

<Translation>

Note: This English translation of the Japanese original version of the notice has been prepared for the sole purpose of convenience of non-Japanese shareholders and shall by no means constitute an official or binding version of the notice.

(Securities Code: 8601)
May 31, 2007

To Our Shareholders

DAIWA SECURITIES GROUP Inc.
6-4, Otemachi 2-chome,
Chiyoda-ku, Tokyo
President and CEO
Shigeharu Suzuki

Notice of Convocation of
The 70th Ordinary General Meeting of Shareholders

You are hereby notified that the 70th Ordinary General Meeting of Shareholders will be held as stated below. You are respectfully requested to attend the Meeting.

As you may exercise your voting rights in writing, if you are unable to attend the aforesaid meeting, please study the "Reference Documents to the General Meeting of Shareholders" provided below, and indicate on the "Voting Rights Exercise Form" enclosed herewith your approval or disapproval of the bills on the agenda and return the form to the Daiwa Securities Group Inc. ("Company").

Also, you may exercise your voting rights of the aforesaid meeting via electronic devices, e.g. the Internet. In the event that you exercise your voting rights via the Internet, please access the web site of the Company, <http://www.webdk.net/>, using the "Voting Rights Exercise Code" and password indicated in the "Voting Rights Exercise Form" enclosed herewith. Please study the "Reference Documents for the General Meeting of Shareholders" provided below and vote for approval or disapproval of respective bills in accordance with the guidance on the web site.

Particulars

- 1. Date and time of the Meeting:** 10:00 a.m., Saturday, June 23, 2007
- 2. Place of the Meeting:** Convention Hall, 2B., The Prince Park Tower Tokyo
8-1, Shiba-koen 4-chome, Minato-ku, Tokyo

The place of the Meeting differs from that of last year's. Please refer to the information map on the ending page. Please be careful not to mistakenly go to the wrong location.

3. Matters to be dealt with at the Meeting

Matters for reporting:

1. Report on the contents of Business Report, the Consolidated Financial Statements of the 70th business year (From April 1, 2006 to March 31, 2007), and the outcome of an audit of the Consolidated Financial Statements conducted by Independent Auditors and Audit Committee.
2. Report on the contents of the Financial Statements of the 70th business year (From April 1, 2006 to March 31, 2007).

Matters to be resolved:

- Bill 1: Partial Amendments of the Articles of Incorporation
- Bill 2: Election of Thirteen (13) Directors
- Bill 3: Granting Stock Options Utilizing Stock Acquisition Rights

4. Matters Regarding to Exercise of Voting Rights

- (1) If you are unable to attend the Meeting, you may exercise your voting rights in writing or via electronic device (via the Internet, etc.). Please exercise your voting rights with reference to the section entitled "Exercise of Voting Rights when you are unable to attend the General Meeting of Shareholders" on page[].
- (2) The time limit for exercising voting rights in writing or via electronic device shall be 17 hours (5:00 p.m.) of Friday, June 22, 2007, the day before the aforesaid meeting(Tokyo time).
- (3) If you exercise your voting rights twice, in writing and via electronic device, the one via electronic device shall be deemed to be your vote.
- (4) If you exercise your voting rights multiple times via electronic device or that you exercise your voting rights redundantly by PC and cellular phone, the latest one shall be deemed as a valid vote.
- (5) If you exercise your voting right in writing and submit the "Voting Rights Exercise Form" without any indication in the space for approval or disapproval of respective items, it shall be deemed as an intention of approval.

- (6) If you exercise your voting rights by proxy, you must delegate your voting rights to a proxy who is a shareholder of the Company entitled to vote. In such cases, in addition to the letter of proxy to prove the proxy, the proxy's Voting Rights Exercise Form would be required. Furthermore, delegation of your voting rights is limited to only one proxy.
- (7) In the event that you exercise your voting rights in non-uniform manner, please inform the Company, in writing, of your intention to exercise your voting rights in non-uniform manner and the reason for it three days in advance of the aforesaid meeting.

5. Method of Notice to Shareholders

If any modification to the contents of the attached documents of this notice of convocation or the Reference Documents for the General Meeting of Shareholders is needed before the aforesaid meeting, the Company will post such modification on the web site of the Company (http://www.daiwa-grp.jp/ir/shareholders/shareholders_04.cfm).

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- Please note that any proxy or person accompanied by a shareholder, who is not a shareholder of the Company, may not attend the meeting.
 - When you attend the meeting, please submit the enclosed Voting Rights Exercise Form to the receptionist at the venue of the meeting.
 - If you are a nominee shareholder of managerial investment trust bank, etc. (including a standing proxy) and if you have applied in advance for utilization of a web-based exercising voting rights platform for institutional investors managed by Investor Communications Japan, Inc. (ICJ), you may use that platform as a method, instead of the Internet, of exercising your voting rights via electronic device.

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Business Report

(From April 1, 2006 to March 31, 2007)

I. Status of Business Activities

Daiwa Securities Group, whose core business is the securities business, strives to improve the corporate value of the Group. The outline of the Group's performance in the current fiscal year (FY2006) is as follows.

Note: In this report, the "Group" means a corporate group consisting of Daiwa Securities Group Inc. (the "Company") and its subsidiaries.

1. The Economy/Market Environment and Outcome of the Group's Business Activities

(1) Economy and Market Environment

Our country's economy during the current fiscal year was steady like the previous fiscal year. Though public investment showed a tendency to decline, exports and industrials showed continuous growth. Reflecting the high level of corporate earnings and favorable business circumstances, there was an increase in capital investment and moderate increase in employees' income, and also an upward trend of personal consumption. As a result, the economy has continued with a steady recovery and moderate expansion.

Under the foregoing economic environment, the stock market underwent a temporary adjustment at the beginning of the fiscal year and dropped sharply from the previous fiscal year closing price of the Nikkei Stock Average, 17,059.66 yen, due to rising long-term interest rates and stagnant overseas stock markets. After August 2006, due to favorable corporate earnings and a trend toward the depreciation of the yen, the stock market turned upward, and the average stock price recovered to the 17,000 yen level in December. Though the stock market continued to rise after January 2007 and reached the 18,000 yen level at the end of February, due to the simultaneous drop of stock prices in the global stock markets immediately after that and over concerns about the future of the United States economy, the

average stock price dropped to the 16,000 yen level. Thereafter, though the stock market made self-sustaining rebound, it went without a clear sense of direction due to the trends in the foreign exchange market, etc., and the Nikkei Stock Average at the end of the current fiscal year was 17,287.65 yen. Further, the average trading volume (total of domestic and foreign stocks) per day at the Tokyo Stock Exchange during the current fiscal year reached 2 trillion 757.1 billion yen, up 14.7% from the previous fiscal year and set a new record.

On the other hand, in the bond market, the yield for the 10 year Japanese government bond, which was around the mid of 1.7% level at the beginning of the current fiscal year, rose temporarily to the 2% level in May due to an increased expectation of interest hike. However, in July the Bank of Japan lifted the zero-interest-rate policy, which was set forth in March 2001, and the yield began to decline to a level between 1.8% and 1.5%, reflecting the United States' bond market, domestic price developments and other matters. The Bank of Japan made an additional interest rate hike in February 2007, but due to speculation about changing monetary policy, the yield continued to stay in the mid 1.6% level until the end of the current fiscal year.

(2) Outcome of the Group's Business Activities

[Performance by Each Business Sector]

1) Retail

Daiwa Securities Co. Ltd., which takes charge of the Group's retail securities business, continued to expand its customer bases and worked to increase the customers' assets under its custody by improving its systems to further appeal to all types of customers. As a result, the total of Daiwa Securities' Customers' assets under custody reached 32.3 trillion yen (up 7.3% from the previous year) at the end of the current fiscal year.

First, the "Consulting Division", through sales representatives' efforts to add value, increased the balance of assets steadily by providing products, especially in the equity-investment trusts, to meet the customers' needs.

Second, the "Direct Division" steadily increased the number of accounts and the assets under custody by holding seminars about online trading utilizing branch offices, our powerful retail channel, effectively and positively, in addition to improving the level of convenience in online trade.

And, in the "SMA Division", the balance of contracted assets under management of "Daiwa SMA", a discretionary investment contract services, exceeded 200.0 billion yen by the end of last year due to customers' support. This result ranked number one in the

industry of wrap account services. Daiwa Securities Co. Ltd. established its first overseas base, for marketing and products creation, Daiwa Wealth Management Singapore Pte. Ltd. , in an effort to expand its business targeting Asian high-net-worth individuals by full use of our experience and knowledge in the assets management business for the high-net-worth individuals.

To expand and improve our services to the customers of Daiwa Securities Co. Ltd, we newly formed Daiwa Securities Loan Co., Ltd. and commenced handling security collateralized loans for individual clients in August 2006 and, thereafter, we expanded the service to corporate clients and loans through the Internet.

2) Wholesale

Daiwa Securities SMBC Co. Ltd. (“Daiwa Securities SMBC”), which takes charge of the wholesale securities business, engaged in business with the objective at improving its status as a top-tier investment bank.

In the current fiscal year, Daiwa Securities SMBC achieved steady results in the investment banking business, driven by increased activities in corporate financing and M&A.

In the underwriting business, Daiwa Securities SMBC underwrote large-scale deals in equity primary and secondary offerings and initial public offering, and served as a lead-manager for underwriting many bond deals, as well. Additionally, our advisory service for Nippon Steel Corporation to raise 300.0 billion yen by issuing hybrid securities was highly evaluated.

In the M&A business, we served as an advisor to multiple large-scale deals including the acquisition of Pilkington plc., a UK corporation, by NSG-Nippon Sheet Glass Co., Ltd.

As a result, for the current fiscal year, Daiwa Securities SMBC was number one in the league table of total debts, which are total of corporate straight bonds, Agency bonds and yen-denominated foreign bonds, ABS (Asset-backed Securities), in addition to Initial Public Offering, and was selected as “House of the Year” by Thomson Financial, a world-wide research firm.

3) Assets Management

Daiwa Assets Management Co. Ltd. significantly increased its assets under management in the newly launched “Life Harmony (the fund of funds)” and major existing equity investment trusts. The outstanding assets under management in equity investment trusts at the end of the current fiscal year exceeded 6.3 trillion yen, one and a

half times more than the balance of 4.2 trillion yen at the end of the previous fiscal year. Among those, “Daiwa Global Bond Fund (a monthly payment type)”, of which net assets exceeded 1 trillion yen during the previous fiscal year, was also steadily sold to the customers during the current fiscal year, due to its good performance and grew into a large-scale product with net assets over 1.6 trillion yen.

Daiwa SB Investments Ltd. also increased its assets under management due to, an increase in the assets through gaining new overseas clients, in addition to satisfactory sales of equity investment trusts such as the “Daiwa Global High Dividend Equity Open” and the “Asian High Dividend Equity Fund”.

Further, during the current fiscal year, Daiwa Fund Consulting Co., Ltd., formerly the assets management research division of Daiwa Institute of Research Ltd., was established. Its main businesses are, in addition to evaluation of investment funds, consulting on pension fund management, investment advisory for the fund of funds. The company also advises the management of “Life Harmony”.

4) Investment

The Group’s investment businesses are undertaken by two companies, Daiwa Securities SMBC Principal Investments Co. Ltd. and NIF SMBC Ventures Co., Ltd. During the current fiscal year, while an attempt to accumulate the investment balance continued, returns from exits of large-scale investments contributed to the earnings.

Further, to develop the private equity (unlisted stocks) business in Asian region, we established EMP Daiwa Capital Asia Ltd. jointly with an American private equity company in February, 2007.

5) Research and Systems

Daiwa Institute of Research Ltd. endeavors to increase customers’ satisfaction by equipping and improving the research system in Asia. The company was ranked the second, the highest in the past, in the Japanese stock analyst ranking by an American magazine, Institutional Investor, one of most prominent financial magazines in the world.

[Enhancement of Corporate Governance]

The Company has been focusing on strengthening corporate governance in order to realize maximization of corporate value.

During the current fiscal year, we focused on reviewing the organizational structure of companies in the Group and on rearranging the internal control systems of the Group

corresponding to the Corporation Law in effect.

Further, for the internal control report system to be applied from the year 2008, we have started up a project to correspond it across the companies in the Group from the current fiscal year.

[CSR (Note1) & Others]

Acknowledging that trust from the customers, shareholders and others wide range of people are indispensable, we have been engaging in social activities in which CSR department takes a leading part.

Continuing from the previous fiscal year, we worked to spread and promote SRI funds (Note 2) and the “Daiwa Ecology Fund”, which the Group established and sold, became one of the largest SRI funds in net assets under management in Japan. Further, the Group was selected as one of “Global 100 Most Sustainable Corporations in the World”, which was announced at the World Economic Forum Annual Meeting in Davos. Additionally, the Group was included in the FTSE4 Good Index (Note 3) for the first time in the current fiscal year and has been included for 8 consecutive years in the Dow Jones Sustainability World Index (DJSI World).(Note 4)

In addition, the Group devotes its attention to corporate activities in the field of intellectual property rights, and has 16 patents during the current fiscal year.

(Note 1) CSR (Corporate Social Responsibility)

(Note 2) A fund to be invested in companies, which positively engage in CSR and are expected their sustainable growth.

(Note3) The index is provided by the subsidiary of UK's Financial Times and the London Stock Exchange, which consists of the stocks of companies, which are expected to sustain its growth in economic, social and environmental aspects.

(Note 4) The index is provided by Dow Jones & Company, inc of the US and Sustainable Asset Management of Switzerland, which consists of the stocks of companies, which are expected to sustain its growth in economic, social and environmental aspects.

2. Outline of the Consolidated Performances

The following is the outcome of our consolidated settlement of accounts for the current fiscal year. The consolidated subsidiaries of the current fiscal year are 46 companies, and affiliates included under the equity method are 4.

(Note) The consolidated balance sheet and the consolidated income statement of the current fiscal year are prepared in accordance with the "Accounting Regulation Ordinance" from the current fiscal year. In addition to the "Accounting Regulation Ordinance", the consolidated balance sheet and the consolidated income statement of the current fiscal year are prepared in accordance with the 'Cabinet Office Ordinance Concerning Securities Companies' (Prime Minister's Office Ordinance and Ministry of Finance Ordinance No. 32, 1998), and the 'Uniform Accounting Standards of Securities Companies' (set by the board of directors of the Japan Securities Dealers' Association, November 14, 1974).

(1) Status of Operating Revenue and Net Operating Revenue of the Group

The consolidated operating revenue of the current fiscal year was 917.3 billion yen, 8.5% up from the previous fiscal year, and the net operating revenue was 526.7 billion yen, 9.1% down from the previous fiscal year.

| | (Millions of yen) | | |
|---|---------------------|----------------------|----------|
| | Current (FY2006) | Previous (FY2005) | % Change |
| Commissions | 306,736 | 309,188 | -0.8% |
| (Equity) | [98,986] | [120,216] | [-17.7%] |
| (Fixed Income) | [2,666] | [3,202] | [-16.7%] |
| (Asset Management) | [106,906] | [82,403] | [29.7%] |
| (Investment Banking) | [74,985] | [82,735] | [-9.4%] |
| (Others) | [23,190] | [20,631] | [12.4%] |
| Net gain (loss) on Trading | 157,332 | 224,912 | -30.0% |
| (Stocks and others) | [31,288] | [124,270] | [-74.8%] |
| (Bonds, Foreign Exchange, etc.) | [126,044] | [100,641] | [25.2%] |
| Net gain (loss) on private equity and other securities | 32,818 | 21,539 | 52.4% |
| Interest and dividend Income | 373,452 | 245,210 | 52.3% |
| Other Sales Revenue | 46,967 | 44,808 | 4.8% |
| Operating Revenues | 917,307 | 845,659 | 8.5% |
| Interest Expenses | 354,245 | 231,572 | 53.0% |
| Cost of Sales | 36,298 | 34,729 | 4.5% |
| Net Operating Revenue | 526,764 | 579,358 | - 9.1% |

1) Commissions

The following are the details of the commissions.

[Equity]

The Equity Division's commissions were 98.9 billion yen, down 17.7% from the

previous fiscal year due to a decrease in retail trading and a lowered commission rate which resulted in less commission income received by Daiwa Securities Co. Ltd.

[Fixed Income]

The Fixed Income Division's commission consists of brokerage commissions, agency commissions, etc. The total commissions of the current fiscal year were 2.6 billion yen, down 16.7% from the previous fiscal year.

[Asset Management]

The Asset Management Division saw an increase in the management fees thanks to the increased balance of net assets under management of the investment trust. As a result, the total commissions were 106.9 billion yen, up 29.7 % from the previous fiscal year.

[Investment Banking]

The Investment Banking Division's commissions consist mainly of commissions from primary and secondary offering of equity and commissions for M&A. The total commissions received were 74.9 billion yen, down 9.4% from the previous fiscal year.

[Others]

The commissions are primarily from custody fees, investment enterprise partnership administration fee, life insurance sales commission, etc. The total was 23.1 billion yen, up 12.4% from the previous fiscal year.

2) Net gain (loss) on trading

Net gain (loss) on trading stocks, etc. was 31.2 billion yen, down 74.8% from the previous fiscal year. The net gain (loss) of trading the bonds, foreign exchange, etc. was 126 billion yen, up 25.2% from the previous fiscal year.

(2) Status of Profits and Losses of the Group

The net operating revenue was adjusted for selling, general and administrative expenses, non-operating income and non-operating expenses, the result of which is the ordinary income of the current fiscal year of 195.4 billion yen, down 25.0% from the previous fiscal year, to which the extraordinary gains of 3.6 billion yen from the sale of the investment securities, etc. and the extraordinary losses of 13.0 billion yen from the

relocation costs of the head office, losses on impairment of fixed assets, etc., and income taxes and minority interests etc., were adjusted, which results in the net income of the current fiscal year of 92.7 billion yen, down 33.7% from the previous fiscal year.

(3) Status of Assets, Liabilities and Net Assets of the Group

While the receivables on collateralized securities transactions increased 540.1 billion yen from the end of the previous fiscal year, trading assets decreased by 1 trillion 80.0 billion yen from the end of the previous fiscal year, which decreased the current assets to 13 trillion 891.1 billion yen (decreased by 501.2 billion yen from the end of the previous fiscal year). Consequently, the total assets at the end of the current fiscal year decreased by 487.6 billion yen from the end of the previous fiscal year to 14 trillion 411.2 billion yen. On the other hand, the total liabilities at the end of the current fiscal year decreased by 681.8 billion yen from the end of the previous fiscal year to 13 trillion 188.0 billion yen. The total net assets at the end of the current fiscal year was 1 trillion 223.2 billion yen, whereas the net assets per share was 665.98 yen.

(4) Status of the Capital Investment of the Group

The Group has been making capital investments for the purpose of enhancing its customers' convenience. During the current fiscal year, we have continuously concentrated in enhancement of the online trading systems and reforming the core business operational systems for Daiwa Securities Co. Ltd. and made IT related investments of 49.1 billion yen in total.

We also actively invested capital in branch offices, including Daiwa Securities Co., Ltd. opening Aobadai branch (Kanagawa) and Sakai branches (Osaka), as well as relocation, renovation, expansion, etc. of existing branches to provide better access to customers.

