execute transactions or request collateral by rigorous investigation. The Group also assigns internal ratings to each client, sets credit limits according

to these ratings and transaction periods, and monitors them. Daily reports on market risk and monthly reports on credit risk are made to the management of Daiwa Securities Group Inc. (Reports can be made as needed when clients exceed their credit limits or have their credit status changed.)

With respect to liquidity risk, the Group maintains liquidity of capital and manages the maturity schedule of its liability portfolio. This is to enable continuous business operations for around one year, without the need for the Group's securities subsidiaries to enter new uncollateralized fund procurement arrangements. Liquidity of the Group's subsidiaries—except securities subsidiaries and NIF SMBC Ventures, a JASDAQ-listed company—is centrally managed under the Group Cash Management System of Daiwa Securities Group Inc.

Addressing Operational Risk and System Risk

As an important priority, the Group is tackling the risks that arise from improper internal processes or errors caused by executives, employees, or computer systems during the course of business. Due to the diversity of our business operations, we are taking a number of key measures, including establishment of stricter lines of authority, mechanization of business processes to reduce human error, and preparation of administrative manuals.

Despite these measures, however, on December 29 and 30, 2005, Daiwa Online Trading, an Internet trading service provided by Daiwa Securities, was suspended temporarily due to partial system failure. On January 13, 2006, an error occurred in the handling of an order placed by Daiwa Securities SMBC to the Tokyo Stock Exchange on behalf of a customer. In response, Daiwa Securities is expanding and upgrading its core system processing capabilities and working to create a monitoring system and framework to ensure stable system operations. Daiwa Securities SMBC, meanwhile, is instituting more rigorous administrative procedures for orders and stricter protocols on disengaging the alarm mechanism when inputting large orders. In these and other ways, the Group is working to improve its systems and prevent the repeat of such incidents.

Compliance

The Daiwa Securities Group believes that achieving sustainable growth ultimately depends on its ability to earn the trust of customers, capital markets, and society in general. With this in mind, we are working to ensure Group-wide compliance with legal rules, embracing “social justice” as one of our core corporate principles. In addition, we are striving to further upgrade our internal control framework and, through employee education and training, we are raising compliance-related awareness among each executive and employee.

Group Initiatives

Establishing Infrastructure and Educating Management and Employees

The Corporate Ethics Team in the General Affairs Department at Daiwa Securities Group Inc. is looking to formulate rules for a voluntary code of conduct to ensure legal compliance across the entire Group. It also holds monthly General Affairs/Corporate Ethics Promotion Liaison Meetings with various Group companies. In addition, employees of Group companies attend lectures and receive practical training when they join their respective Group companies and at regular intervals thereafter. Newly appointed directors also undergo training and, at various meetings, receive reports on amendments to relevant legislation. In these ways, the Group endeavors to raise awareness and expand knowledge of compliance-related matters among all employees. Through compliance, we are instilling the notion of “contribution to the development of sound securities markets.”

The Corporate Ethics Hotline (an internal reporting system) was introduced in January 2003 to encourage reporting on compliance-related issues. We have increased the effectiveness of the system by protecting the identity of informants and enabling them to contact not only the department in charge but also an external allied law firm. This has served to expand trust and awareness among employees, and the number of reports is increasing as a result.

Protecting Personal Information

Due to the full enactment in April 2005 of the Personal Information Protection Law, Daiwa Securities Group Inc., together with other Group companies, formulated a Privacy Policy and Privacy Statement outlining the Group's policies regarding the purpose of use and management of personal information. With respect to handling such information, our pledge is to comply with laws, guidelines issued by government ministries and agencies, internal regulations, and other rules. Through the Group intranet and other means, we also provide

management and employees with information and conduct training and checktesting related to protection of personal information.

Initiatives at Major Group Companies in FY2005

In FY 2005, Daiwa Securities sought to raise compliance-related awareness and further reinforce the compliance component of its business operations. Specific objectives included targeting more rigorous sales activities from the perspective of legal compliance and investor protection, strengthening the system for addressing complaints, enhancing responsiveness following the enactment of the Personal Information Protection Law, and fortifying and raising the level of effectiveness of the Compliance Division.

Daiwa Securities SMBC is upgrading its compliance training systems, introducing customized programs by divisions and by themes associated with day-to-day business operations. In FY 2005, Daiwa Securities SMBC broadened the content of its e-learning program and established a training framework enabling divisions to select themes suited to their particular workplaces. In addition, it is reinforcing its inspection system. For example, it conducted inspections to ascertain the effectiveness of measures to mitigate risks identified through internal audits. It is also expanding its inspection checklist to include items related to new business procedures following amendments to laws and other new regulations such as protecting personal information.

Human Resource Management

A primary source of competitiveness for the Daiwa Securities Group is its people. To maximize such competitiveness, the Daiwa Securities Group is fostering an environment where all employees can enhance their capabilities, increase their motivation, and realize their full of potential. This is done through the Group's effort to help employees upgrade their skills, and through the establishment of a personnel management system that allows more accurate evaluation of employee performance.

Group-wide Personnel Policy

The basic policy of the Group's personnel system is to "emphasize the creativity of each employee, foster a free and vigorous corporate culture filled with the spirit of challenge, and accurately evaluate the performances and contributions of employees". To this end, the Group has incrementally rebuilt its personnel system with a focus on rewarding performance.

Upgrading Evaluation Systems and Performance-Based Remuneration

Fair and objective personnel evaluation is a basic requirement for a performance-based system. The Daiwa Securities Group uses both a two-way evaluation system, where bosses and their subordinates evaluate each other, and a multi-directional evaluation system, which entails objective evaluation from other closely related Group companies and divisions. We also have an "evaluator training" program to enhance the evaluation skills of employees. In these ways, we are seeking to establish a highly compelling evaluation system.

Consistent with its fair evaluation policy, Daiwa Securities, the Group's retail arm, has set up the "President's Awards" which are awarded twice a year in an effort to further motivate employees. Similar award programs are also being introduced at Daiwa Securities Group Inc. and Daiwa Securities SMBC.

Reflecting its strong emphasis on rewarding employees who perform well, the Group has introduced a compensation system based on job category and adopted a more segmentalized personnel evaluation process. In the case of deputy general managers, there is a 17-fold difference between highest and lowest bonus, and a 4-fold difference for annual salary (based on FY 2005 results). In FY 2004, moreover, a performance-based annual salary system was introduced for analysts at Daiwa Institute of Research and fund managers at Daiwa Asset Management, so that their salaries reflect their analyst rankings and fund performance.

Raising Employee Skills and Providing Diverse Career Options

The Daiwa Securities Group continues to reinforce its support systems for employees to raise their skill levels. For example, we provide extensive backup for acquisition of qualifications, with particular focus on qualifications related to financial services such as financial

analyst and financial planner. We have also stepped up training aimed at nurturing administrative and business leaders. In addition, we are adopting an intra-Group job posting system, which enables employees to embrace new challenges by moving to a department of their choice within the Group. Since its introduction in 2000, the system has attracted 572 applicants, of whom 114 have been successfully qualified.

FY 2005 Initiatives

Qualification-Oriented Promotion System and New Management Positions

In June 2005, the Daiwa Securities Group established prerequisites for promotion. It has introduced a system whereby employees must earn "qualification points" in order to be promoted. Points are awarded mainly for qualifications useful in the securities industry, such as those of financial analysts, and are given in ascending order according to the difficulty of the targeted qualification. Through this system, we are giving employees greater incentive to enhance their capabilities. We also established two new positions—senior deputy general manager (one rank above deputy general manager) in June 2005 and senior manager (one rank above manager) in July 2006—in order to increase opportunities for both middle management post and young employees to be promoted and further boost their motivation in the workplace.

Support for Working Mothers

To address the rapidly declining birthrate and aging of society, in April 2005 the Japanese government enacted the "Law for Measures to Support the Development of the Next Generation", which calls for companies to build infrastructure enabling female employees to work and raise children at the same time.

The Daiwa Securities Group has long been a proactive recruiter of female employees, and in October 2005, the "Women's Advancement Action Team", part of the Personnel Department of Daiwa Securities Group Inc., formulated a "Support Plan for Working Mothers" aimed at improvement of the environment in which female employees can fulfill their duties both at work and at home.

Outline of Support Plan for Working Mothers

—Salesperson Rehiring System (“Professional Return Plan”)

Under this system, we rehire female permanent employees who have taken leave for various reasons, including marriage, pregnancy, childbirth, child-rearing, nursing care, and relocation for a spouse’s job. By providing a flexible career path for employees and increasing opportunities for advancement, we aim to attract and keep top-quality human resources. (At present, the system is only applicable for positions in sales staff at Daiwa Securities.)

—Extension of Maternity Leave and the Nursing Time

The Group had established a system whereby employees can take child-rearing leave longer than the period stated by law. Effective October 2005, we will further extend it up to the day before the child’s third birthday. Nursing time during work hours has also been extended up to the day before the child’s third birthday.

—Back to Work Program

The Group supports the smooth return-to-work of female employees who have taken maternity leave. By maintaining regular communication with such employees while they are away, we endeavor to eliminate their anxieties. As part of the program, the Group has issued a guide to support child-rearing and has distributed it to executives and employees. We also started a child-support website service, “Daiwa Family Net”, for our employees.

—Enhancement of Days Off

In order to establish a working environment with an awareness of work-life balance, the Group has enhanced the vacation system to promote full usage of paid holidays. Specifically, we have provided “days off for wedding preparations”, such as moving home associated with marriage, registering a marriage, and preparing for a wedding ceremony. We have also introduced “days off for family days”, such as for children’s outings or family members’ birthdays.

—Subsidy System for Expenses for Child-care Facilities

The purpose of this system is to facilitate the return to the workplace of employees after maternity leave by subsidizing daycare expenses for children aged under three.

As a result of these measures, Daiwa Securities Group Inc., Daiwa Securities, and Daiwa Securities SMBC were awarded the prize for Director of Tokyo Labour Bureau Award at the “Corporation Award for the Promotion of Gender Equality 2006”, which was sponsored by the Ministry of Health, Labour, and Welfare.

The “Corporation Award for the Promotion of Gender Equality” exists to raise public awareness of the efforts of companies that proactively encourages female workers to realize their abilities. We will pursue a better working environment for both men and women by continually taking such positive steps.

Support to Provide Job Opportunities for Senior Citizens

Heretofore, we have been rehiring senior citizens under the “Daiwa Elderly Support System”. However, we have introduced the “Daiwa Master System”, which includes steps related to the implementation of the “Revised Law for the Stabilization of Employment of the Aged” which began on April 1, 2006, as a new system for rehiring senior citizens. In the future, we will continue to consider the proactive use of senior citizens.

Initiatives on Human Resource Management under the New Medium-term Management Plan

The personnel policy outlined in the Group’s new medium-term management plan is aimed at “attracting the highest-quality human resources in the industry and providing them with highly motivating working environments where they can embrace new challenges”. To achieve various targets set under the plan, we intend to increase the Group-wide workforce by around 2,000 over the next three years through the continuous hiring of exceptional, dedicated people. We will provide new recruits with comprehensive training and education and offer rewards appropriate to an industry-leading company. We will also create working environments where women and experienced employees can demonstrate their abilities.

Furthermore, in order to maintain a high level of motivation, we believe it is necessary to increase job satisfaction. For this reason, in July 2006, we announced the “Corporate Activation Plan” via our Group satellite broadcasting system in order to make the direction of the policy well known. By raising the level of trust employees have towards the company, the pride they take in their work, and the feeling of solidarity within the Group, we are aiming to have more vitality as a Group than ever before.

Among the “Corporate Activation Plan”, the Group has already introduced the following systems.

- Establishment of “senior manager” post aimed at boosting the motivation of young employees
- Enhancement of mental health care for employees (Within Daiwa Securities Group Inc., the Mental Health Support Department was established in August 2006. Further enhancement is planned.)
- Replacement of part-time employees with full-timers

Intellectual Property Activities

The Daiwa Securities Group promotes the planning and development of new services and products applying information technology through promotion of patents. With the protection and application of such patents, the Daiwa Securities Group is striving to maintain a freehand and superiority for future business operations. Specifically, the Intellectual Property Section of the Legal Affairs Department of Daiwa Securities Group Inc. and Group companies are cooperating to apply for patents and to develop applications in diverse areas such as securities brokerage systems, investment information offering systems, management and control systems, and settlement systems.

Achievements in Intellectual Property Activities

As of the end of July 2006, the Daiwa Securities Group has registered 21 patents (22 including overseas patents). The Group's patent applications (number of open applications) were 285 as of the end of March 2006.

Of the 12 patents registered since FY 2005, business model patents (e-commerce area) were eight, while non-business model patents were four. By affiliation with the inventors, Daiwa Institute of Research (DIR) obtained seven patents*. Daiwa Securities obtained five patents*, and Daiwa Securities SMBC and Daiwa Securities Group Inc. obtained one patent each. The results indicate that patent registration is well-balanced among the companies within the Group. We will continue our Group-wide efforts for application and registration in the future.

*Including two patents jointly invented by Daiwa Securities and DIR.

Future Measures for Intellectual Property

The Daiwa Securities Group has been working on a policy that raises executives' and employees' awareness of intellectual property rights including patents, and has implemented the following measures. The 14 Group companies have revised their remuneration systems since FY2005 and have significantly raised incentives to meet the revised Patent Law and to aggressively promote patent registration. At the same time, an awards system has been set up to recognize executives and employees who greatly contribute to intellectual property activities.

In addition, the Group is promoting patent information sharing within Group companies by providing employees with manuals and educational material as well as providing patent information ([1] patents applied by other companies; [2] patents registered by other companies; [3] other companies' patent applications under examination, and; [4] Daiwa's patent applications and registrations) on its intranet.

Furthermore, the Group is reinforcing trademark and copyright management to prevent infringement by other companies upon the Group's intellectual property rights as well as infringement by Group companies upon intellectual property rights held by other companies, in accordance with corporate compliance.

Patent Registrations since FY 2005

FY2005: Name of patent	Applied	Registered	Affiliation of the inventor	Category	Main area of use
1. Information Distribution System and Information Distribution Method	2000.08	2005.04	DIR		electronic document issuance
2. Beneficiary Right Exchange Facility and Method and Their Programs	2002.10	2005.04	Daiwa Securities SMBC	BM Patent	exchange trade funds (ETF)
3. e-Mail Distribution Server, e-Mail Distribution System, e-Mail Distribution Method, and Their Programs	2001.05	2005.08	DIR		electronic document issuance
4. Download Control Method, Server, and Programs	2000.12	2005.10	Daiwa Securities	BM Patent	electronic document issuance
5. Information Transmission Equipment, Information Transmission Method, and Their Programs	2002.03	2005.11	DIR		electronic document issuance
6. Financial Product Display System and Its Method	2003.07	2005.12	Daiwa Securities	BM Patent	net trading (financial product display by each customer)
7. Street-Installed Printing Equipment and Document Printing Method	2001.03	2006.02	DIR		electronic document issuance
8. Non-Charged Coupon Operation System	2001.01	2006.03	Daiwa Securities	BM Patent	net trading (commission discounting method)
FY2006: Name of patent	Applied	Registered	Affiliation of the inventor	Category	Main area of use
9. Information Providing System, Method, and Their Programs	2004.02	2006.05	Daiwa Securities Group Inc.	BM Patent	net trading (offers of investment information and notices of stock price fluctuation factors)
10. Treasury Stock Management, Treasury Stock Management Method, and Their Programs	2003.05	2006.05	DIR	BM Patent	treasury stocks (compensation utilizing treasury stocks)
11. Asset Management System, Method, and Their Programs	2004.03	2006.07	Daiwa Securities DIR	BM Patent	SMA
12. Portfolio Management System, Method, and Their Programs	2004.03	2006.07	Daiwa Securities DIR	BM Patent	SMA

*BM Patent=Business Model Patent

Financial Strategy

To achieve sustainable growth in shareholder value, the Daiwa Securities Group undertakes integrated management of risk, return, and capital. Our policy is to build a break-even structure that is resilient to revenue fluctuations, and to manage risk in a way that protects our highly stable financial position. Through efficient allocation of capital resources, we will endeavor to maximize risk-adjusted returns.

