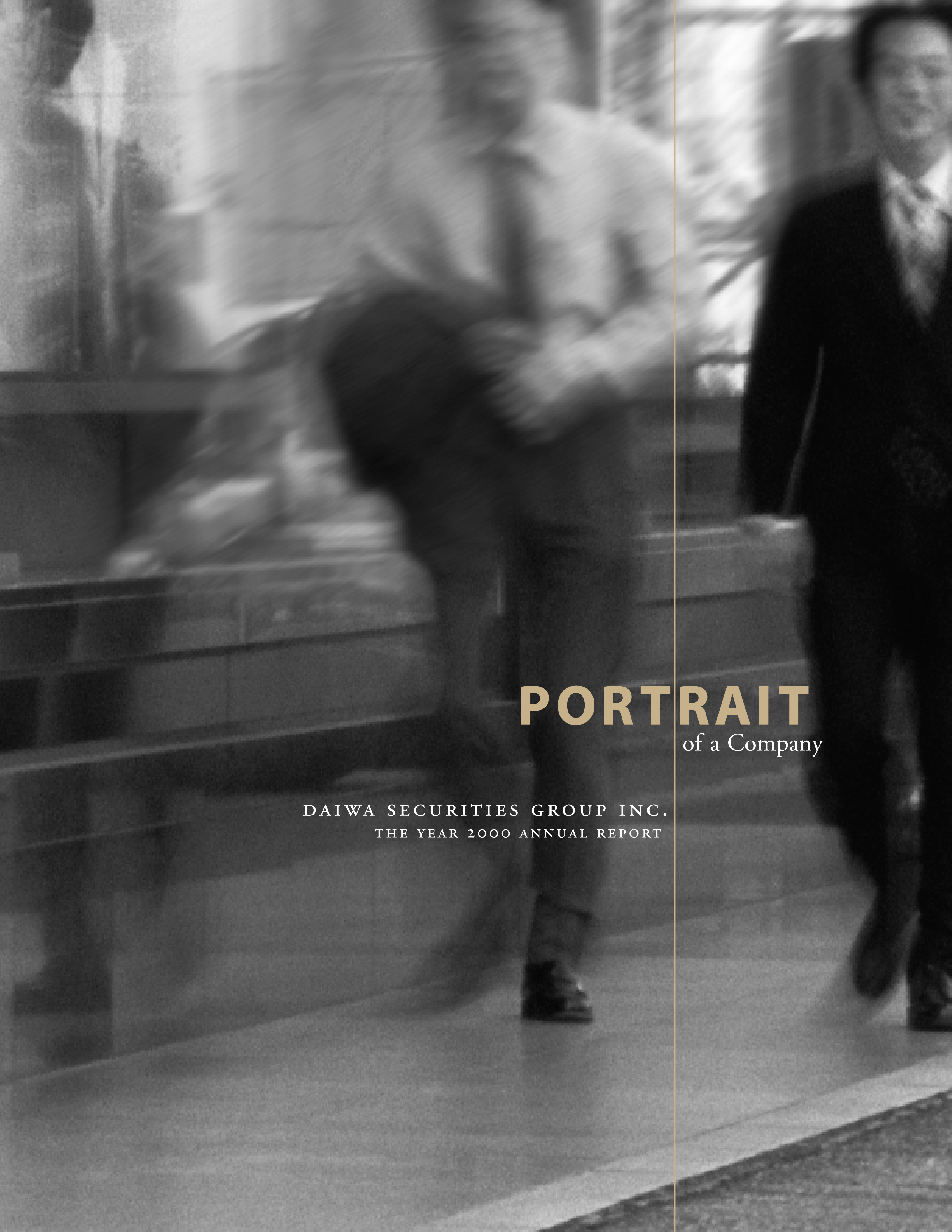


PORTRAIT
of a Company

DAIWA SECURITIES GROUP INC.

THE YEAR 2000 ANNUAL REPORT

Letter to
SHAREHOLDERS

We have named this year's annual report, the last of the twentieth century, "Portrait of a Company". The reason for this naming is that, in addition to the proverbial snapshot of our business provided by the financial statements, a portrait should allow the reader to see beneath the surface and fully grasp the issues necessary to arrive at an informed opinion concerning the business, prospects, and valuation of the Daiwa Securities Group Inc.

Our goals are ambitious. We aim to offer the best possible disclosure to our customers, employees and, most importantly for an annual report, our investors. We are happy to be judged against the most exacting criteria and welcome any comment or criticism. Contact details for our IR department may be found at the end of this report. Alternatively, readers can post questions or observations online through our IR-dedicated website (http://www.ir.daiwa.co.jp/).

The financial year to March 2000 was a significant one for the Daiwa Securities Group Inc. To each of our shareholders we would like to say thank you for the support we have enjoyed, and hope that you will find it possible to continue that support over the coming years as we endeavor to maximize Group corporate value.

Y. Hara

Yoshinari Hara

president and ceo

daiwa securities group inc.

daiwa securities group inc. stock price monthly

A BANNER Year

FY 1999 was a year in which the Daiwa Securities Group Inc. was able to enjoy the benefits of a major corporate reorganization. Supported by a firm stock market, new opportunities thrown up by deregulation and a flexible corporate structure the Company reported its best year in a decade.