(5) Status of Financing of the Group

The Company issued its 5th series unsecured straight bonds of 50.0 billion yen, with a payment date of June 15, 2006. The proceeds were used for the business of Daiwa Securities Co., Ltd.

On the other hand, the 16th unsecured convertible bonds were matured on September 29, 2006, and 79.2 billion yen, almost the whole balance as of the end of the previous fiscal year, were converted to the Company's common shares.

Daiwa Securities SMBC Co. Ltd. procured funds in May 2006, from the Company

and Sumitomo Mitsui Banking Corporation by loans with subordinated clause of total 50.0 billion yen and from the Company and Sumitomo Mitsui Financial Group, Inc. through a rights issue of total 100.2 billion yen, respectively.

3. Five-year trend of the status of Consolidated Performance and Assets

| | (Billions of yen) | | | | |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---|
| | 66 th term | 67 th term | 68 th term | 69 th term | 70 th term |
| | (Apr 1, 2002 - Mar 31, 2003) | (Apr 1, 2003 - Mar 31, 2004) | (Apr 1, 2004 - Mar 31, 2005) | (Apr 1, 2005 - Mar 31, 2006) | (Apr 1, 2006 Mar 31, 2007) (current term) |
| Operating revenues | 387.6 | 453.8 | 519.3 | 845.6 | 917.3 |
| Net operating revenues | 270.8 | 352.4 | 390.4 | 579.3 | 526.7 |
| Ordinary income | 29.2 | 96.1 | 120.4 | 260.6 | 195.4 |
| Net income/loss (current term) | -6.3 | 42.6 | 52.6 | 139.9 | 92.7 |
| Stockholders' equity (Net assets) | 541.7 | 604.1 | 648.3 | 792.2 | 1,223.2 |
| Total assets | 9,502.8 | 10,765.6 | 12,378.9 | 14,989.8 | 14,411.2 |
| Stockholders' equity (Net assets) per share (Yen) | 407.84 | 453.60 | 486.70 | 598.27 | 665.98 |
| Net income (loss) per share (Yen) (current term) | -4.75 | 31.66 | 39.03 | 103.90 | 67.90 |
| Return on Equity (ROE)% | -- | 7.4% | 8.4% | 19.4% | 10.8% |
| Number of consolidated Subsidiaries | 51 | 51 | 46 | 46 | 46 |
| Number of companies applied equity method | 4 | 5 | 5 | 5 | 4 |

(Note 1) The net assets is computed based on "Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No.5) from the current fiscal year.

(Note 2) The current fiscal year's "Net Assets per Share" was computed with the following formula:

Net Assets per Share = (Net Assets - [Stock Acquisition Rights] - Minority interest)/Number of outstanding shares at the end of the fiscal year

4. Issues to be Addressed by the Group

Benefiting from the steady recovery of Japanese economy, accelerating “savings to investment” movement and individual’s needs for assets management have continued to diversify in Japan. In the meantime, corporations are actively using the capital markets to pursue their business strategies.

Accordingly, the capital market undertakes more important roles as a public platform, and the Daiwa Securities Group’s social mission to support a sound capital market, is becoming more important than ever.

Based on this understanding, the Daiwa Securities Group launched a medium-term management plan “Passion for the Best 2008” for the three fiscal years from 2006 to 2008, and envisions evolving into “Japan’s best securities group”.

The following are four core management targets the Group set.

- 1) Consolidated Ordinary Income: 350 billion yen or more
- 2) Consolidated ROE: 15% or higher
- 3) Retail Customers’ Assets under Custody: 45 trillion yen or more
- 4) Wholesale: No. 1 in the league table (total equity/ total debt / M&A)

In FY2007, the second year of medium-term management plan we will strive to increase our business results toward full achievement of the ultimate performance targets through assured execution of the action plans of the respective business divisions.

With respect to the individual customers, all combined forces of the entire Group will concentrate on expansion of customer base drastically by offering products and services to meet specific needs for individuals’ asset management.

At the same time, we will strive to expand our wholesale business by offering corporate customers comprehensive solutions relating to financing and M&A and powerful support for their growth strategies.

In the global market, we will focus on business relating to Asia and rebuild the Daiwa Securities Group’s presence in the overseas market.

The action plans for FY 2007 of respective business divisions are as follows:

(1) Retail Division

- 1) To increase customers’ assets under custody by offering wide array of products and services to meet customers’ needs
- 2) To gain new customers by integration of branch offices and the Internet
- 3) To expand customers holding investment trusts and to meet the baby-boom generations’ needs
- 4) To enhance management capability and to expand and improve management style of Daiwa SMA, as well as to introduce and promote fund wraps
- 5) To strengthen product development and supply capability by reinforcing alliances among the Group companies
- 6) To enhance our corporate business, which matches needs for diversified assets management and funding

(Note) Fund wrap is wrap account service (an asset management service whose management fee, brokerage fee, and account management fee are determined in proportion to the amount of the contract assets) whose investment target is investment trusts.

(2) Wholesale Division

- 1) To strengthen overseas’ business focusing on Asia
- 2) To strengthen cross-border M&A involving Japanese corporations
- 3) To strengthen its deal origination capabilities through interdivisional collaboration

- 4) To expand the products lineup, such as credit products, loan, fund, etc., and to strengthen its sales system
 - 5) To enhance trading capabilities and to strengthen derivatives trading functions
- (3) Asset Management Division
Daiwa Asset Management Co., Ltd.
- 1) To reinforce its asset management system overseas, centering on Asia, and to diversify its products development
 - 2) To strengthen individual marketing for respective key sales channels
 - 3) To reinforce marketing research and develop large-scale products, which suit customers' needs
- Daiwa SB Investment Ltd.
- 1) To diversify domestic pension fund products and improve its management
 - 2) To develop overseas customer, mainly with Japanese equities
 - 3) To strengthen marketing of equity investment trusts
- (4) Investment Division
- 1) To promote exits from existing investments in private equities (PE) and investments in monetary claims
 - 2) To invest new money of 100 billion yen to quality projects through improvement of PE marketing capacity and promotion of sourcing of overseas' PE investment
- (5) Research and Systems Divisions
- 1) To recapture the top rating by customers in research division in Japan
 - 2) To reinforce research systems on Asian and emerging countries
 - 3) To focus on strategic areas in business consulting, such as IT, Asia and finance
 - 4) Systems division to continue to respond to the Group's IT projects and to develop human resources

Daiwa Securities Co. Ltd., a subsidiary of the Company, received administrative actions from Financial Services Agency regarding the avoidance of unfair trading etc. in December, 2006, and submitted a business improvement plan to Financial Services Agency in January, 2007. We take those actions very seriously and are taking thorough measures on compliance and internal-control throughout the Group toward rebuilding trust.

The Group will, together with all officers and employees, strive toward continuous enhancement of corporate value. We would like to ask our shareholders to kindly give us greater guidance and encouragement.

5. Status of the Group

(1) The Group's Primary Businesses

The Group is primarily involved in trading and brokerage of securities and derivative products, underwriting of securities, distribution of securities, private offering of securities, and other businesses relating to securities and financial fields.

(2) Status of Major subsidiaries and affiliates

| Company Name | Location | Capital (millions of yen) | Equity Position (Directly owned) | Business |
|--|--|-----------------------------------|----------------------------------|---|
| Daiwa Securities Co. Ltd. | Chiyoda-ku, Tokyo | 100,000 | 100.0% (100.0%) | Securities brokerage Asset management |
| Daiwa Securities SMBC Co. Ltd. | Chiyoda-ku, Tokyo | 255,700 | 60.0% (60.0%) | Securities brokerage |
| Daiwa Asset Management Co. Ltd. | Chuo-ku, Tokyo | 15,174 | 100.0% (100.0%) | Investment trust business Asset management |
| Daiwa Institute of Research Ltd. | Koto-ku, Tokyo | 3,898 | 100.0% (91.3%) | Research System solutions Consulting |
| Daiwa SB Investments Ltd. | Chuo-ku, Tokyo | 2,000 | 44.0% (44.0%) | Asset management Investment trust business |
| Daiwa Securities Business Center Co., Ltd. | Koto-ku, Tokyo | 100 | 100.0% (100.0%) | Back office operation Temporary staff agency |
| Daiwa Property Co., Ltd. | Chuo-ku, Tokyo | 100 | 100.0% (99.4%) | Ownership and leasing of business offices and other real estate |
| NIF SMBC Ventures Co., Ltd. | Chuo-ku, Tokyo (head quarter) Chiyoda-ku, Tokyo (head office) | 18,767 | 46.3% (46.3%) | Venture capital business |
| Daiwa Securities SMBC Europe Limited | London, U.K. | GBP109.1 million | 100.0% (--) | Securities brokerage |
| Daiwa America Corporation | New York, U.S.A. | USD486 million | 100.0% (100.0%) | Integration and management of subsidiaries |
| Daiwa Securities America Inc. | New York, U.S.A. | USD100 million | 100.0% (--) | Securities brokerage |
| Daiwa Securities SMBC Asia Holding B.V. | Amsterdam, Netherlands | EUR177.3 million | 100.0% (--) | Integration and management of subsidiaries |
| Daiwa Securities SMBC Hong Kong Limited. | Hong Kong | HKD100 million USD68.5 million | 100.0% (--) | Securities brokerage |
| Daiwa Securities SMBC Singapore Limited. | Singapore, Singapore | 42 SGD million | 100.0% (--) | Securities brokerage Finance |

(Note) Daiwa SB Investment Ltd. is an affiliated company.

(3) Status of the Group's Business Combination, etc.

- 1) Status of transfer, absorption-type split (*Kyushuu-bunkatsu*) or incorporation-type split (*Shinsetsu-bunkatsu*) of the Group's business

Daiwa Institute of Research Ltd. executed an incorporation-type split of its asset management analysis division and Daiwa Fund Consulting Co., Ltd. succeeded it as of July 25, 2006.

- 2) Status of transfer of business from other company

No applicable major incident

- 3) Status of succession of rights/duties of other corporation's business by absorption-type merger or absorption-type demerger

No applicable major incident

- 4) Status of acquisition or disposition of other corporation's stocks or other equity, etc.

The Company established Daiwa Securities Loan Co., Ltd., which is to offer loans secured by securities in custody, on May 1, 2006, and made it 100% subsidiary by acquiring all of its shares.

The Company acquired 23,977,492 shares (92.38%) of common stocks in Hinode Securities Co., Ltd. by tender offer as of September 5, 2006 and made it one of consolidated subsidiaries of the Company.

The Company acquired 49.9% of voting rights of EMP Daiwa Capital Asia Ltd., which is a joint company with EMP Global L.L.C., the US private equity firm and its primary business are to make private equity investment in Asian region and manage private equity funds invested in Asian region, as of December 26, 2006.

(4) Status of Major Business Alliances

The Company operates joint ventures with Sumitomo Mitsui Financial Group Inc. and Sumitomo Mitsui Banking Corporation in the areas of wholesale securities brokerage, asset management and venture capital businesses.

(5) The Group's Primary Business Locations

- 1) **The Company's Head Office:** 6-4, Otemachi 2-Chome, Chiyoda-ku, Tokyo

2) Main Subsidiaries' Business Locations

| Business Name | Location |
|--|---------------------------|
| Daiwa Securities Co., Ltd. | |
| Head Office | Chiyoda-Ku, Tokyo |
| Shinjuku Branch | Shinjuku-ku, Tokyo |
| Shibuya Branch | Shibuya-ku, Tokyo |
| Ikebukuro Branch | Toshima-ku, Tokyo |
| Tachikawa Branch | Tachikawa City, Tokyo |
| Yokohama-eki Nishiguchi Branch | Yokohama City, Kanagawa |
| Yokohama Branch | Yokohama City, Kanagawa |
| Chiba Branch | Chiba City, Chiba |
| Omiya Branch | Saitama City, Saitama |
| Sapporo Branch | Sapporo City, Hokkaido |
| Sendai Branch | Sendai City, Miyagi |
| Utsunomiya Branch | Utsunomiya City, Tochigi |
| Niigata Branch | Niigata City, Niigata |
| Nagoya Branch | Nagoya City, Aichi |
| Shizuoka Branch | Shizuoka City, Shizuoka |
| Kanazawa Branch | Kanazawa City, Ishikawa |
| Osaka Branch | Osaka City, Osaka |
| Umeda Branch | Osaka City, Osaka |
| Kobe Branch | Kobe City, Hyogo |
| Kyoto Branch | Kyoto City, Kyoto |
| Takamatsu Branch | Takamatsu City, Kagawa |
| Hiroshima Branch | Hiroshima City, Hiroshima |
| Fukuoka Branch | Fukuoka City, Fukuoka |
| Kagoshima Branch | Kagoshima City, Kagoshima |
| Daiwa Securities SMBC Co., Ltd. | |
| Head Office | Chiyoda-ku, Tokyo |
| Osaka Branch | Osaka City, Osaka |
| Nagoya Branch | Nagoya City, Aichi |

(6) Status of Employees

1) The Group's Employees

| Number of Employees | Change from previous fiscal year |
|---------------------|----------------------------------|
| 13,264 | +703 |

(Note): The number of employees includes financial advisor staff of 917.

2) The Company's Employees

| Number of Employees | Change from previous fiscal year | Average Age | Average year of Service |
|---------------------|----------------------------------|---------------|-------------------------|
| 266 | +9 | 37yrs&10mons. | 11yrs&5mons. |

(7) Major Lenders

The Company

| Name of Lender | Type of Loan | Balance (yen) |
|--|-----------------------|-----------------|
| Sumitomo Mitsui Banking Corporation | Short-Term Borrowings | 40,000 millions |
| The Sumitomo Trust & Banking Co., Ltd. | Short-Term Borrowings | 20,000 millions |
| Mizuho Corporate Bank, Ltd. | Long-Term Borrowings | 10,820 millions |
| TAIYO LIFE INSURANCE COMPANY | Long-Term Borrowings | 10,000 millions |
| The Dai-Ichi Mutual Life Insurance Company | Long-Term Borrowings | 10,000 millions |

Daiwa Securities SMBC Co. Ltd.

| Name of Lender | Type of Loan | Balance (yen) |
|--|-------------------------|-----------------|
| Sumitomo Mitsui Banking Corporation | Subordinated Borrowings | 72,000 millions |
| | Short-Term Borrowings | 10,565 millions |
| The Sumitomo Trust & Banking Co., Ltd. | Subordinated Borrowings | 30,000 millions |

Daiwa Securities SMBC Principal Investments Co. Ltd.

| Name of Lender | Type of Loan | Balance (yen) |
|--|-----------------------|-----------------|
| Sumitomo Mitsui Banking Corporation | Short-Term Borrowings | 15,000 millions |
| The Sumitomo Trust & Banking Co., Ltd. | Short-Term Borrowings | 15,000 millions |

NIF SMBC Ventures Co., Ltd.

| Name of Lender | Type of Loan | Balance (yen) |
|-------------------------------------|-----------------------|----------------|
| Sumitomo Mitsui Banking Corporation | Short-Term Borrowings | 9,018 millions |
| | Short-Term Borrowings | 7,000 millions |

(8) Other Significant Matters relating to The Group's Current Status

Not applicable

(Note): This business report is prepared in accordance with the provisions of "Corporation Law" (Act No. 86 of 2005), "Regulations for Enforcement of Corporate Law" (Ministry of Justice Ordinance No. 12 of 2006) and "Accounting Regulation Ordinance" (Ministry of Justice Ordinance No. 13 of 2006). Where it was possible to state the Group's status, we stated the status of the Group instead of the status of the Company alone.

II. Summary of the Company (As of March 31, 2007)

1. Status of Shares

(1) Total number of Shares

| | |
|--|----------------------|
| Total number of authorized shares: | 4,000,000,000 shares |
| Total number of issued and outstanding shares: | 1,404,664,772 shares |

(Note) The increase of issued and outstanding shares is due to issuance of new shares (72,204,663 shares) associated with conversion of convertible bond with stock acquisition rights (unsecured convertible bond, series 16).

(2) Total number of shareholders: 94,902

(3) Major Shareholders

| Name | Investment Status Number of shares held (Equity Position) |
|--------------------------------------|---|
| The Master Trust Bank of Japan, Ltd. | 91,354,000 shares |

| | |
|---|------------------------------|
| (Trust Account) | (6.50%) |
| <hr/> | |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 76,372,000 shares (5.44%) |
| <hr/> | |
| Japan Trustee Services Bank, Ltd. (Trust Account 4) | 42,613,000 shares (3.03%) |
| <hr/> | |
| State Street Bank & Trust Company | 34,632,000 shares (2.47%) |
| <hr/> | |
| Sumitomo Mitsui Banking Corporation | 30,328,000 shares (2.16%) |
| <hr/> | |
| Investors Bank | 28,720,000 shares (2.04%) |
| <hr/> | |
| Japan Trustee Services Bank, Ltd. Sumitomo Trust Pension Account | 24,888,000 shares (1.77%) |
| <hr/> | |
| Bank of New York GCM Clients Account EISG | 24,205,000 shares (1.72%) |
| <hr/> | |
| TAIYO LIFE INSURANCE COMPANY | 23,140,000 shares (1.65%) |
| <hr/> | |
| Nippon Life Insurance Company | 20,867,000 shares (1.49%) |

(Note) Treasury stock of 8,936,747 shares is included for calculating the equity position of the above list of major shareholders.

2. Status of Stock Acquisition Rights, etc.

(1) Summary of stock acquisition rights (stock options) held by the Company's Officers at the end of the current fiscal year

- A. Stock Acquisition Rights issued under Article 280-20 and Article 280-21 of previous Commercial Code.

Stock Acquisition rights, Series 1 (issued on September 1, 2004)

- 1) Number of stock acquisition rights: 1,913
- 2) Class and number of shares subject to stock acquisition rights:
Common stock of the Company: 1,913,000 shares
- 3) Amount to be paid in upon issuance of stock acquisition rights:
Gratuitous grant

- 4) Amount to be paid in upon exercise of stock acquisition rights:
756,600 yen per right (756 yen per share)
- 5) Period to exercise stock acquisition rights:
From July 1, 2006 to August 31, 2011
- 6) Conditions for exercise of stock acquisition rights:
 1. Each stock acquisition right may not be exercised in part.
 2. Other conditions for exercise shall be set forth in the stock acquisition right grant agreement.

Stock Acquisition Rights issued in June 2005 (issued on June 24, 2005)

- 1) Number of stock acquisition rights: 533
- 2) Class and number of shares subject to stock acquisition rights:
Common stock of the Company: 533,000 shares
- 3) Amount to be paid in upon issuance of stock acquisition rights:
Gratuitous grant
- 4) Amount to be paid in upon exercise of stock acquisition rights:
1,000 yen per right (1 yen per share)
- 5) Period to exercise stock acquisition rights:
From July 1, 2006 to June 30, 2025
- 6) Conditions for exercise of stock acquisition rights:
 1. Each stock acquisition right may not be exercised in part.
 2. The holder of the stock acquisition rights may exercise the rights from the day after they exit all positions as director or executive officer of the Company or its subsidiaries as determined by the Board of Directors of the Company or the executive officers to whom the determination has been delegated by a resolution of the Board of Director of the Company.
 3. Disregarding item 2. above, stock acquisition rights may be exercised after June 1, 2025 in accordance with other conditions for exercise of stock acquisition rights.
 4. Other conditions for exercise shall be set forth in the stock acquisition right grant agreement.

