

**Power and Scale:
The Key to Victory**

**Annual Report 2005
Daiwa Securities Group**



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This annual report may contain forward-looking statements about the Daiwa Securities Group. You can identify these statements by the fact that they do not relate strictly to historic or current facts. These statements discuss future expectations, identify strategies, contain projections of results of operations or of financial condition or state other "forward-looking" information. These statements are based on currently available information and represent the beliefs of the management of the Daiwa Securities Group. These statements are subject to numerous risks and uncertainties that could cause the Daiwa Securities Group's actual results, performance, achievements or financial condition to differ materially from those described or implied in the forward-looking statements. The Daiwa Securities Group undertakes no obligation to publicly update any forward-looking statements after the date of issuance of this annual report. These potential risks and uncertainties include, but are not limited to: competition within the financial services industries in Japan and overseas, our ability to adjust our business focus and to maintain profitable strategic alliances, volatile and sudden movements in the international securities markets, foreign exchange and global economic situations affecting the Daiwa Securities Group. "FY 2004" refers to the fiscal year ended March 31, 2005, and other fiscal years are referred to in a corresponding manner.

Power & Scale

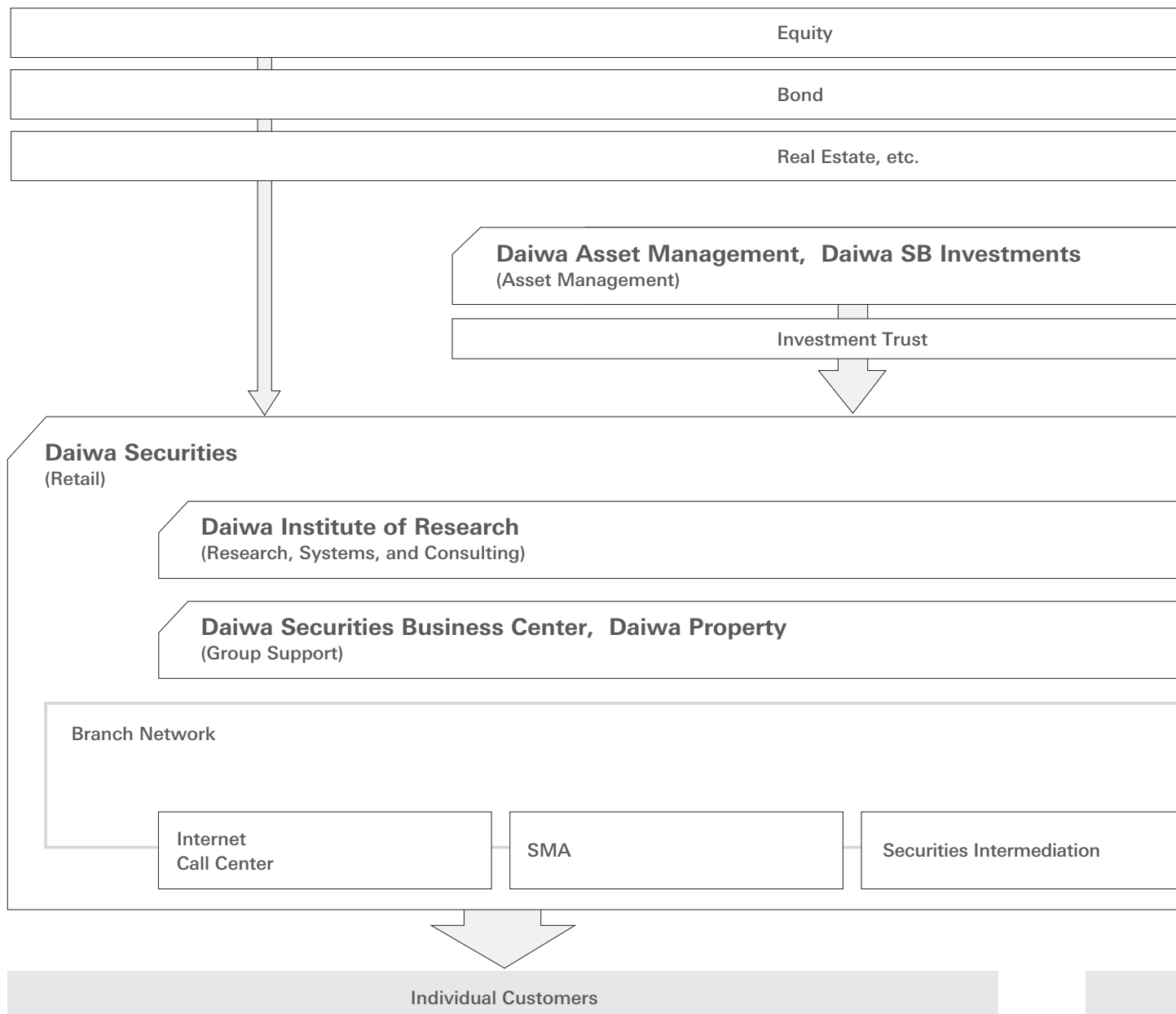
With superiority in "Quality," "Productivity," and "Expertise"

Now is the time...

For the Daiwa Securities Group to be strong

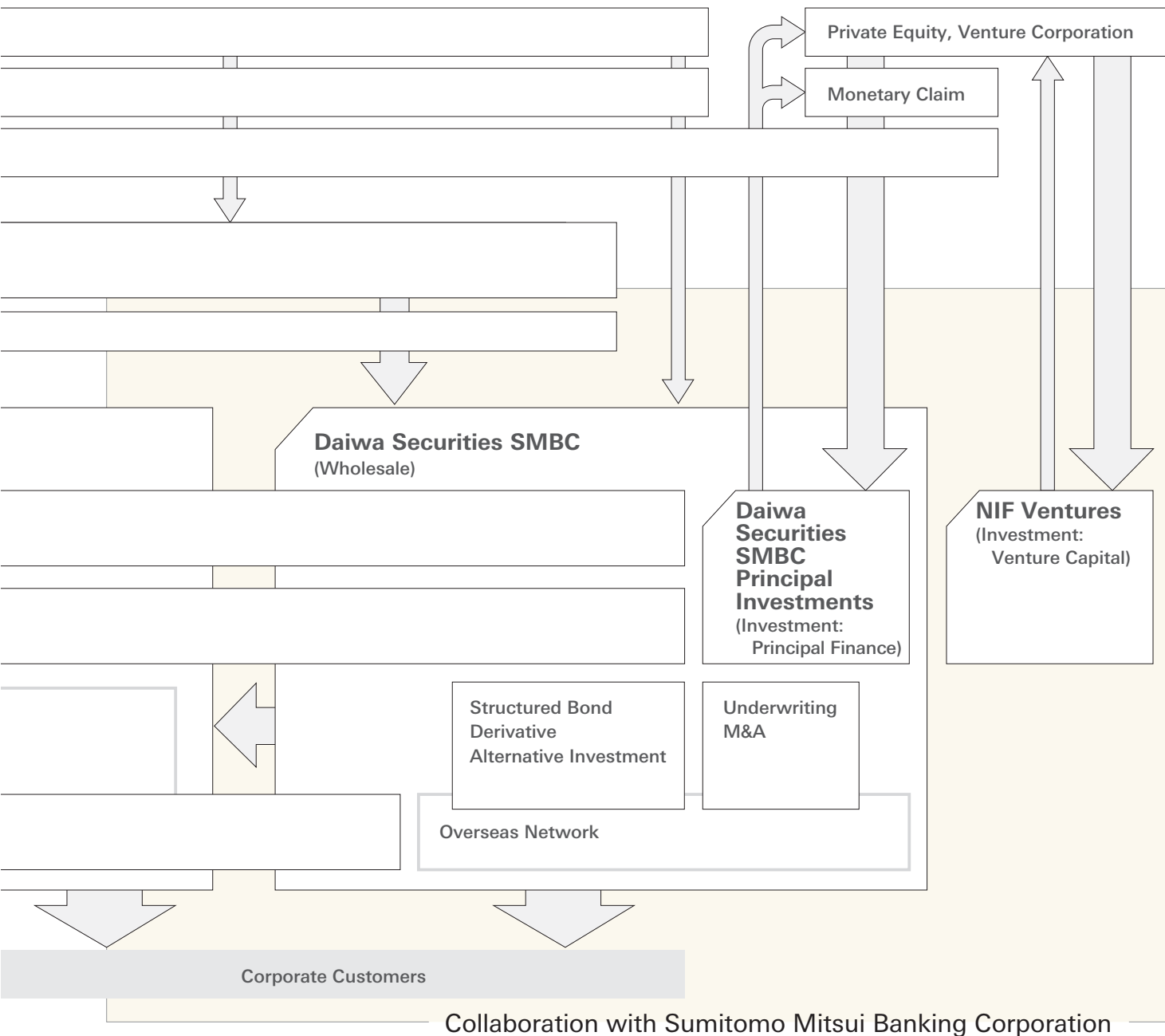


The Daiwa Securities Group's Business Structure and Added-Value Creation Process



The Competitive Edge of the Daiwa Securities Group

- “Value-chain” utilizing the Group’s collective strength**
 Supplementing each of our core functions—from development and marketing of financial products to asset management—we aim to maximize the value added to the Group’s business, enabling us to achieve higher growth, profitability, and stability.
- Multi-channels for retail customers with a strong focus on their needs**
 Fully utilizing our infrastructure including branches, online services, and the call center, we are developing a network of retail sales channels that meets our customers’ various needs.

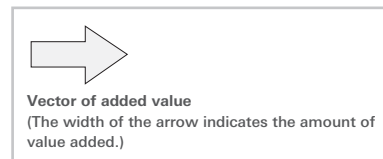


- **Solid corporate customer base**

Japan's first joint venture between a major securities firm and a mega-bank is taking full advantage of its solid corporate customer base to boost earnings for the Group.

- **High-value-added products and services supported by specialist expertise and research and analysis skills**

Our advanced research and analytical capabilities—spearheaded by Daiwa Institute of Research, which has been ranked No.1 in analyst rankings for two years in a row, and the Research & Advisory Department at Daiwa Securities SMBC—enable us to add higher value to our products and services.



Financial Highlights

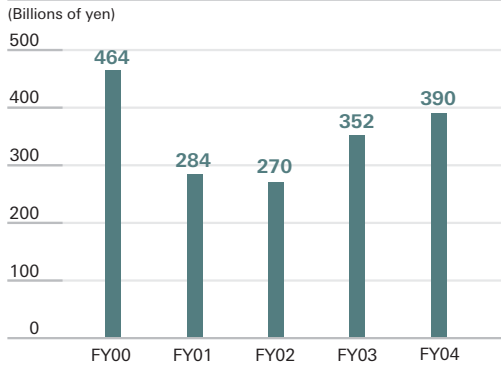
Daiwa Securities Group Inc. and Consolidated Subsidiaries

	FY2002	FY2003	FY2004	FY2004
	Millions of yen (Unless otherwise specified)			Millions of U.S. dollars*1
Market Data				
TOPIX (annual average, index)	932	981	1,139	—
TSE 1 st section average daily trading value	729,049	1,145,296	1,345,197	12,571
Ten-year Japanese government bond yield (annual average, % per annum)	1.12	1.13	1.53	—
Foreign exchange rates (annual average):				
Yen per U.S. Dollar	121.9	113.0	107.5	—
Yen per Euro	121.0	132.6	135.1	—
Operating Performance				
Operating revenues	387,659	453,814	519,337	4,853
Net operating revenues	270,810	352,435	390,432	3,648
Selling, general and administrative expenses	246,701	259,915	275,544	2,575
Operating income	24,109	92,520	114,888	1,073
Ordinary income	29,200	96,130	120,433	1,125
Net income (loss)	(6,323)	42,637	52,665	492
Balance Sheet				
Total assets	9,502,826	10,765,665	12,378,962	115,691
Total risk assets *2	584,358	518,331	499,084	4,664
Total shareholders' equity	541,719	604,170	648,332	6,059
Per Share Data				
		Yen		U.S. dollars
Net income (loss) *3	(4.75)	31.66	39.03	0.36
Total shareholders' equity *3	407.84	453.60	486.70	4.54
Cash dividends	6.0	10.0	13.0	0.12
Financial Ratios				
		%		
Return on equity (ROE) *4	—	7.4	8.4	
Equity ratio	5.7	5.6	5.2	
Other data				
Total number of employees	11,559	11,565	11,295	

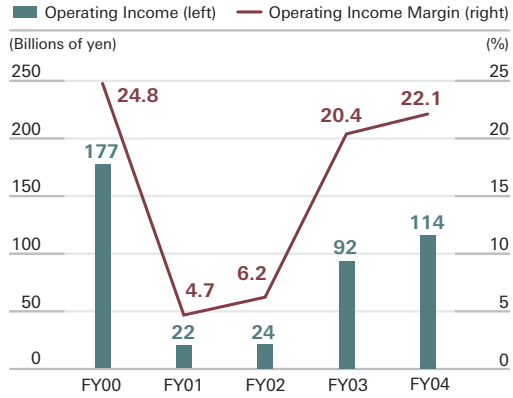
*Notes:

1. Translations of the Japanese yen amounts into U.S. dollars are made at the rate of ¥107.00 per U.S. dollar, solely for the convenience of readers.
 2. Total risk assets are calculated as the sum of operational investment securities, tangible fixed assets, investment securities, and other investments.
 3. Net income (loss) and shareholders' equity per share are computed based on the average number of shares outstanding during the year.
 4. ROE is computed based on the average total shareholders' equity at the beginning and end of the fiscal year.
 5. Simple comparisons across the years cannot be made due to changes in items made to accommodate changes in statutory accounting standards. Some of the main changes are as following.
- The operating results are presented in accordance with the amended "Uniform Accounting Standards of Securities Companies" (set by the board of directors of the Japan Securities Dealers' Association, September 28, 2001) since FY 2001. Therefore figures for FY 2000 in the graphs on the next page have been adjusted according to the amended standards.

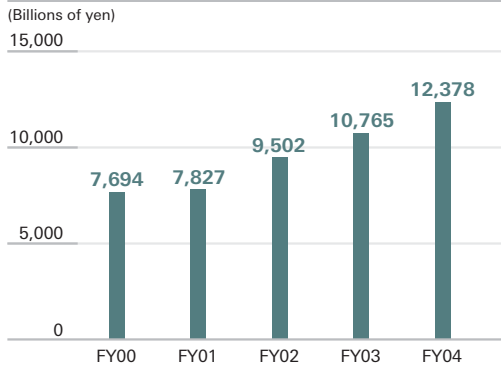
Net Operating Revenues



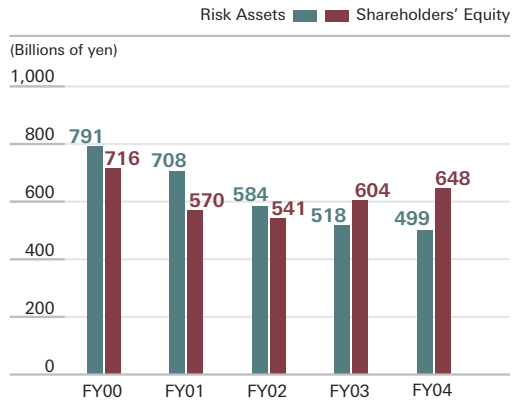
Operating Income and Operating Income Margin



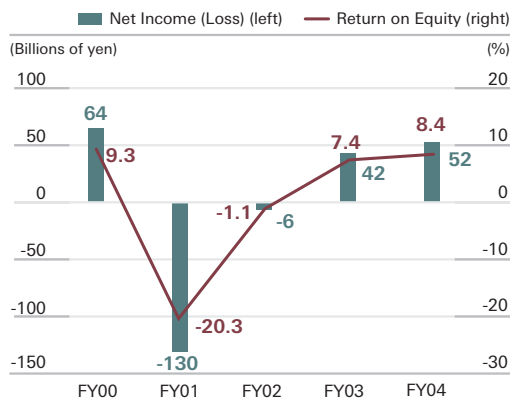
Total Assets



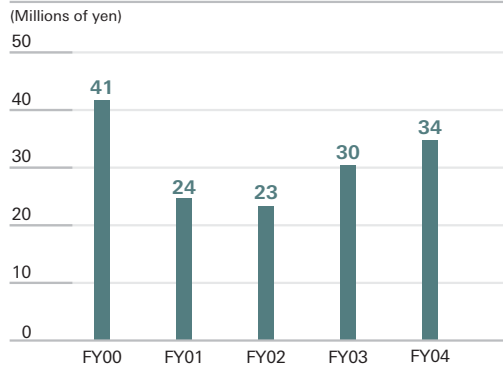
Risk Assets vs Shareholders' Equity



Net Income (Loss) and Return on Equity



Net Operating Revenues per Employee





Message from the CEO

Gaining a strong advantage by highlighting our two key attributes: quality and productivity—this strategy is now bringing tangible results.

Building on these results, the Daiwa Securities Group is poised to enter a stage of accelerated growth, propelled by “power” and “scale.”



FY 2004 Performance Highlights

— Sustained growth, despite lack of external support

It was another tough year...

The Japanese economy, which had been recovering strongly until FY 2003, began to lose momentum in FY 2004. One major reason was the slowdown in exports, especially of high-tech products, due to the effects of inventory adjustments by IT-related companies worldwide. Also, the second half of the year saw several major natural disasters, including typhoons and earthquakes, as well as historically high crude oil and other raw materials prices. These factors may have had a negative impact on the macro economy, as reflected in the equity market. While trading activity reached high levels amid expectations of medium- to long-term economic growth, the Nikkei Average remained in a narrow range around the ¥11,500 level. Interest rates also showed minimal volatility. In short, life was certainly not easy for the securities industry.

A healthy improvement in performance

Despite this challenging environment, the Daiwa Securities Group posted a steady improvement in earnings, as it did in the previous year. Consolidated net operating revenues reached ¥390.4 billion, up 11% from FY 2003. Ordinary income climbed 25%, to ¥120.4 billion, and net income grew 24%, to ¥52.6 billion. Consolidated return on equity (ROE) further improved from 7.4% in FY 2003 to 8.4% in FY 2004—the highest among the three major securities companies.

Three-Year Reflection (FY 2001 – FY 2004)

— Progress in improving “quality” and “productivity”

Improvement in financial results

Rather than focusing on single-year increments, let us look back over the longer term. Our financial performance is a good indication of how much the Daiwa Securities Group has changed. Between FY 2001 and FY 2004, consolidated net operating revenues grew 1.4-fold. Over the same period, ordinary income surged 4.7-fold, from ¥25.8 billion to ¥120.4 billion.

Enhanced competitiveness, reflected in facts and figures

Comparing FY 2004 to FY 2001, the average daily trading value on the Tokyo Stock Exchange (TSE) grew approximately 70% while the Nikkei Average remained at the same level. It is evident that this played a major part in our recovery. However, I would like to emphasize that, while major securities companies have historically tended to move in tandem due to the similar structure of their businesses, the Daiwa Securities Group has undergone a dramatic transformation by building its own unique business portfolio. As a result, we have steadily sharpened our competitive edge. One key indicator of this change is top-line growth. Over the past three years, the Group's net operating revenues increased 37%. Another noteworthy indicator is profitability. In FY 2004, our ROE rose to 8.4%.

With improved specialist expertise and skills, as well as a dominating position in quality and productivity, we now have what it takes to win the competition.

Driving revenue growth: Qualitative enhancement with priority on customers

In my opinion, our improved competitiveness was not the result of pursuing quantitative expansion. Instead, it came from the Group's focus on "qualitative enhancement." Under our medium-term management plan, which began in FY 2003, we have been targeting the No. 1 position in terms of "quality" and "productivity" rather than quantitative results. To this end, we must first further improve our professional skills in areas such as specialist expertise and productivity, so that our customers can become confident that our products and services are truly distinctive.

The results of our approach have evolved slowly, but surely. For example, Daiwa Securities SMBC has reached the top of the lead manager league tables in terms of equity offerings and corporate bond issues. Also, Daiwa Institute of Research (DIR) has received the No. 1 Analyst Ranking by the Nikkei Financial Daily for two consecutive years. Regarding our online services, we have received high acclaim for the information content of our online trading website, earning the Gomez Award.

These strategies for qualitative enhancement have consequently brought various quantifiable results. Over the past three years, the number of online accounts has grown 2.6-fold, and revenues from the investment banking business have doubled.

Further progress in profitability and stability

Supported by a business foundation distinguished by specialist expertise and productivity, the Group has shifted its emphasis to generating high-value-added services. At the same time, we have worked to strengthen the stability of our financial position, including our balance sheet. These actions have led to a significant increase in ROE. As an example of higher productivity, our SG&A expense ratio* was above 90% in FY 2001. Over the past three years, however, we have reduced this to 70.6%. In terms of our improving stability, we have reduced external debt by 25% in the past three years and dramatically lowered our fixed ratio from 134.7% in FY 2001 to 68.3% in FY 2004.

* SG&A expense ratio = SG&A / net operating revenues

As a result, we will accelerate the growth of our corporate value. This is my mission as CEO. Success in these areas will enable the Daiwa Securities Group to deliver its distinctive products and services to an increasing number of customers, thereby contributing to expanding their assets and to the growth of the Japanese economy.

Qualifications alone are inadequate. Outclassing our rivals with “power” and “scale” is vital.

Strategies Going Forward

— Power and scale

Power and scale:

Essential factors for winning the competition

The Daiwa Securities Group has made substantial progress in creating a distinguished business foundation. Going forward, our strategy is to relentlessly pursue “top-line growth.”

Of course, we can raise top-line growth to a certain extent simply by continuing the initiatives we have taken so far. However, we must keep in mind that we operate in the intensely competitive financial services sector. To be a winner, we must achieve an overwhelming competitive position by augmenting our business foundation with “power” and “scale.”

Expanding risk allowance in the wholesale business

In the wholesale area, the Group will cautiously, but also boldly increase risk assets. Here, we will engage in equity trading, where we can utilize the Group’s specialist expertise, and also actively invest in private equities. In the area of principal finance, finding investment targets from the non-performing loan field is becoming difficult as prices are already rising. However, there are considerable opportunities in private equities linked to corporate restructuring that provide the possibility of high returns.

Expanding our retail customer base and sales channels

In the retail sector, we will take steps to further broaden our customer base and sales channels. First, we must concentrate on expanding the balance of net assets under management, excluding fluctuations in market prices. To achieve this, we need to further enhance the capabilities of our salespeople for attracting new customers and providing meticulous consulting services. This will necessitate an increase in the current capacity of our salespeople, which is why the backbone of our retail strategy is to reinforce businesses that do not require a sales force. Through this strategy, we are simultaneously pursuing both higher profitability and productivity.

We are focusing particular attention on online trading, separately managed accounts (SMAs), and the securities intermediation business as the three main pillars of our retail business that need to be strengthened. Our first focus is online trading, where we have already differentiated ourselves with investment information and product lineup that a dedicated online brokerage company will find difficult to follow. To further broaden this differentiation, we introduced a flat-fee system for margin transactions in May 2005 and for cash transactions in July 2005. In addition, we have considerably enhanced convenience for our customers through measures such as over-the-counter account opening for margin transactions on a same-day basis and implementation of “loop trading.”

The goal of our second main focus, the SMA service, is to expand our base of high-net-worth customers. Since launching our pioneering Daiwa SMA

service in September 2004, we have diversified our management style and improved performance. We plan to increase our total SMA assets under management to ¥500 billion by March 2008.

Our third focus is the securities intermediation business, through which we will expand sales channels outside of the Daiwa Securities Group. Our plan is to set up “win-win” alliances, capitalizing on Group capabilities that the other party does not have. These include capability in product structuring, development and supply; specialist expertise in risk products; and enhanced research function. As of March 31, 2005, we had agreed alliances in the securities intermediation business with Sumitomo Trust & Banking Corporation and approximately 30 regional banks.

Further Upgrading Our Management Structure — Seeking to ensure sustainable growth

A system that directly rewards performance

The ability to achieve sustainable growth largely depends on the quality of human resources. We will continue enhancing our educational and training programs, but we must also focus on raising motivation to realize the maximum potential of our employees. To this end, we have been working to establish an evaluation system that more closely links remuneration with performance. Furthermore, I have introduced the President’s Award, which provides an incentive in addition to salaries and bonuses. The President’s Award, which previously covered only Daiwa Securities and Daiwa Securities SMBC, is now open to employees groupwide.

Maximizing our corporate value

I believe I have two key responsibilities as CEO. The first is to steadily implement our business strategies, and thus achieve sustainable growth in corporate value. The other responsibility, which is sometimes neglected, is to ensure that our true corporate value is reflected in our stock price. This means relentlessly monitoring the situation and, if our value is on a discount, taking steps to raise that value to a fair level.

To carry out the latter responsibility, we will constantly reassess our profit sharing policy with due consideration of our profit level and capital efficiency. We will also review our capital allocation strategies and business portfolio to determine which businesses should receive higher capital allocations in order to raise capital efficiency and ROE. In addition, we will set up an effective information disclosure system to ensure that our corporate value is accurately conveyed to the market. We will consider all possibilities in an effort to ensure that our corporate value is always fairly evaluated.

Achieving sustainable increase in corporate value through effective growth strategies and making constant efforts to ensure full recognition of corporate value
— these are the true responsibilities of corporate management.

Conclusion

— **Results, the benchmark of true professionals**

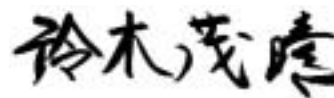
Establishing a “strong” Daiwa Securities Group

The Daiwa Securities Group is engaging in the relentless pursuit of higher corporate value. Having a long-term perspective, we have made steady progress in quality, productivity, and specialist expertise. However, that alone does not lead to an increase of corporate value, unless our customers benefit from our products and services. Moreover, we cannot meet the expectations of our shareholders if we fail to win the competition.

At the end of the day, results are the proof of professionalism. With “power” and “scale,” we will do our utmost to achieve tangible results. My mission as CEO is to ensure that we do whatever it takes to establish a Daiwa Securities Group “strong” in every regard.

July 2005

Shigeharu Suzuki
President and CEO
Daiwa Securities Group Inc.





Special Feature

Power and Scale

Our Roadmap to Ultimate Victory

Products and services, no matter how superior, are useless if not effectively delivered to customers.

A strong business foundation, no matter how solid, is worthless unless used to improve corporate value.

As professionals, we must win the competition. With power and scale, we will expedite our quest to establish a “strong” Daiwa Securities Group.



Revisiting Progress Made to Date

As outlined in the “Message from the CEO” section of this report, the Daiwa Securities Group has made an earnings recovery since bottoming out in FY 2001. More importantly, we have established a strong position vis-à-vis the rest of the industry in three key areas: growth potential, profitability, and stability. In this section, we will provide some background to our recovery by citing specific factors to demonstrate how, and the extent to which, the Group has enhanced its strengths and overcome various challenges.

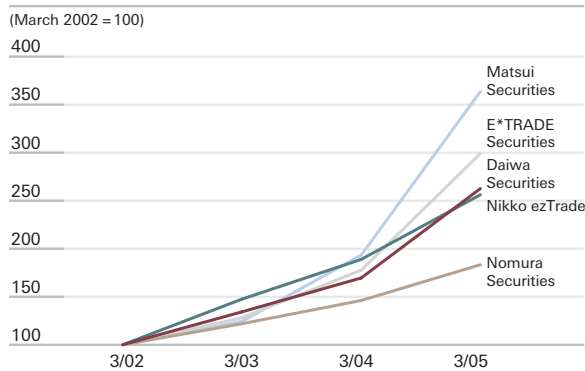
Progress in Enhancing Our Strengths

1. Retail: Expansion of Online Business

One of the strengths of the Daiwa Securities Group is its online business. In the past three years, the number of our online accounts has grown 2.6-fold, from 480,000 at the end of FY 2001 to 1.25 million at the end of FY 2004. While this rate of growth is lower compared to some leading online brokers, Daiwa Securities took an overwhelming lead in terms of the number of new accounts.

