

RETAIL

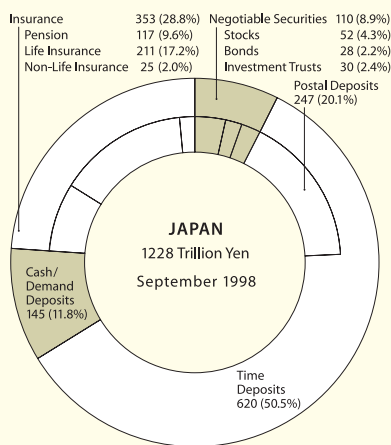
B u s i n e s s

Daiwa Securities Co. Ltd.

Daiwa Securities Co. Ltd. commenced operations on April 26, 1999 and inherited the retail securities business of the former Daiwa Securities Co. Ltd. The company provides services to individual

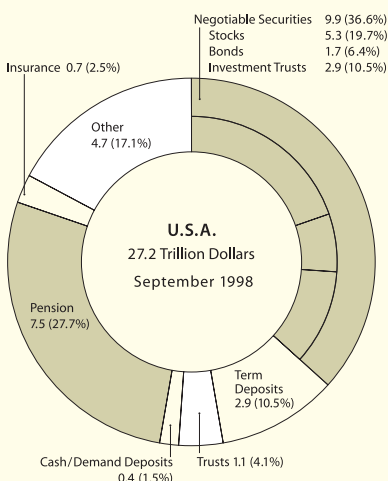
investors and regional corporate customers nationwide responsive to the characteristics of each region.

Composition of Personal Financial Assets – Japan and U.S.A.



Unit: Trillions of Yen

Source: Bank of Japan



Unit: Trillions of Dollars

Source: FRB

Background

Japanese households hold over ¥1,200 trillion (approx. \$10 trillion) in financial assets. ¥620 trillion of this amount, more than one half of the total, is held in time deposits, while a large portion of the remainder is also held in other low-risk, low-return instruments (see graph). This situation differs fundamentally from that in other developed economies, especially the United States, where a substantially larger portion of household wealth is held in higher-return assets such as equities. There are a number of explanations for this situation.

The first is that, in Japan, ¥590 trillion of the ¥1,200 trillion in household savings is owned by persons aged 60 and older. These older savers are highly risk averse.

Secondly, investors in other markets have long been used to the idea that they can both achieve superior returns and reduce overall risk through diversified investments. Hence, such investors routinely include equities and other “risky” securities as core components of long-term asset building schemes such as 401(K) pension plans. In Japan,

Directors

President
Yoshinari Hara

Deputy President
Nobuo Kurakazu

Deputy President
Teruo Hatano

Managing Director
Tetsuo Mae

Managing Director
Tatsuei Saito

Managing Director
Masaki Hirabayashi

Managing Director
Akira Hasegawa

Executive Officers

Keiichi Sato

Akira Sakiyama

Hiroshi Ohta

Yoshihide Shimamura

Tetsuya Ikeda

Taro Tanaka

Hiroshi Fujioka

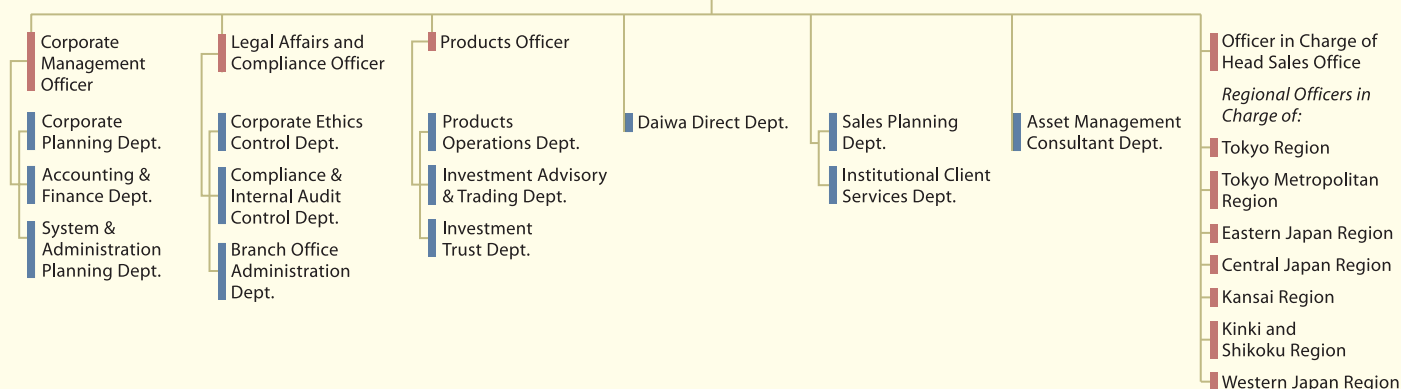
Corporate Auditors

Isao Tada

Toshio Shirai

Takao Okubo

Daiwa Securities Co. Ltd.