Stock Acquisition Rights, Series 2 (issued on September 2, 2005)

- 1) Number of stock acquisition rights: 2,560
- 2) Class and number of shares subject to stock acquisition rights:
Common stock of the Company: 2,560,000 shares
- 3) Amount to be paid in upon issuance of stock acquisition rights:
Gratuitous grant
- 4) Amount to be paid in upon exercise of stock acquisition rights:
781,000 yen per right (781 yen per share)
- 5) Period to exercise stock acquisition rights:
From July 1, 2007 to August 31, 2012
- 6) Conditions for exercise of stock acquisition rights:
 1. Each stock acquisition right may not be exercised in part.

2. Other conditions for exercise shall be set forth in the stock acquisition right grant agreement.

B. Stock acquisition rights issued under Article 236, Article 238 and Article 239 of Corporation Law

Stock Acquisition Rights issued in July 2006 (issued on July 1, 2006)

- 1) Number of stock acquisition rights: 298
- 2) Class and number of shares subject to stock acquisition rights:
Common stock of the Company: 298,000 shares
- 3) Amount to be paid in upon issuance of stock acquisition rights:
Gratuitous grant
- 4) Amount to be paid in upon exercise of stock acquisition rights:
1,000 yen per right (1 yen per share)
- 5) Period to exercise stock acquisition rights:
From July 1, 2006 to June 30, 2026
- 6) Conditions for exercise of stock acquisition rights:
 1. Each stock acquisition right may not be exercised in part.
 2. The holder of the stock acquisition rights may exercise the rights from the day after they exit all of positions as director or executive officer of the Company or its subsidiaries as determined by the Board of Directors of the Company or the executive officers to whom the determination has been delegated by a resolution of the Board of Director of the Company.
 3. Disregarding item 2. above, stock acquisition rights may be exercised after May 31, 2026 in accordance with other conditions of exercise of stock acquisition rights.
 4. Other conditions for exercise shall be as to be provided in the stock acquisition right allocation agreement.

C. Status of Stock Acquisition Right A. and B. above held by the Company's Officers

| <u>Name of stock acquisition rights</u> | <u>Number of holders</u> | <u>Number of rights</u> |
|---|--------------------------|-------------------------|
| Stock acquisition Rights, Series 1 | 8 | 127 |
| Stock acquisition Rights issued in Jun 2005 | 14 | 129 |
| Stock acquisition Rights, Series 2 | 1 | 3 |
| <u>Stock acquisition Rights issued in Jul 2006</u> | 15 | 74 |

(Note 1) No stock acquisition right as a stock option was allocated to Outside Director.

(Note 2) Beside the above, though the Company issued stock acquisition rights, series 3 (see (2) below) during the current fiscal year, said stock acquisition rights were not allocated to the officers at the end of current fiscal year.

(2) Summary of Stock Acquisition Rights (Stock Options) allotted to Employees, etc., during the Current Term

Stock Acquisition Rights issued in July 2006 (issued on July 1, 2006)

See (1) above

Stock Acquisition Rights, Series 3 (issued on September 4, 2006)

- 1) Number of stock acquisition rights: 2,571
- 2) Class and number of shares subject to stock acquisition rights:
Common stock of the Company: 2,571,000 shares
- 3) Amount to be paid in upon issuance of stock acquisition rights:
Gratuitous grant
- 4) Value of assets to be invested upon exercise of stock acquisition rights:
1,515,000 yen per right (1,515 yen per share)
- 5) Period to exercise stock acquisition rights:
From July 1, 2011 to June 23, 2016
- 6) Conditions for exercise of stock acquisition rights:
 1. Each stock acquisition right may not be exercised in part.
 2. Other conditions for exercise shall be set forth in the stock acquisition right allocation agreement.

Status of Stock Acquisition Rights held by the Company's employees, etc.

| <u>Name of acquisition rights</u> | <u>Class of holders</u> | <u>No. of holders</u> | <u>No. of rights</u> |
|-----------------------------------|----------------------------------|-----------------------|----------------------|
| Stock acquisition | <u>Employees of the Company</u> | 0 | 0 |
| Rights issued | <u>Directors of Subsidiaries</u> | 30 | 101 |
| in July 2006 | <u>Employees of Subsidiaries</u> | 46 | 123 |
| | Total | 76 | 224 |
| Stock acquisition | <u>Employees of the Company</u> | 91 | 158 |
| Rights, Series 3 | <u>Directors of Subsidiaries</u> | 7 | 20 |
| | <u>Employees of Subsidiaries</u> | 1,645 | 2,296 |
| | Total | 1,743 | 2,474 |

(Note 1) Executive officers of subsidiaries are classified as employees of subsidiaries.

(Note 2) No stock acquisition right as a stock option was allocated to the auditors of subsidiaries.

3. Status of the Company's Officers

(1) Directors

| <u>Title</u> | <u>Name</u> | <u>Area in Charge or primary occupation</u> |
|---------------------------------------|------------------|---|
| Director/Chairman of the Board | Yoshinari Hara | |
| Director/Deputy Chairman of the Board | Akira Kiyota | |
| Director | Shigeharu Suzuki | |
| Director | Tatsuei Saito | |

| | | |
|----------|------------------|---|
| Director | Tetsuo Mae | |
| Director | Shin Yoshidome | |
| Director | Takashi Hibino | |
| Director | Nobuyuki Iwamoto | |
| Director | Kenji Hayashibe | |
| Director | Tetsuro Kawakami | Counsel of Sumitomo Electric Industries, Ltd. |
| Director | Ryuji Yasuda | Professor, Hitotsubashi University, Graduate School of International Corporate Strategy |
| Director | Keisuke Kitajima | Attorney at Law |
| Director | Koichi Uno | Certified Public Accountant |

(Note 1) Directors, Tetsuro Kawakami, Ryuji Yasuda, Keisuke Kitajima and Koichi Uno are outside directors as defined under , Article 2, item 15 of Corporation Law.

(Note 2) As a “committee system” company, the Company installed the following three committees, composed of the following directors.

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

(Note 3) Koichi Uno, a member of the Audit Committee, is a certified public accountant and licensed tax accountant and also has expertise in finance and accounting.

(Note 4) Tatsuei Saito resigned as director on April 2, 2007.

(2) Executive Officers

| Title | Name | Area of responsible or primary occupation |
|---|-----------------------|---|
| President/Representative Executive Officer | Shigeharu Suzuki | Chief Executive Officer (CEO) and Head of Retail, and Representative Director/President of Daiwa Securities Co. Ltd |
| Deputy President/ Executive Officer | Tatsuei Saito | Chief Operating Officer (COO) and Representative Head of Wholesale Division, Representative Director/ President of Daiwa Securities SMBC Co. Ltd. |
| Deputy President/ Executive Officer | Tetsuo Mae | Deputy Head of Retail Division, Representative Director/ Deputy President of Daiwa Securities Co. Ltd. |
| Deputy President/ Executive Officer | Kenjiro Noda | Deputy Head of Wholesale Division, Representative Director/ Deputy President of Daiwa Securities SMBC Co. Ltd. |
| Deputy President/ Executive Officer | Michihito Higuchi | Head of Asset Management Division, Representative Director /President of Daiwa Asset Management Co. Ltd. |
| Deputy President/ Executive Officer | Yoshiyuki Takemoto | Head of Research Division, Representative Director/President of Daiwa Institute of Research Ltd. |
| Corporate Executive Vice President/ Executive Officer | Shin Yoshidome | Deputy Head of Wholesale Division Senior Managing Director of Daiwa Securities SMBC Co. Ltd. |
| Corporate Senior Executive Officer | Takashi Hibino | Head of Corporate Planning and Human Resources |
| Corporate Senior Head Executive Officer | Akira Nakamura | Chief Information Officer (CIO) and Deputy of Corporate Planning |
| Executive Officer | Nobuyuki Iwamoto | Chief Finance Officer (CFO) and Deputy Head of Corporate Planning |
| Executive Officer | Takatoshi Wakabayashi | Head of Legal and Deputy Head of Human Resources |
| Executive Officer | Masamichi Yokoi | Head of American Region, Chairman of Daiwa American Corporation |
| Executive Officer | Yoshinari Hara | |
| Executive Officer | Akira Kiyota | |

(Note 1) Executive Officers, Shigeharu Suzuki, Tatsuei Saito, Tetsuo Mae, Shin Yoshidome, Takashi Hibino, Nobuyuki Iwamoto, Yoshinari Hara, Akira Kiyota also serve as director.

(Note 2) Executive Officers, Kenjiro Noda and Takatoshi Wakabayashi resigned as of April 1, 2007, and Mr. Tatsuei Saito as of April 2, 2007, respectively. Further Kenjiro Noda resigned as Representative Director/ Deputy President of Daiwa Securities SMBC Co. Ltd. as of April 1, 2007, and Tatsuei Saito resigned as Representative Director/President of Daiwa Securities SMBC Co. Ltd. as of April 2, 2007.

(Note 3) Shuntaro Higashi, Ikuo Mori, Seiji Nakata and Masaaki Goto took their new positions as executive officers as of April 2, 2007, and as of said day responsibilities of executive officers

have changed to as follows.

| | |
|-------------------------|---|
| <i>Shin Yoshidome</i> | <i>Chief Operating Officer (COO) and Head of Wholesale Division</i> |
| <i>Shuntaro Higashi</i> | <i>Deputy Head of Wholesale Division</i> |
| <i>Ikuo Mori</i> | <i>Deputy Head of Wholesale Division</i> |
| <i>Akira Nakamura</i> | <i>Chief Information Officer (CIO)</i> |
| <i>Nobuyuki Iwamoto</i> | <i>Chief Finance Officer (CFO)</i> |
| <i>Seiji Nakata</i> | <i>Deputy Head of Corporate Planning and Human Resources</i> |
| <i>Masaaki Goto</i> | <i>Head of Legal</i> |

Further, Shin Yoshidome took the position of Representative Director/President of Daiwa Securities SMBC Co. Ltd. and Shuntaro Higashi took the position of Representative Director/Deputy President of the said company as of April 2, 2007.

(3) Outside Officers

1) Status of position and company serving concurrently

| Name | Company serving concurrently | Position |
|------------------|--|------------------|
| Tetsuro Kawakami | Meidensha Corporation | Outside Director |
| | Nippon Venture Capital Co., Ltd. | Outside Director |
| | FM 802 Co., Ltd. | Outside Director |
| Ryuji Yasuda | Shoei Co., Ltd. | Outside Director |
| | Dai-Ichi High Frequency Co., Ltd. | Outside Director |
| | Fuji Fire and Marine Insurance Co., Ltd. | Outside Director |
| | Bank of Fukuoka, Ltd. | Outside Director |
| | Vantec Group Holdings Corporation | Outside Director |
| Keisuke Kitajima | Nippon Yusen Kabushiki Kaisha | Outside Auditor |
| | Nippon Life Insurance Company | Outside Auditor |
| Koichi Uno | Secured Capital Japan Co., Ltd. | Outside Auditor |
| | SCJ Servicing Co., Ltd. | Outside Auditor |
| | Kokusai Kogyo Co., Ltd. | Outside Auditor |

(Note 1) Ryuji Yasuda took the position of outside director of Fukuoka Financial Group, Inc. as of April 2, 2007.

(Note 2) None of the above companies are major customer of the Company.

2) Major activities during the current fiscal year

| Name | Major activities (Status of attendance & remarks) |
|------------------|--|
| Tetsuro Kawakami | Attended the Board of Directors' Meeting 11 times out of the 12 held during the current fiscal year, and made remarks on the bills and agenda of the meetings as necessary, mainly based on his ample experience and views as a corporate manager. |
| Ryuji Yasuda | Attended the Board of Directors' Meeting 11 times out of the 12 held during the current fiscal year, and made remarks on the bills and discussion of meetings, as necessary, mainly based on his knowledge and experience relating to management strategies. |
| Keisuke Kitajima | Attended all 12 Board of Directors' Meeting and all 12 Audit Committee during the current fiscal year, and made remarks mainly on maintenance and build-up of compliance system of the Company, as necessary, from his professional view as an attorney. |

Koichi Uno

Attended all 12 Board of Directors' Meeting and all 12 Audit Committee during the current fiscal year, and made remarks mainly on the Company's financial and accounting policies, as necessary, from his professional view as a certified public accountant and certified tax accountant.

(Note) Keisuke Kitajima and Koichi Uno are members of the Audit Committee.

3) Outline of the Agreement to limit liability

Each outside director executed the agreement to limit liability provided in Article 423, Paragraph 1 of Corporation Law, with the Company. The maximum amount of liability under the said agreement shall be 10 million yen or the minimum liability amount provided in Article 425, paragraph 1 of Corporation Law, whichever is higher.

(4) Remunerations paid to Directors and Executive Officers

| Amounts of Remunerations, etc. Paid based on Resolution of the Compensation Committee | Directors | | Executive Officers | | Total | |
|---|----------------|----------------|--------------------|----------------|----------------|----------------|
| | Number Paid | Amount Paid | Number Paid | Amount Paid | Number Paid | Amount Paid |
| | Persons | ¥million | Persons | ¥million | Persons | ¥million |
| | 5 | 105 | 14 | 1,042 | 19 | 1,147 |

(Note 1) The above paid amounts include the estimated amounts payable as achievement interlocking pays for the current fiscal year.

(Note 2) The above paid amounts include 100 million yen, the value of stock acquisition rights granted as stock options to the Directors and Executive Officers. The details of the stock acquisition rights are as stated in "2. Status of Stock Acquisition Rights, etc."

(Note 3) Beside the above, a retirement compensation of 19 million yen pursuant to the resolution of the 67th General Meeting of Shareholders (June 23, 2004) was paid to a Director retired during the current fiscal year.

(Note 4) The total remunerations, etc. paid to four (4) outside directors were 67 million yen.

(Note 5) The numbers of Directors and Executive Officers as of the end of the current fiscal year are 13 and 14, respectively. Eight (8) out of 13 Directors are serving the offices of Executive Officer concurrently. The remunerations to the Directors who also serve as the Executive Officers are stated in the column of Amount Paid to the Executive Officers.

(5) Policies for Determination of Remunerations for Directors and Executive Officers

As to Remunerations for Directors and Executive Officers are determined based on the following fundamental policies.

- Incentives, which contribute to increasing shareholders' value through sound business development and lead to development of short-term and medium to long-term business, function effectively.

- To stay at a level of competitive edge internationally as well as in Japan, as a securities related business group operating globally.
- As a “committee system” company, execution and supervision function effectively.

Remunerations for Directors and Executive Officers are composed of the base pay, the achievement interlocking pay and the stock price interlocking pay as defined below.

1) Base Pay

Base pay is a fixed amount calculated based on his/her position, duties and role.

2) Achievement interlocking pay

Achievement interlocking pay shall be determined by individual's level of contributions on basis of consolidated ordinary income and consolidated ROE, after taking elements of business assets, productivities and customer satisfaction into consideration.

Achievement interlocking pay shall not be applied to Directors who do not serve as an Executive Officer.

3) Stock price interlocking pay

To increase the interlocking level of shareholders' value, the Company grants stock options, etc., whose values correspond to a certain percentage of base pay as stock price interlocking pay.

Stock price interlocking pay shall not be applied to Outside Directors.

4. Status of Independent Auditors

1) Name: KPMG AZSA & Co.

2) Amount of Fees, etc.

1. The amount of fees, etc. to be paid by the Company to the independent auditor.

42 million yen

2. The total amount of fees, etc. to be paid by the Company and subsidiaries of the Company to the independent auditor.

369 million yen

(Note 1) Due to the amounts of audit fees for audit service under Corporation Law and audit service under Securities and Exchange Law are not clearly distinguished in the audit engagement contract between the Company and the independent auditor, and it is not practically possible to categorize them, the fees, etc. above are aggregated amount of those.

(Note 2) The Company also pays a fee to the independent auditor in consideration of its consulting services relating to the establishment of an internal control system, a service not included in audit duties (audit certificate service) as defined in Article 2, Paragraph 1 of the Certified Public Accountant Law.

3) Policies for Determination of Discharge or Refusal of Reappointment

In the event that the independent auditor violates or conflicts with Corporation Law,

Certified Public Accountant Law, etc., or acts against public policy, or if the Audit Committee determines that discharge or refusal of reappointment of the relevant independent auditor need to be considered, the Audit Committee will examine the facts. When the Audit Committee find discharge or refusal of reappointment is reasonable, it will decide to submit "Discharge or refusal of reappointment of the independent auditor" as an bill to the General Meeting of Shareholders, pursuant to regulations of the Audit Committee.

4) the Others

Major subsidiaries of the Company, Daiwa America Corporation and Daiwa Securities SMBC Europe Limited have, only in relation to audits on basis of Corporation Law or Securities and Exchange Law (including comparable foreign law(s)), been audited by certified public accountant(s) or audit corporation(s) (including one(s) who have/has comparable qualification(s) in foreign country(s) other than the independent auditor of the Company.

(Note) The Company has not executed a contract to limit liability with the independent auditor; "KPMG AZSA & Co."

5. Policies for Determination of Distribution of Surpluses

The Company pursues continuous enhancement of shareholders' value including profit shares. We plan to pay a dividend every six months with a dividend payout ratio of 30%, reflecting consolidated business performances. Taking care to secure enough internal reserves for future business development after taking stability into consideration, we plan to actively pay out profits to shareholders including repurchase of the Company's shares etc.

Further, based on the above basic policies, distribution of the surpluses for the current fiscal year are; 12 yen per share as the mid-term dividend (resolved at the Board of Directors' meeting held on October 26, 2006), and 16 yen per share as the year-end dividend. Accordingly, the annual dividend will be 28 yen per share and the dividend payout ratio (consolidated) of the last half of the term will be 42.4% and 41.2% annually.

6. System to Assure Appropriate Business Operations

Pursuant to provisions of Article 416, Paragraph 1 Item 1-*ro* and 1-*ho* of Corporation Law and Article 112 of Corporation Law Enforcement Regulation, the Board of Directors resolved matters, as outlined below, as a system to ensure appropriate business operations of the Company.

(1) Matters necessary for execution of Audit Committee's duties (matters provided in Article 112, Paragraph 1 of Corporation Law Enforcement Regulation)

1) Matters with respect to directors and employees assisting duties of Audit Committee

To establish a section exclusively to assist the duties of Audit Committee.

2) Matters regarding to independency of Directors and employees set forth in preceding paragraph, from the Executive Officers

Executive Officers must give consideration to the significance of the Audit Committee

and its independence from business execution departments, and must obtain consent in advance from Audit Committee or a committee member whom the Audit Committee may appoint (hereinafter referred as “appointed Audit Committee member”) for such section’s personnel affairs (transfer, evaluation, etc.), change of organization of such section, etc.

3) System for Executive Officers and employees to report to Audit Committee and System for other reports to Audit Committee

Executive Officers and other officers and employees shall report the following to the Audit Committee or the appointed Audit Committee member.