Also, the number of new accounts in the Daiwa Direct course, our non-face-to-face channel, grew approximately 110,000 year-on-year to 430,000 at the end of FY 2004. This elevated Daiwa Securities to second place among online brokers, after E*TRADE Securities. This growth is testimony to progress made in several areas. These include the high quality of investment information available via analyst reports produced by Daiwa Institute of Research Ltd. (DIR), reinforcement of our products and services to include IPOs and investment trusts, and sales of foreign stocks and bonds via our call center.

Growth in Online Accounts



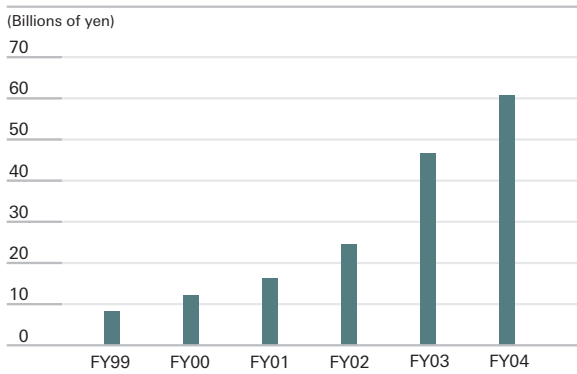
2. Wholesale: Expansion of Investment Banking Activities

Of Japan’s three major securities companies, the Daiwa Securities Group is the only one engaged in investment banking services through a full-fledged alliance with a “megabank,” utilizing the strong combined customer base of both groups. Daiwa Securities SMBC is our joint venture with the Sumitomo Mitsui Financial Group (SMFG), a prominent domestic megabank. If we simply relied on our partner bank to introduce customers and projects, however, we could not fully capitalize on the benefits of our collaboration. With this in mind, we have further enhanced our strengths by polishing our skills and experience in direct financial services, while developing more sophisticated consulting capabilities.

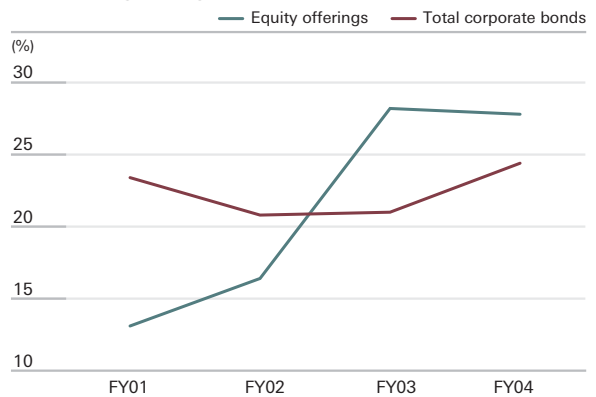
For example, thanks to the collaboration between Daiwa Securities SMBC and DIR, we have stepped up our market research and analytical capabilities, which are keys to providing consulting services. As a result of such efforts, the Group’s revenues generated from its

collaboration with Sumitomo Mitsui Banking Corporation (SMBC) has grown from ¥8 billion in FY 1999 to ¥60 billion in FY 2004. It has also steadily raised its position in the lead manager league tables over the past three years. In equity offerings, Daiwa Securities SMBC has moved from No. 4 (13.1% market share) in FY 2001 to No. 1 (27.8%) in FY 2004. In addition, it has achieved the No. 1 ranking in total corporate bonds for two consecutive years, also improving its market share.

Revenues Generated from Collaboration with SMBC



Lead Manager League Tables: Market Share



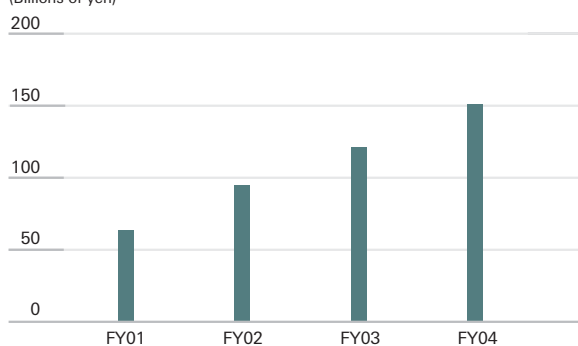
Overcoming Challenges

1. Trading Revenues

Improvement in trading revenues was one of the challenges that the Daiwa Securities Group had to overcome in the pursuit of higher profitability. We responded by taking steps in a number of areas. For example, we upgraded our lineup of high value-added products including structured bonds, while acquiring order flows such as block trades, and adopting more diversified and sophisticated trading techniques. As a result, net gain on trading has increased steadily, from ¥63.0 billion in FY 2001 to ¥93.9 billion in FY 2002, ¥120.2 billion in FY 2003, and ¥151.1 billion in FY 2004.

Gain on Trading (Consolidated)

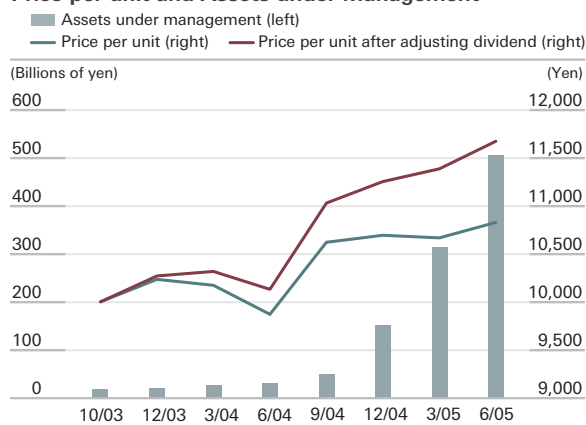
(Billions of yen)



2. Product Development and Management Capabilities

Product development, in actual fact, is not a major concern to us. The Group has long led the industry in developing unique products. These include “Million” and “MMF”, which we have offered for many years, and more recently, “Enmansai” structured bonds and “China Ton-Fei”, a Chinese equity fund. However, in this age, when customer focus is more important than ever, we recognize that priority should be placed on diversifying distribution channels, improving fund management performance, and otherwise comprehensively raising the appeal of products, rather than merely developing new ones. For this reason, we have worked to strengthen ties among Group members and extensively revamp our remuneration system. As a result, we achieved a major hit with the Daiwa Global Bond Fund, which ended FY 2004 with a balance of more than ¥300 billion under management (net assets having grown 12-fold during the year) and ¥500 billion in June 2005. We also diversified our products by launching an alternative product, the Daiwa Commodity Index Fund.

Daiwa Global Bond Fund: Price per unit and Assets under Management



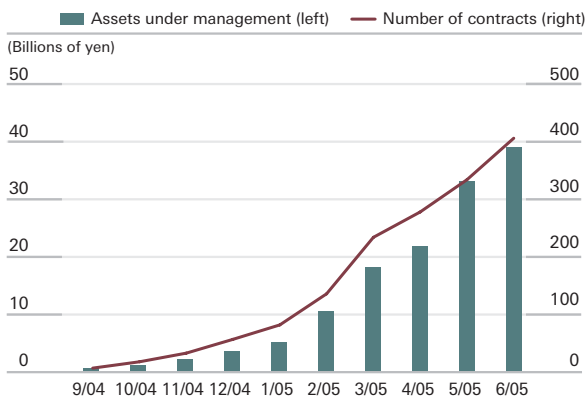
3. Client Base of High-net-worth Individuals

We have been making great efforts to expand our client base of high-net-worth individuals. As we reinforced our online trading capabilities in accordance with growing Internet-based transactions, we have also freed up the capacity of our branch salespeople, allowing them to invest their time and energy in expanding our high-net-worth customer base and providing in-depth consulting services. The quality and productivity of our consulting sales have improved as a result.

Separately managed accounts (SMAs), which Daiwa Securities launched in September 2004, represent a powerful tool in our consulting field for the wealthy segment of the market. Dedicated SMA consultants provide consulting services directly to customers, and specialist in-house asset managers are in charge of managing their assets. In this way, we can provide a comprehensive service package, ranging from initial advice to asset management and follow-up. For our SMA services, we have adopted a performance-based fee structure measured by absolute returns. These competitive advantages

have earned increasing support from high-net-worth customers, boosting the total assets under management of our SMAs to more than ¥40 billion, and the total number of contracts to over 400, in only ten months since the inception of this service.

**Daiwa SMA:
Number of Contracts and Assets under Management**



Future Strategies

We believe that leveraging our strong business foundation with “power” and “scale” is crucial to the growth of the Daiwa Securities Group. We will exercise power and scale to expand the businesses of our own group and take initiative in strategic alliances in the industry and industry reorganizations.

Power and Scale for Business Expansion

1. Focus on Equities

The capability to handle risk is a key expertise required of participants in the capital markets. As economic conditions improve, it is clear that high-risk capital, centering on equities, will attract more attention from both asset management and fundraising. As deregulation progresses, the number of players handling securities, such as banks selling investment trusts and companies involved in securities intermediation, are growing sharply. Equities, however, are the risk products that represent the core domain of securities companies. Moreover, a look at Japanese securities companies reveals that only a few, including the Daiwa Securities Group, have capabilities across the full spectrum, encompassing product lineup, wealth of information, fund-

raising consulting skills, and underwriting capacity. In other words, equities represent the source of our strength, and demonstrating our power and scale in equities will help improve the corporate value of the Group. We will focus on areas where specialized expertise in equities is essential. In the retail securities business, these include equity investment consulting, centering on stocks and equity investment trusts. In the wholesale securities business, they encompass trading and underwriting, as well as M&As and private equities.

2. Risk-Taking

We provide income-producing opportunities for customers by using our skills and experience related to our own risk products. We also use these skills to take risks and generate income for ourselves. To do this, we first have to establish firm business and financial foundations. Now that we have made good progress in building such foundations, we will utilize these to expand businesses in areas such as principal finance and venture investments, which will enable us to assume our own risks and increase income opportunities accordingly.

For example, Daiwa Securities SMBC Principal Investments, a subsidiary of Daiwa Securities SMBC, raised its maximum investment limit from ¥100 billion to approximately ¥200 billion in June 2005. In FY 2004, Daiwa Securities SMBC reinforced its capital base through subordinated loans of ¥110 billion, thus strengthening its financial foundation to facilitate ongoing business expansion. Going forward, we will strive to identify opportunities for further growth through risk-taking initiatives while carefully monitoring market conditions.

3. Expansion of Customer Base

[1] Online Customers

Internet-based transactions will obviously become more and more prevalent in the future. We believe that enhancement of our online business will prove effective, as it will enable us to improve the quality and productivity of our consulting services in the retail sector and broaden our sales channels via the securities intermediation business. Increasing top-line revenue is the most effective way to improve profitability, as fixed costs are relatively high in our retail business, compared with the online business.

As stated earlier, we have significantly distinguished our online services in terms of information content for investment and product lineup. To further enhance convenience and sharpen our competitive advantage, we have extensively revamped our fee structure and upgraded our services for Internet transactions under the Daiwa Direct course. Specifically, we were the first major securities company to introduce a flat-fee system, which became effective for margin transactions in May 2005 and for cash transactions in July 2005. We also enabled customers to open margin transaction accounts on a same-day basis at our branches nationwide. In these ways, we have raised convenience to levels where online brokers cannot compete. The number of online margin transaction accounts rose 1.6 times by the end of June 2005, only less than two months after revamping our services in May.

[2] High-net-worth Customers

With respect to Daiwa SMA, the service we provide specifically to high-net-worth customers, our goal is to raise assets under management to ¥100 billion by the end of FY 2005 and to ¥500 billion by the end of FY 2007. Here, we will broaden our asset management

styles to further reflect customer needs, while also hiring top-level asset managers and improving the quality of our SMA consultants. In this way, we will upgrade our service system to provide comprehensive support as a strength of Daiwa SMA, ranging from consulting to asset management and follow-up services. After launching the Daiwa SMA service in September 2004, the number of accounts grew to approximately 400 by the end of June 2005, with total assets under management of approximately ¥40 billion.

[3] Potential Customers

As we move from saving to investing, people in Japan are increasingly taking risks in pursuit of higher returns, rather than adhering to capital-guaranteed but low-return investments. For this reason, more and more banking customers who have never made contact with securities companies are showing interest in securities investments. The potential for such people to initiate transactions with a securities company is growing significantly as a result.

To tap this base of potential customers, the Daiwa Securities Group has formed a comprehensive alliance with Sumitomo Trust & Banking Corporation (STB) covering three areas: securities intermediation, real estate, and trust agency businesses. Under this mutually beneficial alliance, STB acts as a securities intermediary to deliver our products and services to their clients. At the same time, the Daiwa Securities Group act as a trust agent and real estate intermediary, making STB's services in those areas available to our own customers.

In addition, Daiwa Securities has agreed with approximately 30 regional banks to cooperate in the securities intermediation business. We anticipate rapid expansion of our sales channels targeting retail customers in

regional areas, where we have a limited number of branch offices. To ensure smooth operation of the securities intermediation business, it is important that we strengthen our support system for our allied partners, providing them with experience and know-how gained through our long involvement in the securities business. In this way, we can indirectly deliver further services to customers through those channels.

Exercising Power and Scale to Pursue Alliances and Reorganizations

1. Basic Stance for Tie-up Strategy

In February 2005, there were reports that the Daiwa Securities Group and the Sumitomo Mitsui Financial Group (SMFG) were in talks about a possible merger. At present, however, there are no such talks. Nevertheless, we have not changed our basic stance of continuing to explore potential alliances with SMBC in all business areas.

Our unwavering quest is to contribute to the development of the Japanese economy in our role as financial services professionals. In addition to targeting progress in quality and productivity through increased specialist expertise and speed, this will require acceleration of our own growth through power and scale. We will pursue all possibilities to raise our corporate value—even alliances that will remodel the industry—and study various scenarios in a forward-looking approach. However, we will only consider schemes in which we can take the lead in boosting value for shareholders, by fully utilizing the business foundation we have built to date and demonstrating our power and scale.

2. Corporate Reorganization through Functional Alliances

Corporate reorganizations based on mergers that target scale expansion alone are fading rapidly. Amid the wave of reorganizations in the financial services industry, the ultimate winners will be those who seek alliances that bring mutual reinforcement so that they can become solid organizations with fewer weaknesses.

To date, the Daiwa Securities Group has actively pursued functional alliances with SMFG in order to maximize synergy effects. Synergies generated by these alliances are the source of sustainable growth for the Group.

To further expedite growth in the future, we will continue seeking business fields in which alliances may generate new synergies. We will take full advantage of such synergies in order to establish a “strong” Daiwa Securities Group that will prevail in the competitive environment.

The Daiwa Securities Group and SMFG: History of Functional Alliances

- 1999 Established joint venture companies in the asset management and wholesale businesses
- 2004 Integrated the two groups' credit businesses
- 2005 Formed alliances in the private equity business



Review of Operations

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053	Group Support

Top Management

Corporate Executive Officer

Takatoshi Wakabayashi

Corporate Senior Executive Officer

Takashi Hibino

Director,
Daiwa Securities Group Inc.

Corporate Senior Executive Officer

Ikuo Mori

Chairman of the Board,
Daiwa Securities America Inc.

Corporate Executive Officer and CFO

Nobuyuki Iwamoto

Corporate Executive Officer

Yoshinari Hara

Chairman of the Board,
Daiwa Securities Group Inc.

Corporate Executive Vice President

Hiroshi Ota

Senior Managing Director,
Daiwa Securities SMBC Co. Ltd.

Deputy President

Michihito Higuchi

President,
Daiwa Asset Management Co. Ltd.

Deputy President

Yoshiyuki Takemoto

President,
Daiwa Institute of Research Ltd.

Corporate Executive
Vice President and CIO

Junichiro Wakimizu

Director,
Daiwa Securities Group Inc.

Corporate Executive Officer

Akira Kiyota

Deputy Chairman of the Board,
Daiwa Securities Group Inc.
Chairman of the Institute and Director,
Daiwa Institute of Research Ltd.

Deputy President

Tetsuo Mae

Director,
Daiwa Securities Group Inc.
Deputy President,
Daiwa Securities Co. Ltd.

President and CEO

Shigeharu Suzuki

Director,
Daiwa Securities Group Inc.
President,
Daiwa Securities Co. Ltd.

Deputy President and COO

Tatsuei Saito

Director,
Daiwa Securities Group Inc.
President,
Daiwa Securities SMBC Co. Ltd.

Deputy President

Kenjiro Noda

Deputy President,
Daiwa Securities SMBC Co. Ltd.

**Daiwa Securities Group Inc.
Executive Officers**

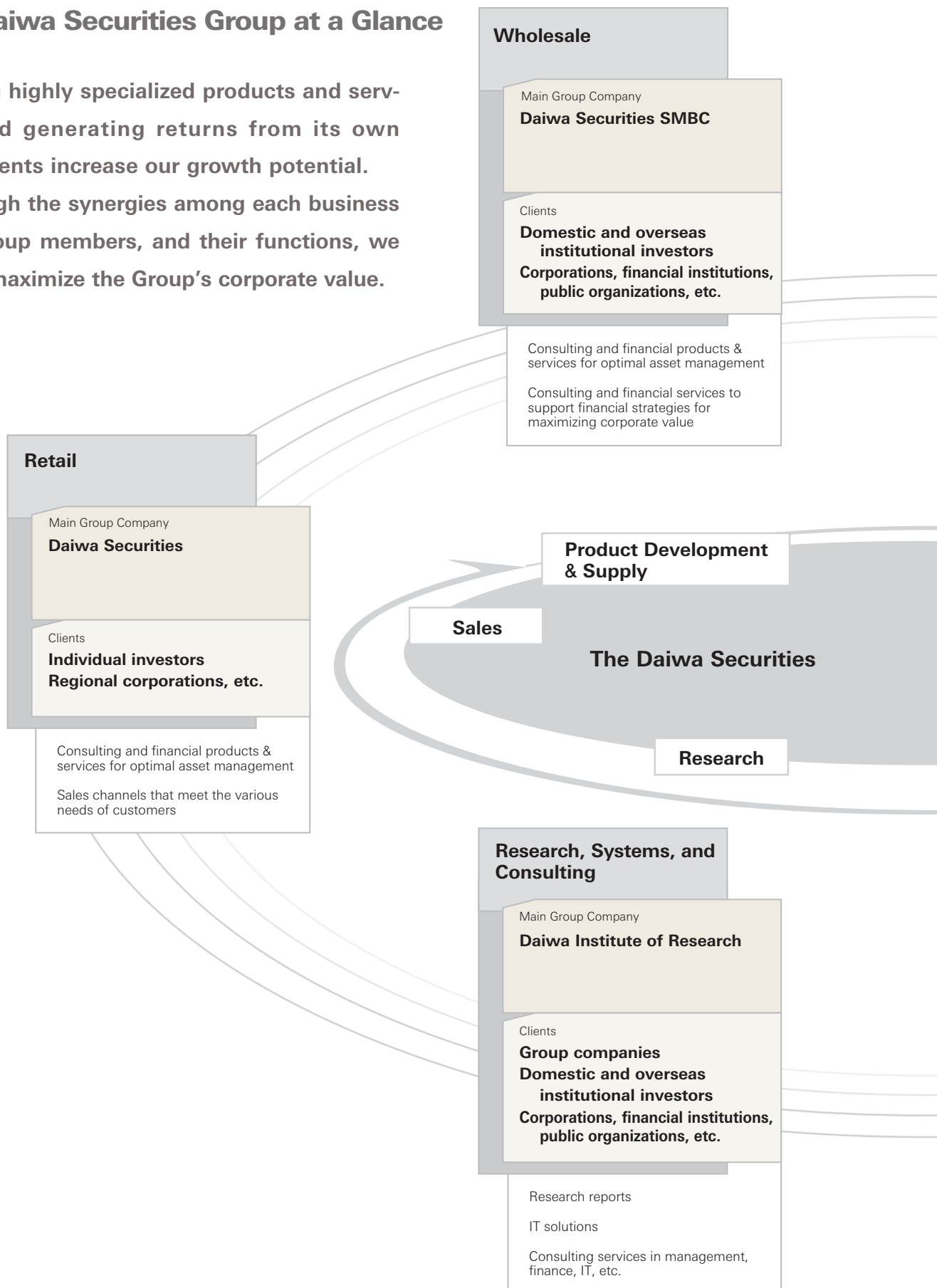


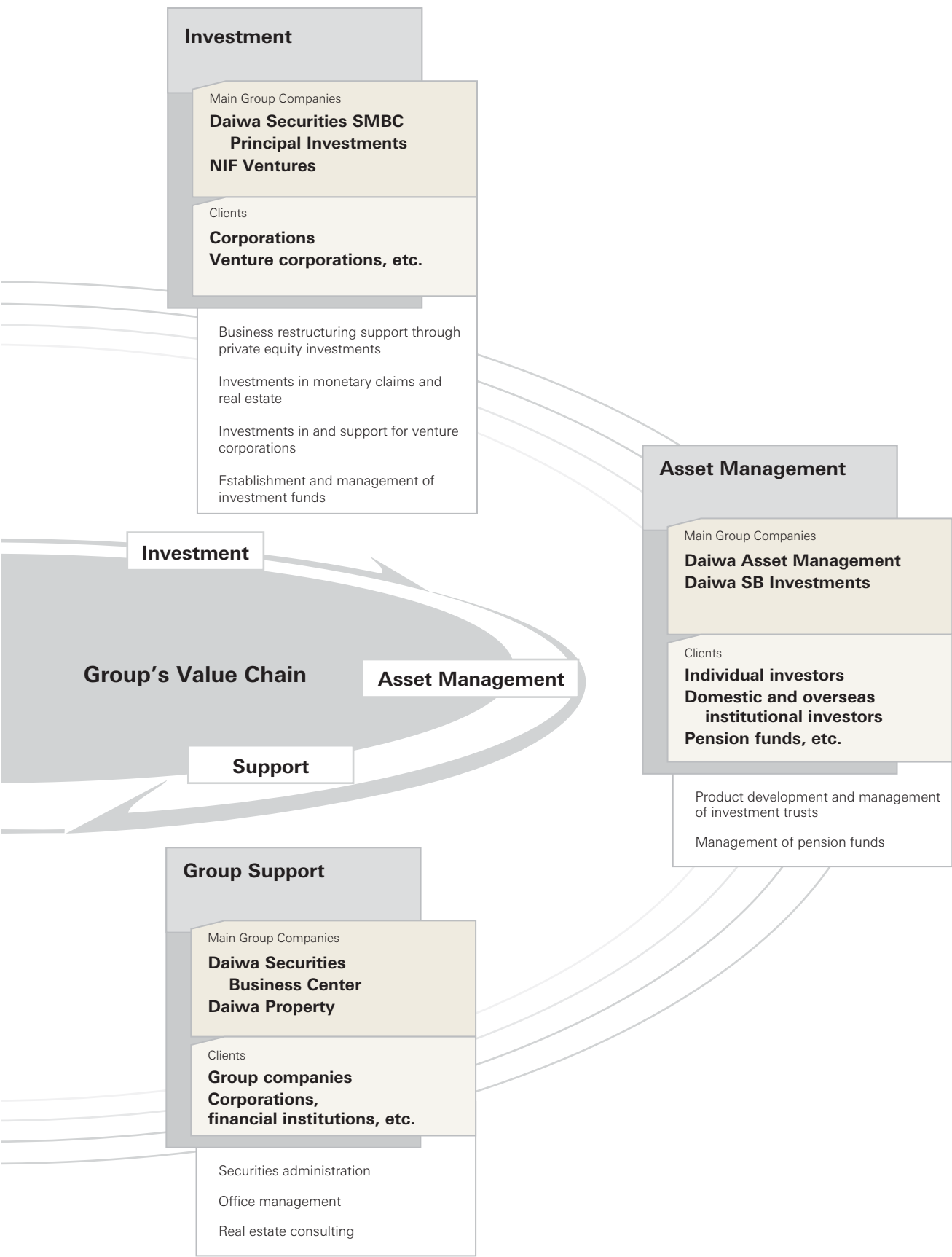
Review of Operations

The Daiwa Securities Group at a Glance

Offering highly specialized products and services and generating returns from its own investments increase our growth potential.

Through the synergies among each business line, Group members, and their functions, we aim to maximize the Group's corporate value.





Investment

Main Group Companies
Daiwa Securities SMBC
Principal Investments
NIF Ventures

Clients
Corporations
Venture corporations, etc.

Business restructuring support through private equity investments

Investments in monetary claims and real estate

Investments in and support for venture corporations

Establishment and management of investment funds

Asset Management

Main Group Companies
Daiwa Asset Management
Daiwa SB Investments

Clients
Individual investors
Domestic and overseas institutional investors
Pension funds, etc.

Product development and management of investment trusts

Management of pension funds

Group Support

Main Group Companies
Daiwa Securities Business Center
Daiwa Property

Clients
Group companies
Corporations, financial institutions, etc.

Securities administration

Office management

Real estate consulting

Review of Operations

The Daiwa Securities Group's Market Position

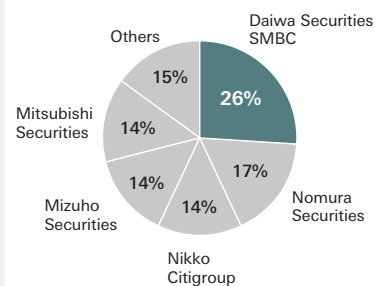
The Daiwa Securities Group has established its position in the industry based on "quality" and "productivity". To solidify this position, the Group will aim to expand its market share by making more successful deals.

Domestic Corporate Straight Bonds

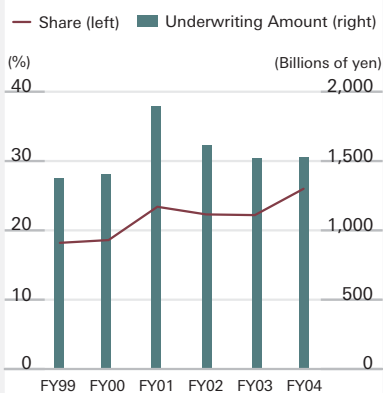
Despite a lackluster market for corporate bonds, in FY 2004 we lead-managed a number of large-scale issues, taking full advantage of our alliance with Sumitomo Mitsui Banking Corporation. We further increased our market share, remaining No. 1 for the fourth consecutive year.

Source: Daiwa Securities SMBC (launch-date basis)

Market Share (FY2004)



Trends in Our Share

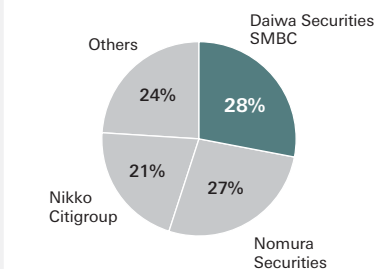


Equity Primary and Secondary Offerings

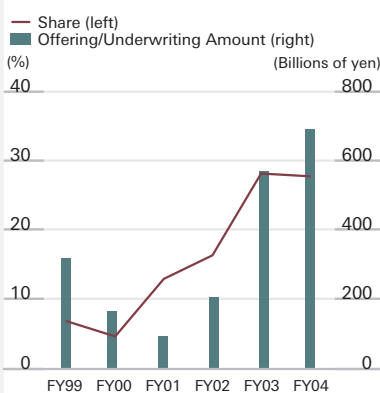
We recovered our position as No.1 for the first time in six years. Major highlights included Japan Tobacco (¥243.9 billion) and Sumitomo Corporation (¥103.9 billion).