1999/2000 OVERVIEW

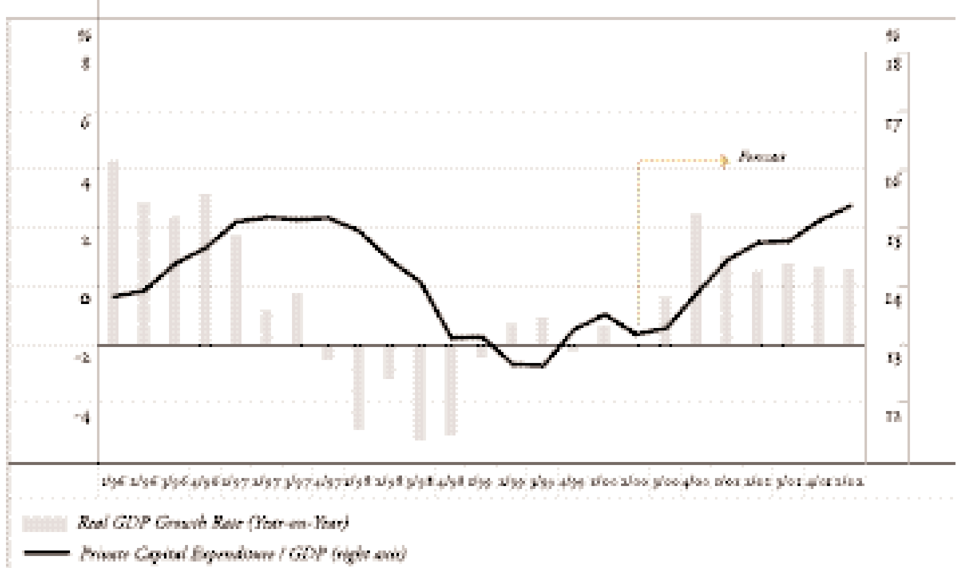
Background

During FY 1999 the Japanese economy showed signs of slowly recovering from the depths of the recession. Positive GDP growth was recorded for the first two quarters driven by a modest recovery in personal consumption and housing investment. However, negative growth was once again seen in the third quarter to December 1999. Although private capital expenditure remained weak, by the end of 1999, definite signs of improvement had been recorded. Perhaps most importantly, industrial production showed a steady improvement throughout the year as inventory adjustments came to an end and exports, especially to Asia, were increasing as those economies continued to recover. The US economy also continued to show remarkable durability in the face of the longevity of its current expansion.

In Japan, the fiscal environment was highly stimulative as the Obuchi Administration continued to emphasize economic resuscitation ahead of fiscal rectitude. Injection of public funds into the banking system late in FY 1998 and other measures had the desired effect of enabling industries to actively restructure. Meanwhile, the Bank of Japan continued its zero interest rate policy alleviating the possibility of a deflationary spiral.

In the corporate sector, there was a significant inflow of foreign capital into Japanese corporations with several very high-profile acquisitions of stakes in well-known Japanese companies by foreign buyers. The year also saw the start of a major consolidation within the banking sector. The value of all M&A activity in Japan more than doubled to around 6.0 trillion yen in 1999.

QUARTERLY REAL GDP GROWTH



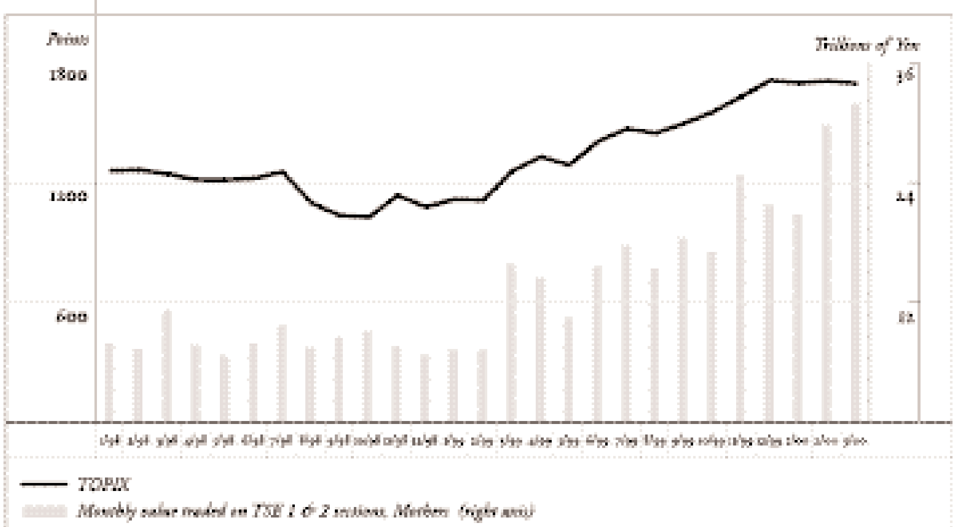
* Source: Daiwa Institute of Research (Japan's Economic Outlook No. 125, June 14, 2000)

Restructuring also moved to the fore with several major corporations announcing plans to spin off divisions, cut employment and scale back cross-shareholdings. Significantly, many of the restructuring plans put in place were not forced by the threat of imminent bankruptcy but designed to improve the competitive position of still healthy companies. In addition to internal reorganization, many corporations announced wide-ranging alliances in an attempt to boost competitiveness. Several high profile alliances involved members of differing keiretsu as the cohesiveness of these industrial groupings weakened.

Industrial production recovered steadily from previous lows, recording positive growth in the second quarter of FY 1999. Reflecting these factors, corporate profitability also improved significantly over the levels seen in the previous year. Daiwa Institute of Research estimates that ordinary income for all enterprises rose by 16.8% in the first half with accelerated recovery widely expected into FY 2000. However, it remains true that extraordinary losses taken in respect of asset valuation adjustments and restructuring as well as attempts to compensate for underfunded pension plans continue to exert downward pressure on net margins.

