

Daiwa Securities Group

Our Approach to Being the Best

Passion for the Best

Annual Report 2007

Year ended March 31, 2007

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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 2006" refers to the fiscal year ended March 31, 2007, and other fiscal years are referred to in a corresponding manner.

Approach Throu

Trust in

Trustworthy Growth

- I Under its medium-term management plan, “Passion for the Best” 2008, the Daiwa Securities Group has set out to “build Japan’s best securities group on a foundation of customer trust and employee commitment.”

The current medium-term management plan, “Passion for the Best” 2008, encapsulates the Group’s business strategy and management goals for the three-year period from FY 2006 to FY 2008, and includes the specific targets of raising consolidated ordinary income to at least ¥350 billion and return on equity (ROE) to at least 15%. The Group also aims to earn an even higher degree of trust from its various stakeholders, and through the enthusiastic contributions of its employees, to develop the high-quality products and services needed to make the Daiwa Securities Group “Japan’s best securities group.”

- II As Japan’s financial and capital markets undergo dramatic structural shifts, the Daiwa Securities Group is drawing upon its core strengths in the securities business to play a central role in market evolution.

Japanese individuals are currently moving a large portion of their ¥1,536 trillion financial assets from savings deposits to higher-risk, higher-return investments. This, coupled with a rise in M&A activity among Japanese corporations, has contributed to a major structural shift in Japan’s financial and capital markets. Over the years, the Daiwa Securities Group has accumulated extensive knowhow in the securities industry, and by using this experience to provide clients with optimal solutions, the Group is acting as a leader in the domestic financial markets.

- III The Daiwa Securities Group is working to raise its profile in the highly promising financial markets of Asia.

The economies of Asia currently serve as the leading engine of global economic growth, and market capitalizations in the region’s stock markets are rising rapidly to reflect this buoyant growth. The Daiwa Securities Group is using the experience it developed in Japan’s financial and capital markets to provide products and services for these new markets. As it does so, the Group is expanding its Asia-related operations rapidly.

Strategy	New Businesses	Financial Markets
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Our...



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People

Board

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Trustworthy Management

- I The Daiwa Securities Group is developing a comprehensive framework for managing capital and maintaining an appropriate balance of risks, returns and capital in order to strengthen the Group's financial base.

In order to maintain steady growth over the longer term, the Group will need to find ways of assuming greater risk while still maintaining a solid financial base. The Group is allocating capital to each business division based on a careful consideration of capital efficiency, aiming to maximize its return on equity. To effectively manage the greater risk that this generates while still maintaining a firm financial base, the Group is working to clearly identify the amount of risk and to control these risks in an appropriate manner.

- II The Group is working to boost employee motivation, which in turn can enhance customer satisfaction and corporate value.

The Daiwa Securities Group understands that in the financial industry, employees are a company's most important asset, and highly motivated employees are the crucial factor in increasing corporate value. Therefore, one important theme of Group management is to attract top-quality employees and try to provide them with a highly challenging and motivating work environment.

- III Highly transparent and objective corporate governance forms the essential foundation for management trust.

Daiwa Securities Group Inc. was the first listed Japanese company to adopt a holding company structure for group management, in order to promote specialization by each business division and synergy among divisions. This not only makes management more efficient; it also increases customer satisfaction. In addition, by adopting a "committee system" of corporate governance, the Group is pursuing more effective decision making and greater transparency in its management activities.

Our current medium-term management plan, “Passion for the Best” 2008, encapsulates the Group’s business strategy and management goals for the period from FY 2006 to FY 2008. Under this plan, the Group will focus its full energies in an effort to “build Japan’s best securities group on a foundation of customer trust and employee commitment.”

During FY 2006, the first year of this plan, we once again verified the vast potential that the Group possesses. It is clear that the Group is now well on the way to unleashing this potential fully, as we move confidently towards our goals.

On Track to Being the Best



Shigeharu Suzuki
President and CEO

Financial Highlights

Daiwa Securities Group Inc. and Consolidated Subsidiaries

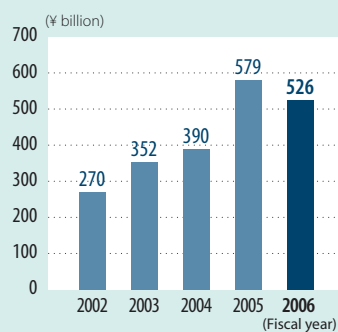
	Millions of yen (Unless otherwise specified)			Millions of U.S. dollars (Note 1)
	FY2004	FY2005	FY2006	FY2006
Operating Performance				
Operating revenues	¥ 519,337	¥ 845,660	¥ 917,308	\$ 7,774
Net operating revenues	390,432	579,359	526,764	4,464
Selling, general and administrative expenses	275,544	325,199	340,373	2,885
Operating income	114,888	254,160	186,391	1,580
Ordinary income	120,433	260,651	195,415	1,656
Net income	52,665	139,948	92,725	786
Balance Sheet (at fiscal year-end)				
Total assets	12,378,962	14,898,692	14,411,265	122,129
Total shareholders' equity	648,332	792,281	—	—
Net assets (Note 2)	—	—	1,223,226	10,366
			Yen	U.S. dollars (Note 1)
Per Share Data				
Net income (Note 3)	¥ 39.03	¥ 103.90	¥ 67.90	\$ 0.58
Net assets (Note 3)	486.70	598.27	665.98	5.64
Cash dividends	13.00	34.00	28.00	0.24
			%	
Financial Ratios				
Return on equity (ROE) (Note 4)	8.4	19.4	10.8	
Equity ratio	5.2	5.3	6.5	

Other Data

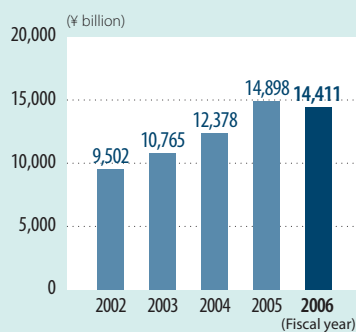
Total number of employees	12,243	12,561	13,264
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- Notes: 1. Translations of the Japanese yen amounts into US dollars use an exchange rate of ¥118.00 = US\$1.00 (rounded down to the nearest yen), and are provided solely for the convenience of the reader.
2. Accounting data is presented based on the revised accounting standards stipulated in the "Accounting Standard for Presentation of Net Assets in the Balance Sheet," and reflects the calculations after these revisions.
3. Net income per share is calculated on the basis of the average number of shares outstanding over the course of the fiscal year. Net assets per share are calculated using the following formulas.
For FY 2004 and FY 2005: Net assets per share = shareholders' equity / shares outstanding as of the fiscal year-end.
For FY 2006: Net assets per share = (net assets – stock subscription rights – minority interests) / (shares outstanding as of the fiscal year-end – treasury shares as of the fiscal year-end)
4. Return on equity is calculated using the average of equity at the start of the fiscal year and equity at the end of the fiscal year. Equity is calculated as follows: Equity = owners' equity + valuation and translation adjustments.
5. The total number of employees includes individuals employed as financial advisors.

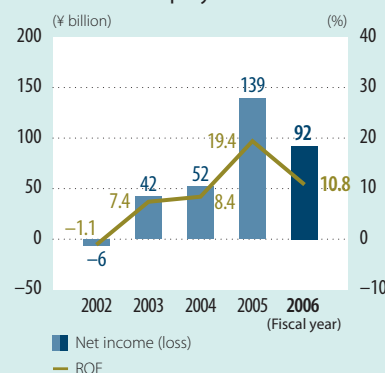
Net operating revenues



Total assets



Net income (loss) and Return on equity



Message from the CEO

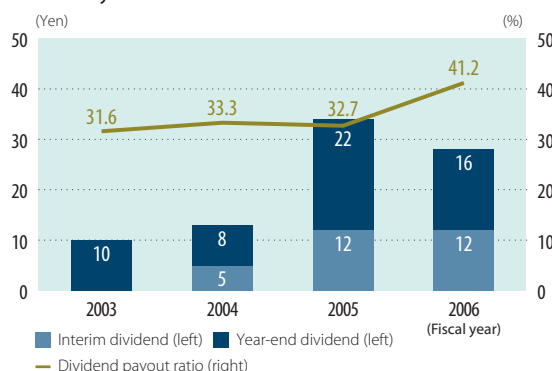
Responding Confidently to the Challenges of FY 2006

Based solely on the headline figures in the FY 2006 earnings statement, our performance during the year was not entirely satisfying. However, in terms of the progress that the Daiwa Securities Group made toward medium-term management goals, I think the tally of achievements was quite impressive.

Consolidated earnings figures for FY 2006 show that net operating revenues for the Daiwa Securities Group declined 9% year on year, to ¥526.7 billion, ordinary income dropped 25%, to ¥195.4 billion, and net income was down 34% from the previous year, to ¥92.7 billion. This mainly reflects conditions in the Japanese stock market, which spent much of the year in a correction phase and saw a particularly dramatic drop in the small-cap and venture stock markets. As a result, brokerage commissions from individual investors decreased, as did profits from equity trading. Nevertheless, we were able to maintain a consolidated ROE for the Group of 10.8%, which put us in the top spot among major domestic securities companies, in terms of profitability, for the third year in a row. The Group paid an annual dividend of ¥28 per share in FY 2006, while the dividend payout ratio was 41.2%—well above our 30% payout ratio guideline.

Although our earnings performance was modest in FY 2006, we made a fine start in pursuit of the targets laid out in the Group's medium-term management plan, "Passion for the Best" 2008. In the first year of the plan, we made even more progress towards these targets than initially expected. I would like to use this opportunity to point out some of the important achievements that the Group made in its core businesses during FY 2006, and describe to you, our stakeholders, the many opportunities that our medium-term business plan will unlock for the Daiwa Securities Group, so that you may share my confidence and optimism as we progress towards these goals.

Annual Dividends Paid by Daiwa Securities Group Inc. and Payout Ratio



Notes: 1. The Group began paying an interim dividend for the first time in FY 2004.
 2. Dividend payout ratio = Dividends per share / Consolidated net income per share

Dramatic Revenue Increases in the Asset Management and Investment Divisions

Although domestic stock trading by individual investors declined in FY 2006, the market for investment trusts was extremely active. Assets under management in publicly offered investment trusts grew by ¥16 trillion year on year in FY 2005, and added a further ¥14 trillion in FY 2006, raising the total balance to ¥72.5 trillion at the end of March 2007. Clearly, Japanese individuals are starting to shift a part of their estimated ¥1,536 trillion financial assets into these investments. The favorable trend had a strong impact on the asset management operations of the Daiwa Securities Group, boosting assets under management of both equity-type investment trusts and foreign bond-type investment trusts. A dramatic rise in the balance of assets in the Group's equity investment trusts contributed to sharp revenue growth in the asset management division.

Meanwhile, the Group's investment division has been steadily increasing its direct investments. The total investment amount expanded to ¥356.0 billion as of March 2007, and some of the private equity investments that the Group has made are starting to pay favorable returns.

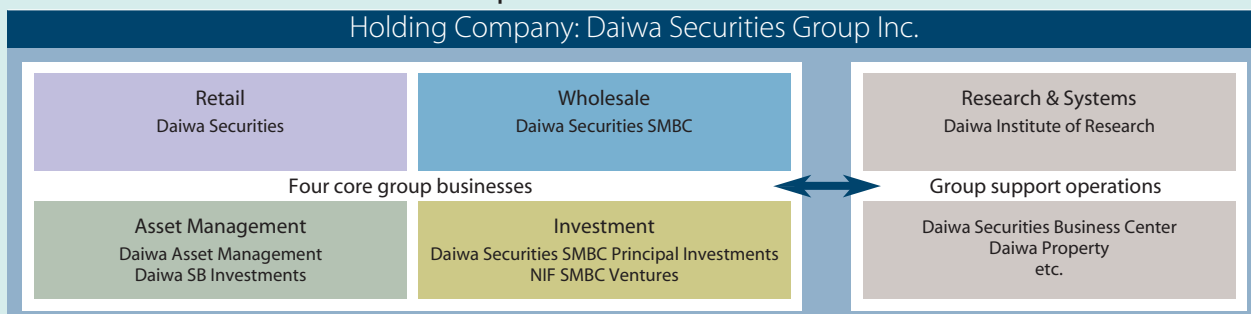
The growth achieved by these two divisions is producing a much better earnings balance among the four core business divisions. This has contributed greatly to our efforts to establish a broad, diverse and stable earnings base.

Assets Under Custody in the Retail Division Rising Steadily

Although income from equity brokerage commissions may have declined in FY 2006, several core businesses in the retail division registered solid growth during the period. Agency commissions from investment trusts increased, as did the balance of margin positions outstanding in the Group's online trading business—"Daiwa Direct." In addition, "Daiwa SMA*," our wrap account service for high-net-worth individuals, registered a clear increase in contract assets under management. Agency commission income from investment trust assets, in particular, has risen to over ¥3.0 billion a month; this is an income stream that we expect to remain steady, regardless of the short-term ups and downs of the stock market.

* SMA=Separately Managed Account; an asset management service with a discretionary investment contract or an investment advisory service

Business Structure of the Daiwa Securities Group



Investment Banking Business Demonstrating its Ability to Propose Financing Solutions

Daiwa Securities SMBC, which oversees our wholesale securities operations, has been working to improve its ability to offer investment banking solutions. Perhaps the best example of our accomplishments in this area is Daiwa Securities SMBC's support for a hybrid securities product issued by Nippon Steel. Utilizing internal financial engineering technology, Daiwa Securities SMBC has successfully developed this hybrid securities product, a new type of financial instrument that has received positive reviews from the customer. The advice that we provided helped Nippon Steel successfully raise ¥300 billion. In this way, we demonstrated our ability to propose innovative solutions that help clients address even complex financing needs. Because of this, and other successful investment banking deals, Daiwa Securities SMBC was recognized by THOMSON DealWatch as the FY 2006 "House of the Year," in the overall category. Clearly, Daiwa Securities SMBC is establishing itself as a highly innovative, comprehensive investment bank, not only in the eyes of customers in Japan, but world-wide.

Favorable Business Conditions Offer Continuing Support

In FY 2006, Japan's capital markets continued their steady and brisk expansion. The shift of individual assets from savings to investment, in particular, continues to support the Daiwa Securities Group's growth.

Although I have pointed this out many times before, the current condition of Japan's financial markets is an extremely important factor which benefits the entire domestic securities industry. One of the basic assumptions underlying the goals of our medium-term management plan is that these favorable conditions will continue. During FY 2006, the stock market actually registered a slight decline over the course of the fiscal year, but trading value on the TSE First Section reached a record high of ¥600 trillion. By comparison, at the peak of Japan's economic bubble, trading value was only a shade over ¥300 trillion. This should give you some idea of the rapid growth that Japan's stock market is currently experiencing.

There is also an abundance of macroeconomic data which points to the probability that Japan's capital markets will continue growing. According to the Group's research arm, Daiwa Institute of Research, ordinary income at the top 300 listed corporations in Japan increased in FY 2006 for the fifth year in a row, and it appears likely that profit growth will continue this year and beyond.

Meanwhile, the market for mergers and acquisitions conducted by Japanese companies is growing by leaps and bounds every year. In 2006, there were 2,775 M&A deals carried out in Japan, more than four times the number of cases registered ten years ago. The total value of these deals soared past the ¥15 trillion mark. This shows that Japanese companies now

view M&A activity as a commonplace management tool. However, Japan still lags behind compared with the situation in other advanced economies. Relatively speaking, the M&A era in Japan has only just begun, and I strongly expect to see this activity become even more prevalent in the future.

While the trends mentioned previously are sure to benefit Japanese securities companies, by far the most important boon to the securities industry in recent years has been the shift of individual assets from savings to investment, which continued to accelerate in FY 2006. As of March 2007, private individuals held an estimated ¥1,536 trillion in financial assets, an increase of roughly 1% compared with March 2006. The share of these assets held in cash and deposits stood at 50.1%, a year-on-year decline of 0.6 percentage points, while individual holdings of bonds, investment trusts and equities accounted for a combined 19.5%, up 0.3 percentage points. A simple calculation based on the estimated total suggests that individual investors poured ¥5 trillion into these investments during FY 2006. Even so, Japanese individuals still keep a far larger share of their assets in cash and deposits than people in most other countries. We expect the percentage of assets invested in negotiable securities to continue rising over the coming years. This shift from savings to investment is a trend that the government itself is promoting, and securities groups such as the Daiwa Securities Group have an important role to play in supporting this trend.

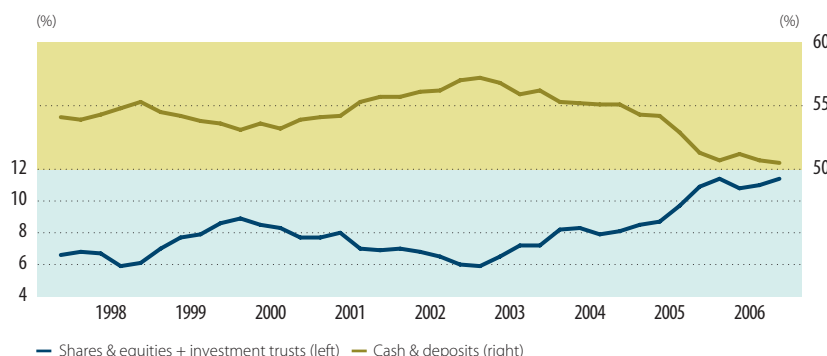
Business Expansion in FY 2007

In FY 2007, each business division of the Group will work to meet ambitious targets, as we seek to carry out our medium-term management plan, “Passion for the Best” 2008.

Although our achievements in FY 2006 and the benefits of continued market expansion give us cause for optimism, each division will redouble their efforts to promote growth in FY 2007.

In the retail division, we will try to increase the balance of customer assets dramatically. The Daiwa Securities Group has many competitive advantages in this segment, including

Securities and Cash & Deposits as a Share of Total Household Financial Assets

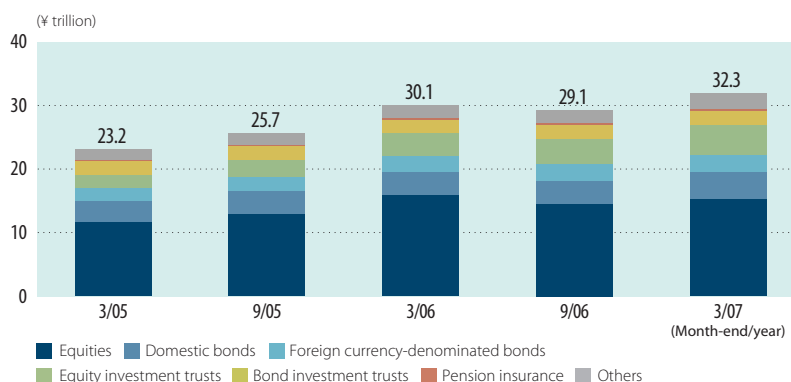


popular investment trusts and a dominant market share of the wrap account business via “Daiwa SMA.” In FY 2006 we launched several new services for retail clients, such as the securities-backed loan business. In these ways, we are trying to turn market events—the rising number of individuals reaching retirement age, and plans to introduce fully electronic stock certificates—into opportunities for business growth. In the online trading business, past efforts by some players to compete on the basis of commission rates are now giving way to competition based on added value. In response, we are expanding our presence in the market with “Daiwa Direct,” a service that seeks to merge the advantages of Internet trading and branch office support in order to provide higher levels of customer service.

In the wholesale business we are continuing to aim for the top spot, with the goal of earning recognition as number one in the league tables for equity financing, debt financing and M&A deals. Daiwa Securities SMBC enjoys extensive cooperation and support from Sumitomo Mitsui Banking Corporation, which it will continue to use in FY 2007 to improve the solutions capabilities of its M&A support and other investment banking operations. Meanwhile, we are expanding the range of financial products handled by our trading operations, and working to strengthen our Asia-related operations.

The asset management division enjoyed remarkable growth in FY 2006, and as assets continue to flow into the market, we expect the positive trend to continue. For this reason, we have raised the targets contained in our medium-term management plan to pursue more ambitious goals. The ordinary income target for Daiwa Asset Management and Daiwa SB Investments was raised from a combined total of at least ¥21 billion to at least ¥30 billion, and the target for total assets under management of equity investment trusts at the two companies was increased from at least ¥11 trillion to at least ¥14 trillion. We are working to further strengthen product development capabilities and asset management skills, while seeking to provide a higher level of service to Daiwa Securities, banks and other sales channels. In addition, during FY 2006, we established Daiwa Fund Consulting Co. Ltd., a subsidiary which evaluates investment funds. In FY 2007, this new company will help the Group to develop even more new investment trust products.

Daiwa Securities: Customer Assets Under Custody



In the investment division, Daiwa Securities SMBC Principal Investments is starting to harvest the fruits of past investment, and taking measures to ensure that this business will provide a stable stream of earnings in the future. In FY 2006, we established a new private equity subsidiary in the Asia-Oceania region, EMP-Daiwa Capital Asia Limited. This company will help us transplant the successful investment operations that we have developed in Japan to overseas markets.

Higher Corporate Value Depends on Higher Employee Motivation

I believe that the most important mission of company management is to raise employee satisfaction and enthusiasm to the highest level possible. Employee motivation is the wellspring of a company's competitiveness.

I believe that a company's value is founded on the quality and enthusiasm of its employees. This is particularly true in the financial industry. For this reason, I consider measures to motivate employees, and provide them with a comfortable, stimulating work environment, to be the most important task of the management. I am confident that money is not the only factor in motivating employees. They also require a sense of trust in their company, a feeling of self-confidence and self-respect, and a close identification and feeling of camaraderie with their co-workers; indeed, these factors can be much more important than monetary compensation, when it comes to motivating employees.

The important question is how to convey this philosophy and message to employees effectively. One example of a way in which we are trying to promote a sense of trust and camaraderie is to involve each employee's family members in our company functions—for example, by inviting the family members of award recipients to various award ceremonies—and to promote broader relationships not only between management and employees, but with family members as well. We are also making use of the Group's broadcast media abilities, which are the most well developed of any Japanese securities group. We produce and broadcast "in-house TV programs" which tell staff at every office in the country about the direction management is taking.

Although loyalty and camaraderie are often viewed as areas where Japanese companies excel, in recent years company management, in general, has not been very proactive in conveying their high regard for employees. In Japan today, there is intense competition—even across industry sectors—to attract top-quality personnel from a shrinking labor pool. For Japanese companies to remain competitive in the future, it is essential that their investments in employees match those of any top-ranked global corporation. I am confident that the Daiwa Securities Group has addressed these issues more effectively, and more promptly, than any of our rivals.

Aiming to Be the Best in Japan

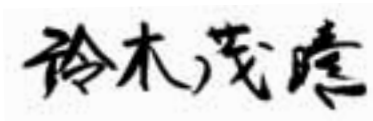
Rising competition is actually contributing to growth in Japan's financial markets, and should be viewed as a boon to the Daiwa Securities Group. Thanks to the enthusiasm of our employees and the support of our stakeholders, we are steadily advancing towards the goal of being "the Best."

FY 2007 dawned with the news of Citigroup's take-over bid of the Nikko Cordial Corporation. The increased participation of foreign-based financial institutions in the Japanese market, and the steady disappearance of boundaries which once divided the financial industry into rigidly separate segments, are propelling consolidation and making the Japanese financial industry an increasingly competitive environment.

However, I welcome these changes, since the rising number of competitors reflects the growth of Japan's financial markets, and the evolution of Japan's securities industry, to become the core of the financial industry. This is Daiwa Securities Group's home domain, and I believe that we have the accumulated experience, knowhow and vision to emerge as the dominant player in this market.

Our role, as management of the Daiwa Securities Group, is to make the most of the favorable trends that our industry is currently experiencing, and translate the market's growth into rising corporate value. Accordingly, we will prepare the foundation on which our employees, through their devotion to the company and their strong individual ambition, can continue to build the company from strength to strength. Through these collaborative efforts and achievements of the management and employees, the Daiwa Securities Group intends to earn and to justify the trust and support of our stakeholders, so that together, we can realize the goal of becoming Japan's best securities group.

July 2007



Shigeharu Suzuki, President and CEO
Daiwa Securities Group Inc.

Trust in Our Strategy

The current medium-term management plan, “[Passion for the Best](#)” 2008, charts a course towards making the Daiwa Securities Group “Japan’s best securities group.” In FY 2007, as this management plan accelerates towards its goal, the Group will focus on four key issues.

“Passion for the Best” 2008, the Daiwa Securities Group’s medium-term management plan, encapsulates the Group’s business strategy for the period from FY 2006 to FY 2008. The motto on which the group bases its corporate vision is: “Build Japan’s best securities group on a foundation of customer trust and employee commitment.” More specifically, the Group intends to raise consolidated ordinary income to at least ¥350 billion, and ROE to at least 15%.

Summary of “Passion for the Best” 2008

The Daiwa Securities Group’s medium-term management plan focuses on four core businesses: retail securities, wholesale securities, asset management and investment. For each of these operations, the Group has adopted a separate business model designed to cultivate competitive advantages and industry leadership, generating earnings that contribute to making Daiwa the top securities group in Japan. The medium-term management plan sets out goals and basic strategies for each core business, which will ensure that they play their part in promoting the Group’s overall objectives. By allocating resources to each business appropriately, the Group aims to not only improve management efficiency, but also to develop synergy among all operations.

The goal of becoming “Japan’s best securities group” is not simply a reference to the size of operations or the level of earnings. The Daiwa Securities Group also intends to earn the top position in terms of customer satisfaction and various other industry rankings.

In developing a basic strategy for the Group, to serve as the backbone of management activity, the Daiwa Securities Group identified six factors which should receive priority—personnel, finances, information technology (IT), risk management/internal control, investor relations (IR)/corporate communications and corporate social responsibility (CSR). Objectives have been set for each of these factors, to ensure that the Group’s underlying base of personnel, capital and infrastructure are sufficient to support future growth, while compliance policies are strictly followed and CSR efforts are extended to earn the trust and support of all stakeholders. Meanwhile, the Group will seek ways to motivate its personnel, ensuring that each individual takes pride in their work, and every one of the employees and executives in the Group strives with the passion to make the Daiwa Securities Group the best securities group in Japan.

Management Targets of “Passion for the Best” 2008

Consolidated ordinary income: ¥350 billion

Consolidated ROE: 15%

Retail	Wholesale	Asset Management
Ordinary income: ¥130 billion	Consolidated ordinary income: ¥190 billion	Ordinary income: ¥30 billion* ¹
Daiwa Securities customer assets under custody: ¥45 trillion	No. 1 position in league tables	Equity investment trusts assets under management: ¥14 trillion* ²
		Investment advisory assets under management: ¥5 trillion

*1 Target increased in April 2007, from a previous target of ¥21 billion

*2 Target increased in April 2007, from a previous target of ¥11 trillion

Elements of the Group's Core Strategy

Personnel	Attract top-quality employees and provide them with a challenging and highly motivational work environment and structure
Finances	Manage risk, return and capital in an integrated manner, to maintain high profitability and a healthy financial position, in order to raise corporate value in line with the growth targets set out in the medium-term management plan
IT	Upgrade the quality of IT infrastructure to support the growth of Group operations
Risk management/ internal control	Develop internal control structures that can effectively manage the financial resources of each division and evaluate earnings performance, while responding to internal control reporting system
IR/corporate communications	Establish a network of communications with the public and investors that is appropriate for an organization that seeks to be Japan's best securities group
CSR	Improve public perceptions of the Group by making effective contributions to a strong and healthy global economy and society

Perceptions of the Business Environment and Management Plans for FY 2007

As the Daiwa Securities Group sets its sights on rapid growth and business expansion through its management plan, "Passion for the Best" 2008, business conditions in the Japanese securities industry provide the Group with a favorable environment in which to reach its goals. Strong corporate earnings, coupled with a shift in individual assets from savings to investment, have combined to create brisk demand and buoyant markets.

Although a global slump in stock prices in February 2007 contributed to a mild correction in the Japanese equity market, in FY 2006, ordinary income at Japan's major 300 corporations increased for the fifth year in a row*. Meanwhile, Japanese individuals have been pouring their savings into publicly offered equity investment trusts at a record pace. As it continues to advance towards its medium-term goals, the Daiwa Securities Group intends to concentrate its efforts in FY 2007 on four specific issues:

* Based on data from Daiwa Institute of Research: 300 leading business corporations listed on the Tokyo Stock Exchange First Section

1. Dramatically increase client assets under custody

In order to take full advantage of recent trends among individual investors, who are shifting their assets from savings to investment, the retail operations of the Daiwa Securities Group will work to dramatically increase customer assets under custody. Daiwa Securities, the main player in the core retail securities business, will take the lead in a Group-wide effort, deploying all of the management resources available to address the diverse and detailed needs of individual investors. The Group will focus on developing top-quality products and services that help individual investors to manage their assets effectively.

2. Enhance solutions business and reorganize trading operations to improve profitability

Japan's capital markets are becoming more active as more Japanese corporations turn to the markets for capital to support their business strategies. The Daiwa Securities Group is working to help these companies realize their growth strategies by offering them optimal solutions for procuring capital or pursuing mergers and acquisitions. In doing so, the Group can expect to expand its own business operations. In addition, the Group plans to develop more cutting-edge trading operations, to handle not only traditional equity and bond products, but also to develop and trade the most advanced financial instruments, as another way of expanding the range of revenue sources.

3. Bolster business associated with Asia

By focusing on the rapidly growing markets of Asia, the Group hopes to solidify its overall competitive strengths and bolster business associated with that region. Specifically, the Group wants to expand its own direct investments in Asia, as well as its investment banking, brokerage and private banking operations there, and promote trading and management operations related to Asian stocks. By raising its profile in Asia, the Daiwa Securities Group aims to establish a stronger presence in global markets in general.

4. Expand operations into promising new sectors

The Group continues to expand its reach by developing new businesses. In FY 2006, new members were added to the Group—Daiwa Fund Consulting Co. Ltd. and Daiwa Securities Loan Co., Ltd. The Group is planning to expand these operations, and explore other promising new business opportunities in FY 2007 and beyond. Each Group member is constantly on the lookout for such opportunities, and the Group as a whole aggressively addresses new businesses, in an effort to expand operations.

Trust in Our New Businesses

As financial and capital market conditions change and evolve at an accelerating pace, the Daiwa Securities Group is aggressively pursuing new business opportunities—launching a loan business, expanding in Asia, and searching for chances to develop a multitude of new business sectors.

The objective of the Group's medium-term management plan is to become "Japan's best securities group." Developing new businesses is one important way of meeting this goal. Taking advantage of a favorable market environment, the Daiwa Securities Group is working to expand its business in the securities industry in all directions. One specific and expansive business opportunity for the Group involves rapid economic growth in Asia; the Daiwa Securities Group plans to seize this opportunity and expand its operations throughout the region.

Developing a Cutting-edge Identity

Historically, the Daiwa Securities Group has been identified with an innovative approach to the securities business. It was one of the first members of the securities industry to explore online trading, setting up a PC-based "home trading" business in 1986 and launching Internet-based stock trading in 1996. In 2004, the Group introduced discretionary asset management services for high-net-worth individuals with the launch of its "Daiwa SMA" business, setting management fees on the basis of performance and assigning dedicated consultants to provide personalized service. These are just a few examples of the unique products and services that the Daiwa Securities Group offers. Concerted efforts to maintain a pioneer status are helping the Group capture a large share of a rapidly expanding market. It also operates Japan's only satellite TV channel dedicated to securities issues—"Financial Information TV by Daiwa"—which is operated by a member of the Daiwa Securities Group. The Group is continuing to aggressively pursue opportunities in the media business.

The Group's medium-term management plan targets promising new venues for business growth, particularly the loan business, commodities-related business, real estate-related operations, and activities that merge finance and Internet-based media. These four areas will receive close attention as themes for the development of new products and new businesses.

One of the Group's most prominent achievements in FY 2006 was the launch of a new loan service in August 2006, which allows clients to use securities as loan collateral. As the range of securities that can be used as collateral is expanded, and the upper limit on loans is raised to ¥5 billion, this service is becoming far more convenient than previous loan services. In February 2007, the Group began offering this service online as well. With the planned introduction of fully electronic stock certificates, this loan service is expected to help the Daiwa Securities Group attract a large volume of stock certificates for custody.

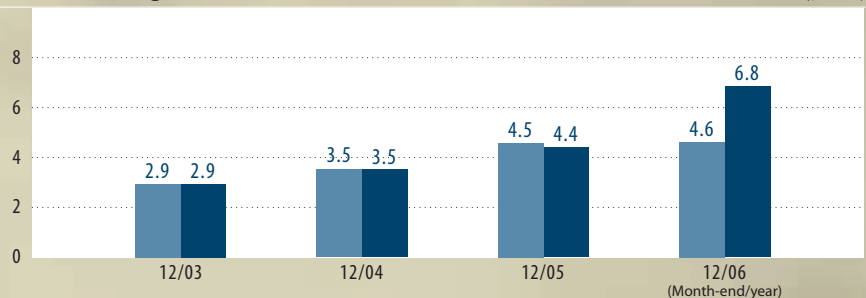
New Businesses

Securities-backed loan	<ul style="list-style-type: none"> Established Daiwa Securities Loan Co., Ltd.; business launched in August 2006 "Daiwa Net Loan" service launched in February 2007
Daiwa Fund Consulting Co. Ltd.	<ul style="list-style-type: none"> Established in July 2006, the company offers investment trust evaluation services, pension fund consulting and investment advisory services for "fund of funds" products In November 2006, the company began consulting on the management of a "fund of funds" product, "Life Harmony"
Overseas operations	<ul style="list-style-type: none"> Strengthened operations in the Asia-Oceania region Established Daiwa Wealth Management Singapore Pte. Ltd. as an overseas branch of the "Daiwa SMA" and private banking businesses Teamed up with the US-based private equity company EMP Global LLC. to create a joint venture company, EMP-Daiwa Capital Asia Limited, to target investments in Asia Decided to open a new representative office in Moscow and a branch in Dubai

Trends in Market Capitalization of Asian Stock Exchanges

(\$ trillion)

Japan
Asia excl. Japan



Source: World Federation of Exchanges

Vast Opportunities for Global Expansion

The Daiwa Securities Group is pursuing opportunities to expand its business domain not only in terms of the type of operations, but also in geographical scope. The Group is particularly eager to exploit new opportunities in the rapidly growing markets of Asia. With this goal in mind, Daiwa Securities opened its first overseas branch—Daiwa Wealth Management Singapore Pte. Ltd.—in August 2006. In addition, Daiwa Securities SMBC increased the number of executives specializing in Asia-Oceania operations from one to two, to prepare for further expansion in the Asia-Oceania region.

1. Building the Business in North Asia

The Daiwa Securities Group classifies China, Hong Kong, Taiwan and South Korea into the North Asia region. In this area of focus, the Group is working to build up its investment banking, Asian stock brokerage and structured bond operations, among others.

In the investment banking business, the Group has extensive experience as the lead manager underwriting for the “POWL” (Public Offering Without Listing)* issues of many Chinese companies. The Group is using this experience to try to attract business from Asian companies, to serve as the global coordinator for their IPOs. Meanwhile, Japanese companies pursuing investments in the booming Asian market need support for their efforts, such as proposals for cross-border M&A deals. The Group has already received mandates for many such M&A efforts.

* Public offerings in Japan by companies listed overseas without being listed on the Japanese stock exchange

Major institutional investors in Europe and the US are naturally interested in Asian stocks, and the Daiwa Securities Group is reinforcing its relationship management and research operations to support Asian brokerage activities.

The Group is increasing the number of analysts and economists it has assigned to the region, and hopes to earn a top-ten global ranking in Asian stock research in the near future.

There appears to be a good opportunity in Taiwan for the Group’s structured bond business, based on the strong latent market for equity-linked bonds and foreign currency-denominated bonds. The Group is working rapidly to establish a sales network to tap what it views as a large market for such products.

2. A Promising Future in Southeast Asia and Oceania

In recent years, Singapore has emerged as one of the increasingly important financial hubs in Southeast Asia and Oceania. Preferential tax regimes have attracted a rapidly growing number of hedge funds. Meanwhile, Vietnam, Indonesia and other ASEAN nations are just behind China in terms of their economic growth prospects. This is drawing considerable attention to the region.

The Daiwa Securities Group is taking steps to improve its network in Asia, with cooperation from all domestic business segments and from both the North Asia and Southeast Asia branches of Daiwa Securities SMBC, to focus the combined resources of the Group on expansion into the Asian region. The Group is also strengthening its ties to Sumitomo Mitsui Banking Corporation branches in Asia. By stepping up cooperation with these branches, the Group is raising its profile with local government institutions. In addition, through EMP-Daiwa Capital Asia Limited, a joint venture established in January 2007 with the US-based company EMP Global L.L.C., the Group will work to develop its private equity operations in Asia.

Trust in Our Financial Base

Under its medium-term management plan, the Daiwa Securities Group is leveraging a solid financial base to actively embrace risk in order to increase returns, while recognizing the need to control risk wherever possible.

By implementing an integrated framework of financial risk management, allocating risk capital to each division and adjusting the actual scale of risk appropriately, the Group is able to use capital efficiently and generate strong profits while maintaining financial stability.