Source: Daiwa Securities SMBC (settlement-date basis)

Market Share (FY2004)



Trends in Our Share

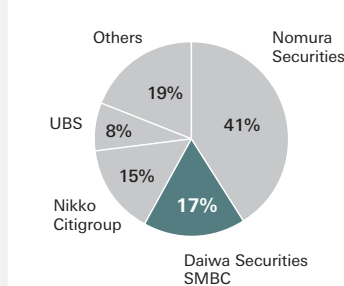


Initial Public Offerings (IPOs)

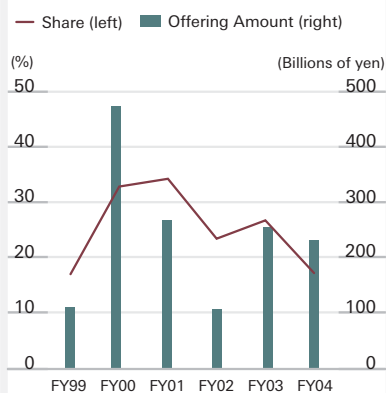
IPO deals that we lead-managed in FY 2004 included the TSE First Section listings of Elpida Memory (¥78.7 billion), Japan's only dedicated DRAM manufacturer and one of the world's largest, and INPEX (¥46.0 billion), one of Japan's largest oil and natural gas development companies.

Source: Daiwa Securities SMBC (listing-date basis)

Market Share (FY2004)



Trends in Our Share



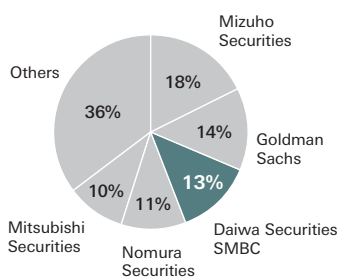
Samurai Bonds

(yen-denominated bonds issued by non-Japanese issuers in the domestic market)

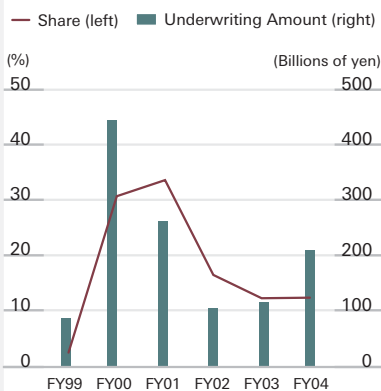
Major deals for which we acted as a lead manager included Ford Motor Credit Company (total ¥190 billion) and Volkswagen International Finance NV (¥50 billion)

Source: Daiwa Securities SMBC (launch-date basis)

Market Share (FY2004)



Trends in Our Share

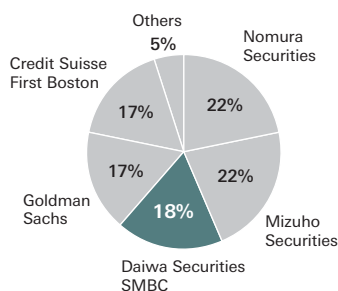


Domestic Asset-Backed Securities (ABS) Book-Runner

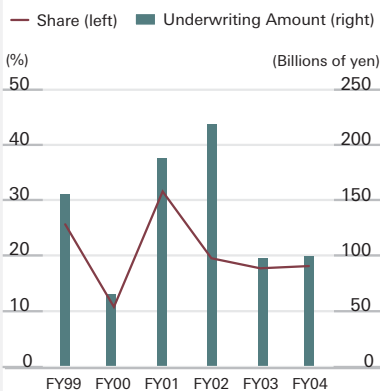
We were the book runner for securitization issues such as housing loans of the Government Housing Loan Corporation (total ¥40 billion) and automobile loans of Orient Corporation (¥22.4 billion).

Source: THOMSON DealWatch (settlement-date basis)

Market Share (FY2004)



Trends in Our Share



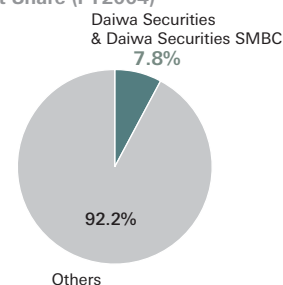
Equity Trading Market Share

(on and off trading hours on the Tokyo Stock Exchange)

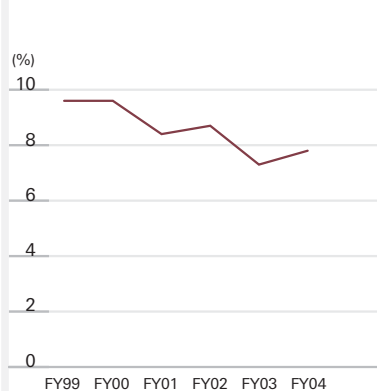
Although equity transactions undertaken by individuals increased, online brokers grew their market share, causing Daiwa Securities' share to decline. Nonetheless, market share of Daiwa Securities SMBC was up, showing a positive year-on-year turnaround for the Group as a whole.

Source: Daiwa Securities SMBC

Market Share (FY2004)



Trends in Our Share



Review of Operations

Retail

The retail arm of the Daiwa Securities Group, Daiwa Securities Co. Ltd., is making steady progress in its quest to become No. 1 in the retail securities industry. This progress is attributed to the convenience for customers provided through our sales channels combining branch network and online, and the distinctive products and services backed by highly specialized expertise.

Overview

Main Business

Daiwa Securities advises its customers, mainly individuals, on financial asset management. It delivers products and services that meet the needs of each and every customer through its professional salespeople and highly convenient online channel, aiming to support our clients' high quality of life.

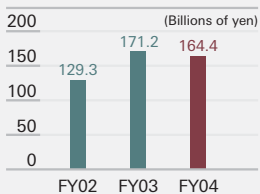
Products and Services

- Sales and brokerage of stocks and bonds
- Sales and brokerage of investment trusts and insurance products
- Wrap account services (SMA—Separately Managed Account—services)
- Specialist consulting on asset management

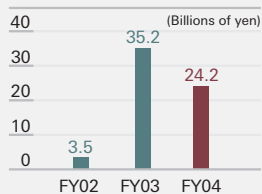
Highlights of Results

Daiwa Securities Co. Ltd.

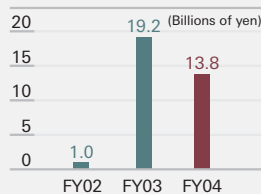
Net operating revenues



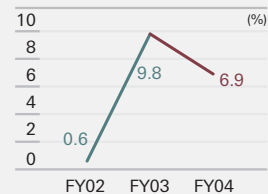
Ordinary income



Net income



ROE



The Daiwa Securities Group's Competitive Edge

1. Top quality products and services through the Group synergy

Daiwa Securities works in cooperation with other members of the Group, all of which are highly regarded in their respective fields such as product development, asset management, and research. This enables the company to provide high-value-added and fine-tuned services.

2. Utilization of multi-channels

In order to offer high-quality services that meet the specific needs of customers, Daiwa Securities employs three major sales channels: branch offices, the call center, and the Internet. These services are delivered via "Two-courses": Daiwa Consulting, for those who desire face-to-face consulting, and Daiwa Direct, for those who prefer online trading. The company's online services in particular have advanced to a great extent after the revision of the Daiwa Direct course. The company has also commenced securities intermediation services, thus further broadening its sales channels.

Current Status and Strategies

1. Business Environment

Amid a prolonged low-interest-rate environment in Japan, there is a growing tendency for investors to assume certain levels of risk to pursue higher returns. This trend, partly supported by the favorable turn in the equity market since FY 2003, has led to a significant shift "from saving to investing" among individuals in Japan. In April 2005, the government stopped providing unlimited guarantees on bank deposits—an event that has accelerated the trend among individuals to diversify their investments. These and other factors are strongly favoring the retail securities business. Meanwhile, individuals are becoming more and more selective about financial institutions, products and services, and their needs are also diversifying. The ability of securities companies to appropriately address these trends and offer high quality products and services will become increasingly important.

2. Progress and Future Growth Strategies

The Daiwa Securities Group has implemented a variety of reforms in anticipation of the previously mentioned changes in the business environment. In addition to structural reforms, we have worked hard to enhance our retail business by upgrading sales channels and improving management efficiency.

FY 2004 Highlights

— Steady expansion of customer base and assets under custody

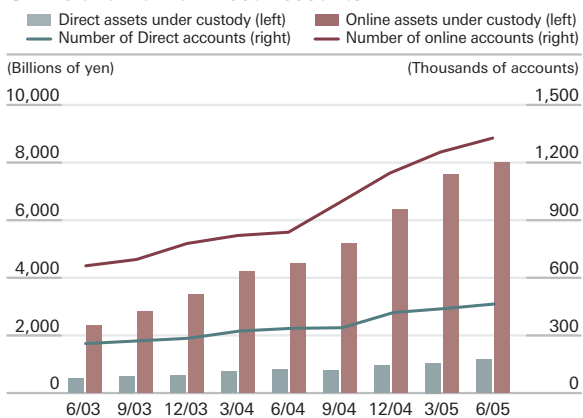
• Improved online trading services

In FY 2004, we dramatically improved our online trading services. For example, we increased the lineup of our products and services to cover primary, secondary equity offerings and IPOs that are not lead-managed by Daiwa Securities SMBC Co. Ltd. (Daiwa Securities SMBC), as well as open-end margin transactions. We also enhanced our information contents, which include research reports compiled by Daiwa Institute of Research Ltd. (DIR) and news from information vendors. Portfolio analysis and chart functions were also upgraded. In addition, the company raised convenience for customers by enabling them to deposit funds to their accounts via mobile phone. As a result of these initiatives, Daiwa Securities boosted the number of online accounts to 1.25 million at the end of FY 2004, a 1.5-fold jump from a year earlier. Online assets under custody surged 1.8-fold, to ¥7.5 trillion at fiscal year-end.

• Reinforcement of consulting sales: Launch of Daiwa SMA to attract high-net-worth individuals

In FY 2004, Daiwa Securities adopted a new sales system. In line with this change, the company strengthened our consulting capabilities with the establishment of the Senior Consultant Section consisting of professionals equipped with specialist knowledge of areas such as finance and taxation. As a new approach to high-net-worth customers, the company launched a new asset management service, “Daiwa SMA,” in September 2004. In this new service, SMA consultants will fully support their customers from consultation on investment needs and development of investment strategies, to follow up. Since commissions are tied to performance, Daiwa SMA provides a “win-win” situation for both customers and the company. The asset management performance of Daiwa SMA has been favorable to date, earning broader support from high-net-worth customers. At fiscal year-end, the number of Daiwa SMA accounts reached 200, with more than ¥18 billion under management. Accounts have further increased to 400 and assets to ¥40 billion as of the end of June 2005.

Number of Accounts and Assets under Custody of Online and Daiwa Direct Accounts



• New channel: Securities intermediation business

In addition to the company’s branch offices, the call center, and the Internet, Daiwa Securities is focusing on the securities intermediation business as a new channel for selling its products. Prior to December 2004, when restrictions on securities intermediation services by financial institutions were lifted, the company proactively negotiated tie-ups, mainly with regional banks. As a result, Daiwa Securities had agreed to form alliances with approximately 30 region-

al banks as of the end FY 2004. Although the securities intermediation business has not yet made a major contribution to earnings, some partner banks have started to generate positive results in sales of foreign currency-denominated bonds and structured bonds.

Outside of regional banks, Daiwa Securities is also collaborating with Sumitomo Trust & Banking Corporation to expand its products, services and customer base.

• **FY 2004 results**

Centering on the Daiwa Global Bond Fund, Daiwa Securities generated solid sales of equity investment trusts as well as Japanese government bonds to individual investors. However, trading gains declined due to a fall in sales of foreign currency-denominated bonds. As a result, net operating revenues declined 4.0% to ¥164.4 billion, ordinary income fell 31.2% to ¥24.2 billion, and net income was down 28.1% to ¥13.8 billion year-on-year. However, assets under custody increased owing to a surge in equities and equity investment trusts, placing the company in a good position to expand top-line revenues in FY 2005 and beyond.

Growth Strategies

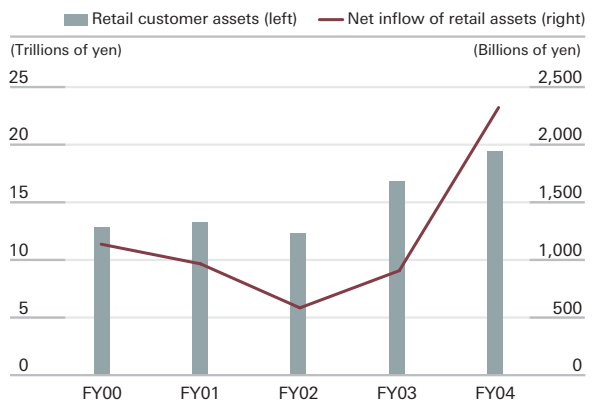
— **Targeting increased earnings through three pillars**

• **Further expansion of customer base**

To further broaden our customer base and boost top-line growth, Daiwa Securities will continue focusing on three key businesses: online services, Daiwa SMA, and the securities intermediation business.

By concentrating on these three fields, the sales force can focus on expanding the company’s client base and providing fine-tuned consulting to achieve its top-priority issue, further increasing net assets under custody.

Retail Customer Assets and Net Inflow of Retail Assets



In online services, the company made major changes to its Daiwa Direct course in May and July 2005. These include a reduction in commission rates and improvements in the convenience of margin transaction services (see “Topics” section for more details). By the end of FY 2005, Daiwa Securities is targeting margin positions outstanding of ¥200 billion. By FY 2007, the company plans to generate between ¥2.5 billion and ¥4.0 billion per month from its online trading services.

With respect to Daiwa SMA, the goal is to raise assets under management to ¥100 billion by FY 2005 year-end and to ¥500 billion by FY 2007 year-end. Daiwa Securities will broaden its product lineup and investment styles to establish a dominant position. The company will also hire skilled asset managers and improve the quality of our SMA consultants in order to build stronger trust with its customers.

In the securities intermediation business, Daiwa Securities will pursue an expansion of revenues by reinforcing its support system for partner banks and encouraging them to become more proactive in providing securities intermediation services. These results should enable the company to form more alliances. By FY 2007, we are targeting annual revenues of ¥15 billion from the securities intermediation business.

- **Focus on equities**

As the Japanese economy turns up, demand for consultants with superior expertise in equity-related investments, such as stocks and equity investment trusts, is increasing in the area of household financial asset management. In the retail business, Daiwa Securities will demonstrate its professionalism in handling risk products, built in its long experience in the capital market, to promote the merits of investing in stocks and equity investment trusts. The company will also make every effort to increase customer satisfaction by providing solid advice on portfolio management.



Topics

Major Upgrade of Daiwa Direct Course

Amid rapid proliferation of online securities transactions, we significantly enhanced our Daiwa Direct course in order to reinforce our competitive edge in online services. This was implemented in two stages, in May and July 2005. In addition to support functions through our branch network, the revamp has greatly increased convenience for customers. Under the concept of “trade on the net, support at the shop” (“Nettrade & Shopport”), we plan to further unite the real (branch) and the virtual (internet). Key points of the changes are summarized below.

- In a dramatic reform of our fee structure, we introduced a flat-fee system for online transactions under the Daiwa Direct course. Daiwa Securities is the first major securities company to adopt such a structure. The flat-fee system became effective for margin transactions on May 9 and for cash transactions on July 1.
- We simplified account-opening procedures for our online margin transaction service. To utilize our nationwide branch network more effectively and raise convenience for customers, on April 19 we streamlined processes for opening margin transaction accounts at our branches, which can now be done on the same day.
- On May 9, we abolished a rule requiring customers to have at least ¥1 million of assets under custody in order to execute margin transactions (the legal initial margin requirement of ¥300,000 has remained in effect.) On July 1, we also allowed double margin trading, a transaction in which the securities of a company used as collateral can be purchased on margin within a certain limit, and cross trading, where both long and short positions of the same stock can be held.
- On May 9, we changed the rules to give customers a greater chance of purchasing stocks through our IPO stock draw service. Under the new system, customers can increase their chances of acquiring IPO stocks, depending on their “mileage points” outstanding under Daiwa Securities’ mileage program.
- On July 1, we added new services—“loop trading” and “Daiwa Online Library.” For customers who apply for online subscription of trading reports, we also stopped charging account keeping fees for depositing domestic stocks.

Review of Operations

Wholesale

Based on its financial expertise and skills, the Daiwa Securities Group is providing a diversified array of solutions and advice related to financial strategies, fund-raising, and fund management to its corporate clients both domestic and overseas. Throughout the process, we will contribute to the development of the Japanese economy, which is currently making steady progress toward a market-oriented economy. In the wholesale business, we are utilizing the alliance with Sumitomo Mitsui Banking Corporation (SMBC), a leading Japanese “megabank,” to expand our customer base, and pursue the position as the “leading investment bank in Japan”

Overview

Main Business

We seek to address the diversified needs of customers, mainly in the corporate sector, in areas such as fund-raising, asset management, business restructuring, and balance sheet reinforcement. Through providing various solutions and advice in such areas, we endeavor to improve the corporate value of our clients, thus helping to stimulate the domestic economy.

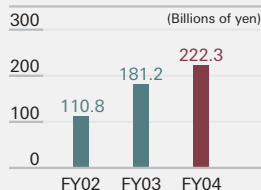
Products and Services

- Brokerage services for stocks, bonds, derivatives, and other securities
- Underwriting of stocks, bonds, asset-backed securities (ABS), and other issues
- Advisory and intermediary services for M&A and other corporate strategies

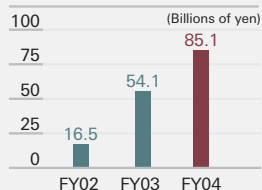
Highlights of Results

Daiwa Securities SMBC Co. Ltd. (Consolidated)

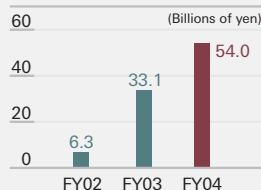
Net operating revenues



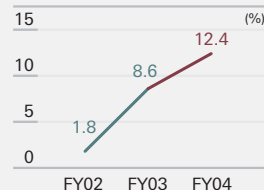
Ordinary income



Net income



ROE



Note: The figures for FY 2002 do not include the figures of Daiwa Securities SMBC Principal Investments Co. Ltd. and overseas consolidated subsidiaries.

The Daiwa Securities Group's Competitive Edge

1. Japan's only alliance between a leading securities firm and a megabank

Daiwa Securities SMBC Co. Ltd., the Group's wholesale arm, is a joint venture between the Daiwa Securities Group, which owns a 60% stake, and the Sumitomo Mitsui Financial Group (SMFG), which holds 40%. By bringing together the customer bases, financial expertise and skills, and other resources of the two financial groups, Daiwa Securities SMBC is able to deliver an advanced array of financial services. As a result, the company consistently ranks at or near the top of multiple league tables.

2. Active utilization of in-Group resources

With a horizontally integrated product development and marketing system throughout the Group, Daiwa Securities SMBC provides comprehensive proposals incorporating advanced knowledge and expertise. For example, its Research & Advisory Department is made up of two entities: the Financial Strategy Team, which includes accountants and other professionals in that field, and the Business Strategy Team, centering on former equity analysts at Daiwa Institute of Research Ltd. (DIR). The department, therefore, is well poised to offer diverse solutions to the various issues encountered by customers.

Current Status and Strategies

1. Business Environment

Japan has finally emerged from the "era of three excesses"—excess investment, excess debt, and excess employment—that has long plagued its economy. In this light, corporate management strategies are shifting in emphasis from business reorganization to business expansion. Due to increasing globalization, moreover, companies are under pressure to address changes in the international environment, rather than concentrate on domestic issues alone. Under the circumstances, management strategies designed to strengthen competitiveness and assure sustainable growth are becoming more diversified and complex, and require more advanced and comprehensive solutions. In particular, we expect that business opportunities in M&As, which is deregulating and attracting increasing attention, will increase.

2. Progress and Future Growth Strategies

Increasing shareholders' value has become a key issue for the corporations in Japan. It requires highly specialized capabilities to handle equity businesses in a broad range of areas including not only trading and underwriting but also M&As. In response, Daiwa Securities SMBC will continue improving our expertise in both fund-raising and asset management in order to provide corporate customers with solutions of the highest quality.

FY 2004 Highlights

— Rising presence both at home and overseas

• Improved position in league tables

In FY 2004, amid a contracting overall market for corporate bonds, Daiwa Securities SMBC secured numerous major deals. For example, we acted as the lead manager for agency bonds issued by Japan Highway Public Corporation (total ¥280 billion) and Japan Bank for International Cooperation (total ¥200 billion), as well as for corporate straight bonds issued by Tokyo Electric Power Company (total ¥100 billion) and Mitsui Sumitomo Insurance (total ¥100 billion). As a result, we maintained our No.1 position in the lead manager league tables for total corporate bonds and further raised our market share, from 21.0% in FY 2003 to 24.4% in FY 2004. We also lead-managed major privatization and other large-scale equity issues, including

global offerings by Japan Tobacco (global secondary offering ¥243.9 billion) and Sumitomo Corporation (global primary offering ¥103.9 billion), propelling us to No.1 in the equity primary and secondary offerings for the first time in six years. In M&As, we acted as advisor to Fuji Television Network, with respect to converting Nippon Broadcasting System, into a wholly owned subsidiary and investing in livedoor. We also served as intermediary in the merger of the liquid crystal display businesses of Seiko Epson Corporation and SANYO Electric. Our share of the M&A market rose from 13.1% in 2003 to 38.7% in 2004 on a calendar year basis, boosting our ranking from seventh to first*. Although our share of the IPO market fell from 26.8% to 17.3%, we maintained our No. 2 position.

* Announced on January 5, 2005 (Thomson Financial)

Major Deals in FY 2004

Corporate straight bonds	SMBC (total ¥470 billion), Tokyo Electric Power (total ¥100 billion), Mitsui Sumitomo Insurance (total ¥100 billion), Elpida Memory (total ¥70 billion)
Agency bonds	Japan Highway Public Corporation (total ¥280 billion), Japan Bank for International Cooperation (total ¥200 billion), Urban Renaissance Agency (¥90 billion)
Structured finance	RMBS issued by The Chuo Mitsui Trust and Banking (issue ¥409 billion, underwriting ¥300 billion), RMBS issued by SMBC (issue & underwriting ¥290 billion)
Equity primary and secondary offerings	Japan Tobacco (¥243 billion), Sumitomo Corporation (¥103 billion), Softbank Investment (¥53 billion)
M&As	Advisor to Fuji Television Network in making Nippon Broadcasting System its wholly owned subsidiary and investing in livedoor Intermediary for Seiko Epson and SANYO Electric to integrate their LCD businesses Advisor to SMFG in forming capital and business alliance with Promise
IPOs	Elpida Memory (¥78 billion), INPEX (¥46 billion)
Samurai bonds	Ford Motor Credit Company (total ¥190 billion), Volkswagen International Finance NV (¥50 billion), Republic of Poland (¥50 billion), Republic of Hungary (¥50 billion)

- **Increasing trading revenues**

We have made steady progress in trading revenues, which was one of our issues. In FY 2004, Daiwa Securities SMBC's trading revenues (non-consolidated) amounted to ¥105.9 billion, up 60.9% from FY 2003 and up 4-fold from the level of FY 2001. A major driver in this revenue growth was an increase in third party allocation issues such as Fuji Television Network and Haseko Corporation.

- **Strengthening collaboration with SMBC**

One major contributor of the aforementioned achievements in our wholesale business is a reinforcement of the alliance with SMBC. In FY 2004, brokerage revenues generated by the collaboration surged around 60%, while investment banking revenues grew about 20%. Overall revenues from the collaboration have reached approximately ¥60 billion, jumping more than seven times in five years.

In FY 2004, we entered a new alliance in the securities intermediation business. Under the new arrangement, Daiwa Securities SMBC transferred its staff to the Securities Marketing Department of SMBC, and also set up the Securities Broking Unit within its Fixed Income Sales Department. Complementing the efforts of Daiwa Securities SMBC, Daiwa Securities is also taking a more aggressive approach to regional public corporations, educational corporations and medium-sized companies by taking advantage of the alliance with SMBC.



Daiwa Securities SMBC: Lead-Manager League Table

	FY2001	FY2002	FY2003	FY2004
Equity primary and secondary offerings	No. 4 (13.1%)	No. 2 (16.4%)	No. 2 (28.2%)	No. 1 (27.8%)
Total corporate bonds	No. 1 (23.1%)	No. 2 (20.8%)	No. 1 (21.0%)	No. 1 (24.4%)
IPOs	No. 2 (34.3%)	No. 2 (23.5%)	No. 2 (26.8%)	No. 2 (17.3%)
M&As (Calendar year basis)	No. 4 (26.9%)	No. 3 (12.3%)	No. 7 (13.1%)	No. 1* (38.7%)

Source: Daiwa Securities SMBC, Thomson Financial for M&A table
 * Announced on January 5, 2005 by Thomson Financial

- **Improving our overseas presence**

We continue to report improved overseas performances, including acting as an underwriter for bonds issued by the World Bank. In FY 2004, Daiwa Securities SMBC was named “Euroyen/Global Yen Bond House of the Year” by IFR magazine. We also enhanced our track record in fund-raising via Public Offering Without Listing (POWL) for overseas companies, including Shanghai Electric Group Company. Moreover, we lead managed a Chinese company’s global offering for the first time as global coordinator. In November 2004, we started to operate Daiwa SMBC-SSC Securities, the first Japanese-affiliated joint securities company established in mainland China. (Please see “Topics” for more details.)

- **Daiwa Securities SMBC: FY 2004 results**

In FY 2004, consolidated net operating revenues of the company rose 22.7% year-on-year, to ¥222.3 billion, thanks to significantly improved trading revenues, as well as large increases in underwriting, distribution, M&As, and other commissions. The rise in SG&A was limited to 8.4%, leading to a 57.4% jump in ordinary income to ¥85.1 billion, and a 63.0% increase in net income to ¥54.0 billion. As a result, ROE improved from 8.6% in FY 2003 to 12.4% in FY 2004.

Growth Strategies

- **Further expansion with “power” and “scale”**

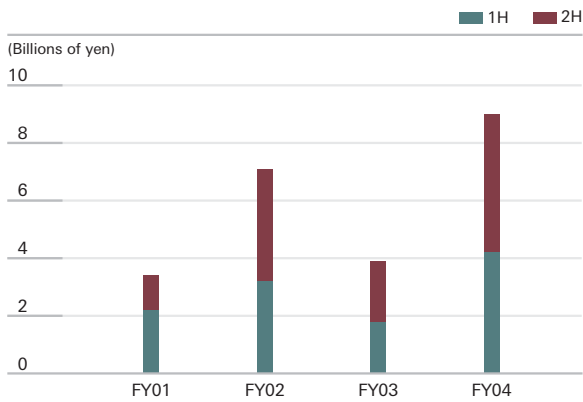
M&As will play a central role in our future revenue expansion strategy. Domestic M&A deals may have grown in size, and, in preparation for legislative amendments, we expect an increase in the number of cross-border deals. In response, we will expand our U.S.-based M&A staff, from five to twelve, while also strengthening ties among divisions within the company and companies throughout the Group.

We will also continue to reinforce our product development capabilities. We established the Structured Products Department in April 2005, in order to fortify ties between the Investment Banking force and the Relationship Management force to create high-value-added products that meet specific customer needs.

In trading, we will expand our consulting-based services to meet customer needs and develop innovative financing schemes. Moreover, we will seek to reinforce and further stabilize our earnings through more rigorous risk management and aggressive risk-taking.