Targeting Financial Stability

Seeking to secure a stable financial position, the Group controls the major risks affecting its consolidated balance sheets, including market risk, credit risk, and liquidity risk. This approach secures our financial base enabling us to deal with potential losses due to dramatic changes in business environment, and reflects our emphasis on assuring stable continuation of business.

Regarding market risk, the Group manages the allowable maximum amount against trading positions or Value at Risk (VaR: expected value of maximum loss with more than 99% confidence level), as well as keeping track of the amount of potential loss, which could occur if business conditions changed, using assumed stress scenarios.

With regard to credit risk, besides the management of credit limits, the Group strictly investigates risk involved in principal investments, which we are proactively expanding, and large-scale, low-liquidity investments such as third-party allocation CBs. In this process, we pay adequate attention to concentrated risk. The Group also conducts careful monitoring after investments have been made. Furthermore, we look at these risks as a whole, not only maintaining the necessary capital required by law, but also ensuring that the total amount of risk is commensurate with capital.

With respect to liquidity, the Group's policy is to maintain sufficient long-term capital to enable stable business continuation for around one year, without relying on new unsecured fund procurement. We also control liquidity to avoid excessive concentration on specific fund-raising sources or repayment periods.

Integrated Management of Risk, Return, and Capital

In order to increase our corporate value through substantial growth planned under the new Group's medium-term management plan, we undertake integrated management of risk, return, and capital to maintain sound profitability and stability.

Capital

When the medium-term management plan is achieved, with only retained earnings, consolidated net assets after dividends paid are expected to exceed one trillion yen. Along with efficiently allocating capital in accordance with the characteristic features of each business segment, we secure certain standby capital in preparation for new business development, strategic investment, and M&As.

Return

In each of its business divisions, the Group will expand consolidated profits and maintain a high level of ROE, by achieving a profitability ratio well above the risk-adjusted cost of capital.

Moreover, we will further improve the revenue-expenditure balance by boosting the magnitude and stability of earnings, as well as maintaining the balance of investment for growth.

Risk

The Group will adopt a more aggressive risk-taking approach, especially in its wholesale and investment businesses. To address the increasing level and complexity of risk associated with this approach, the Group will appropriately monitor risk by refining its methods of risk quantification, while raising the sophistication of risk assessment methods and risk management techniques.

Disclosure Strategy

The Daiwa Securities Group pursues more active communications to promote understanding and appropriate evaluation of the Group among all stakeholders, including shareholders, investors, and local communities. At the same time, we work towards fair, timely, and appropriate disclosure of corporate information according to its Disclosure Policy.

Disclosure System

Adhering to its Disclosure Policy and Disclosure Regulations, Daiwa Securities Group Inc. aims to disclose appropriate information in a fair and timely manner. Under the Disclosure Regulations, the Disclosure Committee was set up as a subcommittee of the Executive Committee. The Disclosure Committee is responsible for making final decisions concerning the disclosure of information. Each Group company has implemented its own “Management-Related Information” regulations, which cover information-gathering and presentation of reports to Daiwa Securities Group Inc.

Our disclosure system clearly separates responsibilities according to the intended recipients of the information. Specifically, the Investor Relations Department handles disclosure to shareholders, investors, and analysts. The Corporate Communications Department is responsible for communication with the mass media, and the CSR Promotion Department interacts with employees and local communities. These entities use various means, including the Internet and publications, to disclose information.

Strengthening Investor Relations Activities

The Daiwa Securities Group is proactive in disclosing its business strategies and explaining the status of each business field to shareholders and investors. Through these initiatives, our management can also obtain feedback on market reactions and opinions. This enables us to further raise management transparency and efficiency, which is essential for improving corporate value.

We disclose information in a timely and appropriate manner while eliminating the communication gap between domestic and overseas stakeholders. Our quarterly financial results are posted on the Group’s IR (Investor Relations) website immediately after announcement, and a conference call for analysts and institutional investors is held in the evening of the same day. This conference call is made available on the IR website in real time. The Group also makes a conference call to overseas investors and analysts during the same day.

In addition, the Group’s CEO holds briefings for analysts and investors twice a year in Japan, and the top management team travels to Europe, North America, and Asia to visit institutional investors. Through company presentations and other means, we are also strengthening communication with individual shareholders and investors. To this end, we launched a dedicated section for individual investors within our IR website in July 2006.

The General Shareholders’ Meeting provides an opportunity to interact directly with these important stakeholders. To provide more diverse options for shareholders to exercise their voting rights, the Group has allowed voting over the Internet and mobile phone. For shareholders situated away from Tokyo, we also provide live broadcasts of the meeting to Osaka and Nagoya via in-house satellite facilities. Furthermore, to encourage greater participation in the General Shareholders’ Meeting, we held the June 2006 meeting on a Saturday.

We will continue to actively promote communication with our diverse stakeholders using various tools, including the creation of separate IR methods for different groups of investors. Through such efforts, we aim to build “Japan’s best IR framework”, enabling us to set an example for listed companies and help develop an active securities market.

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The Daiwa Securities Group in Figures

Five-year Financial Summary

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	Millions of yen					Millions of U.S. dollars (*1)
	FY2001	FY2002	FY2003	FY2004	FY2005	FY2005
Operating Performance						
Operating revenues	488,044	387,659	453,814	519,337	845,660	7,227
Commissions	171,869	144,283	194,163	216,387	309,189	2,642
Net gain on trading	63,393	93,932	120,195	151,118	224,912	1,922
Net gain on private equity and other securities	6,947	4,132	8,676	12,763	21,539	184
Interest and dividend income	192,843	107,950	96,366	105,428	245,211	2,095
Service fees and other sales	52,992	37,362	34,414	33,641	44,809	382
Net operating revenues	284,932	270,810	352,435	390,432	579,359	4,951
Operating income	22,769	24,109	92,520	114,888	254,160	2,172
Income (loss) before income taxes and minority interests	(119,968)	11,845	76,926	112,603	258,356	2,208
Net income (loss)	(130,547)	(6,323)	42,637	52,665	139,948	1,196
Balance Sheet						
	Millions of yen					Millions of U.S. dollars (*1)
Total assets	7,827,306	9,502,826	10,765,665	12,378,962	14,898,891	127,340
Total risk assets (*2)	708,770	584,358	518,331	499,084	797,458	6,815
Private equity and other securities	73,347	77,866	87,367	142,547	382,421	3,268
Tangible fixed assets	188,451	162,339	143,123	137,620	126,531	1,081
Investment securities	358,828	259,207	229,924	193,202	269,854	2,306
Other investments	88,144	84,946	57,917	25,716	18,652	159
Total shareholders' equity	570,839	541,719	604,170	648,332	792,281	6,771
Per Share Data						
	Yen					U.S. dollars (*1)
Net income (loss) (*3)	(98.27)	(4.75)	31.66	39.03	103.90	0.89
Total shareholders' equity (*3)	429.68	407.84	453.60	486.70	598.27	5.11
Cash dividends	6.0	6.0	10.0	13.0	34.0	0.29
Financial Ratios						
	%					
Return on equity (ROE) (*4)	—	—	7.4	8.4	19.4	
Equity ratio	7.3	5.7	5.6	5.2	5.3	
Other Data						
Total number of employees	11,483	11,559	11,565	11,295	11,506	

*Notes: 1. Translations of the Japanese yen amounts into U.S. dollars are made at the rate of ¥117.00 per U.S. dollar, solely for the convenience of readers.

2. Total risk assets are calculated as the sum of private equity and other securities, tangible fixed assets, investment securities, and other investments.

3. Net income (loss) and shareholders' equity per share are computed based on the average number of shares outstanding during the year.

4. ROE is computed based on the average total shareholders' equity at the beginning and end of the fiscal year.

The Daiwa Securities Group in Figures

Breakdown by Business and Geographical Region

| Daiwa Securities Group *Annual Report 2006*

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	Millions of yen				
	FY2001	FY2002	FY2003	FY2004	FY2005
Breakdown of Net Operating Revenues by Business					
Equity	80,974	49,178	130,085	139,992	244,488
Commissions	60,667	47,242	80,061	83,887	120,217
Net gain on trading	20,307	1,936	50,024	56,105	124,271
Fixed income (bond)	47,755	96,580	75,390	99,277	103,843
Commissions	4,671	4,585	5,219	4,264	3,202
Net gain on trading	43,084	91,995	70,171	95,013	100,641
Asset management	61,403	40,870	43,046	45,640	82,404
Investment banking	36,313	39,638	55,805	71,170	82,735
Others	58,487	44,544	48,109	34,353	65,889
Net operating revenues	284,932	270,810	352,435	390,432	579,359
Breakdown of Commission Income by Business					
Equity	60,667	47,242	80,061	83,887	120,217
Brokerage commission	58,280	45,403	78,194	81,919	118,262
Others	2,387	1,839	1,867	1,968	1,955
Fixed income (bond)	4,671	4,585	5,219	4,264	3,202
Asset management	61,403	40,870	43,046	45,640	82,404
Brokerage commission	244	276	209	159	336
Distribution commission	14,734	14,059	21,904	19,688	41,799
Management fee (excluding agency commission)	20,917	13,029	9,992	11,779	17,994
Agency commission	25,507	13,506	10,940	14,014	22,275
Investment banking	36,313	39,638	55,805	71,170	82,735
Underwriting commission (Stock and other)	17,112	18,092	36,927	44,659	54,066
Underwriting commission (Bond and other)	9,070	9,522	8,400	8,573	8,554
Distribution commission	876	608	1,662	3,598	2,032
Others (M&A commission etc.)	7,619	11,084	8,049	12,828	16,389
Others	8,815	11,948	10,032	11,426	20,631
Life insurance sales commission	654	3,500	1,485	1,926	6,302
Investment enterprise partnership administration fee	2,419	2,439	2,652	3,013	4,776
Others	5,740	6,007	5,895	6,487	9,553
Total	171,869	144,283	194,163	216,387	309,189
Geographical Segment Information					
Net operating revenues					
Japan	250,266	239,719	315,579	351,457	543,196
America	17,082	7,677	11,217	10,612	14,286
Europe	24,553	23,331	27,369	30,405	33,758
Asia & Oceania	5,696	5,862	7,672	8,534	12,098
Operating income (loss)					
Japan	23,831	24,054	83,310	106,914	248,212
America	1,973	(3,404)	1,020	17	2,366
Europe	5,051	3,386	6,956	6,202	10,079
Asia & Oceania	(571)	67	1,561	1,753	3,626
Total assets					
Japan	5,560,406	7,270,670	8,617,452	10,078,853	12,239,342
America	1,757,738	1,817,691	1,948,621	2,098,376	2,807,087
Europe	661,297	656,448	768,712	811,192	1,145,934
Asia & Oceania	72,098	63,721	63,531	62,560	72,881

The Daiwa Securities Group in Figures

Eight-quarter Financial Summary

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	Q1	Q2	Q3	FY2004 Q4
Market Data				
TOPIX (quarterly average, index)	1,160	1,127	1,106	1,166
TSE average daily trading value (billions of yen)	1,656	1,240	1,270	1,543
Net purchases (sales) by investors on the TSE (billions of yen)				
Institutions	(858)	(568)	(328)	(1,977)
Individuals	(344)	(378)	(1,736)	(376)
Foreigners	1,166	840	2,016	2,332
Securities companies	(55)	(2)	(120)	(66)
Ten-year Japanese government bond yield (quarterly average, %)	1.60	1.65	1.45	1.40
Foreign exchange rates (quarterly average):				
Yen per U.S. Dollar	109.62	109.91	105.71	104.53
Yen per Euro	132.14	134.36	137.13	136.97

Operating Performance				Millions of yen
Operating revenues:	124,660	118,519	118,067	158,088
Commissions	54,299	53,116	46,702	62,268
Brokerage commission	27,544	16,831	16,757	22,408
Underwriting commission	10,236	17,299	11,801	15,405
Distribution commission	5,852	4,155	5,617	7,659
Other commission	10,665	14,829	12,524	16,795
Net gain on trading	42,437	33,831	30,452	44,397
Net gain (loss) on private equity and other securities*	950	583	201	(1,563)
Interest and dividend income	19,498	23,761	33,385	41,374
Other sales revenues	7,475	7,226	7,326	11,612
Interest expenses	17,926	23,145	30,466	32,137
Cost of sales	5,675	5,410	5,420	8,720
Net operating revenues	101,058	89,963	82,180	117,230
Selling, general and administrative expenses:	68,319	67,640	66,002	73,581
Commission and other expenses	10,559	11,779	11,295	13,086
Employees' compensation and benefits	37,043	34,199	33,472	38,036
Occupancy and rental	7,901	8,359	7,992	8,443
Data processing and office supplies	3,784	4,223	4,225	4,571
Depreciation expenses	5,458	5,426	5,486	5,758
Taxes other than income taxes	1,829	1,751	1,617	1,556
Others	1,743	1,900	1,911	2,129
Operating income	32,738	22,322	16,177	43,649
Non-operating income	2,439	1,141	2,436	1,891
Non-operating expenses	984	397	591	389
Ordinary income	34,193	23,066	18,022	45,151
Extraordinary gains	319	1,883	2,043	5,307
Extraordinary losses	777	1,607	1,388	13,608
Income before income taxes and others	33,734	23,341	18,676	36,850
Net income	14,284	9,881	9,464	19,035

Notes * Excludes share of net income raised by the investments in limited partnerships and similar partnerships.

Quarterly figures are based on unaudited financial statements included in the Group's Consolidated Financial Summary submitted to the Tokyo Stock Exchange.