Against this background, activity in the corporate straight bond issuance market in Japan was weak as new issues fell 26% from the levels recorded in FY 1998. In addition to the front loading of financing activities in 1998 due to an expected increase in interest rates, somewhat better access to bank financing and a widespread drive to balance sheet rationalization were the major factors at work here. Notable during the year was a definite increase

TOPIX & MONTHLY VALUE TRADED ON TSE



* Source: TSE Monthly Statistics Report

in corporate bond issues aimed at the retail market and increased acceptance of BBB rated issuers as investors generally substituted acceptance of credit risk for longer maturities. The Asset Backed Securities (ABS) market continued to grow briskly with underlying asset classes subject to securitization spreading from the hitherto mainstays of credit and lease receivables to include real estate and other asset types as issuers made extensive use of special purpose companies.

The Japanese Government Bond market was relatively uneventful during FY 1999 in spite of greater issuance by the central government. Yields on 10 year bonds fluctuated between 1.20% and 2.05%. There was a notable increase in activity by foreign investors and banks.

The major development in Japanese financial markets of relevance to the Daiwa Securities Group in FY 1999 was the surge in Japanese equities during the year. The benchmark Nikkei 225 average rose 28% to stand at 20,337.32 as of March 31, 2000 while the broader TOPIX index surged 35% to 1,705.94. Massive buying by foreign investors was matched by increasing participation from the retail sector. This demand easily absorbed steady selling down of cross-shareholdings by banks, corporations and others. Aggregate TSE capitalization rose from 323.8 trillion yen at the end of FY 1998 to 458.8 trillion yen one year later. Average daily value traded meanwhile doubled from 663.3 billion yen in the first quarter of FY 1999 to over 1,350 billion yen in the January to March 2000 quarter. On a monthly basis, daily average trading value exceeded 1 trillion yen in November 1999 for the first time since the bubble era.

Public equity finance for FY 1999 was 1,408.6 billion yen. Although on the surface this represents a decline from the 1,787.6 billion yen recorded in FY 1998, considering that over 1,400 billion of the larger figure was accounted for by just two issues, FY 1999 was a much more active year.

Company Performance in fy 1999

Daiwa Securities Group Inc. ended its first year after transforming to a holding company by recording consolidated revenues of 654.6 billion yen, an 84.4% increase compared with consolidated revenues recorded in FY 1998. Consolidated operating expenses, by contrast, actually fell by 3.6% due mainly to a decline in interest costs. SG&A expenses were kept under control, rising only 6.1% in spite of the abrupt rise in revenues. As a result ordinary income rose to 224.1 billion yen compared with a loss of 87.9 billion yen last year.

The major reason for the abrupt increase in revenues was a surge in commission income which rose 96.3% year-on-year to 364.1 billion yen due to the improvement in general market conditions and efforts made by the two main securities subsidiaries as they focused on their respective areas of competence. The increase in commission income was complemented by a rise in net gains on trading which emerged at 117.6 billion yen compared with losses of 20.7 billion yen recorded the previous year as the Company exploited improvements made to its equity trading systems to take full advantage of the opportunities presented during FY 1999. Bond trading income also contributed to the gain by making a full recovery from major losses sustained in the overseas operations during the previous year.

The Company continued the process of improving the quality of its balance sheet by recording further extraordinary losses of 109.6 billion yen, which were partly offset by extraordinary gains, of 20.6 billion yen related to sales of investment securities, sale of related companies stock and other items. Major constituents of the extraordinary losses taken were a 30.6 billion yen provision for doubtful accounts in consolidated subsidiaries; 28.4 billion yen relating to provisions for a multi-employer pension fund as the Company voluntarily reduced the assumed rate of return for actuarial purposes; and 21.5 billion yen related to rationalization of related companies.

Consolidated net income increased to 105.3 billion yen. The Company has adopted tax-effect accounting since FY 1998. The net income figure was recorded after the Company took a 15.2 billion yen deferred tax credit and a credit of 32.5 billion yen relating to minority interests in Daiwa Group subsidiaries.

Consolidated return on equity for FY 1999 was 16%, exceeding the company's target of 10% by a wide margin.

Overall, net cash used in operating activities was 310.3 billion yen. Net cash provided by investing activities was 140.8 billion yen principally due to sales of investment securities while net cash provided by financing activities was 306.8 billion yen due to the issue of shares in Daiwa Securities SB Capital Markets to Sumitomo Bank and issuance of a convertible bond. After making allowance for movement in exchange rates, cash and cash equivalents increased by 166.0 billion yen to 732.4 billion yen.

Outlook for fy 2000

Recent developments during FY 2000 have been dominated by the evolution of the US financial markets, particularly actions taken by the Federal Reserve Board in the face of indications of incipient inflationary pressures after an extended period of dormancy. Knock-on effects from these developments have been felt around the world, including Japan.

On the other hand, the Company believes that the momentum to restructuring and rationalization in the domestic corporate sector is now unstoppable. In addition, current fiscal and monetary policies continue to be geared to economic recovery rather than fiscal normalization, as the government continues the work started by its predecessor, and credit conditions are gradually becoming less restrictive. While employment conditions are still strained, there has been some evidence of a recovery in the propensity to consume as evidence of better times to come becomes more widespread. Finally, recovering corporate profitability could well be the harbinger of an upturn in private capital expenditure which would serve to mark the start of a real phase of recovery for the Japanese economy. The Company thus predicts a gradual but prolonged period of economic recovery.