We will also strengthen our overseas business. In addition to boosting underwriting of global bond issues, we will leverage our domestic sales capabilities to expedite our involvement in foreign equities. We have positioned Asia, especially China, as a priority region, and we plan to set up offices in Thailand and India in the near future.

Revenues from M&A Activities



Topics

The First Japanese-Affiliated Securities Company in Mainland China

In November 2004, Daiwa SMBC-SSC Securities Co., Ltd., the first Japanese-affiliated securities company to be established in mainland China, commenced operations in Shanghai. Capitalized at ¥6.5 billion, the new company is a joint venture between Daiwa Securities SMBC, with a stake of around one-third, and Shanghai Securities Corporation, a member of the Shanghai International Group.

In May 2005, Daiwa SMBC-SSC Securities was officially approved by the China Securities Regulatory Commission to underwrite Chinese equities (A-stocks). Taking advantage of this status, it will focus on underwriting equity issues by Japanese-affiliated joint ventures and local companies listed on the Shanghai and Shenzhen Stock Exchanges. It will also provide other diversified services, including acting as intermediary for M&A deals between Chinese and Japanese companies.

Adopting a medium- to long-term perspective, the Daiwa Securities Group will focus on tapping the Chinese market, which has huge growth potential. As the financial services industry becomes more global in nature, the Group is confident that its overwhelming strength in providing solutions will reap significant benefits.

Review of Operations

Investment

Seeking to improve return on equity (ROE), the Daiwa Securities Group actively invests in corporations, real estate, and other areas that are expected to produce high returns. We have unparalleled expertise in these types of investments, and also have the skills to gain high profits under strict risk control. Using such capabilities, we will actively allocate management resources to further broaden the scale of our investment activities.

Overview

Main Business

We use our own capital to invest in areas such as private equity, real estate, and monetary claims. Our aim is to help firms restructure their businesses and to foster the emergence of new industries, while also boosting the corporate value of the companies in which we invest to generate solid returns. In addition to using our own capital, we serve as an intermediary of risk money by developing and managing various funds. Through these initiatives, we seek to contribute to the development of the Japanese economy as a key player supporting corporate recovery and venture capital businesses.

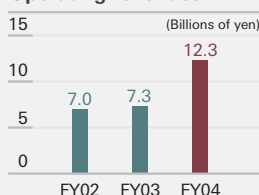
Products and Services

- Investments in monetary claims including non-performing loans and real estate (Daiwa Securities SMBC PI)
- Buyout investments to support business restructuring of companies with high-quality management resources (Daiwa Securities SMBC PI, NIF)
- Investments in domestic and overseas venture businesses with innovative technologies and business models (NIF)
- Development and management of funds, including regional revitalization funds, corporate recovery funds, real estate investment funds, and venture funds (Daiwa Securities SMBC PI, NIF)

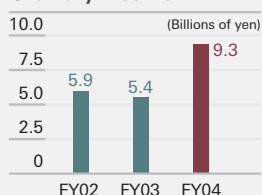
Highlights of Results

Daiwa Securities SMBC Principal Investments Co. Ltd. (Daiwa Securities SMBC PI)

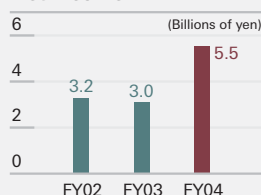
Operating revenues



Ordinary income

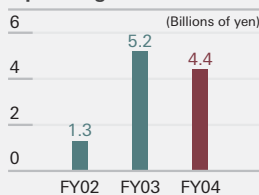


Net income

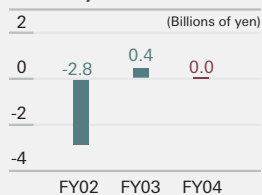


NIF Ventures Co., Ltd. (NIF)

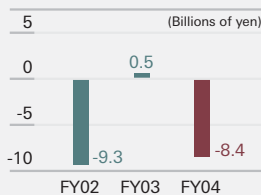
Operating revenues*



Ordinary income



Net income



* Data adjusted for the purpose of preparing consolidated financial statements of Daiwa Securities Group Inc.

The Daiwa Securities Group's Competitive Edge

1. Broad networks of two financial groups

Daiwa Securities SMBC Principal Investments Co. Ltd. (Daiwa Securities SMBC PI) is a wholly owned subsidiary of Daiwa Securities SMBC, a joint venture between the Daiwa Securities Group and the Sumitomo Mitsui Financial Group (SMFG). NIF Ventures Co., Ltd. (NIF), a subsidiary of the Daiwa Securities Group, is scheduled to merge with SMBC Capital Co., Ltd., and the new company will be "NIF SMBC Ventures Co., Ltd." in October 2005. The merged company will become the No. 2 player in the Japanese venture capital industry. Both Daiwa Securities SMBC PI and NIF can take advantage of the access to the broad networks of two major financial groups.

2. Expertise accumulated by considerable experience

In this business, we are required to fulfill our role as a stakeholder to increase the value of our investments, for example, by improving the management of invested companies and raising the value of real estate. These activities require specialized expertise varying according to the type of investment. Daiwa Securities SMBC PI is a pioneer in non-performing loans and real estate investments, and has gained a wealth of experience and expertise. NIF, meanwhile, has a long record and rich experience in venture capital and fund management built up over more than 20 years in the industry. Using these advanced skills and know-how, and with access to the large customer base, the two companies are well positioned to expand their businesses.

Current Status and Strategies

1. Business Environment

As the economic environment improves owing to the improvement of financial systems and recovery in capital investment, many corporations are successfully making progress in business restructuring, resulting in more stable management systems. Industrial and academic collaboration, which promote the birth of new industry and economic revitalization in the region, have also increased with tangible results. In this environment, there are increasing funding needs by corporations under reorganization and promising venture firms.

2. Progress and Future Growth Strategies

Keeping closely abreast of the changing environment and customer needs, the Daiwa Securities Group will expand its portfolio of investments, centering on private equities. By actively participating in the management of the companies in which we invest and building close partnerships, we will strive to enhance corporate value and increase returns.

FY 2004 Highlights

- **Daiwa Securities SMBC Principal Investments: Shift to private equity investments**

In FY 2004, the investment balance of Daiwa Securities SMBC PI increased 42% year-on-year to ¥90 billion. As financial institutions have made significant progress in writing down their non-performing loans, attractive investment opportunities in monetary claims, which used to be the main source of revenue, are in a decreasing trend. On the other hand, Daiwa Securities SMBC PI dramatically increased its private equity investments in response to strong demand for business restructuring and enhancing operating efficiency.

While investments in monetary claims fell approximately 30% year-on-year to ¥28 billion, private equity investments surged 2.7-fold to ¥34 billion at the end of FY 2004. Major new investments in the year include investments in Cabin, a women's fashion retailer; Daiwa Seiko, a manufacturer of fishing and sporting goods; and Mitsui Mining. In May 2005, we also decided to invest ¥10 billion in Maruzen, a bookstore chain, and ¥50 billion in Sumitomo Mitsui Construction.

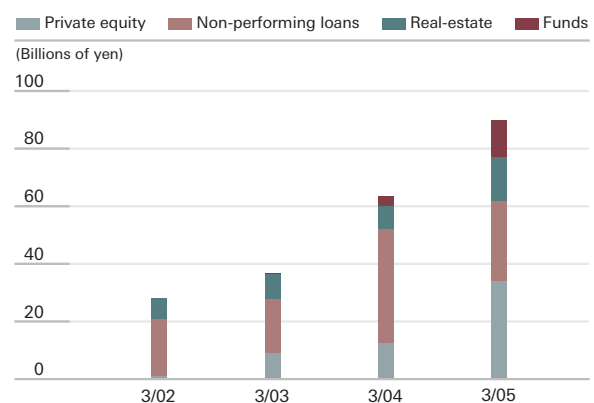
The balance of investments in regional revitalization funds and other funds, in which Daiwa Securities SMBC PI participates, grew considerably from ¥3.5 billion at the end of FY 2003 to ¥13 billion at the end of FY 2004.

The "Tochigi Region Corporate Revival Fund," created in collaboration with local financial institutions and corporations in the Tochigi prefecture, decided to support 12 companies including the first joint investment with the Industrial Revitalization Corporation of Japan. The company also made its first investment under the "Tokyo Challenge Fund," a corporate revitalization fund for small to medium enterprises.

The balance of investments in real estate grew from ¥7.8 billion at the end of FY 2003 to ¥15 billion at the end of FY 2004. In total, the company has purchased approximately 140 properties, mainly office buildings and company housing units, across Japan.

In FY 2004, the company showed a major improvement in its financial performance with ordinary income surging 71.2% year-on-year to ¥9.3 billion.

Daiwa Securities SMBC Principal Investments: Investments Outstanding



• **NIF Ventures: Increase in both private equity and fund investment**

NIF has taken various initiatives to improve the quality of its private equity business. These include introducing a sector investment team structure and sector portfolio management system, strengthening its management support capabilities, expanding the network to spot potential investment prospects, and reinforcing marketing capabilities.

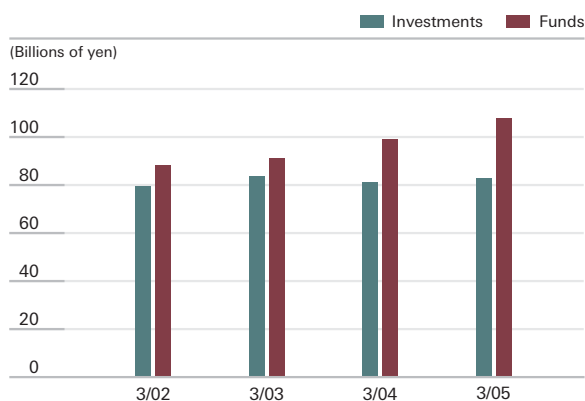
In FY 2004, NIF made total investments of ¥16.1 billion, up 14.0% from FY 2003. Its total investment portfolio at the end of FY 2004 was ¥83.0 billion, up 1.8% from a year earlier. In venture investments, the company continued to focus on IT and life-science related sectors, increasing the number of investments to 112, up 19 from the previous year. However, due to a decline in large-size investments, the total amount invested fell slightly to ¥13.1 billion. Buyout investments for the year totaled ¥3.0 billion, with investments in Mazda Car Rental Corporation and two other companies. In FY 2004, 27 of the companies invested in by NIF were newly listed (including share

exchanges), up from 24 in FY 2003, accumulating to a total of 493 newly listed companies to date.

In fund management, the “NIF Ventures Fund 2005 series”, which employs a portfolio management method that diversifies investments in each sector, attracted approximately ¥15.2 billion during the year. Meanwhile, total additional commitments in “NIF-PAMA Japan Private Equity Parallel (A) L.P.”, a buyout fund established in FY 2004, increased by ¥800 million. As a result, the balance of funds at year-end increased by 8.6%, to ¥107.9 billion.

In FY 2004, stable conditions in the equity and IPO markets led to an increase in gain on sales of IPO stocks. However, sales of listed stocks decreased, leading to an overall decline in net sales on operating investment securities. In addition, due to the company’s decision to withdraw from loan operations to prepare for its scheduled merger with SMBC Capital, the company has sold its loan receivables and set aside additional provisions for doubtful accounts. As a result, NIF posted an extraordinary loss of ¥8.6 billion, leading to a net loss for the year of ¥8.4 billion.

NIF Ventures: Investments Outstanding



Growth Strategies

— Increase private equity investments leveraging alliance with SMFG

On February 18, 2005, the Daiwa Securities Group reached a basic agreement with SMFG and Sumitomo Mitsui Banking Corporation (SMBC) to jointly expand their private equity business (venture capital and buy-out investments) in Japan and overseas, bringing together the customer bases and know-how of the two financial groups.

Going forward, Daiwa Securities SMBC PI will further strengthen its business structure by reinforcing its own capital base and manpower. It will also strengthen its support system for the companies in which it invests to raise their corporate value, while establishing effective frameworks for ensuring returns on its investments (exit schemes). Moreover, it has raised its upper investment limit to ¥200 billion as of June 2005. Daiwa Securities SMBC PI will also help stimulate corporate and regional economic activity through its regional revitalization funds.

NIF will aim to boost venture and buyout investments and increase the balance of funds under management to prepare for its merger in October 2005. To this end, the company will expand its capital base and improve the quality of its investment activities. It will also strengthen its competitive edge in its management support system while solidifying its due diligence capabilities and diversifying its exit schemes. Other potential sources of growth include investment funds with a new type of portfolio that is managed according to sector and region. In addition, NIF is ready to reorganize and reinforce its overseas business. For example, the company has set up a representative office in Shanghai to establish a base for investing in China, and has recommenced investments in the United States.

Topics

Merger between NIF Ventures and SMBC Capital

In October 2005, NIF is scheduled to merge with SMBC Capital, a consolidated subsidiary of SMFG. The merged company will rank second in the industry in terms of total investments and funds outstanding under management.

The merger will create Japan's only venture capital company with strengths in both banking and securities. The new company is expected to gain great advantage from the synergy between the two groups—Daiwa Securities Group's expertise on investing and listing, and SMFG's formidable customer base and ability to identify attractive investment opportunities. With a broader business scope and larger investment potential, the newly merged company will be able to make balanced investments across a wide range of industries, from IT, life sciences, and other high-tech areas to services. By maximizing the synergy of both groups, the new company will seek to become the No. 1 venture capital firm in Asia.

Review of Operations

Asset Management

How to fulfill customers' asset management needs is, as a securities firm, one of our most important business challenges. Well aware of this fact, the Daiwa Securities Group regards asset management as one of the Group's core businesses, and will aim for further growth in its net assets under management to establish a competitive advantage.

Overview

Main Business

Our quest is to shift customer awareness from savings to investments by developing financial products that meet the diversified needs of customers and achieving higher performances with those products. We also seek to broaden the base of assets under management and produce a higher stream of stable income. These initiatives all translate into the Group's competitiveness.

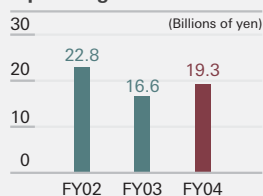
Products and Services

- Equity investment trusts, including Japanese or non-Japanese equity, monthly dividend payment, and balanced type
- Bond investment trusts, including MMF (money management funds)
- Private placement investment trusts
- Management of domestic and overseas pension funds

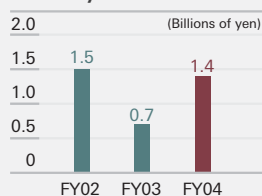
Highlights of Results

Daiwa Asset Management Co. Ltd. (DAM)

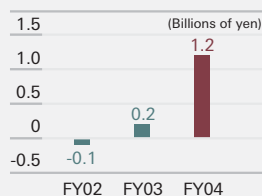
Operating revenues



Ordinary income

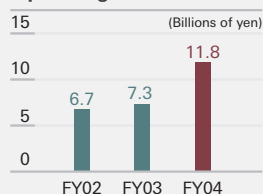


Net income

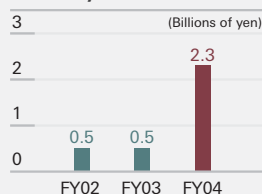


Daiwa SB Investments Ltd.

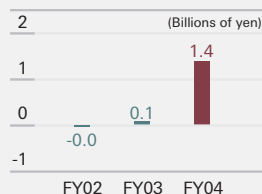
Operating revenues



Ordinary income



Net income



The Daiwa Securities Group's Competitive Edge

The Group's asset management activities are conducted by two companies: Daiwa Asset Management Co. Ltd. (DAM) and Daiwa SB Investments Ltd.

1. Highly-rated fund management with a research-driven, medium- to long-term approach

Daiwa Asset Management is a leading company in investment trusts, with a market share of more than 13% (as of March 2005) in terms of net assets under management of domestic publicly offered investment trusts. The company's medium- to long-term approach towards asset management, based on research and analysis, has established a high reputation.

2. Top class in pension fund management

Daiwa SB Investments was established jointly by the Daiwa Securities Group, Sumitomo Mitsui Financial Group (SMFG), and T. Rowe Price Group, one of the leading investment management firms in the United States. Daiwa SB Investments is particularly strong in pension fund management. For the fourth consecutive year since FY 2001, the company has been ranked as a top-class manager in the overall evaluation of pension fund management ability by "Newsletter on Pension and Investments," published by Rating and Investment Information. Drawing on many years of experience in pension fund management, the company also develops and provides attractive investment trust products.

Current Status and Strategies

1. Business Environment

The prolonged low-interest-rate environment in Japan and the lifting of unlimited government guarantees on bank deposits in April 2005 have made both corporations and individuals more conscious of asset management, as reflected in the spread of defined contribution pension plans and the growing balance of variable pension insurance. In this context, the need for investment trusts and investment advisory services is growing. In October 2005, legislation preventing Japan Post from selling investment trusts will be abolished, which will bring more business opportunities in this area. Customers are, on the other hand, expected to become more and more selective when choosing asset management companies and products. Thus, competition is heating up in the industry. Asset management companies require not only higher returns and product development capabilities, but also better accountability and a high level of quality control.

2. Progress and Future Growth Strategies

We believe that this challenging business climate will bring major opportunities for us. We will respond by improving our product development and management capabilities and strengthening our marketing and support systems for partners selling our products. In this way, we will target a substantial expansion of both investment trust and pension assets under management.

FY 2004 Highlights

• Daiwa Asset Management:

Further upgrade of product lineup

DAM has upgraded its asset management processes, reinforced its research and product development capabilities, and strengthened its sales support system. These actions led to a major improvement in its business performance. One example is the Daiwa Global Bond Fund, a monthly payment type of investment trust. Thanks to its solid performance record and collaboration with Daiwa Securities, its assets under management surged 12-fold, from ¥25.8 billion at the end of FY 2003 to ¥314.7 billion at the end of FY 2004. It also won the prize for excellent funds among 376 Japanese and international bond investment trusts nominated for the “Morningstar Award—Fund of the Year 2004—,” presented by Morningstar Japan.

DAM also made solid progress in developing attractive products. These included “Digital Kama,” a Chinese

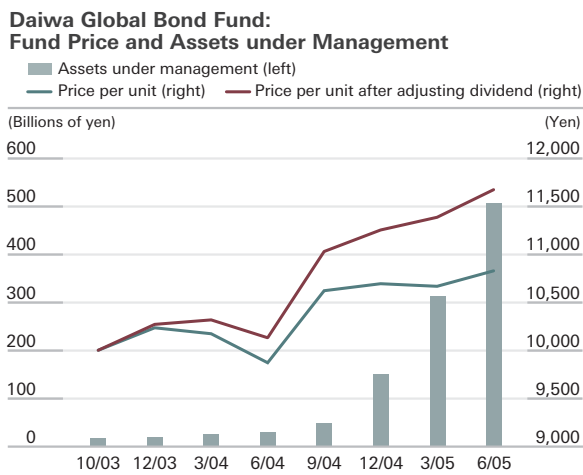
equity investment trust, and “Daiwa SRI Fund,” Japan’s first full-scale socially responsible investment (SRI) fund, which invests in domestic equities. We also launched “Daiwa Ryusei,” which invests in companies with superior capital efficiency. In alternative investments, we set up a monthly payment fund investing in Japanese and U.S. real estate investment trusts (REITs), as well as the Daiwa Commodity Index Fund.

At fiscal year-end, the company’s net assets under management of equity investment trusts was ¥2,118 billion, up 31.4% from a year earlier. Operating revenues rose 16.1%, to ¥19.3 billion, resulting in the company returning to profit with operating income of ¥1.2 billion. Ordinary income almost doubled, to ¥1.4 billion, and net income increased 5.5-fold, to ¥1.2 billion.

• Daiwa SB Investments: Bolstered by a solid reputation

Daiwa SB Investments continued to earn strong acclaim for its asset management capabilities. In FY 2004, the company was ranked No.1 in active management ability for both the quantitative and qualitative evaluations by “Newsletter on Pensions and Investments,” published by Rating and Investment Information. Its net assets under management grew 18.0%, to ¥3,901 billion, in line with the rise in its reputation.

In the investment advisory business, in FY 2004 Daiwa SB Investments was selected by Japan Post to manage the Japanese equity component of both its postal savings and postal life insurance funds. The company was also chosen to manage the foreign equity component of the postal life insurance fund. Moreover, it has been selected to manage the assets of a number of prominent overseas institutional



investors, including a major financial group in Finland.

The pension fund category remained difficult, due to ongoing “daiko-henjo” activities and the shift to specialized funds. Nevertheless, in FY 2004, its strong reputation enabled the company to boost the assets of pension funds under management by 4.3% from FY 2003, to ¥2,130 billion. Net assets gained by investment advisory services in total were ¥3,158 billion, up 12.6% from a year earlier.

With respect to investment trusts, Daiwa SB Investments attracted steady investments in its “Japan Small-Cap Equity Fund,” launched in June 2004, and the “T. Rowe Price U.S. Income Fund,” established in December 2003. In addition, the net assets of “China Ton-Fei,” a Chinese equity fund, launched in January 2004, increased to the upper limit of ¥100 billion. In private placement investment trusts, it posted a significant increase in the assets of the flagship fund of alternative investment. As a consequence, net assets under management of investment trusts managed by Daiwa SB Investments surged 48.8% in FY 2004, to ¥743.4 billion, making a substantial contribution to its earnings.

Daiwa SB Investments reported a 62.0% year-on-year increase in operating revenue to ¥11.8 billion, reaching the ¥10.0 billion target, set by its medium-term manage-

ment plan, one year ahead of schedule. The company restricted the increase in SG&A expenses to 7.5%, resulting in a 4.5-fold jump in ordinary income, to ¥2.3 billion.

Growth Strategies

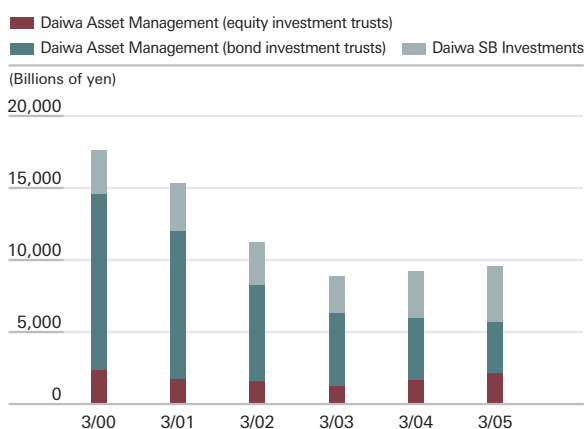
— Further strengthen product appeal, asset management capabilities, sales support, and marketing

Daiwa Asset Management is working hard to improve its product availability through efforts such as developing new fund management methods using pilot funds. Overseas, the company is increasing the number of analysts at its Hong Kong subsidiary, and was also the first Japanese asset management company to establish an information-gathering base in Shanghai. In this way, it will continue to reinforce its research system for Chinese equities.

DAM is further strengthening the support system for its sales companies as well. At Daiwa Securities, it will hold seminars for customers and in-company training for sales personnel. It will also develop new products for the corporate customers of Daiwa Securities SMBC and build up the support system for those products. In addition, it will adopt a more proactive approach toward banks and other financial institutions to help them expand over-the-counter sales of its products. In collaboration with Daiwa Securities SMBC, meanwhile, it will make more proposals to corporate customers to encourage them to adopt defined contribution pension plans for their employees.

In investment advisory services, Daiwa SB Investments will build a competitive product lineup and focus its marketing efforts on public pension funds, which are expected to grow. In investment trusts, the company will leverage its brand power built on expertise in the pension field, and broaden its net assets under management. It will also focus on attracting institutional investors by private placement investment trusts and expanding variable pension insurance businesses.

Funds under Management



Topics

Daiwa Asset Management “Daiwa Ryusei” (Japan Equity Open): Representing a Bright and Prosperous Future for Japan and its Corporations

In Japan’s post-deflationary environment, DAM has established “Daiwa Ryusei” (Japan Equity Open), an authentic Japanese equity investment trust that invests in companies that are expected to effectively utilize their shareholder capital. The fund was launched in February 2005 with an initial amount of ¥44.5 billion under management, and net assets subsequently grew to ¥74.4 billion by the end of March 2005. The Sumatra earthquake and the Indian Ocean tsunami disasters occurred while the fund was in its planning stages. For this reason, DAM donated ¥15 million—part of expected management fee proceeds from the fund—to disaster-affected areas as a part of its corporate social responsibility (CSR) commitment.

Daiwa Commodity Index Fund: Selling Alternative Investments to Individual Investors

In December 2004, DAM set up the Daiwa Commodity Index Fund in collaboration with world-renowned investor Jim Rogers and Sumitomo Corporation. The fund reflects the performance of the Rogers International Commodity Index (RICI). Commodities have a different risk-return profile than traditional financial instruments, such as stocks and bonds, and so are regarded as an effec-

tive way for customers to spread the risk inherent in their portfolios. This is the Japan’s first domestic open-end publicly offered investment trust, which makes commodities investments accessible to individuals who previously found it difficult to invest in such instruments.

Daiwa SB Investments Alliance with Wilshire Associates to Provide Fund of Hedge Funds in Japan

In May 2005, Daiwa SB Investments formed an alliance with Wilshire Associates to create and offer fund of hedge funds in Japan.

Wilshire Associates is a prominent fund management company in the United States and a globally renowned leader in investment consulting. Using Wilshire’s capabilities in evaluation of fund management companies and in investment risk management, Daiwa SB Investments plans to provide fund of hedge funds to pension managers and institutional investors in Japan.

To date, Daiwa SB Investments has focused on offering its own alternative fund management style, such as market-neutral and long-short Japanese equity funds, mainly to Japanese institutional investors. Its tie-up with Wilshire to develop fund of hedge funds reflects its commitment to delivering sophisticated fund management services to meet the diversified needs of investors.

Review of Operations

Research, Systems, and Consulting

As the financial services industry becomes more information-oriented, winners in this fierce competition will be determined by the quality of the information they provide. The key to Daiwa Securities Group's success lies in the innovative solutions offered by the Group's comprehensive think tank with a group of professionals in both finance and IT.

Overview

Main Business

Daiwa Institute of Research Ltd. (DIR) is the main think tank of the Daiwa Securities Group. DIR provides research services centering on financial markets, builds systems for delivering IT solutions, and offers various business consulting services. DIR adds value to the services offered by other Group members and provides optimal solutions for customers outside the Group.

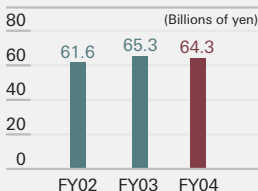
Products and Services

- Macroeconomic forecasts and research reports on financial markets & systems and corporations
- IT solutions
- Consulting on management, IT, and pension systems

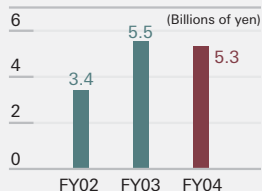
Highlights of Results

Daiwa Institute of Research Ltd. (DIR)

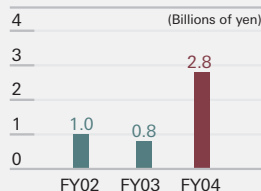
Operating revenues



Ordinary income



Net income



The Daiwa Securities Group's Competitive Edge

Advanced research capabilities

DIR is highly reputed for its precise economic forecasts and fundamental research and analysis on corporations. In FY 2004, DIR was ranked No. 1 for the second consecutive year in both the analyst ranking by the Nikkei Financial Daily and analyst/economist ranking by the Mainichi Economist magazine.

Current Status and Strategies

1. Business Environment

As the speed of change accelerates, companies in the financial and other industries are facing more intense competition. Meanwhile, ongoing deregulation and IT innovations have changed the way of business. There is a greater need for sophisticated and specialized solutions to address these dramatic changes.