- a. When an individual discovers any fact that has possibility to cause substantial damage to the Company.
- b. When any officer or employee performs any act in violation of any law, ordinance or the Articles of Incorporation, or is considered to have possibly performed those act.
- c. Matters requested to be reported by the Audit Committee or the appointed Audit Committee member, and other matters considered helpful for audit.

4) System to ensure effective audit by the Audit Committee

- * Members of the Audit Committee may attend meetings of the Internal Control Committee and may seek explanations and speak. They also may attend other significant meetings.
- * The Audit Committee shall receive periodic reports regarding the risk status of the Group from the relevant divisions which are responsible for management of their respective risks, and regarding the internal audit status of the Group from the Internal Audit Division.
- * The Audit Committee or an appointed Audit Committee member may, as necessary, entrust the Internal Audit Division to perform necessary investigation.
- * The Audit Committee shall receive periodic reports of the Group’s companies regarding respective audit status from the Independent Auditor.
- * The Audit Committee may have outside professionals, who are independent from the divisions conducting business, assisted in its audit duties

(2) System to ensure that the Executive Officers execute their duties in compliance with laws, ordinance and the Articles of Incorporation, and system to assure appropriateness of stock company’s other operations (Systems provided in Article 112, Paragraph 2 of Corporation Law Enforcement Regulation)

1) System to ensure that the Executive Officers execute their duties in compliance with laws, ordinance and the Articles of Incorporation, and system to ensure that employees execute their duties in compliance with laws, ordinance and Articles of Incorporation.

a) Compliance System

- * Establish an internal informing system for the purpose of identifying and correcting at early stage any conducts, etc. violating laws, ordinances or other regulations in the Group.
- * Enact rules of ethics and standard of ethical conduct for the purpose of officers’ and employees’ compliance with laws.

- * Hold training seminars, for officers and employees in the Group on compliance addressing their respective business features of each company.
- * Appoint a person in charge of formation and promotion of corporate compliance system across the Group, and establish a section to promote the corporate ethic among officers and employees.
- * Establish a section that gives advice regarding overall legal issues of the Group, and assists each company of the Group in activities relating to formation of system for compliance with law, ordinance and other rules and regulations.

b) Internal Control Committee

The Internal Control Committee is a sectional committee of the Executive Committee, and discusses and determines the matters relating to development of internal control, risk management system and internal audit system for the Group's business.

c) Internal Audit Division

- * For sound and effective internal control of the Group, we believe that internal audit is an important function and establishes internal audit divisions at major companies of the Group as well as in the Company.
- * The internal audit division evaluates and examines the effectiveness of the Group's internal controls, and makes proposals for improvement and efficiency of the Group's business operation.
- * The internal audit division makes proposals and reports to the Audit Committee and the Internal Control Committee about the plans and results of internal audit.

2) System for storing and management of information relating to execution of Executive Officers' duties

Information relating to execution of Executive Officers' duties shall be stored and managed properly in accordance with the rules of documents filing and storing.

3) Systems for rules and others relating to management of loss risk

- * Establish risk management regulations for the purposes of accurate understanding and appropriate management of risks across the entire Group. Adhering to this, clarify the risk management system by appointing Executive Officers to manage and sections to control each category of risks and basic policies of risk management.
- * Each section shall establish its own management rules and/or management policy for the risks it has control over, and shall make reports about the situation of its risk management to the Internal Control Committee etc.

4) System for efficient execution of Executive Officers' duties

- * Clarify Executive Officers' duties and methods of executing them, and the business operations they manage in the rules of Executive Officers.
- * About matters which have material effect to the Company or its group, clarify the matters to be resolved and matters to be reported in the rules of the Executive

Committee

- 5) System to assure appropriateness of business operation in the corporate group composed of the relevant stock companies and subsidiaries
- * Carry out a business strategy based on the Group's strategy flexibly and efficiently in each company of the Group by way of the Company's Executive Officers concurrently serving as the representatives of respective major companies of the Group, etc.
 - * Establish rules for management of group companies for the purpose of proper management of business activities of group companies in Japan and overseas.
 - * Establish regulations at each group companies to grasp important information regarding the management of each group company, and to assure such information to be disclosed fairly, timely and appropriately in compliance with laws, ordinances, rules and regulations.

Consolidated balance sheets

| (millions of yen) | Fiscal 2006 Mar. 31, 2007 | Fiscal 2005 Mar. 31, 2006 |
|---|-------------------------------------|-------------------------------------|
| <i>Assets</i> | | |
| Current assets: | 13,891,106 | 14,392,393 |
| Cash and deposits | 365,310 | 407,889 |
| Cash segregated as deposits for regulatory purposes | 256,434 | 297,878 |
| Notes receivable and trade accounts receivable | 15,661 | 11,368 |
| Securities | 44,202 | 20,205 |
| Trading assets: | 5,082,219 | 6,162,242 |
| Trading securities and others | 4,228,894 | 4,491,212 |
| Derivative assets | 853,324 | 1,671,029 |
| Private equity and other securities | 448,964 | 390,917 |
| Less: Allowance for possible investment losses | -8,787 | -8,496 |
| Other inventories | 2,766 | 2,271 |
| Receivables related to margin transactions: | 575,457 | 563,537 |
| Customer margin loans | 339,104 | 359,331 |
| Cash deposits as collateral for securities borrowed | 236,353 | 204,206 |
| Collateralized short-term financing agreements: | 6,814,612 | 6,274,505 |
| Cash deposits as collateral for securities borrowed | 6,814,603 | 6,274,385 |
| Receivables related to gensaki transactions | 8 | 120 |
| Receivables | 10,038 | 25,940 |
| Short-term loans receivable | 145,391 | 59,997 |
| Accrued income | 40,602 | 36,558 |
| Deferred tax assets-current | 12,471 | 20,187 |
| Other current assets | 85,901 | 127,683 |
| Less: Allowance for doubtful accounts-current | -140 | -293 |
| Non-current assets: | 520,158 | 506,497 |
| Tangible fixed assets | 134,536 | 126,531 |
| Intangible fixed assets | 81,315 | 68,813 |
| Investments and others: | 304,307 | 311,153 |
| Investment securities | 234,102 | 249,647 |
| Long-term loans receivable | 11,491 | 11,866 |
| Long-term guarantee deposits | 23,729 | 23,538 |
| Deferred tax assets-non-current | 13,208 | 9,300 |
| Other investments | 23,373 | 18,651 |
| Less: Allowance for doubtful accounts-non-current | -1,599 | -1,851 |
| Total assets | 14,411,265 | 14,898,890 |

| (millions of yen) | Fiscal 2006 Mar. 31, 2007 | Fiscal 2005 Mar. 31, 2006 |
|---|-------------------------------------|-------------------------------------|
| <i>Liabilities</i> | | |
| Current liabilities: | 11,939,922 | 12,812,909 |
| Notes payable and trade accounts payable | 6,292 | 5,138 |
| Trading liabilities: | 4,105,362 | 4,879,188 |
| Trading securities and others | 3,417,833 | 3,321,855 |
| Derivative liabilities | 687,528 | 1,557,332 |
| Trading payables, net | 67,771 | 302,572 |
| Payables related to margin transactions: | 233,352 | 197,482 |
| Payable to securities finance companies | 14,446 | 7,569 |
| Proceeds of securities sold for customers' accounts | 218,906 | 189,912 |
| Collateralized short-term financing agreements: | 5,159,100 | 4,744,007 |
| Cash deposits as collateral for securities loaned | 5,000,747 | 4,525,203 |
| Payables related to gensaki transactions | 158,352 | 218,803 |
| Deposits received | 148,173 | 166,508 |
| Cash deposits received as guarantee | 100,494 | 99,224 |
| Short-term borrowings | 1,644,417 | 1,795,320 |
| Commercial paper | 302,391 | 234,210 |
| Bonds and notes due within one year | 27,912 | 80,207 |
| Convertible bonds and notes due within one year | - | 79,193 |
| Income taxes payable | 12,550 | 73,779 |
| Deferred tax liabilities-current | 9,287 | 2,898 |
| Accrued bonuses | 31,200 | 41,713 |
| Other current liabilities | 91,615 | 111,462 |
| Non-current liabilities: | 1,240,220 | 1,049,956 |
| Bonds and notes | 1,018,873 | 819,559 |
| Long-term debt | 165,895 | 167,952 |
| Deferred tax liabilities-non-current | 24,002 | 39,007 |
| Retirement benefits | 22,590 | 19,912 |
| Provision for relocation costs of headquarter office | 3,757 | - |
| Provision for litigation losses | 623 | - |
| Other non-current liabilities | 4,478 | 3,525 |
| Statutory reserves | 7,896 | 7,024 |
| Total liabilities | 13,188,039 | 13,869,891 |
| Minority interests | - | 236,718 |
| <i>Shareholders' equity</i> | | |
| Common stock | - | 138,828 |
| Capital surplus reserve | - | 118,339 |
| Retained earnings | - | 476,216 |
| Net unrealized gain (loss) on securities, net of tax effect | - | 72,694 |
| Translation adjustments | - | 863 |
| Treasury stock | - | -14,660 |
| Total shareholders' equity | - | 792,281 |
| Total liabilities, minority interests and shareholders' equity | - | 14,898,890 |
| <i>Net assets</i> | | |
| Owners' equity | 844,854 | - |
| Common stock | 178,324 | - |
| Capital surplus reserve | 157,678 | - |
| Retained earnings | 520,474 | - |
| Treasury stock | -11,628 | - |
| Paid-in money for treasury stock | 4 | - |
| Valuation and translation adjustments | 84,671 | - |
| Net unrealized gain (loss) on securities, net of tax effect | 75,657 | - |
| Deferred gain (loss) on hedges | 467 | - |
| Translation adjustments | 8,546 | - |
| Stock subscription rights | 610 | - |
| Minority interests | 293,088 | - |
| Total net assets | 1,223,225 | - |
| Total liabilities and net assets | 14,411,265 | - |

Consolidated statements of operations

| (millions of yen) | Fiscal 2006 Apr. 1, 2006 - Mar. 31, 2007 | Fiscal 2005 Apr. 1, 2005 - Mar. 31, 2006 |
|---|--|--|
| Operating revenues: | 917,307 | 845,659 |
| Commissions | 306,736 | 309,188 |
| Net gain (loss) on trading | 157,332 | 224,912 |
| Net gain (loss) on private equity and other securities | 32,818 | 21,539 |
| Interest and dividend income | 373,452 | 245,210 |
| Other revenues | 46,967 | 44,808 |
| Interest expense | 354,245 | 231,572 |
| Cost of sales | 36,298 | 34,729 |
| Net operating revenues | 526,764 | 579,358 |
| Selling, general and administrative expenses: | 340,372 | 325,199 |
| Commission and other expenses | 71,438 | 63,909 |
| Compensation and benefits | 163,379 | 171,061 |
| Occupancy and rental | 38,846 | 32,659 |
| Data processing and office supplies | 23,020 | 17,273 |
| Depreciation expenses | 23,117 | 22,640 |
| Taxes other than income taxes | 8,264 | 8,071 |
| Others | 12,306 | 9,582 |
| Operating income | 186,391 | 254,159 |
| Non-operating income | 10,937 | 8,697 |
| Non-operating expenses | 1,913 | 2,204 |
| Ordinary income | 195,415 | 260,651 |
| Extraordinary gains | 3,601 | 14,825 |
| Gain on sales of shares of related companies | 147 | 3,714 |
| Gain on sales of investment securities | 3,453 | 6,385 |
| Gain on change in stake in subsidiary | - | 4,725 |
| Extraordinary losses | 13,093 | 17,122 |
| Loss on litigation settlement | - | 1,279 |
| Write-down of shares of related companies | 200 | - |
| Write-down of investment securities | 535 | 499 |
| Write-down of fixed assets | 1,510 | - |
| Loss on sales or disposal of fixed assets | 1,395 | 548 |
| Loss on impairment of fixed assets | 2,974 | 6,850 |
| Extraordinary depreciation | - | 4,439 |
| Loss on sales of investment securities | 363 | 69 |
| Foreign exchange loss from overseas subsidiary capital reduction | - | 1,563 |
| Provision for litigation losses | 550 | - |
| Allowance for doubtful accounts | 316 | - |
| Relocation costs of headquarter office | 4,680 | - |
| Provision for securities transaction liabilities | 566 | 1,374 |
| Contribution to the Securities Market Infrastructure Improvement Fund | - | 200 |
| Others | - | 297 |
| Income before income taxes and minority interests | 185,922 | 258,355 |
| Income taxes-current | 65,794 | 77,675 |
| Income taxes-deferred | 3,657 | 391 |
| Minority interests | -23,746 | -40,339 |
| Net income | 92,724 | 139,948 |

Consolidated statement of changes in net assets

(Apr. 1, 2006 - Mar. 31, 2007)

| (millions of yen) | Owners' equity | | | | | |
|---|----------------|-------------------------|-------------------|----------------|----------------------------------|---------|
| | Common stock | Capital surplus reserve | Retained earnings | Treasury stock | Paid-in money for treasury stock | Total |
| Beginning balance as of Mar. 31, 2006 | 138,828 | 118,339 | 476,216 | -14,660 | - | 718,723 |
| Changes of items during the fiscal year | | | | | | |
| Issuance of new shares | 39,495 | 39,495 | - | - | - | 78,991 |
| Dividends | - | - | -45,806 | - | - | -45,806 |
| Payment of directors' and executive officers' bonuses | - | - | -1,827 | - | - | -1,827 |
| Net income | - | - | 92,724 | - | - | 92,724 |
| Acquisition of treasury stock | - | - | - | -311 | - | -311 |
| Disposal of treasury stock | - | -156 | -1,238 | 3,344 | - | 1,949 |
| Subsidiaries' merger | - | - | 406 | - | - | 406 |
| Others | - | - | - | - | 4 | 4 |
| Total changes of items during the fiscal year | 39,495 | 39,339 | 44,258 | 3,032 | 4 | 126,131 |
| Ending balance as of Mar. 31, 2007 | 178,324 | 157,678 | 520,474 | -11,628 | 4 | 844,854 |

| (millions of yen) | Valuation and translation adjustments | | | | Stock subscription rights | Minority interests |
|--|---|--------------------------------|-------------------------|---|---------------------------|--------------------|
| | Net unrealized gain (loss) on securities, net of tax effect | Deferred gain (loss) on hedges | Translation adjustments | Total valuation and translation adjustments | | |
| Beginning balance as of Mar. 31, 2006 | 72,694 | - | 863 | 73,557 | - | 236,718 |
| Changes of items during the fiscal year | | | | | | |
| Net changes of items other than owners' equity | 2,963 | 467 | 7,682 | 11,113 | 610 | 56,370 |
| Total changes of items during the fiscal year | 2,963 | 467 | 7,682 | 11,113 | 610 | 56,370 |
| Ending balance as of Mar. 31, 2007 | 75,657 | 467 | 8,546 | 84,671 | 610 | 293,088 |

These consolidated financial statements of Daiwa Securities Group Inc. (“Company”) and its subsidiaries are prepared in accordance with the “Accounting Regulation Ordinance”(Ministry of Justice Ordinance No. 13, 2006) from this fiscal year.

In addition to the “Accounting Regulation Ordinance“, these consolidated financial statements of the Company for the fiscal year ended March 31, 2007 are prepared in accordance with the ‘Cabinet Office Ordinance Regarding Securities Companies’ (Prime Minister’s Office Ordinance and Ministry of Finance Ordinance No. 32, 1998), and the ‘Uniform Accounting Standards for Securities Companies’ (set by the board of directors of the Japan Securities Dealers’ Association, November 14, 1974).

The figures in the consolidated financial statements are expressed in millions of yen, with amounts of less than one million omitted.

Basis of consolidated financial statements

1. Scope of consolidation

(1) The number of consolidated subsidiaries and the name of major consolidated subsidiaries

The number of consolidated subsidiaries: 46 companies

Major consolidated subsidiaries:

Daiwa Securities Co. Ltd.
Daiwa Securities SMBC Co. Ltd.
Daiwa Asset Management Co. Ltd.
Daiwa Institute of Research Ltd.
Daiwa Securities Business Center Co., Ltd.
Daiwa Property Co., Ltd.
NIF SMBC Ventures Co., Ltd.
Daiwa Securities SMBC Europe Limited
Daiwa America Corporation
Daiwa Securities America Inc.
Daiwa Securities SMBC Asia Holding B.V.
Daiwa Securities SMBC Hong Kong Limited
Daiwa Securities SMBC Singapore Limited

In the consolidated financial statements of the Company and its subsidiaries for the fiscal year ended Mar 31, 2007, one company was added to the scope of consolidation by additional acquisition of equities and one company was excluded from the scope of consolidation due to the progress of the liquidation.

(2) The name of non-consolidated subsidiaries etc.

Major non-consolidated subsidiaries

Daiwa Software Research Co., Ltd.

Rationale for exclusion from the scope of consolidation

The non-consolidated subsidiaries are all small in terms of total assets, operating revenues (or sales), net income or loss, and retained earnings (amounts corresponding to the equity ownership); they have no material impact as a whole on the consolidated financial statements and thus are excluded from the scope of consolidation.

(3) Companies not made into subsidiaries regardless of the Company’s ownership of the majority of the voting rights

The number of companies not made into subsidiaries : 24 companies

Major companies not made into subsidiaries:

Kyusai Co., Ltd
Mitsui Kanko Development Co.,Ltd.
Meisei Electric Co., Ltd.

Rationale for not being made into subsidiaries:

Some consolidated subsidiaries have acquired and owned these companies for the purpose of operating principal finance business and venture capital business, and thus not for the purpose of affiliation to the Group.

2. Application of the equity method

(1) The number of non-consolidated subsidiaries included under the equity method: 0

(2) The number of affiliates included under the equity method: 4 companies

Daiwa SB Investments Ltd.

Daiwa SMBC-SSC Securities Co., Ltd.
Totan Holdings Co., Ltd.
The Tokyo Tanshi Co., Ltd.

- One company was excluded from the application of the equity method due to liquidation.
- (3) Non-consolidated subsidiaries and affiliates not included under the equity method
Major non-consolidated subsidiaries and affiliates not included under the equity method
Daiwa Software Research Co., Ltd.
Rationale for not applying the equity method
The non-consolidated subsidiaries and affiliates are all small in terms of net income or loss, and retained earnings (amounts corresponding to equity ownership); they have no material impact as a whole on the consolidated financial statements and thus are not included under the equity method. For affiliates included under the equity method with the fiscal year ending other than March 31, 2007, the financial statements for the relevant fiscal year are reflected.
- (4) Companies not made into affiliates regardless of the Company's ownership between 20% and 50% of the voting rights
The number of the companies: 29 companies:
Major companies not made into affiliates
Sanyo Electric Co., Ltd.
Sumitomo Mitsui Construction Co., Ltd.
Maruzen Company, Limited
OGIHARA CORPORATION
Rationale for not being made into affiliates:
Some consolidated subsidiaries have acquired and owned these companies for the purpose of operating principal finance business and venture capital business, and thus not for the purpose of affiliation to the Group through personnel management, financial resources, technology, transactions, etc.

