

WHOLESALE

B u s i n e s s

Daiwa Securities SB Capital Markets Co. Ltd.

This company, which was formed through an alliance between the wholesale division of the former Daiwa Securities Co. Ltd. and The Sumitomo Bank, Limited (Sumitomo Bank), started operation on April 5, 1999. The new company, Daiwa Securities SB Capital Markets Co. Ltd. (Daiwa

SBCM) is a 60% owned consolidated subsidiary of Daiwa Securities Group Inc. The company operates in wholesale securities markets in Japan, offering advanced services to Japanese and foreign corporations and financial institutions.

Background

Japanese corporations and financial institutions are experiencing a period of profound structural change. Many pillars of the post-war Japanese corporate system are undergoing rapid and radical change. Examples include the lifetime employment system, seniority-based promotion and the maintenance of reciprocal shareholdings with other companies. The collapse of the bubble economy and subsequent asset price deflation has, in addition, left many financial and industrial corporations with substantial holdings of illiquid and distressed assets.

Analysis

Given the extent and severity of the changes described above, balance sheet restructuring is sure to be a dominant trend for several years to come. Changes to the Commercial Code and the introduction of market valuation of financial assets and prior service cost will both contribute to the impetus to restructure balance sheets. Deregulation measures, including the liberalization of rules concerning OTC equity derivatives in December 1998, the abolition of the Securities Transaction Tax from this April, and the total deregulation of commissions from October this year, have opened up significant new opportunities.

Daiwa's Response

Daiwa SBCM's management objective is to be the first full-fledged investment bank in Japan providing a high level of service. Our relationship with Sumitomo Bank adds important synergies to this effort by complementing our core strengths in relationship management, distribution and trading with advanced product development skills in such areas as structured finance and derivatives, as well as access to a wider client base.

We face stiff competition from both domestic and foreign competitors, including several new entrants to the market. Our strategy, however, contains several elements that make us a very strong player in this market segment.

Depth and Breadth of Relationships

We have been working hard to strengthen our relationships with existing clients and to build relationships with new clients. We are currently lead underwriter to over 600 of the 3000 public companies in Japan. In addition, our relationship with Sumitomo Bank and the extensive branch network of the Daiwa Group's retail company, New Daiwa Securities Co. Ltd., gives us access to a significant number of potential new customers, both listed and unlisted. Our intention is to function as a full-line provider of financial services to this client base. In pursuit of these goals,