2. Progress and Future Growth Strategies

DIR will contribute to increasing the Group's corporate value as the central research and systems arm. At the same time, it will utilize its experience and knowledge to provide services to customers outside the Group.

FY 2004 Highlights

— Demonstrating superior quality

Drawing on its in-depth fundamental research and analysis, DIR delivers timely and highly needed information. In addition to each analyst's expertise, analytical skills, motivation, and industry knowledge, DIR promotes teamwork through cross-sector and global research to create unique investment scenarios that anticipate market movements.

As a result of this approach, DIR received the No. 1 analyst ranking by the Nikkei Financial Daily for the second consecutive year. It also was ranked No. 1 in the analyst and economist ranking by the Mainichi Economist magazine two years in a row.

In the systems division, DIR has made efforts to ensure stable operation. As of March 31, 2005, the online order and trade execution system at Daiwa Securities recorded

Improvement in "Analyst Rankings"

Analyst Ranking by the Nikkei Financial Daily

Category: Analysts (all industrial sectors excluding comprehensive sector) and strategists

	FY2001	FY2002	FY2003	FY2004
1st	Nomura Securities	Nomura Securities	DIR	DIR
2nd	Morgan Stanley Dean Witter*	DIR	Nomura Securities	Nomura Securities
3rd	Nikko Salomon Smith Barney**	Nikko Salomon Smith Barney**	Deutsche Securities	UBS

* Currently Morgan Stanley ** Currently Nikko Citigroup

856 consecutive days of operation with no disorders. In addition, the company promptly developed system infrastructures to accommodate the rapid expansion of Daiwa Securities' strategic business areas, such as online trading, SMA, and securities intermediation business.

Regarding the pension consulting business, DIR's Investment Trust Analysis Department has been selected by many 401K plans as the official agency for evaluating investment products, and now commands a high reputation as a standard-setter for the industry.

DIR's financial results for FY 2004 was a 1.5% year-on-year decline in operating revenues and an increase of 2.1% in SG&A expenses, leading to a 3.6% decrease in ordinary income to ¥5.3 billion.

Growth Strategies

— **Use solid reputation to enhance corporate value**
Looking ahead, DIR will strive to maintain the excellent reputation of its research activities. It will work more closely with Daiwa Securities, Daiwa Securities SMBC, and other Group members, providing useful analyses and proposals for product development and strategy formulation at these companies. By doing so, DIR will contribute to raising the Group's corporate value. In systems, it has made a medium- to long-term structural reform plan, covering the three to five year period from FY 2005. Based on this plan, DIR will strengthen services for Group members, and redefine and optimally allocate service functions in its systems divisions. It will also make strategic system investments in order to increase its competitive advantage. At the same time, it will make a greater contribution to the Group' earnings by actively providing its services to clients outside the Group. With respect to human resource management, DIR will raise the accuracy with which it evaluates its staff using professional criteria, while establishing a personnel system in which rewards are more closely tied to performance.

Topics

System Solution Support Services for Japanese-Affiliated Companies in China

Since year 2000, DIR has provided system development services for Japanese domestic companies by cooperating with local firms in Beijing, Dalian, and Shanghai. Deploying a staff of 420, it has established a development and maintenance framework in China, capable of meeting system development and maintenance challenges.

Based on these experiences, in January 2005 DIR began providing system solution support services in collaboration with its Chinese business partner, SinoCom Software Group, in response to the system development and maintenance needs of Japanese-affiliated companies in China. Under this project, DIR provides "Chinese localization programs" and other services to support the localization and maintenance of client management systems brought over from Japan, as well as reinforcement of security measures for local systems.

Review of Operations

Group Support

One of the Daiwa Securities Group's main strengths is the commitment of Group members to improve and seamlessly integrate their respective capabilities, thus raising the corporate value of the entire Group. Indeed, the Group's ability to enhance the performances of its core retail, wholesale, and asset management businesses derives from its robust in-Group support, which produces greater synergies for the Group as a whole.

Overview

Securities Administration Function (Daiwa Securities Business Center)

Daiwa Securities Business Center (DSC) is a comprehensive provider of back office services related to the securities business. Serving as an outsourcing vendor, DSC provides support for effective, low-cost business operation mainly to members of the Daiwa Securities Group, hence helping to raise the efficiency and productivity of the Group.

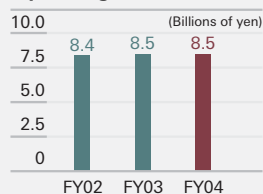
Branch Office Management and Real Estate Consulting (Daiwa Property)

Daiwa Property provides property management services, mainly for branch offices and other facilities used by the Group companies. It also offers business solutions by, for example, consulting on real estate and building management. In these ways, Daiwa Property is working to improve the asset management efficiency of the Group.

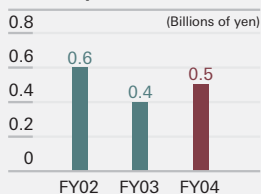
Highlights of Results

Daiwa Securities Business Center Co., Ltd. (DSC)

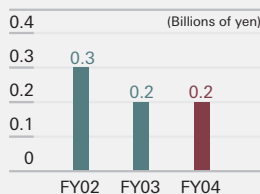
Operating revenues



Ordinary income

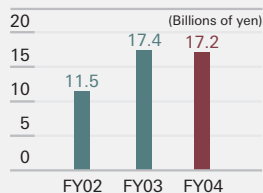


Net income

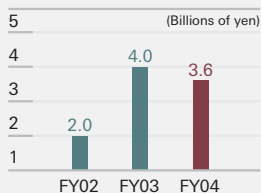


Daiwa Property Co., Ltd.

Operating revenues



Ordinary income



Net income



The Daiwa Securities Group's Competitive Edge

Powerful support

DSC is the first securities back office service provider to obtain ISO 9001:2000 certification, an international standard for quality control systems—testimony to the high quality of its services.

Daiwa Property has a wealth of expertise in real estate management, built up since its establishment 50 years ago. Using this know-how and its human resources, including real estate consultants and appraisers, it provides an array of high-quality services related to real estate.

Current Status and Strategies

1. Business Environment

In today's fast-changing world, more and more companies are reengineering their business processes using outsourcing vendors, while demanding efficient property management services. In our financial industry, companies must constantly raise the efficiency of their operations and property management to address dramatic changes in the operating environment driven by progressing deregulation and advances in information technology.



2. Progress and Future Growth Strategies

DSC and Daiwa Property will strive to improve their capabilities, including human resources, and reinforce their control systems in order to fortify the Group's support function. The companies will also try to raise customer satisfaction by boosting the quality of services provided to non-Group companies.

FY 2004 Highlights

— Stronger support for the Group

DSC has supported the Group by continuously raising the efficiency of its operations and providing high-quality back-office services. Daiwa Property also contributed to the Group's earnings by cutting the rent and security deposits of buildings rented by Group members.

For the year, DSC reported little change in operating revenues, but successfully reduced SG&A expenses, resulting in a 12.6% year-on-year rise in ordinary income, to ¥506 million. Operating revenues at Daiwa Property also remained flat from FY 2003, but a 2.5% increase in SG&A expenses led to a 10.0% fall in ordinary income, to ¥3.6 billion.

Growth Strategies

— More rigid internal control systems to ensure high-quality services

Looking ahead, DSC will strive to standardize its workflows and raise service quality. By sharing its knowledge about administrative processes, the company will also work to build frameworks allowing all its employees to fully demonstrate their experience, expertise, and latent strengths.

In the property business, Daiwa Property will enhance its consulting capabilities related to securities branch offices of Group companies. In the solutions business, the company will work together with Daiwa Securities and Daiwa Securities SMBC to launch a new service system permitting appropriate responses to customers' diversified real estate needs. Targeting further improvements in its business efficiency, Daiwa Property will merge with Daiwa Residential Properties in October 2005.



Group Governance and Management Systems

The Daiwa Securities Group has built a strong business foundation supported by high quality and productivity. We are now entering a stage of accelerated growth, propelled by “power” and “scale.”

Rapid growth, however, comes with greater risks. To alleviate such risks, we will enhance the monitoring function and transparency of management, while reinforcing financial strategies, human resource development, and other aspects of our management system.

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063	Financial Strategy
064	Risk Management
065	Human Resource Management
066	Environmental Initiatives
067	CSR Initiatives

Group Governance and Management Systems

Management Philosophy

To achieve sustainable growth and raise corporate value, it is crucial that we earn the unwavering trust of all stakeholders—shareholders, customers, employees, and society—in the spirit of coexistence and co-prosperity.

Corporate Principles

The Daiwa Securities Group believes that support from all stakeholders is essential for achieving consistent growth. With this in mind, the Group has established a set of “Corporate Principles” as its spiritual pillar. Translating these principles into reality is the starting point of the Group’s management philosophy. The principles cover major stakeholders, emphasizing “customer trust” for customers, “human values” for employees, “social justice” for society in general, and “sound profits” for shareholders. We believe that putting all these policies into practice will lead to an increase in corporate value.

Brand Statement

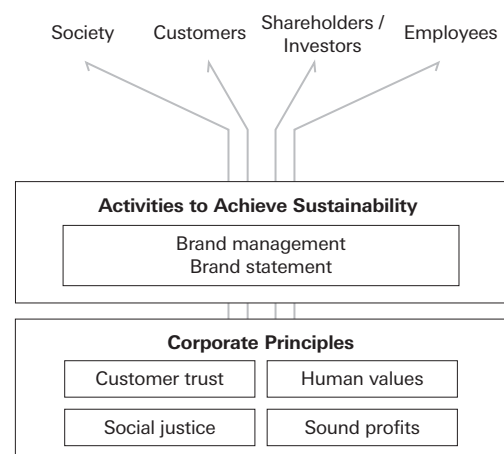
In October 2000, the Daiwa Securities Group initiated the Corporate Branding Project as part of the efforts to realize its Corporate Principles. Under this project, the Group initiated actions to establish a strong corporate brand. For a company in the financial services industry, earning the trust of stakeholders is the most important stage of the brand-building process. With this in mind, we issued a Brand Statement in March 2001, explicitly expressing our promises to customers.

Corporate Social Responsibility (CSR)

From the perspective of earning the trust of society, building a brand and pursuing CSR are fundamentally one and the same. The growing worldwide interest in CSR reflects the rise in sustainability issues caused by corporate activities on a global basis, such as environmental problems and the increasing gap between rich and poor. Corporate scandals can be traced to excessive priority placed on short-term profits at the expense of social interests.

The Daiwa Securities Group is constantly searching for ways to realize a sustainable society where the economy, society, and the environment are in harmony with each other, and we endeavor to carry out CSR through our core business—finance and investing. We regard CSR as corporate governance in a broad sense, and believe that CSR represents the key pillar of our management.

Corporate Brand Management and Sustainability



Group Governance and Management Systems

Corporate Governance

The Daiwa Securities Group fully recognizes that rapid growth entails an equivalent risk exposure. In addition to planning and implementing strategies in response to external changes, an effective framework making check-and-balance mechanisms function is essential for a transparent and sound management. This will help alleviate risks, and thus facilitate sustainable growth.

Transition to “Committee System” of Corporate Governance

In 1999, the Daiwa Securities Group became the first publicly traded Japanese company to make a transition to a holding company system. In doing so, the Group created a Groupwide management system that maximizes synergies between Group companies while taking full advantage of the independence and unique expertise of each Group member. Since then, the Group has sought to build highly transparent and objective management systems through its corporate governance framework.

In June 2004, the Group switched to a “committee system” of corporate governance, whereby the supervisory and executive functions of management were clearly separated. Consequently, the Group increased the number of Outside Directors from two to four. The Group also established three committees—the Nominating, Audit, and Compensation Committees—and Outside Directors constitute more than half the membership of each committee. This system rein-

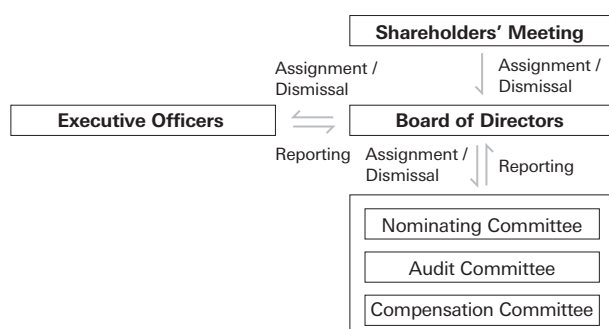
forced the supervisory function of the Board of Directors. To improve agility in decision making, the Group delegated a broad range of authorities from the Board of Directors to the Executive Officers and clarified the Officers’ management responsibilities. In addition, the representative Managing Directors of main Group companies also serve as Executive Officers of the holding company, creating a system whereby individual business strategies, which reflect Group strategies, can be implemented flexibly and efficiently.

Internal Control System

The Group undertakes a variety of internal activities aimed at ensuring effective and efficient business operation, reliability of financial reporting, and compliance with laws and regulations. Together, these activities form the Group’s internal control system. To upgrade the system, we have established an internal audit function for performing comprehensive audits within the Group. Major group companies have their own internal audit departments, and those without such departments are subject to audits by the Internal Audit Department, which is under the direct supervision of CEO of the Group.

In April 2003, the Group established the “Internal Audit Rule” to clarify basic internal auditing issues and ensure smooth and efficient auditing activities. In July 2003, the Group set up the Internal Control Committee, headed by the CEO, as a subcommittee of the Management Committee. The Internal Control Committee is now a subcommittee of the Executive Committee, and meets every three months in principle to deliberate and decide on issues concerning internal control, risk management, and internal auditing systems related to the Group’s operations.

The Committee System



Establishing an Effective Disclosure System

Practicing fair disclosure of corporate information is essential to ensuring management transparency and improving corporate governance. The Daiwa Securities Group believes that fair, timely, and appropriate disclosure is fundamental to promoting a better understanding of the Group among its stakeholders, including shareholders and other investors. This will enable them to make realistic evaluations and judgments. In March 2004, the Group established a Disclosure Policy to explicitly state its fundamental stance regarding information disclosure. To further increase the effectiveness of this policy, Daiwa Securities Group Inc. established a set of Disclosure Regulations, which calls for the establishment of a Disclosure Committee and states methods for disclosing information. The Group's "Management-Related Information" cited in these regulations includes not only information we are obligated to provide by law or rules, but also information that is required to carry out our social responsibilities as a member of society. Such information includes those regarding compliance, corporate governance, and impacts on local communities and the environment. The Group's major subsidiaries have implemented similar regulations to ensure a consistent Groupwide disclosure policy.

In January 2005, the Group submitted a "Declaration for Timely Disclosure," which outlines its sincere pledge to provide investors with timely and appropriate information about the Group, to the Tokyo Stock Exchange. In the following month, the Group also submitted similar documents to the Osaka Securities Exchange and the Nagoya Stock Exchange.

Investor Relations

The Daiwa Securities Group discloses corporate information using various communication methods through the Corporate Communications Department and Investor Relations Department of the holding company. The Group is proactive on disclosing Group business strategies and briefings on our various businesses to share-

holders, investors, and the media. Through such initiatives, the Group's management can also obtain valuable feedback on market reactions towards the Group. This enables the Group to further raise transparency and efficiency, which is essential for improving corporate value.

Our quarterly financial results are posted on the Group's IR website immediately after announcement, and a conference call for analysts and institutional investors is held in the evening of the same day. This conference call is also made available on the IR website in real time. The Group posts similar information on the English website and makes another conference call to overseas investors and analysts during the same day. In these ways, we disclose information in a timely and appropriate manner while eliminating the communication gap between domestic and overseas stakeholders. In addition, the Group's CEO holds management strategy briefings twice a year in Japan, and the top management team also travels to Europe, North America, and Asia to visit institutional investors. These activities reflect the emphasis placed by management on direct communication.

The Group is also making efforts to increase opportunities for communication with individual shareholders and investors. The General Shareholders' Meeting provides an opportunity to interact directly with these important stakeholders. To provide more diverse options for shareholders to exercise their voting rights, the Group has allowed voting over the Internet and mobile phone. The Group also provides live broadcasts of the meeting to Osaka and Nagoya via in-house satellite facilities for shareholders away from Tokyo. In addition, the Group's semiannual business report, an important communication tool distributed to shareholders, has been issued in enlarged A4 size since FY 2001 to include more information and enhance readability. Beginning FY 2003, the Group also began offering a shareholder benefits program utilizing Daiwa Securities' mileage program points.

Daiwa Securities Group Inc.
Board of Directors



Outside Director
Keisuke Kitajima

Outside Director
Tetsuro Kawakami

Outside Director
Ryuji Yasuda

Outside Director
Koichi Uno

Director
Takashi Hibino

Director
Hiroshi Ota

Director
Tetsuo Mae

Director
Junichiro Wakimizu

Director
Kenji Hayashibe

Director
Shigeharu Suzuki

Chairman of the Board
Yoshinari Hara

Deputy Chairman of the Board
Akira Kiyota

Director
Tatsuei Saito

Group Governance and Management Systems

Compliance

Compliance is the basis of all business activities of the Daiwa Securities Group. With “social justice” as one of our corporate principles, the Group is creating a corporate culture with the slogan “think for yourself, act for yourself,” in which top management and employees maintain a strong awareness of compliance in our day-to-day work.

Group Initiatives

The Corporate Ethics Department at Daiwa Securities Group Inc. holds a monthly Corporate Ethics Promotion Liaison Meeting, designed to foster a Groupwide ethical awareness and reject anti-social influences. We are also looking to formulate rules for a voluntary code of conduct to ensure legal compliance across the entire Group.

In January 2003, the Group introduced the Corporate Ethics Hotline (an internal reporting system) as a Groupwide initiative. This is intended to be a self-monitoring system for the Group that looks into potentially illegal acts and other activities that could damage the Daiwa Securities Group brand. The system provides protection for informants, and it allows them to contact either the department in charge or outside law firms.

Initiatives at Daiwa Securities

In FY 2002, Daiwa Securities increased the number of staff at the Compliance Department. Following this, it appointed compliance sub-leaders for each region in FY 2003. Additionally, in FY 2004, Compliance Officers were assigned to the core branches at each regional block. In these ways, it has reinforced our internal control framework including the legal compliance system and verification of its sales approach. Starting from FY 2003, Daiwa Securities has also introduced training sessions for internal administration supervisors, practical compliance inspection training, and education for mid-career sales people, to promote awareness on compliance and widespread understanding of rules and regulations. To facilitate these efforts, the company created the training manual for internal administration supervisors in FY 2004.

Initiatives at Daiwa Securities SMBC

Daiwa Securities SMBC is working to strengthen its compliance control system, primarily through its Compliance Department. To prevent inappropriate trading activities, all management and employees are required to obtain approval from the head of the Compliance Department before trading securities. In addition, internal administration supervisors within each department belong to the Compliance Department, thereby strengthening internal control functions.

Daiwa Securities SMBC is also upgrading its compliance training systems, introducing customized sessions for different divisions and themes associated with day-to-day business operations. Since March 2004, all employees have been obligated to attend training programs on subjects such as rules on insider trading, securities trading regulations for directors and employees, response to customer complaints, and case studies of illegal administrative actions. Participants are required to continue training until they show an acceptable level of understanding.

Group Governance and Management Systems

Financial Strategy

Achieving sustainable improvements in corporate value requires a financial strategy that is balanced in terms of risk and return. Well versed in the risk characteristics of the securities industry, the Daiwa Securities Group seeks to build a break-even structure that is resistant to revenue fluctuations while appropriately managing risk to secure financial strength. Through efficient capital allocation into areas with high profit and growth potential, we will endeavor to maximize risk-adjusted returns.

Basic Strategy

The Daiwa Securities Group has so far taken a financial strategy focused on raising consolidated ROE while ensuring higher financial strength. Thanks to this strategy, by FY 2004, the Group has strengthened its financial position and improved our credit rating, and reported the highest consolidated ROE among Japan's top three major securities companies. The Group has also set a dividend policy based on a payout ratio of 30% on a consolidated basis. Going forward, the Group will further reinforce this basic financial strategy, with a focus on improving risk-adjusted financial results in addition to ROE and broadening its business foundation.

Targeting Financial Strength

When measuring the financial strength of the Group, it is important to note that a large percent of the consolidated balance sheet consists of assets and liabilities related to the Group's trading positions for making transactions with customers; operation systems and branch offices; and various types of investment assets. Consequently, the major risks affecting the balance sheets are liquidity risk, market risk, credit risk, and operational risk, which pertain to trading and transactions with customers. The Group's idea of financial strength is being able to continue business even under significant changes in the environment.

With respect to liquidity, the Group's policy is to maintain sufficient long-term capital to cover its needs over a period of about one year, without relying on new uncollateralized fund procurement. The Group also avoids excessive concentration on specific fund-

raising sources and debt maturity periods. With respect to capital, the Group maintains sufficient capital as required by law. In addition, the Group enforces internal control to enable a certain level of business sustainability, even if we face huge losses of 1% event probability or under assumed stress scenarios.

At present, the Group is working aggressively to expand its business in principal finance and large-scale equity trading, which could result in an increase in relatively low-liquidity investment assets or risks arising from concentration in certain investments. From the perspective of financial strength, we take particular care and monitor these high-risk businesses.

Enhancing Capital Efficiency and Earnings Stability

To allocate capital more efficiently and increase ROE, the Group makes capital allocation decisions based on flexible responses to changes in the economic environment and customer needs. We seek to recover capital from businesses slated for downsizing or withdrawal, and reallocates such capital to areas with high profit and growth potential. The Group will also emphasize the quality of its earnings in addition to quantitative expansion. For example, the Group will work to broaden our customer and marketing base and to expand assets under management. It will lead to an increase in more stable revenues and diversification of its revenue sources. In addition, we will carefully control changes in fixed costs associated with systems, human resources, and sales channels due to business expansion and reform, in order to enhance the stability of the Group's bottom line profits.

Group Governance and Management Systems

Risk Management

The pursuit of profitability and growth, while meeting customer needs, gives rise to various risks. The main risks facing the Daiwa Securities Group include liquidity risk, market risk, credit risk, legal risk, computer system risk, operational risk, and reputation risk. Frameworks for controlling these risks are the key to maintaining and improving the Group's credit ratings and shareholder value.

Risk Management System

In order to increase shareholder value, it is essential to build a framework that avoids major losses by accurately identifying, evaluating, and effectively controlling risks associated with the Group's business operation. The Daiwa Securities Group's basic risk management policy encourages active participation by top management in risk control; the creation of appropriate and comprehensive risk management systems to address the risk characteristics inherent in each business; and clarification of risk management processes. Specifically, the state of each type of risk is reported by the executive officers in charge to the Internal Control Committee, a subcommittee of the Executive Committee. Major risks are liquidity risk, market risk, credit risk, legal risk, computer system risk, operational risk, and reputation risk. The Group is also formulating plans to continue and restore operations in case of natural disasters.

Each Group subsidiary is responsible for managing the risks peculiar to its own businesses, taking advantage of their specialist expertise. However, risk management systems, processes, and implementation status at the subsidiaries are monitored by Daiwa Securities Group Inc., which is in charge of Groupwide risk management.

Addressing Major Risks

Being mainly involved in the securities business, the most important risks for the Daiwa Securities Group are liquidity risk, market risk, and credit risk.

With respect to liquidity risk, the Group maintains ample liquidity of assets and carefully controls the maturity period composition of its liability portfolio. This is to enable continuous business operations for around one year even if major changes in the financial markets make uncollateralized fund procurement difficult for the

Group or its securities subsidiaries. Liquidity of the Group's subsidiaries except for securities subsidiaries and NIF Ventures, a JASDAQ-listed company, is centrally managed under the Group Cash Management System of Daiwa Securities Group Inc.

Regarding market risk, the Group sets various limits and employs Value at Risk (VaR), a commonly used statistical management method, as an index for measuring and monitoring the risk of its trading positions.

As for credit risk, to which the wholesale securities business has the greatest exposure within the Group, internal ratings are assigned to each institutional client, and credit limits are set according to these ratings and transaction periods. These criteria serve as a basis for judging whether or not to execute transactions or request collateral. Daily reports on market risk and monthly reports on credit risk (daily within the wholesale securities company) are made to the management of Daiwa Securities Group Inc.

Protecting Personal Information

The Group regularly obtains and uses information on a large number of customers, and is fully aware that proper management of customer information is crucial to maintain its reputation. Due to the enactment in April 2005 of the Personal Information Protection Law, Daiwa Securities Group Inc. established and announced its Privacy Policy, which outlines the Group's policies regarding the purpose of using and the way of managing personal information. Similar policy documents are being prepared by all of the Group companies, stating their pledge to comply with laws, official guidelines issued by government ministries and agencies, and internal rules, and to act responsibly when handling personal information.

Group Governance and Management Systems

Human Resource Management

Human resource management is essential for us to demonstrate “power” and “scale” and to surge ahead of our competitors. A company must realize the full potential of its employees by increasing their motivation and enhancing their capabilities. In addition to providing support to upgrade the skills of the employees, the Daiwa Securities Group also aims to establish a human resource management system that allows more accurate evaluation of employee performance.

Performance-Based Remuneration

The Group has placed great emphasis on rewarding high-performing employees, by introducing a compensation system based on job category and adopting a more segmentalized personnel evaluation process. In the case of deputy general managers, as a consequence, there is an eight-fold difference between the highest and lowest bonus, and 2.7-fold difference for annual salary (based on FY 2004 results). Moreover, a performance-based annual salary system has been introduced for analysts at Daiwa Institute of Research (DIR) and fund managers at Daiwa Asset Management (DAM) so that their salaries reflect their analyst rankings and fund performance.

Defining Qualifications for Promotions and Introducing New Senior Position for Deputy General Managers

In June 2005, the Group introduced a system whereby employees must earn certain “qualification points” in order to be promoted. Points are given mainly for qualifications useful in the securities business such as those of securities analysts. The number of points given is set in ascending order according to the difficulty of acquiring each qualification, in order to raise employees’ motivation to further enhance their capabilities. We have also established a new position, senior deputy general manager, one rank above deputy general manager. By increasing promotion opportunities for deputy general managers, we expect to further raise their motivation.

Providing Diverse Career Options

To widen the range of possibilities for employees with particular interests and skills, the Daiwa Securities Group is expanding the scope of its intra-group job posting sys-

tem. This system allows employees to transfer to the department of their choice within the Group, provided they meet the necessary job qualifications and pass a written examination and a face-to-face interview. The system helps employees create their own career paths. The most recent intra-group job posting was conducted in the spring of 2005, when 24 employees qualified—the highest number since the system was introduced.

Fair and Objective Evaluation System

Fair and objective personnel evaluation is a critical part of human resource management. At the Daiwa Securities Group, both two-way and multi-directional evaluation systems are used. While bosses and their subordinates evaluate each other in the two-way evaluation system, the multi-directional evaluation system encourages evaluation from other close departments. The aim of these systems is to increase the fairness and objectiveness of personnel evaluation.

Improving Human Resources

In addition to actively hiring employees with specialized skills, the Daiwa Securities Group is working to enhance its training system to augment the specialized knowledge and skills of employees. Daiwa Securities and Daiwa Securities SMBC have employed an e-learning system, which supports the efforts of employees to upgrade their skills. Daiwa Securities has also introduced the Professional Certification System in asset management and taxation. It will conduct its first certification in April 2006. In addition, to help managers upgrade their skills, the Group offers the Daiwa Management Academy Program for general managers and branch managers and the Daiwa Leadership Program for senior deputy general managers and deputy general managers.

Group Governance and Management Systems

Environmental Initiatives

The Daiwa Securities Group is aware that maintaining a healthy environment is the starting point for achieving sustainable corporate growth, and that it is an important responsibility as a member of society. While continuing to expand the scale of its business, the Group undertakes a variety of initiatives to minimize any adverse effects on the environment.