Given the less supportive external environment, it seems unlikely that the Japanese equity market will repeat the percentage gains recorded in FY 1999. On the other hand, it is also likely that the markets will start to react to increasing signs of a self-sustaining recovery. The Company thus predicts further strength albeit more moderate than recorded in FY 1999. It is also likely that conditions will become more volatile as deregulation and improved disclosure will enable the market to better reflect the actual potential of companies. This may well test the quality of securities companies' risk management systems and management ability. In this respect, the Company stands well-prepared.

However, it should also be stressed that a major goal of the Company has been to structure its business in such a way that corporate flexibility to respond to changing circumstances is maximized. This has involved major adjustments not only to its corporate structure with the move to a holding company system but also to its product lines and cost base. Details of these can be found in the following pages.

RATIONALIZATION – COSTS

	SG&A Billions of yen	YoY%	Excluding costs related to increase in market turnover and reorganization Billions of yen	YoY%
Interim Sep-98	243.3			
FY98	271.0			
Interim Sep-99*	133.0	(7%)	124.0	(13%)
FY99*	266.0	(2%)	245.0	(10%)

* FY 1999 figures are adjusted to the former consolidation base

TREND IN REVENUES

	FY 1999 *Billions of yen*	FY 1998 *Billions of yen*
Operating Revenues	654.6	354.9
Commissions	364.1	185.4
Brokerage	147.4	68.9
Underwriting	34.8	24.9
Distribution	88.2	37.3
Others	93.5	54.2
Net Gain on Trading	117.6	(20.7)
Net Gain on Operational Investment Securities	8.1	–
Net Gain on Other Commodities Trading	0.3	0
Financial Revenues	103.8	190.2
Other Revenues	60.4	–

TREND IN EXPENSES

	FY 1999 *Billions of yen*	FY 1998 *Billions of yen*
Operating Expenses	427.7	443.5
Interest Expenses	90.5	172.4
Cost of Sales	49.6	–
SG&A	287.4	271.0
Trading Expenses	49.2	37.1
Personnel Cost	140.6	116.8
Real Estate Expenses	40.7	49.9
Office Expenses	20.8	30.6
Depreciation	14.7	8.5
Taxes other than Income Tax	7.3	9.2
Others	13.8	8.7

YOSHINARI HARA
president and ceo
DAIWA SECURITIES GROUP INC.

Discussion &

STRATEGY

Presumably, you would count the year to March 2000 as a successful one for the Daiwa Securities Group Inc. After all, revenues rose 84% to 654.6 billion yen, ordinary income was 224.1 billion yen, and net profit rose to 105.3 billion yen. Meanwhile, return on equity, one of your key corporate indicators, rose to 16%, exceeding your declared goal of 10% by a wide margin.

Certainly, we regard all of the things you mention as extremely positive for our company. They have allowed us to strengthen our balance sheet, raise our credit standing, and generally rebuild our business.

In short, our last financial year was a banner one for the Daiwa Securities Group, with earnings returning to levels last seen at the end of the bubble era (in fiscal 1989, ordinary income was 339.1 billion yen). I will not dwell on the numbers, which are covered elsewhere. However, as you note, the Group recorded a return on equity of 16% during the year, which is well in excess of the mid-term target of 10% we had sought. Consequently, in our second Medium-Term Management Plan announced in March 2000, we raised our target return on equity to 15% on a sustainable basis.

We strongly believe that a large measure of the success we have enjoyed can be attributed to the wide-ranging reforms we have undertaken. At the same time, it goes without saying that the very buoyant market conditions evident during the year were extremely helpful. This was particularly noticeable in the New Daiwa Securities Co. Ltd., our retail securities arm, which benefited from increased interest in equity investment by the household sector. Retail customer assets under custody rose to 14.7 trillion yen from 10.5 trillion yen in the previous year, in line with our basic policy of promoting assets under custody as a key corporate goal in this segment. By year-end we were sufficiently encouraged to be able to adjust our target for this key indicator to achieving 28.3 trillion yen in retail customer assets by FY 2002.

The wholesale securities company, Daiwa Securities SB Capital Markets Co. Ltd., also turned in a very strong performance in its first year of operation, with pretax profit of 73.0 billion yen which exceeded the three-year goal we had initially set ourselves. But perhaps even more important was the progress we made in the continuing reorientation of the business to address opportunities presented by deregulation and corporate restructuring in Japan. As a result, we finished the year better positioned to address these opportunities. Our equity trading and sales operations have forged a strong position following the last phase of deregulation, while such new businesses as derivatives and structured finance have moved quickly to stake strong claims to market leadership.

Our restructuring efforts have also embraced our cost base. In spite of the 84% increase in Group revenues, SG&A costs rose only 6%. In fact, SG&A expenses actually fell 10% after adjustment for expenses associated with the expansion in the consolidation base, the increase in market activity, and the added cost of restructuring associated with the move to a holding company structure. This is mainly attributable to the tight grip we have kept on personnel expenses as a result of our personnel policy which focuses on linking remuneration with performance. Reduction in our head count has been achieved through natural attrition, not forced layoffs. This left us in good condition once the financial markets turned around and hiring conditions became very tight. Indeed, some of our retirees have returned to work for this company on a contract basis.