In order to support the Group's continued, steady growth, the Daiwa Securities Group endeavors to maintain a strong financial position and control financial risk appropriately. The medium-term management plan, "Passion for the Best" 2008, includes plans to develop a well-coordinated system of managing risks, returns and capital. By allocating the Group's capital appropriately to each business, the Group can establish a business structure, which generates stable and strong returns.

Integrated Management of Risks, Returns and Capital

The Daiwa Securities Group is developing a framework to coordinate the management of risks, returns and capital. Elements of this effort are outlined below.

Capital

The Group ensures that it has sufficient capital to handle the scale of each business, allocating it to each division according to need. In order to ensure that the Group has sufficient funds to swiftly invest in new business opportunities, it maintains a certain level of capital in reserve. While the Group has set a dividend payout ratio of 30% as its guideline, if there are no promising investment targets which offer good prospects for achieving a high return, the Group will be even more proactive in returning profits to its shareholders.

Return

The Group compares the cost of capital that each division can expect with the calculated level of variable earnings risk, and tries to make sure that each division will generate enough profit to fully cover its cost of capital. The Group is making efforts to build an earnings structure in which each division generates stable revenues that can cover its own fixed costs.

Risk

By working to identify and quantify risks, the Group tries to establish a system of risk-taking in which risk can be controlled effectively. It is constantly looking for ways to improve risk management.

A Framework for Assuming and Managing Risk

In order to achieve the goals set out in its medium-term management plan, "Passion for the Best" 2008, the Group will need to assume greater risk by allocating a larger amount of capital to the wholesale and investment divisions, in particular. To effectively manage the greater risk that this will generate, the Group is working to quantify the various types of risk, such as market risk and credit risk, using a unified measure. This allows the Group to establish a risk management structure that can control risk within the bounds of the Group's risk capital, calculated on the basis of its shareholders' equity.

At the end of March 2007, the Daiwa Securities Group had a consolidated shareholders' equity* of ¥929.5 billion. This reflects a sharp increase from the end of March 2006. The increase reflects not only retained earnings for the period, but also the conversion by investors of almost the entire balance of a ¥79.0 billion unsecured convertible bond issue to common stock. Shareholders' equity at Daiwa Securities and at Daiwa Securities SMBC (consolidated) also increased sharply compared with the previous year. This provides a risk buffer that the Group considers to be more than sufficient to support future efforts at business growth.

* Shareholders' equity = owners' equity + valuation and translation adjustments

Capital Allocation Framework Under the Medium-term Management Plan

(Billions of yen)	As of March 2007 (after dividends)		Ordinary Income Target in mid-term plan	As of March 2009 (after dividends)	
	Shareholders' equity	ROE		Shareholders' equity	ROE
Consolidated	¥ 907.2	10.8%	¥350	¥1,090	15%
Consolidated (incl. minority interests)	1,189.4	—	—	1,380–1,440	—
Retail	220.3	17.6%	130	250	26%
Wholesale	656.2	8.5%	190	650–800	14%–17%
Asset management	44.8	21.9%	30	60	21%
Others (standby capital, etc.)	268.2	—	—	330–420	—

Notes: 1. Capital allocation may need to be reconsidered and adjusted by stakeholders in the wholesale and investment divisions, based on the progress of the medium-term management plan.

2. Shareholders' equity for the end of March 2009 assumes that profit targets are met as outlined in the medium-term management plan and that retained earnings are the only source of capital increase.

3. ROE for the fiscal year ending March 2009 assumes that profit targets are met as outlined in the medium-term management plan, and is calculated using the assumed shareholders' equity.

Trust in Our People

Employee motivation is the most critical factor in enhancing a company's value. The Daiwa Securities Group understands that employees are motivated by factors other than money; the Group offers employees a comfortable and stimulating work environment, which brings out their motivation and finest contributions.

The Daiwa Securities Group understands that highly motivated employees are the most important factor in increasing corporate value. Therefore, personnel issues are a central focus of the Group's medium-term management plan, "Passion for the Best" 2008. The theme for personnel policy under this plan is to attract top-quality employees and provide them with a challenging and highly motivating work environment. Accordingly, the Group is constantly implementing measures to boost employee motivation.

The Wellspring of Employee Motivation Is Faith in the Employer

As an organization that provides financial services, the best and most important way for the Daiwa Securities Group to increase earnings is to make sure that top-quality services are offered by top-quality personnel. The Group's ongoing efforts to boost employee motivation are therefore directly linked to the goal of increasing corporate value. Naturally, money is not the only thing that motivates employees; it is extremely important that each employee has a sense of pride and satisfaction with their work, a strong feeling of solidarity with their co-workers, and a sense of loyalty towards the Group. The Daiwa Securities Group strives to create a corporate culture based on these factors, where employees view their employer as "a good company to work for," have a strong awareness of compliance, and are highly motivated to meet work goals. If employees possess strong motivation and a clear awareness of compliance issues, they will be able to provide customers with a high level of satisfaction.

Daiwa Securities Group believes that its healthy corporate culture is a reflection of the high level of trust it has earned from employees; to justify this trust, companies in

the Group must take care to convey a clear, unambiguous message when communicating with employees, and make sure that the employees perceive that the company values their contributions, thus encouraging them to work continuously on the company's behalf. Providing employees with this level of motivation is one of the most important tasks for the Group's management. In an industry where employees frequently move from company to company, the Daiwa Securities Group understands that the best way to raise corporate value is to increase the number of employees who can say: "I'm glad I work for Daiwa."

Continuing to Increase the Number of Full-fledged Employees

One way that the Daiwa Securities Group promotes a corporate culture of loyalty and high motivation is to make each employee a formal member of the "family." When employees are offered permanent, salaried contracts, they receive a sense of stability and a stronger connection to the Group. The Group is continuing to increase the percentage of full-time, salaried employees by offering current financial

The Daiwa Securities Group's Model for Developing a Corporate Culture



advisor (FA) personnel* and temporary workers the opportunity to switch to a permanent employee status. As more employees develop a sense of identity with the Daiwa Securities Group, it promotes the kind of teamwork which can transcend the sum of individual abilities in the Group, thereby creating added value and enhancing work performance.

In job categories that require a high degree of specialization, the Group actively hires employees in mid-career. However, in order to promote a strong and unique corporate culture, it is important to increase the number of employees who have spent their entire career in the Daiwa Securities Group. Therefore, companies in the Group are increasing the number of employees hired immediately after graduation. In Japan, there are many surveys of university students preparing for life after graduation, which identify the companies that they would most like to join. The Group's position in these rankings has been rising steadily. This will allow the Group to attract top-quality personnel who can contribute in the longer term. In April 2007, the Daiwa Securities Group added 1,400 new graduates to its work force.

* Personnel hired for a sales position in a specific region, on a sales commissions basis, rather than a salary

Support for Employees

One of the main tasks of the Group in FY 2006 was to refurbish and upgrade its retail branches nationwide. This not only included redecorating work on building exteriors and internal fixtures, in order to present a more reliable image to customers; it also included efforts to set aside comfortable areas for employees to communicate with co-workers, and to create a more inspiring work environment. By the summer of 2007, refurbishing work on all 117 offices will be complete.

The Group also recognizes that one of the key factors in employee satisfaction is to ensure that the employees' family

members also have a feeling of pride and satisfaction with the company. To make the Daiwa Securities Group more "family-friendly," the Group organizes a wide range of family events and invites family members to various award ceremonies, thus providing extensive opportunities for the employees and their families to participate together in the Group's activities.

The Group also offers employees many forms of support, such as mental health care, intensive job-skill training for younger employees, and any other services which are within the Group's capacity to provide. The Group intends to continue seeking ways to offer employees benefits that extend beyond the scope of their compensation packages.

Measures to Support Women and Senior Employees

Japan's low birthrate, aging demographic, and the associated decline in the working-age population is becoming a problem for society in general. The Daiwa Securities Group believes that the solution to this problem is to make more effective use of women and veteran workers; indeed, the Group thinks that these efforts can actually enhance labor productivity. Women not only offer unique and valuable insights, they also have a tendency to be more detail oriented in their work. Veteran employees, meanwhile, bring vast experience and a lifetime of contacts and insights. By making optimal use of these skills, companies can unlock a trove of contributions with incalculable value.

The Group has set guidelines for the number of women occupying executive positions, and for the number of employees over the age of 60. These are intended to make the Daiwa Securities Group the industry leader in terms of leveraging contributions from these workers. The Group is making a full effort to create a working environment that will attract the most talented employees available, regardless of age or gender, and provide the support (child care, etc.) needed to cultivate their best contributions.

Trends in the Daiwa Securities Group's Ranking as a Prospective Employer

		2005	2006	2007
Weekly Toyo Keizai	All students	127 th	27 th	27 th (No.1 for securities companies)
Diamond Weekly	Liberal arts majors (male)	55 th	15 th	19 th
	Liberal arts majors (female)	89 th	35 th	31 st
The Nikkei	All students	72 nd	31 st	34 th (No.1 for securities companies)

Trust in Our Board

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



The Daiwa Securities Group is constantly seeking new challenges, with a pioneering spirit and a strong emphasis on innovation. In corporate governance, too, we have taken the lead as the first listed Japanese company to adopt group management under a holding company structure, and we have adopted a “committee system” of governance. The Group is pursuing greater transparency in its management activities.

Akira Kiyota *Deputy Chairman of the Board*

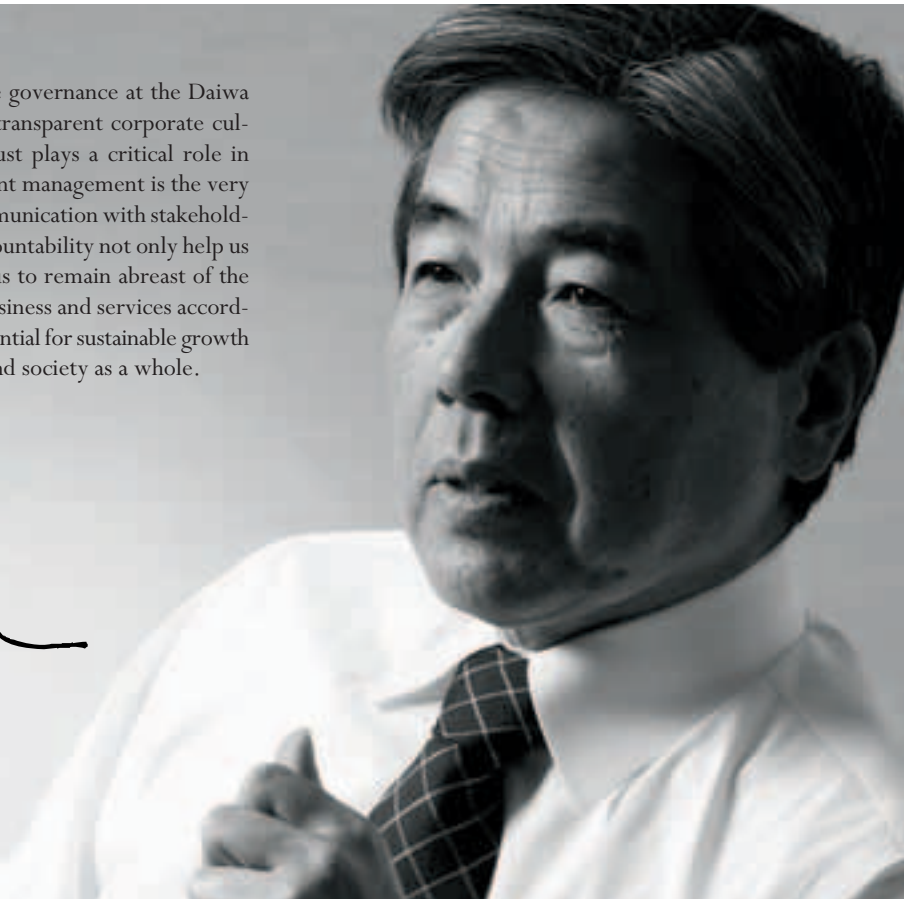
- 1969 Joined Daiwa Securities Co. Ltd.
- 1999 President, Daiwa SBCM Co. Ltd. (currently Daiwa Securities SMBC Co. Ltd.)
- 2004 Deputy Chairman of the Board and Corporate Executive Officer, Daiwa Securities Group Inc. (to present)
- Chairman of the Institute, Daiwa Institute of Research Ltd. (to present)
- 2005 Director, Daiwa Institute of Research Ltd. (to present)

I believe that the primary role of corporate governance at the Daiwa Securities Group is to create an open and transparent corporate culture. A company's ability to command trust plays a critical role in determining corporate value, and transparent management is the very foundation for building trust. Effective communication with stakeholders and efforts to promote management accountability not only help us identify management issues, but also help us to remain abreast of the changing needs of society, and adjust our business and services accordingly. This process enhances the Group's potential for sustainable growth and helps it earn the trust of stakeholders and society as a whole.

Yoshinari Hara *Chairman of the Board*

- 1967 Joined Daiwa Securities Co. Ltd.
- 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. (to present)

Y. Hara

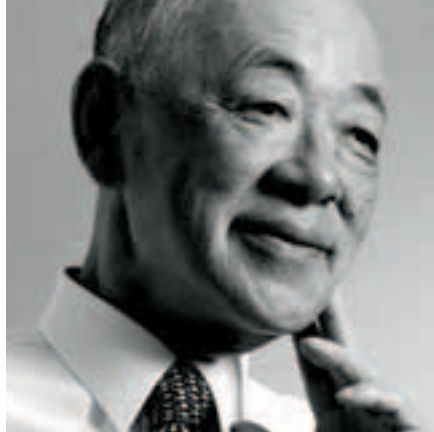


The Daiwa Securities Group has a governance structure that offers transparency and objectivity while addressing the multifarious aspects of corporate social responsibility in a balanced manner. This allows the Group to continue elevating corporate value. We also maintain diligent monitoring functions, to ensure that business effectiveness is not compromised by the separation of decision-making and implementation functions.

Kenji Hayashibe *Director*

- 1974 Joined Daiwa Securities Co. Ltd.
- 1998 Director, Chief Corporate Planning Officer
- 1999 Executive Officer, Daiwa SBCM Co. Ltd. (currently Daiwa Securities SMBC Co. Ltd.)
- 2002 Director, Daiwa Securities Group Inc. (to present)





The concept of “good management” refers to a form of corporate governance that can motivate employees to work towards improving the company’s value in a multitude of different ways. The Daiwa Securities Group is led by executives who have the passion required to fulfill their own work responsibilities and serve as an example for others. This is the real definition of leadership, and it defines the character of our organization.

Tetsuro Kawakami *Outside Director*

1952 Joined Sumitomo Electric Industries, Ltd.
1982 President
1991 Chairman of the Board
1999 Advisor, Sumitomo Electric Industries, Ltd. (to present)
2002 Outside Director, Daiwa Securities Group Inc. (to present)

At the Daiwa Securities Group, the keen motivation and enthusiasm that forms the base of the organization is what allows the Group to preserve its position as a market leader and innovator in financial markets. The Group has maintained a balanced and steady earnings growth, contributing to clients, shareholders and employees. As an outside director, I can provide an outside perspective and continue to cheer on these positive efforts.

Ryuji Yasuda *Outside Director*

1976 Joined Morgan Guaranty Trust Company of New York (currently JPMorgan Chase & Co.), Investment Research Officer
1979 Joined McKinsey & Company
1996 Managing Director, Asia Pacific, A.T. Kearney, Inc.
Member of the Board of Management
2003 Outside Director, Daiwa Securities Group Inc. (to present)
2004 Professor, Hitotsubashi University, Graduate School of International Corporate Strategy (to present)



A sound understanding and awareness of legal compliance and ethical issues determine the company’s ability to create true corporate value. It is important that we constantly keep this fact in mind in our management activities, and endeavor to maintain high standards of fairness and ethics in our operations. The Daiwa Securities Group has established a legally and morally sound corporate governance structure, and our continuing efforts to more fully develop this structure, with each passing year, are indeed bearing fruit.

Keisuke Kitajima *Outside Director*

1961 Appointed as Public Prosecutor
1998 Public Prosecutor General
2001 Retired as Public Prosecutor General, Registered as Lawyer with the Dai-ichi Tokyo Bar Association (to present)
2004 Outside Director, Daiwa Securities Group Inc. (to present)



The most important element of a company’s corporate governance structure is the relationship of mutual trust between management and employees. I have had the opportunity to meet with a large number of employees from every part of the Daiwa Securities Group, and I sense that management has earned their trust and respect. If we can maintain and promote this healthy corporate culture, then this will provide a foundation for effective governance.

Koichi Uno *Outside Director*

1967 Joined Arthur Andersen and Company Tokyo Office
1981 Representative Partner, Arthur Andersen and Company Tokyo Office (Koichi Uno Tax Accounting Office)
2000 Retired from Arthur Andersen and Company, founded CPA UNO OFFICE (to present)
2004 Outside Director, Daiwa Securities Group Inc. (to present)



Review of Operations

		
Business Environment for the Daiwa Securities Group	Daiwa Securities Group at a Glance	Retail
SEE PAGE 25	SEE PAGE 28	SEE PAGE 30
		
Wholesale	Asset Management	Investment
SEE PAGE 36	SEE PAGE 42	SEE PAGE 50
		
Group Support		
SEE PAGE 55		

Business Environment for the Daiwa Securities Group

The Japanese financial industry has experienced a large number of changes in the recent past, which have laid the groundwork for the industry's current conditions and trends. One of the most influential of these changes began in 1996, when the government instituted a series of regulatory reforms that it referred to as the "Japanese Financial Big Bang." A second transformation was triggered in 2000, when the government took steps to stimulate the market, which was floundering after the collapse of the "IT bubble." These events have had a major impact on the business model and earnings structure of all Japanese securities companies, including the Daiwa Securities Group, which have changed dramatically to match the changes taking place in the business environment.

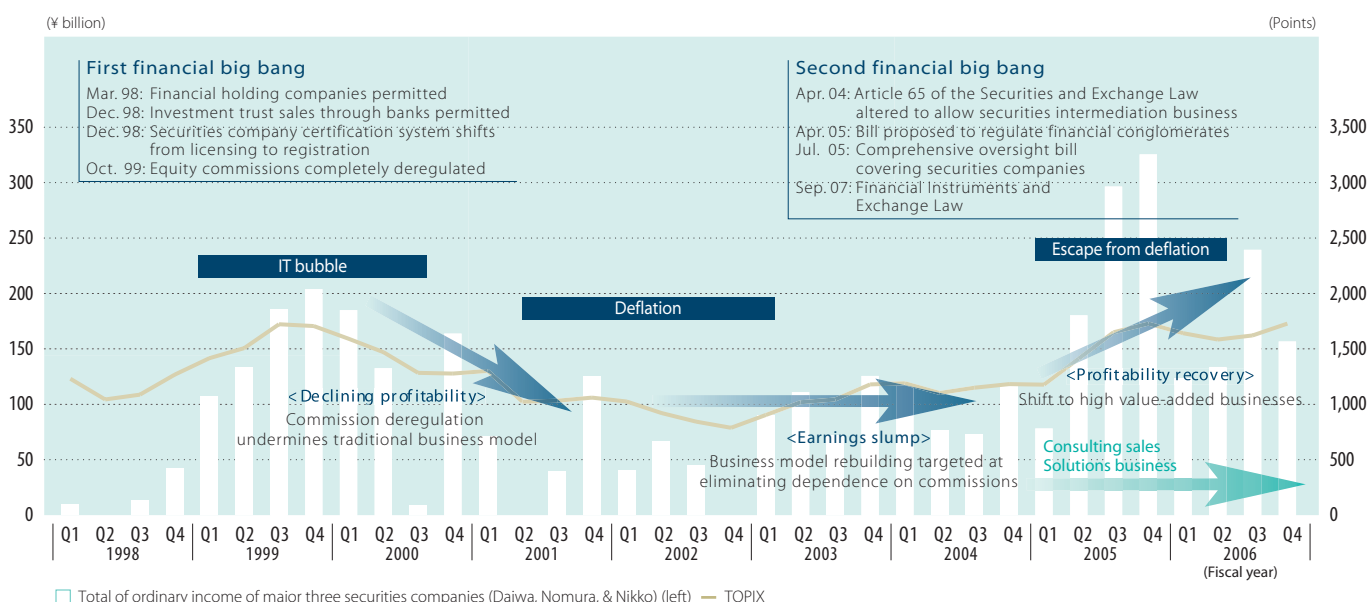
For example, as part of the "Japanese Financial Big Bang" reforms, the basis for securities trading was changed in December 1998 from a licensing system to a registration system. At the same time, the restrictions that prevented banks from acting as sales agents for investment trusts were also lifted. In October of 1999, equity brokerage commissions were fully deregulated. These reforms not only made it easier for new companies to enter the securities industry, but also triggered price competition in the industry based on the level of brokerage commissions charged.

In December 2004, restrictions on securities intermediation services were lifted, and in October

2005, the post office's financial services division began selling investment trusts. Both of these moves increased the number of new competitors in the securities industry, while at the same time expanding the base of potential customers accessible to securities products. Meanwhile, the government was lowering taxes on dividend income and capital gains from stock investment, thus encouraging a more rapid flow of assets into the stock markets and providing a clearer picture of the government's plans to stimulate the Japanese economy.

In addition, regulatory changes are being gradually adjusted to offer greater protection to investors. In September 2007, the government will implement the Financial Instruments and Exchange Law, a comprehensive regulatory change aimed at protecting investors in financial products including commodities futures and foreign exchange.

These efforts led by the government, to reform the regulatory structure of the securities industry, have contributed greatly to the shift in individual investors' attitudes towards securities investment. In the past, individuals put the majority of their personal assets into savings accounts or time deposits, or held it as cash. Today, the estimated ¥1,500 trillion of individual financial assets are shifting steadily into investments with higher risk and higher returns such as equities, investment trusts, foreign bonds and other securities products. This trend has become known as "the shift from savings to investment."

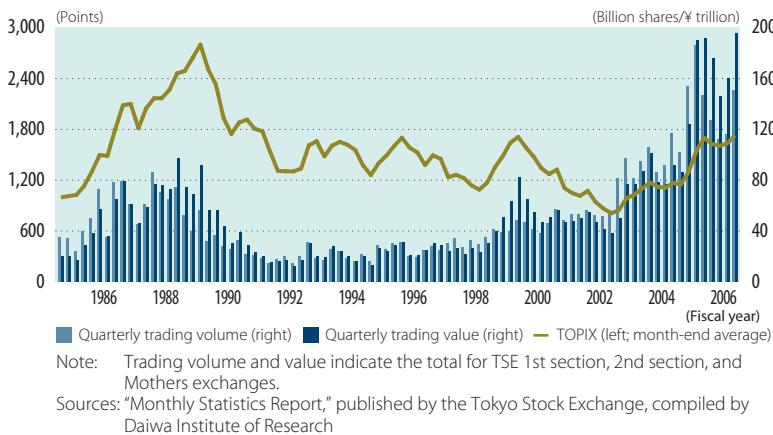


Japan's economy is finally breaking free from the influence of deflation, and attention is turning to the issue of an aging society and how well Japan's pension system can function in the future. These issues are accelerating the trend towards securities investment. Furthermore, in the past only securities companies could respond to demand for securities products, but today, industry diversification is bringing more players into the market. For example, companies that specialize in online trading are offering lower equity brokerage commissions. This, coupled with the convenience of Internet-based trading, has allowed them to capture a large share of individual investors' demand in terms of trading value. In addition, investment trusts can now be purchased easily at banks and post offices throughout Japan. While competition may be increasing in these ways, the latent market and customer base that securities

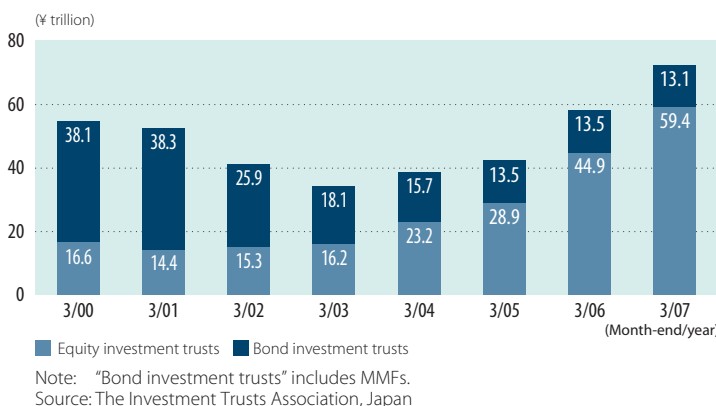
companies can target is growing, and the range of business opportunities is expanding.

On the corporate side, meanwhile, management has been forced to pay greater attention to market perceptions, as a larger share of their stock moves into the hands of overseas investment funds who tend to be very vocal shareholders. As a result, company management needs to consider a much broader range of issues. In the past they could simply focus on making good profits and accumulating cash, but today it is essential that they consider how to use those funds most productively—should they raise capital investment, pay out the money in dividends, pursue a merger or acquisition, or repurchase their own stock? To meet these more diverse expectations, companies need expert advice on comprehensive financial management, mergers and acquisitions, and related issues. The major domestic securities companies are

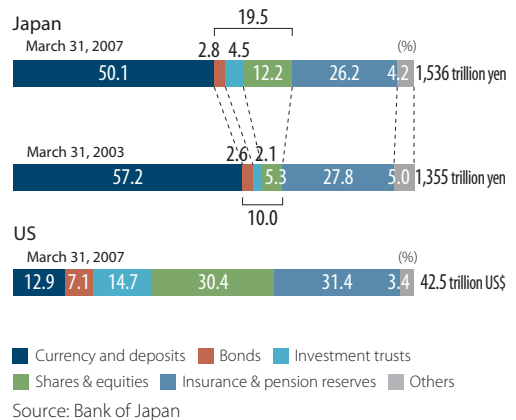
Average Trading Volume and Value on Tokyo Stock Exchange, and Movements in TOPIX (Quarterly Basis)



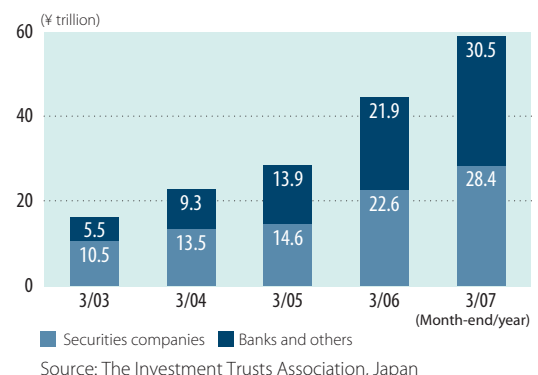
Trends in Investment Trust Assets in Japan



Trends in Household Financial Assets



Breakdown of Assets in Publicly Offered Equity Investment Trusts, Based on Sales Channel



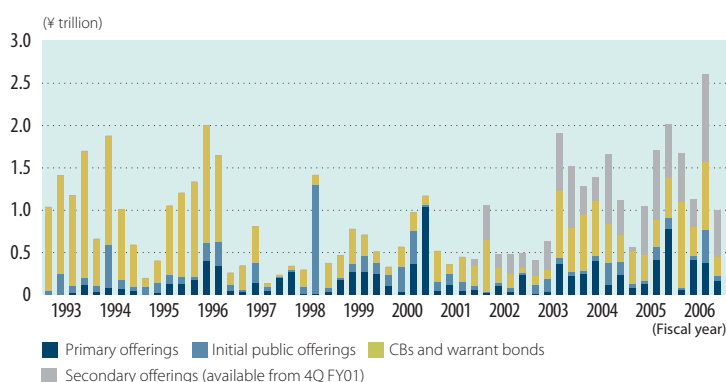
not the only ones that companies turn to for this kind of advice; the advanced financial knowhow that foreign financial institutions possess, and the close business ties enjoyed by securities companies linked to major banking groups are allowing these players to aggressively expand their share of this market as well.

Although the business environment is becoming increasingly competitive, the Daiwa Securities Group is focusing instead on the expanding range of business opportunities that are waiting to be exploited. As the diversifying range of sales channels for securities trading by individual investors makes it easier for them to access the capital markets, the overall scale of this market is expanding and diversifying apace. Meanwhile, the rising presence of investment funds in the market is making corporations more aware of and sensitive to the perceptions of market participants, and consequently this has developed

stronger demand for advisory services. In short, even though ongoing market changes may make competition in the securities industry increasingly intense, they are also creating new opportunities and potential for even greater business growth.

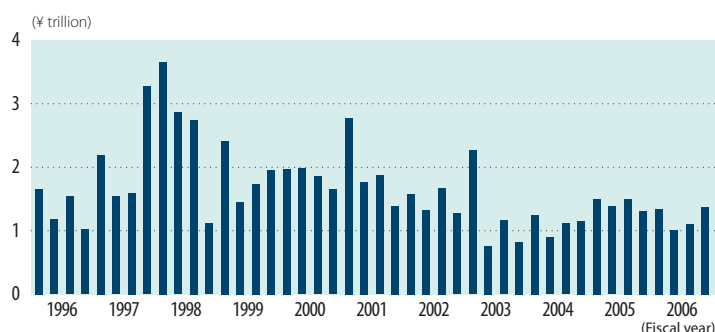
Within this market environment, the Daiwa Securities Group has identified four core businesses that it intends to develop aggressively: retail securities, wholesale securities, asset management and investment. In each of these sectors, as well as in the businesses providing administrative support to the Group, we have adopted a separate and unique strategy while also seeking ways to maximize the synergy of the overall Group. In this way, the Daiwa Securities Group is working to distinguish itself from industry rivals, to achieve brisk and continuing growth, and to establish itself as “Japan’s best securities group.”

Public Offerings in Japan



Source: “Equity finance conditions among listed Japanese companies,” published by the Japan Securities Dealers Association, compiled by Daiwa Institute of Research

Bond Issuance in Japan by Listed Companies

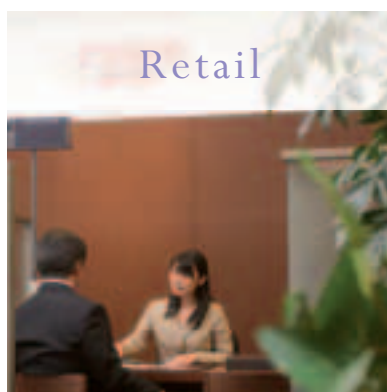


Source: “Monthly Statistics Report,” published by the Tokyo Stock Exchange, compiled by Daiwa Institute of Research

Daiwa Securities Group at a Glance

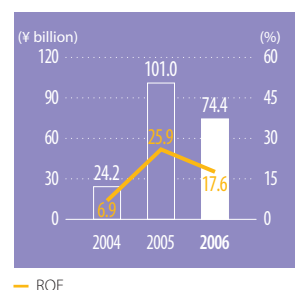
Major companies

Ordinary income



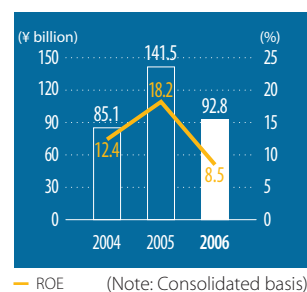
Daiwa Securities Co. Ltd.

Daiwa Securities is a wholly owned subsidiary of Daiwa Securities Group Inc., and is responsible for leading the Group's retail securities operations. The company mainly serves individual investors and unlisted companies, offering consulting and online trading, and handling a complete spectrum of financial products and services.



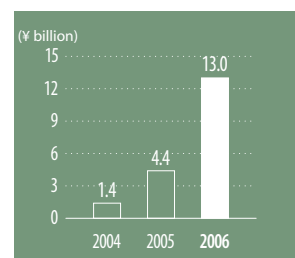
Daiwa Securities SMBC Co. Ltd.

Daiwa Securities SMBC is a joint venture between Daiwa Securities Group Inc. and the Sumitomo Mitsui Financial Group. It is the only "hybrid" wholesale securities company in Japan, bringing together the strengths of both a securities company and a commercial bank. Daiwa Securities SMBC is a market pioneer, addressing a multitude of needs from clients both in Japan and overseas.



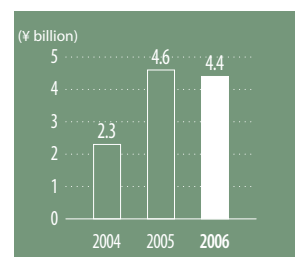
Daiwa Asset Management Co. Ltd.

Daiwa Asset Management serves as the asset management arm of the Daiwa Securities Group. It creates and manages investment trusts that encompass a broad assortment of investment targets.



Daiwa SB Investments Ltd.

Daiwa SB Investments plays a role in the asset management activities of both the Daiwa Securities Group and the Sumitomo Mitsui Financial Group. The company offers pension fund management and other asset management services to both domestic and overseas institutional investors.



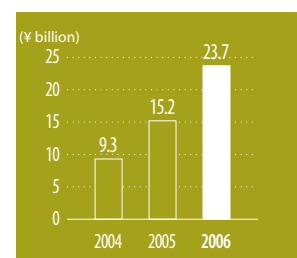
Major companies

Ordinary income



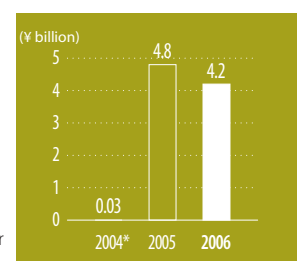
Daiwa Securities SMBC Principal Investments Co. Ltd.

Daiwa Securities SMBC Principal Investments is a wholly owned subsidiary of Daiwa Securities SMBC. The company is responsible for direct investment operations, which is one of the Group's core businesses.



NIF SMBC Ventures Co., Ltd.

NIF SMBC Ventures is a private equity investment company, which focuses largely on venture capital investments.



* FY 2004 figures are for NIF Ventures Co., Ltd.

(Note: non-consolidated basis)



Daiwa Institute of Research Ltd.

Daiwa Institute of Research serves as a general think tank and research center for the Group. The company is in charge of research, systems and other related operations.

Daiwa Securities Business Center Co., Ltd.

Daiwa Securities Business Center is a comprehensive outsourcing vendor and provider of back office services for the securities business.

Daiwa Property Co., Ltd.

Daiwa Property is a real estate company that handles the property management activities for branch offices, corporate dormitories and other buildings used by the Group. The company specializes in building new facilities and refurbishing and rebuilding existing structures.



Daiwa Securities Co. Ltd.

Business Description and Characteristics

Daiwa Securities handles the retail securities operations of the Daiwa Securities Group, offering brokerage and other services primarily to individual investors. In order to address the needs of a wide range of clients, the company has established two basic “courses” of services, each of which can be tailored to suit the individual customer with a multitude of different financial products and services.

1. The “Daiwa Consulting” Course
Sales personnel provide face-to-face consulting services with high added value.
2. The “Daiwa Direct” Course
Daiwa provides clients with extensive information, a wide range of products and highly convenient services over the Internet or by phone via a call center.

In addition to serving individual investors, Daiwa Securities’ customers also include unlisted companies, as well as financial institutions and listed corporations located in areas that are not covered by Daiwa Securities SMBC’s sales network.

Daiwa Securities derives its competitive strength from an extensive, in-house network of branch

offices and other sales channels, such as a call center and Internet-based operations. It also leverages the comprehensive resources of the Daiwa Securities Group, including quality investment information from Daiwa Institute of Research. The company tries to make optimal use of these resources to offer customers a complete lineup of services. One example of the effort to tailor services to fit each client is “Daiwa SMA (Separately Managed Account)” — a discretionary investment management service aimed at high-net-worth individuals, which offers an even higher level of customization to suit the individual’s investment needs.

Daiwa Securities is constantly looking for ways to make its products and services even more competitive, and to help each client achieve asset growth. By earning the trust of customers and stimulating the dedication of employees, Daiwa Securities aims to become “Japan’s best securities house.”

Business Environment

The domestic stock markets experienced a major correction during the first half of FY 2006. This was followed by a sudden worldwide drop in share prices at the end of February 2007. However, the markets recovered towards the fiscal year-end, with the Tokyo stock price index (TOPIX) finishing the fiscal

Financial Summary for Daiwa Securities

	(Millions of yen)		
	FY 2004	FY 2005	FY 2006
Net Operating Revenues	¥164,419	¥257,988	¥229,171
Ordinary Income	24,216	101,057	74,477
Net Income	13,863	58,174	43,468
ROE	6.9%	25.9%	17.6%

Daiwa Securities Medium-term Management Plan

Basic strategy

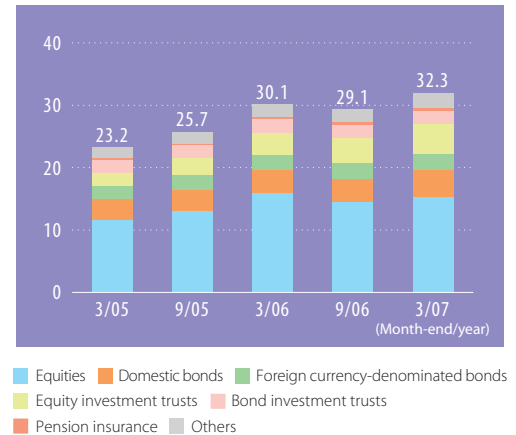
- Achieve the industry's top position in consulting, online trading and "Daiwa SMA"
- Enhance corporate business field including brokerage, investment banking, institutional business and corporate pension operations
- Make effective use of personnel by increasing number of young employees, encouraging more active contributions from women
- Upgrade facilities and infrastructure

Management targets for FY 2008

Ordinary income: ¥130 billion
Customer assets under custody:
¥45 trillion (by the end of March 2009)

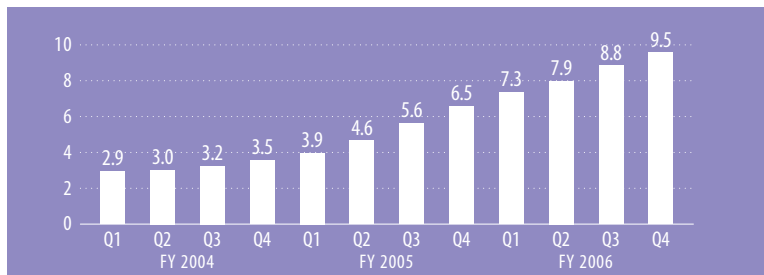
Daiwa Securities Customer Assets Under Custody

(¥ trillion)



Agency Commission Revenues from Investment Trusts

(¥ billion)



year at 1,713.61—slightly below the closing level at the end of March 2006, of 1,728.16. Average daily trading value on the Tokyo Stock Exchange rose 16% year on year, to ¥2,777.4 billion.