3. Fiscal year of consolidated subsidiaries

Fiscal year ending of consolidated subsidiaries are as follows;

March 31 : 45 companies

December 31 : 1 company

For consolidated subsidiary with the fiscal year ending other than March 31, 2007 (DBP-Daiwa Securities SMBC Philippines, Inc.), the financial statements for the relevant fiscal year are employed and important transactions occurring after the account date are adjusted for in these consolidated financial statements.

4. Accounting policies

(1) Valuation standards and methods for major assets

(i) Valuation standards and methods for securities, classified as trading assets

Trading assets and liabilities, including securities and financial derivatives for trading purposes held by a securities company are recorded at fair value.

(ii) Valuation standards and methods for securities and other assets not classified as trading assets

Securities not classified as trading assets are as follows:

(a) Securities intended to be held for trading purposes

Valued at market value (cost is determined based on the moving average method).

(b) Held-to-maturity bonds

Valued at amortized cost.

(c) Other Securities

Other securities with market value are stated at market value, based on quoted market price as of the end of the fiscal year (net unrealized gain (loss) are booked directly in net assets, and the costs of securities sold are calculated based on the moving average method). Securities without market value are stated at cost using the moving average method. Investment to investment limited partnerships, etc. are stated as "Private equity and other securities" or "Investment securities" at net asset values based on the partnerships' financial statements in proportion to the Company's share, and share of net unrealized profits and losses on securities held by the partnerships is directly posted into net assets.

Further, some portion of securities or private equity and other securities held by some of

consolidated subsidiaries are included in current assets.

- (iii) Valuation standards and methods for other inventories
The cost method determined by the specific identification method is mainly applied.
- (2) Depreciation methods for depreciable assets
 - (i) Tangible fixed assets
The Company and domestic consolidated subsidiaries compute depreciation of tangible fixed assets principally by the declining-balance method. However, depreciation for buildings(excluding building fixtures) purchased in Japan after April 1, 1998 is computed by the straight-line method. Useful lives of those tangible fixed assets are principally estimated in accordance with Corporation Tax Law of Japan.
In overseas consolidated subsidiaries, depreciation is mainly computed by the straight-line method.
 - (ii) Intangible fixed assets, Investment and others
Intangible fixed assets and other investments are generally amortized under the straight-line method. The Company and domestic consolidated subsidiaries compute amortization over estimated useful lives as stipulated by Corporation Tax Law of Japan, and over internally estimated useful lives (5 years) for software used in-house.
- (3) Accounting policies for provisions
 - (i) Allowance for doubtful accounts
Allowance for doubtful accounts is provided based on the estimated historical default rate for normal loans, and based on individually assessed amounts for doubtful accounts.
 - (ii) Allowance for possible investment losses
Some consolidated subsidiaries provide allowances based on estimated losses on private equity and other securities held at the balance sheet date, assessing the financial conditions of investee companies.
 - (iii) Accrued bonuses
Accrued bonuses represent liabilities estimated in accordance with calculation standards of each company as of the balance sheet date.
 - (iv) Retirement benefits
To provide for employees' retirement benefits payments, the Company and most of its domestic consolidated subsidiaries provide obligated amounts at the consolidated fiscal year end based on the Company's retirement benefit policy. This is because salary increases in the future do not cause changes in benefit obligations, and service costs are vested for all individuals for each fiscal year in accordance with their contributions, capabilities, achievements, etc. Some of the consolidated subsidiaries appropriate the amounts deemed to have accrued as of the current fiscal year-end based on the projected retirement benefits obligations at year-end. With respect to closed pension funds, which benefits are provided only to pensioners, the Company recognizes pension expenses, which are deemed to have accrued as of year-end based on projected benefit obligations and pension assets.
 - (v) Provision for litigation losses
The estimated amount of restitution is accrued to provide for future monetary damages of litigations regarding financial services based on the status of litigations.
(Additional information)
In addition to the method mentioned above, provision for litigation losses is recorded based on past performance of payment.
 - (vi) Provision for relocation costs of headquarter offices
The estimated amount of expenses is accrued to provide for relocating headquarter offices.
(Additional Information)
Provision for relocation costs of headquarter offices are recorded since the amount of expenses has become reasonably estimable.
- (4) Accounting principles for major lease transactions
Finance leases other than those in which ownership of the leased property is deemed to be transferred to the lessee are accounted for in the manner as followed in operating lease transactions.
- (5) Primary accounting methods for hedging

Marked-to-market profits and losses on hedging instruments are principally deferred as assets or liabilities until the profits or losses on the hedged instruments are realized. Interest received or paid on certain eligible interest swaps for hedging purposes is accrued without being marked-to-market. The premium or discount on forward foreign exchange for hedging purpose is allocated to each fiscal term without being marked-to-market. In order to avoid interest rate fluctuation risk and foreign exchange fluctuation risk associates with some of the borrowings and issued corporate bonds, the Company and some of its consolidated subsidiaries hedge with derivatives instruments such as interest rate swaps, currency swaps and similar transactions. The effectiveness of hedging is evaluated based upon the correlation between the aggregated amount of fair value or cash flow of hedging instrument and the aggregated amount of fair value or cash flow of hedged transaction.

(6) Other significant items associated with the preparation of consolidated financial statements

(i) Consumption taxes

Consumption tax and local consumption taxes are excluded from the statement of income.

(ii) Consolidated tax payments system

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

5.Valuation of consolidated subsidiaries' assets and liabilities

The comprehensive market value method has been applied to evaluate consolidated subsidiaries' asset and liabilities.

6. Amortization of goodwill

Consolidated adjustment accounts are amortized in a lump sum when incurred due to the immateriality in amount.

7. Changes in the accounting standards

(i) Presentation of net assets on consolidated balance sheet

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 the beginning of this fiscal year. The amount of shareholders' equity by the former accounting standard is 929,058 million yen.

(ii) Accounting for directors' bonus

The consolidated financial statements of the Company for the fiscal year ended Mar 31, 2007, are adapted to "Accounting Standard for Directors' Bonus (ASBJ Statement No.4)". From the beginning of this fiscal year, directors' bonus is expensed when it is incurred, instead of decreasing retained earnings upon approval at each consolidated subsidiary's annual shareholders' meeting. "Operating income", "Ordinary income" and "Income before income taxes and minority interests" decreased by 1,552 million yen, due to this accounting change, respectively.

(iii) Accounting standard for share -based payment and its implementation

The financial statements of the Company for the fiscal year ended Mar 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", "Ordinary income" and "Income before income taxes and minority interests" decreased by 610 million yen, due to this accounting change, respectively.

(iv) Application of "Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations"

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. This rule has had no impact on the consolidated financial statements so far.

Change in presentation methods

“Securities failed to deliver/receive” and “Acceptance pending securities accounts” which were disclosed separately in the fiscal year ended March 31, 2006 are now included in “other current assets” and “other current liabilities”, in each case due to a decrease in monetary importance.

Notes to consolidated balance sheets

1. Assets pledged as collateral and liabilities secured

(1) Assets pledged as collateral

| | |
|-------------------------------------|---------------------------|
| Cash and deposits | 125 million yen |
| Trading assets | 1,072,264 million yen |
| Private equity and other securities | 614 million yen |
| Short-term loans receivable | 18,516 million yen |
| Other current assets | 7,972 million yen |
| <u>Investment Securities</u> | <u>98,945 million yen</u> |
| Total | 1,197,989 million yen |

(Note) The amounts above correspond to the amount on the consolidated balance sheet. In addition to the above pledged assets, borrowed securities of 535,043 million yen are also pledged as collateral.

(2) Liabilities secured

| | |
|---|-----------------------|
| Payable to securities finance companies | 14,438 million yen |
| Short-term borrowings | 754,887 million yen |
| <u>Long-term borrowings</u> | <u>20 million yen</u> |
| Total | 769,346 million yen |

(Note) The amounts above correspond to the amount on the consolidated balance sheet.

2. Market value of securities pledged as collateral

| | |
|---|----------------------------|
| Lending securities under agreements of loan for consumption | 6,113,987 million yen |
| <u>Others</u> | <u>739,061 million yen</u> |
| Total | 6,873,049 million yen |

(Note) Assets classified in pledged assets are excluded.

3. Market value of securities accepted as collateral

| | |
|--|----------------------------|
| Borrowed securities under agreements of loan for consumption | 8,440,582 million yen |
| <u>Others</u> | <u>659,903 million yen</u> |
| Total | 9,100,486 million yen |

4. Allowance for doubtful accounts deducted directly from assets

| | |
|-----------------------------|-------------------|
| Short-term loans receivable | 261 million yen |
| Other current assets | 7,185 million yen |

5. Accumulated depreciation of tangible fixed assets: 111,054 million

6. Liabilities on guarantees

The balance of loan guarantees for employees is 1,683 million yen.

The balance of consolidated subsidiaries' loan commitments not executed is 89,864 million yen.

7. Legally stipulated reserves and appropriation of same under Special Laws

| | | |
|---|-------------------|--|
| Securities Trading Liabilities Reserve: | 7,896 million yen | Article 51 of Securities Exchange Law |
| Financial Future Trading Liabilities Reserve: | 0 million yen | Article 81 of Financial Future Trading Law |

8. 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 includes 7,974 million yen derived from the investments in corporations' class shares, which are in period convertible into common shares.

Notes to consolidated statements of changes in net assets

1. Total shares outstanding as of the end of the fiscal year ended March 31, 2007

Common shares 1,404,664,772

2. Matters regarding dividends

(1) Amount of dividends

| Resolution | Type of share | Total amount of dividends (million yen) | Dividend per share (yen) | Date of record | Effective Date |
|--|---------------|---|--------------------------|--------------------|------------------|
| Board of directors of May 18, 2006 | Common share | 29,065 | 22 | March 31, 2006 | June 1, 2006 |
| Board of directors of October 26, 2006 | Common share | 16,740 | 12 | September 30, 2006 | December 1, 2006 |
| Total | | 45,806 | | | |

(2) Dividends to be distributed after the fiscal year ended March 31, 2007

It was resolved at the meeting of the Board of Directors of May 18, 2007 as follows:

Item related to dividends on common share

1. Total amount of dividends 22,331 million yen
2. Dividend per share 16 yen
3. Date of record March 31, 2007
4. Effective date June 1, 2007

Source of dividends are retained earnings.

3. Number of shares subject of stock subscription rights upon exercise thereof as of March 31, 2007

| | Item | Number of shares | | | | As of Mar. 31, 2007 | As of Mar. 31, 2007 (millions of yen) |
|--------------------------------|--|---------------------|-----------|----------|---------------------|---------------------|--|
| | | As of Mar. 31, 2006 | Increase | Decrease | As of Mar. 31, 2007 | | |
| The Company | Stock subscription rights issued in July, 2006 | - | 301,000 | 3,000 | 298,000 | 410 | |
| | (Treasury stock subscription rights) | (-) | (3,000) | (-) | (3,000) | (-) | |
| The Company | Series #3 stock subscription rights | - | 2,593,000 | 22,000 | 2,571,000 | 156 | |
| | (Treasury stock subscription rights) | (-) | (22,000) | (-) | (22,000) | (-) | |
| Consolidated subsidiary | Series #1 stock subscription rights issued in September, 2006 | - | 31 | - | 31 | 12 | |
| Consolidated subsidiary | Series #2 stock subscription rights issued in September, 2006 | - | 50 | - | 50 | 20 | |
| Consolidated subsidiary | Series #3 stock subscription rights issued in August, 2006 | - | 343 | 11 | 332 | 11 | |
| | (Treasury stock subscription rights) | (-) | (11) | (-) | (11) | (-) | |
| Total | | | | | | 610 | (-) |

(Note)

1. All of stock subscription rights are for common stock.
2. Above consolidated subsidiary is NIF SMBC ventures Co., Ltd.
3. Exercise period of the company's "series #3 stock subscription rights" and consolidated subsidiary's "series #3 stock subscription rights issued in August, 2006" have not yet started.

Notes to per share information

| | |
|----------------------|---------|
| Net assets per share | ¥665.98 |
| Net income per share | ¥ 67.90 |

[English Translation of the Auditors' Report Originally Issued in the Japanese Language]

Independent Auditors' Report

May 11, 2007

The Board of Directors
Daiwa Securities Group Inc.

KPMG AZSA & Co.

Takumi Horiuchi (Seal)
Designated and Engagement Partner
Certified Public Accountant

Toraki Inoue (Seal)
Designated and Engagement Partner
Certified Public Accountant

Youichi Ozawa (Seal)
Designated and Engagement Partner
Certified Public Accountant

We have audited the consolidated statutory report, comprising the consolidated balance sheet and the consolidated statement of operations and changes in net assets of Daiwa Securities Group Inc. as of March 31, 2007 and for the year from April 1, 2006 to March 31, 2007 in accordance with Article 444(4) of the Corporate Law. The consolidated statutory report is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated statutory report based on our audit as independent auditors.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require us to obtain reasonable assurance about whether the consolidated statutory report is free of material misstatement. An audit is performed on a test basis, and includes assessing the accounting principles used, the method of their application and estimates made by management, as well as evaluating the overall presentation of the consolidated statutory report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated statutory report referred to above presents fairly, in all material respects, the financial position and the results of operations of Daiwa Securities Group Inc. and its consolidated subsidiaries for the period, for which the consolidated statutory report was prepared, in conformity with accounting principles generally accepted in Japan.

As described in the notes on changes in the accounting standards, 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 the beginning of this fiscal year.

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

Our firm has been providing recurring services described in Article 2(2) of the “ Certified Public Accountants Law of Japan ” to the Company, **which are not considered prohibited services** to an audit client.

[English Translation of the Auditors' Report Originally Issued in the Japanese Language]

Audit Report Concerning The Consolidated Financial Statements

The Audit Committee has audited the consolidated financial statements (the consolidated balance sheets, the consolidated statements of operations, and the consolidated statements of changes in net assets) for the 70th Fiscal Year from April 1, 2006 to March 31, 2007. We report the methods and the results of the audit as follows.

1. Methods used in audits and content of audits

Based on the policies established by the Audit Committee and in accordance with the allocation of responsibilities among Audit Committee members, Audit Committee received reports from Executive Officers, accounting auditor and others, and when necessary, requested explanations regarding those reports.

In addition, Audit Committee also observed and verified whether the accounting auditor was maintaining its independence and was carrying out its audits in an appropriate manner. The Audit Committee received reports from the accounting auditor on the execution of its duties and, when necessary, requested explanations regarding those reports. The Audit Committee also received notification from the accounting auditor that it was taking steps to improve the “system for ensuring the proper execution of its duties” (as enumerated in Article 159 of the Accounting Regulation Ordinance) in compliance with the “Quality Control Standards Relating to Auditing” (adopted by the Business Accounting Deliberation Council on October 28, 2005). When necessary, Audit Committee requested explanations.

Based on the foregoing methods, Audit Committee also examined the financial statements related to the fiscal year under review.

2. Results of the Audit

In our opinion, the auditing methods used by KPMG AZSA & Co., and the results of its audit were appropriate.

May 17, 2007

Audit Committee
Daiwa Securities Group Inc.

Committee Chairperson (Full time)
Kenji Hayashibe

Committee Member
Keisuke Kitajima

Committee Member
Koichi Uno

(Note) Messrs. Keisuke Kitajima and Koichi Uno are the outside directors provided under the provision of Article 2, item 15 and Article 400, Paragraph 3 of the Corporation Law.

Balance sheets

| (millions of yen) | Fiscal 2006 Mar. 31, 2007 | Fiscal 2005 Mar. 31, 2006 |
|---|-------------------------------------|-------------------------------------|
| <i>Assets</i> | | |
| Current assets: | 312,519 | 313,632 |
| Cash and deposits | 92,768 | 129,130 |
| Securities | 13,088 | 3,542 |
| Short-term loans receivable | 177,550 | 133,404 |
| Account receivable | 26,100 | 44,244 |
| Accrued income | 1,327 | 753 |
| Deferred tax assets-current | - | 564 |
| Other current assets | 1,683 | 1,993 |
| Non-current assets: | 967,117 | 911,010 |
| Tangible fixed assets | 45,397 | 10,026 |
| Buildings | 1,118 | 566 |
| Appliances and fixtures | 2,499 | 2,564 |
| Land | 41,779 | 6,895 |
| Intangible fixed assets | 877 | 755 |
| Telephone subscription rights and others | 877 | 755 |
| Investments and others: | 920,842 | 900,228 |
| Investment securities | 180,845 | 207,416 |
| Shares of subsidiaries | - | 499,517 |
| Shares of related companies | 605,807 | - |
| Long-term loans receivable | 113,400 | 170,946 |
| Long-term guarantee deposits | 11,364 | 12,885 |
| Other investments | 9,843 | 9,911 |
| Less: Allowance for doubtful accounts-non-current | -419 | -449 |
| Total assets | 1,279,636 | 1,224,643 |

| (millions of yen) | Fiscal 2006 Mar. 31, 2007 | Fiscal 2005 Mar. 31, 2006 |
|---|-------------------------------------|-------------------------------------|
| <i>Liabilities</i> | | |
| Current liabilities: | 183,015 | 278,064 |
| Short-term borrowings | 91,345 | 62,235 |
| Convertible bonds and notes due within one year | - | 79,193 |
| Collateralized short-term financing agreements | 80,676 | 132,112 |
| Income taxes payable | 6,963 | 176 |
| Deferred tax liabilities-current | 54 | - |
| Accrued bonuses | 1,021 | 1,613 |
| Other current liabilities | 2,955 | 2,734 |
| Non-current liabilities: | 372,549 | 332,754 |
| Bonds and notes | 291,400 | 236,400 |
| Long-term debt | 49,000 | 49,000 |
| Long-term cash deposits received as guarantee | 2,829 | 4,042 |
| Deferred tax liabilities-non-current | 25,986 | 38,739 |
| Retirement benefits | 1,684 | 2,361 |
| Provision for litigation losses | 211 | - |
| Other non-current liabilities | 1,436 | 2,211 |
| Total liabilities | 555,564 | 610,819 |
| <i>Shareholders' equity</i> | | |
| Common stock | - | 138,828 |
| Capital surplus reserve | - | 118,339 |
| Additional paid-in capital | - | 118,182 |
| Other capital surplus reserve | - | 156 |
| Net gain on sales of treasury stock | - | 156 |
| Retained earnings | - | 314,133 |
| Earned surplus reserve | - | 45,335 |
| General-purpose reserve | - | 218,000 |
| Special reserve | - | 218,000 |
| Unappropriated retained earnings | - | 50,798 |
| Net unrealized gain (loss) on securities, net of tax effect | - | 57,183 |
| Treasury stock | - | -14,660 |
| Total shareholders' equity | - | 613,824 |
| Total liabilities and shareholders' equity | - | 1,224,643 |
| <i>Net assets</i> | | |
| Owners' equity | 666,343 | - |
| Common stock | 178,324 | - |
| Capital surplus reserve | 157,678 | - |
| Additional paid-in capital | 157,678 | - |
| Retained earnings | 341,963 | - |
| Earned surplus reserve | 45,335 | - |
| Other earned surplus reserve | 296,627 | - |
| General-purpose reserve | 218,000 | - |
| Earned surplus carried forward | 78,627 | - |
| Treasury stock | -11,627 | - |
| Paid-in money for treasury stock | 4 | - |
| Valuation and translation adjustments | 57,161 | - |
| Net unrealized gain (loss) on securities, net of tax effect | 56,740 | - |
| Deferred gain (loss) on hedges | 421 | - |
| Stock subscription rights | 567 | - |
| Total net assets | 724,072 | - |
| Total liabilities and net assets | 1,279,636 | - |