However, I would also like to mention that, in addition to the headline figures, which all refer to the scale of earnings we produced in FY 1999, we are proud of the steps we have taken to improve the stability of those earnings. Right across the Group, we have put in place measures to reduce risk and improve the stability of our earnings stream. In other words, we have made great efforts to improve the quality of our earnings every bit as much as their quantity.

Could you elaborate a little on this point, please?

In the first instance, as I mentioned earlier, we have maintained firm control of our cost base and have worked very hard to increase the proportion of variable costs in our cost structure. This has been most evident in the area of personnel costs, where we have worked to link remuneration more closely to personal achievement and the profitability of the relevant Group company, and where we are attempting to hire certain types of employees, for example staff for the new call centers in the retail company on more flexible terms while maintaining a cap on the number of new full-time employees we hire. It should be noted that the market for qualified securities staff is now very tight. We believe we made the correct decision over a year ago to cut our domestic staff levels only to the degree achievable through natural attrition and voluntary retirement plans. Consequently, we are now able to concentrate on our longer-term goals.

We have taken a great deal of care to position ourselves to **TAKE MAXIMUM ADVANTAGE** of the dominant trends expected in the Japanese capital markets

Secondly, whether you look at our retail or our wholesale securities business, you will notice that we have taken a great deal of care to position ourselves so that we can take maximum advantage of the dominant trends expected in the Japanese capital markets over the next several years, while minimizing the risks we take in so doing. These trends stem from the need for the corporate sector in Japan to rationalize its balance sheet, and for the household sector to change its savings patterns. In order to take maximum advantage of these trends, a securities company must be able to boast strength in its dealings with the retail, corporate, and institutional sectors, which is something that has been made easier by separating the retail and wholesale securities operations. Moreover, by focusing our efforts on the facilitation of these natural financial flows, we have been able to reduce the risk inherent in our operations. Thus, for example, in the retail company, we see a steady stream of low-risk income from customers who have come to understand and trust the Daiwa brand. In the wholesale company, meanwhile, our trading operations concentrate mainly on client facilitation following strict risk management guidelines, while our investment banking operations are generally oriented to the facilitation of low-risk and repeat client business. This is what I mean by increasing the quality of earnings.

You have raised your target return on equity to 15%. Could you possibly comment on this?

I will, if I may, answer that question in several parts.

First, return on equity is a measure that we regard as very important in any assessment of corporate success or failure. It has many positive features, including widespread acceptance among investors. Moreover, it is a concept that can be easily understood and accepted by each of our employees. We believe that corporate goals need to be pursued at many levels, not just at the board level, if they are to have a real chance of success. Consequently, we have placed return on equity targets at the very center of our corporate strategic thinking. However, this does not mean that we focus on this measure to the exclusion of all else. In particular, return on equity — a measure of returns earned — does not make any allowance for risks incurred in the process. As I mentioned above, we are not a little proud of having achieved the returns we have while keeping the risks to the minimum, consistent with our broader corporate goals. Our commitment to raising our return on equity should be understood in this context.

Secondly, as a securities company operating in the capital markets, our business will continue to reflect the natural cycles that occur there. However, I would very much like to stress that my colleagues and I have been involved in financial markets for long enough to know not to stake our company's future on any particular view of the way they will move. Our primary goal is to position Daiwa so that it can produce superior returns whatever the market environment. Our 15% target return on equity should be regarded as a base line which we feel we can meet on a consistent basis.

Finally, I would like to point out that our corporate goals also include targets for the credit standing of the retail and wholesale securities companies where we wish to achieve a rating of A or better by FY 2002, and for our brand image and domestic reach, where we have adopted retail customer assets under custody as the primary numerical indicator of customer trust in the Daiwa brand. Our targets thus encompass unambiguous and measurable indicators of the quality of our earnings, not simply their quantity. We believe that we can best enhance shareholder value by adopting such a balanced approach.

You have recently started to talk about the Daiwa brand and mentioned it in this discussion as a key goal. Would you elaborate?

If you look at recent developments in the markets we serve, you will notice an explosion in the choices available to our customers as markets deregulate, new products are introduced, and new distribution routes are explored. As Japanese financial markets mature and expand, this proliferation will continue. Under these circumstances, we and our competitors will start to interact with our customers and partners, whether retail, institutional, or corporate, in a far wider variety of ways than in the past. Along with the increased choices available to the customer will come a blizzard of information which, because of its sheer volume, will soon come to resemble background noise with the customer screening out all but that information immediately relevant to his or her needs.

In such a world, it is necessary but not sufficient to offer the best advice, best execution, best product development, and so on. More than that, we must establish a system whereby every interaction between the Daiwa Securities Group and our clients reflects a superior level of customer service and professionalism across the board. In a market where information overload is a real issue, we believe that customers will increasingly rely on a limited number of securities houses with which they have established bonds of trust. Those bonds, built on a solid foundation of satisfied expectations, are what we term the Daiwa brand.

Association with a trusted brand can add value not only to the consumer, but also to the brand owner. For example, in the retail securities market, Daiwa Securities has chosen to price its Internet distribution rationally, rather than attempt to buy market share by pricing services at unsustainably low levels. Nevertheless, Daiwa Direct remains one of the leading online brokerages. Customers would rather deal with a trusted brand than seek the absolute lowest price available. The value of that trust is also becoming increasingly visible in our wholesale activities where we have established leadership positions in several market segments from a standing start.