	FY2005			
	Q1	Q2	Q3	Q4
Market Data				
TOPIX (quarterly average, index)	1,151	1,254	1,507	1,657
TSE average daily trading value (billions of yen)	1,403	1,972	3,108	3,147
Net purchases (sales) by investors on the TSE (billions of yen)				
Institutions	750	(1,873)	(912)	(2,051)
Individuals	(667)	(2,601)	(350)	(287)
Foreigners	307	4,591	3,090	2,068
Securities companies	21	(101)	(26)	(8)
Ten-year Japanese government bond yield (quarterly average, %)	1.27	1.35	1.52	1.58
Foreign exchange rates (quarterly average):				
Yen per U.S. Dollar	107.71	111.16	117.28	116.90
Yen per Euro	135.36	135.70	139.41	140.66
				Millions of yen
Operating Performance				
Operating revenues:	135,435	195,376	245,284	269,562
Commissions	45,039	62,944	89,853	111,351
Brokerage commission	17,756	26,209	39,072	36,482
Underwriting commission	5,320	9,132	16,378	33,482
Distribution commission	7,515	9,305	13,214	13,796
Other commission	14,447	18,297	21,188	27,590
Net gain on trading	35,804	68,547	57,749	62,810
Net gain on private equity and other securities*	4,009	2,071	9,037	6,421
Interest and dividend income	42,965	52,483	73,869	75,892
Other sales revenues	7,616	9,330	14,774	13,087
Interest expenses	38,531	49,507	70,425	73,107
Cost of sales	5,621	7,178	12,085	9,843
Net operating revenues	91,282	138,689	162,773	186,612
Selling, general and administrative expenses:	69,878	80,106	86,389	88,824
Commission and other expenses	13,748	15,509	16,148	18,503
Employees' compensation and benefits	34,961	42,485	47,355	46,260
Occupancy and rental	7,746	8,312	8,042	8,557
Data processing and office supplies	4,309	4,014	4,379	4,569
Depreciation expenses	5,551	5,588	5,669	5,830
Taxes other than income taxes	1,594	2,004	2,109	2,363
Others	1,966	2,191	2,685	2,739
Operating income	21,404	58,582	76,383	97,788
Non-operating income	2,705	1,957	2,196	1,838
Non-operating expenses	308	384	172	1,338
Ordinary income	23,800	60,155	78,407	98,287
Extraordinary gains	321	10,562	3,020	921
Extraordinary losses	—	614	1,867	14,640
Income before income taxes and others	24,122	70,102	79,560	84,569
Net income	11,636	34,185	38,803	55,322

Notes * Includes share of net income raised by the investments in limited partnerships and similar partnerships.

Quarterly figures are based on unaudited financial statements included in the Group's Consolidated Financial Summary submitted to the Tokyo Stock Exchange.

The Daiwa Securities Group in Figures

Operational Data

Daiwa Securities Group Inc. and Consolidated Subsidiaries

Billions of yen (Unless otherwise specified)

	Q1	Q2	Q3	FY2004 Q4
Daiwa Securities				
Daiwa Securities assets under custody (excluding financial institutions)*	19,301	18,646	19,920	21,080
Equities	10,362	9,555	10,645	11,373
Bonds	4,482	4,755	4,878	5,203
Investment trusts	3,889	3,859	3,930	4,023
Equity investment trust	1,505	1,550	1,657	1,812
Bond investment trust	2,383	2,309	2,273	2,211
Pension insurance	130	125	136	151
Others	438	352	331	330
Net inflow of retail funds**	322	345	1,078	563
Retail	272	307	1,038	550
Unlisted corporation etc.	49	37	40	12
Cash Management Service accounts* (thousands)	2,411	2,423	2,506	2,522
Online trading accounts* (thousands)	839	988	1,143	1,250
Assets under custody of online accounts*	4,438	5,148	6,281	7,503
Online transactions (thousands)	1,407	947	877	1,236
Online ratio	59.8%	62.3%	60.9%	61.4%
Online trading value	908	554	496	723
Online ratio	34.8%	38.3%	35.5%	35.8%
“Daiwa Direct” course accounts* (thousands)	331	355	408	429
Assets under custody of “Daiwa Direct” accounts*	764	745	909	1,002
Sales of core products				
Equity investment trusts	175	120	197	318
Foreign currency-denominated bonds	235	183	219	196
Daiwa Securities SMBC				
Assets under custody*	19,233	19,806	20,241	20,890
Equities	9,175	8,718	9,266	10,019
Bonds	7,940	8,759	8,710	8,784
Investment trusts	1,037	965	983	945
Equity investment trust	537	548	598	607
Bond investment trust	500	417	385	338
Others	1,080	1,362	1,281	1,141
Daiwa Asset Management				
Net assets under management*	6,004	5,743	5,788	5,676
Equity type investment trusts	1,895	1,901	2,064	2,118
Fixed income type investment trusts	4,108	3,842	3,724	3,557

Notes * As of the end of each quarter

** Net inflow of retail funds = net inflow/outflow of funds + net deposit/withdrawal of securities

Billions of yen (Unless otherwise specified)

	Q1	Q2	Q3	FY2005 Q4
Daiwa Securities				
Daiwa Securities assets under custody (excluding financial institutions)*	21,609	23,464	26,735	27,662
Equities	11,510	12,623	15,011	15,569
Bonds	5,459	5,661	5,785	5,878
Investment trusts	4,124	4,599	5,263	5,474
Equity investment trust	2,006	2,390	2,907	3,336
Bond investment trust	2,118	2,209	2,356	2,137
Pension insurance	169	220	292	335
Others	347	361	384	406
Net inflow of retail funds**	282	298	519	785
Retail	239	245	461	618
Unlisted corporation etc.	42	53	58	166
Cash Management Service accounts* (thousands)	2,539	2,568	2,631	2,695
Online trading accounts* (thousands)	1,323	1,359	1,421	1,487
Assets under custody of online accounts*	8,010	8,970	10,694	11,359
Online transactions (thousands)	1,123	2,038	3,138	3,389
Online ratio	65.6%	71.6%	73.6%	78.1%
Online trading value	683	1,579	2,877	3,218
Online ratio	40.8%	49.2%	51.9%	58.3%
“Daiwa Direct” course accounts* (thousands)	457	492	536	586
Assets under custody of “Daiwa Direct” accounts*	1,113	1,408	1,823	2,069
Sales of core products				
Equity investment trusts	339	415	641	632
Foreign currency-denominated bonds	268	246	207	266
Daiwa Securities SMBC				
Assets under custody*	21,369	22,418	24,691	24,029
Equities	10,382	11,942	14,163	13,931
Bonds	8,905	8,564	8,560	8,279
Investment trusts	942	992	1,042	1,035
Equity investment trust	616	679	732	767
Bond investment trust	326	312	310	268
Others	1,138	919	925	783
Daiwa Asset Management				
Net assets under management*	5,861	6,434	7,188	7,574
Equity type investment trusts	2,452	2,879	3,482	4,238
Fixed income type investment trusts	3,409	3,554	3,706	3,335

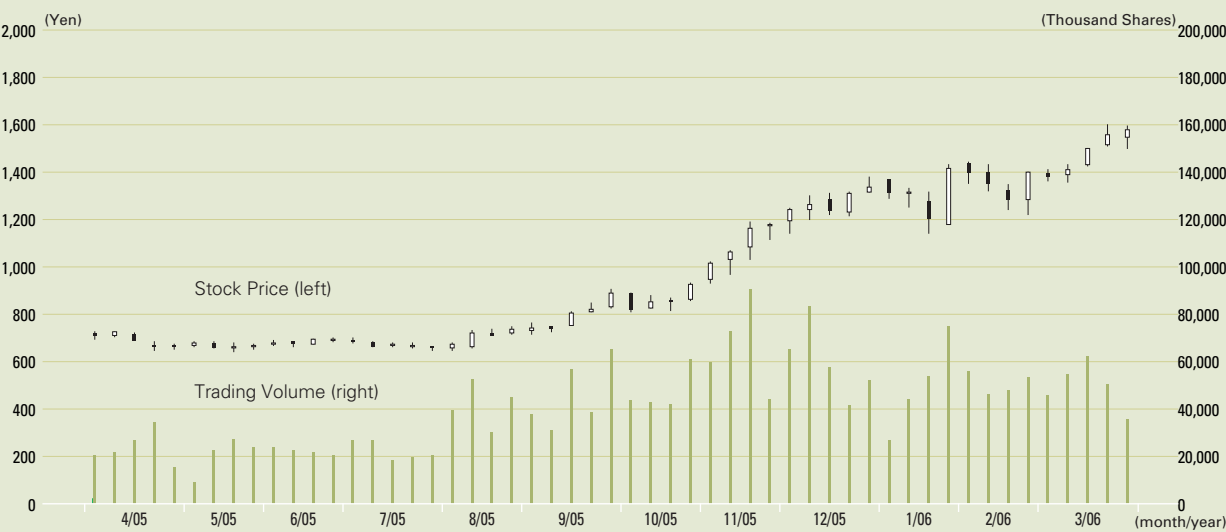
Notes * As of the end of each quarter

** Net inflow of retail funds = net inflow/outflow of funds + net deposit/withdrawal of securities

The Daiwa Securities Group in Figures

Stock Information

1. Stock Price and Trading Volume



2. Major Shareholders (As of March 31, 2006)

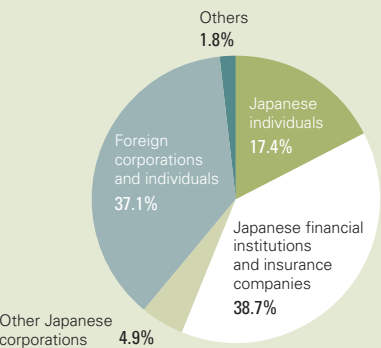
Name	Number of shares held (Thousands)	% of total outstanding shares
Japan Trustee Services Bank, Ltd. Trust Account	107,359	8.06
The Master Trust Bank of Japan, Ltd. Trust Account	58,492	4.39
Sumitomo Mitsui Banking Corporation	30,328	2.28
Japan Trustee Services Bank, Ltd. Trust Account 4	25,900	1.94
Japan Trustee Services Bank, Ltd. The Sumitomo Trust & Banking Retirement Benefit Account	24,888	1.87
Taiyo Life Insurance Company	23,140	1.74
State Street Bank and Trust Company 505103	21,116	1.58
Nippon Life Insurance Company	20,867	1.57
State Street Bank and Trust Company	20,624	1.55
The Chase Manhattan Bank 385036	18,314	1.37

* Numbers of shares are rounded down to the closest thousand

3. Stock Price on the Tokyo Stock Exchange
(April 1, 2005 – March 31, 2006)

Open	High	Low	Close	Average daily trading volume
¥ 707	¥ 1,598	¥ 641	¥ 1,579	8,914 Thousand Shares

4. Breakdown of Shareholders (As of March 31, 2006)



Financial Section

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Management's Discussion and Analysis

Management's Discussion and Analysis

Macroeconomic Conditions

1. Japan

The Japanese economy, having stayed level since the latter half of FY 2004, broke through and forged ahead in the first half of FY 2005, driven by steady growth of both internal and external demand. For the year, real GDP grew 3.2%, well above official estimates for the potential growth rate, which had been below 2%.

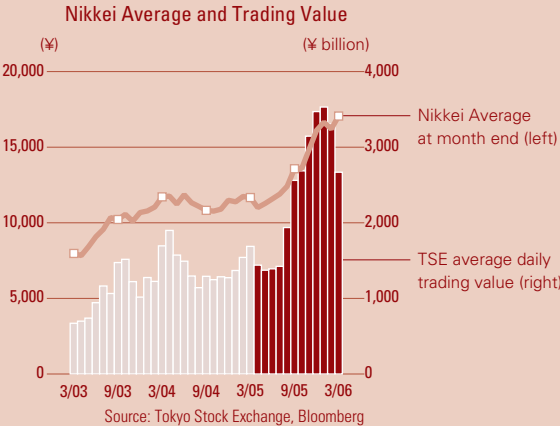
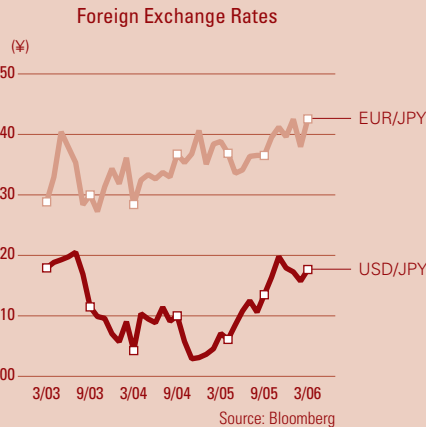
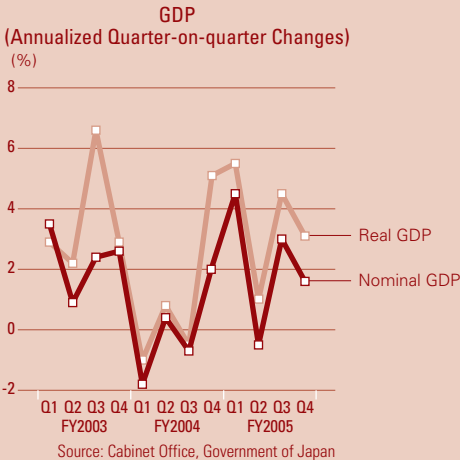
Exports stagnated temporarily as the Chinese government took measures to restrain that nation's overheated economy. Due to ongoing economic expansion overseas, however, exports for the year showed relatively solid growth, benefiting in the second half of the period from the recovery in earnings of IT-related companies, as well as an increase in exports to China. Production in the mining and industrial sectors again showed clear growth amid ongoing inventory adjustments by IT-related firms.

Corporate earnings rose for the fourth consecutive year from FY 2002, despite increases in the prices of crude oil and other raw materials. Indeed, the average ratio of ordinary income to net sales in FY 2005 surpassed the level attained at the peak of the "bubble" economy. Major manufacturing companies received higher dividends and royalties from their overseas subsidiaries and, with the added benefit of the yen's depreciation in the second half of the period, reported strong earnings. In this environment, business sentiment showed general overall improvement, notwithstanding differences according to sector, company size, and geographical location.

The year saw continued high growth in capital expenditures, underpinned by increased capacity utilization rates and high levels of earnings, and backed by growth in internal and external demand. Within the manufacturing sector, materials and processing companies recorded strong growth. Among non-manufacturers, the solid performers were companies in the real estate, information and communications, and electricity and gas sectors. During the year, corporations also made effective use of cash flows to upgrade their production and sales operations and to pursue research and development to reinforce their competitive edge.

Meanwhile, favorable corporate performances led to increases in dividends and share prices, boosting household income and the value of assets held. As the "good times" of the business world flowed into household budgets, personal consumption gradually bottomed out and firmed, and sentiment among companies in the consumer sector also improved.

Despite weakness early in the fiscal year, the stock market gath-



ered steam since July 2005 and remained vibrant. Over the period, the Nikkei Average surged 46%, to ¥17,059.66 on March 31, 2006, from ¥11,668.95 on March 31, 2005. Moreover, the average daily trading value on the Tokyo Stock Exchange jumped 68.7% year on year, to ¥2,404.5 billion — the highest in the history.

In the bond market, the yield on 10-year Japanese government bonds (JGBs) fell from 1.3% at the beginning of the period to below 1.2% by June 30, 2005 (as bond prices increased), but subsequently turned around as expectations of rising interest rates—stemming from economic recovery and rising share prices—pushed yields up (while bond prices declined). By March 31, 2006, the yield on 10-year JGBs had grown to around the middle of 1.7% to 1.8%, boosted also by the Bank of Japan's decision to lift its quantitative monetary easing policy.

Consolidated Operating Results

1. Overview

In FY 2005, strong stock market activity helped spark a rapid recovery in the earnings of securities companies. In this context, the Daiwa Securities Group reported substantial business growth. Ordinary income amounted to ¥260.6 billion, a 2.2-fold increase from FY 2004, while net income jumped 2.7-fold, to ¥139.9 billion. Consolidated return on equity (ROE) for the year rose considerably, to 19.4%, maintaining the highest among Japan's top 3 major securities companies. Cash dividend for the year was increased to ¥34 per share, greatly exceeding the previous record of ¥14, paid in FY 1989 and 1990.