by contrast, diversification of higher-risk assets to achieve superior returns while maintaining an acceptable risk profile has not been widely practiced. Investors have tended to evaluate assets on a case-by-case basis with core investments chosen for capital preservation rather than higher return potential. Investment in riskier assets such as stocks and stock investment trusts has been considered more speculative and short-term.

Finally, overseas investors have had access to accounts that offer greater liquidity, similar to that on ordinary bank deposits, while still reaping the benefits of the higher returns available in securities markets. Japanese customers have only recently started to have access to these innovations.

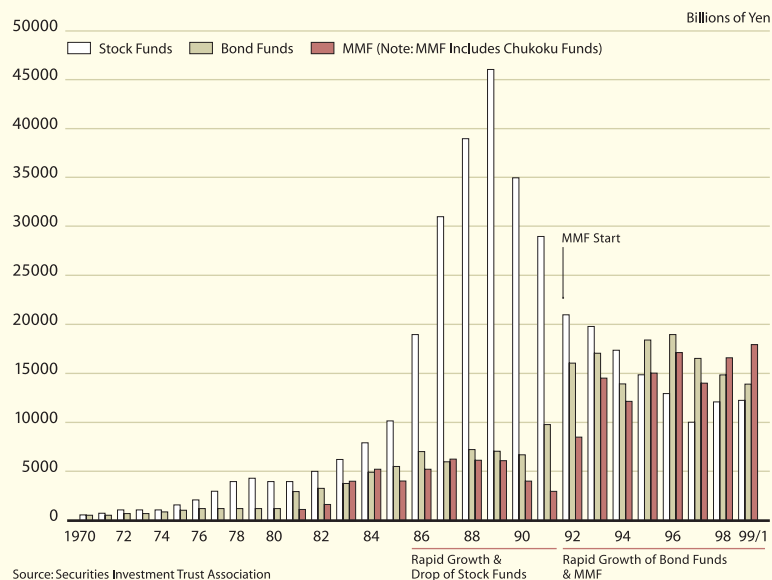
Analysis

Deregulation will increase the opportunities available to investors. The offering of investment trusts through banks, the introduction of cash management and wrap accounts, and the opening of new distribution channels, including the Internet, will all be factors increasing the flow of funds from "safe-haven" vehicles into securities markets. The end of the fixed commission system and unbundling of securities services will motivate investors to seek those combinations of products and distribution channels that best fit their individual preferences, needs and resources.

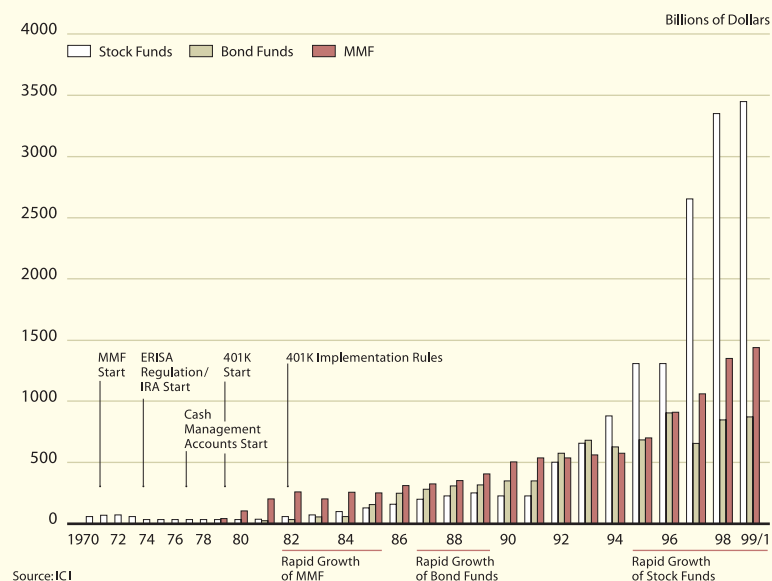
Members of the baby-boomer generation, who are the largest age cohort in Japan's population, are now entering their forties and early fifties. This group can be expected to show a strong interest in capital appreciation to fund a long retirement. This process will be accelerated by the introduction of defined contribution pension plans (401(K)). Another factor will be wealth inherited by more financially sophisticated and less risk-averse children.