Every interaction between Daiwa

and our clients should reflect

A SUPERIOR LEVEL OF

CUSTOMER SERVICE

AND PROFESSIONALISM

across the board

Turning to more concrete matters, what do you believe have been the most significant market trends over the last year as far as Daiwa Securities Group Inc. is concerned?

Obviously, the greater buoyancy in Japanese financial markets, particularly the equity market, has been a major factor. Of particular note has been the greater participation in the market by long-dormant classes of investors, particularly retail investors. In the corporate sector, the financial and operational logic for restructuring has finally been accepted and the momentum cannot be reined in. This has also expanded the available market. The end result of this broader participation has been increased opportunities for major domestic securities companies, not just Daiwa, to exploit their greater reach and customer base.

Of course, deregulation and market strength have also led to an increase in competition. In addition to the competition we face from foreign investment banks who bring many competitive advantages stemming from long experience in operating in deregulated markets and the other major domestic securities companies, we also compete against online brokerages, banks, and other non-financial sector companies entering the securities business.

While the foreign securities companies continue to exhibit strength in the segments they serve, I believe it is fair to say that the market reach of major Japanese securities companies, including Daiwa, has allowed us to benefit to a far greater degree from the more buoyant conditions. While we continue to have the utmost respect for these tough competitors, and while they, too, are probably celebrating a good year in the Japanese financial markets, their focus on large accounts and their deal-oriented nature has restricted their ability to address the opportunities thrown up by a market in which there is broad participation.

From a standing start, online equity trading has grown to account for over 30% of all unit trades in the retail company. Competition in this segment has increased enormously, with participation not only by established US online brokerages bringing their expertise to the Japanese market, but also by startups and new market entrants from outside of the securities industry. Most of these companies have been operating according to a business model in which the primary goal is to amass a customer base as fast as possible, with achievement of profitability deferred to some indeterminate point in the future. This has led to the emergence of deep discounting in online trading as myriad competitors scramble to attract the same customers. We at Daiwa, by contrast, view the Internet as one of a continuum of choices available to our customers. We believe it essential to offer Internet-based trading opportunities only as part of an integrated distribution strategy. Therefore, while we are guiding prices lower as scale and experience allow, we have not followed the herd in discounting to uneconomic levels. This marks us as different from the majority of companies in this area.

As for other potential competitors such as banks, the retail networks of which might be thought to pose a serious competitive threat to traditional securities companies, our experience has actually been rather benign. While these distribution routes do pose a potential threat over the longer term, to date the opening up of these channels to securities products has served mainly to stimulate consumer acceptance of higher return vehicles, such as equity investment trusts, and to publicize the benefits of diversification as a means of achieving higher returns at an acceptable risk level. On the whole, although it is impossible to accurately quantify the effect, we believe that promotion of the benefits of securities investment provided by banks and other newcomers has actually served to increase the amount of business available to us.

Could you comment on the retail arm of the group, Daiwa Securities Co. Ltd.? Since we will be covering the company in more detail elsewhere in this report, perhaps you could concentrate on matters of strategic importance.

Our approach is premised on the belief that Japanese households will increasingly look to diversify their financial holdings. In order to facilitate this trend and to benefit as a company, we have promoted a general shift in our corporate stance to stress the accumulation and increase of assets, and de-emphasize commission income.

I would say that there are two major strands to our strategy in this respect. The first involves offering our clients a choice of multiple channels to access our services. The second involves the provision of an appropriate range of products to the retail market.

Regarding the first point, we have taken the view that we wish to present just one face to our clients under the Daiwa brand. Consequently, all of our channels, including our traditional branch office network as well as newer channels such as our mini-branches (sales offices), online and call center operations, will operate within the retail company in accordance with a common corporate strategy. For this reason, we decided not to separate Daiwa Direct as a distinct, semi-autonomous corporate entity. We do not intend to rigidly segment our client base into discount clients, full-service clients, and so on. Rather, we regard each of our clients simply as a Daiwa client who will choose the most appropriate channel according to his or her own personal circumstances and preferences. It is entirely possible that a single individual will wish to make use of multiple channels. Moreover, during the course of a lifetime's relationship with Daiwa Securities, an individual's financial needs and preferences may change. We aim to tailor our distribution strategy so that such customers can migrate between channels with minimum effort.

For example, we expect many new investors to appear in securities markets over the next several years. Their initial experience may be through the Internet, perhaps trading so-called "mini-kabu" stocks, where Daiwa Securities maintains a leadership position. On the other hand, it might be via our Money Market Fund (MMF) product lines, where Daiwa Securities also leads the industry, especially if the investors are shifting funds out of low-return vehicles such as postal deposits and bank accounts. As individuals' needs, experience, and financial responsibilities grow over time, so will their need for additional services. By offering a seamless continuum of channels, we aim to provide customers with an appropriate response to each of their needs at a price that reflects the level of service provided. The crucial point is, however, that no matter which channel is used, the promise of superior service implicit in the Daiwa brand will be honored.

Starting this July 3, we have filled the distribution gap between the self-service Internet channel and the full-line branches by introducing a full-fledged call center staffed by individuals qualified to provide intermediate-level investment advice. In addition to its function as a help desk for Daiwa Direct, the call center will be able to provide general advice on securities investments. Unusually for a call center, operations will be located in central Tokyo for the simple reason that we need to attract suitably qualified staff to provide these services.

Another distribution innovation we shall be promoting over the next several years is the mini-branch or sales office. These are smaller branches, staffed by around three to five people rather than the thirty to fifty in our traditional branches. Our experience to date in three sales offices shows that, on a per-branch basis, the new branches are as effective as the older ones in attracting new accounts and new client assets. Consequently, we have taken a decision to aggressively expand the number of such branches by twenty-five to thirty over the next three years.