Statements of operations

| (millions of yen) | Fiscal 2006 Apr. 1, 2006 - Mar. 31, 2007 | Fiscal 2005 Apr. 1, 2005 - Mar. 31, 2006 |
|--|--|--|
| Operating revenues: | 78,806 | 35,215 |
| Dividends from related companies | 73,920 | 32,257 |
| Interest on loans to related companies | 4,098 | 2,805 |
| Other | 786 | 152 |
| Operating expenses: | 13,462 | 12,181 |
| Selling, general and administrative expenses: | 9,494 | 9,210 |
| Commission and other expenses | 1,631 | 1,747 |
| Compensation and benefits | 3,675 | 4,130 |
| Occupancy and rental | 521 | 614 |
| Data processing and office supplies | 1,270 | 855 |
| Depreciation expense | 571 | 350 |
| Others | 1,823 | 1,512 |
| Interest expense | 3,968 | 2,971 |
| Operating income | 65,343 | 23,033 |
| Non-operating income | 4,421 | 2,841 |
| Non-operating expenses | 349 | 733 |
| Ordinary income | 69,415 | 25,140 |
| Extraordinary gains | 7,390 | 9,681 |
| Gain on liquidation of subsidiaries | - | 1,200 |
| Gain on sales of shares of subsidiaries | - | 6,146 |
| Gain on liquidation of related companies | 977 | - |
| Gain on sales of shares of related companies | 138 | - |
| Gain on sales of investment securities | 178 | 2,333 |
| Reversal of allowance for doubtful accounts | 6,096 | - |
| Extraordinary losses | 2,245 | 3,255 |
| Loss on litigation settlement | - | 1,279 |
| Write-down of shares of related companies | 722 | - |
| Write-down of investment securities | 898 | 75 |
| Loss on sales of investment securities | 10 | 4 |
| Loss on sales or disposal of fixed assets | 339 | 120 |
| Allowance for doubtful accounts | - | 211 |
| Foreign exchange loss from overseas subsidiary capital reduction | - | 1,563 |
| Provision for litigation losses | 240 | - |
| Others | 33 | - |
| Income before income taxes | 74,561 | 31,566 |
| Income taxes-current | -955 | -37,973 |
| Income taxes-deferred | 642 | 18,205 |
| Net income | 74,874 | 51,335 |

Statements of changes in net assets

(Apr. 1, 2006 – Mar. 31, 2007)

| (millions of yen) | Owners' equity | | | | | | | | |
|--|----------------|----------------------------|-------------------------------|------------------------|------------------------------|--------------------------------|----------------|----------------------------------|---------|
| | Common stock | Capital surplus reserve | | Retained earnings | | | Treasury stock | Paid-in money for treasury stock | Total |
| | | Additional paid-in capital | Other capital surplus reserve | Earned surplus reserve | Other earned surplus reserve | | | | |
| | | | | | General-purpose reserve | Earned surplus carried forward | | | |
| Beginning balance as of Mar. 31, 2006 | 138,828 | 118,182 | 156 | 45,335 | 218,000 | 50,798 | -14,660 | - | 556,640 |
| Changes of items during the fiscal year | | | | | | | | | |
| Issuance of new shares | 39,495 | 39,495 | - | - | - | - | - | - | 78,991 |
| Dividends | - | - | - | - | - | -45,806 | - | - | -45,806 |
| Net income | - | - | - | - | - | 74,874 | - | - | 74,874 |
| Purchase of treasury stock | - | - | - | - | - | - | -311 | - | -311 |
| Disposal of treasury stock | - | - | -156 | - | - | -1,238 | 3,344 | - | 1,949 |
| Others | - | - | - | - | - | - | - | 4 | 4 |
| Total changes of items during the fiscal year | 39,495 | 39,495 | -156 | - | - | 27,829 | 3,032 | 4 | 109,702 |
| Ending balance as of Mar. 31, 2007 | 178,324 | 157,678 | - | 45,335 | 218,000 | 78,627 | -11,627 | 4 | 666,343 |

| (millions of yen) | Valuation and translation adjustments | | Stock subscription rights |
|--|---|--------------------------------|---------------------------|
| | Net unrealized gain (loss) on securities, net of tax effect | Deferred gain (loss) on hedges | |
| Beginning balance as of Mar. 31, 2006 | 57,183 | - | - |
| Changes of items during the fiscal year | | | |
| Net changes of items other than owners' equity | -442 | 421 | 567 |
| Total changes of items during the fiscal year | -442 | 421 | 567 |
| Ending balance as of Mar. 31, 2007 | 56,740 | 421 | 567 |

These non-consolidated financial statements of the Company are prepared in accordance with the “Accounting Regulation Ordinance” (Ministry of Justice Ordinance No. 13, 2006) from this fiscal year.

The figures in the financial statements are expressed in millions of yen, with amounts of less than one million omitted.

Notes to accounting policies

1. Valuation standards and methods for major assets

- (1) Securities intended to be held for trading purposes are stated at market value (cost is determined based on the moving average method).
- (2) Subsidiaries’ stock and Affiliates’ stock are stated at cost using the moving-average method.
- (3) Other securities with market value are stated at market value, based on quoted market price as of the end of the fiscal year (net unrealized gain (loss) are booked directly in net assets, and the costs of securities sold are calculated based on the moving average method). Securities without market value are stated at cost using the moving average method. Investment to investment limited partnerships, etc. are stated as “Investment securities” at net asset values based on the partnerships’ financial statements in proportion to the Company’s share, and share of net unrealized profits and losses on securities held by the partnerships is directly posted into net assets.

2. Depreciation methods for depreciable assets

(1) Tangible fixed assets

The Company computes depreciation of tangible fixed assets principally by the declining-balance method. However, depreciation for buildings (excluding building fixtures) purchased in Japan after April 1, 1998 is computed by the straight-line method. Useful lives of those tangible fixed assets are principally estimated in accordance with Corporation Tax Law of Japan.

(2) Intangible fixed assets, Investment and others

Intangible fixed assets and other investments are generally amortized under the straight-line method. The Company computes amortization over estimated useful lives as stipulated by Corporation Tax Law of Japan, and over internally estimated useful lives (5 years) for software used in-house.

3. Accounting policies for provisions

(1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the estimated historical default rate for normal loans, and based on individually assessed amounts for doubtful accounts.

(2) Accrued bonuses

Accrued bonuses represent liabilities estimated in accordance with calculation standards of each company as of the balance sheet date.

(3) Retirement benefits

To provide for employees’ retirement benefits payments, the Company provides obligated amounts at the fiscal year end based on the Company’s retirement benefit policy. This is because salary increases in the future do not cause changes in benefit obligations, and service costs are vested for all individuals for each fiscal year in accordance with their contributions, capabilities, achievements, etc. With respect to closed pension funds, which benefits are provided only to pensioners, the Company recognizes pension expenses, which are deemed to have accrued as of year-end based on projected benefit obligations and pension assets.

(4) Provision for litigation losses

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

(Additional information)

In addition to the method mentioned above, provision for litigation losses is recorded based on past performance of payment.

4. Other significant items associated with the preparation of financial statements

(1) Accounting principles for lease transactions

Finance leases other than those in which ownership of the leased property is deemed to be transferred to the lessee are accounted for in the manner as followed in operating lease transactions.

(2) Accounting methods for hedging

Marked-to-market profits and losses on hedging instruments are principally deferred as assets or liabilities until the profits or losses on the hedged instruments are realized. Interest received or paid on certain eligible interest swaps for hedging purposes is accrued without being marked-to-market. The premium or discount on forward foreign exchange for hedging purpose is allocated to each fiscal term without being marked-to-market. In order to avoid interest rate fluctuation risk and foreign exchange fluctuation risk associates with some of the borrowings and issued corporate bonds, the Company hedges with derivatives instruments such as interest rate swaps, currency swaps and similar transactions. The effectiveness of hedging is evaluated based upon the correlation between the aggregated amount of fair value or cash flow of hedging instrument and the aggregated amount of fair value or cash flow of hedged transaction.

(3) Consumption taxes

Consumption tax and local consumption taxes are excluded from the statement of income.

(4) Consolidated tax payments system

The Companies applies the consolidated tax payments system.

5. Changes in the accounting standards

(1) Presentation of net assets on balance sheets

The 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 the beginning of this fiscal year. The amount of shareholders’ equity by the former accounting standard is 723,083 million yen.

(2) Accounting standard for share –based payment and its implementation

The financial statements of the Company for the fiscal year ended Mar 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”, “Ordinary income” and “Income before income taxes” decreased by 567 million yen, due to this accounting change, respectively.

Notes to balance sheets

1. Pledged securities as collateral

135,961 million yen of investment securities are loaned.

2. Allowance for doubtful accounts deducted directly from assets

| | |
|-----------------------------|-------------------|
| Short-term loans receivable | 261 million yen |
| Other current assets | 3,240 million yen |

3. Accumulated depreciation of tangible fixed assets: 3,411 million yen

4. Guarantee

| Name of the guaranteed | Liabilities guaranteed | Amount of liabilities |
|---------------------------|------------------------|-----------------------|
| Daiwa Europe Finance B.V. | Medium Term Note | 2,000 million yen |
| Employee | Borrowing | 1,259 million yen |
| Daiwa Sanko Co., Ltd | Accrued liability | 11 million yen |
| Total | | 3,270 million yen |

5. Monetary claims and obligations with related companies

| | |
|--|---------------------|
| Short-term loan receivables from related companies | 203,605 million yen |
| Long-term loan receivables from related companies | 118,977 million yen |
| Short-term monetary liabilities to related companies | 80,762 million yen |
| Long-term monetary liabilities to related companies | 2,786 million yen |

Notes to statements of operations

| | |
|---|--------------------|
| Operating revenue from related companies | 78,561 million yen |
| Operating expenses to related companies | 2,392 million yen |
| Non-operating transactions with related companies | 84,880 million yen |

Notes to statements of changes in net assets

Balance of Treasury Stock as of March 31, 2007

Common Shares 8,936,000

Notes to tax effect accounting

Deferred tax assets and liabilities

(Deferred tax assets)

| | |
|-------------------------------------|---------------------|
| Write-down of subsidiaries’ stock | 73,546 million yen |
| Loss carried forward | 20,285 million yen |
| Write-down of investment securities | 9,520 million yen |
| Allowance for doubtful accounts | 880 million yen |
| Others | 1,964 million yen |
| | <hr/> |
| | 106,197 million yen |
| Valuation allowance | 105,489 million yen |
| Total deferred tax asset: | <hr/> |
| | 707 million yen |

(Deferred tax liabilities)

| | |
|--------------------------------|--------------------|
| Unrealized gain on securities | 26,166 million yen |
| Others | 582 million yen |
| Total deferred tax liabilities | <hr/> |
| | 26,749 million yen |

Net deferred tax liabilities 26,041 million yen

Notes to leased fixed assets

In addition to the fixed assets on the balance sheet, the Company uses computers and personal computers under finance lease contracts.

Notes to transaction with related companies

Subsidiaries and affiliates

(Millions of yen)

Terms and conditions of transaction and transaction policy

Note

1. Outstanding credit in the fiscal year ended March 31, 2007 is stated in the Transaction Amount. Interest rate is determined based on market rate. No pledge was made for debt financing.
2. Market price of lending stock as of the fiscal year end date or the price of pledged assets are stated in the Transaction Amount. Lease rate or interest rate are determined based on market rate.

| Class | Name of company | Ratio of the voting rights | Relationship with the Company | Transaction | Transaction Amount | Account Title | Ending Balance |
|------------|---|---|--|--------------------------------|--------------------|---|----------------|
| Subsidiary | Daiwa Securities Co. Ltd. | Direct Ownership 100% | Debt Financing Directors hold concurrent positions | Debt Financing(1) | 50,000 | Short-term loans receivable | 50,000 |
| | | | | | | Long-term loans receivable | 16,000 |
| | | | | Receipt of interest | 400 | Accrued income | 97 |
| Subsidiary | Daiwa Securities SMBC Co. Ltd | Direct Ownership 60% | Debt Financing Receipt of cash collateral Lending share Directors hold concurrent positions | Debt Financing (1) | 30,000 | Short-term loan receivable (Long-term loans receivable due within one year) | 18,000 |
| | | | | | | Long-term loan receivable | 90,000 |
| | | | | Receipt of interest | 1,701 | Accrued income | 801 |
| | | | | Receipt of cash collateral (2) | 77,141 | Collateralized short-term financing agreements | 77,141 |
| | | | | Lending share (2) | 130,127 | | |
| | | | | Receipt of rent | 203 | Accrued income | 22 |
| | | | | Payment of interest | 200 | Other current liabilities | 22 |
| Subsidiary | Daiwa Securities SMBC Principal Investments Co. Ltd | Indirect Ownership 60% | Debt Financing | Debt Financing (1) | 40,000 | Short-term loans receivable | 40,000 |
| | | | | Receipt of interest | 356 | Accrued income | 70 |
| Subsidiary | Daiwa Property Co., Ltd | Direct ownership 99.4% Indirect Ownership 0.5% | Debt Financing Directors hold concurrent positions | Debt Financing (1) | - | Short-term loans receivable | 24,960 |
| | | | | Receipt of interest | 1,113 | (Long-term loans receivable due within one year) | |
| Subsidiary | Daiwa Securities Loan Co., Ltd. | Direct Ownership 100% | Debt Financing Directors hold concurrent positions | Debt Financing (1) | 33,400 | Short-term loans receivable | 30,700 |
| | | | | Receipt of interest | 102 | Accrued income | 98 |

Notes to per share information

| | |
|----------------------|------------|
| Net assets per share | 518.36 yen |
| Net income per share | 54.83 yen |

Independent Auditors' Report

May 11, 2007

The Board of Directors
Daiwa Securities Group Inc.

KPMG AZSA & Co.

Takumi Horiuchi(Seal)
Designated and Engagement Partner
Certified Public Accountant

Toraki Inoue (Seal)
Designated and Engagement Partner
Certified Public Accountant

Youichi Ozawa (Seal)
Designated and Engagement Partner
Certified Public Accountant

We have audited the statutory report, comprising the balance sheet and the statement of operations and changes in net assets of Daiwa Securities Group Inc. as of March 31, 2007 and for the 70th business year from April 1, 2006 to March 31, 2007 in accordance with Article 436(2) of the Corporate Law. The statutory report and supporting schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the statutory report and supporting schedules based on our audit as independent auditors.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require us to obtain reasonable assurance about whether the statutory report is free of material misstatement. An audit is performed on a test basis, and includes assessing the accounting principles used, the method of their application and estimates made by management, as well as evaluating the overall presentation of the statutory report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statutory report referred to above present fairly, in all material respects, the financial position and the results of operations of Daiwa Securities Group Inc. for the period, for which the statutory report was prepared, in conformity with accounting principles generally accepted in Japan.

As described in the notes on changes in the accounting standards, the 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 the beginning of this fiscal year.

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

Our firm has been providing recurring services described in Article 2(2) of the " Certified Public Accountants Law of Japan " to the Company, **which are not considered prohibited services** to an audit client.

Audit Report

The Audit Committee has audited the performance of duties by the Directors and the Executive Officers for the 70th Fiscal Year from April 1, 2006 to March 31, 2007. We report the methods and the results of the audit as follows.

1. Methods used in audits and content of audits

The Audit Committee observed and examined the resolutions of the Board of Directors regarding the organization of the system stipulated in Article 416, Paragraph 1, Item 1, *Ro* and *Ho* of the Corporation Law and the status of internal control systems. We also inspected in cooperation with the internal control division the process and the content of the decision making on the significant meeting, the content of the important authorized documents and other important documents related to significant business operation, business performance of the Executive Officers (and major employees), and the Company's operation and condition of property based on the policies established by the Audit Committee and in accordance with the allocation of responsibilities among Audit Committee members. With respect to subsidiaries, the Audit Committee took steps to facilitate communication with the Executive Officers who are responsible for managing the relevant subsidiaries and, when necessary, received reports from subsidiaries on the status of their businesses.

In addition, Audit Committee also observed and verified whether the accounting auditor was maintaining its independence and was carrying out its audits in an appropriate manner. The Audit Committee received reports from the accounting auditor on the execution of its duties and, when necessary, requested explanations regarding those reports. The Audit Committee also received notification from the accounting auditor that it was taking steps to improve the "system for ensuring the proper execution of its duties" (as enumerated in Article 159 of the Accounting Regulation Ordinance) in compliance with the "Quality Control Standards Relating to Auditing" (adopted by the Business Accounting Deliberation Council on October 28, 2005). When necessary, Audit Committee requested explanations on these reports and notifications and confirmed that the system under which the financial auditor operated was functioning appropriately.

Based on the foregoing methods, Audit Committee also examined the business report, the financial statements (balance sheet, statement of operations, statement of changes in net assets) and supporting schedules related to the fiscal year under review.

2. Results of the Audit

(1) Results of audit of business report

- In our opinion, the business report and supporting schedules fairly present the situation of the Company, in compliance with the provisions of applicable laws, regulations and the Articles of Incorporation
- In our opinion, none of the actions taken by Directors and Executive Officers in executing their duties were irregular and none of their actions violated the provisions of applicable laws, regulations or the Articles of Incorporation
- In our opinion, the content of the resolution by the Board of Directors regarding internal control systems was appropriate, and, furthermore, all actions of the Board of Directors with respect to executing internal control systems were carried out appropriately.

(2) Results of the audit of financial statements and supporting schedules

In our opinion, the auditing methods used by the accounting auditor KPMG AZSA & Co., and the results of its audit were appropriate

May 17, 2007

Audit Committee
Daiwa Securities Group Inc.

Committee Chairperson (Full time)
Kenji Hayashibe

Committee Member
Keisuke Kitajima

Committee Member
Koichi Uno

(Note) Messrs. Keisuke Kitajima and Koichi Uno are the outside directors provided under the provision of Article 2, item15 and Article 400, Paragraph 3 of the Corporation Law.

Reference Documents to the General Meeting of Shareholders

Bills and reference matters

Bill 1. Partial Amendments of the Articles of Incorporation

We'd like to propose partial amendments of the Articles of Incorporation as of June 23, 2007 and as of the date of enforcement of "the Law for Amending Securities and Exchange Law and Other Financial Laws"(Law No. 65 of 2006) (The date of enforcement defined in Article 1 of Supplementary Provisions of the said Law, and hereinafter referred to the "date of enforcement").

(1) Amendment as of June 23, 2007

1) Reasons for amendment

The increasing importance of Daiwa Securities Loan Co., Ltd., which launched its business in August 2006, to the business of the Company warrants an addition to the purpose of the Company, specifically the purpose of holding shares or equity interests of companies engaging in the money lending business (as defined in Article 2 of the Money Lending Business Law (Law No. 32 of 1983)), or shares or equity interests of foreign companies engaging in business equivalent thereto, and thereby controlling and managing the business activity of these companies.