In the United States, the introduction of Cash Management Accounts in 1977 and 401(K) plans in 1979 greatly expanded the available market for mutual funds. Their introduction in the Japanese market could have similar effects, especially if the planned reduction of deposit insurance on bank accounts to a maximum of ¥10 million from April 2001 reduces the attractiveness of bank accounts as a safe haven. We should also note that around ¥100 trillion in postal savings deposits are due to mature during 2000 and 2001. These deposits

Trends in Outstanding Investment Trusts – Japan



Trends in Outstanding Mutual Funds – U.S.A.



Estimated Disposition of Personal Financial Assets in Japan

	Trillions of Yen			
	FY1998	FY1999	FY2000	FY2001
Total of Financial Assets	1250	1280	1320	1370
Negotiable Securities	95	98	110	120
Govt. Bonds	6	6	7	8
Bank Debentures	16	15	13	12
Stocks	62	65	75	85
Others	11	12	15	15
Investment Trust	31	40	50	65

Note: Daiwa Institute of Research Estimate, November 1998

Source: Daiwa Institute of Research

were placed at interest rates of up to 6.33% per annum. Holders of these accounts may be looking for similar returns and thus more receptive to investing in securities.

Taking all these factors into account we expect the total amount of negotiable securities and investment trusts outstanding to increase to ¥120 trillion and ¥65 trillion respectively by FY2001 based on November 1998 estimates by DIR.

Daiwa's Response

The secular trend is clear. Like investors in other countries, Japanese households and individuals will be looking for sound advice and products that meet specific individual needs, taking into account variables such as available funds, risk preferences, investment time horizons and tax situation. Some may be willing to pay for financial advice. Others will prefer to manage their investments on their own. Our aim is to provide appropriate services for each class of investor. For those who require personal investment advice, Daiwa will provide highly sophisticated and individualized services, including private banking services where appropriate. For the more price- or convenience-sensitive segments of the market, Daiwa will offer a variety of services, utilizing channels that include the Internet, cellular telephones, and ACMs (Auto Consulting Machines).

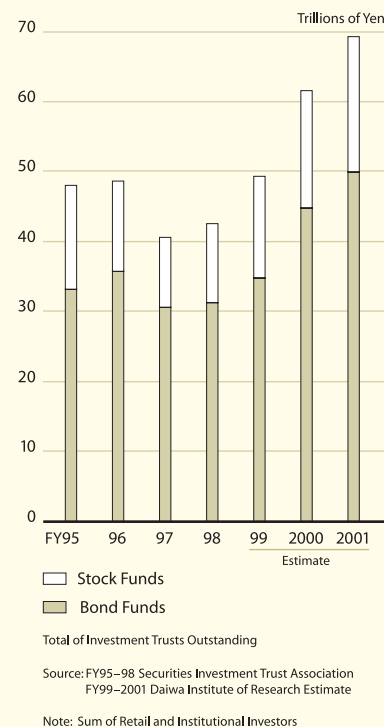
On the product front, Daiwa Securities Co. Ltd. already boasts what is arguably the most comprehensive suite of investment products in the market, including both bond and equity investment trusts. Our daily equity research information and investment advisory and portfolio analysis tools have made a positive contribution in expanding our group equity market share to above 10%. Also, in response to the prolonged low interest rate environment we have been introducing various alternative investments, such as corporate bonds and structured notes to investors in addition to our regular product line, such as Japanese Government bonds, Euro bonds, Samurai bonds, MTNs and U.S. Treasury bonds. We offer over 600 investment trusts. Investment trusts are how we meet the investment needs of the majority of our investors, and how well we do in this area is clearly demonstrated by our market share. Daiwa Asset Management Co. Ltd.

accounts for the largest portion of net assets under management in Japan. These have mainly been distributed through Daiwa Securities Co. Ltd. Daiwa SB investments Ltd. will also be able to provide products which are managed by its new partners, T. Rowe Price Associates, Inc. and the Robert Fleming Group.