It should be emphasized that our distribution strategy and our plans for wider promotion of the Daiwa brand, revolve around the concepts of trust, flexibility and superior service. In addition, while we do believe that we must be price competitive, we see it as ultimately self-defeating to try to build market share on the basis of price alone. Consequently, following total deregulation of commissions in October 1999, we have set our prices at what we regard as appropriate levels for the services provided and have left it to the others to deal with the quicksand of uneconomic pricing practices.

On the product side, we continue to stress our cash management program (CMP) and investment trusts. As noted above, our balance of retail customer assets under custody rose 4.2 trillion or 40% to 14.7 trillion yen in FY 1999. We remain the leading securities company in terms of customer assets under custody, while the scale of the increase was significantly in excess of that originally expected.

Specifically within our investment trust operations, we have successfully launched two new flagship vehicles during the past two years, “Musashi” and “0101”, both over 200 billion yen in size. Two years ago, the successful launch of funds of this size would have been inconceivable. We can address the bulk of current market needs through our various investment trusts . While we remain one of the leaders in the investment trust business in Japan, we have attempted not to oversaturate the market with unnecessarily complex or highly specialized products. The dominant trend in Japan today is increasing individual participation in higher-return markets such as equities, and a discovery of the benefits of diversification in wealth management. These trends will surely gain momentum with the imminent maturity of 106 trillion yen in postal savings deposits placed at interest rates far higher than those available today, and the gradual shifting of responsibility for retirement planning from the corporate sector to the individual. Our view is that, in such an environment, over-segmentation of our product base might actually be counterproductive. This is especially so since much of our corporate planning revolves around attracting a new wave of first-time investors. The introduction of the “beginners counter” a special program dedicated to beginners was designed to make us more accessible to potential customers who have never

Our distribution strategy

and our plans for wider promotion

of the Daiwa brand

revolve around the concepts of

TRUST, FLEXIBILITY

AND SUPERIOR SERVICE

set foot in a securities company. Rather than provide our customers with an inappropriate array of complex products, we have concentrated on continuing the superior performance we have recorded with our flagship funds, and have more aggressively started promoting both this performance and the fund managers achieving it. Nevertheless, we carry a full range of products from low-risk MMFs to equity investment trusts and higher return vehicles which can cater to all investment needs. In particular, our product line includes a number of attractive alternatives to bank and postal savings deposits, for example via our CMP, which combine the convenience and safety of a deposit account with a measure of the higher returns available through securities market investment. We thus hope to offer new investors a continuum of choices from the familiar to the new and, thereby, help them to make the transition to securities market investment in a structured way.

Could you also say a few words about the wholesale securities company, Daiwa Securities SB Capital Markets Co. Ltd.? Again, this company will be reviewed in detail later in this report, so it would be a great help if you could concentrate on the strategic aspects.

Clearly, this area of our operations has been the focal point of our restructuring efforts over the last several years, culminating in the formation, in 1999, of Daiwa Securities SB Capital Markets Co. Ltd. (Daiwa SBCM) as a joint venture with Sumitomo Bank.

At the strategic level, the first phase of our restructuring is almost complete. We have improved our risk management and credit management systems to the degree that our trading operations now make acceptable returns within strict risk guidelines and without excessive use of the balance sheet. Meanwhile, our investment banking operations have already staked strong claims in newer businesses, such as derivatives, structured products, and mergers and acquisitions.

As one of the big three Japanese securities companies, Daiwa SBCM ranks at or near the top of most segments in the Japanese wholesale securities markets. In many segments, including equity trading and bond underwriting, we rank first or a close second. Unfortunately, in the IPO and equity underwriting segment we rank second or third. In the former areas we are working to build on our front-runner status to establish ourselves as the clear number one. In the latter, we aim to close and eventually entirely eliminate the gap with the market leader. We have expended considerable energy on defining quantitative measures of success for each of the divisions within Daiwa SBCM, such as industry rankings, reputable surveys of customer satisfaction, and so on. In addition, we have adopted a realistic timetable for achieving our goals. This timetable stretches out according to the strength of the competition we face, although we believe we have a realistic chance of reaching market-leader status in most of the segments in which we operate over a three year time frame.

The principal competitive strengths we will bring to bear to achieve the above are, firstly, the flexibility that comes from separating our wholesale securities business under the Daiwa Securities Group structure. We believe our financial and organizational structure is now superior to that of other Japanese securities companies in terms of being able to react to market trends, as well as providing a work environment conducive to attracting the sort of highly qualified staff we need to employ. This is already evident in certain areas such as, for example, our Asset Backed Securities (ABS) efforts, where we have scored a succession of industry firsts and established a so-called first-mover advantage. In addition, this corporate structure has made it easier for us to form alliances with partners with complementary skills exemplified, in FY 1999, by the formation of alliances with Lazard in the field of mergers and acquisitions, GE Capital in the field of private equity and Mori Trust in the field of real estate-related investment trusts. We remain open to the formation of additional relationships as and when necessary.

Secondly, many of our investment banking activities are relationship driven. Not only does this lead me to remind you of the importance of establishing the Daiwa brand and relationships of trust, as I mentioned earlier, but also to point out that access to Sumitomo Bank's client base is a decided advantage for this company. Many of these businesses are long-term in nature. For example, in certain circumstances, it can take up to ten years to bring an IPO candidate successfully to market. Consequently, the full benefits of the relationship with Sumitomo Bank and the greater market reach that it has brought us may not be immediately apparent. However, there are strong indications that, over time, this relationship will bring increasingly greater benefits.