During the fiscal year, Japanese individuals continued to shift their assets from savings to investment despite relatively unfavorable stock market conditions. As these individual investors poured money into investment trusts in record amounts, the balance of assets in publicly offered equity investment trusts reached its highest level ever.

The long-term outlook for Japan's equity markets is bright. Major Japanese companies enjoy healthy earnings conditions, while strong demand from individuals and foreign investors is expected to support a steady rise in stock prices. Plans to introduce a fully electronic stock certificate transfer system in January 2009, and the impending retirement of "baby boomers" over the next few years, should contribute to continued favorable conditions in the retail stock brokerage business.

Earnings Results for FY 2006

In FY 2006, Daiwa Securities posted net operating revenues of ¥229.1 billion, a decline of 11% year on year. Ordinary income decreased by 26% year on year to ¥74.4 billion, and net income fell 25%, to ¥43.4 billion. ROE declined from 25.9% in FY 2005, to 17.6% in FY 2006.

The main reason for the fall in earnings was that stock markets were not as vibrant as they were in FY 2005. Small-cap markets, in particular, were affected by price corrections, and this led to a drop in brokerage commissions from individual investors. On the other hand, the balance of customer assets under custody of investment trusts rose steadily, producing a sharp increase in agency commissions. This business has become a firm revenue base for the company. As of March 2007, total customer assets under custody stood at ¥32.3 trillion. Strong sales of investment trusts contributed to the ¥2.2 trillion increase of this balance over the course of the fiscal year.

Promoting Basic Strategies

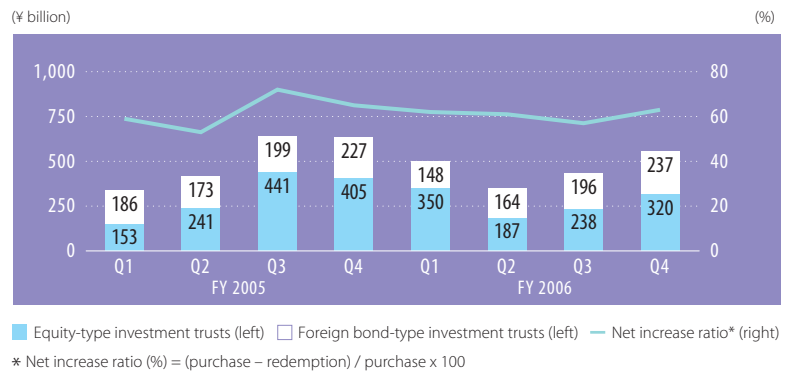
Achieving Top Results in the Industry

The prime objective of Daiwa Securities' medium-term management plan is to attain the No. 1 position in each business sector. To meet this objective, the company sets individual goals for each core business. In FY 2007, the guiding policies are as follows:

- (1) Establish a broad spectrum of products and services tailored to customers' needs, in order to increase customer assets under custody
- (2) Leverage the functions of both the branch offices and the Internet to expand the client base



Sales and Net Increase Ratio of Equity Investment Trusts



- (3) Respond to the needs of “baby-boomers,” and increase the number of clients who hold equity investment trusts
- (4) Improve asset management capability for Daiwa SMA, offer a wider range of investment styles, and introduce “fund wrap” services
- (5) Work closely with other companies in the Daiwa Securities Group to develop a wider range of investment products
- (6) Bolster the corporate business to meet a broad range of fund management and capital procurement needs

Consulting: Increasing Investment Trust Assets and Enhancing Product Lineup

Daiwa Securities views equity investment trusts as one of the most suitable investment products for individuals seeking to shift money from savings to investment. The company’s sales strategy for these products emphasizes asset gathering, which also increases assets under custody. In FY 2006, strong performance and high dividends produced a sharp increase in investment trust assets under custody, and the net increase ratio* remained at a high level.

In the market for the foreign bond-type investment trusts, the “Daiwa Global Bond Fund” has been growing rapidly since FY 2005. In December 2006 the company began offering another product—“Daiwa World Bond Fund (World Prime)” —which posted steady growth in assets. Daiwa Securities also introduced new equity-type investment trusts, which have sold well. In April 2006 it launched the “Daiwa/

Morgan Stanley World Emerging Country Stock (Sekai Shinkoukoku Kabu) Fund,” and in November it introduced a fund of funds named “Life Harmony (Daiwa Global Asset Allocation Fund).”

Since revenues from agency commissions are based on the balance of assets under custody, this business has become a stable source of income for Daiwa Securities. The large and increasing balance of investment trust assets is now generating ¥3.3 billion in agency commissions each month (as of March 2007).

In addition to investment trusts, Daiwa Securities offers clients a wide range of other products, from equities to foreign currency-denominated bonds, JGBs for individual investors, and pension insurance products. It provides these products with detailed consulting services to address a multitude of individual client needs.

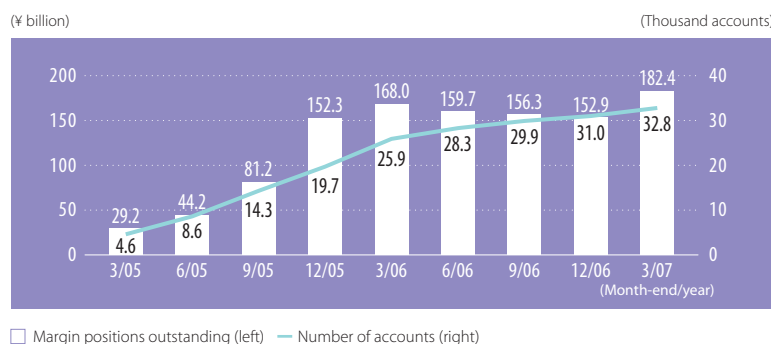
* Net increase ratio (%) = (purchase – redemption) / purchase x 100

To enhance corporate services, Daiwa Securities is working closely with Daiwa Securities SMBC in both brokerage and investment banking operations. The company is also taking steps to reinforce consulting operations in the institutional business and corporate pension fund management operations.

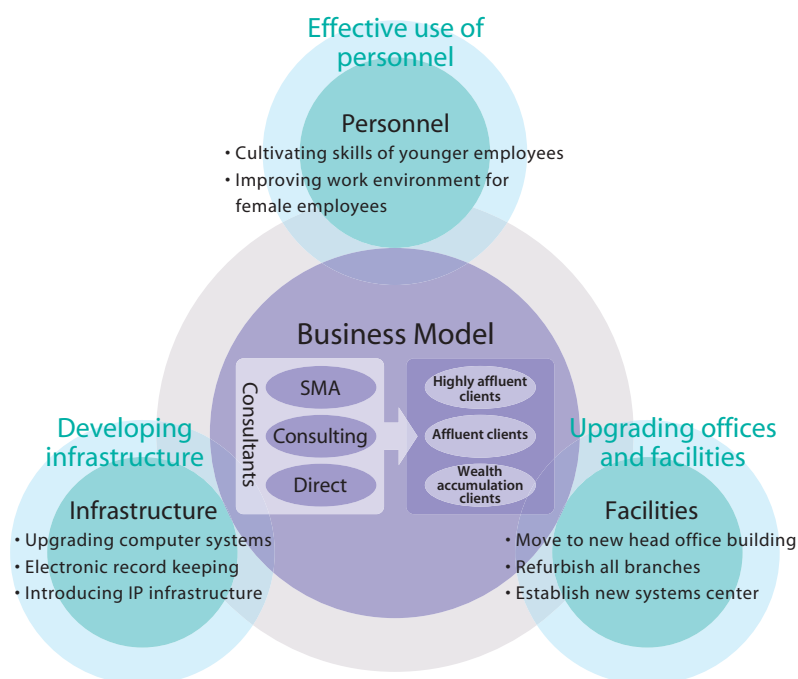
Online Trading: Earning a No. 1 Reputation Based on Convenience

Daiwa Securities operates an Internet trading business based on the theme: “Online trading, branch office support.” The idea is to use the company’s

Daiwa Direct: Accounts and Outstanding Balance of Margin Positions



Improvements to the Business Model



nationwide network of branch offices, as well as call center operations, to create synergy with the online trading business and provide levels of support and convenience that specialized online securities firms are unable to match.

In the past, online securities brokers competed mainly on the basis of price, offering low commissions. However, in FY 2006, Daiwa Securities' online service—Daiwa Direct—registered more rapid growth in the balance of outstanding margin transactions than any of the online trading specialists. This shows that online trading customers are looking for

something more than low commissions; it is now possible to compete in this market by offering other forms of added value. Of the Daiwa Direct online trading accounts opened during FY 2006, more than half were opened at branch offices, rather than via the Internet. This indicates that even in the online trading business, the Daiwa Securities Group's branch office network throughout Japan can enhance the level of convenience for customers.

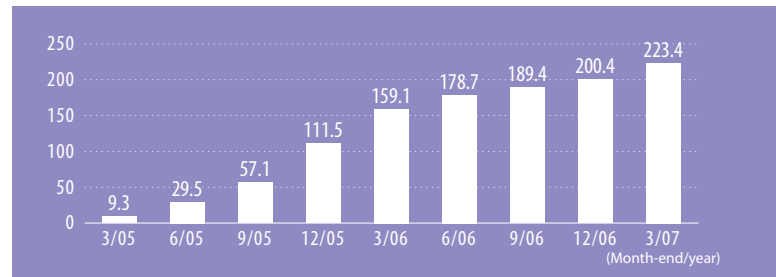
Looking at the breakdown of earnings from this business, revenues from stock trading, such as brokerage commissions and interest income from margin transactions, are not the only contributors. Fees from investment trusts and other products are also expanding their share of overall revenues. The company expects this trend to continue, as competition in the online trading business shifts from price-oriented discounting to an appeal based on service quality.

To support these trends in online trading, Daiwa Securities conducted an overhaul of its website to improve the interface and make it easier to use. In the future, the company plans to continue upgrading the services offered, to include overnight trading of Japanese stocks, real-time trading of US stocks and a wide range of products and services, to make Daiwa Direct even more convenient for online customers. Meanwhile, the company is steadily improving the synergy between online operations and branch offices, in an effort to provide services with even higher added value than the online trading specialists.



Daiwa SMA: Contract Assets Under Management

(¥ billion)



Daiwa SMA: Daiwa Securities Far Ahead of Rivals in Wrap Account* (SMA) Business

Contract assets under management of “Daiwa SMA,” the company’s wrap account service for high-net-worth individuals, reached ¥223.4 billion at the end of March 2007. Despite the minimum required investment sum of ¥50 million, the company has continued to receive high evaluations from Daiwa SMA customers since it launched this service. The dedicated and comprehensive services they receive—such as detailed consulting and reporting, as well as the performance-based fee structure—give customers a feeling of assurance that Daiwa Securities shares their goals in managing their assets. Data from the Japan Securities Investment Advisers Association shows that Daiwa SMA accounts for roughly 40% of the Japanese market for wrap account services, putting the company far ahead of its closest rivals.

Daiwa Securities is hoping to use the knowhow it has accumulated in Japan to expand its business and serve affluent individuals in other parts of Asia as well. The company has opened its first overseas office—Daiwa Wealth Management Singapore Pte. Ltd. as a first step towards marketing and product development. To meet the diverse asset management needs of customers, especially baby-boomers, Daiwa Securities is also preparing to introduce a “Fund Wrap” business with a lower minimum investment amount, and has established a Fund Wrap Department. The company plans to commence operations of this service in the latter half of FY 2007.

* Asset management service with a discretionary investment contract or an investment advisory service

Measures to Improve Personnel and Infrastructure

The company’s medium-term management plan also calls for measures to improve the caliber of personnel and company facilities. Some of the steps that Daiwa Securities has taken to promote greater contributions from employees include expanding the scope of the “President’s Award,” increasing the number of new graduates who are hired each year, promoting more women to management positions and trying to create a more stimulating work environment. These measures are helping to improve the motivation of employees.

Daiwa Securities is also improving its infrastructure and facilities; for example, the company is refurbishing its branch offices nationwide, adding a comfortable “customers’ salon” and designing service counters in a way that helps to ensure the privacy of consultations. In addition, the company is installing teleconferencing facilities in meeting rooms, setting aside areas to hold seminars for online trading, and providing other services to customers who visit the office. The company has also established a new data center, and preparations are now under way to allow it to take over as the company’s new main data center some time during FY 2007. The disaster-resistant features of this data center have been greatly improved, and the systems environment is one of the most advanced in the securities industry.

Since the new “Financial Instruments and Exchange Law” will come into effect in FY 2007, Daiwa Securities is working to establish the No. 1 compliance system in the financial industry. The company is upgrading its systems of internal control and improving employee training to ensure that compliance standards will be followed scrupulously.

Topics:

Securities-backed Loans

In August 2006, Daiwa Securities launched a new securities-backed loan business, which allows customers to obtain a loan of up to ¥5.0 billion using a wide range of securities products as collateral, including foreign currency-denominated securities. The credit check can be completed very quickly, and the borrower does not need to provide information on their reason for taking out the loan, or submit a specific repayment plan. This makes this service extremely convenient for clients who want to borrow against their securities holdings. Daiwa Securities has received a strong flow of inquiries about the new loan service, recording a particularly sharp jump in the balance of loans outstanding and the number of contracts, after it introduced Internet loan services on February 15, 2007. By the end of March 2007, the company had extended around 1,700 loans with a total outstanding balance of approximately ¥30 billion.

Enhancing Services Through Daiwa LMS

Daiwa Securities has continued to develop new products and services. In October 2006, it began offering its securities-backed loan services to corporations, and in February 2007 the company launched Daiwa Net Loan to serve customers using the Internet.

In April 2007, the company gave a collective name to its loan services—"Daiwa LMS (Loan Management Service)" which includes "Daiwa Securities-backed Loan*" and "Daiwa Net Loan." This move is expected to improve customer awareness of the services and help expand this business.

* In April 2007, the name of this service was changed to "Daiwa SAT (Stock and Trust) Loan."

Responding to the Introduction of Electronic Stock Certificates

In January 2009*¹, the stock certificates of all companies listed on Japan's stock markets will be converted to a "paperless"

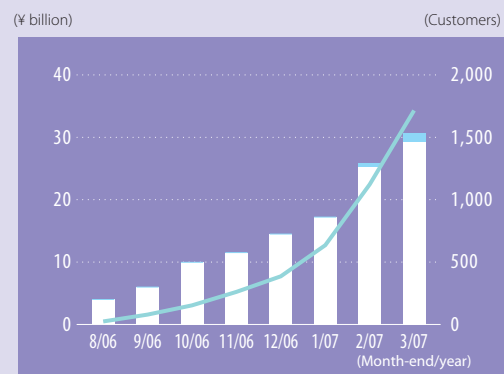
(electronic) form. It is estimated that the total number of physical stock certificates that are not kept at a securities company—including so-called "tansu-kabu" held by individuals or corporations, as well as certificates held by financial institutions as collateral—stood at roughly 47 billion*² as of the end of March 2006.

The company's securities-backed loan operations will help encourage stockholders to allow Daiwa Securities to handle custody of their stock certificates. By allowing Daiwa Securities to "hold" their stock certificates, customers can use the securities-backed loan service as a way to obtain liquidity without having to sell their stocks. As of March 2007, the total value of stock certificates deposited by customers with Daiwa Securities, as part of an application for Daiwa LMS services, stood at approximately ¥100 billion.

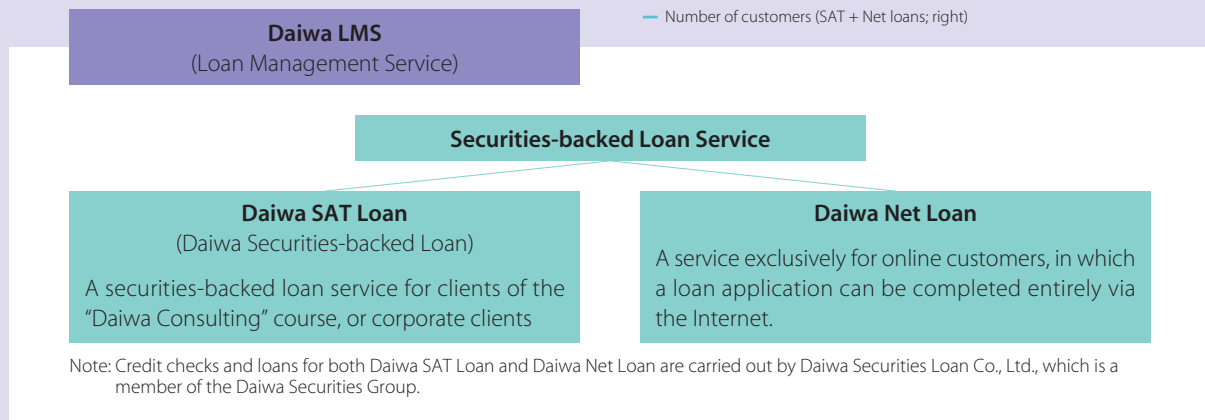
*1 Although the government has not yet set an official date for the change-over, the financial industry and major economic bodies are assuming that the implementation date will be in January 2009.

*2 Source: Japan Securities Depository Center

Daiwa LMS: Outstanding Loan Balance and Number of Customers



□ SAT loan (left) ■ Net loan (left)
— Number of customers (SAT + Net loans; right)





Daiwa Securities SMBC Co. Ltd.

Business Description and Characteristics

Daiwa Securities SMBC oversees the wholesale securities and investment banking operations of the Daiwa Securities Group, serving the needs of institutional investors, business corporations, financial institutions, and public organizations both in Japan and overseas. As we will discuss in greater detail below, Daiwa Securities SMBC plays the role of a “total partner” in corporate strategy, including services related to financing, asset management and business expansion.

1. To meet a full spectrum of client needs, Daiwa Securities SMBC’s brokerage and trading businesses offer a wide range of cutting-edge products and services in all categories of investment, from equities and bonds to advanced derivative products.
2. Daiwa Securities SMBC’s investment banking operations can help corporations determine the best solution for their financing needs, by underwriting stock and bond issues, handling initial public offerings (IPOs), and offering structured finance and M&A advisory services.

Daiwa Securities SMBC is a joint venture between the Daiwa Securities Group, which owns a 60% stake, and the Sumitomo Mitsui Financial Group (SMFG), which holds a 40% share. This makes Daiwa Securities SMBC unique—being Japan’s only “hybrid”

wholesale securities company—merging the strengths of a megabank with those of a top securities group. Not only does it have access to the extensive customer bases of both groups; it can also leverage the experience and knowhow that the Daiwa Securities Group has accumulated in the financial markets to generate the maximum synergy between banking and securities abilities. Ties to its two parent companies also allow Daiwa Securities SMBC to offer a broader range of solutions and explore new ways of providing value to client companies. These services and capabilities are helping to make Daiwa Securities SMBC “Japan’s best investment bank.”

Business Environment

Corporate earnings in Japan remained vibrant in FY 2006, with ordinary income of Japan’s top 300 companies rising for a fifth consecutive year*. The favorable business conditions prompted many leading companies to turn to the financial markets for funding in an effort to expand their operations further, or to accelerate business restructuring through mergers and acquisitions.

* Based on data from Daiwa Institute of Research: 300 leading business corporations listed on the Tokyo Stock Exchange First Section

Consolidated Financial Summary for Daiwa Securities SMBC

	(Millions of yen)		
	FY 2004	FY 2005	FY 2006
Net Operating Revenues	¥222,390	¥311,568	¥260,700
Ordinary Income	85,176	141,582	92,866
Net Income	54,034	91,883	51,945
ROE	12.4%	18.2%	8.5%

Daiwa Securities SMBC Medium-term Management Plan

Basic strategy

- Elevate the absolute revenue base
- Use ties to Daiwa Securities and Sumitomo Mitsui Banking Corporation (SMBC) to develop a broader, well-balanced client base
- Enhance origination capabilities

Management targets for FY 2008

Consolidated ordinary income:
¥190 billion*¹

No. 1 position in league tables*²

*¹ Including ordinary income from Daiwa Securities SMBC Principal Investments

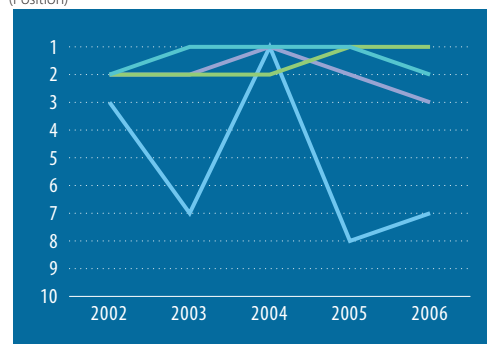
*² League tables for total debt, total equity and M&A

M&A activity was particularly brisk. The total number of mergers and acquisitions conducted over the course of the year has been rising steadily since 2000, and though the pace of growth slowed in 2006, the range of M&A activity was remarkably broad, including small and medium-sized firms as well as major companies. Clearly, mergers and acquisitions are becoming a central element of business strategies of Japanese corporations.

In the domestic equity markets, trading value has increased more than three-fold over the past four years, and foreign institutional investors are increasing their activity in Japan's stock market to levels

Daiwa Securities SMBC's Performance in Major League Tables

(Position)



— Total corporate bonds (straight corporate bonds and agency bonds; fiscal year basis) — Initial public offerings (IPOs; fiscal year basis)
— Primary and secondary equity offerings (fiscal year basis)
— M&A (calendar year basis; transaction value)

Sources: League table results for "Total corporate bonds," "IPOs" and "Primary and secondary equity offerings" are provided by Daiwa Securities SMBC; results for "M&A" are from THOMSON FINANCIAL.

never seen before. In February 2007, foreign investors posted a record high of ¥53.8 trillion in equities trading value. In the wholesale securities business, Daiwa Securities SMBC is working to develop comprehensive solutions which can effectively match the capital procurement needs of corporations to the fund management needs of investors.

Earnings Results for FY 2006

In FY 2006, Daiwa Securities SMBC posted ¥260.7 billion in consolidated net operating revenues, a decline of 16% year on year. Ordinary income fell 34% from the previous year to ¥92.8 billion, and net income declined 43% to ¥51.9 billion. ROE weakened to 8.5%, compared with 18.2% in FY 2005.

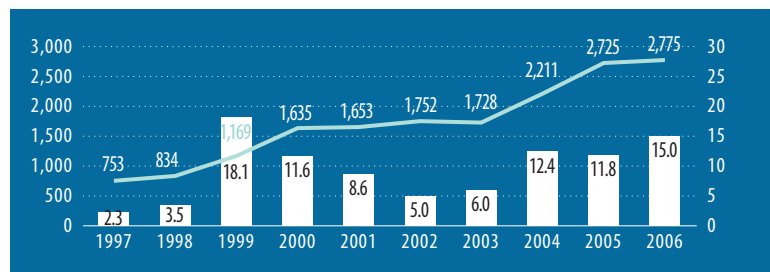
Total commissions from the investment banking business declined 4% year on year to ¥106.5 billion, despite the fact that the company handled an increasing number of M&A deals and lead managed a large number of IPOs. This was mainly due to a decline in the number of large-scale primary and secondary offerings, compared with FY 2005. Furthermore, a major decline in the number of clients using our Structured Principal Solution (SPS) Program*, and the absence of much market volatility over the course of the fiscal year, caused trading revenues to drop 34% year on year to ¥116.6 billion.

* A type of fund procurement scheme, in which Daiwa Securities SMBC underwrites a company's CB or similar product, and converts them to equities in such a way that will not cause a major impact on the secondary market.

Growth in the M&A market

(Number of deals)

(¥ trillion)



□ Total value of M&A deals (disclosed basis) (right) — Number of M&A deals (left)

Source: RECOF Corporation

Daiwa Securities SMBC's Position in the Major League Tables in FY 2006

	Total debt		Total equity		M&A (transaction value)		M&A (number of deals)	
	FY 2006 rank	Share	FY 2006 rank	Share	CY 2006 rank	Share	CY 2006 rank	Share
1st	Daiwa Sec. SMBC	18.3%	Nomura	38.5%	Goldman Sachs	32.4%	Nomura	5.2%
2 nd	Mizuho	18.3%	Nikko Citigroup	16.8%	UBS	21.8%	Mitsubishi UFJ	4.4%
3 rd	Mitsubishi UFJ	16.1%	Daiwa Sec. SMBC	14.3%	Merrill Lynch	19.5%	Daiwa Sec. SMBC	4.4%
4 th	Nomura	10.6%	Mizuho	7.5%	Citigroup	19.1%	Mizuho Financial Group	4.2%
5 th	Nikko Citigroup	6.6%	Goldman Sachs	6.0%	Nomura	18.7%	Nikko Cordial	2.4%
Other					Daiwa Sec. SMBC (7 th)	14.6%		

Sources: League table results for "Total debt" and "Total equity" are provided by Daiwa Securities SMBC; results for "M&A" are from THOMSON FINANCIAL.

Securing the Top Position in Major League Tables

The industry league tables provide clear evidence of Daiwa Securities SMBC's competitive position in the investment banking business. Daiwa Securities SMBC aims to earn the number one ranking in the league tables for total debt, total equity, and M&A.

In FY 2006, Daiwa Securities SMBC claimed the top position in the league table for total debt—a category that includes straight corporate bonds, agency bonds, yen-denominated foreign bonds and asset-backed securities^{*1}. Daiwa Securities SMBC served as the lead manager for several large-scale underwriting deals, including a ¥150.0 billion corporate bond issue by the Tokyo Electric Power Company, a ¥100.0 billion agency bond issue by the Japan Bank for International Cooperation, and an ¥85.0 billion "samurai bond" (yen-denominated foreign bond) issued by the government of Poland. Daiwa Securities SMBC also held the number one position in the ranking of successful bidders for Japanese Government Bonds (JGBs).

In the league table for total equity, which includes public offerings (POs), initial public offerings (IPOs), domestic convertible bonds (CBs), foreign equities, foreign CBs, SPS Program financing and REITs, Daiwa Securities SMBC earned a third place ranking in FY 2006. Daiwa Securities SMBC handled a ¥206.3 billion primary offering by AEON, and a ¥96.9 billion secondary offering by Matsushita Electric Industrial. In the IPO market, Daiwa Securities SMBC handled a ¥124.0 billion listing by Accordia Golf and a ¥120.4 billion IPO by Idemitsu Kosan. In fact, Daiwa Securities SMBC ranked number one in the league table for IPOs alone.

In the M&A business, Daiwa Securities SMBC served as an advisor in a number of large-scale deals, including the merger between Hanshin Electric Railway and Hankyu Holdings, as well as Nissin Food Products' acquisition of Myojo Foods, Yamazaki Baking's acquisition of Tohato, and the management buyout of Q'SAI. On a calendar year basis, Daiwa Securities SMBC ranked third in its share^{*2} of the number of M&A deals conducted in 2006, and seventh based on the total value of merger advisory contracts.

These achievements earned Daiwa Securities SMBC the top honor among Japanese investment banks. It was selected as "House of the Year" in the "DealWatch Awards 2006" by THOMSON FINANCIAL in the overall investment banking business—the first time it has ever won this award.

^{*1} Securities backed by real estate, accounts receivable, or other assets.

^{*2} Announced on January 5, 2007, by THOMSON FINANCIAL

Promoting Basic Strategies

As companies in Japan become more active in the capital markets, both raising funds and pursuing strategic mergers or acquisitions, the needs of both the companies themselves and investors have become increasingly complex and diverse. Wholesale securities houses are no longer able to address these needs fully with conventional financial products and services.

In the investment banking sector, it is not enough to simply help clients raise funds and meet the traditional management goals and credit ratings. Today, an investment bank must possess the broad capabilities to help develop integrated business solutions, which include activities such as M&A deals and management buyouts.

Major Deals in FY 2006

Primary and secondary equity offerings	AEON (primary; ¥206.3 billion), Matsushita Electric Industrial (secondary; ¥96.9 billion), Konica Minolta Holdings (overseas CB; ¥70.0 billion), SUMCO (primary; ¥66.6 billion)
IPOs	Accordia Golf (¥124.0 billion), Idemitsu Kosan (¥120.4 billion), Takata (¥98.4 billion), SRI Sports (¥21.9 billion)
Corporate straight bonds	SMBC (¥270.0 billion), Tokyo Electric Power Company (¥150.0 billion), ORIX Corporation (¥125.0 billion), Sumitomo Trust & Banking (subordinated bond; ¥70.0 billion), Tohoku Electric Power (¥60.0 billion), Kao Corporation (¥50.0 billion), Toshiba Corporation (¥50.0 billion)
Agency bonds	Japan Expressway Holding and Debt Repayment Agency (¥200.0 billion), Japan Bank for International Cooperation (¥100.0 billion), National Life Finance Corporation (¥100.0 billion), Japan Finance Corporation for Municipal Enterprises (¥80.0 billion), Japan Student Services Organization (¥80.0 billion), Development Bank of Japan (¥65.0 billion)
Structured finance	Series 12 RMBS issued by SMBC (issue & underwriting: ¥146.0 billion each), Secured pass-through bonds No. S-8 issued by the Government Housing Loan Corporation (issue: ¥250.0 billion; underwriting: ¥73.5 billion), J-REIT IPO issued by Nippon Commercial Investment Corporation (issue: ¥120.8 billion; underwriting: ¥85.4 billion)
M&As	Joint advisor to Nippon Sheet Glass (with Lazard and UBS) in its friendly acquisition of Pilkington, a leading glass manufacturer in the UK; Hanshin Electric Railway's advisor in Hankyu Holdings' tender offer for the company; advisor to Yamazaki Baking in their acquisition of confectioner Tohato (which was in reorganization) and capital increase for Fujiya; advisor to AEON in their acquisition of a stake in Daiei and Maruetsu.
Public Offering Without Listing (POWL)	Telstra Corporation (approx. ¥40.4 billion), Bank of China (approx. ¥34.4 billion), The Industrial and Commercial Bank of China (approx. ¥24.8 billion), China Merchants Bank (approx. ¥7.8 billion)

In the brokerage business, meanwhile, the client base is expanding and diversifying, to include everyone from domestic institutional investors to hedge funds, and the asset management needs of each client are becoming more sophisticated. To address these changes, Daiwa Securities SMBC deals not only in conventional securities sales and trading; it also handles various credit-related products, high-yield bonds, emerging market investments, derivatives, and a multitude of other financial instruments.

Daiwa Securities SMBC believes that the continued effort to address clients' needs will allow it to meet its basic strategic goals under the current medium-term management plan. In line with its basic goal of raising the absolute revenue base, Daiwa Securities SMBC will focus on the following issues in FY 2007:

- (1) Strengthen overseas operations, centered on Asia
- (2) Expand support for cross-border M&A activities by Japanese companies
- (3) Upgrade origination capabilities through cooperation among business units
- (4) Reinforce the sales structure and develop a full line of products including credit-related products, loans and funds
- (5) Enhance trading capabilities and strengthen derivatives trading capabilities

Trading Operations

In order to increase revenues from its trading operations significantly in FY 2007, Daiwa Securities SMBC has made major improvements to its organizational structure. It has merged the former bond and investment trust divisions to form the Fixed Income, Currency and Commodities (FICC) Department. In addition to bonds, which were formerly the main focus of operations, this department will begin handling a wider range of financial products including currencies and commodities. Daiwa Securities SMBC is strengthening its derivative trading capabilities to include credit and commodity-related instruments, and developing a full lineup of credit products, structured products, loans and funds.



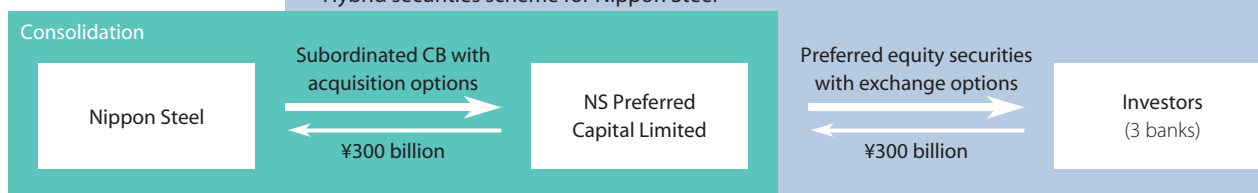
Topics: Nippon Steel employs a new hybrid securities scheme

As part of its drive to become “Japan’s best investment bank,” Daiwa Securities SMBC is working to develop advanced financial solutions that are ideally suited to the clients’ business strategies and financial conditions. In FY 2006, it served as the advisor to Nippon Steel Corporation, proposing a new hybrid securities solution that allowed Nippon Steel to raise ¥300 billion in capital.

Using its extensive dealing knowhow, Daiwa Securities SMBC began studying and testing this type of hybrid securities scheme several years ago, developing the first such financing scheme in Japan. Detailed discussions with credit rating agencies helped to ensure that the securities would receive a credit rating as high as capital. Furthermore, the conversion price was set at roughly 50% higher than the then-current market price, and the use of treasury stock was considered, to keep the dilution impact to a minimum.

Daiwa Securities SMBC’s proposal received very high marks from Nippon Steel, and the Daiwa Securities Group was able to win an equity financing advisory contract from Nippon Steel for the first time in 16 years. The hybrid securities scheme allowed Nippon Steel to raise ¥300 billion in funds, making it one of the largest financing packages ever issued by a non-financial corporation in the world.

Hybrid securities scheme for Nippon Steel



In the equity division, Daiwa Securities SMBC is working to expand its customer base among overseas institutional investors and establish a network that can handle a greater order flow. In particular, it is strengthening its execution capabilities to support increasing business with hedge funds, and improving investment capabilities on its own account. To address the rising interest of overseas institutional investors in Asian stocks, Daiwa Securities SMBC is bolstering its Asian stock trading capabilities, increasing research coverage in the region, and expanding the range of equities managed, particularly in Asia. The company aims to steadily expand its business through these measures.

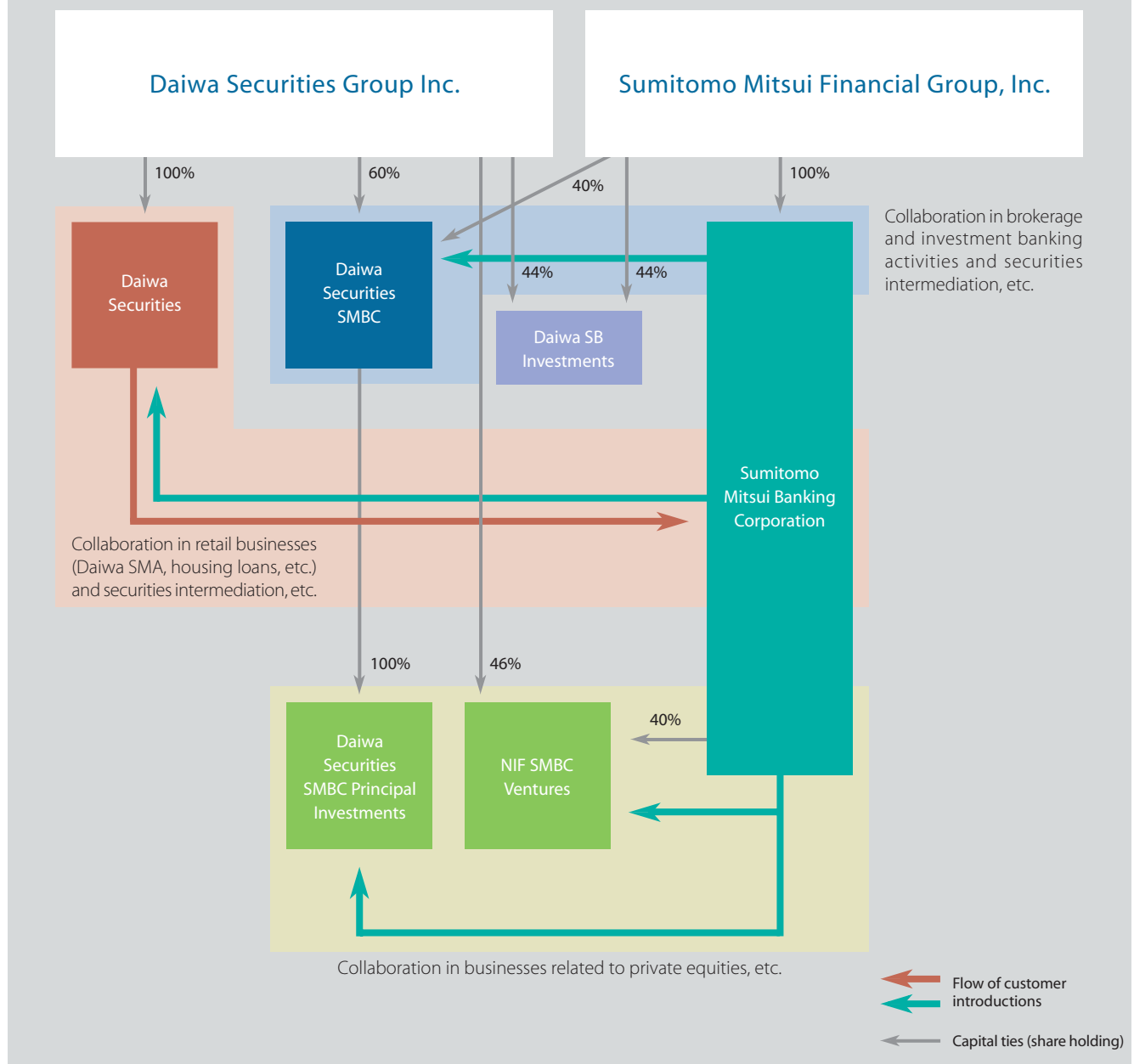
Investment Banking Operations

Daiwa Securities SMBC has been promoting closer cooperation with Sumitomo Mitsui Banking Corporation, expanding its overseas M&A operations and thus bolstering its ability to provide comprehensive solutions to corporate customers. These efforts are aimed at earning Daiwa Securities SMBC the top position in investment banking league tables for total debt, total equity, and M&A.