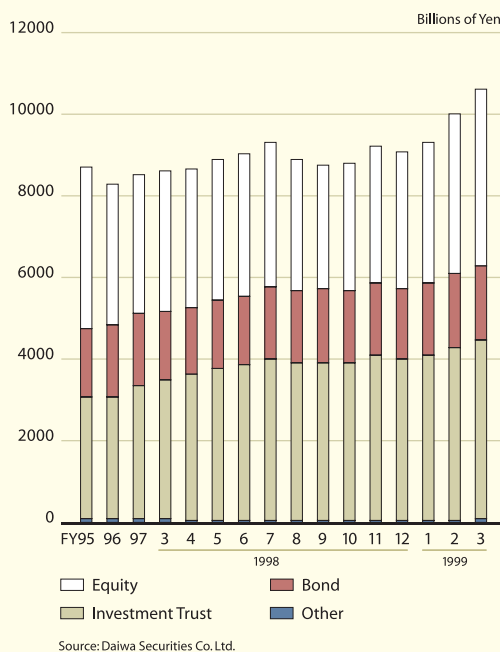
Daiwa's product range is already more than ample for efficient portfolio construction to meet a wide variety of needs. We are not, however, standing still. In March 1998 our total retail client assets stood at ¥8.5 trillion. A year later, as of March 31, 1999, this total had risen to ¥11 trillion. We have announced plans to increase it further, to ¥18 trillion, by FY2000. The reorganization of our investment trust management operations supports this effort by substantially augmenting our product development capabilities.

For the last ten years we have provided training in financial planning for our retail staff. Over the last two years the intensity of this training has increased. For sales staff, training in formal financial analysis techniques has been augmented by company-specific training in the use of our in-house investment support and financial planning

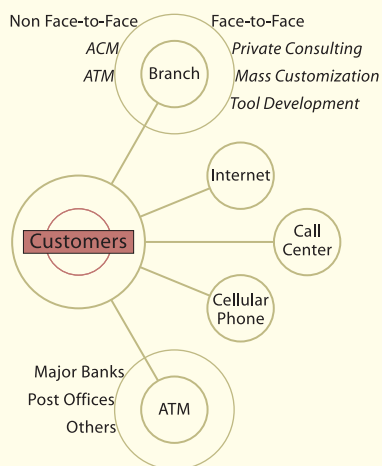
Growth in Investment Trusts



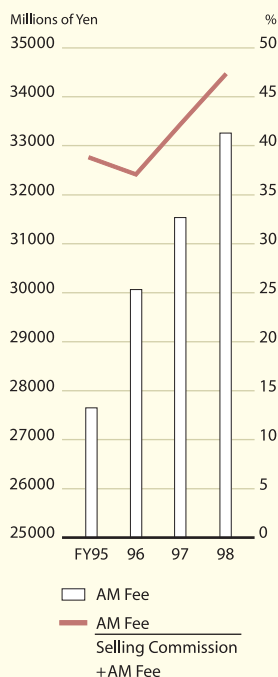
Daiwa's Outstanding Retail Client Assets



Distribution Routes



Asset Management Fees



Source: Daiwa Securities Co. Ltd.

software tool POET SB. Besides this Daiwa-specific training, a special effort has also been made to increase the number of our staff, especially those involved in private banking, who obtain external qualifications, for example as CFP (Certified Financial Planner). In addition, we are also conducting comprehensive re-training with a special emphasis on senior staff (branch managers and above). We are committed to the proposition that structural reform can only achieve substantial improvements when our people are fully prepared to take advantage of the new opportunities offered to them.

Internal Reorganization

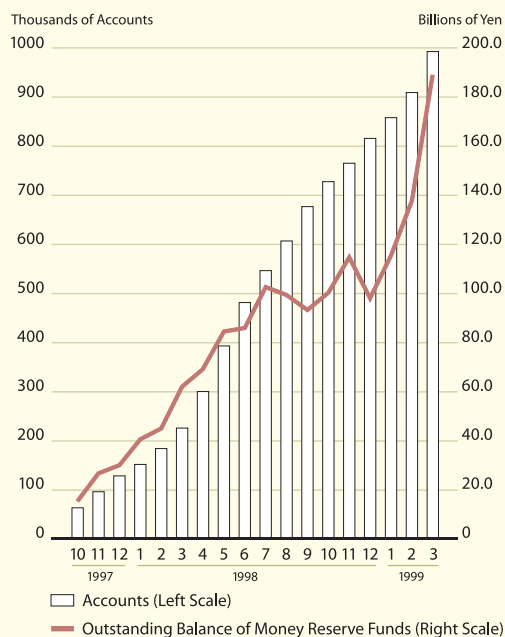
Daiwa has taken dramatic steps to reorganize our retail operations, to better take advantage of our strengths and provide the superior services required to sustain future growth.