2. Individual Accounting Items

(1) Net Operating Revenues

Consolidated net operating revenues in FY 2005 amounted ¥579.3 billion, up 48.4% from FY 2004. Within this total, commissions

2. Overseas

In the first half of FY 2005, the world economy showed signs of slowing due to economic deceleration in Europe and North America, as well as measures to tighten the overheated Chinese economy. Despite external imbalances, the United States, as the driver of the global economy, delivered another year of growth above 3%, underpinned by strong personal consumption. With the added benefit of completed inventory adjustments by IT-related companies, the world economy again turned around in the latter half of the period.

Meanwhile, brisk activity in crude oil and commodities markets underscored a succession of record-high prices for resources. The central banks of various nations responded by raising interest rates to alleviate concerns about inflation.

grew 42.9%, to ¥309.1 billion. Revenues from the equity division were solid, benefiting from the vibrant stock market, while revenue from the asset management division rose significantly, boosted by higher sales of equity investment trusts and the balance of net assets. The Group continued expanding its investment banking operations amid firm growth in underwriting deals and expansion of M&A activities. Net gain on trading continued growing steadily, reaching ¥224.9 billion in the year under review. Contributing factors included Structured Principal Solution (SPS) Program by Daiwa Securities SMBC, increased sales of foreign currency-denominated bonds by Daiwa Securities, and increased securities intermediation businesses for institutional customers of Sumitomo Mitsui Banking Corporation. Net gain on private equity and other securities, related to operating investment securities held by Daiwa Securities SMBC Principal Investments and NIF SMBC Ventures, also rose considerably.

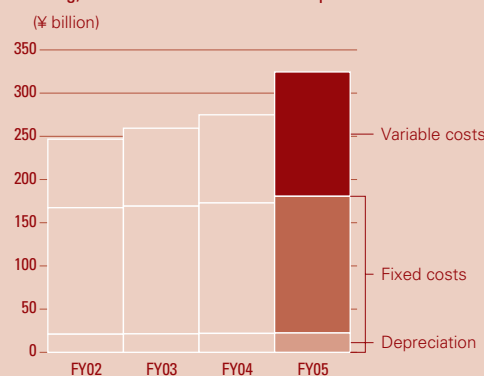
Breakdown of Net Operating Revenues

	FY2004	FY2005	yoy	(Millions of yen)			
				FY2005			
				Q1	Q2	Q3	Q4
Commissions	216,387	309,189	42.9%	45,039	62,944	89,853	111,351
Net gain on trading	151,117	224,912	48.8%	35,804	68,547	57,749	62,810
Net financial income	14,342	13,638	-4.9%	4,434	2,975	3,444	2,785
Others	8,584	31,618	268.3%	6,004	4,223	11,726	9,665
Total	390,432	579,359	48.4%	91,282	138,689	162,773	186,612

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

SG&A expenses increased 18.0% year on year, to ¥325.1 billion, but the rate of increase was significantly lower than that of operating revenue growth. Major factors in this rise included a 36.8% increase year on year of fees and commission paid including commissions paid to third parties and advertising expenses, and a rise in performance-linked bonuses and other variable costs. By contrast, the increases in fixed costs were limited, with real estate expenses edging down 0.1% and depreciation up 2.3%. SG&A expenses accounted for 56.1% of net operating revenues, down considerably from 70.6% in FY 2004.

Selling, General & Administrative Expenses



(3) Ordinary Income and Net Income

Ordinary income surged 116.4%, to ¥260.6 billion, the highest since the Group moved to a holding company structure in 1999. For the year, the Group posted a net extraordinary loss of ¥2.2 billion. This was mainly due to a ¥6.8 billion impairment loss on facilities that the Group has decided to stop using, such as welfare

facilities and underutilized suburban employee dormitories. Another factor was a ¥4.4 billion one-time amortization of the Group's head office building to shorten estimated remaining useful life following a decision to shift to a new location. Consequently, net income soared 165.7%, to ¥139.9 billion.

Ordinary Income and Net Income

(Millions of yen)

	FY2004	FY2005	yoy	FY2005			
				Q1	Q2	Q3	Q4
Ordinary income	120,433	260,651	116.4%	23,800	60,155	78,407	98,287
Net income	52,665	139,948	165.7%	11,636	34,185	38,803	55,322

Trends by Business, Group Company, and Geographical Segment**(1) Breakdown of Commission Revenues**

Equity commissions grew substantially, rising 43.3% year on year, to ¥120.2 billion. Brisk stock market activity, characterized by record-high average daily trading value on the Tokyo Stock Exchange (TSE), led to this expansion in brokerage commissions. During the year, Daiwa Securities revamped the fee structure of its Daiwa Direct course, introducing the flat-fee system. While this caused the average commission rate to decline, trading volume increased significantly, driven by online transactions. Daiwa Securities' share of total TSE market transactions grew as a result. The net inflow of retail assets at Daiwa Securities fell from ¥2,309.7 billion in FY 2004 to ¥1,886.1 billion in FY 2005, but this was due to the sudden increase in deposits of tansu-kabu (equity certificates held physically by investors) in the third quarter of FY 2004. Indeed, the net inflow/outflow of funds was ¥1,367.9 billion, up considerably from ¥696.1 billion in FY 2004, signaling healthy growth in new fund inflows.

Asset management commissions surged 80.6%, to ¥82.4 billion. Sales of bond investment trusts, such as Daiwa Global Bond Fund, as well as equity investment trusts, such as Japanese equity funds and an emerging market funds, grew strongly, boosting distribution commissions. In addition, rising share prices and fund inflow led to expansion of net assets under management, boosting management fees including agency commissions.

Investment banking commissions in FY 2005 grew 16.2%, to ¥82.7 billion, rising for the second consecutive year. Underwriting commissions related to primary and secondary equity offerings, which were solid in the previous year, performed even more strongly in the year under review. During the year, the Group handled a number of large-scale issues, which also boosted underwriting commissions. Meanwhile, commissions from M&As continued to increase. In the lead-manager league tables, we secured the No.1 position in total corporate bonds for the third successive year, and also seized the No.1 spot for IPOs.

Breakdown of Commission Revenues

(Millions of yen)

	FY2004	FY2005	yoy	FY2005			
				Q1	Q2	Q3	Q4
Equity	83,887	120,217	43.3%	17,964	26,301	39,075	36,874
Fixed income (Bond)	4,264	3,202	-24.9%	717	1,008	741	735
Asset management	45,640	82,404	80.6%	14,689	18,053	23,600	26,059
Investment banking	71,170	82,735	16.2%	8,231	13,830	21,193	39,479
Others	11,426	20,631	80.6%	3,436	3,749	5,243	8,202
Total	216,387	309,189	42.9%	45,039	62,944	89,853	111,351

(2) Performances of Major Group Companies

Daiwa Securities, which handles the Group's retail securities business, posted operating revenues of ¥258.9 billion, up 57.1%, and ordinary income of ¥101.0 billion, up 317.3%. Revenues increased across the board amid favorable market conditions. Sales of equity investment trusts exceeded ¥2 trillion, up substantially from over ¥800 billion in FY 2004. Sales of foreign currency-denominated bonds also surpassed the previous year's level, and the balance of margin positions outstanding grew significantly for online trading. With respect to "Daiwa SMA", a wrap account service for high-net-worth customers, the contract assets under management surged to ¥159.1 billion as of March 31, 2006.

Daiwa Securities SMBC, which conducts the Group's wholesale securities business, reported a 40.5% increase in operating revenues, to ¥350.8 billion, and a 66.2% jump in ordinary income, to ¥141.5 billion. These figures include the results of its consolidated overseas subsidiaries, as well as Daiwa Securities SMBC Principal Investments, a domestic consolidated subsidiary involved mainly in the principal investment business. Similar to the retail

business, revenues were up across the board. Increased trading revenues and investment banking-related revenues provided a major boost to results. The major portion of revenues of Daiwa Securities SMBC Principal Investments derives from net gain on private equity and other securities, which showed solid growth. The company's investment amount as of March 31, 2006 was ¥310 billion, up ¥220 billion from a year earlier, due mainly to large-scale investments in such companies as SANYO Electric and Sumitomo Mitsui Construction.

In the asset management business, Daiwa Asset Management reported ordinary income of ¥4.4 billion, around three times the figure of the previous year. The company enjoyed sharp growth in assets under management owing to an increase in sales of equity investment trusts by Daiwa Securities and rising stock market prices. Its assets under management of equity investment trusts jumped two-fold, to ¥4.2 trillion as of March 31, 2006, providing a significant boost to management fees. Daiwa SB Investments, another Group member in the asset management business, posted a 93.7% jump in ordinary income, to ¥4.6 billion.

Performances of Major Group Companies

(Millions of yen)

	Daiwa Securities		Daiwa Securities SMBC (Consolidated)		Daiwa Asset Management	
	FY2004	FY2005	FY2004	FY2005	FY2004	FY2005
Operating revenues	164,792	258,943	249,649	350,818	19,316	31,374
Ordinary income	24,216	101,057	85,176	141,582	1,490	4,435
Net income	13,863	58,174	54,034	91,883	1,220	3,051

(Millions of yen)

	Daiwa Institute of Research		Daiwa SB Investments*		NIF SMBC Ventures	
	FY2004	FY2005	FY2004	FY2005	FY2004	FY2005
Operating revenues	64,386	78,915	11,888	16,247	4,407	9,356
Ordinary income	5,329	7,325	2,381	4,613	32	4,800
Net income (loss)	2,871	4,315	1,434	2,752	(8,491)	6,689

*Equity-method subsidiary

(3) Overseas Performance

Total ordinary income of the Group's overseas operations—covering the three major regions of North America, Europe, and Asia and Oceania—surged 100.5% to ¥16.3 billion. The Group reported significant year-on-year growth in all three regions, with investment banking performing particularly well due to an increase in the number of underwriting issues.

Ordinary Income by Geographical Region

(Millions of yen)

	FY2004	FY2005
America	270	2,695
Europe	5,941	10,185
Asia & Oceania	1,928	3,442
Total	8,140	16,322

Balance Sheet and Cash Flows

(1) Assets

As of the end of March 2006, the Daiwa Securities Group had total assets of ¥14,898.8 billion, up ¥2,519.9 billion from a year earlier. Within this amount, total current assets grew ¥2,456.3 billion, to ¥14,392.3 billion, and non-current assets climbed ¥63.5 billion to ¥506.4 billion. Addressing vibrant demand from investors, the Group increased its trading positions, centering on Daiwa Securities SMBC, leading to a ¥919.9 billion year-on-year increase in trading assets. Receivables on collateralized securities transactions grew ¥925.5 billion.

(2) Liabilities and Shareholders' Equity

At fiscal year-end, total liabilities stood at ¥13,869.8 billion, up ¥2,328.4 billion from a year earlier. Current liabilities rose ¥2,127.3 billion, to ¥12,812.9 billion, and non-current liabilities were up ¥199.7 billion, to ¥1,049.9 billion. Major factors boosting current liabilities were trading liabilities (up ¥1,220.6 billion) and payables on collateralized securities transactions (up ¥866.2 billion). Short-term borrowings, meanwhile, declined ¥500.6 billion. The main reason for the rise in trading liabilities was an increase in short positions to hedge against long positions in government bonds. The increase in non-current liabilities stemmed largely from a ¥100 billion issuance of straight bonds.

Total shareholders' equity rose ¥143.9 billion, to ¥792.2 billion. Main contributing factors were net income of ¥139.9 billion and a ¥37.0 billion rise in net unrealized gain on securities owing to the strong stock market. These factors outweighed the downward impact of ¥26.6 billion in payments of cash dividends.

(3) Cash Flows

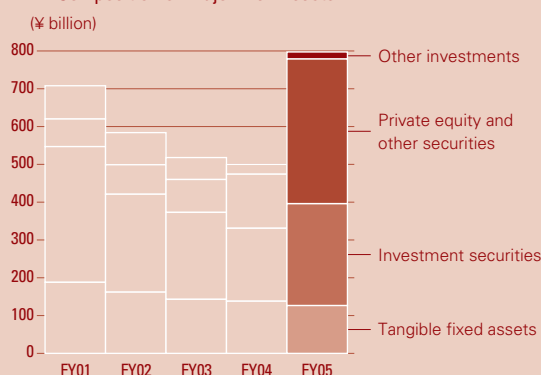
Cash flows from operating activities produced a net cash inflow of ¥368.7 billion, compared with a net outflow of ¥1,018.6 billion in the previous fiscal year.

Despite a decline in time deposits, purchase of investment securities led to a net cash outflow of ¥952 million, from the previous outflow of ¥10.2 billion.

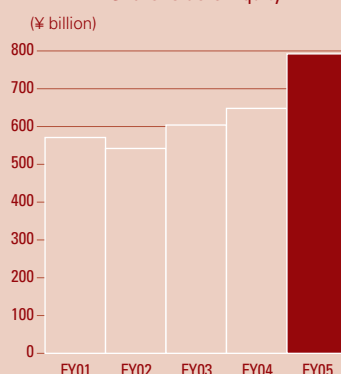
Cash flows from financing activities showed a net cash outflow of ¥322.9 billion, compared with a net cash inflow of ¥883.8 billion in the previous fiscal year.

Cash and cash equivalents (after deducting exchange rate changes on cash) at fiscal year-end totaled ¥392.3 billion, up ¥53.6 billion from a year earlier.

Composition of Major Risk Assets



Shareholders' Equity



Cash Flows

(Millions of yen)

	FY2004	FY2005
Cash flows from operating activities	(1,018,676)	368,790
Cash flows from investing activities	(10,276)	(952)
Cash flows from financing activities	883,869	(322,945)
Cash and cash equivalents at end of term	338,697	392,350

Capital Investments

The Daiwa Securities Group's capital investment activities are based on several objectives, including building a foundation for raising competitiveness and enhancing convenience for customers. In FY 2005, the Group made a total of ¥34.9 billion in IT-related expenditures. These included investments to reinforce online trading systems at Daiwa Securities, upgrade systems for handling

“Daiwa SMA” and other new products, and strengthen trading systems at Daiwa Securities SMBC, as well as ongoing spending to modernize the Group's core operating systems. The Group also invested ¥3.5 billion in branches and other areas. As a result, total capital investments for the year amounted to ¥38.4 billion.

Risk Management

(1) Risk Management System

The Daiwa Securities Group faces various risks in the course of its business activities. The Group is aware that it is important to identify, evaluate, and properly manage these risks in order to maintain healthy financial and earnings structures. Of these risks, market risk, credit risk, liquidity risk, operational risk, system risk, legal risk, and reputation risk, in particular, are controlled primarily by the subsidiaries of the Daiwa Securities Group. All subsidiaries have established their own systems for managing various types of risks according to the characteristics and risk profiles of their respective businesses. Daiwa Securities Group Inc., in turn, controls the Group's overall risk by monitoring the risk management systems and processes of its subsidiaries.

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

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

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

nating from such trading are limited.

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

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

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

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

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

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

(2) Measures for Dealing with Major Risks

[Market Risk]

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

The Group employs Value at Risk (VaR), a commonly used statistical management method, as an index for measuring and

monitoring the market risk of its trading positions. VaR provides an estimate of losses that will be incurred from a trading position over a certain period and at a certain confidence level. The Group uses a holding period of one day and a confidence level of 99%. This is equivalent to the probability that losses could exceed those indicated by the VaR method, one day out of 100 days of actual trading.