In the M&A business, an increasing number of mergers these days involve two successful companies, or companies seeking opportunities for a cross-border merger to boost their global market share. In addition, management buyouts are likely to become more common among companies seeking to restructure or acquire full control of the business. To respond to this trend, Daiwa Securities SMBC has established a Transaction Advisory Department in order to enhance its ability to make effective proposals for mergers and MBOs. Going forward, it will also strengthen marketing activities at overseas branches to better identify possible M&A deals, and thus meet the increasingly sophisticated needs of clients more effectively.

Daiwa Securities SMBC is looking for ways to improve its ability to support cross-border mergers and acquisitions. It is studying possible business alliances, including the purchase of “boutique”-type investment banking firms in the US and Europe. One step in this direction was completed on April 27, 2007, when Daiwa Securities SMBC and the Daiwa Securities Group’s wholly owned subsidiary, Daiwa

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



America Corporation (DAC), established a business and capital alliance with Sagent Advisors Inc., a US-based independent investment bank that specializes in M&A advisory operations. This agreement will allow Daiwa Securities SMBC to better address the needs of clients seeking to conduct a cross-border merger between Japan and the US. As part of this

alliance Daiwa Securities America Inc., a wholly owned subsidiary of DAC, will transfer its entire M&A team to Sagent, thus consolidating the Daiwa Securities Group's M&A advisory operations in the US at Sagent. This will allow the Daiwa Securities Group to fully utilize the investment banking resources of Sagent.



Asset Management

Daiwa Asset Management Co. Ltd.

Business Description and Characteristics

Daiwa Asset Management is responsible for the Daiwa Securities Group's asset management operations, investing in a full spectrum of products ranging from domestic and foreign stocks and bonds to derivatives and alternative investments. Daiwa Asset Management uses many different asset management models to set up and manage investment trusts of varying types, which are then marketed to investors through a multitude of sales channels. In addition to Daiwa Securities and Daiwa Securities SMBC, these funds are also sold through banks and post offices, while many client companies entrust Daiwa Asset Management with their defined contribution pension funds (so-called "Japanese 401k plans").

The company operates some of the top investment trusts in Japan, including the Daiwa Global Bond Fund, which had ¥1.6 trillion in assets under management as of the end of March 2007, and the Daiwa Eco Fund, one of the largest investment funds in Japan specializing in socially responsible investment (SRI). The company provides a diverse selection of different funds, and helps investors with their asset management and wealth accumulation needs. As

Daiwa Asset Management takes steps to improve its asset management structure, its sales support system and its product lineup, the company is steadily progressing towards its goal of becoming "Japan's best asset management company."

Business Environment

During FY 2006, the market for investment trusts benefited from the abundant demand which is emerging as Japanese individuals continue to shift their assets from savings to investment. The assets under management in publicly offered equity investment trusts has been rising rapidly, continuously setting new record highs. This trend was not even interrupted by the global stock price correction which took place at the end of February 2007; assets continued to flow into the Japanese market, raising the balance of assets held in equity investment trusts to ¥59.4 trillion at the end of March 2007. Estimates place the total value of assets held by individuals in Japan at ¥1,536 trillion. Based on that estimate, investment trusts increased their share of total individuals' assets from 3.6% at the end of March 2006 to 4.5% at the end of March 2007.

Financial Summary for Daiwa Asset Management

	(Millions of yen)		
	FY 2004	FY 2005	FY 2006
Operating Revenues	¥19,316	¥31,374	¥58,933
Ordinary Income	1,490	4,435	13,015
Net Income	1,220	3,051	8,659

Asset Management Medium-term Management Plan

Basic strategy

Daiwa Asset Management Co. Ltd.

- Increase equity investment trust assets under management
- Reinforce customer support and distribution channels via banks
- Upgrade product development capabilities
- Make further improvements to management capabilities

Daiwa SB Investments Ltd.

- Enhance management capabilities
- Develop a diverse lineup of products for domestic pension funds
- Expand into overseas markets
- Improve ability to market equity investment trusts

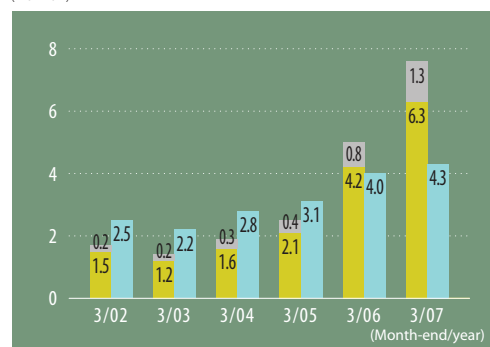
Management targets for FY 2008*

Ordinary income: ¥30 billion (previous target: ¥21 billion)
 Equity investment trust assets under management: ¥14 trillion (previous target: ¥11 trillion)
 Investment advisory assets under management: ¥5 trillion

* Target figures are the sum of assets at Daiwa Asset Management and Daiwa SB Investments

Assets Under Management of Equity Investment Trusts and Investment Advisory at Daiwa

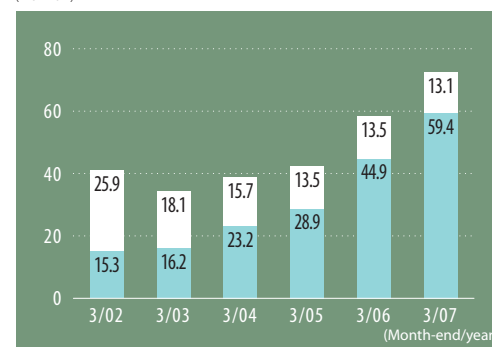
(¥ trillion)



■ Equity investment trusts at Daiwa Asset Management
 ■ Equity investment trusts at Daiwa SB Investments
 ■ Investment advisory at Daiwa SB Investments

Assets Under Management of Equity Investment Trusts in Japan

(¥ trillion)



■ Equity investment trusts ■ Bond investment trusts

As Japan's baby boom generation begin to retire over the coming years, many will need to decide what to do with the large lump sum they receive as a retirement bonus, as well as how to manage their pension fund assets. These needs are likely to drive continued growth in the market for investment trusts. To make the most of this market opportunity, asset management companies will need to bolster their product development capabilities as well as their track record for fund management, in addition to their ability to explain these products thoroughly and effectively to customers.

Earnings Results for FY 2006

In FY 2006, a rapid increase in equity investment trust assets under management generated a surge in management fees. As a result, operating revenues grew 88% year on year to ¥58.9 billion, and ordinary income tripled to ¥13.0 billion, surpassing the previous record high set in FY 1989. The assets under management in publicly offered investment trusts rose to ¥9,666.2 billion as of the end of March 2007, an increase of 28% from ¥7,574.3 billion at the end of March 2006.

Daiwa Asset Management: Major Investment Trusts Launched in FY 2006

	Fund Name	Launch Date	Launch Amount (¥ billion)
Q1	Daiwa/Morgan Stanley World Emerging Country Stock Fund	April 2006	147.8
	Daiwa Financial Industry New Frontier Fund	May 2006	54.3
Q2	Daiwa Emerging Company Stock Fund	July 2006	43.5
	Daiwa Technology Oriented Nation Fund	August 2006	46.5
Q3	Daiwa/Black Rock Resource Energy Fund	November 2006	18.5
	Life Harmony (Daiwa Global Asset Allocation Fund)	November 2006	Total for three types: 72.3
Q4	Daiwa M&A Chance 2007 Fund	March 2007	16.5

Daiwa Asset Management is focusing its energies on the effort to increase the assets in publicly offered equity investment trusts. This is reflected in the 51% year-on-year increase in net assets of these funds, to ¥6,388.3 billion as of March 2007. This includes a dramatic jump in assets under management of the Daiwa Global Bond Fund, a monthly dividend-type fund which invests in foreign bonds. At the end of March 2007, the fund had ¥1,656.9 billion in total assets under management. In November 2006, the company launched Life Harmony (Daiwa Global Asset Allocation Fund), a fund with three types of asset allocation policies: one aims for principal growth, one seeks stability, and one emphasizes dividend income. By the end of March 2007, assets under management of this fund had already grown to ¥194.8 billion. Another fund which the company launched in April 2006—the Daiwa/Morgan Stanley World Emerging Country Stock (*Sekai Shinkoukoku Kabu*) Fund—accumulated ¥166.3 billion in assets by the end of March 2007.

Promoting Basic Strategies

Daiwa Asset Management aims to become “Japan’s best asset management company.” As part of its medium-term management plan, the company initially adopted the goal of increasing the assets of publicly offered equity investment trusts to over ¥8.5 trillion by the end of March 2009. However, growth in the domestic market for investment trusts grew far more rapidly in FY 2006 than the company anticipated. To reflect the more favorable market conditions, it increased the target amount to ¥11.5 trillion.

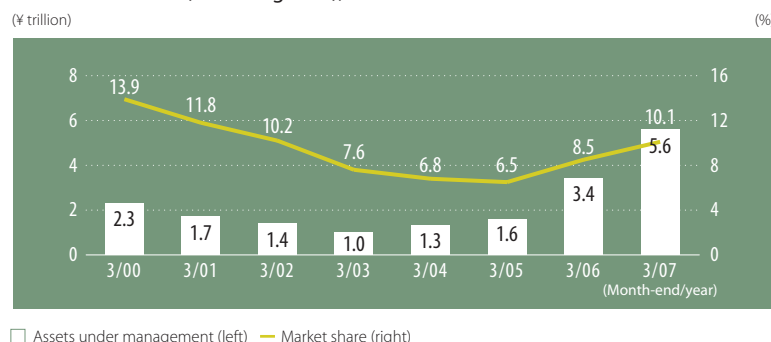
During FY 2007, the company intends to accelerate its progress towards the goals laid out in the medium-term management plan, and has adopted the following three policies to help it reach these goals:

- (1) Strengthen management capabilities in overseas markets, particularly in Asia, and expand the range of funds offered
- (2) Enhance marketing efforts for each of the leading sales channels
- (3) Improve marketing research to help develop major products that meet clients’ needs

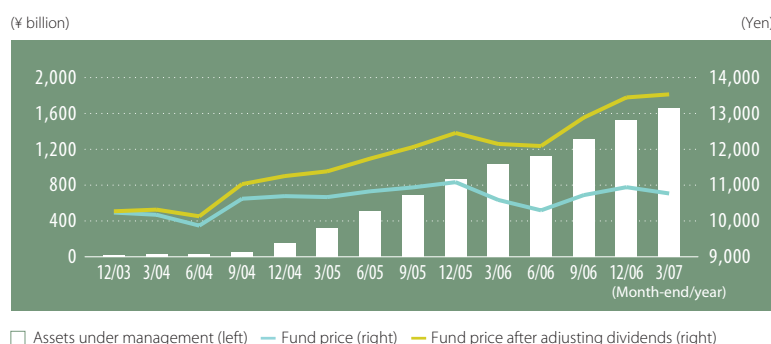
Product Strategy

Daiwa Asset Management plans to improve its product development capabilities in order to increase both the number and the quality of the investment trusts that it manages. During FY 2006, the company launched a number of new funds tailored to meet customer needs. In April 2006, for example, Daiwa Asset Management launched the Daiwa/Morgan Stanley World Emerging Country Stock Fund, in an effort to tap into recent investor interest in emerging economies. At the time, this product was the third-largest fund ever to be launched (¥147.8 billion). By the end of March 2007, assets under management of this fund had risen to ¥166.3 billion. The company also launched several new funds that invest in Japanese equities. In May 2006 it introduced the Daiwa Financial Industry New Frontier Fund, with initial assets of ¥54.3 billion, and followed this up with the Daiwa Emerging Company Stock Fund, in July (¥43.5 billion) and the Daiwa Technology Oriented Nation Fund in August (¥46.5 billion).

Daiwa Asset Management: Assets Under Management of Publicly Offered Equity Investment Trusts (Excluding ETFs), and Market Share



Daiwa Global Bond Fund: Fund Price and Assets Under Management



In November 2006, the company also launched Life Harmony (Daiwa Global Asset Allocation Fund), with initial assets of ¥72.3 billion (total of three investment types). This was the first “fund of funds” to be supported by the investment advisory services of Daiwa Fund Consulting, a newly established fund evaluation and advisory company. By the end of March 2007, Life Harmony had attracted a total of ¥194.8 billion in assets under management.

Daiwa Asset Management has set the goal of raising its share of the domestic market for publicly offered equity investment funds (excluding ETFs) to over 10%. As of the end of March 2007, the company’s share stood at 10.1%.

In FY 2007, the company plans to continue improving its market research, develop new funds with particular focus on Asian markets, and continue working to launch major investment trusts that match the needs of customers. Meanwhile, the

company intends to continue marketing its popular existing products, such as the Daiwa World Bond Fund (World Prime), Life Harmony, Resona Global Asset Allocation Fund, and Daiwa Global REIT Open, to increase assets under management and raise the number of large-scale funds in the company’s product lineup.

Marketing Strategy

To draw on the accelerating shift in individuals’ assets from savings to investment and increase assets under management in the company’s investment trusts, Daiwa Asset Management will need to strengthen all of its marketing channels. Therefore, it will be important for the company to provide sales support, not only to Daiwa Securities and other members of the Daiwa Securities Group, but to all companies that sell and distribute its investment trust products.

Topics:**Daiwa Fund Consulting Co. Ltd.**

As part of the effort to meet the targets set in its medium-term management plan for the asset management business, which the Group views as one of its core businesses, the Daiwa Securities Group established a new subsidiary named Daiwa Fund Consulting on July 25, 2006. Daiwa Fund Consulting is a spin-off of the former fund evaluation division of Daiwa Institute of Research. The company has extensive knowhow in evaluating and analyzing investment trusts, consulting on pension fund management and offering investment advice to fund managers handling “fund of funds” products. Its first advisory contract for a “fund of funds” product came in November 2006, when the company supported advice in the launch of Life Harmony (Daiwa Global Asset Allocation Fund) managed by Daiwa Asset Management.

Daiwa Fund Consulting will continue to offer investment advisory services in support of the Group's efforts to expand its lineup of investment trust products. The company is also developing strong relationships with overseas hedge funds to improve its ability to collect information, and to lay the groundwork for “fund of hedge funds,” which it is working aggressively to develop.

Daiwa Asset Management is making particularly strong efforts to promote sales through its bank sales channel. As part of this initiative, it provides sales support by dispatching specialized female staff members (presenters) to banks that sell its investment trusts, to give seminars to the bank staff or to prospective customers. These efforts are bearing fruit in rising sales of the company's investment trusts via banks. One particular success has been the company's joint effort with Resona Bank to develop the Resona Global Asset Allocation Fund. As of March 2007, this fund had already attracted close to ¥600 billion in net assets.

In FY 2007, the company plans to offer funds that are specifically designed to match the characteristics of the sales channel, and in various other ways, to provide finely tuned support for sales activities. In response to the new Financial Instruments and Exchange Law, Daiwa Asset Management will step up efforts to explain products fully—including the risks involved—to prospective customers. To fulfill its obligation as an asset management company, and ensure that investors do understand the products they are purchasing, the company is developing easy-to-understand materials and tools to explain each product.

Enhancing Management Capabilities

Management skills are naturally the most important element of an asset management company's competitiveness. Daiwa Asset Management employs roughly 30 analysts and strategists and approximately 50 fund managers, giving it one of the strongest fund management teams in the industry.

In FY 2007, the company will work to improve cooperation with Daiwa Fund Consulting and enhance its ability to develop “fund of funds” products. Meanwhile, in response to sky-high interest in Asian stocks among individual investors, the company plans to solidify its in-house fund management structure in the region and develop a broader lineup of products to address this demand. Furthermore, the company is developing a global fund management approach, through cooperation with fund management companies in emerging markets.



Daiwa SB Investments Ltd.

Business Description and Characteristics

Daiwa SB Investments handles asset management operations for the Daiwa Securities Group and the Sumitomo Mitsui Financial Group, offering investment advisory services and investment trust management services. The company provides these fund management services not only to institutional investors, such as domestic and overseas pension funds, but also to many individual investors. The company has a business alliance with the major US-based mutual fund company, T. Rowe Price Group, giving its fund management and research operations a global reach.

Securities investment advisory services are Daiwa SB Investments' forte, accounting for 70% of assets under management, and pension fund management is a particular area of strength. The company consistently earns recognition as a top-class fund manager in overall evaluations of pension fund management ability, according to the "Newsletter on Pensions and Investments" published by Rating & Investment Information (R&I). Daiwa SB Investments is the only fund management institution in Japan to be selected by Japan Post to manage the Japanese equity component of both its postal savings and postal life insurance funds. The company has extensive experience in managing overseas pension funds as well.

Daiwa SB Investments has adopted the slogan "Top in Quality" to express its corporate vision, and aims to be a world-class, high-quality asset management company that can represent Japan on the world stage. The company is steadily upgrading its services in order to meet this objective.

Business Environment

The healthy domestic economy and relatively strong stock market conditions have supported the Japanese asset management industry, while changes to the structure of many pension funds and a large inflow of foreign capital, including "oil money," added to the favorable conditions. In addition, individual investors have been shifting their assets steadily into higher-risk, higher-return investments. These factors combined to drive rapid market growth, and raise assets and earnings in the industry to their highest levels ever.

On the other hand, overseas fund management companies have entered the market as fund management operations grow more global, and this has intensified competition. To succeed in this more competitive environment, fund management firms not only need to show concrete results; they also must back up their appeal with clearly unique abilities and services.

Financial Summary for Daiwa SB Investments

	(Millions of yen)		
	FY 2004	FY 2005	FY 2006
Operating Revenues	¥11,888	¥16,247	¥19,476
Ordinary Income	2,381	4,613	4,407
Net Income	1,434	2,752	2,695



Earnings Results for FY 2006

In FY 2006, Daiwa SB Investments registered ¥19.4 billion in operating revenues, an increase of 20% year on year. Ordinary income, however, declined by 4% year on year to ¥4.4 billion, and net income was down 2% to ¥2.6 billion.

At the end of March 2007, the company had ¥6,108.9 billion in assets under management, a 17% increase from the ¥5,221.6 billion at the end of March 2006. Of this total, assets in the investment advisory business rose by 7%, from ¥4,070.1 billion in March 2006 to ¥4,374.8 billion in March 2007. Assets under management of investment trusts, on the other hand, leapt 51% year on year, from ¥1,151.5 billion in March 2006 to ¥1,734.1 billion in March 2007. This reflects the success of investment trust products such as the Global High Dividend Equity Open Fund (net assets stood at ¥472.0 billion in March 2007) and the Japan High Dividend Equity Open Fund (¥147.0 billion in March 2007), which have achieved steady growth by addressing demand from individual investors for products with a high dividend payout. In March 2007, the company launched the Asia High Dividend Equity Fund, which attracted ¥155.5 billion in assets by the end of the month. Meanwhile, large investments from overseas clients have increased assets in the investment advisory business.

Promoting Basic Strategies

As part of the medium-term management plan, Daiwa SB Investments aims to increase assets in domestic pension funds and overseas fund management accounts to over ¥4.4 trillion by the end of March 2009, and raise assets under management of equity investment trusts (including corporate investment advisory accounts) to over ¥2.9 trillion. To meet these goals, the company is working to develop high-quality fund management capabilities and enhance its ability to develop new products and services. The company's three primary objectives for FY 2007 are the following:

- (1) Improve fund management skills and expand the range of domestic pension fund products
- (2) Develop business among overseas clients, particularly for Japanese equities
- (3) Step up marketing of equity investment trusts

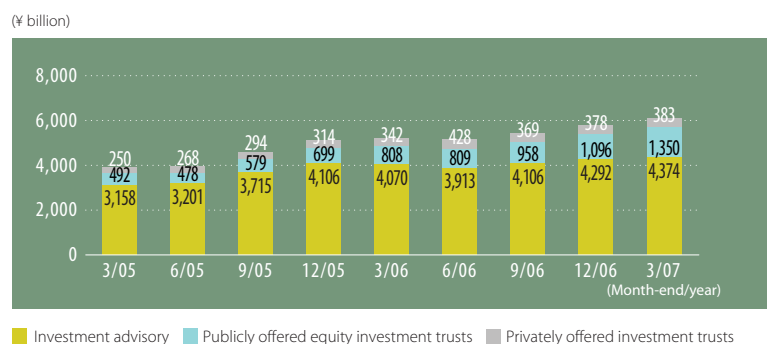
Diversifying the Range of Products

In order to raise its position in the pension fund market, Daiwa SB Investments is expanding the scope of its fund management activities beyond Japanese equities to include bond-based products and alternative investment products. These efforts are expected to increase assets under management of domestic pension funds.

Daiwa SB Investments: Major Investment Trusts Launched in FY 2006

	Fund Name	Launch Date	Launch Amount (¥ billion)
Q2	Global Best Fund	September 2006	33.7
Q4	Asia High Dividend Equity Fund	March 2007	146.8

Daiwa SB Investments: Trends in Assets Under Management



Examples of these efforts include the company's business alliance with Wilshire Associates to develop "fund of hedge funds" operations, the development of products related to the Frank Russell Prime Value index, the use of enterprise value weighted index and enhanced index styles of fund management in the Japanese equity markets, and fund management specializing in industrial bonds to address demand for domestic bond fund management.

Improving Fund Management Capabilities

Daiwa SB Investments is taking steps to review and upgrade its fund management, research and risk management capabilities, in an effort to maintain a top-three ranking from R&I in terms of overall fund management abilities. Specifically, the company is studying the characteristics and preferences of its domestic equity product customers, and is working to develop fund management methods that match these characteristics as well as the concepts for each product. It is also rebuilding its research structure and trying to make its domestic bond products more attractive. At the same time, the company is developing alliances both in Japan and overseas to enhance overseas equity fund management, developing foreign bond products that meet various benchmarks, and increasing the number of regions targeted by its overseas bond operations. In addition to implementing corporate bond analysis activities, the company is upgrading its information infrastructure to support all of the above efforts.

Strengthening Marketing

Daiwa SB Investments is strengthening its ties to companies that sell publicly offered investment trusts in an effort to expand its customer base. In addition, the company is using strategic marketing techniques to cultivate trading relationships and attract new investment trust sales companies. It is also making efforts to attract further investment from corporate customers in private investment trusts, and expand sales channels through Daiwa SMA, "fund wrap" and other products.

The company is also seeking ways to enhance its ability to propose solutions, both to individual clients and to financial institutions including Japan Post's savings and insurance operations, while working to improve the quality of the products it develops and extend its marketing abilities. The company is currently making progress in the use of 401k-type contribution plans and variable annuity insurance products.

Finally, Daiwa SB Investments is working to meet the needs of overseas private and public pension funds as well as other institutional investors. The company is using its strength in domestic equity fund management, and establishing a framework to provide Asian equities and alternative products to its overseas clients. In February 2007, the company opened a representative office in Seoul, and it continues to expand its network of overseas offices.



Investment

Daiwa Securities SMBC Principal Investments Co. Ltd.

Business Description and Characteristics

Daiwa Securities SMBC Principal Investments (hereafter “Daiwa Securities SMBC PI”) is a wholly owned subsidiary of Daiwa Securities SMBC, which is a joint venture between the Daiwa Securities Group and the Sumitomo Mitsui Financial Group. The company is involved in the investment business, one of the Daiwa Securities Group’s core businesses.

The company offers a wide range of solutions to financial institutions and corporations seeking to raise capital, to restructure operations, or to improve asset efficiency. Sometimes this takes the form of direct investment using the Daiwa Securities Group’s own capital; or, it can use investment funds to attract the needed capital. The main targets of investment include listed and unlisted equities, real estate, monetary claims, greenhouse gas emissions credits, and other instruments. In addition to investing its own money, Daiwa Securities SMBC PI establishes and manages investment funds, such as regional corporate revitalization funds. Through these investment activities, the company can help customers locate the best solution to their needs.

Business Environment

Until recently, the private equity market in Japan focused primarily on providing capital to revitalize distressed companies. Today, however, the central theme in this market is industry consolidation, and capital has been directed mainly at funding mergers, acquisitions and buy-outs. In FY 2007, as restrictions on triangular mergers are lifted, the pace of M&A activity by both domestic and overseas companies is likely to accelerate, bringing rapid growth to the private equity market.

However, as the number of competitors in the principal investment business increases, it is becoming difficult to identify attractive targets that are substantially undervalued. Investment houses that lack the comprehensive business capabilities and knowhow to locate good investment targets and develop effective exit strategies are gradually being pushed out of the market. For investment companies, the key to competing effectively in this business lies in identifying ways to enhance the value of the companies in which you invest. Naturally, Daiwa Securities SMBC PI is taking steps to enhance its skills in this area. It is also leveraging the capabilities of other companies in the Daiwa Securities Group to provide business solutions to the investment target company.

Financial Summary for Daiwa Securities SMBC Principal Investments

	(Millions of yen)		
	FY 2004	FY 2005	FY 2006
Gross Profit on Sales*	¥12,515	¥19,043	¥29,712
Ordinary Income	9,370	15,225	23,782
Net Income	5,526	9,096	14,081

* For FY 2004 and 2005, gross profit on sales is calculated as: operating revenues – (operating expenses – SG&A expenses)

Daiwa Securities SMBC Principal Investments Medium-term Management Plan

Basic strategy

- Increase investment amount
- Develop a stable, rising flow of income by continuously reaping returns on investments

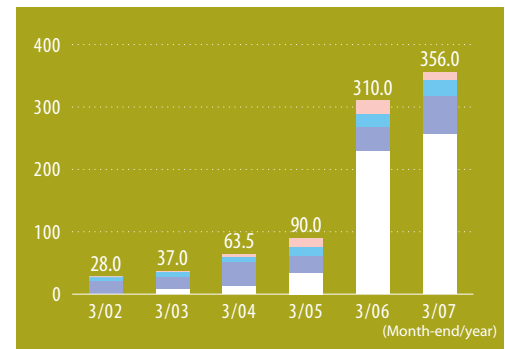
Performance targets for FY 2008

Investment amount: ¥400 billion
(by the end of March 2009)

Revenues: ¥40 billion

Investment amount at Daiwa Securities SMBC PI

(¥ billion)



■ Private equity and PIPEs (Private Investment in Public Equities)
■ Monetary claims ■ Real estate ■ Funds

Earnings Results for FY 2006

In FY 2006 ordinary income at Daiwa Securities SMBC PI rose 56% year on year to ¥23.7 billion, thanks to well-balanced contributions from monetary claims, real estate and private equity investments. Private equity operations have made a strong contribution, as the company began to take profits on some of its investments. For example, the company sold the shares it held as investments in Cabin and Iing.

In addition, Daiwa Securities SMBC PI made some new, large-scale investments in companies such as Mitsui Life Insurance, raising the investment amount to around ¥356.0 billion (including ¥257.0 billion in private equity and PIPEs*) at the end of March 2007. This represents a 15% increase from March 2006 (approximately ¥310.0 billion).

One issue that received considerable attention in FY 2006 was the greenhouse gas emission credits trading. Daiwa Securities SMBC PI has invested in seven projects aimed at reducing greenhouse gas emissions, as part of the World Bank's "Community Development Carbon Fund." In October 2006, these projects were approved by the Japanese government as part of the Clean Development Mechanism (CDM).

* PIPEs: Private Investment in Public Equities

Promoting Basic Strategies

In its medium-term management plan, Daiwa Securities SMBC PI aims to increase the total investment amount to at least ¥400.0 billion by the end of March 2009, and increase revenues to ¥40.0 billion in FY

2008. In addition, the plan calls for the company to continue taking profits on its existing investments to maintain steady income growth. In FY 2007, the company expects to progress towards these targets by implementing two policies:

- 1) Continue profit-taking on existing investments in private equity and PIPEs, as well as monetary claims
- 2) Improve marketing capabilities and overseas investment sourcing capabilities in order to identify attractive investment targets, and make ¥100.0 billion in new investments

Expanding the Investment Amount

In May 2006, as part of its investment in private equity and PIPEs, the company invested in six hot springs resort hotels in Tochigi Prefecture, which had been placed under management supervision by the Industrial Revitalization Corporation of Japan. In September of the same year, Daiwa Securities SMBC PI purchased ¥34.0 billion of a ¥100.0 billion common stock issue by Mitsui Life Insurance, which was underwritten jointly by Daiwa Securities SMBC PI, Daiwa Securities Group Inc. and other underwriters. In December 2006, the company purchased ¥1.5 billion in preferred stock as part of a third-party allocation by Verite Corporation, and in February 2007, it underwrote a ¥2.0 billion third-party allocation by GDH. These transactions increased the total investment in private equity and PIPEs by ¥28.0 billion, year on year, to ¥257.0 billion.

Major Investments in FY 2006

Type	Investee Company	Amount
Private equity and PIPEs	Mitsui Life Insurance	¥34.0 bil
	GDH	2.0 bil
	Verite Corporation	1.5 bil
	Six hot springs resort hotels in Tochigi Prefecture	—

Daiwa Securities SMBC PI also increased its holdings of monetary claims by ¥21.0 billion, year on year, to ¥61.0 billion, mainly by purchasing loan debt from regional banks.

Daiwa Securities SMBC PI is beginning to apply the investment experience and knowhow that it has acquired in domestic markets to expand private equity operations, by locating attractive investment targets in Asia and Oceania. The company plans to send personnel to Singapore in order to strengthen its sourcing capabilities and locate attractive investment targets. It will play an important role in the Daiwa Securities Group's plans to invest some ¥100.0 billion in companies and investment funds in Asia.

Exits in FY 2006

Type	Investee Company
Private equity and PIPEs	Cabin (full exit)
	ling (full exit)
	Sumitomo Mitsui Construction (partial exit)
	Daiwa Seiko (partial exit)

Exits of Investments

In FY 2006, Daiwa Securities SMBC PI began to exit some of its private equity investments on a full-scale. As part of this “exit strategy,” the company sold all of its shares in Cabin to Fast Retailing in April 2006, and in May, it sold its entire stake in ling to several companies affiliated with ling. In November, it began unwinding its large stake in Sumitomo Mitsui Construction by selling some of its shares back to the market, via a negotiable securities disposal trust. In February 2007, it sold some of its shares in Daiwa Seiko as well.

The company will continue to realize gains on its investments in FY 2007, and aims to create a stable and continuous income stream that will contribute to profit growth for the Daiwa Securities Group as a whole.

Topics:**EMP-Daiwa Capital Asia Limited**

In January 2007, Daiwa Securities Group Inc. joined hands with EMP Global L.L.C., a US-based private equity firm, to form a joint investment company, EMP-Daiwa Capital Asia Limited. We expect the new joint venture to serve as the overseas operating base for expanding the Group's private equity operations in Asia.

Overview of the Joint Venture

Name	EMP-Daiwa Capital Asia Limited
Total capital	US\$50.0 million
Amount invested	Daiwa Securities Group—US\$9.98 mil in common stock (49.9%) + US\$30.0 mil in preferred stock EMP Global Group—US\$10.02 mil in common stock (50.1%)
Location	Incorporated in the Cayman Islands, head office operations in Hong Kong
Main businesses	(1) Private equity investment in Asia (2) Management of private equity funds investing in Asia



NIF SMBC Ventures Co., Ltd.

Business Description and Characteristics

NIF SMBC Ventures is a private equity company established in October 2005 by the merger of NIF Ventures, a member of the Daiwa Securities Group, and SMBC Capital, a subsidiary of Sumitomo Mitsui Financial Group (SMFG). NIF SMBC Ventures leverages the extensive experience that the two merged companies acquired in the venture capital markets to provide the following services:

1. Venture capital investment based on a “hands-on” investment model, which provides full support to the investment target company in all phases of company management
2. Support for medium-sized companies with strong management resources to help them restructure their operations, by helping to fund a management buyout or similar takeover

In addition to direct investment-related activities of this type, the company also manages investment funds which collect extensive financial resources from investors and provide a managed return.

The Daiwa Securities Group and SMFG boast extensive networks, a vast customer base and superior knowhow in investment-related issues. Building on such competitive edge of the two parent companies,

NIF SMBC Ventures hopes to utilize the increased scale of its operations to expand the scope of its business domain and form a balanced investment portfolio, while improving investment performance.

Earnings Results for FY 2006

NIF SMBC Ventures generated ¥9.5 billion in gross profit on sales in FY 2006, with an ordinary income of ¥4.2 billion and a net income of ¥4.6 billion. During the fiscal year, the company invested a total of ¥37.0 billion in 204 target companies. This represents a 26% increase in investment, and 12 more companies, than in FY 2005. Of these, 198 were venture capital investments (11 more than in FY 2005), primarily in Japan. These venture capital investments increased 4% year on year, to ¥23.9 billion. In addition, the company invested ¥13.1 billion in management buyouts by six companies, including a takeover bid for Q'SAI and a management buyout by Almex PE. This compares with ¥6.4 billion and five companies in FY 2005. Of the companies in which NIF SMBC Ventures has invested, 38 domestic firms and three overseas companies conducted IPOs in FY 2006, versus 34 domestic and six foreign companies in FY 2005.

Financial Summary for NIF SMBC Ventures (Non-consolidated Basis)

	(Millions of yen)		
	FY 2004	FY 2005	FY 2006
Gross Profit on Sales	¥ 3,842	¥8,924	¥9,527
Ordinary Income	32	4,800	4,233
Net Income (Loss)	(8,491)	6,689	4,622

Note: Results for FY 2004 are for NIF Ventures



Fund management activities in FY 2006 centered on the establishment of “NIFSMBC-V2006” series. The Company established funds with a total value of ¥60.3 billion.

Notes: 1. Earnings data are on a non-consolidated basis.

2. NIF Ventures and SMBC Capital merged their operations as of October 1, 2005, to form NIF SMBC Ventures. Therefore, year-on-year comparisons of earnings results are not indicated.

3. Figures for the total investment amount and number of companies in FY 2005 are the sum of data for NIF Ventures and SMBC Capital, adjusted for any duplication.

Promoting Basic Strategies

NIF SMBC Ventures benefits from the extensive client bases of both the Daiwa Securities Group and SMFG. The company is drawing on this vast client network to better identify promising investment candidates. By working to upgrade the quality and the scale of its investments, both in Japan and overseas, the company hopes to progress from venture capital operations to a full line of private equity investment activities, and establish a solid earnings base.

Domestic Venture Capital Investments

In Japan, NIF SMBC Ventures is working to extend cooperation with the Daiwa Securities Group and SMFG, and improve its ability to collect information and identify promising investment targets. The company has established an operations desk at Sumitomo Mitsui Banking Corporation to exchange information and personnel. It also cooperates with Daiwa Institute of Research to identify new growth markets and exchange opinions about promising businesses. These efforts are not only aimed at increasing the number of venture companies NIF SMBC Ventures is able to approach, but also should help improve the quality of investments.

Overseas Venture Capital Investments

NIF SMBC Ventures is strengthening operations in Asia, by strengthening its business office in Hong Kong, and by establishing close ties to EMP-Daiwa Capital Asia Limited. In this way the company is building a network and a stronger organization that will allow it to further increase venture capital investment in Asia.

In the US, the company is working closely with locally based venture capital organizations, while in Europe it is considering changes to its investment structure that allow it to continue pursuing a selective approach to investment.

Investment in Buyouts

NIF SMBC Ventures has been stepping up its cooperation with SMFG to enhance origination capabilities and to promote investment in buyouts. This has led to a sharp increase in the number of deals it has been able to conduct, thanks to introductions by SMFG. The company is also making progress in its ability to offer tailor-made solutions, and expanding its participation in joint investment and minority investment deals in each region.