- We have integrated our equity, bond and investment trust headquarters functions, allowing us to focus more comprehensively on all of our retail customers' needs. This step has not only improved our service; it has also lowered our cost base.
- We have increased the operational responsibility of managers closer to the customer. Instead of three regional divisions, we now have eight, each controlled by its own regional manager. Increasing the number of regional divisions allows their managers to focus more closely on local needs and resources, matching product emphasis and distribution methods to specific local needs. While strengthening branch commitment to centrally defined strategic goals, it will also enable closer liaison with local corporations and financial institutions as well as with individuals.
- At the branch level, branch managers who are in direct contact with customers have been given greater autonomy to carry out their management duties. Research publications, public lectures and seminars produced by our Investment Advisory and Trading Department provide additional support.

New Business Development

A major focus of new business development is our Cash Management Program (CMP). By the end of March 1999 we had achieved almost one million accounts. We intend to add services to this product line in order to make it even more attractive.

Cash Management Program



Source: Daiwa Securities Co. Ltd.

Another important effort is maintaining our leadership in defining new modes of distribution. Our goals are twofold: first, to serve our customers more effectively and, second, to broaden the base of investors with access to securities markets.

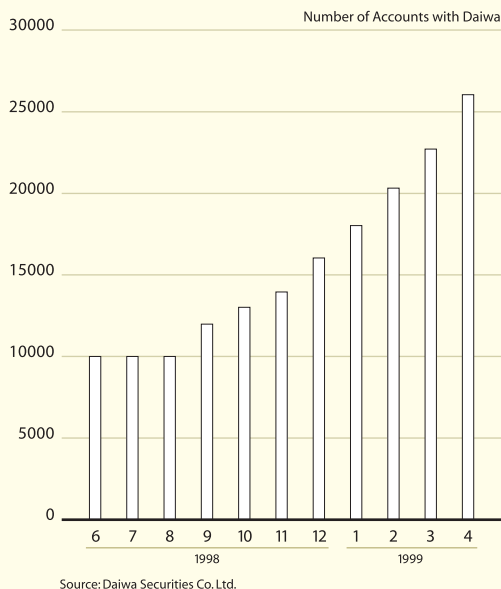
The most significant of these new routes is our Internet-based Daiwa Direct business. Currently, Daiwa offers equities, MMF and USS MMF, as well as equity and bond investment trusts over the Internet.

We estimate that between 15 and 20 million Japanese had access to the Internet as of the end of 1998. Of these, around 50,000 used the Internet for trading purposes. With nearly half (26,000, as of the end of April) Daiwa customers, we ranked first in the industry. Supporting our view that the Internet will expand the market available to us, we note that the average age of these Internet investors is 36 years, over half had no prior experience of equity trading, and two-thirds were salaried company employees.

It seems likely, judging from recent trends in personal computer shipments, that the size of the Internet-enabled population in Japan could reach 30 million individuals by the year 2003. In the United States, seven million of the 80 million individuals with access to the Internet use the Net for trading. If this experience is repeated in Japan, the on-line brokerage market could reach three million individuals within three years. Due to the higher cost of establishing supporting back-office systems in Japan relative to the U.S., the strong synergy between Daiwa Direct and our traditional brokerage business gives us a cost advantage compared to potential newcomers to this business.

Daiwa is committed to providing sufficient resources to maintain its market leadership in this segment. Currently around 50 staff are employed full time in such areas as marketing and systems operations. Staffing levels will be augmented as needed. In April 1999, we upgraded our toll-free telephone system to incorporate advanced call center capabilities. In addition, we have already introduced a cellular phone trading service (imode).

Trend in Online Trading



With regard to non face-to-face services at the branch level, we set up mini branches equipped with Auto Consulting Machines. We are in the process of investigating the feasibility of automated branch offices with financial consulting functions in areas with demographics and a population profile that show special promise. We are currently testing at four locations in Japan. The initial response has been positive.

Outlook

In the retail business, the next several years will see the available base of retail investors expand. Japan's demographics and developments in other financial sectors point strongly in the direction of increasing return sensitivity and growing demand for assets that offer higher rates of return. The result will be a growing need for investment advisory services. In contrast, order placement and execution will increasingly become low-margin commodity products.

Daiwa's brand image is strong, our product development is on track and our distribution channels are strong and becoming stronger. Without strong brand image and distribution channels, barriers to entry in the Japanese retail securities market are high.

In sum, we expect to see significant growth in the markets served by Daiwa Securities Co. Ltd., and believe that we are strongly positioned to capture a large share of that growth.