Value at Risk

[Range and Assumption of VaR]

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

Daiwa Securities SMBC (Non-consolidated)

	(Billions of yen)						
(Month end)	3/04	9/04	3/05	6/05	9/05	12/05	3/06
Equity	0.52	0.98	1.77	0.71	1.03	0.50	1.87
Interest	0.54	0.93	0.35	0.31	1.15	0.57	0.80
Currency	0.05	0.07	0.06	0.08	0.08	0.24	0.11
Total	1.11	1.98	2.18	1.10	2.26	1.31	2.78
Diversification effect	-0.36	-0.39	-0.37	-0.33	-0.58	-0.39	-0.96
VaR	0.75	1.59	1.81	0.77	1.68	0.92	1.82
Quarterly							
High	1.57	2.90	5.98	2.19	1.87	1.69	2.68
Low	0.71	0.75	0.60	0.77	0.66	0.92	0.84
Average	1.03	1.76	1.31	1.47	0.96	1.31	1.35

The Daiwa Securities Group (Consolidated)

	(Billions of yen)				
(Month end)	3/05	6/05	9/05	12/05	3/06
Equity	1.86	0.77	1.09	0.53	1.93
Interest	0.52	0.48	1.29	0.78	0.92
Currency	0.06	0.08	0.08	0.24	0.11
Total	2.44	1.33	2.46	1.55	2.96
Diversification effect	-0.40	-0.38	-0.60	-0.40	-0.98
VaR	2.04	0.95	1.86	1.15	1.98
Quarterly					
High	6.21	2.39	2.30	1.95	3.07
Low	0.78	0.95	0.81	1.15	0.99
Average	1.58	1.66	1.19	1.55	1.56

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

- Past market fluctuations do not necessarily provide an accurate guide for future market movements.
- Actual market price fluctuations of a trading position can differ

from the result produced by the VaR model, due to changing market conditions.

- VaR based on one-day holding periods does not sufficiently account for market risk affecting positions that cannot be liquidated or hedged in one day.
- The reliability of VaR declines when actual market conditions differ from those seen during the period in which data was collected.

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

[Market Risks Unrelated to Trading Positions]

The Group also holds investment securities that are unrelated to trading positions but nonetheless are exposed to market risks. These include investment securities held from a long-term perspective for business relationship purposes, and private equity and other securities related to the venture capital business and the principal investment business. Quarterly reports on the balance of holdings of such securities are made to the Internal Control Committee as an indication of investment risk, which reflects the level of market risk. A system has been set up to measure VaR for listed stocks included in these securities and to make reports.

[Credit Risk]

Credit risk is the risk of losses sustained as a result of clients being unable to repay debts according to contract.

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

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

[Liquidity Risk]

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

The Group carries out its business activities using many assets, the majority of which are highly liquid, and liabilities. As for the latter, the Group endeavors to employ diversified procurement methods and multiple maturity periods in order to minimize the risks associated with refinancing. In addition to straight bonds, convertible bonds, and medium-term note programs, the Group procures funds mainly through borrowing from financial institutions, issuing commercial paper, call money, and repurchase agreements and transactions.

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

To ensure that business activities are not interrupted, even in the event of a credit crunch stemming from large fluctuations in financial markets, the Group believes it is important to maintain sufficient liquidity to allow it to meet its funding needs for about one year, without relying on new uncollateralized fund procurement. As of March 31, 2006, the Group had a liquid portfolio totaling ¥1,181.8 billion, consisting mainly of cash and deposits, government bonds, and other highly negotiable instruments.

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

[Operational Risk]

Operational risk is the risk of incurring losses due to inappropriate or malfunctioning internal processes, personnel, or computer systems, or due to adverse external occurrences.

As the Group's business becomes more sophisticated, diversified, and systemized, the accompanying risks become more varied, and the need to manage such operational risk grows each year.

Specialized sections have been set up in each company to address operational risk, and conferences are held to consider necessary issues.

Due to the diversifying nature of its business, the Group sets rigid rules concerning authority, automates office-work processes to reduce human error, prepares business manuals, and takes other necessary measures. Each Group company strives to reduce operational risk according to the nature of its own business.

[System Risk]

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

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

In addition, the Group constantly monitors the operating sta-

tus of its core systems to keep disorders to an absolute minimum. Even if problems do occur, the Group has frameworks in place to respond to them swiftly.

[Legal Risk]

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

The Group pursues group management with securities-related activities as its core business. Here, there are laws and regulations that must be observed when executing securities transactions, and in general businesses outside of the securities business. The Group is also required to comply with various regulations.

To ensure against infringement of these regulations, the Group has set up sections in charge of compliance at each company, and has established committees to discuss and decide on compliance issues and matters related to corporate ethics.

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

[Reputation Risk]

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

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

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

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

The Daiwa Securities Group's Credit Ratings

(As of June 30, 2006)

	Daiwa Securities Group Inc.		Daiwa Securities		Daiwa Securities SMBC	
	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term
Moody's	Baa1	—	Baa1	P-2	A2	P-1
Standard & Poor's	BBB+	A-2	BBB+	A-2	A-	A-2
Rating and Investment Information (R&I)	A-	a-1	A-	a-1	A	a-1
Japan Credit Rating Agency (JCR)	A	—	A	—	—	—

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Consolidated Balance Sheets

Daiwa Securities Group Inc.
March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2006	2005	2006
Cash and cash deposits :			
Cash and cash equivalents	¥ 392,350	¥ 338,697	\$ 3,353,419
Cash segregated as deposits for regulatory purposes	297,878	153,516	2,545,966
Other deposits	15,540	59,992	132,821
	705,768	552,205	6,032,206
Receivables:			
Loans receivable from customers	3,113	4,723	26,607
Loans receivable from other than customers (Note 9)	56,886	71,064	486,205
Trading receivables, net	—	9,420	—
Receivables related to margin transactions (Note 3)	563,538	312,145	4,816,564
Other	157,690	191,371	1,347,786
Less: Allowance for doubtful accounts	(294)	(328)	(2,513)
	780,933	588,395	6,674,649
Collateralized short-term financing agreements (Note 4)	6,274,506	5,348,916	53,628,248
Trading assets (Notes 5 and 9)	6,162,243	5,242,320	52,668,736
Private equity and other securities (Notes 6 and 9)	382,421	142,547	3,268,556
Deferred tax assets (Note 14)	29,488	21,916	252,034
Property and equipment, at cost	232,284	234,920	1,985,334
Less: Accumulated depreciation	(105,753)	(97,300)	(903,872)
	126,531	137,620	1,081,462
Other assets:			
Software	42,608	42,103	364,171
Lease deposits	23,538	23,410	201,179
Investment securities (Notes 6 and 9)	269,854	193,202	2,306,444
Long-term loans receivable	11,865	11,676	101,410
Other (Note 9)	90,987	83,198	777,675
Less: Allowance for doubtful accounts	(1,851)	(8,546)	(15,821)
	437,001	345,043	3,735,058
	¥ 14,898,891	¥ 12,378,962	\$ 127,340,949

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY	2006	2005	2006
Borrowings:			
Short-term borrowings (Notes 9 and 12)	¥ 1,795,321	¥ 2,295,929	\$ 15,344,624
Commercial paper	234,210	200,220	2,001,795
Long-term debt (Notes 9 and 12)	1,146,912	949,718	9,802,667
	3,176,443	3,445,867	27,149,086
Payables:			
Payables to customers and counterparties (Note 11)	250,765	288,688	2,143,291
Time deposits received	—	3,240	—
Trading payables, net	302,573	—	2,586,094
Payables related to margin transactions (Notes 3 and 9)	197,483	141,972	1,687,889
Other (Note 13)	43,300	21,183	370,094
	794,121	455,083	6,787,368
Collateralized short-term financing agreements (Note 4)	4,744,007	3,877,731	40,547,068
Trading liabilities (Note 5)	4,879,189	3,658,544	41,702,470
Accrued and other liabilities:			
Income taxes payable	73,779	10,596	630,590
Deferred tax liabilities (Note 14)	41,907	7,177	358,179
Accrued bonuses	41,714	22,811	356,530
Retirement benefits (Note 13)	20,295	20,273	173,462
Other	91,411	37,704	781,291
	269,106	98,561	2,300,052
Statutory reserves (Note 15)	7,025	5,650	60,043
Total liabilities	13,869,891	11,541,436	118,546,087
Minority interests	236,719	189,194	2,023,239
Contingent liabilities (Note 16)			
Shareholders' equity (Notes 17 and 18):			
Common stock, no par value;			
Authorized — 4,000,000 thousand shares			
Issued — 1,332,460 thousand shares as of March 31, 2006	138,828	138,432	1,186,564
Capital surplus	118,339	117,941	1,011,444
Retained earnings	476,216	362,949	4,070,222
Net unrealized gain on securities, net of tax effect	72,694	35,674	621,316
Translation adjustments	864	(5,877)	7,385
Treasury stock, at cost	(14,660)	(787)	(125,308)
Total shareholders' equity	792,281	648,332	6,771,623
	¥ 14,898,891	¥ 12,378,962	\$ 127,340,949

Consolidated Statements of Operations

Daiwa Securities Group Inc.

Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Operating revenues:				
Commissions (Note 20)	¥ 309,189	¥ 216,387	¥ 194,163	\$ 2,642,641
Net gain on trading (Note 21)	224,912	151,118	120,195	1,922,325
Net gain on private equity and other securities	21,539	12,763	8,676	184,094
Interest and dividend income	245,211	105,428	96,366	2,095,821
Service fees and other sales	44,809	33,641	34,414	382,983
	845,660	519,337	453,814	7,227,864
Interest expense	231,572	103,677	77,331	1,979,248
Cost of service fees and other sales	34,729	25,228	24,048	296,829
Net operating revenues (Note 19)	579,359	390,432	352,435	4,951,787
Selling, general and administrative expenses (Notes 19 and 22)	325,199	275,544	259,915	2,779,479
Operating income (Note 19)	254,160	114,888	92,520	2,172,308
Other income (expenses):				
Provision for statutory reserves, net (Note 15)	(1,374)	(518)	(1,241)	(11,744)
Other, net (Note 23)	5,570	(1,767)	(14,353)	47,607
	4,196	(2,285)	(15,594)	35,863
Income before income taxes and minority interests	258,356	112,603	76,926	2,208,171
Income taxes (Note 14):				
Current	77,676	11,933	15,170	663,897
Deferred	392	28,234	5,638	3,350
	78,068	40,167	20,808	667,247
Minority interests	(40,340)	(19,771)	(13,481)	(344,786)
Net income	¥ 139,948	¥ 52,665	¥ 42,637	\$ 1,196,138
			yen	U.S. dollars (Note 1)
Per share amounts:				
Net income	¥ 103.90	¥ 39.03	¥ 31.66	\$ 0.89
Diluted net income	98.61	37.36	30.28	0.84
Cash dividends applicable to the year	34.00	13.00	10.00	0.29
See accompanying notes.				

Consolidated Statements of Shareholders' Equity

Daiwa Securities Group Inc.

Years ended March 31, 2006, 2005 and 2004

		Millions of yen					
	Number of shares of common stock (thousands)	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, 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 (Note 17)			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)
Net income				139,948			
Increase in retained earnings due to merger of a consolidated subsidiary				608			
Cash dividends paid				(26,611)			
Conversion of convertible bonds	724	396	396				
Bonuses to directors				(678)			
Net gains on sales of treasury stock (Note 17)			2				
Net unrealized gain on securities, net of tax effect					37,020		
Translation adjustments						6,741	
Change in treasury stock, net							(13,873)
Balance at March 31, 2006	1,332,460	¥ 138,828	¥ 118,339	¥ 476,216	¥ 72,694	¥ 864	¥ (14,660)

		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, 2005		\$1,183,179	\$1,008,043	\$3,102,128	\$304,906	\$ (50,231)	\$ (6,726)
Net income				1,196,138			
Increase in retained earnings due to merger of a consolidated subsidiary				5,196			
Cash dividends paid				(227,444)			
Conversion of convertible bonds		3,385	3,385				
Bonuses to directors				(5,796)			
Net gains on sales of treasury stock (Note 17)			16				
Net unrealized gain on securities, net of tax effect					316,410		
Translation adjustments						57,616	
Change in treasury stock, net							(118,582)
Balance at March 31, 2006		\$1,186,564	\$1,011,444	\$4,070,222	\$621,316	\$7,385	\$(125,308)
See accompanying notes							

Consolidated Statements of Cash Flows

Daiwa Securities Group Inc.

Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Cash flows from operating activities:				
Net income	¥ 139,948	¥ 52,665	¥ 42,637	\$ 1,196,138
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	22,641	22,129	21,530	193,513
Provision for doubtful accounts, net	226	2,289	680	1,932
Provision for retirement benefits, net	23	1,402	2,979	197
Statutory reserves, net	1,374	518	1,241	11,744
Losses (gains) related to investment securities	(11,060)	(2,687)	208	(94,530)
Losses (gains) related to fixed assets	11,838	(351)	13,015	101,179
Gain on change in stake in subsidiary	(4,725)	—	—	(40,385)
Deferred income taxes	392	28,234	5,638	3,350
Minority interests	40,340	19,771	13,481	344,786
Changes in operating assets and liabilities:				
Receivables and payables related to margin transactions	(195,882)	(28,087)	(88,369)	(1,674,205)
Other receivables and other payables	(29,270)	77,878	(30,291)	(250,171)
Private equity and other securities	(192,645)	(44,197)	(6,944)	(1,646,538)
Trading assets and liabilities	615,610	111,198	1,224,767	5,261,624
Collateralized short-term financing agreements	(63,704)	(1,183,394)	(1,369,799)	(544,479)
Other, net	33,684	(76,044)	45,007	287,897
Total adjustments	228,842	(1,071,341)	(166,857)	1,955,914
Net cash flows provided by (used in) operating activities	368,790	(1,018,676)	(124,220)	3,152,052
Cash flows from investing activities:				
Increase in time deposits	(10,685)	(53,041)	—	(91,325)
Decrease in time deposits	55,201	—	—	471,803
Payments for purchases of property and equipment	(12,526)	(7,786)	(8,147)	(107,060)
Proceeds from sales of property and equipment	719	5,315	6,144	6,145
Payments for purchases of intangible fixed assets	(24,312)	—	—	(207,795)
Payments for purchases of investment securities	(51,554)	(35,693)	(36,972)	(440,632)
Proceeds from sales of investment securities	43,604	99,469	107,541	372,684
Decrease in long-term loans receivable	358	149	1,067	3,060
Other, net	(1,757)	(18,689)	2,154	(15,017)
Net cash flows provided by (used in) investing activities	(952)	(10,276)	71,787	(8,137)

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings	¥ (446,190)	¥ 759,982	¥ (66,936)	\$ (3,813,590)
Increase (decrease) in long-term debt	58,496	14,788	(16,295)	499,966
Proceeds from issuance of notes	505,358	225,875	318,832	4,319,299
Payments for redemption of bonds and notes	(401,374)	(97,102)	(112,675)	(3,430,547)
Payments of cash dividends	(26,612)	(19,960)	(7,970)	(227,453)
Payments of cash dividends to minority shareholders	(9,177)	(168)	(2,328)	(78,436)
Other, net	(3,446)	454	1,779	(29,453)
Net cash flows provided by (used in) financing activities	(322,945)	883,869	114,407	(2,760,214)
Effect of exchange rate changes on cash and cash equivalents	7,429	3,819	(4,915)	63,496
Net increase (decrease) in cash and cash equivalents	52,322	(141,264)	57,059	447,197
Cash and cash equivalents at beginning of year	338,697	480,123	422,684	2,894,846
Increase in cash and cash equivalents due to merger of a consolidated subsidiary	1,331	—	—	11,376
Increase (decrease) in cash equivalents due to addition (exclusion) of a consolidated subsidiary	—	(162)	380	—
Cash and cash equivalents at end of year	¥ 392,350	¥ 338,697	¥ 480,123	\$ 3,353,419
Supplemental information on cash flows:				
Cash paid during the year for:				
Interest	¥ 222,153	¥ 103,440	¥ 74,077	\$ 1,898,744
Income taxes	11,405	13,690	1,749	97,479
See accompanying notes.				