A variety of business alliances are helping NIF SMBC Ventures to enhance the corporate value of companies in which it invests, and thus improve returns on investment. In this way, the company is stepping up its participation in hands-on management. In August 2006, the company sold a portion of its stake in Higa Industries, and in December of the same year, it saw GABA Corporation list its shares on the Mothers exchange. NIF SMBC Ventures is beginning to generate solid returns from its investments.



Group Support

Research and Systems Daiwa Institute of Research Ltd.

Business Description and Characteristics

Daiwa Institute of Research (DIR) serves as a “think tank” for the Daiwa Securities Group, providing comprehensive support through research, consulting, and IT-related work. DIR provides high-quality information services that can enhance the value of each Group company. These services are also offered in the form of a solutions business, to meet the various needs of customers outside the Group.

The analysts and strategists in DIR’s research section emphasize fundamentals in their research and analysis, seeking to provide high quality and added value in their reports, and issue timely coverage of recent issues. The company’s economists, meanwhile, have been providing accurate and detailed analyses and economic forecasts for over 25 years, and have earned a high reputation. Their reports not only address economic policy issues; they also provide analysis and proposals regarding regulatory issues and reforms in the financial and capital markets.

DIR’s consulting business leverages the specialized knowledge of the Daiwa Securities Group’s securities operations and the comprehensive outlook of a think tank to provide customers with solutions on a wide range of issues, from management strategy to business reorganization and restructuring.

The company’s systems business serves as the core of the Daiwa Securities Group’s IT strategy. It provides support for the rapid advances of the finance and securities businesses by introducing systems improvements and by providing constant, high-quality IT support.

By promoting the highest degree of synergy among these business segments, DIR seeks to develop high-quality information and solutions, aiming to be “Japan’s best information services company.”

Earnings Results for FY 2006

During FY 2006, the Daiwa Securities Group invested heavily in new information technology. DIR responded with quick and precise systems improvements, and in so doing, contributed greatly to growth in the securities business. This produced a dramatic increase in both sales and ordinary income for DIR. Sales rose 20% year on year to ¥94.8 billion, and ordinary income grew 33% year on year to ¥9.7 billion.

Promoting Basic Strategies

Beginning in FY 2006, DIR adopted the goal of becoming “Japan’s best information services company,” as part of the Group’s medium-term management plan. In the first year of the plan, the company has made visible strides towards this goal.

In the research and consulting businesses, DIR employed its expertise and analytical skills to improve its ability to develop unique ideas and proposals. This greatly enhanced the company’s information transmission and policy proposal capabilities.

Daiwa Institute of Research: Medium-term Management Plan

Basic Strategy

- Maintain and enhance presence in research services
- Implement the Group's IT strategy and provide reliable information systems
- Train, cultivate and provide IT systems professionals



In the annual rankings of research analysts and economists, published by the weekly *Mainichi Economist* magazine^{*1}, DIR earned the No. 2 rank in overall research. The *Nikkei Financial Daily* gave the company a No. 2 overall ranking in the category of "most popular analysts"^{*2}, and the analyst rankings by *Institutional Investor* magazine^{*3} also had DIR ranked in second place. In all of these cases, institutional investors evaluated the company as one of the industry's top domestic research services. The company is also strengthening its overseas research capabilities, particularly in Asia, and thus contributing to advances in the Daiwa Securities Group's brokerage operations.

DIR's systems business is strengthening the systems that support the Group's online trading operations, and is making progress in introducing a new core operating system. These efforts provide systems support for the Group's business strategies, and contribute to expansion and growth for the Daiwa Securities Group as a whole.

^{*1} Published in the November 7, 2006 issue

^{*2} Published in the March 22, 2007 issue

^{*3} Published in the April 2007 issue

Future Objectives

Based on the company's FY 2006 performance, DIR has adopted an action plan for FY 2007 which includes the following objectives:

- (1) Earn the top position in research based on rankings by domestic customers
- (2) Enhance the research organization in Asia and other emerging markets
- (3) Pursue strategic development in the management consulting business, particularly for IT, Asia-related and finance-related issues

- (4) Cultivate top-quality personnel and provide effective support for the Group's IT-related investment

DIR is making steady progress in its effort to provide research and consulting customers with top-quality service, and is keen to earn even higher evaluations from its clients. In particular, the company is taking steps to strengthen its research operations in Asia and emerging markets in support of the Group's medium-term management plan, which aims to strengthen Asia-related businesses. DIR is also making greater efforts to attract and cultivate quality personnel, and elevate customer satisfaction, in the aim of regaining the top position in the various domestic rankings of research organizations, based on the performance of their analysts.

The systems business is working in close cooperation with other group members to implement large-scale IT projects which can support the switch to electronic stock certificates and the introduction of a next-generation trading system by the Tokyo Stock Exchange. DIR is making steady progress in improving system stability, raising quality and preventing system failures. The company is also training and dispatching IT personnel who are capable of supporting operations at Japan's top securities group, and taking steps to improve service quality and cost performance. In these ways, DIR is helping to enhance the competitiveness of the Daiwa Securities Group.



Securities Business Administration Daiwa Securities Business Center Co., Ltd.

Business Description and Characteristics

Daiwa Securities Business Center (DSC) is a comprehensive outsourcing vendor and provider of back office services for the securities industry. The company provides a wide range of back office services to support the securities business, such as customer account registration activities, customer transaction administration, securities administration, and foreign securities settlement and administration. It also handles operations related to the launch of new products, stock ownership schemes, and administration of investment programs for companies both inside and outside the Group.

In the securities market today, rapidly increasing globalization of securities investments and reforms to settlement systems are creating a “borderless” and “paperless” form of securities trading. Meanwhile, the administrative procedures used to process transactions involving various financial products are changing in a similar way, increasing the need for diversity, flexibility and speed in processing the transactions. DSC not only handles all of the back office functions for the Daiwa Securities Group; it offers quick, accurate and high-quality administrative support services for non-Group clients in the securities industry as well, and tries to make contributions to society in general.

In December 2002, DSC’s back office operations for Daiwa Securities and Daiwa Securities SMBC earned ISO 9001:2000* certification—an international standard for high-quality management systems—making it the first company in Japan’s securities industry to earn this recognition. Subsequently, the company followed up this achievement by upgrading its certification for contracted administrative services, provided to clients outside the Daiwa Securities Group, from ISO 9001:1994 to ISO 9001:2000.

The company has also earned certification for protecting privacy in the handling of personal information. In September 2005 it obtained the “Privacy Mark” certification from Japan Information Processing Development Corporation (JIPDEC). DSC continues its efforts to provide high-quality services which offer customers a high degree of reassurance, trust and satisfaction.

* The ISO 9001:2000 standard is a standard adopted to recognize “quality management systems.” It is an upgraded version of the ISO 9001:1994 standard, which addressed “quality assurance.” The objective of the new standard is to promote ongoing improvements to management systems which can realize a high level of customer satisfaction.



Branch Office Management and Real Estate Consulting Daiwa Property Co., Ltd.

Business Description and Characteristics

Daiwa Property provides real estate management services for the Daiwa Securities Group. The company contributes high-quality real estate-related support services through operations that center on property management and the development of real estate solutions.

Property management operations include the acquisition, construction and management of new offices, branches and employee dormitories for the Daiwa Securities Group, as well as the refurbishing and replacement of existing facilities. The company's "data control" operations maintain information on the condition of each property and develop earthquake-resistance and disaster response measures for each one, as well as implementing risk management for leased properties. The company is also working with the Headquarters Relocation Department of Daiwa Securities Group Inc. to prepare for the move to a new head office building, in November 2007. This relocation will unite the currently dispersed functions of various Group companies in a single office building.

Daiwa Property's solutions business utilizes the nationwide network of the Daiwa Securities Group to oversee real estate purchases and sales, leasing, and real estate securitization, and to offer related solutions to outside clients.

Currently, the real estate market is experiencing changes never seen before, as corporate globalization and advances in information technology alter the market environment at a rapid pace. Building on the Group's information skills and real estate management experience accumulated by the company over a period of more than 50 years, Daiwa Property helps clients determine the best solution to their real estate needs.

Group Governance and Management Systems

Corporate Governance	Top Management	Human Resource Management
SEE PAGE 60	SEE PAGE 62	SEE PAGE 64
Financial Strategy	Risk Management	Compliance
SEE PAGE 66	SEE PAGE 67	SEE PAGE 68
IT Strategy and Information Security	CSR Initiatives	Intellectual Property Activities
SEE PAGE 69	SEE PAGE 70	SEE PAGE 73
Disclosure Strategy		
SEE PAGE 74		

Corporate Governance

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

Features of the Corporate Governance System

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

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

The Nominating Committee met three times in FY 2006 to further discuss the composition of the Board of Directors and its effect on corporate governance, the basic policy for nominating candidates for directorships, and the selection of these candidates. The Nominating Committee selects candidates for directorships in light of the Group's standards for the appointment of directors. These standards include criteria that help ensure the independence of outside directors.

The Audit Committee met 12 times in FY 2006 to audit the activities of directors and executive officers, focusing on their progress in implementing internal control systems.

The Compensation Committee met five times in FY 2006 to discuss compensation policy and determine the compensation of each director, and also studied a Group-wide incentive plan aimed at improving consolidated earnings results.

The Board of Directors met 12 times in FY 2006, with 96% attendance of the four outside directors.

Executive Compensation Linked to Performance

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

Compensation Paid to Directors and Executive Officers in FY 2006

	Directors		Executive officers		Total	
	Recipients	Amount	Recipients	Amount	Recipients	Amount
	5 persons	¥105 million	14 persons	¥1,042 million	19 persons	¥1,147 million

Notes: 1. The above compensation amounts include performance-linked pay to reflect FY 2006 earnings.

2. The above compensation amounts include a total of ¥100 million in stock acquisition rights granted as stock options to directors and executive officers.

3. In addition to the above, ¥19 million in retirement benefits were paid to one director who retired from the Board of Directors in FY 2006, pursuant to a resolution of the 67th Ordinary General Meeting of Shareholders held on June 23, 2004.

4. Of the total compensation amount of ¥1,147 million, compensation paid to the four outside directors totaled ¥67 million.

5. As of March 31, 2007, there were 13 directors and 14 executive officers. Eight of the directors also served as executive officers (their total compensation is included in the "Executive officers" category).

Internal Control System

The Daiwa Securities Group defines “internal control” as a collection of processes aimed at promoting business effectiveness, efficiency, reliable financial reporting, compliance with laws related to business activities, and asset preservation. The Group is building an extensive internal control system to ensure that these processes function effectively and efficiently.

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

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

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

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

The Group is also engaged in efforts to introduce internal control for financial reporting, in response to the internal control reporting requirements introduced as part of the Financial Instruments and Exchange Law. To prepare to comply with these requirements in FY 2008, we have set up four working groups, to deal with Group-wide control, overall IT control, operating processes and verification. These groups are documenting processes throughout the Group, and assessing and verifying internal controls. We will make additional improvements to organizational structures or internal regulations where necessary.

Top Management

Directors

Chairman of the Board

Yoshinari Hara

Deputy Chairman of the Board

Akira Kiyota

Directors

Shigeharu Suzuki

Shin Yoshidome

Tetsuo Mae

Takashi Hibino

Ikuo Mori

Nobuyuki Iwamoto

Kenji Hayashibe

Tetsuro Kawakami

Ryuji Yasuda

Keisuke Kitajima

Koichi Uno

Executive Officers



*President and CEO
Head of Retail
President, Daiwa Securities
Co. Ltd.*

Shigeharu Suzuki

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.
2003 Representative Senior Managing Director
2004 Director, President and CEO,
Daiwa Securities Group Inc. (to present)
Head of Retail (to present)
President, Daiwa Securities Co. Ltd. (to present)



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

Shin Yoshidome

1974 Joined Daiwa Securities Co. Ltd.
1997 Head of Osaka Branch Corporate Institutions Dept. I
2001 Executive Officer, Daiwa Securities SMBC Co. Ltd.
2004 Senior Executive Officer
Managing Director
2006 Director and Corporate Executive Vice President,
Daiwa Securities Group Inc.
Representative Senior Managing Director,
Daiwa Securities SMBC Co. Ltd.
2007 Director, Deputy President and COO,
Daiwa Securities Group Inc. (to present)
Head of Wholesale (to present)
President, Daiwa Securities SMBC Co. Ltd. (to present)



*Deputy President
Deputy Head of Retail
Deputy President, Daiwa
Securities Co. Ltd.*

Tetsuo Mae

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
2003 Deputy President, Daiwa Securities Co. Ltd. (to present)
2004 Director and Deputy President,
Daiwa Securities Group Inc. (to present)
Deputy Head of Retail (to present)



*Deputy President
Deputy Head of Wholesale
Deputy President, Daiwa
Securities SMBC Co. Ltd.*

Shuntaro Higashi

1972 Joined The Sumitomo Bank, Limited
1997 Head of Hong Kong Branch
1999 Executive Officer
2001 Executive Officer (Director),
Sumitomo Mitsui Banking Corporation
2003 Executive Officer (Managing Director)
2006 Representative Director and Senior Managing Director
2007 Deputy President, Daiwa Securities Group Inc. (to present)
Deputy Head of Wholesale (to present)
Deputy President, Daiwa Securities SMBC Co. Ltd.
(to present)



*Deputy President
Head of Asset Management
President, Daiwa Asset
Management Co. Ltd.*

Michihito Higuchi

1969 Joined Daiwa Securities Co. Ltd.
1995 Director
1998 Managing Director
1999 Managing Director, Daiwa SBCM Co. Ltd.
(currently Daiwa Securities SMBC Co. Ltd.)
2000 Senior Managing Director
2002 Representative Senior Managing Director
2004 Director and Deputy President,
Daiwa Securities Group Inc.
Deputy President, Daiwa Securities SMBC Co. Ltd.
2005 Deputy President, Daiwa Securities Group Inc. (to present)
Head of Asset Management (to present)
President, Daiwa Asset Management Co. Ltd. (to present)



*Deputy President
Head of Research
President, Daiwa Institute of
Research Ltd.*

Yoshiyuki Takemoto

1968 Joined Daiwa Securities Co. Ltd.
1993 Director
1997 Managing Director
1999 Senior Managing Director, Daiwa SBCM Co. Ltd.
(currently Daiwa Securities SMBC Co. Ltd.)
2001 Deputy President
2002 Deputy President, Daiwa Securities Group Inc.
2003 Deputy President and Chairman of the Institute,
Daiwa Institute of Research Ltd.
2004 Deputy President, Daiwa Securities Group Inc. (to present)
Head of Research (to present)
President, Daiwa Institute of Research Ltd. (to present)



1979 Joined Daiwa Securities Co. Ltd.
2002 Head of Corporate Planning Department, Daiwa Securities Group Inc.
Executive Officer, Daiwa Securities SMBC Co. Ltd.
2004 Senior Executive Officer, Daiwa Securities Group Inc.
Chief Planning/Personnel Officer (to present)
Director and Corporate Senior Executive Officer
2007 Director and Corporate Executive Vice President, Daiwa Securities Group Inc. (to present)



1973 Joined Daiwa Securities Co. Ltd.
1996 President, Daiwa Securities America Inc.
2001 Executive Officer, Daiwa Securities Group Inc.
2004 Corporate Executive Officer
2005 Corporate Senior Executive Officer
2006 Managing Director, Daiwa Securities SMBC Co. Ltd.
2007 Director and Corporate Executive Vice President, Daiwa Securities Group Inc. (to present)
Deputy Head of Wholesale (to present)
Representative Senior Managing Director, Daiwa Securities SMBC Co. Ltd. (to present)



1983 Joined Daiwa Securities Co. Ltd.
1996 Head of System Solutions Department I, Daiwa Institute of Research Ltd.
1999 Executive Officer
2003 Senior Executive Officer
2005 Managing Director
2006 Corporate Senior Executive Officer and CIO, Daiwa Securities Group Inc. (to present)
Director (part-time), Daiwa Institute of Research Ltd. (to present)



1980 Joined Daiwa Securities Co. Ltd.
2001 Head of International Finance Department, Daiwa Securities SMBC Co. Ltd.
2005 Corporate Executive Officer and CFO, Daiwa Securities Group Inc. (to present)
Director (part-time), Daiwa Asset Management Co. Ltd. (to present)
2006 Director, Daiwa Securities Group Inc. (to present)



1975 Joined Daiwa Securities Co. Ltd.
2001 President, Daiwa Securities SMBC Europe Limited
2006 Corporate Executive Officer, Daiwa Securities Group Inc. (to present)
Head of America Region (to present)
Chairman, Daiwa America Corporation (to present)



1983 Joined Daiwa Securities Co. Ltd.
2005 Head of Structured Products Department, Daiwa Securities SMBC Co. Ltd.
2006 Executive Officer
2007 Corporate Executive Officer, Daiwa Securities Group Inc. (to present)
Deputy Chief Planning/Personnel Officer (to present)
Head of Corporate Planning Department (to present)



1982 Joined Daiwa Securities Co. Ltd.
2005 Head of Structured Finance Department, Daiwa Securities SMBC Co. Ltd.
2007 Corporate Executive Officer, Daiwa Securities Group Inc. (to present)
Chief Legal Officer (to present)
Head of Corporate Communications Department (to present)



1967 Joined Daiwa Securities Co. Ltd.
1991 Director, Deputy Head of Corporate Institutional Sales Division
1995 Managing Director
1997 Representative Managing Director
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. (to present)



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

Human Resource Management

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

Group Personnel Policy

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

Advanced Evaluation System and Performance-based Remuneration

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

The Group has adopted an employee remuneration system that is based on job category as well as performance appraisal using a detailed, job-specific evaluation process. At the deputy general manager level, there was a 20-fold disparity between the smallest and the largest bonus paid in FY 2006, and a five-fold difference in their annual salaries. Performance-based remuneration systems were also introduced for analysts at Daiwa Institute of Research and fund managers at Daiwa Asset Management, in which annual salaries are determined to reflect analyst rankings or fund performance.

Skill Enhancement Opportunities and Career Development Options for Employees

The Daiwa Securities Group continues to upgrade personnel support systems which encourage employees to enhance their skills and obtain qualifications, particularly certifications related to

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

In addition, we have adopted an intra-Group job posting system, which allows employees to embrace new challenges by moving to a department of their choice within the Group. Since its introduction in 2000, the system has attracted 648 applicants, 123 of whom have successfully qualified for transfers.

Human Resource Initiatives Under the Medium-term Management Plan

The Group's basic human resources policy, as spelled out in the medium-term management plan, is "to attract the most competent personnel in the industry and provide them with highly motivating working environments that allow them to pursue new challenges." There are five main elements of this policy: (1) Establish compensation standards and systems which rank among the best in the industry, in order to attract and keep top-quality employees and contribute to improved corporate performance; (2) Develop an ongoing program of recruitment to attract talented and loyal employees, promoting communication with students and raising the Daiwa Securities Group's profile as an attractive career option for new graduates; (3) Carry out training programs to cultivate the industry's most highly specialized team of financial professionals; (4) Maintain a stimulating working environment for all employees, regardless of gender, and thereby seek to elevate the morale and tap the latent potential of female employees in particular. We will make ongoing efforts to ensure that our workplaces cater to the particular needs of women; and (5) Promote a work environment that rewards employees equally for equivalent contributions,

regardless of their age, thus ensuring that the Group can fully benefit from the extensive experience of veteran employees.

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

Corporate Activation Plan

In July 2006, the Daiwa Securities Group announced its “Corporate Activation Plan,” under the slogan: “promoting passion, pride and job satisfaction to make Daiwa Japan’s best securities group.” Additional measures under the plan were announced in March 2007. In conjunction with the medium-term management plan, this initiative aims to promote a corporate environment that will stimulate and motivate employees. The goal is to give each employee who works for the Daiwa Securities Group a strong feeling of trust in their company, a sense of pride in their work responsibilities and contributions, and a feeling of solidarity with the Daiwa Securities Group and its members. A number of individual programs have been implemented as part of this plan.

Mental Health Care Support

In August 2006, Daiwa Securities Group Inc. established a Mental Health Support Department. This department provides confidential consultation services to employees who are experiencing anxiety, listlessness, insecurity or stress, in an effort to support the mental health of all Group personnel.

Support for Working Mothers

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

In recognition of these efforts, the Ministry of Health, Labour and Welfare recognized the Daiwa Securities Group in June 2006 at its “Corporation Award for the Promotion of Gender Equality 2006,” presenting the Director of Tokyo Labour Bureau Award to three Group companies—Daiwa Securities Group Inc., Daiwa Securities, and Daiwa Securities SMBC. During FY 2006, the Group continued to pursue measures to promote a better environment for working women. For example, we issued the “Guide to Parenting Support,” which explains the Group’s systems for helping employees with children. We will continue to explore positive measures that the Group can implement in order to create a comfortable working environment for both men and women.

Increase in Base Wage for New Employees

In the spring of 2007, as part of its effort to attract top quality personnel, the Group increased its basic starting salary for new graduates from ¥178,000 to ¥200,000 per month. This is the first base salary hike since 1994.

Promotion of Temporary Staff to Permanent Employee Status

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

Other Initiatives in FY 2006 and Beyond

Support and Employment for Veteran Personnel

In the past, the Daiwa Securities Group has often rehired employees after their official date of retirement, under the “Daiwa Elderly Support System.” In addition, the Group responded to the government’s “Revised Law for the Stabilization of Employment of the Aged” implemented in April 2006, by introducing the “Daiwa Master System” (also in April) for re-hiring retirees. We will actively employ individuals who show the desire and ability to contribute, regardless of their age, and continue to make active use of the skills and experience of veteran employees.

Adherence to Equal Employment Opportunity Law

With the introduction of a revised “Equal Employment Opportunity Law,” the Daiwa Securities Group took further steps to strengthen internal policies to prevent sexual harassment and discrimination. The Group already has internal regulations forbidding all forms of sexual harassment, and has set up a “Corporate Ethics Hotline” and other structures for reporting and discussing problems of this sort. However, we have additionally provided clear guidelines on the actions which might constitute harassment, and clearly stated in our employment regulations that we will ensure confidentiality, protect the privacy of the aggrieved or worried parties and make sure that they suffer no subsequent disadvantages for reporting the offense. Through these measures, the Group is constantly considering ways to ensure a positive and comfortable working environment.

Implementation of “Cool Biz”

We are eager to do our part to prevent global warming, and have implemented “Cool Biz”^{*} since the summer of 2007 at Daiwa Securities Group Inc., Daiwa Securities, and Daiwa Securities SMBC, in addition to other group companies where the project had already been initiated.

^{*} Summer business norms promoted by the government of Japan, encouraging people to wear cool and comfortable clothes at the office, and set air-conditioning at 28 degrees Celsius to save energy and reduce CO₂ emissions.

Financial Strategy

In order to perpetuate growth in corporate value, the Daiwa Securities Group manages risk, returns, and capital in an integrated manner. Our policy is to build a break-even structure that is resistant to revenue fluctuations, and to manage risk in a way that protects our highly stable financial position. We will endeavor to maximize risk-adjusted returns by efficiently allocating capital resources.

Targeting Financial Stability

In order to maintain its financial stability, the Group carefully manages the major risks affecting its consolidated balance sheet, including market risk, credit risk, and liquidity risk. This approach allows us to maintain a firm financial base, which can absorb potential losses due to dramatic changes in the business environment. In this way, the Group can maintain a stable business foundation.

Regarding market risk, the Group manages the upper limit against trading positions and Value at Risk (VaR: expected value of maximum loss at more than 99% confidence level). In addition, theoretical scenarios of market stress are used to estimate the potential scale of losses which could occur due to significant changes in business conditions.

With regard to credit risk, the Group sets credit limits, and carefully examines the risk involved in large-scale, low-liquidity investments such as principal investments, a business which we are actively expanding. In the process, risk concentration is given full consideration. The Group carefully monitors its investments after they have been made. We look at these risks holistically, 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 enough long-term capital to fully fund business operations for around one year, without relying on new unsecured fund procurement. We also control liquidity by avoiding excessive concentration on specific fund-raising sources or repayment periods.

Integrated Management of Risk, Return, and Capital

In order to increase corporate value steadily, and meet the growth targets contained in the medium-term management plan, the group manages risk, return, and capital using an integrated approach to maintain profitability and a firm financial position.

Capital

Under the medium-term management plan, the Group plans to increase consolidated shareholders' equity to ¥1 trillion, based solely on the inflow from retained earnings after dividends are paid. To accomplish this goal, we allocate capital based on the characteristic features of each business segment, and maintain a certain level of standby capital in preparation for new business development, strategic investment, and M&A.

Return

In each business division, the Group seeks to expand consolidated profits and maintain a high ROE, by keeping profitability at levels that surpass the cost of capital. In addition, we intend to improve the balance between revenues and expenditures, increasing both the absolute level and the stability of earnings, while maintaining a balanced level of investment in future growth.

Risk

The Group will adopt a more aggressive approach to risk-taking, especially in its wholesale and investment businesses. To address the higher level and complexity of risk that this will generate, the Group will adopt appropriate steps to monitor risk, refine its methods of quantifying risk, and adopt more sophisticated risk assessment methods and risk management techniques.

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 objective is to improve corporate value steadily, while maintaining a sound financial base and profit structure, properly balancing risks and returns, and anticipating any possible business scenarios that might elevate risk.

Risk Management System

The Group's risk management policy encourages active participation by top management to ensure that the risks inherent in business operations are comprehensively managed in a manner appropriate to their specific risk attributes. The status of each risk management activity is reported regularly to the Internal Control Committee, a subcommittee of the Executive Committee.

The major risks that affect our businesses are market risk, credit risk, liquidity risk, system risk, operational risk, reputation risk, and legal risk*.

Leveraging their expertise, each Group subsidiary is responsible for managing the particular risks of their own business. Daiwa Securities Group Inc. is responsible for Group-wide risk management, and monitors the framework, methods, and implementation status of risk management activities undertaken by the subsidiaries. It also tries to maintain a comprehensive vision of risk levels for the Group as a whole, and keep them at levels commensurate with the amount of capital at risk.

* See "Compliance" on page 68.

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

The Group sets limits on each type of market risk, and measures and monitors risk in its trading operations, using risk indicators such as Value at Risk (VaR). Our comprehensive risk management approach also employs stress tests and scenario analyses.

Subsidiaries involved in the wholesale securities business have the greatest exposure to credit risk. These companies conduct rigorous credit checks, and decide whether or not to execute transactions or request collateral. Internal credit ratings and credit limits are set for each client, based on these investigations and the transaction period, and are monitored continuously.

To address liquidity risk, the Group maintains an ample supply of liquid capital and manages the maturity schedule of its liabilities portfolio, with the aim of maintaining sufficient funds to support business operations for around one year, without the need for new uncollateralized fund procurement. The liquidity of Group subsidiaries—excluding securities subsidiaries and NIF SMBC Ventures, a JASDAQ-listed company—is centrally managed by the Group Cash Management System of Daiwa Securities Group Inc.

Information on market risk is reported daily, and credit risk conditions are reported monthly to the management of Daiwa Securities Group Inc. However, if clients exceed their credit limits or have their credit status changed, additional reports may be provided, as necessary. Liquidity risk is reported daily.

Addressing Operational Risk and Systems Risk

The Group is giving priority consideration to the risks that arise when personnel act inappropriately or ineffectively, when internal processes and computer systems malfunction, and when external events affect operations. Due to the diversity of our business operations, we are implementing a number of key measures, such as establishing stricter lines of authority, automating business processes to reduce human error, and preparing administrative manuals. We are also working to quantify operational risk more precisely.

The Group constantly monitors the operating status of its core operating systems to keep malfunctions to an absolute minimum. Even if problems do occur, the Group has frameworks in place to respond quickly.

The Group is also taking steps to establish a business continuity plan (BCP). In FY 2006, we prepared a manual for addressing system failures. We are now refining our emergency response manuals, and plan to transfer our backup system to a new data center that is capable of withstanding natural disasters. This is expected to significantly improve systems safety.

Compliance

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

Group Compliance Initiatives and Structures

The General Affairs department of Daiwa Securities Group Inc., which oversees the compliance activities of Group companies, organizes a “General Affairs/Corporate Ethics Promotion Liaison Meeting” once a month. Members of the meeting include representatives from departments responsible for compliance in each Group company. This meeting is intended to share information on compliance and other issues that Group members should address, and ensure that the information is clearly understood by all Group companies. The meeting also periodically takes steps to ensure that the influence of corporate racketeers and other antisocial groups has been eliminated, and monitors the compliance structure of each Group company.

In FY 2006, the Group’s Corporate Ethics Officer adopted a more direct approach to training employees. Joint Compliance Training sessions were held for all staff at Daiwa Securities’ branch offices. The Corporate Ethics Officer gave lectures on corporate ethics and the functions of the Group’s internal reporting system—the Corporate Ethics Hotline. The Group also implemented similar training programs for internal administration supervisors at Daiwa Securities SMBC and the head of each department at Daiwa Asset Management.

In addition to the training programs mentioned above, we have introduced the Corporate Ethics Hotline in the Group’s internal newsletter, upgraded the Hotline’s website, and provided direct links to the Hotline on all intranet sites operated by Group companies to ensure that everyone in the Group is aware of the system. Thanks to these efforts, the Hotline has gained higher recognition and reliability, and the number of reports handled by the Hotline is steadily rising. This shows that the Group’s ability to identify and correct illegal acts has improved significantly.

During FY 2006, the Group also implemented an “e-learning program” to educate executives and employees at all Group companies about insider trading. We explained the guidelines for making appropriate securities transactions as a member of a securities group, and ensured that laws and internal guidelines are thoroughly understood.

Initiatives by Major Group Companies in FY 2006

One of Daiwa Securities’ stated objectives for FY 2006 was “to maximize client trust.” In order to achieve this goal, the company took steps to enhance the quality of sales activities, reject investors with illegitimate motives, improve the quality of administrative activities and strengthen internal controls in an effort to make compliance functions more effective.

Daiwa Securities SMBC identified legal compliance and the establishment of a strict internal control structure as one of the most important issues for management to address. The company formulated a detailed compliance strategy, and implemented an action plan to support its compliance program. During FY 2006, the company conducted an internal inspection based on the “Comprehensive Guidelines for Supervision of Securities Companies,” issued by the Financial Services Agency, established an operational risk management structure, and introduced detailed training programs to ensure that employees have a thorough understanding of these issues. In FY 2007, the full implementation of the Financial Instruments and Exchange Law and revisions to the Law on Sales of Financial Products will bring further changes to the legal and regulatory environment surrounding securities companies. The Daiwa Securities Group will continue to develop and reform its compliance structure to properly address these changes.

The Financial Services Agency took administrative action against Daiwa Securities in December 2006, based on concerns about not preventing unfair trading and other irregularities at the Himeji branch. In response, Daiwa Securities submitted a business improvement plan to the Financial Services Agency in January 2007. We take these incidents very seriously, and are implementing comprehensive measures to enforce compliance and internal control throughout the Group.

IT Strategy and Information Security

The Daiwa Securities Group is investing aggressively in new information technology (IT), in order to respond effectively to the demands of a rapidly changing and diversifying securities industry. Since we view internal data, including information on individual clients, as an important management resource, the Group has implemented thorough policies to protect such information from the risk of being misused either inside or outside the Group. By maintaining a high-level information security management system, the Group is fulfilling its responsibility to protect internal information, and increasing corporate value.

IT Strategy

The Daiwa Securities Group actively employs IT systems which allow the Group to respond effectively to a rapidly diversifying and increasingly sophisticated securities business. The Group's core IT strategy is a central element of its overall business strategy, and includes plans to enhance Daiwa Securities' online trading business and improve the equity and bond trading systems at Daiwa Securities SMBC. In order for the IT services operations of the Group to fully support the IT needs of the securities business, it is essential to attract and train high-quality personnel with very specialized IT skills. The Group is making a full effort to cultivate these important employees.

IT Organization

Although it is investing aggressively in IT infrastructure, the Daiwa Securities Group is also doing its utmost to ensure that the Group's IT systems are highly productive and efficient, in order to keep systems-related costs under control. The Group tries to develop systems that can be adopted uniformly at all Group companies (or at least portions of the system can be shared by all Group offices). In this way, we are making every effort to build an overall Group IT infrastructure with as little duplication and waste as possible. Even in the case of systems that are already developed and in use, the Group is constantly examining their systems structure and operations structure in order to keep maintenance and operations costs at a minimum.

Structures and Measures for Maintaining Information Security

The Daiwa Securities Group's Information Security Policy, which defines the Group's response to and basic stance on information security, states that all information resources within the Group,

including personal information received from customers, must be handled in a safe, appropriate and proper manner. To ensure that this policy is followed to the fullest extent, the Group has implemented a wide range of information security measures. Organizational measures include the creation of a department with specific jurisdiction over information security matters, the appointment of information security officers in each part of the Group to promote information security policies, and the establishment of communications and reporting channels for use in an emergency. Physical and technical measures include the implementation of a "Thin Client" computer system and measures to restrict the range of users who can access certain types of information. Naturally, the computer system also includes thorough anti-virus countermeasures. Daiwa Securities' online trading systems employ highly advanced encryption technology, both in data transmission and to verify a user's identity, thus allowing clients to use the system safely and securely.

In addition, to ensure that executives and employees recognize the importance of information security, and fully understand the rules and issues involved, the Group conducts periodic in-house training sessions as part of its personnel-oriented measures to promote security.

Efforts to Enhance the Level of Information Security

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

CSR Initiatives

We believe that the Daiwa Securities Group has a corporate social responsibility (CSR) to contribute to society through our core business. It is important that each and every employee is always aware of societal issues in his or her everyday work. We actively promote CSR awareness among all employees and publicize our CSR activities in the community to increase awareness of these efforts among our stakeholders.

CSR Promotion System

The Daiwa Securities Group has adopted five principles in our efforts to promote a sustainable society.

(1) Engage in business activities needed by society

The securities business is highly public in nature. Our activities serve as a conduit between corporations with financing needs and investors with the need to manage their money, and facilitate the shift “from savings to investment.” In our efforts to contribute to the development of healthy financial markets, we conduct daily operations in compliance with the law and in line with social conventions.

(2) Operate a socially and environmentally friendly business

We encourage operations that put CSR principles into practice, and incorporate social considerations into the financial business. For example, we provide investment vehicles such as SRI (socially responsible investment) funds and bonds with coupons linked to the price of greenhouse gas emission reduction credits. These allow ordinary investors to participate in and contribute to solving environmental and social problems through their investment.

(3) Promote CSR outside the Group

We actively advocate CSR principles, and strive to promote CSR among stakeholders including other members of the financial industry, based on the principles of the United Nations Environment Programme Finance Initiative (UNEP FI)*¹ and the Principles for Responsible Investment (PRI)*².

(4) Act as a good corporate citizen

We have included measures to promote economic and financial education in the objectives in our medium-term management plan, and are using our economic and financial expertise to cultivate a new generation of financial professionals. We will continue to provide long-term support for regional and international communities by aiding the activities of foundations and NPOs, utilizing the framework of our core financial business.

(5) Uphold CSR management responsibilities

We constantly consider the social and environmental impact of our business activities. Along with our efforts to strengthen corporate governance, ensure thorough compliance, increase customer satisfaction and improve the working environment, we have developed an environmental management system and are working to raise employees’ awareness of environmental issues, focusing in particular on reducing the use of paper, which represents the largest direct environmental impact of our activities.

*1 United Nations Environment Programme Finance Initiative

This initiative has been in operation since 1992 with the aim of identifying, promoting and realizing the adoption of best environmental and sustainability practices based on partnerships between the United Nations Environment Programme and financial institutions in various countries.

*2 Principles for Responsible Investment

Investment principles published in April 2006 by the UNEP FI and the United Nations Global Compact, which aim to incorporate environmental, social and governance considerations into the investment decision-making process.

External Communications:

The Daiwa Securities Group actively communicates with outside stakeholders, for example, by publishing an annual Sustainability Report as a CSR communication tool, responding to CSR surveys conducted by NPOs, NGOs, and other external organizations, and participating in international forums and advocacy.

In January 2007, Akira Kiyota, Deputy Chairman of the Board of Daiwa Securities Group Inc., participated as a panelist in the World Economic Forum Annual Meeting (Davos meeting) held in Switzerland. As well as presenting the initiatives of the Group, he exchanged opinions with top management of many other corporations. The Daiwa Securities Group was selected as one of the “Global 100 Most Sustainable Corporations in the World” announced at the meeting.

SRI Funds Sold by Daiwa Securities

(March 31, 2007)

Fund	Net assets (¥ billion)
Daiwa Eco Fund	58.3
Daiwa SRI Fund	9.6
Global Eco Growth Fund (Mrs. Green)	3.7
UBS Global Equity 40	3.7
Total	75.3

In addition, Yoshinari Hara, Chairman of the Board of Daiwa Securities Group Inc., served as chairman of the Committee for the Promotion of CSR Management of the Keizai Doyukai (Japan Association of Corporate Executives) from FY 2004 to FY 2006. During this time, he worked on the issue of spreading CSR principles in Japan. The Keizai Doyukai issued a report in May 2007 that covers the Committee's activities over these three years, entitled "CSR Innovation—Creating New Corporate Value Through CSR as Part of Business Activities." The report describes the CSR activities of 92 Japanese companies, focusing on whether their products and services are environmentally friendly and whether stakeholders are given sufficient consideration in the provision of products and services, in the four categories of customers, employees, communities and the environment.