Directors

President
Akira Kiyota

Deputy President
Akira Kondoh

Deputy President
Kenji Ebihara

Senior Managing Director
Masahide Morimoto

Senior Managing Director
Yoshiyuki Takemoto

Managing Director
Michihito Higuchi

Managing Director
Shoichi Oshima

Managing Director
Yoichiro Inoue

Managing Director
Nobuaki Ohmura

Director
Sumio Fukushima

Executive Officers

Senior Executive Officer
Mitsugi Kishimoto

Senior Executive Officer
Toshihiko Akuta

Executive Officer
Takatoshi Okuyama

Toshiro Ishibashi

Yasuo Nakamura

Kenji Hayashibe

Mamoru Otani

Kanichiro Hirata

Hideo Shimada

Hidehiro Fujii

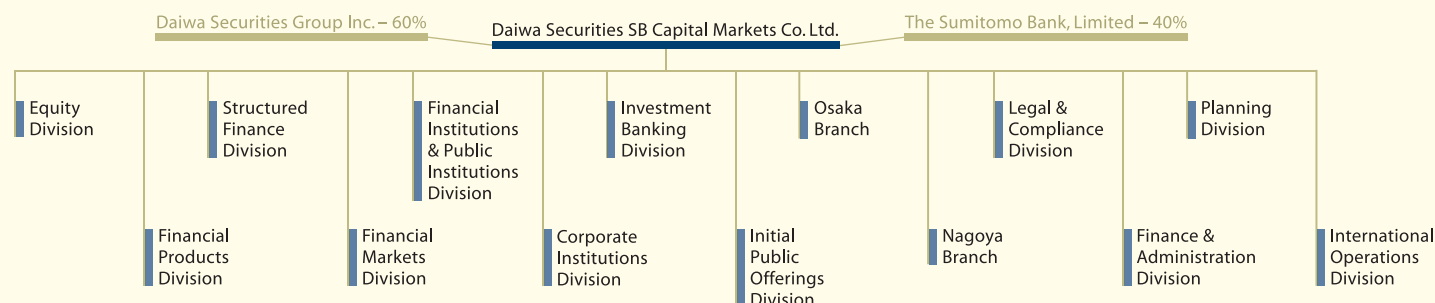
Corporate Auditors

Hiroyasu Kawaguchi

Masayuki Kanoh

Yoshiaki Senoo

Takayoshi Kobayashi



Trading Operations

relationship managers from the wholesale company are being stationed at each branch with a brief to build local business with local institutions. In addition, we are working to institutionalize in-depth knowledge of local conditions through the promotion of regional specialists. The depth and breadth of our domestic reach is, we believe, unique.

Advanced Systems and Client Focus

We have substantially enhanced our risk management and front-office trading systems. These systems are essential components of our ability to conduct profitable trading and hedging operations. Our trading operations are focussed on client facilitation and low risk arbitrage transactions. In both these areas we are the market leader and well placed to further consolidate our position.

Highly Motivated Employees

We have substantially revamped our personnel policies to ensure that employee remuneration is linked to the success of the businesses in which an individual is involved. The performance component of individual remuneration will rise substantially while the practice of promotion based primarily on seniority has been scrapped.

Strategic Links with the Retail Company

We are promoting links with the retail securities company (Daiwa Securities Co. Ltd.) as a strategic competitive advantage, especially in managing our IPO business. This may be of particular significance, given the wave of privatizations expected in Japan during the next several years.

An Expanding Range of New Products

We are augmenting our product development capability with a view to taking a proactive approach to helping our clients restructure their balance sheets. For example, as an early leader in the asset securitization business, we are in a strong position to benefit from an expected surge in demand. Our relationship with Sumitomo Bank has greatly augmented our capabilities in this area.

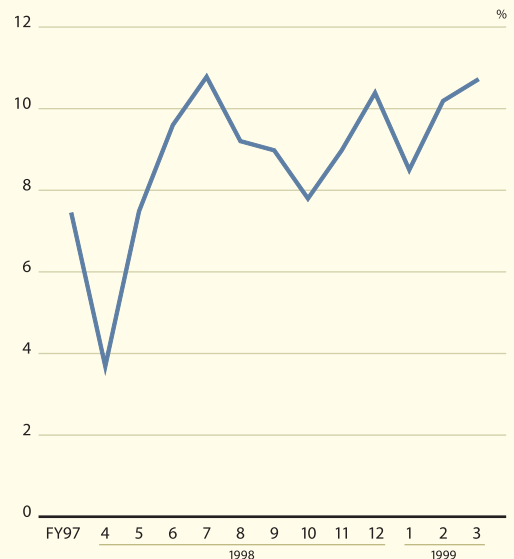
While Daiwa SBCM boasts sophisticated trading capabilities, the focus of this operation is the facilitation of client trades.

Equity

Market Presence

Our overall equity market share of above 10% for FY1998 exemplifies our strong market presence. We have maintained this high equity market share amid fierce competition for business with institutional investors and increasing global competition in Japan. Our current standing in the equity business can be attributed to early installation of a front-office system, which provides a strong technological backbone for our traders and sales staff. We have formed financial technology teams, which develop models and applications and offer proposals for portfolio optimization in line with customers' investment strategies. We are highly rated for our ability not only to facilitate trades but also in pure agency brokerage. This capability has enabled us to maintain our top equity market share.

TSE Equity Market Share



Source: Daiwa Securities SB Capital Markets Co. Ltd.

Deregulation

As a result of deregulation, in trades in which Daiwa SBCM acts as counterparty, pricing will normally be made on a net basis with commissions included in quoted pricing. This will result in a decline in commission rates for customers while our overall revenue including trading income will remain unchanged. Brokers such as ourselves who match the majority of trades against the trading book will benefit most from deregulation. In addition, the benefits accruing to Daiwa SBCM from the abolition of the Securities Transaction Tax should be large, leading to reduced costs for customer transactions. This will eventually have a positive effect on the wider market. We have also established a fairly high market share in OTC market transactions, positioning ourselves to take advantage of expansion in that market.