Notes to Consolidated Financial Statements

Daiwa Securities Group Inc.
Three years ended March 31, 2006, 2005 and 2004

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 SMBC Ventures Co., Ltd. (“NIF SMBC”)
(NIF Ventures Co., Ltd., a consolidated subsidiary of the Company changed its name to NIF SMBC Ventures Co., Ltd. following the merger of SMBC Capital Co., Ltd. on October 1, 2005.)

Daiwa Securities is the retail-securities arm of Daiwa. This company operates through a network of 115 branches as well as non-face-to-face channels, including 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, 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 overseas consolidated 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, principal finance, 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, 2006, which was ¥117 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 (excluding companies owned for the purpose of operating principal finance and venture capital business, and not for the purpose of affiliation to the group.) 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% (excluding companies owned for the purpose of operating principal finance and venture capital business and not for the purpose of affiliation to the group through personnel management, financial resources, technology, transactions, etc.) , 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 at fair value in the consolidated balance sheets. Gains and losses including unrealized gains and losses related to transactions for trading purposes are reported as “Net gain on trading” in the accompanying consolidated statements of operations. Fair value is determined based on market prices, quoted prices, internal pricing models (utilizing indicators of general market conditions or other economic measurements), or management’s estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. Securities owned for non-trading purpose,

shown in the accompanying consolidated balance sheets as “Private equity and other securities” and “Investment securities”, 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) securities intended to be held for trading purposes by non-securities companies, (b) debt securities intended to be held to maturity (“held-to-maturity debt securities”), (c) all other securities not classified in any of the above categories (“available-for-sale securities”).

Securities intended to be held for trading purposes by non-securities companies are carried at fair value with recognizing unrealized gains or losses included in consolidated statements of operations.

Held-to-maturity debt securities are stated at amortized 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 tax effect, as a separate component of the consolidated shareholders’ equity.

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 a 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 other than temporary, the difference between the carrying amount and the net book value is recognized as a loss in the period of the decline. Impaired losses on these securities are reported in the 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

Notes to Consolidated Financial Statements

Daiwa Securities Group Inc.

Three years ended March 31, 2006, 2005 and 2004

in 2004, share of net income of the partnership has been reflected on consolidated statements of operations and share of net unrealized gains and losses held by the partnerships are directly recorded into consolidated shareholders' equity.

Derivatives used for non-trading purpose — 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 market-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 are provided based on the actual historical default rate for normal loans, and based on individually assessed amounts for doubtful and default loans.

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. 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.

(Additional Information)

The removal of the headquarters of the Company and some

consolidated subsidiaries has been resolved. The useful lives of buildings and equipment for those headquarters are shortened up to planned the removal date. Extraordinary depreciation expenses of ¥4,439 million (\$37,941 thousand) was recorded as other expense, due to application of shortened useful lives. "Income before income taxes and minority interests" decreased by that amount as a result.

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, and over internally estimated useful lives (5 years) for software of in-house use.

Deferred assets — Stock issue costs and bond issue costs are expensed in a lump sum when incurred.

Bonuses — The Company and domestic consolidated subsidiaries follow the Japanese practice of paying bonuses to employees twice a year in June and December, and thus, 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 estimated as of the balance sheet date. Compensation Committee sets policies for deciding compensation for 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.

Income taxes — Income taxes consist of corporation, enterprise and inhabitants taxes. The provision for income taxes is computed based on the pre-tax 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 in value of assets and liabilities for statutory accounting and tax accounting. Daiwa recognizes deferred tax assets to the extent of amounts reasonably expected to be realized in future.

The Company and NIF SMBC, as parent companies, have filed consolidated tax returns since the previous year. Daiwa Securities SMBC, as parent company, has filed consolidated tax returns 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 his-

torical 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 per share — Net income 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 with an adjustment for dilutive convertible bonds based on the number of shares of common stock that would have been issued provided that the outstanding dilutive convertible bonds were converted at the beginning of the year.

Reclassification — Certain reclassifications have been made in the 2005 and 2004 consolidated financial statements to conform to the presentation for 2006.

3. Margin transactions

Margin transactions at March 31, 2006 and 2005 consisted of the followings:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Assets:			
Customers’ margin loans	¥ 359,331	¥ 126,687	\$ 3,071,208
Cash deposits as collateral for securities borrowed	204,207	185,458	1,745,356
	¥ 563,538	¥ 312,145	\$ 4,816,564
Liabilities:			
Payable to securities finance companies	¥ 7,570	¥ 2,981	\$ 64,702
Proceeds of securities sold for customers’ accounts	189,913	138,991	1,623,187
	¥ 197,483	¥ 141,972	\$ 1,687,889

Customers’ 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.

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4. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2006 and 2005 consisted of the followings:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Assets:			
Securities purchased under agreements to resell	¥ 2,184,881	¥ 1,575,907	\$ 18,674,192
Securities borrowed	4,089,625	3,773,009	34,954,056
	¥ 6,274,506	¥ 5,348,916	\$ 53,628,248
Liabilities:			
Securities sold under agreements to repurchase	¥ 2,811,293	¥ 2,006,465	\$ 24,028,147
Securities loaned	1,932,714	1,871,266	16,518,921
	¥ 4,744,007	¥ 3,877,731	\$ 40,547,068

5. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2006 and 2005 consisted of the followings:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Trading assets:			
Equities	¥ 371,948	¥ 332,397	\$ 3,179,039
Government, corporate and other bonds	4,005,132	4,187,216	34,231,897
Investment trusts	95,498	130,575	816,221
Commercial paper, certificates of deposits and others	18,635	40,360	159,274
Option transactions	908,197	46,303	7,762,369
Futures and forward transactions	156,934	16,162	1,341,313
Swap agreements	607,483	490,546	5,192,162
Other derivatives	1,127	659	9,636
Credit reserves	(2,711)	(1,898)	(23,175)
	¥ 6,162,243	¥ 5,242,320	\$ 52,668,736
Trading liabilities:			
Equities	¥ 99,551	¥ 98,690	\$ 850,866
Government, corporate and other bonds	3,216,833	3,094,627	27,494,302
Investment trusts	5,471	3,316	46,763
Option transactions	1,007,981	69,551	8,615,222
Futures and forward transactions	67,232	13,463	574,629
Swap agreements	480,973	378,513	4,110,877
Other derivatives	1,148	384	9,811
	¥ 4,879,189	¥ 3,658,544	\$ 41,702,470

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 and market value of securities intended to be held for trading purposes by non-securities companies as of March 31, 2006 and 2005 consisted of the followings:

	Millions of yen			
	Cost	Market value	Difference	
March 31, 2006	¥ 3,205	¥ 3,543	¥	338
March 31, 2005	¥ —	¥ —	¥	—

	Thousands of U.S. dollars			
	Cost	Market value	Difference	
March 31, 2006	\$ 27,397	\$ 30,279	\$	2,882

Cost/amortized cost and market value of held-to-maturity debt securities as of March 31, 2006 and 2005 consisted of the followings:

	Millions of yen			
	Cost/amortized cost	Market value	Difference	
Government bonds, local government bonds at March 31, 2006	¥ 2,509	¥ 2,502	¥	(7)
Government bonds, local government bonds at March 31, 2005	¥ 2,126	¥ 2,118	¥	(8)

	Thousands of U.S. dollars			
	Cost/amortized cost	Market value	Difference	
Government bonds, local government bonds at March 31, 2006	\$ 21,446	\$ 21,384	\$	(62)

Cost and market value of available-for-sale securities as of March 31, 2006 and 2005 consisted of the followings:

	Millions of yen			
	Cost	Market value	Difference	
March 31, 2006:				
Equities	¥ 82,493	¥ 203,127	¥	120,634
Government, corporate and other bonds	150	158		8
Other	13,719	15,474		1,755
	¥ 96,362	¥ 218,759	¥	122,397

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

	Thousands of U.S. dollars			
	Cost	Market value	Difference	
March 31, 2006:				
Equities	\$ 705,069	\$ 1,736,132	\$	1,031,063
Government, corporate and other bonds	1,282	1,350		68
Other	117,257	132,254		14,997
	\$ 823,608	\$ 1,869,736	\$	1,046,128

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Daiwa Securities Group Inc.

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Securities for which a market value is not readily available as of March 31, 2006 and 2005 consisted of the followings:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Equities	¥ 245,399	¥ 53,210	\$ 2,097,432
Government, corporate and other bonds	349	501	2,982
Investments in limited partnerships	132,751	84,622	1,134,622
Other	22,631	19,065	193,427
	¥ 401,130	¥ 157,398	\$ 3,428,463

In addition to the above, equity securities of non-consolidated and affiliated companies amounting to ¥26,334 million (\$225,076 thousand) at March 31, 2006 and ¥24,217 million at March 31,

2005, respectively, were included in “Investment securities” in the accompanying consolidated balance sheets.

7. Derivatives for non-trading purposes

Net unrealized gains (losses) of derivatives for non-trading purposes at March 31, 2006 and 2005 (excluding hedging transactions) consisted of the followings:

	Millions of yen		
	Contract amount	Market value	Unrealized gains (losses)
March 31, 2006:			
Currency swap	¥ 11,289	¥ 17	¥ 17
Foreign exchange forward	801	24	24
March 31, 2005:			
Currency swap	¥ 11,237	¥ 1	¥ 1
Foreign exchange forward	52	(0)	(0)

	Thousands of U.S. dollars		
	Contract amount	Market value	Unrealized gains
March 31, 2006:			
Currency swap	\$ 96,489	\$ 146	\$ 147
Foreign exchange forward	6,843	201	201

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, 2006, short-term borrowings amounting to ¥1,045,300 million (\$8,934,188 thousand) and payables related to margin transactions amounting to ¥7,570 million (\$64,701

thousand) and long-term debt amounting to ¥30 million (\$256 thousand) were secured by the following assets:

	Millions of yen	Thousands of U.S. dollars
Loans receivable from other than customers	¥ 42,633	\$ 364,385
Trading assets	997,506	8,525,690
Private equity and other securities	24	205
Investment securities	99,672	851,896
Other assets – other	3,457	29,547
	¥ 1,143,292	\$ 9,771,723

In addition to above, securities borrowed amounting to ¥384,371 million (\$3,285,226 thousand) were pledged as guarantee at March 31, 2006.

Total fair value of the securities pledged as collateral at March 31, 2006 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Securities loaned	¥ 5,613,009	\$ 47,974,438
Other	932,368	7,968,961
	¥ 6,545,377	\$ 55,943,399

Total fair value of the securities received as collateral at March 31, 2006 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Securities borrowed	¥ 8,251,239	\$ 70,523,407
Other	578,268	4,942,464
	¥ 8,829,507	\$ 75,465,871

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10. 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, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
Lessee:	2006	2005	2006
Non-capitalized finance leases:			
Total assets under non-capitalized finance leases	¥ 7,685	¥ 9,573	\$ 65,682
Accumulated depreciation	4,584	4,869	39,180
Future lease payments in respect of non-capitalized leases	3,181	4,791	27,190
Due within one year	1,501	1,807	12,826
Operating leases:			
Future lease payments in respect of operating leases	¥ 9,000	¥ 11,284	\$ 76,923
Due within one year	1,999	1,922	17,086
Lessor:	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Operating leases:			
Future lease receipts in respect of operating leases	¥ 1,803	¥ 1,105	\$ 15,409
Due within one year	387	233	3,309

11. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2006 and 2005 consisted of the followings:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash received for customers' accounts	¥ 131,335	¥ 92,574	\$ 1,122,522
Cash deposits received from customers	99,225	53,303	848,075
Other	20,205	142,811	172,694
	¥ 250,765	¥ 288,688	\$ 2,143,291

12. 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. No such request has been made and no such right has been exercised.

Long-term debt at March 31, 2006 and 2005 consisted of the followings:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Bond payable in yen: 1.4% due 2005	¥ —	¥ 100,000	\$ —
Bond payable in yen: 0.95% due 2008	120,000	120,000	1,025,641
Bond payable in yen: 1.3% due 2011	70,000	—	598,291
Bond payable in yen: 2.08% due 2016	30,000	—	256,410
Convertible bond payable in yen, convertible into common stock at ¥1,094.00 per share: 0.5% due 2006	79,193	79,986	676,863
Euro medium-term notes issued by the Company and the domestic consolidated subsidiary with various rates and maturities through 2035	677,159	569,429	5,787,686
Euro medium-term notes issued by overseas consolidated subsidiaries with various rates and maturities through 2007	2,608	6,108	22,290
Yen subordinated loan due 2006	82,000	20,000	700,855
Borrowings	85,952	54,195	734,631
	¥ 1,146,912	¥ 949,718	\$ 9,802,667

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, 2006 are as follows:

Year ending March 31	Millions of yen		Thousands of U.S. dollars
2007	¥ 159,401		\$ 1,362,399
2008	56,391		481,972
2009	144,522		1,235,236
2010	7,436		63,555
2011	119,691		1,022,998
2012 and thereafter	659,471		5,636,507
	¥ 1,146,912		\$ 9,802,667

Daiwa has unused commitment line amounting to ¥85,106 million (\$727,398 thousand) under agreements with several banks at March 31, 2006.

13. Retirement benefits

Retirement benefits for employees

Retirement benefit plans for eligible employees are discussed below:

- **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 contribu-

tion 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, 2006 and 2005, in the amount of ¥17,980 million (\$153,672 thousand) and ¥16,121 million, respectively. Benefit expenses recorded in the consolidated statements of operations for the years ended March 31, 2006, 2005 and 2004 were ¥2,864 million (\$24,481 thousand), ¥2,946 million and ¥3,278 million, respectively.

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• 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 ¥383 million (\$3,275 thousand) and ¥1,100 million are included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2006 and 2005, respectively. Benefit expenses recorded in the consolidated statements of operations for the years ended March 31, 2006, 2005 and 2004 were ¥174 million (\$1,487 thousand), ¥439 million and ¥368 million, respectively.

The board of the Company resolved to abolish the retirement gratuities system for retiring directors in May 2004. In June 2004, the shareholders' 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 shareholders' meeting. The payments will be made at the time of their respective retirements from the Board of Directors.