CSR Initiatives through Core Business Activities

1. Socially Responsible Investment (SRI)

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

The Daiwa Securities Group markets and manages SRI funds such as the Daiwa SRI Fund and Daiwa Eco Fund. The Daiwa Eco Fund, which was launched in March 2006, invests in companies based on an evaluation of their environmental initiatives, such as the development of environmentally friendly technology or improvements in energy efficiency, and the ways in which they utilize capital. As of March 31, 2007, net assets of the Daiwa Eco Fund stood at ¥58.3 billion, making it one of the largest SRI funds in Japan.

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. The Group takes part in industrial-academic collaborations, offering college courses and lectures at universities across Japan, and supports ventures that originate from universities. Group employees with experience in IPO

advisory and venture investment serve as part-time lecturers in a basic course to train venture entrepreneurs, teaching them the basic skills needed to start a business. We utilize our expertise and offer practical advice on the students' business plans from a professional standpoint. This unique form of economic education has been well received. Until FY 2006, the course was available only at Waseda University, but since FY 2007 it has been expanded to Meiji University, Chuo University and Nihon University.

We also support basic economic education for students at elementary, junior high, and senior high schools. As part of this program, we have been working with the Tokyo office of Junior Achievement, the largest NPO engaged in youth financial education in the United States, to support programs including the Student Company Program and Finance Park, which are hands-on economic and life planning education programs for junior and senior high school students. By raising the level of economic and financial literacy through these activities, we are contributing to sustainable economic growth and a stronger economic foundation in Japan.

Supporting International Initiatives

The Daiwa Securities Group actively supports international initiatives aimed at creating a sustainable society. In March 2004, Daiwa Securities Group Inc. signed up to the Carbon Disclosure Project^{*1}, and joined the aforementioned UNEP FI in November 2004. In May 2007 we signed the "Declaration on Climate Change by the Financial Services Sector"^{**2} issued by UNEP FI. Daiwa Asset Management has also signed the Principles for Responsible Investment, and adheres to the principles in its activities.

*1 Carbon Disclosure Project

An alliance of institutional investors concerned about climate change, this project asks global companies to disclose information regarding their stance on environmental issues and measures to protect the environment.

**2 Declaration on Climate Change by the Financial Services Sector

This declaration on the initiatives taken regarding climate change by world leaders in the finance industry was issued by UNEP FI to coincide with the June 2007 summit meeting in Heiligendamm, Germany.

Corporate Citizenship Activities

The Daiwa Securities Group supports activities to benefit the community and to protect the environment, as well as volunteer activities, primarily through the CSR Promotion Department at Daiwa Securities Group Inc. The Group aims to raise awareness among its executives and employees regarding the importance of good corporate citizenship.

Support Activities through Group Foundations

We also engage in activities that support regional and international communities through Group foundations and other channels. Daiwa Securities Health Foundation supports research aimed at preventing and treating lifestyle diseases, and works to increase awareness of health maintenance and improvement. Daiwa Securities Foundation supports a wide variety of volunteer activities associated with 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 U.K. to visit Japan. In May 2007 the foundation held a reception at the Japanese embassy in the U.K. to commemorate the number of Daiwa scholars having exceeded 100.

Environmental Initiatives

The Group’s employees are working to reduce their environmental impact with efforts to reduce energy consumption on a daily basis, by switching off office lights and electrical appliances when they are not in use and by installing energy-saving models when replacing equipment. During FY 2006, Daiwa Securities succeeded in significantly reducing the amount of paper it used by computerizing statements sent to customers and ledgers for internal use.

Inclusion in SRI Indices

Starting in September 2006, Daiwa Securities Group Inc. has been selected as a component of the FTSE4Good Index, an index of socially responsible companies compiled by FTSE. FTSE is a subsidiary of the Financial Times (U.K.) and the London Stock Exchange. It provides data and constructs global indices for investment.

Daiwa Securities Group Inc. has also been selected for the Dow Jones Sustainability World Index (DJSI World) for the eighth consecutive year. DJSI World is an SRI stock index devised by Dow Jones Indexes (U.S.) and SAM Group (Switzerland), which assesses corporate sustainability.



CSR Promotion under the Medium-term Management Plan

By actively increasing communication with its stakeholders, the Daiwa Securities Group is working hard to increase recognition of its CSR activities and contribute to sound economic growth.

Specifically, we are stepping up efforts in three areas.

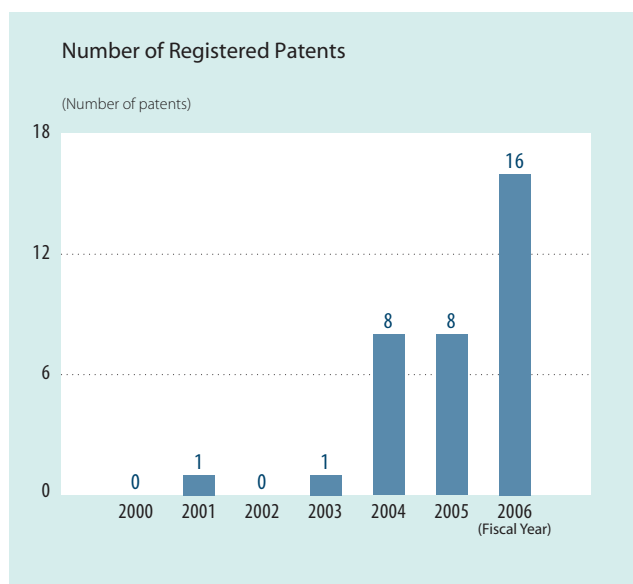
- (1) Economic and financial education: supporting education and research and promoting economic literacy through partnerships with educational institutions and NPOs;
- (2) SRI: promoting socially responsible investments
- (3) Environment: creating an environmental management system that includes formulating 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 our medium-term management plan, we are collaborating with individuals and organizations both within and outside the Group, to reinforce CSR activities.

Intellectual Property Activities

The Daiwa Securities Group actively pursues patents, in an effort to maintain flexibility and establish a competitive advantage in future business operations. The Group encourages efforts to plan and develop new services and products that apply information technology, and will take steps to protect and utilize the Group's intellectual property.

Specifically, we aim to obtain and make use of patents in such diverse areas as SMA, securities brokerage systems, electronic document issuance, and settlement systems. The Intellectual Property Section of the Legal Department of Daiwa Securities Group Inc. cooperates with other Group companies in pursuit of this aim. Furthermore, the Group is reinforcing trademark and copyright management. Not only do we prevent infringement by other companies on the Group's intellectual property rights, but also avoid infringement by Group companies on intellectual property rights held by other companies, in accordance with corporate compliance.



Intellectual Property Activities and Achievements

As of the end of March 2007, the Daiwa Securities Group had registered 33 patents (34 including overseas patents), and had 312 patent applications pending as of the end of March 2007.

Of the 16 patents registered in FY 2006, eight were business model patents (e-commerce), and eight were non-business model patents.

Main Intellectual Property Measures

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

- Enhance incentive payment system for patent applications
- Operate an awards system to recognize executives and employees who contribute significantly to intellectual property activities
- Promote activities to identify patents, such as education/training and seminars on patents, in collaboration with core and strategic business divisions
- Provide information on patents via the Group's intranet, including information on patent applications and registrations from the Group and other companies as well as manuals

Disclosure Strategy

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

Disclosure System

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

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

Enhancing Investor Relations Activities

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

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

overseas investors is conducted later that same evening. During FY 2006, we also expanded our conferencing capabilities to respond to a rapidly increasing number of requests from analysts and institutional investors for individual IR meetings.



The Group's CEO holds briefings for investors and analysts in Japan, twice a year. In addition, the top management team travels overseas to meet with institutional investors on a regular basis. In FY 2006, conferences with investors were held in Australia and the Middle East as well as Europe, the US, Hong Kong and Singapore.

The Group is also taking steps to improve communications with individual shareholders and investors. For example, we hold regular briefings by the CEO for individual investors, and have launched a dedicated section for individual investors within our IR website, in July 2006. In addition, the Group has made use of responses to investor surveys to improve the complimentary items distributed to shareholders.

In order to encourage more shareholders to attend the General Shareholders' Meeting, which gives Group representatives an opportunity to interact directly with shareholders, since 2006 we have been holding the Meeting on a Saturday, in a spacious conference room at a hotel. For those shareholders who are unable to attend the meeting in Tokyo, the Group has traditionally broadcast this event via live satellite transmission, to venues in Osaka and Nagoya. In June 2007, we added telecast sites in Sapporo and Fukuoka. To encourage investors to exercise their voting rights, the Group allows shareholders to vote via the Internet or by mobile phone. In FY 2006, we joined the “Electronic Voting Platform for Institutional and Foreign Investors,” which allows institutional investors both in Japan and overseas to vote quickly and directly on proposals to the General Shareholders' Meeting, via the Internet.

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

The Daiwa Securities Group in Figures

		
Five-year Financial Summary	Breakdown by Business and Geographical Region	Eight-quarter Financial Summary
<small>SEE PAGE</small> 76	<small>SEE PAGE</small> 77	<small>SEE PAGE</small> 78
		
Operational Data	Stock Information	
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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 (Note 1)
	FY2002	FY2003	FY2004	FY2005	FY2006	FY2006
Operating Performance						
Operating revenues	¥387,659	¥453,814	¥519,337	¥845,660	¥917,308	\$7,774
Commissions	144,283	194,163	216,387	309,189	306,736	2,599
Net gain on trading	93,932	120,195	151,118	224,912	157,333	1,333
Net gain on private equity and other securities	4,132	8,676	12,763	21,539	32,818	278
Interest and dividend income	107,950	96,366	105,428	245,211	373,453	3,165
Service fees and other revenues	37,362	34,414	33,641	44,809	46,968	398
Net operating revenues	270,810	352,435	390,432	579,359	526,764	4,464
Operating income	24,109	92,520	114,888	254,160	186,391	1,580
Income before income taxes and minority interests	11,845	76,926	112,603	258,356	185,923	1,576
Net income (loss)	(6,323)	42,637	52,665	139,948	92,725	786

	Millions of yen					Millions of U.S. dollars (Note 1)
	FY2002	FY2003	FY2004	FY2005	FY2006	FY2006
Balance Sheet						
Total assets	¥9,502,826	¥10,765,665	¥12,378,962	¥14,898,692	¥14,411,265	\$122,129
Private equity and other securities	77,866	87,367	142,547	382,421	440,178	3,730
Tangible fixed assets (excl. accumulated depreciation)	162,339	143,123	137,620	126,531	134,536	1,140
Investment securities	259,207	229,924	193,202	269,854	269,805	2,286
Total shareholders' equity	541,719	604,170	648,332	792,281	–	–
Net assets (Note 2)	–	–	–	–	1,223,226	10,366

	Yen					U.S. dollars (Note 1)
	FY2002	FY2003	FY2004	FY2005	FY2006	FY2006
Per Share Data						
Net income (loss) (Note 3)	¥ (4.75)	¥ 31.66	¥ 39.03	¥103.90	¥ 67.90	\$0.58
Net assets (Note 3)	407.84	453.60	486.70	598.27	665.98	5.64
Cash dividends	6.00	10.00	13.00	34.00	28.00	0.24

	%				
	FY2002	FY2003	FY2004	FY2005	FY2006
Financial Ratios					
Return on equity (ROE) (Note 4)	–	7.4	8.4	19.4	10.8
Equity ratio	5.7	5.6	5.2	5.3	6.5

	FY2002	FY2003	FY2004	FY2005	FY2006
Other Data					
Total number of employees	12,483	12,459	12,243	12,561	13,264
(Financial advisors)	(924)	(894)	(948)	(1,055)	(917)

Notes: 1. Translations of the Japanese yen amounts into US dollars use an exchange rate of ¥118.00 = US\$1.00 (rounded down to the nearest yen), and are provided solely for the convenience of the reader.

2. Accounting data is presented based on the revised accounting standards stipulated in the "Accounting Standard for Presentation of Net Assets in the Balance Sheet," and reflects the calculations after these revisions.

3. Net income (loss) per share is calculated on the basis of the average number of shares outstanding over the course of the fiscal year. Net assets per share are calculated using the following formulas.

From FY 2002 to FY 2005: Net assets per share = shareholders' equity / shares outstanding as of the fiscal year-end

For FY 2006: Net assets per share = (net assets – stock subscription rights – minority interests) / (shares outstanding as of the fiscal year-end – treasury shares as of the fiscal year-end)

4. Return on equity is calculated using the average of equity at the start of the fiscal year and equity at the end of the fiscal year. Equity is calculated as follows: Equity = owners' equity + valuation and translation adjustments.

5. The total number of employees includes individuals employed as financial advisors.

The Daiwa Securities Group in Figures

Breakdown by Business and Geographical Region

Daiwa Securities Group Inc. and Consolidated Subsidiaries

Millions of yen

	FY2002	FY2003	FY2004	FY2005	FY2006
Breakdown of Net Operating Revenues by Business					
Equity	¥ 49,178	¥130,085	¥139,992	¥244,488	¥130,275
Commissions	47,242	80,061	83,887	120,217	98,987
Net gain on trading	1,936	50,024	56,105	124,271	31,288
Fixed income	96,580	75,390	99,277	103,843	128,712
Commissions	4,585	5,219	4,264	3,202	2,667
Net gain on trading	91,995	70,171	95,013	100,641	126,045
Asset management	40,870	43,046	45,640	82,404	106,906
Investment banking	39,638	55,805	71,170	82,735	74,986
Others	44,544	48,109	34,353	65,889	85,885
Net operating revenues	¥270,810	¥352,435	¥390,432	¥579,359	¥526,764

Breakdown of Commission Income by Business

Equity	¥ 47,242	¥ 80,061	¥ 83,887	¥120,217	¥ 98,987
Brokerage commission	45,403	78,194	81,919	118,262	97,062
Other	1,839	1,867	1,968	1,955	1,925
Fixed income	4,585	5,219	4,264	3,202	2,667
Asset management	40,870	43,046	45,640	82,404	106,906
Brokerage commission	276	209	159	336	317
Distribution commission	14,059	21,904	19,688	41,799	37,211
Management fee (excluding agency commission)	13,029	9,992	11,779	17,994	33,668
Agency commission	13,506	10,940	14,014	22,275	35,711
Investment banking	39,638	55,805	71,170	82,735	74,986
Underwriting commission (Stock and other)	18,092	36,927	44,659	54,066	43,510
Underwriting commission (Bond and other)	9,522	8,400	8,573	8,554	9,406
Distribution commission	608	1,662	3,598	2,032	1,310
Other (M&A commission, etc.)	11,084	8,049	12,828	16,389	19,607
Others	11,948	10,032	11,426	20,631	23,190
Life insurance sales commission	3,500	1,485	1,926	6,302	6,134
Investment enterprise partnership administration fee	2,439	2,652	3,013	4,776	4,981
Other	6,007	5,895	6,487	9,553	12,074
Total	¥144,283	¥194,163	¥216,387	¥309,189	¥306,736

Geographical Segment Information

Net operating revenues					
Japan	¥ 239,719	¥ 315,579	¥ 351,457	¥ 543,196	¥ 475,174
America	7,677	11,217	10,612	14,286	14,684
Europe	23,331	27,369	30,405	33,758	35,904
Asia & Oceania	5,862	7,672	8,534	12,098	14,729
Operating income (loss)					
Japan	24,054	83,310	106,914	248,212	172,568
America	(3,404)	1,020	17	2,366	1,605
Europe	3,386	6,956	6,202	10,079	8,341
Asia & Oceania	67	1,561	1,753	3,626	3,878
Total assets					
Japan	7,270,670	8,617,452	10,078,853	12,239,143	10,808,697
America	1,817,691	1,948,621	2,098,376	2,807,087	3,372,712
Europe	656,448	768,712	811,192	1,145,934	1,238,352
Asia & Oceania	63,721	63,531	62,560	72,881	81,732

The Daiwa Securities Group in Figures

Eight-quarter Financial Summary

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	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
Operating Performance				
	Millions of yen			
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 minority interests	24,122	70,102	79,560	84,569
Net income	11,636	34,185	38,803	55,322

Note: Based on unaudited financial statements included in the Group's Consolidated Financial Summary submitted to the Tokyo Stock Exchange.

	FY2006			
	Q1	Q2	Q3	Q4
Market Data				
TOPIX (quarterly average, index)	1,641	1,584	1,621	1,728
TSE average daily trading value (billions of yen)	2,842	2,315	2,576	3,327
Net purchases (sales) by investors on the TSE (billions of yen)				
Institutions	878	446	1	(1,651)
Individuals	1	(1,611)	(2,483)	(402)
Foreigners	(412)	1,185	2,687	2,677
Securities companies	11	(68)	(70)	(8)
Ten-year Japanese government bond yield (quarterly average, %)	1.88	1.79	1.69	1.67
Foreign exchange rates (quarterly average):				
Yen per U.S. Dollar	114.41	116.21	117.76	119.34
Yen per Euro	143.85	148.14	151.95	156.35
Operating Performance				
	Millions of yen			
Operating revenues	¥207,638	¥211,752	¥242,778	¥255,138
Commissions	67,858	67,110	90,278	81,489
Brokerage commission	26,593	19,534	23,621	28,323
Underwriting commission	6,678	12,559	25,093	9,737
Distribution commission	10,624	7,846	8,380	11,668
Other commission	23,961	27,170	33,182	31,760
Net gain on trading	35,234	37,833	37,219	47,044
Net gain on private equity and other securities	11,602	7,058	6,159	7,997
Interest and dividend income	83,400	88,361	98,432	103,258
Other sales revenues	9,542	11,388	10,688	15,348
Interest expenses	78,166	83,870	92,834	99,373
Cost of sales	7,381	8,629	8,024	12,263
Net operating revenues	122,090	119,252	141,919	143,501
Selling, general and administrative expenses	78,942	82,580	87,968	90,882
Commission and other expenses	15,037	18,080	17,954	20,367
Employees' compensation and benefits	40,143	39,364	41,811	42,059
Occupancy and rental	7,868	9,187	10,756	11,033
Data processing and office supplies	5,761	5,364	5,626	6,268
Depreciation expenses	5,364	5,642	5,910	6,199
Taxes other than income taxes	1,856	2,016	2,375	2,016
Others	2,911	2,923	3,533	2,937
Operating income	43,148	36,672	53,950	52,618
Non-operating income	3,223	4,622	2,091	999
Non-operating expenses	955	261	112	583
Ordinary income	45,416	41,034	55,929	53,034
Extraordinary gains	834	1,081	480	1,204
Extraordinary losses	107	2,050	558	10,377
Income before income taxes and minority interests	46,143	40,065	55,850	43,862
Net income	23,118	17,008	26,754	25,842

Note: 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)

	FY2005			
	Q1	Q2	Q3	Q4
Daiwa Securities				
Daiwa Securities customer assets under custody (Note 1)	¥23,765	¥25,753	¥29,187	¥30,129
Equities	11,848	13,003	15,447	16,005
Bonds	5,634	5,825	5,945	6,035
Domestic bonds	3,407	3,494	3,502	3,615
Foreign currency-denominated bonds	2,226	2,330	2,443	2,420
Investment trusts	4,399	4,898	5,595	5,797
Equity investment trusts	2,254	2,663	3,217	3,642
Bond investment trusts	2,144	2,234	2,378	2,155
Pension insurance	169	220	292	335
Others	1,713	1,805	1,904	1,955
Net inflow of retail assets (Note 2)	282	298	519	785
Individual	239	245	461	618
Unlisted corporation, etc.	42	53	58	166
Cash Management Service accounts (thousands) (Note 1)	2,539	2,568	2,631	2,695
Online trading accounts (thousands) (Note 1)	1,323	1,359	1,421	1,487
Assets under custody of online accounts (Note 1)	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) (Note 1)	457	492	536	586
Assets under custody of "Daiwa Direct" accounts (Note 1)	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				
Customer assets (Note 1)	¥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
Others	1,138	919	925	783
Daiwa Asset Management				
Net assets under management (Note 1)	¥ 5,861	¥ 6,434	¥ 7,188	¥ 7,574
Equity investment trusts	2,452	2,879	3,482	4,238
Bond investment trusts	3,409	3,554	3,706	3,335

Notes: 1. As of the end of each quarter

2. Net inflow of retail assets = net inflow of cash and securities

Billions of yen (Unless otherwise specified)

	FY2006			
	Q1	Q2	Q3	Q4
Daiwa Securities				
Daiwa Securities customer assets under custody (Note 1)	¥28,677	¥29,174	¥30,680	¥32,332
Equities	14,551	14,516	14,905	15,386
Bonds	6,073	6,218	6,629	7,112
Domestic bonds	3,644	3,660	3,886	4,356
Foreign currency-denominated bonds	2,429	2,557	2,742	2,756
Investment trusts	5,711	6,076	6,653	6,945
Equity investment trusts	3,642	4,001	4,484	4,791
Bond investment trusts	2,068	2,075	2,169	2,154
Pension insurance	337	377	415	443
Others	2,003	1,986	2,076	2,443
Net inflow of retail assets (Note 2)	418	504	564	946
Individual	339	309	305	422
Unlisted corporation, etc.	79	194	258	523
Cash Management Service accounts (thousands) (Note 1)	2,726	2,755	2,783	2,819
Online trading accounts (thousands) (Note 1)	1,521	1,551	1,579	1,616
Assets under custody of online accounts (Note 1)	10,734	10,994	11,658	12,206
Online transactions (thousands)	2,489	1,974	2,016	2,446
Online ratio	78.6%	80.4%	78.0%	78.3%
Online trading value	2,394	1,842	1,880	2,542
Online ratio	61.2%	63.3%	61.3%	62.0%
"Daiwa Direct" course accounts (thousands) (Note 1)	613	634	661	700
Assets under custody of "Daiwa Direct" accounts (Note 1)	1,971	2,046	2,185	2,424
Sales of core products				
Equity investment trusts	498	352	435	557
Foreign currency-denominated bonds	220	264	277	298
Daiwa Securities SMBC				
Customer assets (Note 1)	¥23,489	¥24,562	¥25,488	¥26,901
Equities	13,333	13,476	14,181	14,661
Bonds	8,111	8,821	8,984	10,575
Investment trusts	1,076	1,028	1,066	1,039
Others	968	1,235	1,255	625
Daiwa Asset Management				
Net assets under management (Note 1)	¥ 7,722	¥ 8,155	¥ 9,181	¥ 9,666
Equity investment trusts	4,569	5,026	5,887	6,388
Bond investment trusts	3,152	3,128	3,294	3,277

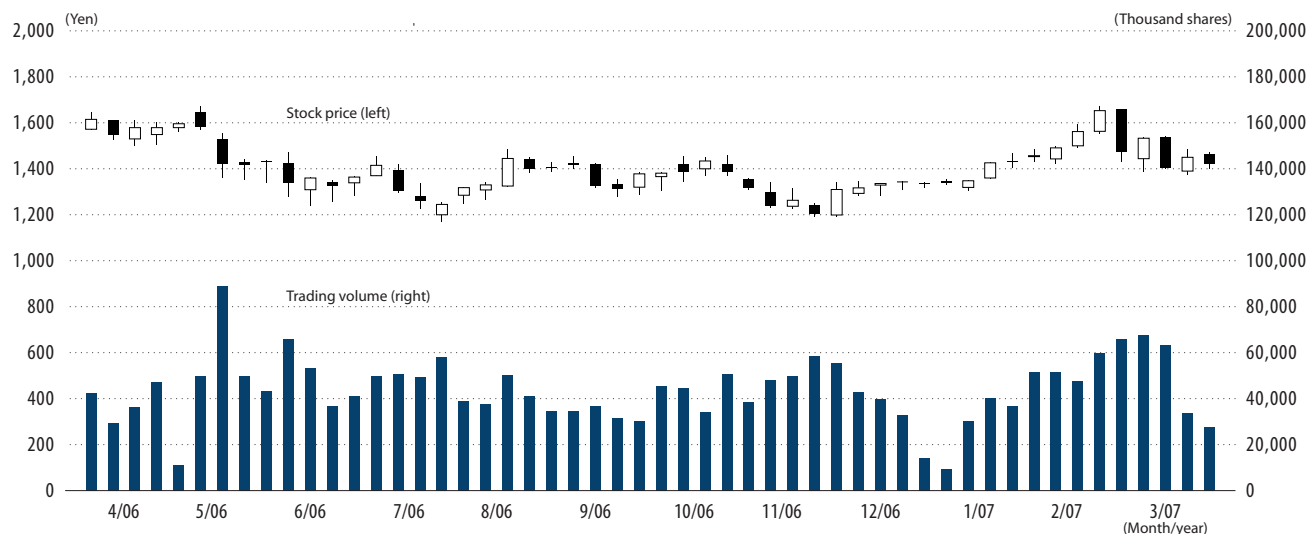
Notes: 1. As of the end of each quarter

2. Net inflow of retail assets = net inflow of cash and securities

The Daiwa Securities Group in Figures

Stock Information

1. Stock Price and Trading Volume



2. Major Shareholders (As of March 31, 2007)

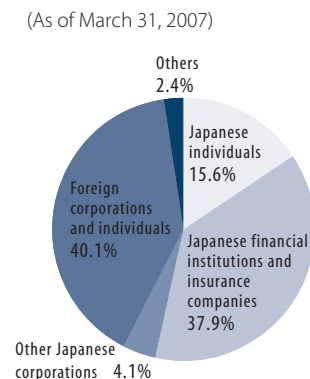
Name	Number of shares held (Thousands)	% of total outstanding shares
The Master Trust Bank of Japan, Ltd. Trust Account	91,354	6.50
Japan Trustee Services Bank, Ltd. Trust Account	76,372	5.44
Japan Trustee Services Bank, Ltd. Trust Account 4	42,613	3.03
State Street Bank and Trust Company	34,632	2.47
Sumitomo Mitsui Banking Corporation	30,328	2.16
Investors Bank & Trust	28,720	2.04
Japan Trustee Services Bank, Ltd. The Sumitomo Trust & Banking Retirement Benefit Account	24,888	1.77
Bank of New York GCM Client Accounts E ISG	24,205	1.72
Taiyo Life Insurance Company	23,140	1.65
Nippon Life Insurance Company	20,867	1.49

* Numbers of shares are rounded down to the closest thousand

3. Stock Price on the Tokyo Stock Exchange (April 1, 2006–March 31, 2007)

Open	High	Low	Close	Average daily trading volume
¥1,572	¥1,673	¥1,170	¥1,423	9,266 Thousand Shares

4. Breakdown of Shareholders (As of March 31, 2007)



Financial Section

Management's Discussion and Analysis <small>SEE PAGE</small> 84	Consolidated Balance Sheets <small>SEE PAGE</small> 94	Consolidated Statements of Operations <small>SEE PAGE</small> 96
Consolidated Statements of Changes in Net Assets <small>SEE PAGE</small> 97	Consolidated Statements of Cash Flows <small>SEE PAGE</small> 98	Notes to Consolidated Financial Statements <small>SEE PAGE</small> 100
Independent Auditors' Report <small>SEE PAGE</small> 118		

Management's Discussion and Analysis

Macroeconomic Conditions

Japan

During FY 2006, the Japanese economy continued to expand despite a temporary slump in consumer spending through summer, due to stagnant wage conditions and inclement weather, as strong export demand took over as the engine of economic growth. According to the Cabinet Office's Monthly Economic Report, the economy has been expanding steadily since hitting bottom in January 2002; in November 2006, the current upturn became the longest economic expansion of the postwar era, surpassing the 57-month growth phase commonly referred to as the "Izanagi Boom" (November 1965 to July 1970). Real GDP has been expanding at an annual rate of around 2% since FY 2003, and preliminary data suggests that the growth rate for FY 2006 will also exceed 2%, for the fourth consecutive year. Fluctuations in the economic cycle appear to be moderating, and as a result, the current period of economic growth has been characterized by continuous expansion over a long period, with no signs of overheating.

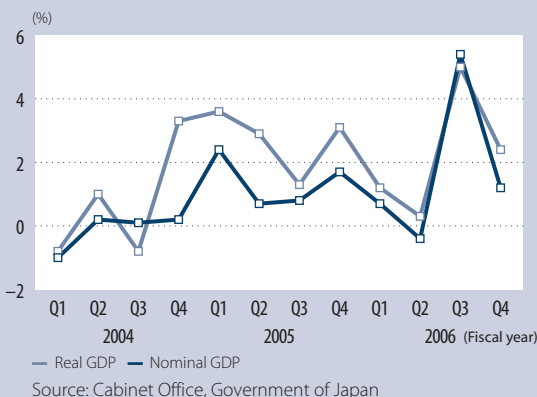
The Japanese economy also shows signs of finally escaping from deflationary pressures. Since March 2001, when the Bank of Japan (BoJ) introduced a quantitative-based monetary easing policy, it has kept the unsecured overnight call rate at essentially 0%. However, in early 2006 consumer prices began to edge steadily upward, and in response the BoJ lifted its quantitative monetary easing policy in March 2006. In July 2006, the BoJ raised the unsecured overnight call rate to 0.25%, and it hiked rates a further 25 basis points in February 2007. The BoJ is not yet able to confirm that the economy has escaped from deflationary pressures. However, the decision to lift its zero interest rate policy, after a period of five years and four months, would suggest that the Japanese economy is moving back to normal.

This past year also brought clear indications of a change in the direction of land prices, which had fallen for many years. The nationwide average land price for both residential and commercial land published by the Ministry of Land, Infrastructure and Transport showed an increase for the first time in 16 years, as of January 1, 2007. Rising demand for condominiums and offices and a boom in real estate investment, particularly in the major metropolitan areas of Tokyo, Nagoya and Osaka, brought rising land prices in these areas. This was the main factor elevating nationwide prices. There are also indications that the decline in regional land prices is moderating.

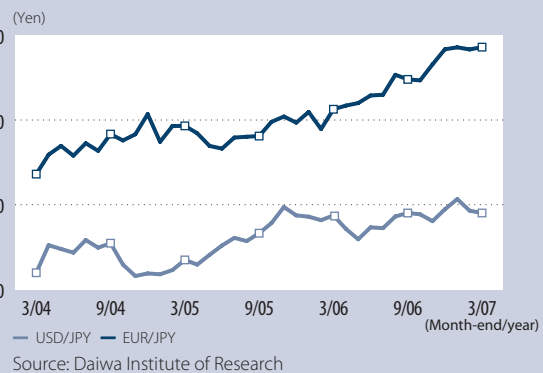
Under these healthy economic conditions, corporate earnings have been rising steadily. Large corporations, in particular, continued to report both sales and profit growth. Despite the positive trends, the Nikkei 225 Average was unable to find solid footing at the 17,000 level, and in mid-2006 slipped temporarily to the mid-15,000s. A subsequent recovery, however, saw the average top 18,000 in late February 2007. Thereafter, a global correction in stock prices led the Nikkei 225 Average lower, but by the end of the fiscal year it had recovered to ¥17,287.65, a 1.3% rise from ¥17,059.66 at the close of the previous fiscal year.

Considering the recent buoyancy of global stock markets, there is a sense that stock prices in Japan are lagging behind. One feature of Japan's current economic expansion is that, despite brisk external demand, the upturn has been slow to trigger a corresponding rise in domestic demand. The increasingly intense competition that global corporations face has caused labor's share of corporate added value to decline internationally. In Japan, this has meant that healthy corporate earnings are not being passed on to the household sector, in the form of higher wages, and thus the household sector has been slow to recover. As a result, Japan's economy is having trouble

GDP (Annualized Quarter-on-quarter Changes)



Foreign Exchange Rates



making the transition to a self-sustaining expansion led by domestic demand, principally consumer spending. Nevertheless, domestic corporations have completed their restructuring, and are once again investing heavily in new plant and equipment. Meanwhile, economic growth in newly emerging economies has stimulated global trade, and the abundant liquidity in international markets is boosting asset prices. These factors are creating a fertile environment for continued economic growth in Japan.

Overseas

Recent trends in the global economy have been generally favorable for Japan. In the US, a slump in the housing market has restrained economic growth, and in response, the Federal Reserve Board (FRB) has kept interest rates unchanged since the last rate hike in June 2006. On the other hand, in the Euro zone, an economic revival in Germany is supporting the region's overall growth, and the European Central Bank (ECB) has been raising interest rates steadily. In China, which plays an increasingly important role in the global economy, the real economic growth rate remains high, at over 10% per annum. As new economic players such as China and India expand, their role in the global economy is shifting. No longer are they simply supply bases for the rest of the world. On the contrary, their domestic economies are now vibrant enough to lead international trends. These countries are establishing themselves as new engines for the global economy. Thus, even as the US economy began to lose momentum, global trade remained brisk and Japanese exports continued to expand. Furthermore, interest rate and inflation differentials between other countries and Japan have conspired to keep the yen weak. This has boosted the earnings of exporters.

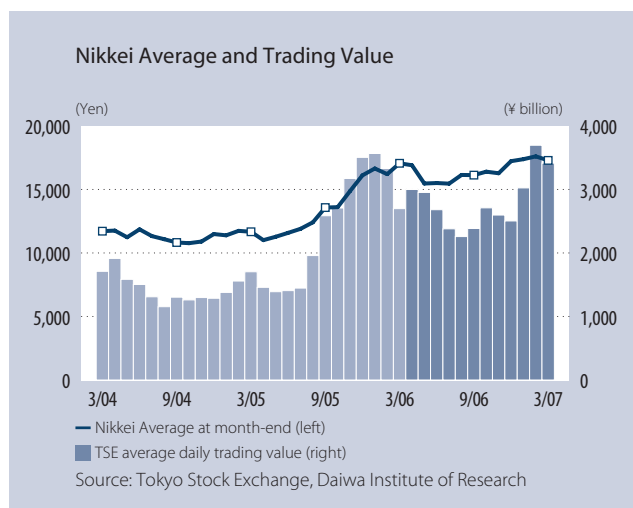
Consolidated Operating Results

Overview

A sluggish equities market and a drop in individual stock trading created a tough business environment for Japanese securities companies in FY 2006. On the other hand, the favorable long-term trend of individuals shifting their assets from savings to investment accelerated the flow of funds into investment trusts. Against this backdrop, earnings at the Daiwa Securities Group were bolstered by the success of efforts to diversify the revenue base, but this was not enough to offset the full impact of market conditions. As a result, both revenues and profits declined year on year. Nevertheless, profitability remained high, with consolidated ROE at 10.8%; the Daiwa Securities Group was the only one of Japan's three major securities groups to achieve a return on equity of over 10%. The Company's dividend for the year was ¥28 per share, representing a dividend payout ratio of 41.2%, well above the 30% guideline adopted by the Group as a basic dividend policy.

Net Operating Revenues

Net operating revenues for the period declined 9.1% year on year, to ¥526.7 billion. Revenues from commissions were down 0.8% from last fiscal year, to ¥306.7 billion. This reflected both a decline in individual stock trading, which depressed equity commissions, and a smaller number of large-scale underwriting deals, which had elevated investment banking commissions in FY 2005. Assets under management of equity investment trusts increased year on year, driving a large increase in revenues from the asset management business. Gains from trading activities declined 30% year on year, to



¥157.3 billion. Most of this decline was attributable to reduced profits from the Structured Principal Solution (SPS) program, operated by Daiwa Securities SMBC. On the other hand, net gains from private equity and other securities held by Daiwa Securities

SMBC Principal Investments and NIF SMBC Ventures increased sharply, as they realized gains from some investments in private equities.

Breakdown of Net Operating Revenues

	FY2005	FY2006	yoy	(Millions of yen)			
				FY2006			
				Q1	Q2	Q3	Q4
Commissions	¥309,189	¥306,736	-0.8%	¥ 67,858	¥ 67,110	¥ 90,278	¥ 81,489
Net gain on trading	224,912	157,333	-30.0%	35,234	37,833	37,219	47,044
Net gain on private equity and other securities	21,539	32,818	52.4%	11,602	7,058	6,159	7,997
Net financial income	13,638	19,207	40.8%	5,233	4,491	5,597	3,884
Others	10,079	10,669	5.9%	2,161	2,758	2,663	3,085
Net operating revenues	¥579,359	¥526,764	-9.1%	¥122,090	¥119,252	¥141,919	¥143,501

Note: Quarterly figures have not been audited by an independent auditor.

Breakdown of Commissions by Business Sector

Breaking down commissions by the source of the revenue, equity commissions totaled ¥98.9 billion, down 17.7% year on year. Although average daily trading value on the Tokyo Stock Exchange set a new record high for the second consecutive year, both the percentage of total activity accounted for by individual investors and Daiwa Securities' average brokerage commission rate declined. As a result, Daiwa Securities recorded a decline in equity brokerage commissions.

Commissions from asset management increased rapidly for the second consecutive year, by 29.7% year on year, to ¥106.9 billion. While distribution commissions declined due to a year-on-year drop

in sales of equity investment trusts, growth in assets under management produced an increase in management fees. Total assets in publicly offered equity investment trusts managed by Daiwa Asset Management increased from ¥4.2 trillion at the end of March 2006, to ¥6.4 trillion at the end of March 2007.

Investment banking commissions declined 9.4% year on year, to ¥74.9 billion. Although the company landed several large-scale underwriting deals for initial public offerings (IPOs), the total number of large primary and secondary equity offerings underwritten declined sharply from the previous year. On the other hand, commissions from the M&A business continued to rise. In the major league tables, Daiwa Securities SMBC held the number 1 position in IPOs for the second consecutive year.