Daiwa Market: Information Technology

Our equity trading system addresses the growing demand for online direct electronic trading by institutional investors both in Japan and overseas. By linking investors directly to the company's trading systems, Daiwa SBCM provides quick and convenient trading channels to institutional investors. The system already allows clients direct access to stock exchanges and, with the cooperation of certain information suppliers, enables us to make on-line quotations in a number of issues.

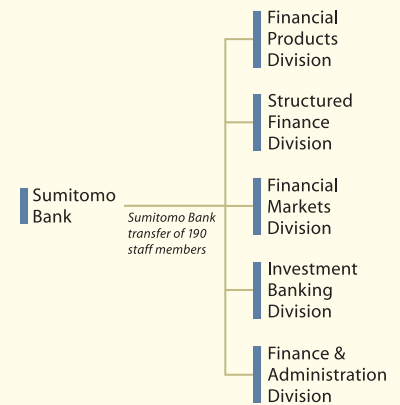
Due to the increasing needs of institutional investors and brokerage houses in Japan, the Japan FIX Committee was established in order to introduce a standardized electronic securities trading protocol. Daiwa SBCM is already experimenting with the FIX Protocol in collaboration with other brokers and has taken a leading role in the Japan FIX Committee. Daiwa SBCM will establish the so-called "Daiwa Market" by offering a liquid secondary market to institutional and individual investors utilizing this newly established network.

Fixed Income

Our share of customer trades in the OTC market was above ten percent in FY1998. This was made possible through the strength of our research ability and the enhancement of our product pricing capability. Building on this success, the division aims to further raise its market share and to enhance its reputation as a "major player" in the fixed income markets.

The division, fortified by an influx of experienced staff from Sumitomo Bank, one of the biggest commercial banks in Japan, can call on the services of many highly skilled personnel. It provides products ranging from plain-vanilla to structured bonds to an extensive range of clients, both domestic and overseas. Daiwa SBCM already ranks among the main players in yen bond markets and its qualitative research as well as pricing capability is widely admired by customers. The division has formed a credit analysis team to study corporate bonds. This team provides comprehensive reports and seminars. In addition, the division's MTN team produces order-made bonds tailored to individual client needs. Finally, Daiwa SBCM is exerting much effort in expanding its presence in the fixed income derivatives market, an area in which there is still great potential for development in Japan. Fixed income products are fast becoming an important investment alternative for individual investors. This division's agenda includes tailoring products that match the needs of individual investors.

Reinforcement from Sumitomo Bank



Investment Banking Operations

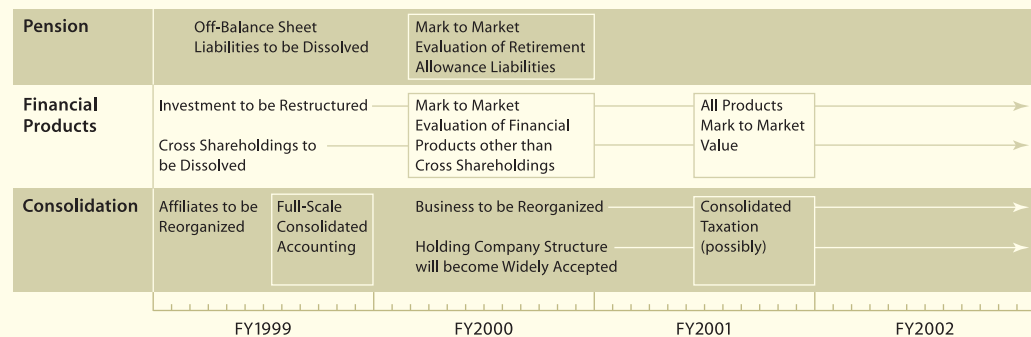
New Issues and IPOs

As noted above, Daiwa SBCM maintains strong relationships with a large number of both listed and unlisted corporations. Utilizing the close ties between Daiwa's wholesale and retail operations, Daiwa SBCM staff are strategically located at New Daiwa Securities branch offices nationwide in order to service local corporations. In addition, we aim to continue to make our distribution channels, including retail distribution, available to top