The board of certain consolidated subsidiaries resolved to abolish the retirement gratuities system for retiring directors in March 2005. In June 2005, the shareholders' meetings of such consolidated subsidiaries approved the payments of retirement allowance to directors who were nominated for reelection. The payments will be made in accordance with standards prescribed by consolidated subsidiaries and service rendered to consolidated subsidiaries during their respective terms of office up to the end of the shareholders' meetings. The payments will be made at the time of their respective retirements from the Board of Directors. In consequence, consolidated subsidiaries' directors' retirement benefits of ¥437 million (\$3,743 thousand) were reclassified from "Retirement benefits" to "Payables: Other" in the accompanying consolidated balance sheet as of March 31, 2006.

14. Income taxes

The Company and domestic consolidated subsidiaries are subject to a number of taxes levied on income. The compounded statutory tax rate in Japan were approximately 40.7%, 40.7% and 42.1% for the years ended March 31, 2006, 2005 and 2004, respectively.

After the clarification of the local tax law, the new tax rate for the year beginning on 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 taxes: 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, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Net operating losses carried-forward	¥ 25,656	¥ 46,059	\$ 219,284
Write-down of investment securities	10,637	13,232	90,912
Temporary difference of investment in consolidated subsidiaries	—	51,979	—
Expenses for real estate business reorganization	—	913	—
Employees' retirement benefits	8,026	8,231	68,603
Employees' compensation and bonuses	15,278	7,931	130,584
Provision for doubtful accounts	2,423	4,406	20,707
Impairment losses on fixed assets	7,248	—	61,948
Enterprise tax payable	8,338	—	71,261
Allowance for possible investment losses	5,426	—	46,373
Other	10,308	21,347	88,106
Gross deferred tax assets	93,340	154,098	797,778
Less: Valuation allowance	(51,824)	(107,348)	(442,937)
Total deferred tax assets	41,516	46,750	354,841
Deferred tax liabilities	53,935	32,011	460,986
Net deferred tax assets (liabilities)	¥ (12,419)	14,739	\$ (106,145)

The Company and certain consolidated subsidiaries provided 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, 2006, 2005 and 2004 were as follows:

	2006	2005	2004
Japanese statutory income tax rate	40.7%	40.7%	42.1%
Valuation allowance	(9.0)	(7.0)	(12.5)
Permanent difference (Non-deductible)	0.3	1.2	1.3
Permanent difference (Non-taxable)	(0.3)	(0.6)	(0.9)
Lower tax rate applicable to income of overseas consolidated subsidiaries	(0.6)	(0.8)	(1.7)
Adjustment of unrealized intercompany profit	0.6	3.8	—
Other, net	(1.5)	(1.6)	(1.2)
Effective income tax rate	30.2%	35.7%	27.1%

15. 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.

16. Contingent liabilities

At March 31, 2006, Daiwa had contingent liabilities amounting to ¥2,507 million (\$21,427 thousand), mainly arising as guarantors of employees' borrowings.

17. 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, 2006 amounted to ¥254,294 million (\$2,173,454 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 ¥12 (\$0.10) per share amounting to ¥15,967 million (\$136,467

thousand) were approved by the Board of Directors held on October 28, 2005. Using the newly introduced committee system, the Board of Directors is to determine the year-end dividends. Year-end cash dividends of ¥22 (\$0.19) per share amounting to ¥29,065 million (\$248,426 thousand) were approved by the Board of Directors held on May 18, 2006.

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 August 31, 2011, 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 each shareholders of the Company on June 24, 2005 and June 24, 2006 approved a stock incentive plan. 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.

18. Capital adequacy requirements

In Japan, a 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 323.6% (unaudited) and 351.3% (unaudited) for March 31, 2006 and 2005, respectively, and those of Daiwa Securities SMBC were 336.3% (unaudited) and 355.6% (unaudited) for March 31, 2006 and 2005, respectively.

19. Segment information

Daiwa operates predominantly in a single industry segment. Daiwa 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, 2006, 2005 and 2004 and a summary of total assets by geographic area at March 31, 2006 and 2005 were as follows:

	Millions of yen											
	Japan		America		Europe		Asia & Oceania		Elimination or unallocated	Consolidated		
Year ended March 31, 2006:												
Net operating revenues:												
Outside customer	¥	541,666	¥	5,528	¥	21,673	¥	10,492	¥	—	¥	579,359
Inter-segment		1,530		8,758		12,085		1,606		(23,979)		—
Total		543,196		14,286		33,758		12,098		(23,979)		579,359
Selling, general and administrative expenses		294,984		11,920		23,679		8,472		(13,856)		325,199
Operating income	¥	248,212	¥	2,366	¥	10,079	¥	3,626	¥	(10,123)	¥	254,160
At March 31, 2006:												
Total assets by geographic area	¥	12,239,342	¥	2,807,087	¥	1,145,934	¥	72,881	¥	(1,366,353)	¥	14,898,891
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

Notes to Consolidated Financial Statements

Daiwa Securities Group Inc.

Three years ended March 31, 2006, 2005 and 2004

	Thousands of U.S. dollars					
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended March 31, 2006:						
Net operating revenues:						
Outside customer	\$ 4,629,626	\$ 47,248	\$ 185,236	\$ 89,677	\$ —	\$ 4,951,787
Inter-segment	13,073	74,859	103,296	13,721	(204,949)	—
Total	4,642,699	122,107	288,532	103,398	(204,949)	4,951,787
Selling, general and administrative expenses	2,521,232	101,882	202,387	72,411	(118,433)	2,779,479
Operating income	\$ 2,121,467	\$ 20,225	\$ 86,145	\$ 30,987	\$ (86,516)	\$ 2,172,308
At March 31, 2006:						
Total assets by geographic area	\$ 104,609,759	\$ 23,992,195	\$ 9,794,307	\$ 622,914	\$ (11,678,226)	\$ 127,340,949

Geographic overseas revenues for the years ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			
	America	Europe	Asia & Oceania	Total
Year ended March 31, 2006:				
Overseas revenue	¥ 10,313	¥ 19,370	¥ 11,016	¥ 40,699
Net operating revenues				579,359
% of Net operating revenues	1.8%	3.3%	1.9%	7.0%
Year ended March 31, 2005:				
Overseas revenue	¥ 8,552	¥ 21,149	¥ 8,890	¥ 38,591
Net operating revenues				390,432
% of Net operating revenues	2.2%	5.4%	2.3%	9.9%
Year ended March 31, 2004:				
Overseas revenue	¥ 10,945	¥ 20,353	¥ 8,249	¥ 39,547
Net operating revenues				352,435
% of Net operating revenues	3.1%	5.8%	2.3%	11.2%

	Thousands of U.S. dollars			
	America	Europe	Asia & Oceania	Total
Year ended March 31, 2006:				
Overseas revenue	\$ 88,143	\$ 165,556	\$ 94,151	\$ 347,850
Net operating revenues				4,951,787
% of Net operating revenues	1.8%	3.3%	1.9%	7.0%

20. Commissions

Commissions derived from each department for the years ended March 31, 2006, 2005 and 2004 were as follows:

Millions of yen												
	Equity		Fixed income (Bond)		Investment trust		Investment banking		Others	Total		
Year ended March 31, 2006:												
Brokerage	¥	118,262	¥	923	¥	336	¥	—	¥	—	¥	119,521
Underwriting		—		—		—		64,314		—		64,314
Distribution		—		—		41,799		2,032		—		43,831
Other		1,955		2,279		40,269		16,389		20,631		81,523
	¥	120,217	¥	3,202	¥	82,404	¥	82,735	¥	20,631	¥	309,189
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

	Thousands of U.S. dollars					
	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Year ended March 31, 2006:						
Brokerage	\$ 1,010,782	\$ 7,891	\$ 2,874	\$ —	\$ —	\$ 1,021,547
Underwriting	—	—	—	549,691	—	549,691
Distribution	—	—	357,254	17,367	—	374,621
Other	16,713	19,478	344,177	140,080	176,334	696,782
	\$ 1,027,495	\$ 27,369	\$ 704,305	\$ 707,138	\$ 176,334	\$ 2,642,641

21. Net gain on trading

Net gain on trading for the years ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars	
	2006	2005	2004	2006	
Stock and other	¥ 124,271	¥ 56,105	¥ 50,024	\$ 1,062,145	
Bond, forex and other	100,641	95,013	70,171	860,180	
(Bond and other)	(39,026)	(62,407)	(47,267)	(333,554)	
(Forex and other)	(61,615)	(32,606)	(22,904)	(526,626)	
	¥ 224,912	¥ 151,118	¥ 120,195	\$ 1,922,325	

Notes to Consolidated Financial Statements

Daiwa Securities Group Inc.

Three years ended March 31, 2006, 2005 and 2004

22. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2006, 2005 and 2004 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Employees' compensation and benefits	¥ 171,062	¥ 142,751	¥ 136,964	\$ 1,462,067
Commissions and brokerage	31,508	19,607	14,573	269,298
Communications	18,646	18,174	17,444	159,371
Occupancy and rental	32,659	32,697	32,519	279,138
Data processing and office supplies	17,273	16,805	14,899	147,636
Taxes other than income taxes	8,072	6,756	5,617	68,991
Depreciation and amortization	22,641	22,129	21,530	193,510
Other	23,338	16,625	16,369	199,468
	¥ 325,199	¥ 275,544	¥ 259,915	\$ 2,779,479

23. Other income (expenses)

Details of "Other, net" in the accompanying consolidated statements of operations for the years ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Gains on sales of investment securities	¥ 10,030	¥ 5,559	¥ 6,704	\$ 85,728
Write-down of investment securities	(499)	(3,472)	(2,691)	(4,265)
Valuation losses on fixed assets	—	(114)	(58)	—
Gains or losses on sale or disposal of fixed assets	(548)	465	(159)	(4,687)
Losses on sales of loans receivable	—	(7,595)	(557)	—
Reversal of stock purchase warrant	—	502	—	—
Multiemployer pension plan settlement cost in consolidated subsidiaries	—	(188)	—	—
Provision for doubtful accounts	—	(1,639)	(648)	—
Equity in earnings of affiliates	1,528	1,894	90	13,064
Impairment losses on fixed assets	(6,851)	—	(12,797)	(58,554)
Losses on liquidation of affiliates	—	(51)	(4,221)	—
Expenses related to merger, integration or relocation of branches	—	—	(2,473)	—
Expenses for reorganization of overseas banking subsidiary	—	(779)	(595)	—
Gain on charge in stake in subsidiary	4,725	—	—	40,388
Contribution to the Securities Market Infrastructure Improvement Fund	(200)	—	—	(1,709)
Loss on litigation settlement	(1,279)	—	—	(10,933)
Foreign exchange loss from overseas subsidiary capital reduction	(1,564)	—	—	(13,364)
Extraordinary depreciation	(4,439)	—	—	(37,941)
Other	4,667	3,651	3,052	39,880
	¥ 5,570	¥ (1,767)	¥ (14,353)	\$ 47,607

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 estimated recoverable amounts. The breakdown of impairment losses recognized in the year ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Fixed assets to be held and used	¥ 6,201	¥ —	¥ 9,103	\$ 53,000
Fixed assets to be disposed of by sale	650	—	3,694	5,553
Total	¥ 6,851	¥ —	¥ 12,797	\$ 58,554

The book values of fixed assets to be held and used were reduced to their estimated 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 a sale were reduced to net realizable values based on mainly publicly-assessed values.

24. Subsequent events

Stock incentive plan — The shareholders of the Company approved the issuance of the stock subscription rights as stock options on June 24, 2006. In accordance with Articles 236, 238 and 239 of the Corporation Law, 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



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 consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2006, 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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 26, 2006

Other Information

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Organization and Officers

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Main Group Companies

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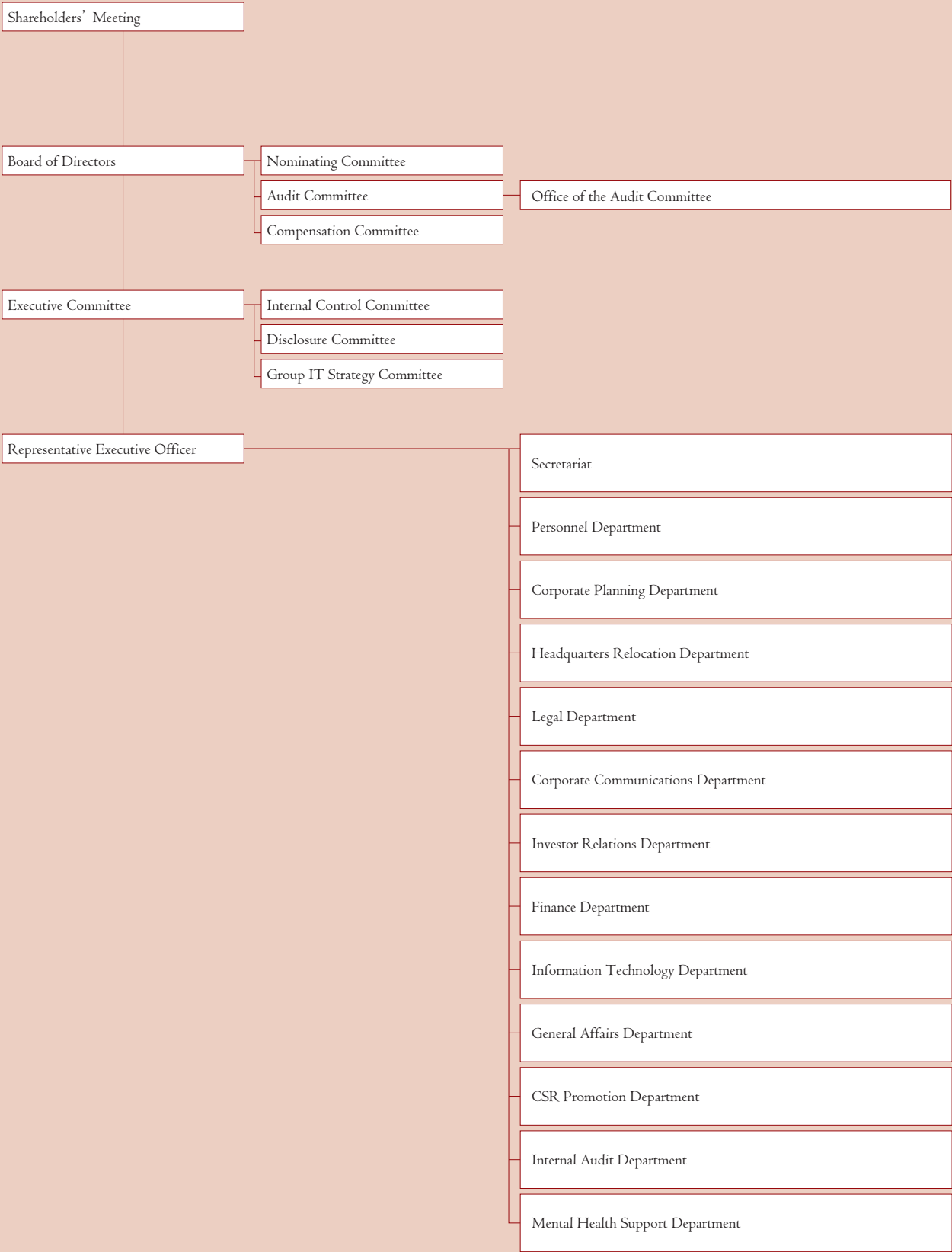
Daiwa Securities Group Inc. Corporate Data

Other Information

Organization and Officers

Daiwa Securities Group Inc.