Breakdown of Commissions

	FY2005	FY2006	yoy	(Millions of yen)			
				FY2006			
				Q1	Q2	Q3	Q4
Equity	¥120,217	¥98,987	-17.7%	¥26,863	¥19,658	¥23,895	¥28,569
Fixed income	3,202	2,667	-16.7%	744	756	504	660
Asset management	82,404	106,906	29.7%	24,766	23,703	26,430	32,006
Investment banking	82,735	74,986	-9.4%	9,440	17,351	33,711	14,481
Others	20,631	23,190	12.4%	6,042	5,640	5,736	5,771
Total commissions	¥309,189	¥306,736	-0.8%	¥67,858	¥67,110	¥90,278	¥81,489

Note: Quarterly figures have not been audited by an independent auditor.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses rose by 4.7% year on year, to ¥340.3 billion. The main factors contributing to this increase were an 11.8% year-on-year rise in fees and commissions paid, including agency commissions paid for investment trusts sold through sales channels outside the Group, and an 18.9% year-on-year increase in real estate expenses related to the refurbishing of Daiwa Securities branch offices. Office expenses also increased 33.3% year on year, mainly due to the outsourcing of systems development work. SG&A expenses increased as a percentage of net operating revenues, to 64.6% compared with a 56.1% ratio in FY 2005.

Ordinary Income and Net Income

Ordinary income declined by 25.0% year on year in FY 2006, to ¥195.4 billion. The net of extraordinary items amounted to a loss of ¥9.4 billion. Major extraordinary losses included a ¥2.9 billion loss on impaired fixed assets and a ¥4.6 billion expense associated with the relocation of the head office. As a result, net income for the period declined 33.7% year on year, to ¥92.7 billion.

Ordinary Income and Net Income

	FY2005	FY2006	yoy	(Millions of yen)			
				FY2006			
				Q1	Q2	Q3	Q4
Ordinary income	¥260,651	¥195,415	-25.0%	¥45,416	¥41,034	¥55,929	¥53,034
Net income	139,948	92,725	-33.7%	23,118	17,008	26,754	25,842

Note: Quarterly figures have not been audited by an independent auditor.

Performance of Major Group Companies

The Group's retail securities arm, Daiwa Securities, recorded a 10.9% year-on-year decline in operating revenues, to ¥230.6 billion, while ordinary income decreased 26.3%, to ¥74.4 billion. A lull in stock trading by individual investors, and a drop in the number of large-scale underwriting deals, compared with FY 2005, caused brokerage and distribution commissions to decline sharply. On the other hand, customer assets under custody of equity investment trusts grew steadily, from ¥3.6 trillion as of March 2006 to ¥4.7 trillion at the end of March 2007. Agency commissions grew dramatically as a result. The net inflow of retail assets rose to ¥2.4 trillion, far surpassing the ¥1.9 trillion inflow in FY 2005. In particular, the net inflow of securities assets soared, to ¥1.7 trillion from ¥500 billion in the previous year. This reflected changes in the book-entry transfer system for corporate bonds, which increased the volume of transfers from registered bonds. In addition, since the share certificate system is expected to be revised by 2009, making stock certificates completely electronic and paperless, deposits of "tansu-kabu" (stock certificates physically held by investors) accelerated. The net inflow of cash fell to ¥800 billion, compared with ¥1.4 trillion in FY 2005. As a result, total client assets held by Daiwa Securities as of March 2007 stood at ¥32.3 trillion. The balance of margin positions outstanding in the online trading business also increased, and contract assets under management in "Daiwa SMA"—the company's wrap account service for high-net-worth customers—rose to ¥223.4 billion as of March 2007.

Consolidated earnings at Daiwa Securities SMBC, the Group's wholesale securities arm, include contributions from consolidated overseas subsidiaries as well as Daiwa Securities SMBC Principal Investments, a domestic subsidiary which oversees the Group's investment business. Operating revenues for FY 2006 declined 9.6% year on year, to ¥317.1 billion, and ordinary income decreased by 34.4%, to ¥92.8 billion. Revenues from investment banking operations were bolstered by increased M&A advisory fees and other commissions. However, equity underwriting commissions fell sharply due to a drop in the number of large-scale underwriting deals. Daiwa Securities SMBC also posted a substantial decline in net gains on equity trading. On the other hand, net gains from private equity and other securities held by Daiwa Securities SMBC Principal Investments increased steadily. At the end of FY 2006, the total investment amount was approximately ¥356.0 billion, an increase of ¥46.0 billion year on year.

Daiwa Asset Management, the Group's asset management arm, increased its sales of equity investment trusts through Daiwa Securities and bank channels, resulting in a substantial increase in assets under management. Equity investment trust assets at the end of March 2007 stood at ¥6.4 trillion, an increase of approximately 50% year on year. As a result, management fees increased sharply, and ordinary income soared almost threefold, to a record high of ¥13.0 billion. Meanwhile, ordinary income at Daiwa SB Investments, an equity-method affiliate, declined by 4.5% year on year, to ¥4.4 billion.

Performance of Major Group Companies

(Millions of yen)

	Daiwa Securities		Daiwa Securities SMBC (consolidated)		Daiwa Asset Management	
	FY2005	FY2006	FY2005	FY2006	FY2005	FY2006
Operating revenues	¥258,943	¥230,649	¥350,818	¥317,118	¥31,374	¥58,933
Ordinary income	101,057	74,477	141,582	92,866	4,435	13,015
Net income	58,174	43,468	91,883	51,945	3,051	8,659

(Millions of yen)

	Daiwa Institute of Research		Daiwa SB Investments		NIF SMBC Ventures	
	FY2005	FY2006	FY2005	FY2006	FY2005	FY2006
Ordinary income	¥7,325	¥9,744	¥4,613	¥4,407	¥4,800	¥4,233

Overseas Performance

Regarding consolidated earnings contributions from overseas, revenues from the Americas and Europe declined, particularly in investment banking-related activities. However, in Asia and Oceania strong trading volume of stocks listed in Japan and Hong Kong supported earnings growth. Total operating income from overseas operations declined 14.0% year on year, to ¥13.8 billion.

Breakdown of Operating Income by Geographic Region

(Millions of yen)

	FY 2005	FY 2006
The Americas	¥ 2,366	¥ 1,605
Europe	10,079	8,341
Asia & Oceania	3,626	3,878
Total	¥16,071	¥13,824

Assets

As of the end of March 2007, total assets of the Daiwa Securities Group stood at ¥14,411.2 billion, ¥487.4 billion less than the balance at the end of March 2006. Of this total, current assets accounted for ¥13,891.1 billion (down ¥501.2 billion) and fixed assets ¥520.1 billion (up ¥13.6 billion year on year). The BoJ lifted its “zero interest rate” monetary policy during the period, and the associated rise in interest rates caused both assets and liabilities from derivatives trading, particularly at Daiwa Securities SMBC, to decline. As a result, trading assets were reduced by ¥1,080.0 billion year on year. On the other hand, receivables from collateralized securities loan increased by ¥540.1 billion.

Liabilities and Net Assets

Total liabilities stood at ¥13,188.0 billion at the end of March 2007, a decline of ¥681.8 billion year on year. Current liabilities showed a balance of ¥11,939.9 billion (down ¥872.9 billion year on year) and long-term liabilities totaled ¥1,240.2 billion (up ¥190.2 billion). The decline in current liabilities included a ¥773.8 billion drop in trading liabilities and a ¥150.9 billion decline in short-term borrowings but payables on collateralized securities loans increased by ¥415.0 billion year on year. Convertible bonds payable within one year declined by ¥79.1 billion, following conversion of the Series 16 unsecured convertible bond to stocks. On the other hand, the Group issued new straight bonds, which added ¥190.2 billion to long-term liabilities.

Total net assets stood at ¥1,223.2 billion at the end of March 2007. The Group made bookkeeping changes in FY 2006 to comply with the “Accounting Standard for Presentation of Net Assets in the Balance Sheet.” Conversion of CBs during FY 2006 added ¥39.4 billion to common stock and ¥39.3 billion to the capital surplus. Retained earnings increased by ¥44.2 billion with the booking of net income and after payment of cash dividends.

Cash Flows

Cash flow from operating activities showed a net outflow of ¥14.4 billion, compared with ¥368.7 billion inflow in FY 2005. Cash flow from investing activities showed a net outflow of ¥73.2 billion (versus a ¥0.9 billion outflow in FY 2005), due mainly to the purchase of investment securities and intangible fixed assets. Cash flow from financing activities recorded an inflow of ¥43.1 billion versus a ¥322.9 billion outflow in FY 2005, due mainly to the new issue of straight bonds. Including the impact of foreign exchange conversion, the year-end balance of cash and cash equivalents stood at ¥352.7 billion.

Cash Flows

	(Millions of yen)	
	FY2005	FY2006
Cash flow from operating activities	¥ 368,790	¥ (14,470)
Cash flow from investing activities	(952)	(73,288)
Cash flow from financing activities	(322,945)	43,163
Cash and cash equivalents at end of term	¥ 392,350	¥352,779

Capital Investments

The goals of Daiwa Securities Group’s capital investment activities include the determination to build a solid business foundation that will enhance competitiveness and improve customer convenience. In FY 2006, the Group made ¥49.1 billion in total IT-related investments, to upgrade the online trading systems at Daiwa Securities and improve trading systems at Daiwa Securities SMBC, as well as to replace core operating systems with state-of-the-art technology. In addition, the Group opened new Daiwa Securities branch offices in Aobadai (Kanagawa Prefecture) and Sakai (Osaka Prefecture), and actively invested in the transfer, refurbishing, and expansion of existing branches.

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. Most of these risks, particularly market risk, credit risk, liquidity risk, operational risk, system risk, legal risk, and reputation risk, are managed primarily by the subsidiaries of the Daiwa Securities Group. All subsidiaries have established their own systems for managing each type of risk according to the characteristics and risk profiles of their respective businesses. Daiwa Securities Group Inc., in turn, manages overall risk for the Group, by monitoring the risk management systems and processes of its subsidiaries.

Business plans for the Group, including consolidated budgets, are determined by the Board of Directors of Daiwa Securities Group Inc., which also establishes regulations concerning risk management and other organizational matters. Based on the progress of basic policies set by the Board and the business plans of each division, the Executive Committee decides how to allocate 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.

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

Daiwa Securities SMBC, Daiwa Securities SMBC Europe, and Daiwa Securities America conduct 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 emanating from this 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 the trading positions of Daiwa Securities SMBC and its subsidiaries. A system has been set up to monitor measured risk and ensure that it does not exceed the upper limit established for the trading departments, and report to management. Daily and monthly reports are submitted to management, detailing market risk and credit risk related to trading positions. In addition, comprehensive quarterly reports, which include other risk information, are submitted to the Risk Management Committee.

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 department in charge of risk management at Daiwa Securities SMBC. A similar risk management system has been put in place at Daiwa America Corporation. It reports on risk conditions to the local management and to 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. These reports give the Group's management team an accurate grasp of the risk profile of its trading positions.

In addition, comprehensive and exhaustive quarterly reports are made to the Internal Control Committee regarding market and credit risks related to financial assets other than trading positions. Based on these daily, monthly, and quarterly reports, Daiwa Securities Group Inc. monitors risk conditions, and determines whether the capital of subsidiaries—capital invested by the Daiwa Securities Group Inc.—is being exposed to excessive risk.

(2) Major Risks and Methods of Management

[Market Risk]

Market risk is the risk of incurring losses due to fluctuations in the value of financial assets or liabilities due to changes in stock prices, interest rates, exchange rates, and value of commodities. Most of the Group's trading positions are exposed to market risk, and it is therefore of paramount importance to quantify the impact that market fluctuations have on the value of financial assets or liabilities, to gain a more objective understanding.

The Group employs Value at Risk (VaR) as an index for measuring the impact on the Group as a whole, using a holding period of one day and a confidence level of 99%. This enables the Group to gauge the estimated impact based on historical data related to market fluctuations. Moreover, the Group compensates for the limitations of the VaR method by monitoring a number of additional indicators, including market sensitivity, as well as taking a multi-faceted approach to setting credit limits, allowing it to control overall risk levels. In addition, the Group deals with the risk of sharp market fluctuations that exceed its statistical assumptions by regularly verifying the soundness of the Group's trading positions as a whole, through such methods as stress testing and scenario analysis.

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)	6/05	9/05	12/05	3/06	6/06	9/06	12/06	3/07
Equity	0.71	1.03	0.50	1.87	0.86	1.38	1.42	0.93
Interest	0.31	1.15	0.57	0.80	1.55	1.01	0.74	0.62
Currency	0.08	0.08	0.24	0.11	0.18	0.78	0.62	1.63
Commodities	—	—	—	—	—	—	0.03	0.12
Total	1.10	2.26	1.31	2.78	2.59	3.17	2.81	3.30
Diversification effect	-0.33	-0.58	-0.39	-0.96	-0.84	-1.16	-1.21	-1.35
VaR	0.77	1.68	0.92	1.82	1.75	2.01	1.60	1.95
Quarterly								
High	2.19	1.87	1.69	2.68	3.36	2.21	2.69	2.96
Low	0.77	0.66	0.92	0.84	1.28	1.17	1.09	0.91
Average	1.47	0.96	1.31	1.35	2.15	1.76	1.80	1.93

The Daiwa Securities Group (Consolidated)

	(Billions of yen)							
(Month-end)	6/05	9/05	12/05	3/06	6/06	9/06	12/06	3/07
Equity	0.77	1.09	0.53	1.93	1.05	1.48	1.48	0.98
Interest	0.48	1.29	0.78	0.92	1.71	1.09	0.88	0.80
Currency	0.08	0.08	0.24	0.11	0.18	0.78	0.62	1.63
Commodities	—	—	—	—	—	—	0.03	0.12
Total	1.33	2.46	1.55	2.96	2.94	3.35	3.01	3.53
Diversification effect	-0.38	-0.60	-0.40	-0.98	-0.88	-1.18	-1.22	-1.35
VaR	0.95	1.86	1.15	1.98	2.06	2.17	1.79	2.18
Quarterly								
High	2.39	2.30	1.95	3.07	3.69	2.42	2.86	3.55
Low	0.95	0.81	1.15	0.99	1.49	1.42	1.33	1.14
Average	1.66	1.19	1.55	1.56	2.42	1.99	2.02	2.13

[Credit Risk]

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

[Market Risks and Credit Risks Unrelated to Trading Positions]

The Group also owns investment securities unrelated to its trading positions that are held from a long-term perspective for the purpose of maintaining business relationships, as well as private equity and other securities related to the venture capital and principal investment businesses. Since market- and credit-related risks associated with these investment assets vary in nature, the Group employs indicators appropriate to the particular type of risk—such as VaR, or a classification of holdings by credit rating, as an alternative to straightforward quantification of the balances held. These indicators, in combination with regular monitoring, enable the Group to manage credit limits appropriately.

[Liquidity Risk]

Liquidity risk is the risk that the Group will encounter difficulty procuring funds, or that the cost of capital will rise significantly higher than normal, due to changes in the market environment or a deterioration in the balance sheet. The Group employs a variety of assets in its business activities, the majority of which are highly liquid. As for liabilities, the Group strives to employ diversified methods of capital procurement, and multiple maturity periods, to minimize the risks associated with refinancing. In addition to straight bonds and medium-term note programs, the Group procures funds mainly by borrowing from financial institutions, via commercial paper, call money, repurchase agreements and other transactions.

The amount and cost of funds raised depend on market conditions and the Group's credit rating. The Group believes that 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 thinks 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, 2007, the Group had a liquid portfolio totaling ¥1,570.3 billion, consisting mainly of cash and deposits, government bonds, and other highly liquid instruments.

To manage liquidity, 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). Daiwa Securities Group Inc. procures and manages funds centrally for the entire Group, including funds needed to cover the business activities of the holding company and its subsidiaries. However, some subsidiaries conduct 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. Other subsidiaries 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 events. As the Group's business becomes more sophisticated, diversified, and systemized, the accompanying risks become more varied, and the need to manage such operational risk grows each year.

Specialized sections have been set up in each company to address operational risk, and conferences are held to consider the necessary issues. Due to the diversifying nature of its business, the Group sets rigid rules concerning authority, automates office work processes to reduce human error, prepares business manuals, and takes other necessary measures. Each Group company strives to reduce operational risk according to the nature of its own business.

[System Risk]

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

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

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

[Legal Risk]

Legal risk 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 is engaged primarily in securities-related activities, and employs group management. It must observe the associated laws and regulations when executing securities transactions, and comply with various regulations in general operations outside of the securities business. To ensure that these regulations are observed, the Group has set up compliance sections at each company, and established committees to discuss and resolve compliance issues and matters related to corporate ethics.

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

[Reputation Risk]

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

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

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

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

The Daiwa Securities Group's Credit Ratings

(As of July 26, 2007)

	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-1
Rating and Investment Information (R&I)	A	a-1	A	a-1	A	a-1
Japan Credit Rating Agency (JCR)	A ⁺	—	A ⁺	—	—	—

CONSOLIDATED BALANCE SHEETS

DAIWA SECURITIES GROUP INC.
March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2007	2006	2007
Cash and cash deposits:			
Cash and cash equivalents (Note 6)	¥ 352,779	¥ 392,350	\$ 2,989,653
Cash segregated as deposits for regulatory purposes	256,435	297,878	2,173,178
Other deposits (Note 9)	21,031	15,540	178,228
	630,245	705,768	5,341,059
Receivables:			
Loans receivable from customers	1,925	3,113	16,314
Loans receivable from other than customers (Note 9)	143,467	56,886	1,215,822
Receivables related to margin transactions (Note 3)	575,457	563,538	4,876,754
Other (Note 9)	122,029	157,690	1,034,144
Less: Allowance for doubtful accounts	(141)	(294)	(1,195)
	842,737	780,933	7,141,839
Collateralized short-term financing agreements (Note 4)	6,814,612	6,274,506	57,750,949
Trading assets (Notes 5 and 9)	5,082,219	6,162,243	43,069,653
Private equity and other securities (Notes 6 and 9)	440,178	382,421	3,730,322
Deferred tax assets (Note 15)	25,680	29,488	217,627
Property and equipment, at cost	245,590	232,284	2,081,271
Less: Accumulated depreciation	(111,054)	(105,753)	(941,135)
	134,536	126,531	1,140,136
Other assets:			
Intangible fixed assets	81,315	68,813	689,110
Lease deposits	23,729	23,538	201,093
Investment securities (Notes 6 and 9)	269,805	269,854	2,286,483
Long-term loans receivable	11,492	11,865	97,390
Other	56,316	64,583	477,254
Less: Allowance for doubtful accounts	(1,599)	(1,851)	(13,551)
	441,058	436,802	3,737,779
	¥14,411,265	¥14,898,692	\$122,129,364

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Borrowings:			
Short-term borrowings (Notes 9 and 12)	¥ 1,644,417	¥ 1,795,321	\$ 13,935,737
Commercial paper	302,392	234,210	2,562,644
Long-term debt (Notes 9 and 12)	1,212,681	1,146,912	10,276,958
	3,159,490	3,176,443	26,775,339
Payables:			
Payables to customers and counterparties (Note 11)	233,164	250,765	1,975,966
Trading payables, net	67,771	302,573	574,331
Payables related to margin transactions (Notes 3 and 9)	233,353	197,483	1,977,568
Other	33,279	43,300	282,025
	567,567	794,121	4,809,890
Collateralized short-term financing agreements (Note 4)	5,159,100	4,744,007	43,721,186
Trading liabilities (Note 5)	4,105,362	4,879,189	34,791,203
Accrued and other liabilities:			
Income taxes payable	12,551	73,779	106,364
Deferred tax liabilities (Note 15)	33,290	41,907	282,119
Accrued bonuses	31,200	41,714	264,407
Retirement benefits (Note 13)	23,181	20,295	196,449
Provision for relocation costs of headquarter office	3,757	–	31,839
Provision for litigation losses	623	–	5,280
Other	84,021	91,411	712,042
	188,623	269,106	1,598,500
Statutory reserves (Note 16)	7,897	7,025	66,924
Total liabilities	13,188,039	13,869,891	111,763,042
Contingent liabilities (Note 17)			
Net assets (Notes 18 and 19):			
Owners' equity:			
Common stock, no par value;			
Authorized—4,000,000 thousand shares			
Issued—1,404,665 thousand shares as of March 31, 2007	178,324	138,828	1,511,220
Capital surplus	157,679	118,339	1,336,263
Retained earnings	520,474	476,216	4,410,797
Treasury stock at cost	(11,628)	(14,660)	(98,542)
Paid-in money for treasury stock	5	–	42
	844,854	718,723	7,159,780
Valuation and translation adjustments:			
Net unrealized gain (loss) on securities, net of tax effect	75,658	72,694	641,169
Deferred gain (loss) on hedges	468	(199)	3,966
Translation adjustment	8,546	864	72,424
	84,672	73,359	717,559
Stock subscription rights (Note 14)	611	–	5,178
Minority interests	293,089	236,719	2,483,805
Total net assets	1,223,226	1,028,801	10,366,322
	¥14,411,265	¥14,898,692	\$122,129,364

CONSOLIDATED STATEMENTS OF OPERATIONS

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
Operating revenues:				
Commissions (Note 21)	¥306,736	¥309,189	¥216,387	\$2,599,458
Net gain on trading (Note 22)	157,333	224,912	151,118	1,333,331
Net gain on private equity and other securities	32,818	21,539	12,763	278,119
Interest and dividend income	373,453	245,211	105,428	3,164,856
Service fees and other revenues	46,968	44,809	33,641	398,033
	917,308	845,660	519,337	7,773,797
Interest expense	354,245	231,572	103,677	3,002,076
Cost of service fees and other revenues	36,299	34,729	25,228	307,619
Net operating revenues (Note 20)	526,764	579,359	390,432	4,464,102
Selling, general and administrative expenses (Notes 20 and 23)	340,373	325,199	275,544	2,884,517
Operating income (Note 20)	186,391	254,160	114,888	1,579,585
Other income (expenses):				
Provision for statutory reserves, net (Note 16)	(566)	(1,374)	(518)	(4,797)
Other, net (Note 24)	98	5,570	(1,767)	831
	(468)	4,196	(2,285)	(3,966)
Income before income taxes and minority interests	185,923	258,356	112,603	1,575,619
Income taxes (Note 15):				
Current	65,794	77,676	11,933	557,576
Deferred	3,657	392	28,234	30,992
	69,451	78,068	40,167	588,568
Minority interests	(23,747)	(40,340)	(19,771)	(201,246)
Net income	¥ 92,725	¥139,948	¥ 52,665	\$ 785,805

	Yen			U.S. dollars (Note 1)
Per share amounts:				
Net income	¥67.90	¥103.90	¥39.03	\$0.58
Diluted net income	66.07	98.61	37.36	0.56
Cash dividends applicable to the year	28.00	34.00	13.00	0.24

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2007, 2006 and 2005

	Millions of yen										
	Owners' equity						Valuation and translation adjustments				
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Paid-in money for treasury stock	Net unrealized gain (loss) on securities net of tax effect	Deferred gain (loss) on hedges	Translation adjustments	Stock subscription rights	Minority interests
Balance at March 31, 2004	1,331,735	¥ 138,432	¥ 117,940	¥ 330,780	¥ (690)	¥ –	¥ 27,298	¥ –	¥ (9,590)	¥ –	¥ 165,664
Net income				52,665							
Cash dividends paid				(19,960)							
Conversion of convertible bonds	1	0	1								
Bonuses to directors				(536)							
Change in treasury stock, net					(97)						
Net changes of items other than owners' equity							8,376		3,713		23,530
Balance at March 31, 2005	1,331,736	138,432	117,941	362,949	(787)	–	35,674	–	(5,877)	–	189,194
Net income				139,948							
Increase in retained earnings due to merger of a consolidated subsidiary				608							
Cash dividends paid				(26,612)							
Conversion of convertible bonds	724	396	396								
Bonuses to directors				(677)							
Change in treasury stock, net			2		(13,873)						
Net changes of items other than owners' equity							37,020		6,741		47,525
Balance at March 31, 2006	1,332,460	138,828	118,339	476,216	(14,660)	–	72,694	(199)	864	–	236,719
Issuance of new shares	72,205	39,496	39,496								
Net income				92,725							
Increase in retained earnings due to merger of a consolidated subsidiary				406							
Cash dividends paid				(45,806)							
Bonuses to directors and executive officers				(1,828)							
Change in treasury stock, net			(156)	(1,239)	3,032						
Other						5					
Net changes of items other than owners' equity							2,964	667	7,682	611	56,370
Balance at March 31, 2007	1,404,665	¥ 178,324	¥ 157,679	¥ 520,474	¥ (11,628)	¥ 5	¥ 75,658	¥ 468	¥ 8,546	¥ 611	¥ 293,089

	Thousands of U.S. dollars (Note 1)									
	Owners' equity					Valuation and translation adjustments				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Paid-in money for treasury stock	Net unrealized gain (loss) on securities net of tax effect	Deferred gain (loss) on hedges	Translation adjustments	Stock subscription rights	Minority interests
Balance at March 31, 2006	\$ 1,176,508	\$ 1,002,873	\$ 4,035,729	\$(124,237)	\$ –	\$ 616,051	\$(1,686)	\$ 7,322	\$ –	\$ 2,006,093
Issuance of new shares	334,712	334,712								
Net income			785,805							
Increase in retained earnings due to merger of a consolidated subsidiary			3,441							
Cash dividends paid			(388,186)							
Bonuses to directors and executive officers			(15,492)							
Change in treasury stock, net		(1,322)	(10,500)	25,695						
Other					42					
Net changes of items other than owners' equity						25,118	5,652	65,102	5,178	477,712
Balance at March 31, 2007	\$1,511,220	\$1,336,263	\$4,410,797	\$(98,542)	\$42	\$641,169	\$3,966	\$72,424	\$5,178	\$2,483,805

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
Cash flows from operating activities:				
Net income	¥ 92,725	¥ 139,948	¥ 52,665	\$ 785,805
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	23,117	22,641	22,129	195,907
Allowance for doubtful accounts, net	317	226	2,289	2,686
Provision for retirement benefits, net	1,234	23	1,402	10,458
Stock subscription rights	611	—	—	5,178
Statutory reserves, net	567	1,374	518	4,805
Losses (gains) related to investment securities	(3,926)	(11,060)	(2,687)	(33,271)
Losses (gains) related to fixed assets	5,880	11,838	(351)	49,831
Gain on change in stake in subsidiary	—	(4,725)	—	—
Provision for litigation losses	551	—	—	4,669
Provision for relocation costs of headquarter office	4,681	—	—	39,669
Deferred income taxes	3,657	392	28,234	30,992
Minority interests	23,747	40,340	19,771	201,246
Changes in operating assets and liabilities:				
Receivables and payables related to margin transactions	27,247	(195,882)	(28,087)	230,907
Other receivables and other payables	(113,773)	(29,270)	77,878	(964,178)
Private equity and other securities	(45,410)	(192,645)	(44,197)	(384,831)
Trading assets and liabilities	79,204	615,610	111,198	671,220
Collateralized short-term financing agreements	(150,764)	(63,704)	(1,183,394)	(1,277,661)
Other, net	35,865	33,684	(76,044)	303,941
Total adjustments	(107,195)	228,842	(1,071,341)	(908,432)
Net cash flows provided by (used in) operating activities	(14,470)	368,790	(1,018,676)	(122,627)
Cash flows from investing activities:				
Increase in time deposits	(36,290)	(10,685)	(53,041)	(307,542)
Decrease in time deposits	30,995	55,201	—	262,669
Payments for purchases of property and equipment	(18,439)	(12,526)	(7,786)	(156,263)
Proceeds from sales of property and equipment	539	719	5,315	4,568
Payments for purchases of intangible fixed assets	(34,648)	(24,312)	—	(293,627)
Payments for purchases of investment securities	(47,527)	(51,554)	(35,693)	(402,771)
Proceeds from sales of investment securities	36,553	43,604	99,469	309,771
Purchase of subsidiary's stock due to change in scope of consolidation	1,357	—	—	11,500
Decrease (increase) in long-term loans receivable	(876)	358	149	(7,424)
Other, net	(4,952)	(1,757)	(18,689)	(41,966)
Net cash flows provided by (used in) investing activities	(73,288)	(952)	(10,276)	(621,085)

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings	¥ (97,430)	¥(446,190)	¥ 759,982	\$ (825,678)
Increase (decrease) in long-term debt	10,360	58,496	14,788	87,797
Proceeds from issuance of notes	509,087	505,358	225,875	4,314,297
Payments for redemption of bonds and notes	(362,305)	(401,374)	(97,102)	(3,070,381)
Proceeds from issuance of stocks to minority shareholders	40,080	10,000	–	339,661
Payments of cash dividends	(45,806)	(26,612)	(19,960)	(388,186)
Payments of cash dividends to minority shareholders	(12,039)	(9,177)	(168)	(102,025)
Other, net	1,216	(13,446)	454	10,303
Net cash flows provided by (used in) financing activities	43,163	(322,945)	883,869	365,788
Effect of exchange rate changes on cash and cash equivalents	4,788	7,429	3,819	40,577
Net increase (decrease) in cash and cash equivalents	(39,807)	52,322	(141,264)	(337,347)
Cash and cash equivalents at beginning of year	392,350	338,697	480,123	3,325,000
Increase in cash and cash equivalents due to merger of a consolidated subsidiary	236	1,331	–	2,000
Decrease in cash equivalents due to exclusion of a consolidated subsidiary	–	–	(162)	–
Cash and cash equivalents at end of year	¥ 352,779	¥ 392,350	¥ 338,697	\$ 2,989,653
Supplemental information on cash flows:				
Cash paid during the year for:				
Interest	¥ 348,266	¥ 222,153	¥ 103,440	\$ 2,951,407
Income taxes	111,811	11,405	13,690	947,551

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2007, 2006 and 2005

1. Basis of financial statements

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

- Daiwa Securities Co. Ltd. ("Daiwa Securities")
- Daiwa Securities SMBC Co. Ltd. ("Daiwa Securities SMBC")
- Daiwa Asset Management Co. Ltd. ("Daiwa Asset Management")
- Daiwa Institute of Research Ltd. ("DIR")
- NIF 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 with SMBC Capital Co., Ltd. on October 1, 2005.)

Daiwa Securities is the retail-securities arm of Daiwa. This company operates through a network of 117 branches as well as non-face-to-face channels, including the Internet and a full-fledged call center to provide on-line and telephone-based securities-related services. Daiwa Securities SMBC is the wholesale-securities company of Daiwa, 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.

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.

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) 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, 2007, which was ¥118 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.

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 by using the equity method.

Practical Issues Task Force No. 20, “Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations,” has been applied from this fiscal year. There was no impact on the financial statements for the year ended March 31, 2007.

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

Statements of cash flows — For purposes of the 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 purposes, shown in the accompanying consolidated balance sheets as “Cash and cash equivalents,” “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 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”) and (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 recognized unrealized gains or losses included in the 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 net assets.

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.

Based on “Practical Solution on Accounting for the Book Value of Class Shares at the Balance Sheet Date” (Practical Issues Task Force No. 10), net unrealized gain on securities, net of tax effect as of March 31, 2007 includes ¥7,974 million (\$67,576 thousand) derived from the investments in corporations’ class shares, which are in period convertible into common shares.

Of those securities with no fair value, investments in limited partnerships and similar partnerships which are regarded as equivalent to securities by Article 2 (2) of the Securities Exchange Act of 2004, the share of net income of the partnerships has been reflected on the consolidated statements of operations and the share of net unrealized gains and losses held by the partnerships is directly recorded into net assets.

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

Allowance for doubtful accounts — Allowance for doubtful accounts is 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 relocation of the headquarter office of the Company and some consolidated subsidiaries has been resolved. The useful lives of the building and equipment for those headquarters were shortened up to planned removal date. Extraordinary depreciation expenses of ¥4,439 million were recorded as other expense, due to application of shortened useful lives for the year ended March 31, 2006. Also “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 depreciation over estimated useful lives, and over internally estimated useful lives (5 years) for software of in-house use.

Bonuses — Accrued bonuses of employees and directors represent liabilities estimated as of the balance sheets date.

Change in the accounting standard—The consolidated financial statements of the Company are adapted to “Accounting Standard for Directors’ Bonus (ASBJ Statement No. 4)” from this fiscal year. Directors’ bonus is expensed when it is incurred, instead of decreasing retained earnings upon approval of each consolidated subsidiary’s annual shareholders’ meeting. “Operating income” and “Income before income taxes and minority interests” decreased by ¥1,553 million (\$13,161 thousand), due to this accounting change, respectively.

Share-based payment — Change in the accounting standard—The consolidated financial statements of the Company for the fiscal year ended March 31, 2007, are adapted to “Accounting Standard for Share-based Payment (ASBJ Statement No. 8)” and “Implementation Guidance on Accounting Standard for Share-based Payment (ASBJ Guidance No. 11).” “Operating income” and “Income before income taxes and minority interests” decreased by ¥611 million (\$5,178 thousand), due to this accounting change, respectively.

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

Provision for relocation costs of headquarter office — Provision for relocation costs of the headquarter office has been booked based on reasonable estimation.

Provision for litigation losses — The estimated amount of restitution is accrued to provide for future monetary damages of litigation regarding financial services based on the status of litigation.

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 consolidated tax payments system has been applied designating the Company, Daiwa Securities SMBC and NIF SMBC as parent companies of the consolidated tax payments.

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

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

Net assets — Change in the accounting standard—The consolidated financial statements of the Company are adapted to “Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No. 5)” and “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No. 8)” from this fiscal year. As a result, “Deferred gain (loss) on hedges” and “Minority interests” were included in net assets.

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 and stock subscription rights based on the number of shares of common stock that would have been issued provided that the outstanding dilutive convertible bonds and stock subscription rights were converted at the beginning of the year.

Reclassification — Certain reclassifications have been made in the 2006 and 2005 consolidated financial statements to conform to the presentation for 2007.

3. Margin transactions

Margin transactions at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Assets:			
Customers' margin loans	¥339,104	¥359,331	\$2,873,762
Cash deposits as collateral for securities borrowed	236,353	204,207	2,002,992
	¥575,457	¥563,538	\$4,876,754
Liabilities:			
Payable to securities finance companies	¥ 14,447	¥ 7,570	\$ 122,432
Proceeds of securities sold for customers' accounts	218,906	189,913	1,855,136
	¥233,353	¥197,483	\$1,977,568

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.

4. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Assets:			
Securities purchased under agreements to resell	¥1,595,729	¥2,184,881	\$13,523,124
Securities borrowed	5,218,883	4,089,625	44,227,825
	¥6,814,612	¥6,274,506	\$57,750,949
Liabilities:			
Securities sold under agreements to repurchase	¥3,219,353	¥2,811,293	\$27,282,652
Securities loaned	1,939,747	1,932,714	16,438,534
	¥5,159,100	¥4,744,007	\$43,721,186

5. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Trading assets:			
Equities	¥ 377,531	¥ 371,948	\$ 3,199,423
Government, corporate and other bonds	3,720,283	4,005,132	31,527,818
Investment trusts	111,367	95,498	943,788
Commercial paper, certificates of deposits and others	19,714	18,635	167,064
Option transactions	166,603	908,197	1,411,890
Futures and forward transactions	177,068	156,934	1,500,576
Swap agreements	509,663	607,483	4,319,178
Other derivatives	1,927	1,127	16,331
Credit reserves	(1,937)	(2,711)	(16,415)
	¥5,082,219	¥6,162,243	\$43,069,653
Trading liabilities:			
Equities	¥ 88,620	¥ 99,551	\$ 751,012
Government, corporate and other bonds	3,314,739	3,216,833	28,091,008
Investment trusts	14,475	5,471	122,672
Option transactions	256,023	1,007,981	2,169,686
Futures and forward transactions	46,293	67,232	392,316
Swap agreements	383,702	480,973	3,251,712
Other derivatives	1,510	1,148	12,797
	¥4,105,362	¥4,879,189	\$34,791,203

6. Securities other than trading assets and trading liabilities

Securities other than trading assets and trading liabilities are composed of “Cash and cash equivalents,” “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, 2007 and 2006 consisted of the following:

	Millions of yen		
	Cost	Market value	Difference
March 31, 2007	¥ 4,345	¥ 4,589	¥ 244
March 31, 2006	¥ 3,205	¥ 3,543	¥ 338

	Thousands of U.S. dollars		
	Cost	Market value	Difference
March 31, 2007	\$36,822	\$38,890	\$2,068

Cost/amortized cost and market value of held-to-maturity debt securities as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		
	Cost/amortized cost	Market value	Difference
Government bonds, local government bonds at March 31, 2007	¥ 1,769	¥ 1,769	¥ 0
Government bonds, local government bonds at March 31, 2006	¥ 2,509	¥ 2,502	¥(7)

	Thousands of U.S. dollars		
	Cost/amortized cost	Market value	Difference
Government bonds, local government bonds at March 31, 2007	\$14,992	\$14,992	\$ 0

Cost and market value of available-for-sale securities as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		
	Cost	Market value	Difference
March 31, 2007:			
Equities	¥ 96,500	¥ 220,484	¥ 123,984
Government, corporate and other bonds	150	156	6
Other	8,832	10,228	1,396
	¥105,482	¥ 230,868	¥ 125,386

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

	Thousands of U.S. dollars		
	Cost	Market value	Difference
March 31, 2007:			
Equities	\$817,797	\$1,868,508	\$1,050,711
Government, corporate and other bonds	1,271	1,322	51
Other	74,847	86,678	11,831
	\$893,915	\$1,956,508	\$1,062,593

Securities for which a market value was not readily available as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Equities	¥257,288	¥245,399	\$2,180,407
Government, corporate and other bonds	802	349	6,797
Investments in limited partnerships	150,435	132,751	1,274,873
Other	45,110	22,631	382,287
	¥453,635	¥401,130	\$3,844,364

In addition to the above, equity securities of non-consolidated and affiliated companies amounting to ¥27,623 million (\$234,093 thousand) at March 31, 2007 and ¥26,334 million at March 31, 2006, respectively, were included in “Investment securities” in the accompanying consolidated balance sheets.