Energy and Resource Conservation

The Group's employees are working to reduce energy consumption on a daily basis by switching off office lighting and electrical appliances when they are not in use. In addition, when replacing equipment, energy-saving models are installed whenever possible. Some of the DIR's facilities have installed an "Eco-Ice" system, which uses waste heat to generate hot water and to supply nighttime energy. As a result of these efforts, the Group's electricity consumption declined 6% year-on-year in FY 2004, while its consumption of city gas was up 2.1%.

Water usage at the Daiwa Securities Group has been gradually declining since FY 2000. This is the result of both a campaign to reduce water waste and the installation of water-saving devices in company cafeterias and lavatories. In FY 2004, water usage decreased 6.2%, to 411 million liters.

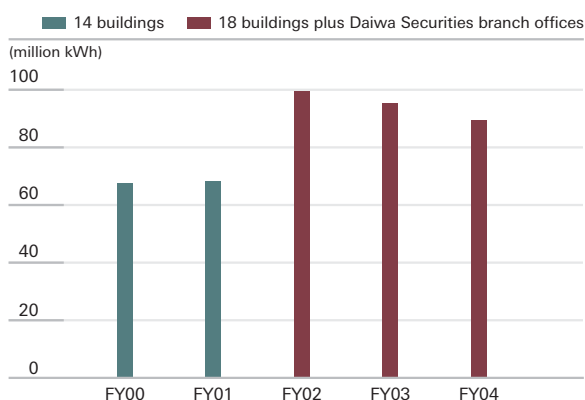
Use of e-mail and the Group intranet have greatly reduced the amount of paper documents that circulate internally. The Group also makes sure to sort out its paper waste and cooperates with waste management companies to promote recycling. The rate of paper recycling averages just under 90%.

Environmental Protection Initiatives

In June 2002, the Group submitted to the Tokyo Metropolitan Government a "Global Warming Action Program" for three of its larger office buildings: the Daiwa Securities Headquarters Building, Eitai Daiya Building, and DIR Eitai Building. Under the Program, our aim has been to reduce emissions of greenhouse gases (CO₂ equivalent) from these buildings for FY 2004 by 2.0%, 0.1%, and 1.9% respectively from FY 2001 levels. In FY 2003, we achieved these targets for two of the buildings, and reached the goal for the remaining building in FY 2004.

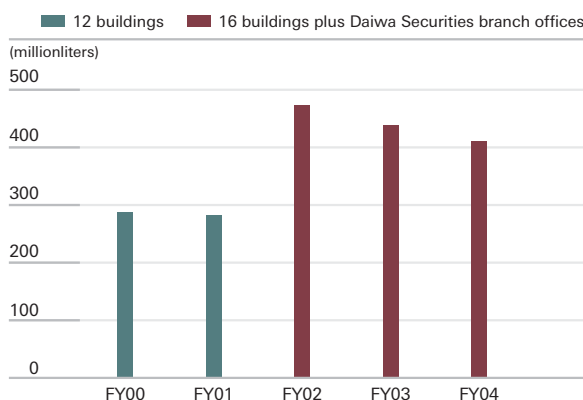
The Group also became a signatory to the United Nations Environment Programme Finance Initiative (UNEP FI) and signed the "UNEP Statement by Financial Institutions on the Environment & Sustainable Development" at the International Environment Forum, held on November 26, 2004. As of the end of December 2004, 208 financial institutions, mainly from Europe and around the world, had signed the Statement. We will work with other signatory financial institutions in our shared quest to create an environmentally friendly financial services industry.

Electric Power Usage



*Scope of data collection was expanded in FY 2002.

Water Usage



*Scope of data collection was expanded in FY 2002.

Group Governance and Management Systems

CSR Initiatives

In recent years, the Daiwa Securities Group has sought to reinforce its corporate social responsibility (CSR) commitment by seeking ways to play a more active role in society. We believe that earning the trust of the community—both through our core business and corporate citizen activities—will ultimately lead to increased shareholder value and the sustainable growth of the Group.

CSR through Core Business Activities

Socially Responsible Investment (SRI)

SRI provides a means of using market mechanisms to channel funds into areas that benefit society. The Daiwa Securities Group offers three SRI funds and five regional index funds. In “Daiwa SRI Fund” in particular, the fund management and sales companies of the Group contribute part of their management fees to the society. A total of ¥4 million from the fund was donated to victims of the October 2004 Niigata Chuetsu Earthquake.

Educational and Research Activities in Economic and Financial Areas

Another area in which the Daiwa Securities Group’s expertise and experience can contribute to society is through education and research in economics and finance. These include joint industry-academia collaboration, such as offering free college courses, giving lectures at universities across Japan, and supporting ventures that originate within universities. As part of the initiatives to provide basic economic education to elementary, middle, and high school students, the Group provides support for hands-on economic education for junior-high and high school students through Junior Achievement, a youth economic education NPO that originated in the United States. Through these activities, the Group helps raise students’ knowledge of finance and economics and fosters the development of financial specialists, thus contributing to the continuous development of the Japanese economy.

Corporate Citizenship

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

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

In addition, executives and employees of Group companies have donated approximately ¥8.5 million for victims of the Sumatra earthquake and the Indian Ocean tsunami disasters which occurred on December 26, 2004. In February 2005, the Group established the “Daiwa Securities Group Tsunami Reconstruction Fund” within the Asian Community Trust (ACT), a charitable trust, to help restore the disaster-affected areas. Through this fund, the Group will donate ¥10 million annually for 10 years from 2005, for a total contribution of ¥100 million.

SRI and Regional Support Funds of the Daiwa Securities Group

Fund Name	Criteria	Asset Management Company	Net Assets (June 30, 2005)
Mrs. Green	Care for the environment	Daiwa SB Investments Ltd.	¥4.0 billion
UBS Global Equity 40	CSR performance level	UBS Global Asset Management (Japan) Ltd.	¥4.7 billion
Daiwa SRI Fund	Corporate sincerity and transparency	Daiwa Asset Management Co. Ltd.	¥21.5 billion
Regional Index Funds (Ibaraki, Kanagawa, Saitama, Shizuoka, and Toyama prefectures)	Contribution to boosting regional economy	Daiwa Asset Management Co. Ltd.	¥21.2 billion (total)



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The Daiwa Securities Group in Figures

Five-year Financial Summary

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2004
	Millions of yen					Millions of U.S. dollars ^{*1}
Operating Performance						
Operating revenues.....	714,909	488,044	387,659	453,814	519,337	4,853
Commissions.....	254,704	171,869	144,283	194,163	216,387	2,022
Net gain on trading.....	169,506	67,249	91,307	122,013	151,290	1,413
Interest and dividend income.....	220,790	195,934	114,707	103,224	118,019	1,102
Other sales revenues.....	69,909	52,992	37,362	34,414	33,641	314
Net operating revenues.....	464,057	284,932	270,810	352,435	390,432	3,648
Operating income.....	177,109	22,769	24,109	92,520	114,888	1,073
Income (loss) before income taxes and minority interests.....	166,615	(119,968)	11,845	76,926	112,603	1,052
Net income (loss).....	64,549	(130,547)	(6,323)	42,637	52,665	492
	Millions of yen					Millions of U.S. dollars ^{*1}
Balance Sheet						
Total assets.....	7,694,051	7,827,306	9,502,826	10,765,665	12,378,962	115,691
Total risk assets ^{*2}	791,667	708,770	584,358	518,331	499,084	4,664
Operational investment securities.....	58,411	73,347	77,866	87,367	142,547	1,332
Tangible fixed assets.....	313,906	188,451	162,339	143,123	137,620	1,286
Investment securities.....	332,018	358,828	259,207	229,924	193,202	1,806
Other investments.....	87,332	88,144	84,946	57,917	25,716	240
Total shareholders' equity.....	716,816	570,839	541,719	604,170	648,332	6,059
	Yen					U.S. dollars ^{*1}
Per Share Data						
Net income (loss) ^{*3}	48.62	(98.27)	(4.75)	31.66	39.03	0.36
Total shareholders' equity ^{*3}	539.72	429.68	407.84	453.60	486.70	4.54
Cash dividends.....	13.0	6.0	6.0	10.0	13.0	0.12
	%					
Financial Ratios						
Return on equity (ROE) ^{*4}	9.3	—	—	7.4	8.4	
Equity ratio.....	9.3	7.3	5.7	5.6	5.2	
Other data						
Total number of employees.....	11,114	11,483	11,559	11,565	11,295	

*Notes:

1. Translations of the Japanese yen amounts into U.S. dollars are made at the rate of ¥107.00 per U.S. dollar, solely for the convenience of readers.
2. Total risk assets are calculated as the sum of operational investment securities, tangible fixed assets, investment securities, and other investments.
3. Net income (loss) and shareholders' equity per share are computed based on the average number of shares outstanding during the year.
4. ROE is computed based on the average total shareholders' equity at the beginning and end of the fiscal year.
5. Simple comparisons across the years cannot be made due to changes in items made to accommodate changes in statutory accounting standards. Some of the main changes are as follows.

- The operating results are presented in accordance with the amended "Uniform Accounting Standards of Securities Companies" (set by the board of directors of the Japan Securities Dealers' Association, September 28, 2001) since FY 2001. Therefore figures for FY 2000 have been adjusted according to the amended standards.

The Daiwa Securities Group in Figures

Breakdown by Business and Geographical Region

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	FY2000	FY2001	FY2002	FY2003	FY2004
Millions of yen					
Breakdown of Net Operating Revenues by Business					
Equity	215,151	80,974	49,178	130,084	139,991
Commissions	84,851	60,667	47,242	80,061	83,887
Net gain on trading	130,300	20,307	1,936	50,024	56,104
Fixed income (bond)	39,062	47,755	96,580	75,390	99,276
Commissions	3,726	4,671	4,585	5,219	4,264
Net gain on trading	35,336	43,084	91,995	70,171	95,012
Asset management	107,939	61,403	40,870	43,046	45,640
Investment banking	48,095	36,313	39,638	55,805	71,170
Others	53,810	58,487	44,544	48,111	34,355
Net operating revenues	464,057	284,932	270,810	352,435	390,432
Breakdown of Commission Income by Business					
Equity	84,851	60,667	47,242	80,061	83,887
Brokerage commission	82,231	58,280	45,403	78,194	81,919
Others	2,620	2,387	1,839	1,867	1,968
Fixed income (bond)	3,726	4,671	4,585	5,219	4,264
Asset management	107,939	61,403	40,870	43,046	45,640
Brokerage commission	8	244	276	209	159
Distribution commission	37,510	14,734	14,059	21,904	19,688
Others (excluding agency commission)	31,783	20,917	13,029	9,992	11,779
(Agency commission)	38,637	25,507	13,506	10,940	14,014
Investment banking	48,095	36,313	39,638	55,805	71,170
Underwriting commission (Stock and other)	31,131	17,112	18,092	36,927	44,659
Underwriting commission (Bond and other)	7,727	9,070	9,522	8,400	8,573
Distribution commission	2,099	876	608	1,662	3,598
Others (M&A commission etc.)	7,137	7,619	11,084	8,049	12,828
Others	10,093	8,815	11,948	10,032	11,426
Life insurance sales commission	—	654	3,500	1,485	1,926
Investment enterprise partnership administration fee	4,526	2,419	2,439	2,652	3,013
Others	5,567	5,740	6,007	5,895	6,487
Total	254,704	171,869	144,283	194,163	216,387
Geographical Segment Information					
Net operating revenues					
Japan	424,957	250,266	239,719	315,579	351,457
America	24,897	17,082	7,677	11,217	10,612
Europe	20,965	24,553	23,331	27,369	30,405
Asia & Oceania	6,735	5,696	5,862	7,672	8,534
Operating income (loss)					
Japan	170,785	23,831	24,054	83,310	106,914
America	11,156	1,973	(3,404)	1,020	17
Europe	4,792	5,051	3,386	6,956	6,202
Asia & Oceania	1,065	(571)	67	1,561	1,753
Total assets					
Japan	5,542,775	5,560,406	7,270,670	8,617,452	10,078,853
America	1,817,112	1,757,738	1,817,691	1,948,621	2,098,376
Europe	572,244	661,297	656,448	768,712	811,192
Asia & Oceania	76,507	72,098	63,721	63,531	62,560

The Daiwa Securities Group in Figures

Eight-quarter Financial Summary

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	FY2003			
	Q1	Q2	Q3	Q4
Market Data				
TOPIX (quarterly average, index)	830	984	1,027	1,082
Average daily trading value in TSE (billions of yen)	794	1,230	1,258	1,517
Net trading value by investors (total of TSE, OSE and NSE, billions of yen)				
Institutions	(1,390)	(3,710)	(1,487)	(3,171)
Individuals	(339)	(474)	(837)	(1,213)
Foreigners	2,003	4,026	1,984	3,629
Securities companies	(48)	24	(51)	(56)
Ten-year Japanese government bond yield (quarterly average, %) ...	0.59	1.19	1.38	1.32
Foreign exchange rates (quarterly average):				
Yen per U.S. Dollar	118.52	117.48	108.86	107.22
Yen per Euro	134.53	132.13	129.60	134.06
Operating Performance				
	Millions of yen			
Operating revenues:	111,996	110,362	108,462	122,991
Commissions	31,547	49,441	52,960	60,213
Brokerage commission	12,939	21,911	21,069	23,724
Underwriting commission	4,073	10,241	15,656	16,122
Distribution commission	5,328	5,631	5,136	7,469
Other commission	9,206	11,657	11,098	12,896
Net gain on trading	43,679	24,958	23,221	28,336
Net gain on operational investment securities	288	136	599	793
Interest and dividend income	28,516	27,763	23,830	23,113
Other sales revenues	7,963	8,063	7,850	10,535
Interest expenses	21,985	19,591	17,467	18,285
Cost of sales	5,431	5,295	5,322	7,997
Net operating revenues	84,579	85,475	85,672	96,708
Selling, general and administrative expenses:	62,672	64,702	63,718	68,820
Commission and other expenses	9,174	9,925	10,119	10,566
Employees' compensation and benefits	34,099	33,352	33,966	35,545
Real estate expenses	7,846	8,205	7,661	8,805
Data processing and office supplies	3,529	3,933	3,619	3,816
Depreciation expenses	4,964	5,242	5,221	6,101
Taxes other than income taxes	1,172	2,018	1,202	1,224
Others	1,886	2,025	1,926	2,761
Operating income	21,906	20,772	21,953	27,887
Non-operating income	2,654	1,328	954	1,075
Non-operating expenses	878	699	465	359
Ordinary income	23,682	21,401	22,442	28,603
Extraordinary gains	314	2,047	748	5,851
Extraordinary losses	394	3,774	3,026	20,971
Income before income taxes and others	23,602	19,674	20,164	13,483
Net income	11,028	8,263	9,100	14,244

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

FY2004			
Q1	Q2	Q3	Q4
1,158	1,128	1,107	1,165
1,656	1,241	1,270	1,624
(858)	(568)	(329)	(1,977)
(344)	(379)	(1,737)	(376)
1,166	841	2,017	2,333
(56)	(2)	(120)	(66)
1.60	1.65	1.45	1.40
109.62	109.98	105.77	104.53
132.05	134.38	137.13	137.07

Millions of yen

124,660	118,519	118,067	158,088
54,299	53,116	46,702	62,268
27,544	16,831	16,757	22,408
10,236	17,299	11,801	15,405
5,852	4,155	5,617	7,659
10,665	14,829	12,524	16,795
42,437	33,831	30,452	44,397
950	583	201	(1,563)
19,498	23,761	33,385	41,374
7,475	7,226	7,326	11,612
17,926	23,145	30,466	32,137
5,675	5,410	5,420	8,720
101,058	89,963	82,180	117,230
68,319	67,640	66,002	73,581
10,559	11,779	11,295	13,086
37,043	34,199	33,472	38,036
7,901	8,359	7,992	8,443
3,784	4,223	4,225	4,571
5,458	5,426	5,486	5,758
1,829	1,751	1,617	1,556
1,743	1,900	1,911	2,129
32,738	22,322	16,177	43,649
2,439	1,141	2,436	1,891
984	397	591	389
34,193	23,066	18,022	45,151
319	1,883	2,043	5,307
777	1,607	1,388	13,608
33,734	23,341	18,676	36,850
14,284	9,881	9,464	19,035

The Daiwa Securities Group in Figures

Operational Data

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	Billions of yen (Unless otherwise specified)			
	FY2003			
	Q1	Q2	Q3	Q4
Daiwa Securities				
Retail customer assets under custody*	13,573	14,597	15,061	16,761
Equities.....	6,215	7,242	7,566	8,979
Bonds.....	3,567	3,395	3,555	3,694
Investment trusts.....	3,479	3,646	3,616	3,757
Equity investment trust.....	1,113	1,226	1,312	1,475
Bond investment trust.....	2,366	2,420	2,303	2,282
Pension insurance.....	80	96	110	123
Others.....	230	216	212	207
Net inflow of retail funds**	161	263	282	188
Unlisted corporation etc.	88	33	14	0
Retail.....	72	230	268	188
Cash Management Service Accounts* (thousands).....	2,303	2,332	2,373	2,430
Online trading accounts* (thousands).....	658	692	770	807
Assets under custody of online accounts*.....	2,291	2,786	3,389	4,160
Online transactions (thousands).....	706	1,105	1,029	1,221
Online ratio.....	56.0%	56.7%	56.8%	59.8%
Online trading value.....	298	587	585	713
Online ratio.....	30.2%	29.7%	30.1%	33.9%
“Daiwa Direct” course accounts* (thousands).....	252	268	282	313
Assets under custody of “Daiwa Direct” accounts*.....	451	540	583	707
Sales of core products				
Equity investment trusts.....	168	186	157	205
Foreign currency-denominated bonds.....	457	225	141	258
Daiwa Securities SMBC				
Assets under custody*.....	16,480	17,212	17,690	19,394
Equities.....	6,152	7,091	7,568	8,967
Bonds.....	7,569	8,446	8,303	8,146
Investment trusts.....	960	849	923	1,001
Equity investment trust.....	299	316	380	477
Bond investment trust.....	661	532	542	524
Others.....	1,798	826	895	1,278
Daiwa Asset Management				
Funds under management*.....	6,203	6,141	5,989	5,947
Fixed income type investment trusts.....	4,853	4,702	4,415	4,335
Equity type investment trusts.....	1,349	1,438	1,573	1,612

Notes * As of the end of each quarter

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

Billions of yen (Unless otherwise specified)			
FY2004			
Q1	Q2	Q3	Q4
17,481	16,932	18,173	19,336
9,364	8,665	9,707	10,421
3,969	4,247	4,378	4,702
3,659	3,616	3,698	3,809
1,490	1,536	1,641	1,794
2,168	2,080	2,057	2,014
131	125	136	151
357	277	253	251
322	345	1,078	563
49	37	40	12
272	307	1,038	550
2,411	2,423	2,506	2,522
839	988	1,143	1,250
4,438	5,148	6,281	7,503
1,407	947	877	1,236
59.8%	62.3%	60.9%	61.4%
908	554	496	723
34.8%	38.3%	35.5%	35.8%
331	355	408	429
764	745	909	1,002
175	120	197	318
235	183	219	196
19,233	19,806	20,241	20,890
9,175	8,718	9,266	10,019
7,940	8,759	8,710	8,784
1,037	965	983	945
537	548	598	607
500	417	385	338
1,080	1,362	1,281	1,141
6,004	5,743	5,788	5,676
4,108	3,842	3,724	3,557
1,895	1,901	2,064	2,118



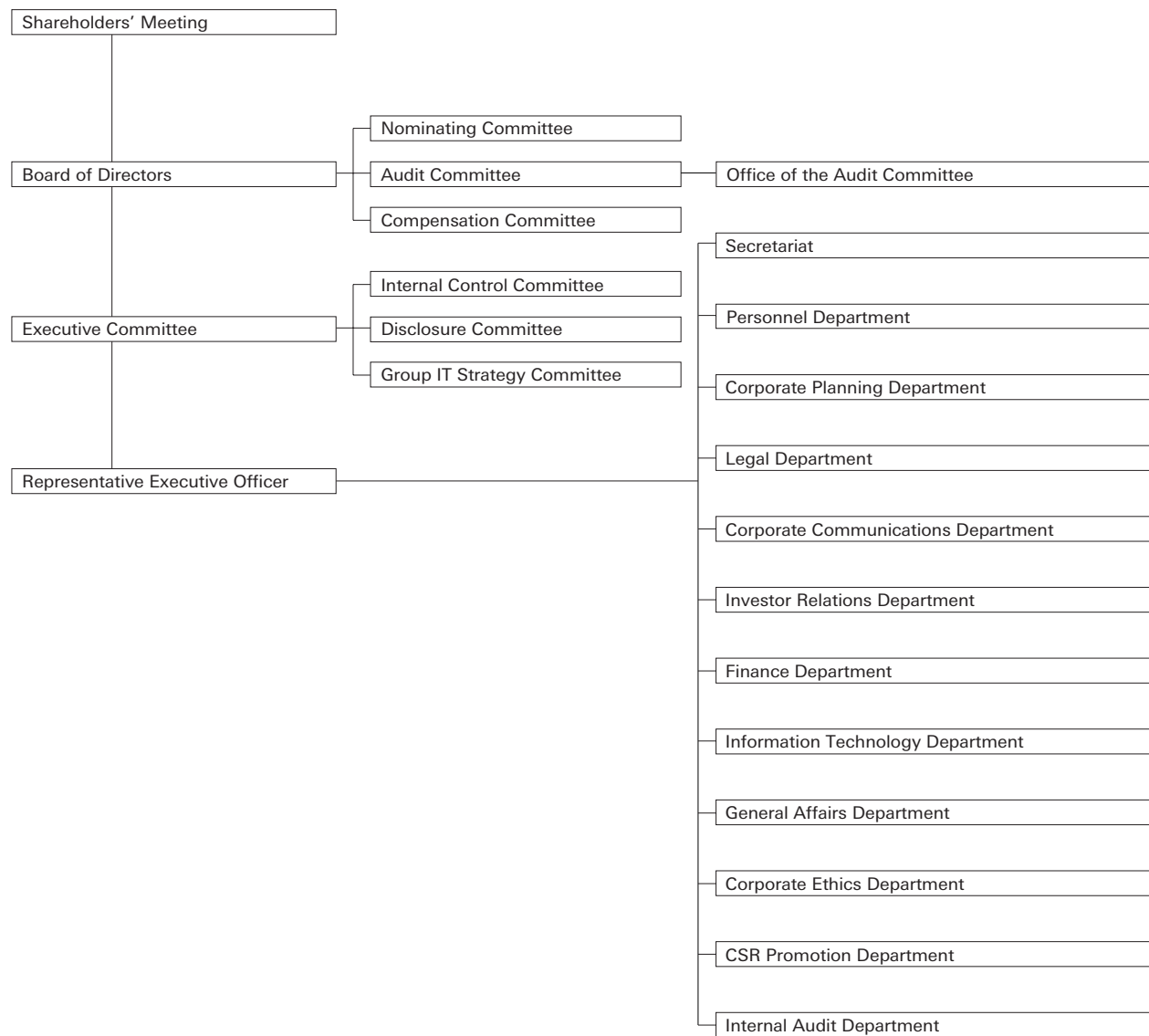


Other Information

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Other Information: Daiwa Securities Group Inc.

1) Organization (As of April 1, 2005)



2) Officers (As of June 24, 2005)

Directors

Chairman of the Board
Yoshinari Hara

Deputy Chairman of the Board
Akira Kiyota

Director
Shigeharu Suzuki

Director
Tatsuei Saito

Director
Tetsuo Mae

Director
Hiroshi Ota

Director
Junichiro Wakimizu

Director
Takashi Hibino

Director
Kenji Hayashibe

Outside Director
Tetsuro Kawakami

Outside Director
Ryuji Yasuda

Outside Director
Keisuke Kitajima

Outside Director
Koichi Uno

Committee Members

Nominating Committee
Yoshinari Hara (Chairman)
Shigeharu Suzuki
Tetsuro Kawakami
Ryuji Yasuda
Keisuke Kitajima

Audit Committee
Kenji Hayashibe (Chairman)
Keisuke Kitajima
Koichi Uno

Compensation Committee
Yoshinari Hara (Chairman)
Shigeharu Suzuki
Tetsuro Kawakami
Ryuji Yasuda
Koichi Uno

Executive Officers

President and CEO
Shigeharu Suzuki
Director, Daiwa Securities Group Inc.
President, Daiwa Securities Co. Ltd.

Deputy President and COO
Tatsuei Saito
Director, Daiwa Securities Group Inc.
President, Daiwa Securities SMBC Co. Ltd.

Deputy President
Tetsuo Mae
Director, Daiwa Securities Group Inc.
Deputy President, Daiwa Securities Co. Ltd.

Deputy President
Kenjiro Noda
Deputy President, Daiwa Securities SMBC Co. Ltd.

Deputy President
Michihito Higuchi
President, Daiwa Asset Management Co. Ltd.

Deputy President
Yoshiyuki Takemoto
President, Daiwa Institute of Research Ltd.

Corporate Executive Vice President
Hiroshi Ota
Senior Managing Director, Daiwa Securities SMBC Co. Ltd.

Corporate Executive Vice President and CIO
Junichiro Wakimizu
Director, Daiwa Securities Group Inc.

Corporate Senior Executive Officer
Takashi Hibino
Director, Daiwa Securities Group Inc.

Corporate Senior Executive Officer
Ikuo Mori
Chairman of the Board, Daiwa Securities America Inc.

Corporate Executive Officer
Takatoshi Wakabayashi

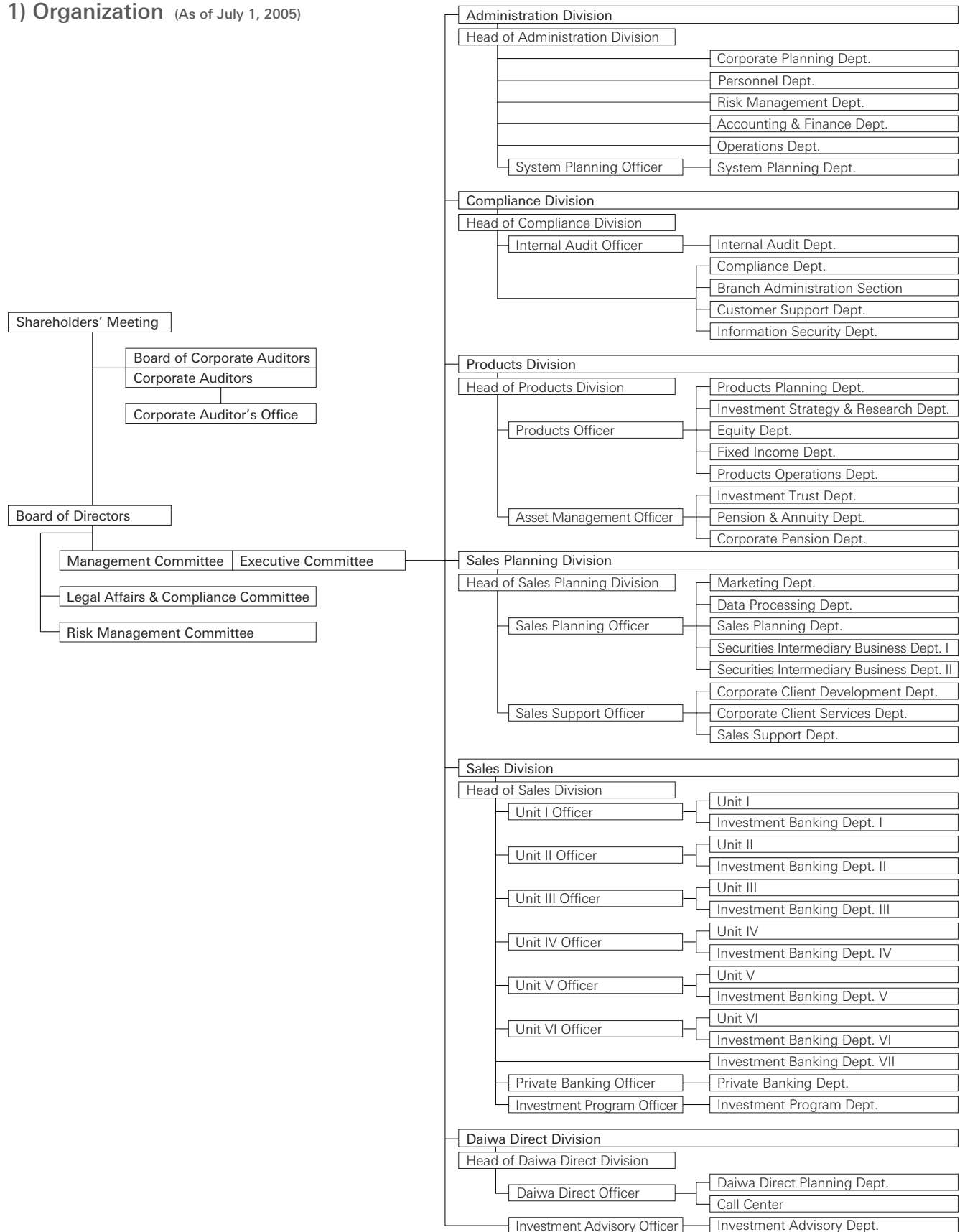
Corporate Executive Officer and CFO
Nobuyuki Iwamoto

Corporate Executive Officer
Yoshinari Hara
Chairman of the Board, Daiwa Securities Group Inc.