1) Organization (As of August 1, 2006)



2) Officers (As of June 24, 2006)

Directors

Chairman of the Board

Yoshinari Hara

Deputy Chairman of the Board

Akira Kiyota

Director

Shigeharu Suzuki

Director

Tatsuei Saito

Director

Tetsuo Mae

Director

Shin Yoshidome

Director

Takashi Hibino

Director

Nobuyuki Iwamoto

Director

Kenji Hayashibe

Outside Director

Tetsuro Kawakami

Outside Director

Ryuji Yasuda

Outside Director

Keisuke Kitajima

Outside Director

Koichi Uno

Committee Members

Nominating Committee

Yoshinari Hara (Chairman)

Shigeharu Suzuki

Tetsuro Kawakami

Ryuji Yasuda

Keisuke Kitajima

Audit Committee

Kenji Hayashibe (Chairman)

Keisuke Kitajima

Koichi Uno

Compensation Committee

Yoshinari Hara (Chairman)

Shigeharu Suzuki

Tetsuro Kawakami

Ryuji Yasuda

Koichi Uno

Executive Officers

President and CEO

Shigeharu Suzuki

Director, Daiwa Securities Group Inc.

President, Daiwa Securities Co. Ltd.

Deputy President and COO

Tatsuei Saito

Director, Daiwa Securities Group Inc.

President, Daiwa Securities SMBC Co. Ltd.

Deputy President

Tetsuo Mae

Director, Daiwa Securities Group Inc.

Deputy President, Daiwa Securities Co. Ltd.

Deputy President

Kenjiro Noda

Deputy President, Daiwa Securities SMBC Co. Ltd.

Deputy President

Michihito Higuchi

President, Daiwa Asset Management Co. Ltd.

Deputy President

Yoshiyuki Takemoto

President, Daiwa Institute of Research Ltd.

Corporate Executive Vice President

Shin Yoshidome

Director, Daiwa Securities Group Inc.

Senior Managing Director, Daiwa Securities SMBC Co. Ltd.

Corporate Senior Executive Officer

Takashi Hibino

Director, Daiwa Securities Group Inc.

Corporate Senior Executive Officer and CIO

Akira Nakamura

Director, Daiwa Institute of Research Ltd.

Corporate Executive Officer and CFO

Nobuyuki Iwamoto

Director, Daiwa Securities Group Inc.

Director, Daiwa Asset Management Co. Ltd.

Corporate Executive Officer

Takatoshi Wakabayashi

Corporate Executive Officer

Masamichi Yokoi

Chairman and Chief Executive Officer, Daiwa America Corporation

Chairman of the Board, Daiwa Securities America Inc.

Corporate Executive Officer

Yoshinari Hara

Chairman of the Board, Daiwa Securities Group Inc.

Corporate Executive Officer

Akira Kiyota

Deputy Chairman of the Board, Daiwa Securities Group Inc.

Chairman of the Institute and Director,

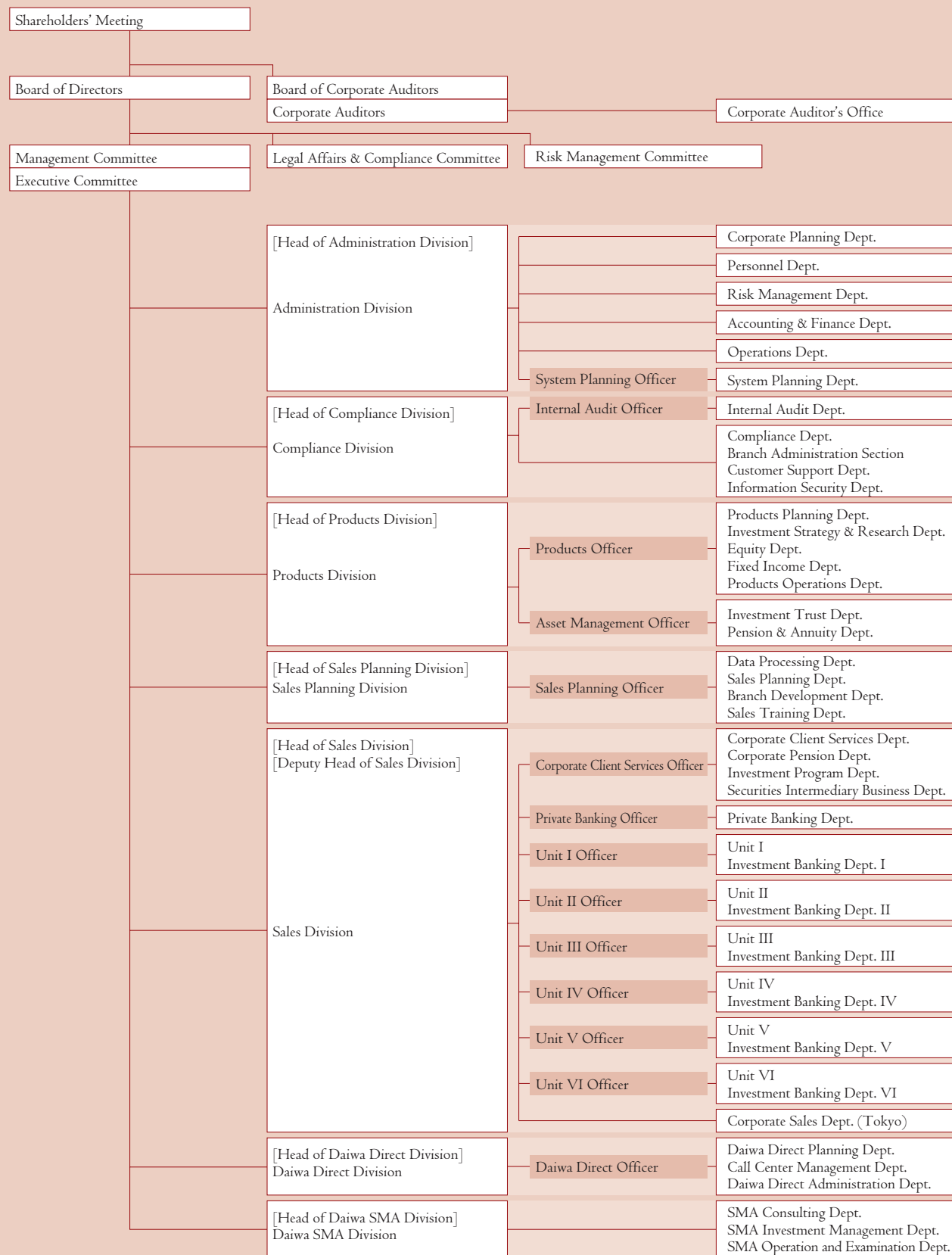
Daiwa Institute of Research Ltd.

Other Information

Organization and Officers

Daiwa Securities Co. Ltd.

1) Organization (As of July 18, 2006)



2) Officers (As of June 23, 2006)

Directors

President

Shigeharu Suzuki

Deputy President

Tetsuo Mae

Senior Managing Director

Akira Sakiyama

Senior Managing Director

Toshiro Ishibashi

Senior Managing Director

Kazuo Ariake

Managing Director

Tokuzo Takaki

Managing Director

Takashi Fukai

Managing Director

Masaki Shimazu

Managing Director

Makoto Shirakawa

Corporate Auditors

Syohei Takashima

Zenichiro Onishi

Kenji Hayashibe

Executive Officers

Senior Executive Officer

Tomiki Koide

Executive Officer

Koushiro Taniguchi

Toshiaki Kuwano

Takuya Ikeda

Kouichi Suzuki

Osamu Abiru

Hisashi Otsuka

Hiroshi Nakamura

Yoshihiko Nakata

Shinya Nishio

Shinya Kusaba

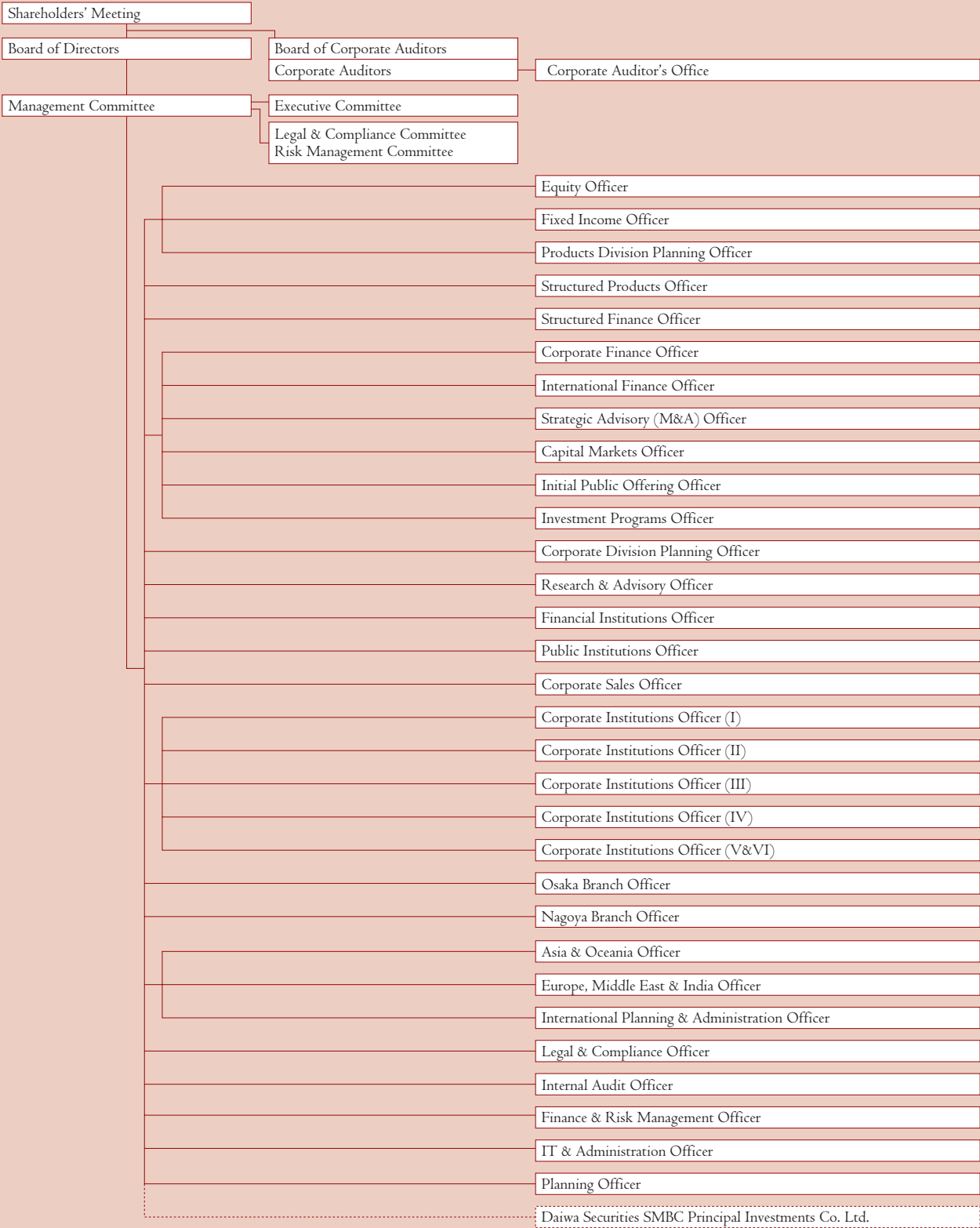
Keiji Komagata

Keiichi Sakai

Other Information
Organization and Officers

Daiwa Securities SMBC Co. Ltd.

1) Organization (As of August 4, 2006)



2) Officers (As of June 24, 2006)

Directors

President

Tatsuei Saito

Deputy President

Kenjiro Noda

Senior Managing Director

Shin Yoshidome

Senior Managing Director

Hiroshi Fujioka

Senior Managing Director

Sumio Fukushima

Managing Director

Ikuo Mori

Managing Director

Kazuhiko Akamatsu

Managing Director

Takashi Yamaguchi

Managing Director

Teruaki Ueda

Director

Mitsuharu Tanaka

Corporate Auditors

Kishiro Fujino

Shigeharu Tominaga

Yoshiaki Senoo

Fuminori Yoshitake

Executive Officers

Senior Executive Officer

Hideo Watanabe

President,

Daiwa Securities SMBC Principal Investments Co. Ltd.

Senior Executive Officer

Masaki Yamane

Executive Officer

Masami Tada

Akio Takahashi

Shunichi Suzuki

Yoriyuki Kusaki

Shigeo Koike

Kenichi Miki

Motoi Takahashi

Eishu Kosuge

Chairman,

Daiwa Securities SMBC Europe Limited

Toshinao Matsushima

Yasuharu Okanoya

Masahiko Ichiki

Shigeru Ishida

Chairman,

Daiwa Securities SMBC Hong Kong Limited

Yoshimasa Tsunei

Yoshimasa Nagase

Seiji Sato

Seiji Nakata

Main Group Companies (As of July 31, 2006)

Daiwa Securities Co. Ltd.

6-4, Otemachi 2-chome, Chiyoda-ku, Tokyo 100-8101, Japan
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Daiwa Securities SMBC Co. Ltd.

8-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8289, Japan
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Daiwa Asset Management Co. Ltd.

10-5, Nihonbashi-kayabacho 2-chome, Chuo-ku, Tokyo 103-0025, Japan
Tel: 81-3-5695-2111

Daiwa Institute of Research Ltd.

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Daiwa SB Investments Ltd.

7-9, Nihonbashi 2-chome, Chuo-ku, Tokyo 103-0027, Japan
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Daiwa Securities Business Center Co., Ltd.

3-2, Toyo 2-chome, Koto-ku, Tokyo 135-0016, Japan
Tel: 81-3-5633-6100

Daiwa Property Co., Ltd.

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Daiwa Securities SMBC Principal Investments Co. Ltd.

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Tel: (44) 20-7320-8000

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Tel: (1) 201-333-7300

Daiwa Europe Fund Managers (Ireland) Limited

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Daiwa Europe Trustees (Ireland) Limited

Level 3, Block 5, Harcourt Centre, Harcourt Road,
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Tel: (41) 22-818-74-00

Milan Branch

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Spain Branch

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Middle East Branch

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Daiwa Securities SMBC Hong Kong Limited

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Daiwa Securities SMBC Singapore Limited

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Tel: (65) 6220-3666

Daiwa Securities SMBC Australia Limited

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Lumpini, Pathumwan, Bangkok 10330 Thailand
Tel: (66) 2-252-5650

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2nd Floor, Raheja Chambers, 213 Nariman Point,
Mumbai 400 021, India
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Daiwa Securities Group Inc. Corporate Data

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6-4, Otemachi 2-chome
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Tel: 81-3-3243-2100

Number of Shareholders

99,042 (as of March 31, 2006)

Independent Public Accountant

KPMG AZSA & Co.

Internet Home Page Address

<http://www.daiwa.jp/ir/english/>

Stock Exchange Listings

Tokyo, Osaka, Nagoya

Commencement of Operations

May 1, 1902

Transfer Agent and Registrar

The Sumitomo Trust and Banking Company, Limited
Stock Transfer Agency Department
4-4, Marunouchi 1-chome
Chiyoda-ku, Tokyo
100-8233, Japan

Date of Founding

December 27, 1943

Common Stock

Authorized
4,000,000 thousand shares
Issued and Outstanding
1,332,460 thousand shares
(as of March 31, 2006)

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