7. Derivatives used for non-trading purposes

Net unrealized gains of derivatives used for non-trading purposes at March 31, 2007 and 2006 (excluding hedging transactions) consisted of the following:

	Millions of yen		
	Contract amount	Market value	Unrealized gains
March 31, 2007:			
Currency swap	¥ 11,922	¥ 10	¥ 10
Foreign exchange forward	3,612	100	100
March 31, 2006:			
Currency swap	¥ 11,289	¥ 17	¥ 17
Foreign exchange forward	801	24	24

	Thousands of U.S. dollars		
	Contract amount	Market value	Unrealized gains
March 31, 2007:			
Currency swap	\$101,034	\$ 85	\$ 85
Foreign exchange forward	30,610	847	847

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, a system of internal supervision, sound management by risk limit setting, risk management assuming emergency, and transparency in the 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, 2007, short-term borrowings amounting to ¥754,888 million (\$6,397,355 thousand) and payables related to margin transactions amounting to ¥14,439 million (\$122,364 thousand) and long-term debt amounting to ¥20 million (\$169 thousand) were secured by the following assets:

	Millions of yen	Thousands of U.S. dollars
Other deposits	¥ 125	\$ 1,059
Loans receivable from other than customers	18,517	156,924
Trading assets	1,072,264	9,086,983
Private equity and other securities	614	5,203
Investment securities	98,496	834,712
Receivables—other	7,973	67,568
	¥1,197,989	\$10,152,449

In addition to the above, securities borrowed amounting to ¥535,044 million (\$4,534,271 thousand) were pledged as guarantee at March 31, 2007.

Total fair value of the securities pledged as collateral at March 31, 2007 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Securities loaned	¥6,133,988	\$51,982,949
Other	739,061	6,263,229
	¥6,873,049	\$58,246,178

Total fair value of the securities received as collateral at March 31, 2007 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Securities borrowed	¥8,440,583	\$71,530,364
Other	659,903	5,592,399
	¥9,100,486	\$77,122,763

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, 2007 and 2006 is summarized as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Non-capitalized finance leases:			
Total assets under non-capitalized finance leases	¥ 6,161	¥7,685	\$52,212
Accumulated depreciation	4,338	4,584	36,763
Future lease payments in respect of non-capitalized leases	1,878	3,181	15,915
Due within one year	1,100	1,501	9,322
Operating leases:			
Future lease payments in respect of operating leases	11,767	9,000	99,720
Due within one year	2,239	1,999	18,975

Lessor:	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Operating leases:			
Future lease receipts in respect of operating leases	¥ 1,056	¥1,803	\$ 8,949
Due within one year	289	387	2,449

11. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash received for customers' accounts	¥124,851	¥131,335	\$1,058,059
Cash deposits received from customers	100,494	99,225	851,644
Other	7,819	20,205	66,263
	¥233,164	¥250,765	\$1,975,966

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, 2007 and 2006 consisted of the following:

		Millions of yen	Thousands of U.S. dollars
	2007	2006	2007
Bond payable in yen: 0.95% due 2008	¥ 120,000	¥ 120,000	\$ 1,016,949
Bond payable in yen: 1.30% due 2011	70,000	70,000	593,220
Bond payable in yen: 2.08% due 2016	30,000	30,000	254,237
Bond payable in yen: 1.80% due 2011	50,000	–	423,729
Convertible bond payable in yen, convertible into common stock at ¥1,094.00 per share: 0.5% due 2006	–	79,193	–
Euro medium-term notes issued by the Company and the domestic consolidated subsidiary with various rates and maturities through 2037	774,785	677,159	6,565,975
Euro medium-term notes issued by overseas consolidated subsidiaries with various rates and maturities through 2007	2,000	2,608	16,949
Yen subordinated loan due 2012	60,000	82,000	508,475
Borrowings	105,896	85,952	897,424
	¥1,212,681	¥1,146,912	\$10,276,958

The aggregate annual maturities of long-term debt as of March 31, 2007 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 27,913	\$ 236,551
2009	142,774	1,209,949
2010	18,129	153,636
2011	109,804	930,542
2012	122,195	1,035,551
2013 and thereafter	791,866	6,710,729
	¥ 1,212,681	\$10,276,958

Daiwa has unused commitment line amounting to ¥89,864 million (\$761,559 thousand) under agreements with several banks at March 31, 2007.

13. Retirement benefits

Retirement benefits for employees

Retirement benefit plans for eligible employees are discussed below:

- **Unfunded plan**

The Company and most domestic consolidated subsidiaries provide an unfunded retirement benefit 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. Benefits of the plan are accumulated on an annual basis and earn a guaranteed hypothetical return at a rate predetermined by the Company and most 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, 2007 and 2006, in the amount of ¥19,903 million (\$168,669 thousand) and ¥17,980 million, respectively. Benefit expenses recorded in the consolidated statements of operations for the years ended March 31, 2007, 2006 and 2005 were ¥3,305 million (\$28,008 thousand), ¥2,864 million and ¥2,946 million, respectively.

- **Closed funded plan**

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

Retirement benefits for directors

Directors' retirement benefits in consolidated subsidiaries of ¥590 million (\$5,000 thousand) and ¥383 million are included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2007 and 2006, respectively. Benefit expenses recorded in the consolidated statements of operations for the years ended March 31, 2007, 2006 and 2005 were ¥199 million (\$1,686 thousand), ¥174 million and ¥439 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 boards 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 re-election. 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.

14. Share-based payment

The Company has a stock option plan. The stock option plan which was approved at the shareholders' meeting provides options for purchases of the Company's common stock for the directors and employees.

The date of approval at the shareholders' meeting, the balance of the exercisable options, exercise price and exercise period at March 31, 2007 were as follows:

Date of approval at the shareholders' meeting	Balance of the exercisable options (Number of shares)	Exercise price (Yen/share)	(U.S. dollars/share)	Exercise period
June 23, 2004	1,815,000	¥ 756	(\$ 6.41)	from July 1, 2006 to August 31, 2011
June 24, 2005	528,000	¥ 1	(\$ 0.01)	from July 1, 2005 to June 30, 2025
	–	¥ 781	(\$ 6.62)	from July 1, 2007 to August 31, 2012
June 24, 2006	298,000	¥ 1	(\$ 0.01)	from July 1, 2006 to June 30, 2026
	–	¥1,515	(\$12.84)	from July 1, 2011 to June 23, 2016

NIF SMBC also has a stock option plan. The date of approval at the shareholders' meeting, the balance of the exercisable options, exercise price and exercise period at March 31, 2007 were as follows:

Date of approval at the shareholders' meeting	Balance of the exercisable options (Number of shares)	Exercise price (Yen/share)	(U.S. dollars/share)	Exercise period
June 27, 2002	0	¥308,000	(\$2,610.17)	from June 28, 2004 to June 27, 2006
June 24, 2004	305	¥201,800	(\$1,710.17)	from July 1, 2006 to August 31, 2011
June 28, 2005	252	¥ 1	(\$ 0.01)	from December 1, 2005 to November 30, 2025
	–	¥426,300	(\$3,612.71)	from July 1, 2007 to August 31, 2012
June 27, 2006	31	¥ 1	(\$ 0.01)	from September 8, 2006 to September 7, 2026
	50	¥ 1	(\$ 0.01)	from September 8, 2006 to September 7, 2026
	–	¥430,290	(\$3,646.53)	from July 1, 2011 to June 26, 2016

15. 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 was approximately 40.7% for the years ended March 31, 2007, 2006 and 2005.

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, 2007 and 2006 were as follows:

		Millions of yen	Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Net operating losses carried-forward	¥ 42,416	¥ 25,656	\$ 359,458
Write-down of investment securities	11,136	10,637	94,373
Retirement benefits	8,939	8,026	75,753
Compensation and bonuses	9,377	15,278	79,466
Allowance for doubtful accounts	1,899	2,423	16,093
Impairment losses on fixed assets	6,988	7,248	59,220
Enterprise tax payable	1,446	8,338	12,253
Elimination of unrealized gain	4,536	1,522	38,441
Allowance for possible investment losses	5,922	5,426	50,184
Other	13,362	8,786	113,242
Gross deferred tax assets	106,021	93,340	898,483
Less: Valuation allowance	(65,378)	(51,824)	(554,051)
Total deferred tax assets	40,643	41,516	344,432
Deferred tax liabilities	48,253	53,935	408,924
Net deferred tax liabilities	¥ (7,610)	¥(12,419)	\$ (64,492)

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 Japanese statutory income tax rate and the effective income tax rate reflected in the consolidated statements of operations for the years ended March 31, 2007, 2006 and 2005 was as follows:

	2007	2006	2005
Japanese statutory income tax rate	40.7%	40.7%	40.7%
Valuation allowance	(9.0)	(9.0)	(7.0)
Permanent difference (Non-deductible)	0.9	0.3	1.2
Permanent difference (Non-taxable)	(0.3)	(0.3)	(0.6)
Lower tax rate applicable to income of overseas consolidated subsidiaries	(1.0)	(0.6)	(0.8)
Adjustment of unrealized intercompany profit	5.2	0.6	3.8
Other, net	0.9	(1.5)	(1.6)
Effective income tax rate	37.4%	30.2%	35.7%

16. Statutory reserves

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

17. Contingent liabilities

At March 31, 2007, Daiwa had contingent liabilities amounting to ¥1,683 million (\$14,263 thousand), mainly arising as guarantors of employees' borrowings.

18. Owners' equity

In principle, the Corporate Law of Japan ("Law") requires a company to credit the 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 Law, a company should save 10% of cash dividends and other cash appropriated as "Additional paid-in capital" or "Earned surplus" until the total becomes one quarter of common stock (and preferred stock, if any). "Additional paid-in capital" and "Earned surplus" are 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 "Additional paid-in capital" and "Earned surplus" of one quarter of capital requirement is available for appropriation with a resolution of the shareholders' meeting. "Additional paid-in capital" and "Earned surplus" are included in "Capital surplus" and "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 Law. The total amount of retained earnings available for dividends in the Company's statutory book of account as of March 31, 2007 amounted to ¥285,000 million (\$2,415,254 thousand).

Under Article 459-1 of the Law, the articles of incorporation of the Company stipulate that the Board of Directors is to determine the dividends. Cash dividends of ¥12 (\$0.10) per share amounting

to ¥16,741 million (\$141,873 thousand) and ¥16 (\$0.14) per share amounting to ¥22,332 million (\$189,254 thousand) were approved by the Board of Directors on October 26, 2006 and May 18, 2007, respectively.

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 shareholders of the Company on June 24, 2005, June 24, 2006 and June 23, 2007 approved stock incentive plans. There are two kinds of stock subscription rights as stock options to directors, executive officers and employees. The first is the stock subscription rights that were issued free to directors and executive officers of the Company and subsidiaries, and the amount paid in upon exercise of such subscription rights is ¥1 per share. The second is the stock subscription rights that shall be issued to employees of the Company, and of affiliated companies, and to directors and executive officers of the Company's affiliated companies, excluding the persons to whom the first stock subscription rights were issued. The amount paid in upon exercise of such subscription rights shall be determined based on the market price of the Company's common stock at the time of the issuance of such subscription rights.

19. Capital adequacy requirements

In Japan, 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 319.3% (unaudited) and 323.6% (unaudited) for March 31, 2007 and 2006, respectively, and those of Daiwa Securities SMBC were 465.7% (unaudited) and 336.3% (unaudited) for March 31, 2007 and 2006, respectively.

20. Segment information

Daiwa operates predominantly in a single industry segment. Daiwa's 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, 2007, 2006 and 2005 and a summary of total assets by geographic area at March 31, 2007 and 2006 was as follows:

	Millions of yen					
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended March 31, 2007:						
Net operating revenues:						
Outside customer	¥ 483,875	¥ 9,588	¥ 19,870	¥13,431	¥ –	¥ 526,764
Inter-segment	(8,701)	5,096	16,034	1,298	(13,727)	–
Total	475,174	14,684	35,904	14,729	(13,727)	526,764
Selling, general and administrative expenses	302,606	13,079	27,563	10,851	(13,726)	340,373
Operating income	¥ 172,568	¥ 1,605	¥ 8,341	¥ 3,878	¥ (1)	¥ 186,391
At March 31, 2007:						
Total assets by geographic area	¥10,808,697	¥3,372,712	¥1,238,352	¥81,732	¥(1,090,228)	¥14,411,265
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	¥ 12,239,143	¥ 2,807,087	¥ 1,145,934	¥ 72,881	¥ (1,366,353)	¥ 14,898,692
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

						Thousands of U.S. dollars
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended March 31, 2007:						
Net operating revenues:						
Outside customer	\$ 4,100,636	\$ 81,254	\$ 168,390	\$ 113,822	\$ –	\$ 4,464,102
Inter-segment	(73,737)	43,186	135,881	11,000	(116,330)	–
Total	4,026,899	124,440	304,271	124,822	(116,330)	4,464,102
Selling, general and administrative expenses	2,564,457	110,839	233,585	91,958	(116,322)	2,884,517
Operating income	\$ 1,462,442	\$ 13,602	\$ 70,686	\$ 32,864	\$ (8)	\$ 1,579,585
At March 31, 2007:						
Total assets by geographic area	\$91,599,127	\$28,582,305	\$10,494,508	\$692,644	\$(9,239,220)	\$122,129,364

Geographic overseas revenues for the years ended March 31, 2007, 2006 and 2005 were as follows:

					Millions of yen
	America	Europe	Asia & Oceania	Total	
Year ended March 31, 2007:					
Overseas revenues	¥ 19,325	¥ 13,101	¥ 11,902	¥ 44,328	
Net operating revenues				526,764	
% of Net operating revenues	3.7%	2.5%	2.3%	8.4%	
Year ended March 31, 2006:					
Overseas revenues	¥ 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 revenues	¥ 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%	
					Thousands of U.S. dollars
	America	Europe	Asia & Oceania	Total	
Year ended March 31, 2007:					
Overseas revenues	\$163,771	\$ 111,025	\$100,864	\$ 375,660	
Net operating revenues				4,464,102	
% of Net operating revenues	3.7%	2.5%	2.3%	8.4%	

21. Commissions

Commissions derived from each department for the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen					
	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Year ended March 31, 2007:						
Brokerage	¥ 97,062	¥ 694	¥ 317	¥ –	¥ –	¥ 98,073
Underwriting	–	–	–	54,069	–	54,069
Distribution	–	–	37,211	1,310	–	38,520
Other	1,925	1,973	69,379	19,607	23,190	116,074
	¥ 98,987	¥ 2,667	¥106,906	¥ 74,986	¥ 23,190	¥ 306,736
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

	Thousands of U.S. dollars					
	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Year ended March 31, 2007:						
Brokerage	\$822,559	\$ 5,882	\$ 2,686	\$ –	\$ –	\$ 831,127
Underwriting	–	–	–	458,212	–	458,212
Distribution	–	–	315,339	11,102	–	326,441
Other	16,314	16,720	587,958	166,161	196,525	983,678
	\$838,873	\$22,602	\$905,983	\$635,475	\$196,525	\$2,599,458

22. Net gain on trading

Net gain on trading for the years ended March 31, 2007, 2006 and 2005 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Stock and other	¥ 31,288	¥124,271	¥ 56,105	\$ 265,153
Bond, forex and other	126,045	100,641	95,013	1,068,178
(Bond and other)	(48,693)	(39,026)	(62,407)	(412,653)
(Forex and other)	(77,352)	(61,615)	(32,606)	(655,525)
	¥157,333	¥224,912	¥151,118	\$1,333,331

23. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2007, 2006 and 2005 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Employees' compensation and benefits	¥163,379	¥171,062	¥142,751	\$1,384,568
Commissions and brokerage	37,672	31,508	19,607	319,254
Communications	19,749	18,646	18,174	167,364
Occupancy and rental	38,846	32,659	32,697	329,203
Data processing and office supplies	23,021	17,273	16,805	195,093
Taxes other than income taxes	8,265	8,072	6,756	70,042
Depreciation and amortization	23,117	22,641	22,129	195,908
Other	26,324	23,338	16,625	223,085
	¥340,373	¥325,199	¥275,544	\$2,884,517

24. Other income (expenses)

Details of "Other, net" in the accompanying consolidated statements of operations for the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Gains on sales of investment securities	¥ 3,602	¥10,030	¥ 5,559	\$ 30,525
Losses on sales of investment securities	(363)	(70)	(892)	(3,076)
Write-down of investment securities	(736)	(499)	(3,472)	(6,237)
Valuation losses on fixed assets	(1,510)	—	(114)	(12,797)
Gains or losses on sale or disposal of fixed assets	(1,395)	(548)	465	(11,822)
Losses on sales of loans receivable	—	—	(7,595)	—
Reversal of stock purchase warrant	—	—	502	—
Multiemployer pension plan settlement cost in consolidated subsidiaries	—	—	(188)	—
Allowance for doubtful accounts	(317)	—	(1,639)	(2,686)
Equity in earnings of affiliates	1,424	1,528	1,894	12,068
Impairment losses on fixed assets	(2,975)	(6,851)	—	(25,212)
Losses on liquidation of affiliates	—	—	(51)	—
Relocation costs of headquarter office	(4,681)	—	—	(39,669)
Expenses for reorganization of overseas banking subsidiary	—	—	(779)	—
Gain on charge in stake in subsidiary	—	4,725	—	—
Contribution to the Securities Market Infrastructure Improvement Fund	—	(200)	—	—
Loss on litigation settlement	—	(1,279)	—	—
Foreign exchange loss from overseas subsidiary capital reduction	—	(1,564)	—	—
Extraordinary depreciation	—	(4,439)	—	—
Provision for litigation losses	(551)	—	—	(4,669)
Other	7,600	4,737	4,543	64,406
	¥ 98	¥ 5,570	¥(1,767)	\$ 831

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 years ended March 31, 2007, 2006 and 2005 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Fixed assets to be held and used	¥2,975	¥6,201	¥–	\$25,212
Fixed assets to be disposed of by sale	–	650	–	–
Total	¥2,975	¥6,851	¥–	\$25,212

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 rate of 5%.

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

25. Subsequent events

Stock incentive plan — The shareholders of the Company approved the issuance of stock subscription rights as stock options on June 23, 2007. 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 was ¥1 (\$0.01) 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, 2007 and 2006, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended March 31, 2007, expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in Japan.

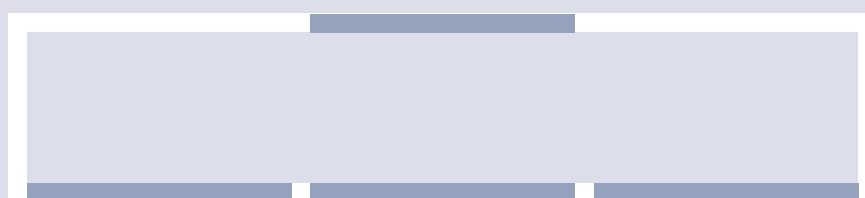
Without qualifying our opinion, we draw attention to the following. As discussed in Note 2 to the consolidated financial statements, the consolidated financial statements of the Company are adapted to "Accounting Standard for Presentation of Net Assets in the Balance Sheet" and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" from this fiscal year.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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 25, 2007

Other Information



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Officers

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Group Inc.
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Organization and Officers

Daiwa Securities Group Inc.

1) Organization (As of July 31, 2007)



2) Officers (As of June 23, 2007)

Directors

Chairman of the Board
Yoshinari Hara

Deputy Chairman of the Board
Akira Kiyota

Director
Shigeharu Suzuki

Director
Shin Yoshidome

Director
Tetsuo Mae

Director
Takashi Hibino

Director
Ikuo Mori

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
(Representative)
Shin Yoshidome
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
Shuntaro Higashi
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
Takashi Hibino
Director, Daiwa Securities Group Inc.

Corporate Executive
Vice President
Ikuo Mori
Director, Daiwa Securities Group Inc.
Representative Senior Managing Director, Daiwa Securities SMBC Co. Ltd.

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
Masamichi Yokoi
Chairman, Daiwa America Corporation

Corporate Executive Officer
Seiji Nakata

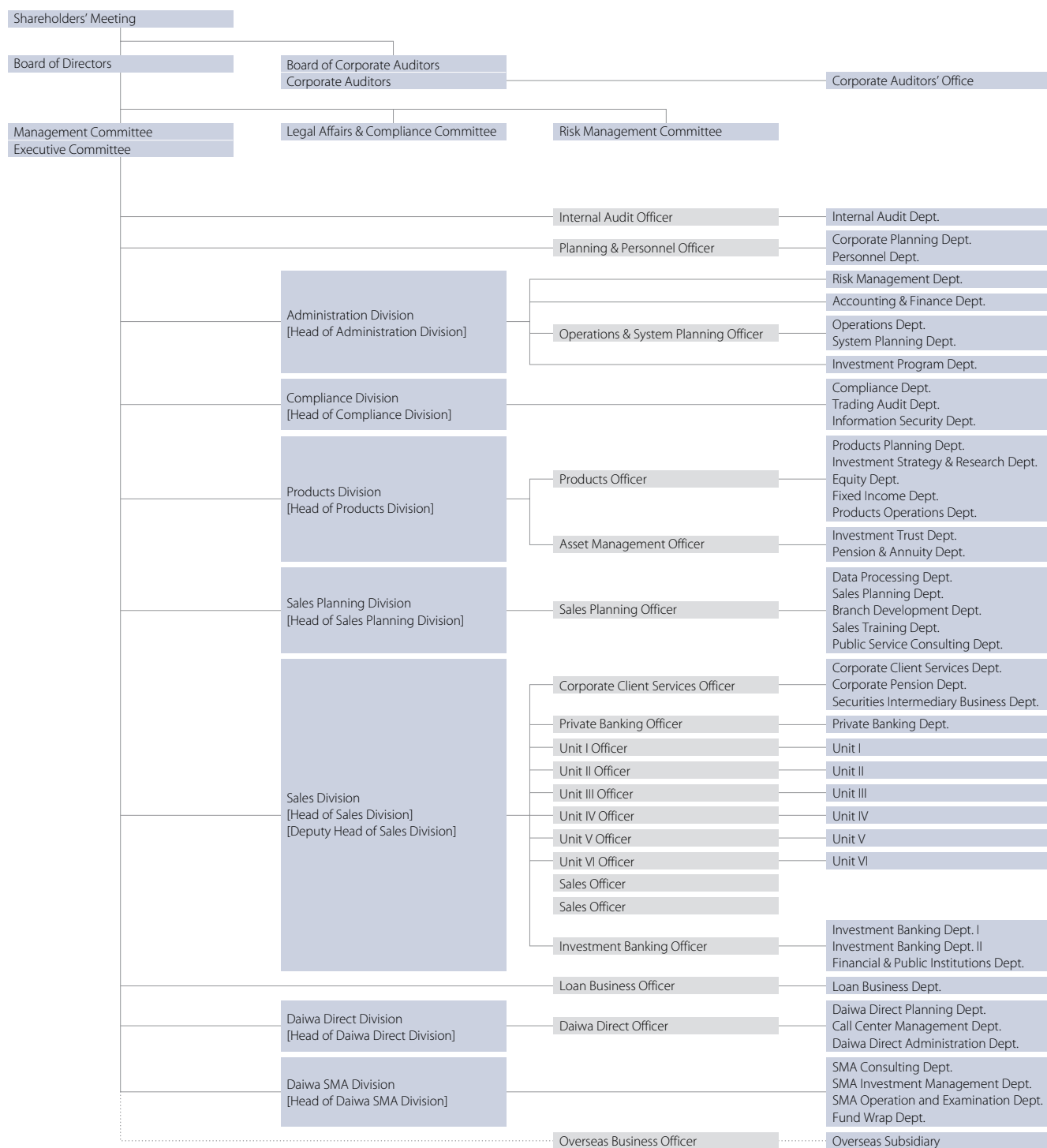
Corporate Executive Officer
Masaaki Goto

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.

Daiwa Securities Co. Ltd.

1) Organization (As of July 1, 2007)



2) Officers (As of June 23, 2007)

Directors

President
Shigeharu Suzuki

Deputy President
Tetsuo Mae

Representative Senior
Managing Director
Toshiro Ishibashi

Senior Managing Director
Takashi Fukai

Representative Senior
Managing Director
Masaki Shimazu

Senior Managing Director
Makoto Shirakawa

Managing Director
Yoshimi Murakami

Managing Director
Koshiro Taniguchi

Director
Koichi Suzuki

Corporate Auditors

Shohei Takashima

Zenichiro Onishi

Kenji Hayashibe

Executive Officers

Takuya Ikeda

Osamu Abiru

Hisashi Otsuka

Hiroshi Nakamura

Yoshihiko Nakata

Shinya Nishio

Shinya Kusaba

Keiji Komagata

Keiichi Sakai

Naofumi Idei

Ikuo Shoda

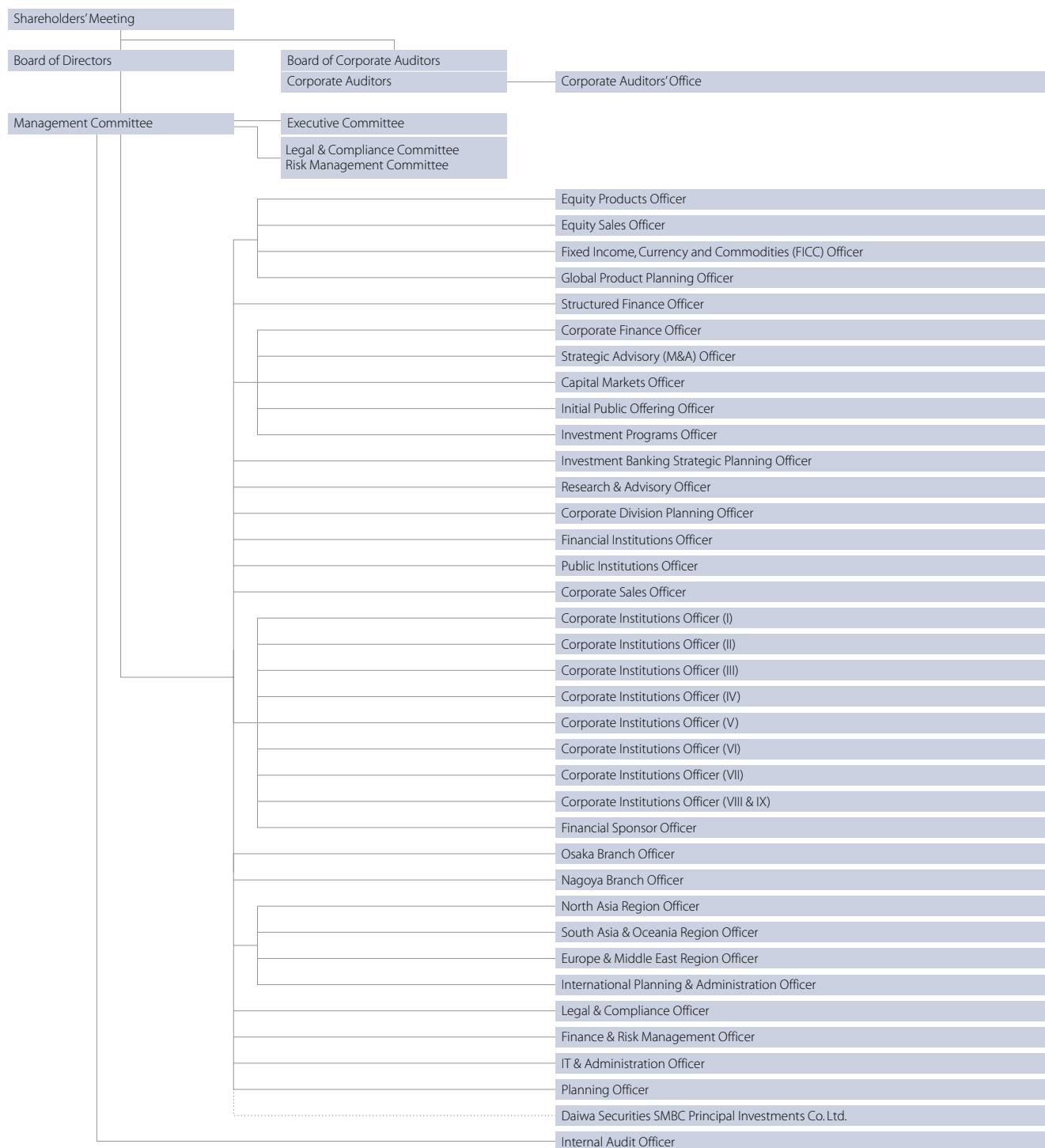
Hideto Sakao

Masahiko Kooku

Masahiko Okumura

Daiwa Securities SMBC Co. Ltd.

1) Organization (As of July 2, 2007)



2) Officers (As of June 23, 2007)

Directors

President
Shin Yoshidome

Deputy President
Shuntaro Higashi

Representative Senior
Managing Director
Ikuo Mori
President, Daiwa Securities SMBC Asia
Holding B.V.

Senior Managing Director
Hideo Watanabe
President, Daiwa Securities SMBC
Principal Investments Co. Ltd.

Senior Managing Director
Kazuhiko Akamatsu

Managing Director
Takashi Yamaguchi

Managing Director
Teruaki Ueda

Representative Managing Director
Masaki Yamane

Managing Director
Mitsuharu Tanaka

Director
Tetsufumi Fujisawa

Corporate Auditors

Shigeharu Tominaga

Satoshi Otsu

Fuminori Yoshitake

Yoshio Nagamoto

Executive Officers

Senior Executive Officers

Akio Takahashi

Yoriyuki Kusaki

Executive Officers

Masami Tada

Shigeo Koike

Kenichi Miki

Motoi Takahashi

Eishu Kosuge
Chairman, Daiwa Securities SMBC
Europe Limited

Takatoshi Wakabayashi

Toshinao Matsushima

Yasuharu Okanoya

Shigeru Ishida
Chairman, Daiwa Securities SMBC
Hong Kong Limited
Chairman, Daiwa Securities SMBC-
Cathay Co., Ltd.

Yoshimasa Tsunei

Yoshimasa Nagase

Seiji Sato

Hiroaki Saito

Kazuo Takahashi

Akira Inoue
Deputy President, Daiwa Securities
SMBC Principal Investments Co. Ltd.

Yoshio Urata

Akihiko Kanamura
Chairman, Daiwa Securities SMBC
Singapore Limited
Chairman, Daiwa Securities SMBC
Futures Pte Ltd.

Main Group Companies

(As of July 31, 2007)

Daiwa Securities Co. Ltd.

6-4, Otemachi 2-chome, Chiyoda-ku, Tokyo 100-8101, Japan
Tel: 81-3-3243-2111

Daiwa Securities SMBC Co. Ltd.

8-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8289, Japan
Tel: 81-3-5533-8000

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.

15-6, Fuyuki, Koto-ku, Tokyo 135-8460, Japan
Tel: 81-3-5620-5100

Daiwa SB Investments Ltd.

7-9, Nihonbashi 2-chome, Chuo-ku, Tokyo 103-0027, Japan
Tel: 81-3-3243-2915

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.

1-9, Nihonbashi-kayabacho 1-chome, Chuo-ku, Tokyo 103-8219, Japan
Tel: 81-3-3665-5601

NIF SMBC Ventures Co., Ltd.

8-10, Kudankita 1-chome, Chiyoda-ku, Tokyo 102-0073, Japan
Tel: 81-3-6910-2600

Daiwa Securities SMBC Principal Investments Co. Ltd.

8-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8289, Japan
Tel: 81-3-5533-6058

Daiwa Securities Loan Co., Ltd.

3-2, Toyo 2-chome, Koto-ku, Tokyo 135-0016, Japan
Tel: 81-3-5683-9589

Daiwa Fund Consulting Co. Ltd.

6-1, Otemachi 2-chome, Chiyoda-Ku, Tokyo 100-0004, Japan
Tel: 81-3-6225-3200

Overseas Network

(As of July 31, 2007)

Daiwa Securities Group Inc.

Daiwa Securities America Inc.

Financial Square, 32 Old Slip, New York, NY10005, U.S.A.
Tel: (1) 212-612-7000

Daiwa Securities Trust and Banking (Europe) PLC

5 King William Street, London EC4N 7JB, United Kingdom
Tel: (44) 20-7320-8000

Daiwa Securities Trust Company

One Evertrust Plaza, Jersey City, NJ 07302, U.S.A.
Tel: (1) 201-333-7300

Daiwa Europe Fund Managers (Ireland) Ltd.

Level 3, Block 5, Harcourt Centre, Harcourt Road,
Dublin 2, Ireland
Tel: (353) 1-603-9900

Daiwa Europe Trustees (Ireland) Ltd.

Level 3, Block 5, Harcourt Centre, Harcourt Road,
Dublin 2, Ireland
Tel: (353) 1-603-9900

Daiwa Securities Co. Ltd.

Daiwa Wealth Management Singapore Pte. Ltd.

6 Shenton Way #26-08, DBS Building Tower Two,
Singapore 068809, Republic of Singapore
Tel: (65) 6222-7281

Daiwa Securities SMBC Co. Ltd.

Daiwa Securities SMBC Europe Limited

Head Office

5 King William Street, London EC4N 7AX, United Kingdom
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Frankfurt Branch

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Geneva Branch

50, rue du Rhône, P.O. Box 3198, 1211 Geneva 3, Switzerland
Tel: (41) 22-818-74-00

Milan Branch

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Tel: (39) 02-763271

Spain Branch

Jose Ortega y Gasset 20, 7th floor, Madrid 28006, Spain
Tel: (34) 91-529-9800

Bahrain Branch

7th Floor, The Tower, Bahrain Commercial Complex,
P.O. Box 30069, Manama, Bahrain
Tel: (973) 1753-4452

Dubai Branch

DIFC, Room 17, Level 15, The Gate Building,
P.O. Box 121208, Dubai, UAE
Tel: (971) 4365-0170

Daiwa Securities SMBC Hong Kong Limited

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Daiwa Securities SMBC Singapore Limited

6 Shenton Way #26-08, DBS Building Tower Two,
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Tel: (65) 6220-3666

Daiwa Securities SMBC Australia Limited

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Melbourne, Victoria 3000, Australia
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DBP-Daiwa Securities SMBC Philippines, Inc.

18th Floor, Citibank Tower, 8741 Paseo de Roxas, Salcedo
Village, Makati City, Republic of the Philippines
Tel: (632) 813-7344

Daiwa Securities SMBC-Cathay Co., Ltd.

14th Floor, 200 Keelung Road, Sec. 1, Taipei, Taiwan, R.O.C.
Tel: (886) 2-2723-9698

Daiwa SMBC-SSC Securities Co., Ltd.

15th Floor, Aurora Plaza, No. 99 Fucheng Road, Pudong,
Shanghai, People's Republic of China
Tel: (86) 21-6859-8000

Daiwa Securities SMBC Co. Ltd.

Seoul Branch

6th Floor, DITC Building, #27-3, Youido-dong,
Yongdungpo-gu, Seoul, Republic of Korea
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Beijing Representative Office

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Beijing, People's Republic of China
Tel: (86) 10-6500-6688

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

Mumbai Representative Office

81, Free Press House, 8th Floor, 215, Nariman Point,
Free Press Journal Marg, Mumbai 400021, India
Tel: (91)22-6622-1000

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Premises 669, 3 Smolenskaya Ploshad, Moscow, 121099, Russia
Tel: (7) 495-933-8939

Daiwa Securities Group Inc. Corporate Data

Head Office

6-4, Otemachi 2-chome
Chiyoda-ku, Tokyo 100-8101, Japan
Tel: 81-3-3243-2100

Internet Home Page Address

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

Commencement of Operations

May 1, 1902

Date of Founding

December 27, 1943

Common Stock

Authorized
4,000,000 thousand shares
Issued and Outstanding
1,404,664 thousand shares
(as of March 31, 2007)

Number of Shareholders

94,902 (as of March 31, 2007)

Independent Public Accountant

KPMG AZSA & Co.

Stock Exchange Listings

Tokyo, Osaka, Nagoya

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

For further information, please contact:

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Investor Relations

Tel: 81-3-3243-3841

Fax: 81-3-3242-0955

Email: ir-section@dsgi.daiwa.co.jp

URL: <http://www.daiwa-grp.jp/ir/english/>

Daiwa Securities Group
www.daiwa-grp.jp