2) Contents of amendments

Proposed amendments are as follows.

| Current Articles of Incorporation | Proposed Amendments |
|--|---|
| <p>(Purposes) Article 2. The purposes of the Company shall be to hold shares or equity interests of companies engaging in the following business and shares or equity interests of foreign companies engaging in the business equivalent thereto, and thereby control and manage the business activity of these companies:</p> <p style="padding-left: 40px;">(1) To do securities business as provided for under the Securities and Exchange Law;</p> <p style="padding-left: 40px;">(2) To do investment trust entrustment business as provided for under the Law Concerning Investment Trusts and Investment Companies;</p> <p style="padding-left: 40px;">(3) To do the business of asset management for investment companies and asset custodial companies as provided for under the Law Concerning Investment Trusts</p> | <p>(Purposes) Article 2. The purposes of the Company shall be to hold shares or equity interests of companies engaging in the following business and shares or equity interests of foreign companies engaging in the business equivalent thereto, and thereby control and manage the business activity of these companies:</p> <p style="padding-left: 40px;">[Not amended]</p> <p style="padding-left: 40px;">[Not amended]</p> <p style="padding-left: 40px;">[Not amended]</p> |

| | |
|--|---|
| <p>and Investment Companies;</p> <p>(4) To conduct investment advisory business or business relating to a discretionary investment advisory agreement, as provided for under the Law Concerning Regulations etc. of Investment Advisory Business relating to Securities;</p> <p>(5) To do business relating to finance including, but not limited to, banking business as provided for under the Banking Law, in addition to the business in each of the foregoing paragraphs;</p> <p>(6) To do research and investigation into economies and financial and capital markets in domestic and foreign markets, and to be entrusted with such research and investigation ;</p> <p>(7) To be entrusted with calculation service by using computer;</p> <p>(8) To develop and sell software;</p> <p>(9) To do the business of sale, purchase and lease of real estate and their brokerage;</p> <p style="text-align: center;">[New]</p> <p><u>(10)</u>To do trust business as provided for under the Trust Business Law;</p> <p><u>(11)</u>To do the business of offering life insurance contracts and to engage in the non-life insurance agency business;</p> <p><u>(12)</u>To do securities handling and administration business ;</p> <p><u>(13)</u>To do business relating to publishing, advertisement agency, broadcasting, and other information service; and</p> <p><u>(14)</u>To do business relating to education and culture.</p> <p>2. The Company can engage in any and all business incidental or relating to any of the business in the foregoing paragraph.</p> | <p>[Not amended]</p> <p>[Not amended]]</p> <p>[Not amended]</p> <p>[Not amended]</p> <p>[Not amended]</p> <p>[Not amended]</p> <p><u>(10)</u>To do money lending business as provided for under the Money Lending Business Law;</p> <p><u>(11)</u>To do trust business as provided for under the Trust Business Law;</p> <p><u>(12)</u>To do the business of offering life insurance contracts and to engage in the non-life insurance agency business;</p> <p><u>(13)</u>To do securities handling and administration business;</p> <p><u>(14)</u>To do business relating to publishing, advertisement agency, broadcasting, and other information service; and</p> <p><u>(15)</u>To do business relating to education and culture.</p> <p>2. (Not amended)</p> |
|--|---|

(2) Amendment as of the date of enforcement of Law for Amending Securities and Exchange Law and Other Financial Laws (Law No. 65 of 2006)

1) Reasons for amendments

Upon the enforcement of the Law for Amending Securities and Exchange Law and Other Financial Laws (Law No. 65 of 2006), and the reorganization of Securities and Exchange Law (Law No. 25 of 1948) into the Financial Instruments and Exchange Law therewith, the Company will propose to amend a part of the Articles of Incorporation for the following reasons.

- an amendment is proposed in order to cope with the change of the name of “Securities and Exchange Law” to “Financial Instruments and Exchange Law”.
- an amendment is proposed in order to cope with the change of the name of “Securities Business” to “Financial Instruments Business”, and the expansion of the scope of “Financial Instruments Business” to include derivative transactions relating to a wider range of underlying assets and indexes, the self-offering of the holdings of collective investment schemes(funds), Investment Advisory, Investment Management, and Customer Asset Administration.

2) Contents of amendment

Proposed amendments are as follows.

| Current Articles of Incorporation | Proposed amendments |
|--|--|
| <p>(Purposes) Article 2. The purpose of the Company shall be to hold shares or equity interest of companies engaging in the following business and shares or equity interest of foreign companies engaging in the business equivalent thereto, and thereby control and manage the business activity of these companies:</p> <p>(1) <u>To do securities business as provided for under the Securities and Exchange Law;</u></p> <p>(2) <u>To do investment trust entrustment business as provided for under the Law Concerning Investment Trusts and Investment Companies;</u></p> <p>(3) <u>To do the business of asset management for investment companies and asset custodial companies as provided for under the Law Concerning Investment Trusts and Investment Companies;</u></p> | <p>(Purposes) Article 2. The purpose of the Company shall be to hold shares or equity interest of companies engaging in the following business and shares or equity interest of foreign companies engaging in the business equivalent thereto, and thereby control and manage the business activity of these companies:</p> <p>(1) <u>To do financial instruments and exchange business as provided for under the Financial Instruments and Exchange Law;</u> [Deleted]</p> <p>[Deleted]</p> |

| | |
|---|---|
| <p>(4) <u>To conduct investment advisory business or business relating to a discretionary investment advisory agreement, as provided for under the Law Concerning Regulations etc. of Investment Advisory Business relating to Securities;</u></p> <p>(5) To do business relating to finance including, but not limited to, banking business as provided for under the Banking Law, in addition to the business in each of the foregoing paragraphs;</p> <p style="text-align: center;"><u>(Skipped)</u></p> <p>2. The Company can engage in any and all business incidental or relating to any of the business in the foregoing paragraph.</p> | <p>[Deleted]</p> <p>(2)To do business relating to finance including, but not limited to, banking business as provided for under the Banking Law, in addition to the business in each of the foregoing paragraphs;</p> <p>[hereinafter, move each paragraph number forward by 3]</p> <p>2. [Not amended]</p> |
|---|---|

Bill 2. Election of Thirteen (13) Directors

The terms of office of all Directors are expiring as of the conclusion of this Ordinary General Meeting of Shareholders. Accordingly, it is requested to elect thirteen (13) Directors pursuant to the decisions of the Nominating Committee.

The nominees for Directors are as follows, and Messrs. Tetsuro Kawakami, Ryuji Yasuda, Keisuke Kitajima and Koichi Uno are the nominees for Outside Directors defined in Paragraph 3 of the Article 2, Item 7 of the Corporation Law.

| Candidate Number | Name (Date of Birth) | Brief personal history, title, and representative status of other entities | | Number of shares of the Company owned by the candidate |
|------------------|-----------------------------------|--|---|--|
| 1 | Yoshinari Hara (April 3, 1943) | Apr 1967 Aug 1988 Jun 1991 Sep 1995 Sep 1997 Oct 1997 Apr 1999 Jun 2004 Jun 2004 | Joined the Company General Manager of Corporate Institution Dept. III of the Company Director of the Company, Deputy Head of Corporate Institution Sales Division Managing Director of the Company, Deputy Head of Corporate Division Representative Director, Managing Director of the Company, Head of Equity Division Representative Director, President of the Company, CEO Representative Director, President and CEO of the Company, President of Daiwa Securities Co. Ltd. Resigned as Director of the above company Chairman of the Board and Corporate Executive Officer of the Company (to date) | 137,000 shares |
| 2 | Akira Kiyota (May 6, 1945) | Apr 1969 Jul 1990 Jun 1994 Jun 1997 Sep 1997 Oct 1997 Apr 1999 Jun 2004 Jun 2004 | Joined the Company General Manager of Bond Division and Chief of Bond Trading Section of the Company Director of the Company, Deputy Head of Sales Division Managing Director of the Company, General Manager of Bond/Asset Division and Head of Financial Derivatives Products Division Representative Director, Managing Director of the Company, General Manager of Bond/Asset Division and Head of Financial Derivatives Products Division Representative Director, Deputy President of the Company Resigned as Director of the Company Representative Director, President of Daiwa SB Capital Markets Co., Ltd. (currently, Daiwa Securities SMBC Co. Ltd.) Resigned as Director of the above company Deputy Chairman of the Board and Corporate Executive Officer of the Company (to date) | 122,300 shares |

| Candidate Number | Name (Date of Birth) | Brief personal history, title and representative status of other entities | | Number of shares of the Company owned by the candidate |
|------------------|--------------------------------------|--|---|--|
| 3 | Shigeharu Suzuki (April 17, 1947) | Apr 1971 Jul 1991 Jun 1997 Jun 1998 Jun 1999 Jun 2001 May 2002 Jun 2002 Jun 2003 Jun 2004 Jun 2004 | <p>Joined the Company</p> <p>General Manager of Underwriting Dept I of the Company</p> <p>Director of the Company, Head of Corporate Institution Division</p> <p>Managing Director of the Company, General Manager of Investment Banking Division</p> <p>Managing Director, Executive Officer of the Company, Head of Corporate Planning Group</p> <p>Senior Managing Director, Executive Officer of the Company, Head of Corporate Planning/IR/Public Relations</p> <p>Resigned as Director of the Company</p> <p>Senior Managing Director of Daiwa Securities SMBC Co. Ltd., Head of Investment Banking Division</p> <p>Representative Director and Senior Managing Director of the above company, Head of Investment Banking Division and Head of Corporate Sales Planning</p> <p>Resigned as Director of the above company</p> <p>Director, Representative Executive Officer and, President and CEO of the Company and in charge of Retail Division</p> <p>Representative Director and President of Daiwa Securities Co. Ltd. (to date)</p> | 80,000 shares |

| Candidate Number | Name (Date of Birth) | Brief personal history, title and representative status of other entities | | Number of shares of the Company owned by the candidate |
|------------------|--|---|--|--|
| 4 | Shin Yoshidome (September 29, 1951) | Apr 1974 | Joined the Company | 39,180 shares |
| | | Feb 1997 | General Manager of Corporate Institutions Div. I of Osaka branch of the Company | |
| | | Apr 1999 | Left the Company Yokohama Branch Manager of Daiwa Securities Co. Ltd. | |
| | | Feb 2000 | Left the above company Sub Manager of Nagoya Branch of Daiwa Securities SB Capital Markets Co., Ltd. (currently, Daiwa Securities SMBC Co. Ltd.) | |
| | | Jun 2001 | Executive Officer of the above company, Head of Nagoya Branch and Nagoya Branch Manager | |
| | | May 2004 | Managing Executive Officer of the above company and senior Head of Corporate Institute, and Head of Corporate Sales | |
| | | Jun 2004 | Managing Director of the above company, senior Head of Corporate Institute, and Head of Corporate Sales | |
| | | Apr 2005 | Managing Director of the above company, senior Head of Corporate Institute, senior Head of Corporate Planning and Head of Corporate Sales | |
| | | Jun 2005 | Managing Director of the above company, senior Head of Corporate Institute and Head of corporate Sales | |
| | | Apr 2006 | Representative Director, Senior Managing Director of the above company Corporate Executive Officer of the Company, Deputy Head of Wholesale Division | |
| | | Jun 2006 | Director, Corporate Executive Vice President of the Company, deputy in charge of Wholesale Division President and Representative Director of Daiwa Securities SMBC Co. Ltd. | |
| | | Apr 2007 to date | Director, Deputy President, Representative Executive Officer and COO, in charge of Wholesale Division | |

| Candidate Number | Name (Date of Birth) | Brief personal history, title and representative status of other entities | | Number of shares of the Company owned by the candidate |
|------------------|--|--|--|--|
| 5 | Tetsuo Mae (July 25, 1945) | Apr 1969 Feb 1991 Jun 1996 Jun 1998 Apr 1999 Jun 2000 Jun 2002 Jun 2003 Jun 2004 | Join the Company General Manager of Corporate Institute Sales Division I of the Company Director of the Company, General Manager of Corporate Institute Sales Department Managing Director of the Company, Head of Business Administration Department and Head of Business Administration Planning Department Resigned as Director of the Company Managing Director of Daiwa Securities Co. Ltd., Head of greater Tokyo region Senior Managing Director of the above company, Head of Corporate Sales Senior Managing Director of the above company, Head of Sales Division Representative Director, Deputy President of the above company (to date) Director and Executive Officer, Deputy President of the Company, deputy Head of Retail Division (to date) | 50,000 shares |
| 6 | Takashi Hibino (September 27, 1955) | Apr 1979 Apr 1999 Jun 2002 May 2004 Jun 2004 Jul 2004 Apr 2005 Apr 2007 to date | Join the Company General Manager of Corporate Planning Dept. of the Company Left the Company Executive Officer of Daiwa Securities SMBC Co. Ltd. Resigned as Executive Officer of the above company Corporate Senior Executive Officer of the Company, Head of Corporate Planning, Personnel, Legal and Secretary, and Head of Personnel Dept. Director and Corporate Senior Executive Officer of the Company, Head of Planning, Personnel and Legal, and Head of Personnel Dept. Director and Corporate Senior Executive Officer of the Company, Head of Planning, Personnel and Legal Director and Corporate Senior Executive Officer of the Company, Head of Planning and Personnel Director and Corporate Executive Vice President of the Company, in charge of Planning and Personnel Division | 61,090 shares |

| Candidate Number | Name (Date of Birth) | Brief personal history, title and representative status of other entities | | Number of shares of the Company owned by the candidate |
|------------------|--------------------------------------|--|---|--|
| 7 | Nobuyuki Iwamoto (June 14, 1956) | Apr 1980 Apr 1999 Apr 2001 Apr 2005 Jun 2006 Apr 2007 to date | Join the Company Left the Company Joined Daiwa Securities SB Capital Markets Co., Ltd. (currently, Daiwa Securities SMBC Co. Ltd.) General Manager of International Finance Dept. of the above company Left the above company Corporate Executive Officer, CFO of the Company, deputy Head of Planning Director, Corporate Executive Officer and CFO of the Company, deputy in charge of Planning Division Director, Corporate Executive Officer and CFO of the Company (to date) | 23,000 shares |
| 8 | Kenji Hayashibe (May 20, 1950) | Apr 1974 Feb 1996 Jun 1998 Apr 1999 May 2002 Jun 2002 Jun 2003 May 2004 Jun 2004 | Joined the Company General Manager of Corporate Institutions Div. VI of the Company Director of the Company, Head of Corporate Planning Dept. Resigned as Director of the Company Executive Officer of Daiwa Securities SB Capital Markets Co., Ltd. (currently, Daiwa Securities SMBC Co. Ltd.) Resigned as Executive Officer of the above company Director, Executive Officer of the Company, Head of Corporate Planning, Public Relation IR. Director, Corporate Executive Officer of the Company, Head of Corporate Brand and Head of Secretary, Legal, Back-Office Management, Corporate Ethic, CSR. Director, Executive Officer of the Company Director of the Company (to date) | 29,000 shares |
| 9 | Tetsuro Kawakami (August 3, 1928) | Apr 1952 May 1975 Jun 1978 Jun 1980 Jun 1982 Jun 1991 Jun 1998 Jun 1999 Jun 2002 | Joined Sumitomo Electric Industries, Ltd. Director of the above company Managing Director of the above company Representative Director, Senior Managing Director of the above company Representative Director, President of the above company Representative Director, Chairman of the Board of the above company Corporate Auditor of the Company Counsel of Sumitomo Electric Industries, Ltd. (to date) Resigned as Corporate Auditor of the Company Outside Director of the Company (to date) | 13,593 shares |

| Candidate Number | Name (Date of Birth) | Brief personal history, title and representative status of other entities | | Number of shares of the Company owned by the candidate |
|------------------|---|---|---|--|
| 10 | Ryuji Yasuda (April 28, 1946) | Jul 1976 | Joined Morgan Guarantee Trust Company of NY (currently, JP Morgan Chase & Co.), Investment Research Officer | 18,000 shares |
| | | Jan 1979 | Joined Mckinsey & Company (1986 – Partner of the above company) (1991 – Director of the above company) | |
| | | Jul 1996 | A.T. Kearney, Managing Director of Asia, Member of the Board of Management | |
| | | Apr 2002 | Visiting Professor, Hitotsubashi University, Graduate School of International Business Strategy | |
| | | May 2002 | Chairman of A. T. Kearney, Far East Asia | |
| | | May 2003 | Resigned as Chairman of Far East Asia of the above company | |
| | | Jun 2003 | Outside Director of the Company (to date) Director, Chairman of J-Will Partners Co., Ltd. | |
| | | Apr 2004 Sep 2006 to date | Professor of Hitotsubashi University, Graduate School of International Business Strategy (to date) Retired as Director and Chairman of J-Will Partners Co., Ltd. | |
| 11 | Keisuke Kitajima (November 27, 1936) | Apr 1961 | Appointed as Public Prosecutor | 3,000 shares |
| | | Jul 1993 | Chief Public Prosecutor, The Tokyo District Public Prosecutors Office | |
| | | Nov 1994 | Director of the Public Safety Dept., Supreme Public Prosecutors Office | |
| | | Aug 1995 | Deputy Prosecutor-General | |
| | | Dec 1997 | Superintendent Public Prosecutor, Tokyo High Public Prosecutors' Office | |
| | | Jun 1998 | Attorney General | |
| | | Jul 2001 | Resigned as Attorney General | |
| | | Sep 2001 Jun 2004 | Attorney at Law (to date) Outside Director of the Company (to date) | |

| Candidate Number | Name (Date of Birth) | | Brief personal history, title and representative status of other entities | Number of shares of the Company owned by the candidate |
|------------------|---------------------------------|---|--|--|
| 12 | Koichi Uno (January 5, 1942) | Sep 1967 Aug 1976 Oct 1977 Sep 1979 Sep 1981 Aug 2000 Sep 2000 Jun 2004 Sep 2004 | Joined Arthur Andersen & Co.'s Tokyo Office Arthur Andersen & Co., London Office Returned to Arthur Andersen & Co.'s Tokyo Office Partner, Tax Division of the above office Representative Partner of the above office (Koichi Uno Tax Accounting Office) Left Arthur Andersen & Co. Established CPA UNO OFFICE (operating to date) Part-time lecturer, Hitotsubashi University, Graduate School of International Business Strategy Outside Director of the Company (to date) Resigned as part-time lecturer, Hitotsubashi University, Graduate School of International Business Strategy | 17,000 shares |
| 13 | Ikuo Mori (November 2, 1948) | Apr 1973 May 1996 May 2001 Jun 2001 Jun 2004 Apr 2005 Apr 2006 Apr 2007 to date | Joined the Company President of Daiwa Securities America Inc. Chairman of Daiwa Securities America Inc., in charge of America Division Corporate Executive Officer of the Company, in charge of America Division, and Chairman of Daiwa Securities America Inc. Corporate Executive Officer of the Company, in charge of America Division, and Chairman of Daiwa Securities America Inc. Corporate Senior Executive Officer of the Company, in charge of America Division, and Chairman of Daiwa Securities America Inc. Retired as Corporate Executive Officer of the Company Managing Director of Daiwa Securities SMBC Co. Ltd., senior in charge of Overseas and International Planning and Administration Division Representative Director and Senior Managing Director of Daiwa Securities SMBC Co. Ltd., senior in charge of Overseas and International Planning and Administration, Corporate Executive Vice President of the Company, deputy in charge of Wholesale Division | 42,387 shares |