Corporate Executive Officer
Akira Kiyota
Deputy Chairman of the Board, Daiwa Securities Group Inc.
Chairman of the Institute and Director,
Daiwa Institute of Research Ltd.

Other Information: Daiwa Securities Co. Ltd.

1) Organization (As of July 1, 2005)



2) Officers (As of June 23, 2005)

Directors

President

Shigeharu Suzuki

Deputy President

Tetsuo Mae

Senior Managing Director

Akira Sakiyama

Senior Managing Director

Toshiro Ishibashi

Senior Managing Director

Kazuo Ariake

Managing Director

Tokuzo Takaki

Managing Director

Takashi Fukai

Managing Director

Tomiki Koide

Managing Director

Masaki Shimazu

Corporate Auditors

Syohei Takashima

Kenji Hayashibe

Kiyoaki Nakajima

Executive Officers

Makoto Shirakawa

Koushiro Taniguchi

Toshiaki Kuwano

Takuya Ikeda

Kouichi Suzuki

Osamu Abiru

Hisashi Otsuka

Hiroshi Nakamura

Yoshihiko Nakata

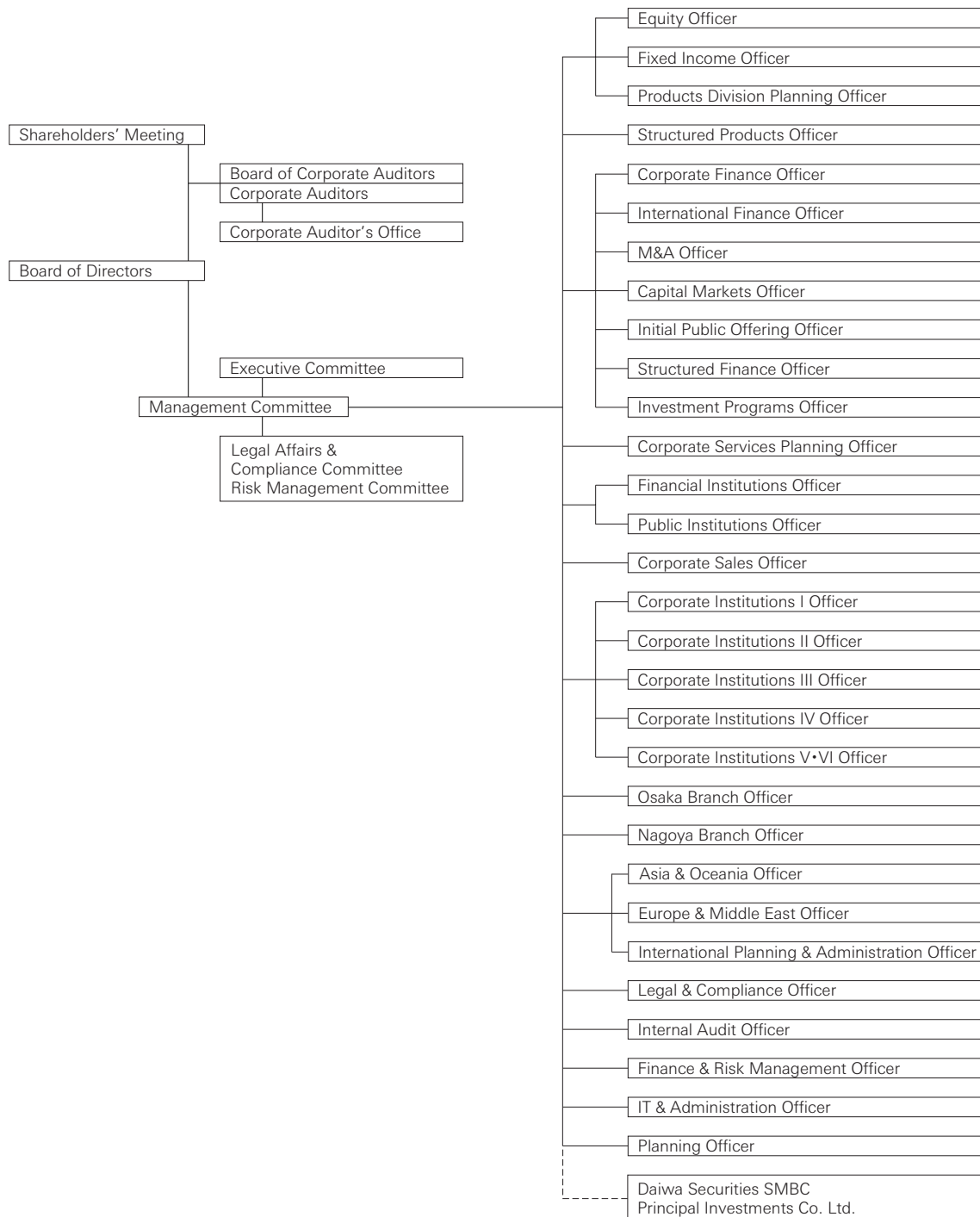
Yasuharu Okanoya

Masahiko Ichiki

Shinya Kusaba

Other Information: Daiwa Securities SMBC Co. Ltd.

1) Organization (As of August 1, 2005)



2) Officers (As of June 23, 2005)

Directors

President

Tatsuei Saito

Deputy President

Kenjiro Noda

Senior Managing Director

Hiroshi Ota

Senior Managing Director

Nobuaki Ohmura

Senior Managing Director

Taro Sumitani

Managing Director

Hiroshi Fujioka

Managing Director

Sumio Fukushima

Managing Director

Shin Yoshidome

Managing Director

Daisuke Saji

Managing Director

Kazuhiko Akamatsu

Corporate Auditors

Kishiro Fujino

Shigeharu Tominaga

Yoshiaki Senoo

Fuminori Yoshitake

Executive Officers

Senior Executive Officer

Hideo Watanabe

President, Daiwa Securities SMBC
Principal Investments Co. Ltd.

Senior Executive Officer

Akira Tanabe

Senior Executive Officer

Kazuhiko Suruta

Senior Executive Officer

Teruaki Ueda

Executive Officer

Yutaka Murakami

Mitsuharu Tanaka

Masaki Yamane

Masami Tada

Akio Takahashi

Shunichi Suzuki

Yoriyuki Kusaki

Tsing-Yuan Hwang

Shigeo Koike

Kenichi Miki

Motoi Takahashi

Eishu Kosuge

Shinya Nishio

Toshinao Matsushima

Other Information: **Main Group Companies** (As of July 1, 2005)

Daiwa Securities Co. Ltd.

6-4, Otemachi 2-chome, Chiyoda-ku, Tokyo 100-8101, Japan

Tel: 81-3-3243-2111

Daiwa Securities SMBC Co. Ltd.

8-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8289, Japan

Tel: 81-3-5533-8000

Daiwa Asset Management Co. Ltd.

10-5, Nihonbashi-kayabacho 2-chome, Chuo-ku, Tokyo 103-0025, Japan

Tel: 81-3-5695-2111

Daiwa Institute of Research Ltd.

15-6, Fuyuki, Koto-ku, Tokyo 135-8460, Japan

Tel: 81-3-5620-5100

Daiwa SB Investments Ltd.

7-9, Nihonbashi 2-chome, Chuo-ku, Tokyo 103-0027, Japan

Tel: 81-3-3243-2915

Daiwa Securities Business Center Co., Ltd.

3-2, Toyo 2-chome, Koto-ku, Tokyo 135-0016, Japan

Tel: 81-3-5633-6100

Daiwa Property Co., Ltd.

1-9, Nihonbashi-kayabacho 1-chome, Chuo-ku, Tokyo 103-8219, Japan

Tel: 81-3-3665-5601

NIF Ventures Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan

Tel: 81-3-5201-1515

Daiwa Securities SMBC Principal Investments Co. Ltd.

8-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8289, Japan

Tel: 81-3-5533-6058

Other Information: **Overseas Network** (As of May 13, 2005)

Daiwa Securities Group Inc.

Daiwa Securities America Inc.

Financial Square, 32 Old Slip, New York, NY 10005, U.S.A.
Tel: (1) 212-612-7000

Daiwa Securities Trust and Banking (Europe) PLC

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

Daiwa Securities Trust Company

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

Daiwa Europe Fund Managers (Ireland) Limited

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

Daiwa Europe Trustees (Ireland) Limited

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

Daiwa Securities SMBC Co. Ltd.

Daiwa Securities SMBC Europe Limited

Head Office

5 King William Street, London EC4N 7AX, United Kingdom
Tel: (44) 20-7597-8000

Frankfurt Branch

Trianon Bldg., Mainzer Landstrasse 16,
60325 Frankfurt am Main, Federal Republic of Germany
Tel: (49) 69-717080

Paris Branch

112, Avenue Kléber, 75116 Paris, France
Tel: (33) 1-56-26-22-00

Geneva Branch

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

Milan Branch

Via Senato 14/16, 20121 Milan, Italy
Tel: (39) 02-763271

Spain Branch

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

Middle East Branch

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

Daiwa Securities SMBC Hong Kong Limited

Level 26, One Pacific Place, 88 Queensway, Hong Kong
Tel: (852) 2525-0121

Daiwa Securities SMBC Singapore Limited

6 Shenton Way #26-08, DBS Building Tower Two,
Singapore 068809, Republic of Singapore
Tel: (65) 6220-3666

Daiwa Securities SMBC Australia Limited

Level 34, Rialto North Tower, 525 Collins Street,
Melbourne, Victoria 3000, Australia
Tel: (61) 3-9916-1300

DBP-Daiwa Securities SMBC Philippines, Inc.

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

Daiwa Securities SMBC-Cathay Co., Ltd.

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

Daiwa SMBC-SSC Securities Co., Ltd.

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

Daiwa Securities SMBC Co. Ltd.

Seoul Branch

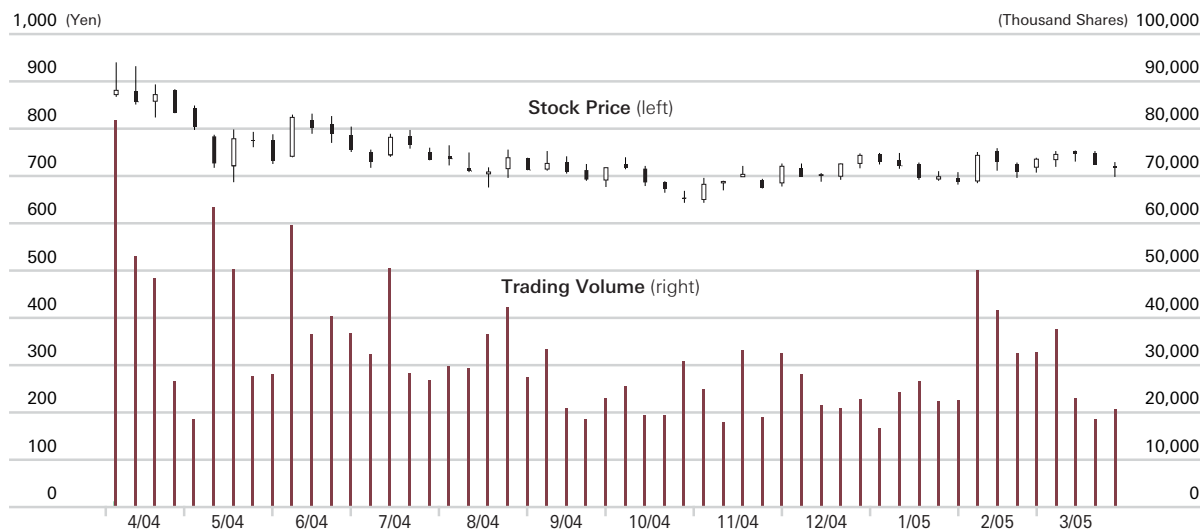
6th Floor, DITC Building, #27-3, Youido-dong,
Yongdungpo-gu, Seoul, Republic of Korea
Tel: (82) 2-787-9100

Beijing Office

International Building 2103, Jianguo Menwai Dajie 19,
Beijing, People's Republic of China
Tel: (86) 10-6500-6688

Other Information: Stock Information

1. Stock Price and Trading Volume



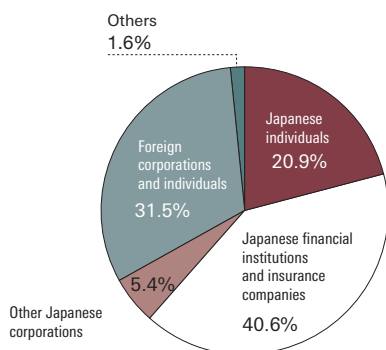
Source: Bloomberg

2. Major Shareholders (As of March 31, 2005)

Name	Number of shares held (Thousands)	% of total outstanding shares
Japan Trustee Services Bank, Ltd. Trust Account	107,378	8.06
The Master Trust Bank of Japan, Ltd. Trust Account	74,163	5.57
Sumitomo Mitsui Banking Corporation	30,328	2.28
Taiyo Life Insurance Company	28,140	2.11
The Chase Manhattan Bank 385036	25,341	1.90
Japan Trustee Services Bank, Ltd. The Sumitomo Trust & Banking Retirement Benefit Account	24,888	1.87
Nippon Life Insurance Company	22,759	1.71
State Street Bank and Trust Company 505103	20,317	1.53
BNP PARIBAS Securities (Japan) Limited	16,590	1.25
Daiwa Employees' Stock Ownership	13,473	1.01

* Numbers of shares are rounded down to the closest thousand

3. Breakdown of Shareholders (As of March 31, 2005)



**Management's Discussion
and Analysis**
Analysis of FY 2004 Earnings

Management's Discussion and Analysis

Macroeconomic Conditions

1. Japan

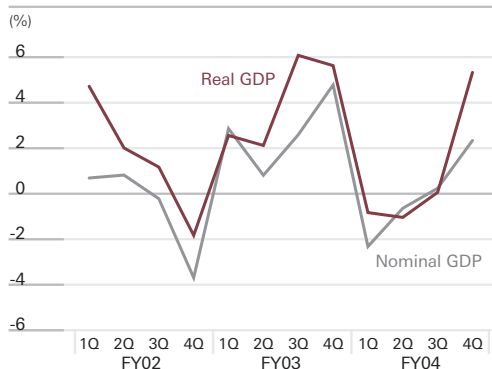
The domestic economy, which showed strong recovery in FY 2003, slowed down in FY 2004 and appeared to level off. Main factors included major inventory adjustments by IT-related companies worldwide, as well as deceleration of exports, centering on high-tech products. Capital expenditures in the high-tech sector also lost momentum, further strengthening the sentiment of economic slowdown. The latter half of the year brought typhoons, earthquakes, and other natural disasters, while prices of raw materials, including oil, reached historical highs. These factors potentially had a negative effect on the macroeconomy.

Nevertheless, some major changes became evident in FY 2004. For example, the nation has overcome the "three excesses" plaguing its economy since the "bubble" era—excess capacity, excess employment, and excess debt—and banks have effectively addressed their non-performing loan problems. In addition, land prices, though mostly in urban areas, have begun to bottom out. Moreover, corporations have sustained favorable performances, leaving some room for optimism about the medium- to long-term outlook for the domestic economy. Although the Nikkei Average moved narrowly around the ¥11,500 mark throughout the year, the average daily trading value on the the Tokyo Stock Exchange rose 21.6% compared with FY 2003, which suggested higher expectations for Japan's economic future.

2. Overseas

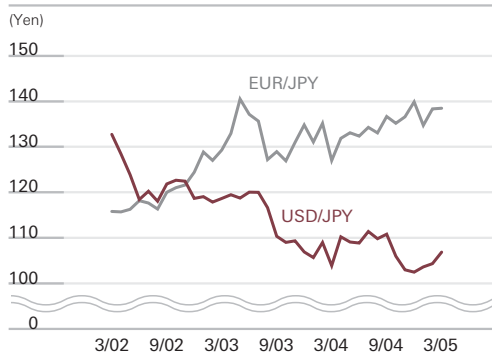
In all major geographic regions—including North America, Europe, and Asia—economies in general slowed down, despite varying performances by nation. However, the United States, the main driving force behind the world economy, maintained economic growth of over 3%, bolstered by strong capital expenditures despite having trading imbalance issues. As a result, the downtrend of the world economy was relatively moderate. In China, the authorities adopted successive measures to temper its overheating economy. While these actions had some effect, annual economic growth in China remained above 9%, further raising its presence on the global economic stage.

GDP (Annualized Quarter-on-quarter Changes)



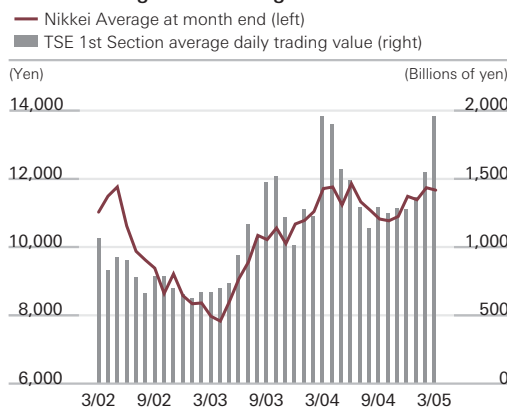
Source: Cabinet Office, Government of Japan

Foreign Exchange Rates



Source: Bloomberg

Nikkei Average and Trading Value



Source: Bloomberg, Tokyo Stock Exchange

Consolidated Operating Results

Overview

In FY 2004, a mixture of both positive and negative elements characterized the domestic economic environment. Low volatility in share price and interest rates was not entirely favorable for securities companies. The Daiwa Securities Group, however, again reported an improved financial performance. Ordinary income amounted to ¥120.4 billion, up 25.3% year-on-year and equivalent to 4.7 times the FY 2001 level. Consolidated return on equity (ROE) for the year was 8.4%—the highest among Japan's Top 3 major securities companies. The Group also continued making good progress in improving its cost structure and financial strength. In addition, it was able to extend its competitive advantage in the industry, with solid performances by its brokerage, investment banking, and trading activities.

(1) Net Operating Revenues

Consolidated net operating revenues in FY 2004 amounted to ¥390.4 billion, up 10.8% from FY 2003. Within this total, commissions grew 11.4%, to ¥216.3 billion. Although revenues from the fixed income division declined, the equity and asset management divisions showed steady revenue growth, driven by strong movement in the stock market and the Group's improved product development and marketing capabilities. The Group also raised its presence in the investment banking field, generating a 27.5% increase in commissions from FY 2003. Net trading gains rose 25.7% from FY 2003, to ¥151.1 billion, displaying steady gains compared with ¥93.9 billion in FY 2002 and ¥120.1 billion in FY 2003. Contributing factors included a strengthened customer base, resulting from stepped-up collaboration with Sumitomo Mitsui Financial Group, as well as an increase in order flows stemming from a reorganization that led to a more effective marketing system. Net trading gains also benefited from improved trading capabilities and stricter managerial accounting.

Breakdown of Net Operating Revenues

(Millions of yen)

	FY2003	FY2004	yoy	FY2004			
				Q1	Q2	Q3	Q4
Commissions.....	194,163	216,387	11.4%	54,299	53,116	46,702	62,268
Net gain on trading.....	120,195	151,117	25.7%	42,437	33,831	30,452	44,397
Net financial income.....	25,892	14,342	-44.6%	1,571	615	2,918	9,236
Others.....	12,183	8,584	-29.5%	2,750	2,399	2,107	1,328
Total.....	352,435	390,432	10.8%	101,058	89,963	82,180	117,230

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

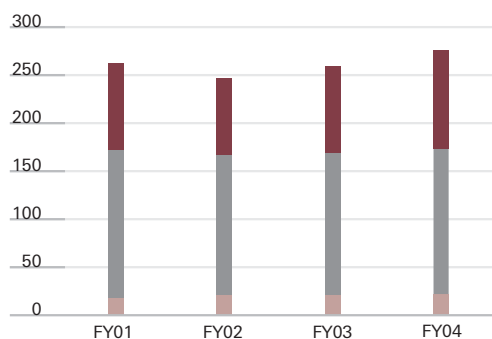
Expenses

Despite strong growth in revenues, the year-on-year increase in SG&A expenses was limited to 6.0%, for a total of ¥275.5 billion. The major portion of this rise stemmed from a 17.4% increase in commissions and other expenses, payments of performance-linked bonuses, and other variable costs. By contrast, the increases in fixed costs, such as real estate expenses (up 0.5%) and depreciation (up 2.8%) were limited. SG&A expenses accounted for 70.6% of net operating revenues, down from 73.7% in FY 2003 and 91.1% in FY 2002.

Selling, General & Administrative Expenses

■ Variable costs ■ Fixed costs ■ Depreciation

(Billions of yen)



(3) Ordinary Income and Net Income

Ordinary income for the year totaled ¥120.4 billion, up 25.3% from FY 2003 and the highest level since peaking at ¥177.7 billion in FY 2000. For the year, the Group posted a net extraordinary loss of ¥7.8 billion, which was ¥11.3 billion less than in FY 2003. The largest component of the extraordinary loss was losses on sales of loans receivable, which

amounted to ¥7.5 billion. This resulted from a write off by the lump sale of long-term loans receivable ahead of the merger between NIF Ventures Co., Ltd. and SMBC Capital Co., Ltd. During the year, NIF Ventures accelerated its withdrawal from loan operations so that it could concentrate its resources on investment activities after the merger. Consequently, net income rose 23.5%, to ¥52.6 billion.

Ordinary Income and Net Income

(Millions of yen)

	FY2003	FY2004	yoy	FY2004			
				Q1	Q2	Q3	Q4
Ordinary income	96,130	120,433	25.3%	34,193	23,066	18,022	45,151
Net income	42,637	52,665	23.5%	14,284	9,881	9,464	19,035

Trends by Business, Group Companies, and Geographical Segments

(1) Breakdown of Commission Revenues

Equity commissions rose 4.8% year-on-year, to ¥83.8 billion. This increase was lower than the growth rate of the average daily trading value on the Tokyo Stock Exchange, because the market share among transactions made by individuals at Daiwa Securities Co. Ltd (Daiwa Securities) comparably declined while the share of transactions by individuals increased among total market transactions. In this environment, net inflow of retail funds at Daiwa Securities surged dramatically, from ¥896.1 billion in FY 2003 to ¥2,309.6 billion in FY 2004. We expect this to contribute to sustainable growth in operating revenues in FY 2005 and beyond.

Asset management commissions climbed 6.0%, to

¥45.6 billion. During the year, sales of foreign currency-denominated bond and principal-protected type equity investment trusts were strong, and the resulting expansion of assets under management led to increased management fees.

Investment banking commissions jumped 27.5%, to ¥71.1 billion, following a major increase in FY 2003. This was primarily due to the increase in underwriting commissions related to primary and secondary equity offerings, as well as commissions from M&As and other activities. Having broadened our customer base and enhanced our consulting capabilities, we are expanding our share in various lead-manager league tables.

Breakdown of Commission Revenues

(Millions of yen)

	FY2003	FY2004	yoy	FY2004			
				Q1	Q2	Q3	Q4
Equity	80,061	83,887	4.8%	27,723	16,873	16,791	22,498
Fixed income (Bond)	5,219	4,264	-18.3%	822	1,229	907	1,305
Asset management	43,046	45,640	6.0%	11,248	9,662	11,239	13,490
Investment banking	55,805	71,170	27.5%	12,100	22,798	15,274	20,996
Others	10,032	11,426	13.9%	2,405	2,552	2,489	3,978
Total	194,163	216,387	11.4%	54,299	53,116	46,702	62,268

(2) Performances of Major Group Companies

Daiwa Securities, which handles the Group's retail securities business, reported operating revenues of ¥164.7 billion, down 4.0%, and ordinary income of ¥24.2 billion, down 31.2% from FY 2003. This slowdown was considerably affected by a decline in sales of foreign currency-denominated bonds. Sales of equity investment trusts, which stalled at just below ¥300 billion in the first half of the year, surged to more than ¥500 billion in the second half, mainly due to the increase in sales of investment trusts that invest in foreign currency-denominated bonds and domestic equities. As a result, total sales of equity investment trusts for FY 2004 exceeded those for FY 2003. In addition, of the ¥2,309.6 billion in net inflow of retail assets in FY 2004, ¥1,642.3 billion was in the second half of the year. In other words, the retail business improved dramatically in the latter half of the period.

Daiwa Securities SMBC Co. Ltd., which conducts the Group's wholesale securities business, posted a 26.2% year-on-year increase in operating revenues, to ¥249.6 billion, and a 57.4% surge in ordinary income, to ¥85.1 bil-

lion. These figures include the results of its consolidated overseas subsidiaries, as well as Daiwa Securities SMBC Principal Investments Co. Ltd., a domestic consolidated subsidiary involved mainly in principal finance business. During the year, Daiwa Securities SMBC raised its presence in the investment banking fields. Daiwa Securities SMBC Principal Investments, meanwhile, posted a 71.2% jump in ordinary income and its investment balance at the year-end increased mainly in private equity, by ¥26.5 billion, to ¥90.0 billion.

In the asset management business, Daiwa Asset Management Co. Ltd. reported ordinary income of ¥1.4 billion, almost double the figure of FY 2003. Its year-end outstanding assets under management of equity investment trusts jumped 31.3%, to ¥2,118.5 billion, owing to its improved product development and management capabilities—as reflected in the increase in assets of the Daiwa Global Bond Fund (monthly payment type). Daiwa SB Investments Ltd., another Group member in the asset management business, posted a 4.5-fold jump in ordinary income, to ¥2.3 billion.