Advisory Services

The need for thorough balance sheet restructuring in Japan is deep-seated. Increasingly, corporations will be seeking to shed peripheral or non-core operations, eliminate unproductive assets from the balance sheet, and otherwise start to operate according to a new business model. Daiwa SBCM stands ready to extend advice and assistance to its clients as they move forward in these directions. Areas of particular strength include the following:

Corporate Reform and Market Opportunities



ranked companies such as NTT, where we were involved in underwriting the fourth tranche of the equity issue during 1998. We see considerable potential in providing this type of support to our clients, especially in light of the wave of privatizations expected over the next several years. We are also actively seeking out fast-growing unlisted companies in strategically important areas, for example communications, as potential IPO candidates.

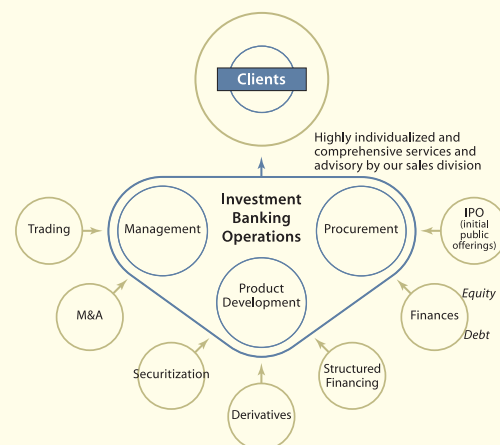
Holding Companies

Our experience as the first Japanese listed corporation to make the transition to a pure holding company structure has given us a wealth of experience and valuable insights in this area. We anticipate significant interest in advisory services related to the formation of holding companies over the next several years.

M&A

We have amplified and expanded our M&A advisory operations for clients involved in company takeovers, mergers, alliances and sales of businesses. Our relationship with Sumitomo Bank will provide expanded opportunities in this market sector.

Wholesale Operations



New Businesses

Structured Finance

Daiwa SBCM has started from a strong position in the asset securitization market, having been the first domestic company to successfully lead manage an ABS issue in September 1996. Since then, the market for ABS issues has grown sharply. Revisions to the applicable laws in September and October 1998 have significantly expanded the potential classes of underlying assets that can be subject to securitization. It seems clear that strong growth can be expected in this market as corporate clients continue to diversify their sources of funding, balance sheets continue to be downsized, and additional underlying asset classes are securitized. To date securitization has applied mainly to leasing and credit receivables. In future, real estate, housing loans and consumer finance receivables seem likely candidates. In addition, investor participation in the ABS market is becoming more diverse.

In the area of leasing and credit receivables, we aim to provide corporations and financial institutions with sources of long-term funding utilizing short-term assets. For example, we see significant opportunities in securitization of credit card receivables and consumer finance loans.

We are working on the development of a wide range of products aimed at increasing the liquidity of assets held by financial institutions. These include the securitization of housing loans, introduction of long term bonds backed by commercial paper and securitization of loans backed by the Credit Guarantee Association.

We also see significant opportunities in securitizing real estate holdings. Typical applications here might include securitization of real estate (for example a head office building) in order to shrink the balance sheet and pay down interest bearing liabilities.

In addition to the development of asset securitization, we take principal positions in the above mentioned assets.

OTC Derivatives

The Daiwa group has expended much effort on strengthening derivatives businesses. For the past decade we have provided various types of over-the-counter financial derivatives as a portfolio management tool to clients. Pursuant to the alliance between Daiwa and Sumitomo Bank last year, Daiwa SBCM has upgraded its capabilities in currency and credit related derivatives products as well as strengthening related risk control skills.

In addition, and most importantly, the client base has grown dramatically due to the alliance.

Daiwa SBCM has also recruited core staff from outside of Daiwa and Sumitomo in order to achieve the highest global standards especially in trading exotic and structured products in order to offer enhanced services to clients.

The Daiwa group strongly believes the new derivative arm (including ex-Daiwa, ex-Sumitomo and externally hired staff) will succeed in generating creative solutions to clients' needs and in receiving market recognition as a high-quality derivatives institution.

Comprehensive Solutions