(Notes)

1. *The Company has been offering long-term loans to Daiwa Securities SMBC Co . Ltd.*

2. *The reasons for election of these four nominees as Outside Directors are as follows.*

(1) *Mr. Tetsuro Kawakami held positions such as President of Sumitomo Electric Industries,Ltd., public offices such as an officer of Kansai Economic Federation, etc. and is currently a Counsel of Sumitomo Electric Industries, Ltd. The Company requests shareholders to elect him as its Outside Director since we believe that his accumulated ample experiences and knowledge about corporate management would contribute to*

- management of the Company. The term of his office as Corporate Auditor of the Company is four (4) years, and the conclusion of this Ordinary General Meeting of Shareholders marks his fifth (5) year as one of the Company's Outside Director.*
- (2) Mr. Ryuji Yasuda was a partner of distinguishable consulting firm, etc., and currently is a Professor of Hitotsubashi University, Graduate School of International Corporate Strategy. The Company requests shareholders to elect him as its Outside Director since we believe that his accumulated ample experiences and professional knowledge about management strategy would contribute to management of the Company. The conclusion of this Ordinary General Meeting of Shareholders marks his fourth (4) year as one of the Company's Outside Director.*
- (3) Mr. Keisuke Kitajima was Chief Public Prosecutor of the Tokyo District Public Prosecutors Office and the Attorney General and is currently an attorney at law. The Company requests shareholders to elect him as its Outside Director since we believe that his accumulated ample experiences and professional knowledge about laws and compliance would contribute to management of the Company. According to the above-mentioned reasons, we made a decision that he could adequately carry out his assignment as the Company's Outside Director, even though he has never been involved in corporate management. The conclusion of this Ordinary General Meeting of Shareholders marks his third (3) year as one of the Company's Outside Director.*
- (4) Mr. Koichi Uno has ample experience and professional knowledge accumulated through his service for many corporations' financial and tax accounting affairs as a certified public accountant and certified tax accountant. The Company requests shareholders to elect him as its Outside Director since we believe that his such experiences and professional knowledge would contribute to management of the Company. According to the above-mentioned reasons, we made a decision that he could adequately carry out his assignment as the Company's Outside Director, even though he has never been involved in corporate management. The conclusion of this Ordinary General Meeting of Shareholders marks his third (3) year as one of the Company's Outside Director.*
- 3. The facts of inappropriate execution of business while in the post, and measures taken for prevention of occurrence of such incident and after occurrence of such incident are as follows.*
- (1) As to Mr. Ryuji Yasuda, while he was in the office as an outside director of Fuji Fire and Marine Insurance Co., Ltd., a business improvement administrative order under the Insurance Business Law was issued to the said company by the Financial Services Agency in November 2005, due to nonpayment of insurance benefits. Mr. Yasuda had been making remarks at the board of directors' meeting of the said company on urging enhancement of internal management system toward prevention of misconduct, and after the occurrence, he made proposals at the board of directors' meeting for measures to be taken for research for the facts and prevention of re-occurrence.*
- 4. The Independence of the nominees for Outside Directors from the Company is as follows.*
- * None of the nominees for Outside Directors had been a business executor of the Company or any entity that has special relationship with the Company during last five (5) years.*
 - * None of the nominees for Outside Directors received large sum of money or other financial benefits from the Company or any entity that has special relationship with the Company in the past, and none of them anticipate receiving it in the future.*
 - * None of the nominees for Outside Directors has kinship with spouse or any family within third degree of business executor of the Company or any entity that has special relationships with the Company.*
- 5. The current Outside Directors, Messrs. Tetsuro Kawakami, Ryuji Yasuda, Keisuke Kitajima and Koichi Uno have executed the agreement to limit liability with the Company. The agreement says that the maximum amount of liability is 10 million yen or the minimum amount*

of liability provided in the Article 425, Paragraph 1 of the Corporation Law, whichever is higher. In the case where re-election of the four (4) Nominees is approved, the Company will renew the same agreements to limit liability with the four (4) Nominees.

Bill 3. Granting Stock Options Utilizing Stock Acquisition Rights

The Company requests shareholders' approval to delegate the decision on the terms of issuance for stock acquisition rights, provisions of Articles 236, 238 and 239 of the Corporation Law (Law No. 86 of 2005), to the Board of Directors of the Company, or to the executive officers to whom the determination has been delegated by a resolution of the Board of Directors of the Company. The stock acquisition rights will be issued to directors, executive officers (both shikoyaku and shikoyakuin), and employees of the Company and its subsidiaries and affiliates for the purpose of granting stock options.

1. Reasons for Selecting Candidates to Receive Common Stock Acquisition Rights at Especially Favorable Terms

The Company will issue the following two types of stock acquisition rights stated in 2. and 3. below without consideration as stock options to directors, executive officers, and employees of the Company and its subsidiaries and affiliates as an incentive to contribute towards increasing consolidated performance and to enable recruiting of talented personnel.

The first type stated in 2. below are stock acquisition rights to be granted to directors and executive officers of the Company and its subsidiaries, for which the amount to be paid in per share upon exercise shall be one (1) yen (hereinafter, "Common Stock Acquisition Rights I"). The issuance of the Common Stock Acquisition Rights I to directors and executive officers of the Company will be subject to resolution of items pursuant to Clause 3 of Article 409 of the Corporation Law as individual compensation of directors and executive officers at the Compensation Committee meeting to be held after the Ordinary General Meeting of Shareholders.

The other type stated in 3. below are stock acquisition rights to be granted to employees of the Company and its subsidiaries and affiliates and to directors and executive officers of the Company's subsidiaries and affiliates not subject to the Common Stock Acquisition Rights I above. The amount to be paid in per share upon exercise shall be determined based on the market price of shares of Common Stock on the allocation date of the stock acquisition rights (hereinafter, "Common Stock Acquisition Rights II").

Neither Common Stock Acquisition Rights I nor Common Stock Acquisition Rights II above will be granted to outside directors of the Company.

2. Terms, Amount to be Paid In and Maximum Number of Common Stock Acquisition Rights I to be Resolved Pursuant to the Resolution of the Ordinary General Meeting of Shareholders

(1) Maximum Number of Common Stock Acquisition Rights I to be Resolved Pursuant to the Delegation

Not exceeding 400 common stock acquisition rights set according to (3) below. Those issued to parties other than directors and executive officers of the Company shall not exceed 300.

The aggregate number of shares to be issued upon exercise of Common Stock Acquisition Rights I shall not exceed 400,000. If the number of granted shares is adjusted pursuant to (3) (a) below, the maximum number of Common Stock Acquisition

Rights I to be issued shall be multiplied by the number of granted shares after adjustment.

(2) Amount to be Paid In upon Issuance of Common Stock Acquisition Rights I to be Resolved Pursuant to the Delegation

Common Stock Acquisition Rights I shall be issued without consideration and require no payment.

(3) Terms of Common Stock Acquisition Rights I to be Resolved Pursuant to the Delegation

(a) Class and Number of Shares to be Issued upon Exercise of Common Stock Acquisition Rights I

The number of shares to be issued upon exercise of one (1) Common Stock Acquisition Right I (hereinafter, in 2, "Number of Granted Shares") shall be 1,000 shares of Common Stock.

If the Company splits (including gratis issue of shares, same onwards) or consolidates the shares of Common Stock after the date of resolution of the Ordinary General Meeting of Shareholders (hereinafter, "Resolution Date"), the Number of Granted Shares shall be adjusted in accordance with the following formula. An adjustment shall be made only with respect to the Number of Granted Shares for the Common Stock Acquisition Rights which have not been exercised at the time of the adjustment. Any fraction less than one (1) share resulting from the adjustment shall be disregarded.

$$\begin{array}{l} \text{Number of Granted Shares} \\ \text{after adjustment} \end{array} = \begin{array}{l} \text{Number of Granted Shares} \\ \text{before adjustment} \end{array} \times \text{Ratio of split or consolidation}$$

In addition, in the case of a merger with any other company, corporate split or capital reduction of the Company, or in any other case similar thereto where an adjustment of the Number of Granted Shares shall be required, in each case after the resolution date, the Number of Granted Shares shall be appropriately adjusted to the extent reasonable.

(b) Amount to be Paid In upon Exercise of Common Stock Acquisition Rights I

The amount to be paid in upon exercise of Common Stock Acquisition Rights I shall be one (1) yen per share and shall be multiplied by the Number of Granted Shares.

(c) Period during which Common Stock Acquisition Rights I may be Exercised

A period between July 1, 2007, to June 22, 2028, which will be determined by the Board of Directors of the Company or the executive officers to whom the determination has been delegated by a resolution of the Board of Directors of the Company.

(d) Terms Regarding Increase in Capital Stock and Additional Paid-in Capital upon Exercise of Common Stock Acquisition Rights I

- 1) The amount of capital stock to increase upon issuance of Common Stock due to exercise of Common Stock Acquisition Rights I shall be half of the limit of capital increase calculated according to Clause 1 of Article 40 of the Accounting Regulation Ordinance. Any fraction less than one (1) yen resulting from the calculation shall be rounded up to the nearest one (1) yen.

- 2) The amount of additional paid-in capital to increase upon issuance of Common Stock due to exercise of Common Stock Acquisition Rights I shall be the difference between the limit of capital increase and the increase in capital stock, both stated in 1) above.
 - (e) Restriction on Transfer of Common Stock Acquisition Rights I
Common Stock Acquisition Rights I are non-transferable unless the Board of Directors of the Company approves such transfer.
 - (f) Conditions for Exercise of Common Stock Acquisition Rights I
 - 1) Common Stock Acquisition Rights I cannot be exercised in part.
 - 2) Holders of Common Stock Acquisition Rights I may exercise the rights from the day after they leave from all positions of director or executive officer of the Company or its subsidiaries as determined by the Board of Directors of the Company or the executive officers to whom the determination has been delegated by a resolution of the Board of Directors of the Company.
 - 3) Disregarding 2) above, Common Stock Acquisition Rights I can be exercised from 30 days prior to the last day of the period for exercise of the Common Stock Acquisition Rights I pursuant to other conditions for exercise.
 - 4) Other conditions for exercise shall be set forth in Stock Acquisition Rights Allocation Agreement between the Company and the holder of Common Stock Acquisition Rights I.
 - (g) Terms and Conditions of Acquisition of Common Stock Acquisition Rights I
The Company may acquire Common Stock Acquisition Rights I without consideration when a holder loses all qualifications for exercising Common Stock Acquisition Rights I or waives all or part of his/her Common Stock Acquisition Rights I
 - (h) Treatment of Fractional Shares Less Than One Share
Any fraction less than one (1) share of Common Stock issued upon exercise of Common Stock Acquisition Rights I shall be disregarded.
3. Terms, Amount to be Paid In and Maximum Number of Common Stock Acquisition Rights II to be Resolved Pursuant to the Resolution of the Ordinary General Meeting of Shareholders
- (1) Maximum Number of Common Stock Acquisition Rights II to be Resolved Pursuant to the Delegation
Not exceeding 2,600 common stock acquisition rights set according to (3) below.
The aggregate number of shares to be issued upon exercise of Common Stock Acquisition Rights II shall not exceed 2,600,000. If the number of granted shares is adjusted pursuant to (3) (a) below, the maximum number of Common Stock Acquisition Rights II to be issued shall be multiplied by the number of granted shares after adjustment.
 - (2) Amount to be Paid In upon Issuance of Common Stock Acquisition Rights II to be Resolved Pursuant to the Delegation
Common Stock Acquisition Rights II shall be issued without consideration and require no payment.

(3) Terms of Common Stock Acquisition Rights II to be Resolved Pursuant to the Delegation

(a) Class and Number of Shares to be Issued upon Exercise of Common Stock Acquisition Rights II

The number of shares to be issued upon exercise of one (1) Common Stock Acquisition Right II (hereinafter, in 3, "Number of Granted Shares") shall be 1,000 shares of Common Stock.

If the Company splits or consolidates the shares of Common Stock after the Resolution Date, the Number of Granted Shares shall be adjusted in accordance with the following formula. An adjustment shall be made only with respect to the Number of Granted Shares for the Common Stock Acquisition Rights which have not been exercised at the time of the adjustment. Any fraction less than one (1) share resulting from the adjustment shall be disregarded.

$$\begin{array}{l} \text{Number of Granted Shares} \\ \text{after adjustment} \end{array} = \begin{array}{l} \text{Number of Granted Shares} \\ \text{before adjustment} \end{array} \times \text{Ratio of split or consolidation}$$

In addition, in the case of a merger with any other company, corporate split or capital reduction of the Company, or in any other case similar thereto where an adjustment of the Number of Granted Shares shall be required, in each case after the resolution date, the Number of Granted Shares shall be appropriately adjusted to the extent reasonable.

(b) Amount to be Paid In upon Exercise of Common Stock Acquisition Rights II

The amount to be paid in upon exercise of Common Stock Acquisition Rights II shall be the amount to be paid in per share (hereinafter, "Exercise Price") multiplied by the Number of Granted Shares.

The Exercise Price shall be 1.05 times the higher price of the following (i) or (ii). Any fraction less than one (1) yen resulting from the adjustment shall be rounded up to the nearest one (1) yen.

(i) The average of the closing prices of Common Stock in the trading thereof on the Tokyo Stock Exchange (each, "Closing Price") for trading days (excluding days on which there is no Closing Price) during the month prior to the month of the allocation date of Common Stock Acquisition Rights II (hereinafter, "Allocation Date"), or

(ii) The Closing Price on the issue date of Common Stock Acquisition Rights II (if there is no Closing Price on such date, the Closing Price for the immediate preceding trading day).

If the Company splits or consolidates the shares of Common Stock after the Allocation Date of Common Stock Acquisition Rights II, the Exercise Price shall be adjusted in accordance to the following formula, and any fraction less than one (1) yen resulting from the adjustment shall be rounded up to the nearest one (1) yen.

$$\text{Exercise Price after adjustment} = \text{Exercise Price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

The Exercise Price shall be adjusted using the following formula, in the event the Company issues shares below market price (except in the case of conversion of securities to be converted or that can be converted to Common Stock of the Company, or exercise of common stock acquisition rights (including those attached to bonds with common stock acquisition rights) which can claim issuance of Common Stock of the Company). Any fraction less than one (1) yen resulting from the adjustment shall be rounded up to the nearest one (1) yen.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{\text{Outstanding number of shares} + \frac{\text{Number of newly issued shares} \times \text{Payment for one share}}{\text{Market price of one share}}}{\text{Outstanding number of shares} + \text{Number of newly issued shares}}$$

“Outstanding number of shares” is the number of shares issued subtracting any treasury stocks of Common Stock.

Other than above, in the case of a merger with any other company, corporate split or capital reduction of the Company, or in any other case similar thereto where an adjustment of the Exercise Price shall be required, in each case after the allocation date of Common Stock Acquisition Rights II, the Exercise Price shall be appropriately adjusted to the extent reasonable.

(c) Period during which Common Stock Acquisition Rights II may be Exercised

A period between July 1, 2012, to June 22, 2017, which will be determined by the Board of Directors of the Company or the executive officers to whom the determination has been delegated by a resolution of the Board of Directors of the Company.

(d) Terms Regarding Increase in Capital Stock and Additional Paid-in Capital upon Exercise of Common Stock Acquisition Rights II

- 1) The amount of capital stock to increase upon issuance of Common Stock due to exercise of Common Stock Acquisition Rights II shall be half of the limit of capital increase calculated according to Clause 1 of Article 40 of the Accounting Regulation Ordinance. Any fraction less than one (1) yen resulting from the calculation shall be rounded up to the nearest one (1) yen.
- 2) The amount of additional paid-in capital to increase upon issuance of Common Stock due to exercise of Common Stock Acquisition Rights II shall be the difference between the limit of capital increase and the increase in capital stock, both stated in 1) above.

(e) Restriction on Transfer of Common Stock Acquisition Rights II

Common Stock Acquisition Rights II are non-transferable unless the Board of Directors of the Company approves such transfer.

(f) Conditions for Exercise of Common Stock Acquisition Rights II

1) Common Stock Acquisition Rights II cannot be exercised in part.

2) Other conditions for exercise shall be set forth in Stock Acquisition Rights Allocation Agreement between the Company and the holder of Common Stock Acquisition Rights II.

(g) Terms and Conditions of Acquisition of Common Stock Acquisition Rights II

The Company may acquire Common Stock Acquisition Rights II without consideration when a holder loses all qualifications for exercising Common Stock Acquisition Rights II or waives all or part of his/her Common Stock Acquisition Rights II

(h) Treatment of Fractional Shares Less Than One Share

Any fraction less than one (1) share of Common Stock issued upon exercise of Common Stock Acquisition Rights II shall be disregarded.

[References]

The Company is scheduled to appoint the following committee members of Nominating Committee, Audit Committee and Compensations Committee respectively, and Executive Officers through resolutions of the Board of Directors to be held after conclusion of the Ordinary General Meeting of Shareholders.

1. Nominating Committee (5 members), Audit Committee (3 members), Compensation Committee (5 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 |

2. Executive Officers (15 officers)

| | Name | Main titles and posts held concurrently |
|------------------------|--------------------|--|
| President (CEO) | Shigeharu Suzuki | Director of the Company Representative Director/President of Daiwa Securities Co. Ltd. |
| Deputy President (COO) | Shin Yoshidome | Director of the Company Representative Director/President of Daiwa Securities SMBC Co. Ltd. |
| Deputy President | Tetsuo Mae | Director of the Company Representative Director/Deputy President of Daiwa Securities Co. Ltd. |
| Deputy President | Shuntaro Higashi | Representative Director/Deputy President of Daiwa Securities SMBC Co. Ltd. |
| Deputy President | Michito Higuchi | Representative Director/President of Daiwa Asset Management Co. Ltd. |
| Deputy President | Yoshiyuki Takemoto | Representative Director/President of Daiwa Institute of Research Ltd. |

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| Corporate Executive Vice President | Takashi Hibino | Director of the Company |
| Corporate Executive Vice President | Ikuo Mori | Director of the Company Representative Director and Senior Managing Director of Daiwa Securities SMBC Co. Ltd. |
| Corporate Senior Executive Officer (CIO) | Akira Nakamura | |
| Corporate Executive Officer (CFO) | Nobuyuki Iwamoto | Director of the Company |
| Corporate Executive Officer | Masamichi Yokoi | Chairman of Daiwa America Corporation |
| Corporate Executive Officer | Seiji Nakata | |
| Corporate Executive Officer | Masaaki Goto | |
| Corporate Executive Officer | Yoshinari Hara | Director/Chairman of the Company |
| Corporate Executive Officer | Akira Kiyota | Director/Deputy Chairman of the Company |