Performances of Major Group Companies

(Millions of yen)

	Daiwa Securities		Daiwa Securities SMBC (Consolidated)		Daiwa Asset Management		Daiwa Institute of Research	
	FY2003	FY2004	FY2003	FY2004	FY2003	FY2004	FY2003	FY2004
Operating revenues.....	171,605	164,792	197,882	249,649	16,638	19,316	65,388	64,386
Ordinary income	35,219	24,216	54,118	85,176	772	1,490	5,529	5,329
Net income	19,272	13,863	33,156	54,034	221	1,220	835	2,871

	Daiwa SB Investments*		Daiwa Securities Business Center		Daiwa Property		NIF Ventures	
	FY2003	FY2004	FY2003	FY2004	FY2003	FY2004	FY2003	FY2004
Operating revenues.....	7,336	11,888	8,558	8,500	17,402	17,285	5,207	4,407
Ordinary income	523	2,381	448	505	4,019	3,616	465	32
Net income (loss)	114	1,434	209	281	(54,137)	320	555	(8,491)

*Equity-method subsidiary

(3) Overseas Performance

Total ordinary income from the Group's overseas operations—covering the three major regions of North America, Europe, and Asia and Oceania—declined 24.5%, to ¥8.1 billion, despite a solid performance from overseas investment banking activities.

The decline stemmed mainly from the inability of European operations to cover SG&A expenses, mainly commission and other expenses, as well as a slump in trading performance in North America. Operations in Asia and Oceania kept up a strong performance in both investment banking and trading.

Ordinary Income, by Geographical Region

(Millions of yen)

	FY2003	FY2004
America	1,270	270
Europe	7,538	5,941
Asia & Oceania	1,977	1,928
Total	10,786	8,140

Balance Sheet and Cash Flows

(1) Assets

At the end of FY 2004, total assets of the Group stood at ¥12,378.9 billion, up ¥1,613.2 billion from a year earlier. Within that amount, total current assets grew ¥1,725.9 billion, to ¥11,936.0 billion, and non-current assets fell ¥112.6 billion, to ¥442.9 billion. Seeking to meet brisk demand from investors, Daiwa Securities SMBC increased its investment positions, leading to a large increase of ¥1,210.3 billion in trading assets at year-end from FY 2003. Receivables on collateralized securities transactions surged ¥957.4 billion year-on-year. Due to an amendment to the Securities and Exchange Law, investment in investment limited partnerships and similar partnerships, is regarded as equivalent to securities from FY 2004. As a result, other current assets and other investments declined ¥20.6 billion and ¥60.1 billion respectively, while operational investment securities and investment securities increased ¥76.7 billion and ¥4.0 billion respectively.

(2) Liabilities and Shareholders' Equity

At fiscal year-end, total liabilities stood at ¥11,541.4 billion, up ¥1,545.6 billion from a year earlier. Current liabilities rose ¥1,563.4 billion, to ¥10,685.6 billion, and non-current liabilities declined ¥18.3 billion, to ¥850.1 billion. Among current liabilities, trading liabilities rose ¥743.9 billion, and short-term borrowings were up ¥887.1 billion. The main reason for the increase in trading liabilities was a rise in short positions to hedge against long positions in government bonds. The main reason for the increase in short-term borrowings was a rise in funding activity through Bank of Japan bill purchase operations and the call money market.

Total shareholders' equity increased ¥44.1 billion, to ¥648.3 billion. In addition to an increase of ¥52.6 billion in net income and a decrease of ¥19.9 billion for cash dividends, an ¥8.3 billion increase in net unrealized gain on securities, stemming mainly from the equity market recovery, was also the contributing factor.

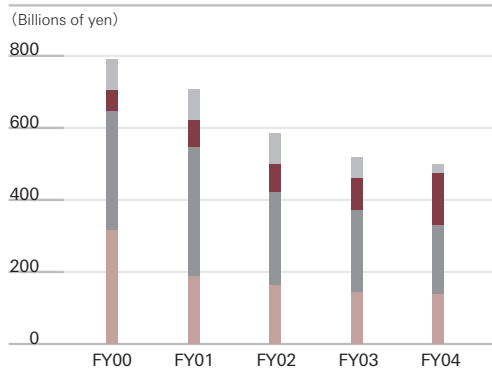
(3) Cash Flows

Cash flows from operating activities posted a net outflow of ¥1,002.8 billion, compared with a ¥111.2 billion net outflow in FY 2003. The change stemmed mainly from an increase in receivables on collateralized securities transactions and a decline in payables on collateralized securities transactions.

Despite proceeds from sales of investment securities, cash

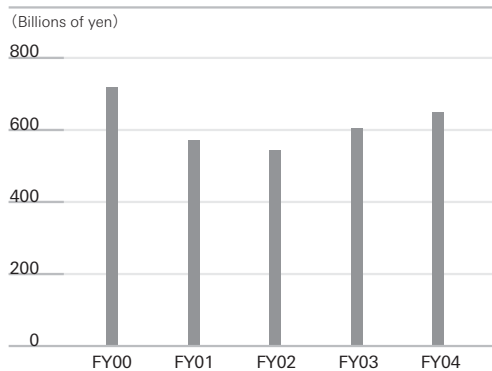
Composition of Major Risk Assets*

■ Tangible fixed assets ■ Investment securities
■ Operating investment securities ■ Other investments

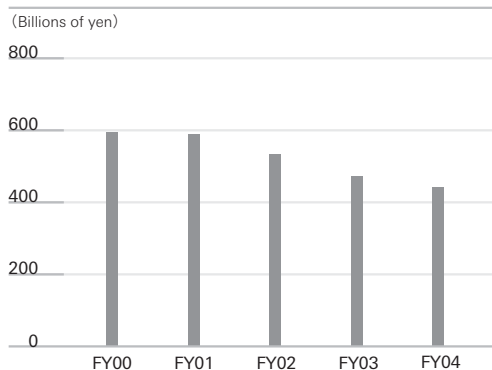


* Data for FY2000 to FY2003 has been revised to conform with the changes in presentation for FY2004.

Shareholders' Equity



External Debt



flow from investing activities showed a net outflow of ¥26.0 billion, compared with a net inflow of ¥58.8 billion in FY 2003. This was mainly due to an increase in time deposits.

Cash flow from financing activities posted a net inflow of ¥883.8 billion, compared with a net inflow of ¥114.4 billion in the previous year, owing largely to an increase in borrowings and proceeds from issuance of bonds.

Cash and cash equivalents (after deducting exchange rate changes on cash) at end of term stood at ¥338.6 billion, down ¥141.4 billion from a year earlier.

Cash Flows	(Millions of Yen)	
	FY2003	FY2004
Cash flows from		
operating activities	(111,252)	(1,002,888)
Cash flows from		
investing activities	58,818	(26,062)
Cash flows from		
financing activities.....	114,406	883,867
Cash and cash equivalents		
at end of term.....	480,123	338,697

Capital Investments

The Daiwa Securities Group's capital investment activities are based on several objectives, including building a foundation for reinforcing competitiveness and enhancing convenience for customers. In FY 2004, the Group made a total of ¥27.4 billion in IT-related expenditures, including investments to

upgrade online trading systems and develop securities intermediation systems at Daiwa Securities and to upgrade trading systems at Daiwa Securities SMBC. As a result of these investments, the Group reinforced its infrastructure and support systems, the foundation for priority businesses after FY 2004.

Risk Management

Risk Management System

The Daiwa Securities Group faces various risks in the course of its business activities. The Group is aware that identifying, evaluating, and properly managing these risks are important for maintaining healthy financial and earnings structures. The main risks are market risk, credit risk, liquidity risk, operational risk, system risk, legal risk, and reputation risk. The primary responsibility for controlling these risks rests with the subsidiaries of the Daiwa Securities Group. Each subsidiary has established its own system for managing various types of risks according to the characteristics and risk profiles of their respective businesses. Daiwa Securities Group Inc., in turn, controls the Group's overall risks by monitoring its subsidiaries' risk management systems and processes.

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

This information is important to the Executive Committee's determinations on resource allocations.

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

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

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

tions are made to the management. Comprehensive quarterly reports, which include other risk information, are submitted to the Risk Management Committee.

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

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

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

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

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

Measures for Dealing with Major Risks

[Market Risk]

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

The Group employs Value at Risk (VaR), a commonly used statistical management method, as an index for measuring and monitoring the market risk of its trading positions. VaR provides an estimate of losses that will be incurred from a trading position over a certain period and at a certain confidence level. The Group uses holding periods of one day and a confidence level of 99%. This is equivalent to the probability of one day per 100 business days of trading in which actual trading losses can exceed those indicated by the VaR method.

Value at Risk for Daiwa Securities SMBC

<Range and Assumption of VaR>

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

(Month end)	Billions of yen								
	3/03	6/03	9/03	12/03	3/04	6/04	9/04	12/04	3/05
Equity	0.63	0.39	1.11	0.78	0.52	0.62	0.98	0.66	1.77
Interest	0.58	0.68	0.85	0.51	0.54	0.60	0.93	0.46	0.35
Currency	0.02	0.05	0.04	0.10	0.05	0.06	0.07	0.08	0.06
Total	1.23	1.12	2.00	1.39	1.11	1.28	1.98	1.20	2.18
Diversification effect	-0.46	-0.18	-0.26	-0.45	-0.36	-0.45	-0.39	-0.35	-0.37
VaR	0.77	0.94	1.74	0.94	0.75	0.83	1.59	0.85	1.81

FY 2003 high: ¥1.99 billion, low: ¥0.46 billion, average: ¥0.96 billion

FY 2004 high: ¥5.98 billion, low: ¥0.60 billion, average: ¥1.28 billion

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

- Past market fluctuations do not necessarily provide an accurate guide for future market movements.
- Actual market price fluctuations of a trading position can differ from the result produced by the VaR model, due to changing market conditions.
- VaR based on one-day holding periods do not suffi-

ciently account for market risk affecting positions that cannot be liquidated or hedged in one day.

- The reliability of VaR declines when market conditions during the period covered by collection of data differ from actual market conditions.

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

- Market Risks Unrelated to Trading Positions

The Group also holds investment securities that are unrelated to trading positions but nonetheless are exposed to market risks. These include investment securities held from a long-term perspective for business relationship purposes, operational investment securities related to the venture capital business, and investment assets related to the principal finance business. With respect to listed stocks among these securities, a system has been set up for measuring their VaR and making quarterly reports to the Internal Control Committee. Moreover, the balance of holdings of unlisted stocks, for which VaR cannot be used to estimate market risk, is also reported as investment risk.

[Credit Risk]

Credit risk is the risk of losses sustained as a result of a client being unable to repay its debt according to the contract.

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

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

[Liquidity Risk]

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

The Group carries out its business activities using many assets and liabilities. The majority of its assets are highly liquid. As for liabilities, the Group endeavors to employ diversified fund-raising methods and multiple maturity periods in order to minimize the risks associated with refinancing. In addition to straight bonds, convertible bonds, and medium-term note programs, the Group's main fund-raising avenues include borrowings from financial institutions, issue of commercial paper, call money, and repurchase agreements and transactions.

The amount and cost of funds raised is influenced by

market conditions and the Group's credit rating. The Group believes it is important to have an appropriate asset-liability balance and to maintain and manage liquidity.

To ensure that business activities are not interrupted, even in the event of a credit crunch stemming from large fluctuations in financial markets, the Group maintains a liquid portfolio allowing it to meet its funding needs for about one year, without relying on new uncollateralized fund procurement. Moreover, the Group has arranged various commitment facilities with Japanese and foreign banks that will enable it to procure funds in the case of an emergency.

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

[Operational Risk]

Operational risk is the risk of incurring losses due to inappropriate or malfunctioning internal processes, personnel, or computer systems, or due to adverse external occurrences. As the Group's business becomes more sophisticated, diversified, and systemized, the accompanying risks become more varied, and the need to manage such operational risk grows each year.

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

company strives to reduce operational risk according to the nature of its own business.

[System Risk]

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

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

In addition, the Group constantly monitors the operating status of its core systems to keep disorders to an absolute minimum. Even if a problem occurs, the Group has set up frameworks to respond swiftly to the problem.

[Legal Risk]

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

The Group pursues group management with securities-related activities as its core business. There are laws and regulations that we must comply with when executing securities transactions. In general business other than securities business, as well, the Group is required to comply with various regulations.

To ensure against infringements of these regulations governing securities and other businesses, the Group has set up sections in charge of compliance at each company, and established committees to discuss and decide on compliance issues and matters related to forming corporate ethical rules.

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

[Reputation Risk]

Reputation risk refers to the possibility of losing customers and income as a result of rumors and any resulting loss of reputation. This risk can emanate from various factors, including improper actions by executives and employees, weak financial results, and the spread of rumors not based on truth. As such, there are no uniform procedures for managing reputation risk.

The Group has established various regulations based on its Disclosure Policy, with particular emphasis on information management and provision. It also set up a Disclosure Committee, charged with the tasks of monitoring information that may identify reputation risk and installing appropriate mechanisms to minimize the impact of such risk on the Group. In these ways, the Group works hard to keep abreast of problems and occurrences that may affect its reputation, and undertakes public relations and disclosure initiatives to prevent and minimize reputation risk.

The Daiwa Securities Group's Credit Ratings

(As of July 25, 2005)

	Daiwa Securities Group Inc.		Daiwa Securities		Daiwa Securities SMBC	
	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term
Moody's Investors Service.....	Baa3	—	Baa2	P-2	A2	P-1
Standard & Poor's	BBB	A-2	BBB	A-2	A-	A-2
Fitch Ratings	BBB+	F-2	—	—	A-	F-1
Rating and Investment Information	A-	a-1	A-	a-1	A	a-1
Japan Credit Rating Agency	A	—	A	—	—	—

Consolidated Financial Statements

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Consolidated Balance Sheets

Daiwa Securities Group Inc.
March 31, 2005 and 2004

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

See accompanying notes.

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

Consolidated Statements of Operations

Daiwa Securities Group Inc.

Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Operating revenues:				
Commissions (Note 21).....	¥ 216,387	¥ 194,163	¥ 144,283	\$ 2,022,308
Net gain on trading	151,290	122,013	91,307	1,413,925
Interest and dividend income (Note 10).....	118,019	103,224	114,707	1,102,981
Service fees and other sales	33,641	34,414	37,362	314,402
	519,337	453,814	387,659	4,853,616
Interest expense (Note 10).....	103,677	77,331	90,594	968,944
Cost of service fees and other sales	25,228	24,048	26,255	235,776
Net operating revenues (Note 20)	390,432	352,435	270,810	3,648,896
Selling, general and administrative expenses				
(Notes 20 and 22).....	275,544	259,915	246,701	2,575,178
Operating income (Note 20)	114,888	92,520	24,109	1,073,718
Other income (expenses):				
Provision for statutory reserves, net (Note 16)	(518)	(1,241)	(960)	(4,841)
Other, net (Note 23)	(1,767)	(14,353)	(11,304)	(16,514)
	(2,285)	(15,594)	(12,264)	(21,355)
Income before income taxes and minority interests	112,603	76,926	11,845	1,052,363
Income taxes (Note 15):				
Current	11,933	15,170	2,671	111,523
Deferred	28,234	5,638	12,686	263,869
	40,167	20,808	15,357	375,392
Minority interests.....	(19,771)	(13,481)	(2,811)	(184,776)
Net income (loss).....	¥ 52,665	¥ 42,637	¥ (6,323)	\$ 492,195
Per share amounts :				
Net income (loss).....	¥ 39.03	¥ 31.66	¥ (4.75)	\$ 0.36
Diluted net income.....	37.36	30.28	—	0.35
Cash dividends applicable to the year	13.00	10.00	6.00	0.12

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Daiwa Securities Group Inc.

Years ended March 31, 2005, 2004 and 2003

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

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

See accompanying notes.

Consolidated Statements of Cash Flows

Daiwa Securities Group Inc.

Years ended March 31, 2005, 2004 and 2003

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

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

See accompanying notes.

Notes to Consolidated Financial Statements

Daiwa Securities Group Inc.

Three years ended March 31, 2005

1. Basis of financial statements

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

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

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

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

The Company and domestic consolidated subsidiaries

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

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

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

2. Significant accounting policies

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

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

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

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

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

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

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

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

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

Of those securities with no fair value, investments in limited partnerships and similar partnerships which are regarded as equivalent to securities by the Article 2 (2) of Securities Exchange Act in 2004, share of net income raised by the partnership has been reflected on consolidated statements of operations of this fiscal year and share of

net unrealized profits and losses held by the partnerships directly into stockholders' equity.

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

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

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

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

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

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

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

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

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

Bonuses — The Company and domestic consolidated subsidiaries follow the Japanese practice of paying bonuses to employees in June and December. Accrued employees' bonuses represent liabilities estimated as of the balance sheet date. Bonuses to directors and corporate executives

utive officers of the Company, which are subject to approval at the Compensation Committee, represent liabilities as of the balance sheet date. Compensation Committee sets policies for deciding compensation of individual directors and corporate executive officers and determines compensation content for each individual. The Chairman of the Board chairs the committee, while three out of five committee members are outside directors. Bonuses to directors of consolidated subsidiaries, which are subject to approval at the shareholders' meeting, are accounted for as an appropriation of retained earnings.

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

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

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

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

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

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

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

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

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

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

3. Margin transactions

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

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

Customer margin loans are stated at amounts equal to the purchase amounts of the relevant securities, which are collateralized by customers' securities and customers'

deposits. Proceeds of securities sold for customers' accounts are stated at the sales amounts.

4. Collateralized short-term financing agreements

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

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

5. Trading assets and trading liabilities

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

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

6. Securities other than trading assets and trading liabilities

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

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

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

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

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

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

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

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

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

In addition to the above, equity securities of non-consolidated and affiliated companies amounting to ¥24,217 million (\$226,327 thousand) at March 31, 2005 and ¥19,922

million at March 31, 2004, respectively, were included in "investment securities" in the accompanying consolidated balance sheets.

7. Derivatives for non-trading purposes

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

	Millions of yen		
	Contract amount	Market value	Unrealized gains (losses)
March 31, 2005:			
Currency swap	¥ 11,237	¥ 1	¥ 1
Foreign exchange forward	52	(0)	(0)
March 31, 2004:			
Currency swap	¥ 8,704	¥ (12)	¥ (12)
Foreign exchange forward	2	0	0
	Thousands of U.S. dollars		
	Contract amount	Market value	Unrealized gains (losses)
March 31, 2005:			
Currency swap	\$ 105,019	\$ 9	\$ 9
Foreign exchange forward	486	(0)	(0)

8. Risk management information concerning trading transactions

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

The principal risks inherent in trading in these markets are market risk and credit risk. Market risk represents the potential for loss from changes in the value of financial instruments due to price and interest rate fluctuations in the markets. As to market risk, Daiwa Securities SMBC

determines the balance of risk and profit or loss on each instrument and uses a value-at-risk method to manage this risk. Credit risk represents the potential for loss arising from the failure of the counter-party in a transaction to fulfill its terms and conditions. Securities subsidiaries assess the credit risk of their counter-parties applying internal credit rating and monitor their exposure by measuring notional principal and credit exposure.

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

9. Pledged assets

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

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

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

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

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

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

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

10. The Company's transactions with related parties

One of the Company's statutory auditors, who retired on June 23, 2004, was the chairman of the Taiyo Life Insurance Company and the chairman of T&D Holdings, Inc. The significant account balances with the Taiyo Life Insurance Company at June 23, 2004 were long-term loans receivable amounting to ¥5,000 million (\$46,729 thousand), short-term borrowings amounting to ¥2,000 million (\$18,692 thousand)

and long-term debt amounting to ¥10,000 million (\$93,458 thousand). The Company paid ¥51 million (\$477 thousand) as interest expenses and received ¥41 million (\$383 thousand) as interest income from April 1, 2004 to June 23, 2004. Interest payables and interest receivables at June 23, 2004 were ¥48 million (\$449 thousand) and ¥6 million (\$56 thousand), respectively.

11. Lease transactions

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

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

Lessee:	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Non-capitalized finance leases:			
Total assets under non-capitalized finance leases	¥ 9,573	¥ 14,359	\$ 89,467
Accumulated depreciation	4,869	7,830	45,505
Accumulated loss on impairment	—	2	—
Future lease payments in respect of non-capitalized leases	4,791	6,643	44,776
Due within one year	1,807	2,605	16,888
Operating leases:			
Future lease payments in respect of operating leases	11,284	11,981	105,458
Due within one year	1,922	1,892	17,963
<hr/>			
Lessor:	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Operating leases:			
Future lease receipts in respect of operating leases	¥ 871	¥ 1,567	\$ 8,140
Due within one year	233	325	2,178

12. Payables to customers and counterparties

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

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

13. Bank borrowings and long-term debt

As is customary in Japan, in the case of unsecured bank borrowings, security must be given under certain conditions if requested by a lending bank. The bank has the right to offset cash deposited by the borrower against any

debt or obligation that becomes due, and in the case of default and certain other specified events, against all debts payable to the bank. As of this date, no such request has been made and no such right has been exercised.

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

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

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

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

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

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

14. Retirement benefits

Retirement benefits for employees

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

Unfunded plan

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

Closed funded plan

The Company and domestic consolidated subsidiaries closed their defined benefit plan as of April 1, 1999 and accordingly, no new employees have been added to the

plan and no service cost has been charged for the plan. The effect on the consolidated financial statements was immaterial.

Retirement benefits for directors

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

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

15. Income taxes

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

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

March 31, 2003, "deferred tax assets" decreased by ¥2,208 million and "income tax-deferred" and "net unrealized gain on securities, net of tax effect," increased by ¥2,271 million and ¥63 million, respectively, compared with what would have been recorded under the previous local tax law.

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

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

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

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

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

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

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

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

16. Statutory reserves

The Securities and Exchange Law of Japan requires a securities company to set aside a reserve in proportion to its securities transactions and other related trading to

cover possible customer losses incurred by default of the securities company on securities transactions.

17. Contingent liabilities

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

18. Shareholders' equity

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

According to the Code, a company should save 10% of cash dividends and other cash appropriated as legal earn-

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

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

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

The shareholders of the Company approved a stock incentive plan on June 23, 2004. The plan provides for the

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

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

19. Capital adequacy requirements

In Japan, the securities company is subject to risk-based capital adequacy rules established and administered by the Financial Services Agency. Securities subsidiaries report their capital adequacy ratio as defined pursuant to these rules. The authorities will take certain administrative meas-

ures if such ratio declines below 140%. Capital adequacy ratios of Daiwa Securities were 351.3% (unaudited) and 363.3% (unaudited) for 2005 and 2004, respectively, and those of Daiwa Securities SMBC were 355.6% (unaudited) and 336.9% (unaudited) for 2005 and 2004, respectively.

20. Segment information

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

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

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

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

At March 31, 2005:

Total assets						
by geographic area	\$ 94,194,888	\$ 19,610,991	\$ 7,581,234	\$ 584,673	\$ (6,280,552)	\$ 115,691,234

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

	Millions of yen			
	America	Europe	Asia & Oceania	Total
Year ended March 31, 2005:				
Overseas revenue	¥ 8,552	¥ 21,149	¥ 8,890	¥ 38,591
Total revenue				390,432
% of total revenue	2.2%	5.4%	2.3%	9.9%

Year ended March 31, 2004:

Overseas revenue	¥ 10,945	¥ 20,353	¥ 8,249	¥ 39,547
Total revenue				352,435
% of total revenue	3.1%	5.8%	2.3%	11.2%

Year ended March 31, 2003:

Overseas revenue	¥ 8,144	¥ 21,589	¥ 6,951	¥ 36,684
Total revenue				270,810
% of total revenue	3.0%	8.0%	2.5%	13.5%

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

21. Commissions

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

	Millions of yen					
	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Year ended March 31, 2005:						
Brokerage	¥ 81,919	¥ 1,464	¥ 159	¥ —	¥ —	¥ 83,542
Underwriting.....	—	—	—	54,744	—	54,744
Distribution	—	—	19,688	3,598	—	23,286
Other.....	1,968	2,800	25,793	12,828	11,426	54,815
	¥ 83,887	¥ 4,264	¥ 45,640	¥ 71,170	¥ 11,426	¥ 216,387
Year ended March 31, 2004:						
Brokerage	¥ 78,194	¥ 1,242	¥ 209	¥ —	¥ —	¥ 79,645
Underwriting.....	—	—	—	46,094	—	46,094
Distribution	—	—	21,904	1,662	—	23,566
Other.....	1,867	3,977	20,933	8,049	10,032	44,858
	¥ 80,061	¥ 5,219	¥ 43,046	¥ 55,805	¥ 10,032	¥ 194,163
Year ended March 31, 2003:						
Brokerage	¥ 45,403	¥ 1,163	¥ 276	¥ —	¥ —	¥ 46,842
Underwriting.....	—	—	—	27,946	—	27,946
Distribution	—	—	14,059	608	—	14,667
Other.....	1,839	3,422	26,535	11,084	11,948	54,828
	¥ 47,242	¥ 4,585	¥ 40,870	¥ 39,638	¥ 11,948	¥ 144,283
	Thousands of U.S. dollars					
	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Year ended March 31, 2005:						
Brokerage	\$ 765,598	\$ 13,682	\$ 1,486	\$ —	\$ —	\$ 780,766
Underwriting.....	—	—	—	511,626	—	511,626
Distribution	—	—	184,000	33,626	—	217,626
Other.....	18,393	26,168	241,056	119,888	106,785	512,290
	\$ 783,991	\$ 39,850	\$ 426,542	\$ 665,140	\$ 106,785	\$ 2,022,308

22. Selling, general and administrative expenses

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

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

23. Other income (expenses)

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

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

For the purpose of identifying impairment of fixed assets, the Company and domestic consolidated subsidiaries grouped their fixed assets principally according to the unit on which decisions for investment are made. The recoverability of book values of the fixed assets was evaluated for

each asset group. As a result, fixed assets listed below were identified as being impaired and their book values were reduced to their recoverable amounts. The breakdown of impairment losses recognized in the year ended March 31, 2004 was as follows:

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

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

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

24. Subsequent events

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

Shareholder agreement — The shareholder agreement has been made among the Company, Sumitomo Mitsui Financial Group, Inc. and Sumitomo Mitsui Banking

Corporation regarding basic matters related to the management of the newly formed company after the merger between NIF and SMBC Capital Co., Ltd.

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

Independent Auditors' Report



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

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

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

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

Without qualifying our opinion, we draw attention to the following.

- (1) As discussed in Note 2 to the consolidated financial statements, Daiwa Securities Group Inc. and domestic subsidiaries made an early application of the new Japanese accounting standards for recognition of impairment of long-live assets in the year ended March 31, 2004.
- (2) As discussed in Note 24 to the consolidated financial statements, on May 13, 2005, NIF Ventures Co., Ltd., one of the major subsidiaries of the Company, entered into a merger agreement with SMBC Capital Co., Ltd., and decided to issue new shares on the same day.

On May 13, 2005, a shareholder agreement was made among the Company, Sumitomo Mitsui Financial Group Inc. and Sumitomo Mitsui Banking Corporation regarding basic matters related to the management of the newly formed company after the merger mentioned above.

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

KPMG AZSA & Co.

Tokyo, Japan
June 27, 2005

Corporate Data

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Chiyoda-ku, Tokyo 100-8101 Japan
Tel: 81-3-3243-2100

Internet Home Page Address

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

Commencement of Operations

May 1, 1902

Date of Founding

December 27, 1943

Common Stock

Authorized

4,000,000 thousand shares

Issued and Outstanding

1,331,736 thousand shares

(as of March 31, 2005)

Number of Shareholders

113,008 (as of March 31, 2005)

Independent Public Accountants

KPMG AZSA & Co.

Stock Exchange Listings

Tokyo, Osaka, Nagoya, London, Paris, Frankfurt, Brussels

Transfer Agent and Registrar

The Sumitomo Trust and Banking Company, Limited

Stock Transfer Agency Department

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