Finally, we have poured great effort into improving our credit and risk management systems. At the same time, we have shrunk our balance sheet considerably compared with a couple of years ago. Our profitability is also on the rise. Taking these considerations into account, it would be reasonable to expect some improvement in our credit standing. Indeed, this is one of our three corporate goals in the Medium-Term Management Plan. In turn, these developments will open up for us new opportunities, such as the ability to deal in longer-maturity derivatives and to eliminate the intermediary in certain swap transactions. More generally, an improved financial structure and increased ability to manage risk should allow us to address new, and more profitable, opportunities.

As we know, Sumitomo Bank and Sakura Bank have announced plans to merge. Is it possible to quantify how much this will affect the Daiwa Securities Group?

Actually, very little of a concrete nature can be said, since the details of the merger are still being worked out. However, I believe that it can safely be said that the benefits of having a larger bank with greater reach as a partner for the wholesale securities business will be positive for the Daiwa Securities Group. Certainly, we expect to receive the same support from the merged bank as we have to date received from Sumitomo Bank.

At present, the Daiwa Securities Group and, I believe, Sumitomo Bank share the common goal of creating a competitive investment bank. We expect the significant results seen in this business to continue.

The outlook seems bright. On the face of it, the Daiwa Securities Group would seem to have few problems.

That is only partly true. A company that feels it does not face challenges is either complacent or out of touch. I sincerely hope we are neither.

However, I do feel that we are nearing both the end of the first phase of our reorganization and our emergence as Japan's strongest securities group. That is to say, the wrenching structural changes we have implemented over the last several years, culminating in the formation of the Daiwa Securities Group one year ago, are now largely complete. We believe the current corporate structures are adequate, with some adjustments, to address the opportunities presented by financial markets in the early twenty first century. Structurally, we are now pretty much where we want to be.

The emphasis has now moved to the implementation of corporate goals at the operating company level. Of course, as with any business, we face challenges here and will continue to do so. Reducing the pressure on our branch network is one such problem, attacking entrenched competition in certain sectors of the wholesale company is another, and reinforcing the common group functions is a third. However, I believe that it would be fair to say that my personal stress level is substantially lower than it has been.

Put another way, I believe we have now shifted from a pattern of revolutionary corporate change to one of evolutionary change. It is to be hoped that the fruits of actions taken to date will become increasingly apparent over the next several years.

HOLDING COMPANY

daiwa securities group inc.

Directors:

Tomoaki Kusuda, *Chairman of the Board* · Yoshinari Hara, *President and CEO* (*) · Shinichi Yamamura, *Senior Managing Director and CFO* (*)
Shuichi Komori, *Managing Director* (*) · Shigeharu Suzuki, *Managing Director* (*) · Kenichi Fukuda, *Director* (*) · Naoaki Takahashi *Director and CIO* (*)

Executive Officers:

Masayasu Ohi · Junichiro Wakimizu · Junji Takasaki · Akira Kiyota · Hiroshi Koshida · Sakae Tanaka · Tatsuhiko Kawakami

Corporate Auditors:

Hiroyasu Kawaguchi · Hideharu Takahashi · Tetsuro Kawakami · Masahiro Yoshiike

Advisory Board:

Mr. Kazuo Inamori, *Founder and Chairman Emeritus Kyocera Corporation,* · Mr. Jiro Ushio, *Chairman and CEO Ushio Inc.*
Mr. Glen S. Fukushima, *President and Representative Director Arthur D. Little (Japan), Inc.* · Professor Heizo Takenaka, *Keio University*

Compensation Committee:

Mr. Koichi Uno (*), CPA, *Tax Accountant, Partner, Arthur Andersen* · Mr. Ichiro Kawamoto, *Attorney-at-Law, Senior Partner, Kawamoto & Miura*
Mr. Yukio Yanagida, *Attorney-at-Law, Senior Partner, Yanagida & Nomura* · Mr. Yoshinari Hara, *President and CEO, Daiwa Securities Group Inc.*

(*) *Executive Officers*
* *Mr. Uno will join the Committee on 1 September following his retirement from Arthur Andersen at the end of August*

STRATEGIC
Relationships

The role of the Holding Company is to maximize shareholder value, take responsibility for strategic development of the Group as a whole, and to allocate capital and other resources efficiently. Tactical management has been delegated to the subsidiaries.

HOLDING
Company

Daiwa Securities Group Inc., the holding company for the Daiwa Securities Group, came into being on April 26, 1999 as the listed successor to the former Daiwa Securities Co. Ltd. The Company is the quoted entity within the Daiwa Securities Group and is a pure holding company engaging in controlling and monitoring group business activities. The retail securities operations of the former Daiwa Securities were incorporated as the New Daiwa Securities Co. Ltd. (Daiwa Securities). The wholesale securities operations were merged with certain securities market operations of The Sumitomo Bank, Limited to form Daiwa Securities SB Capital Markets Co. Ltd. (Daiwa SBCM), a 60% owned subsidiary of the Daiwa Securities Group Inc.

In addition to the two main securities subsidiaries, other main companies within the Daiwa Securities Group include Daiwa Asset Management Co. Ltd. and Daiwa SB Investments Ltd., which are active in investment management and investment advisory businesses; the Daiwa Institute of Research Ltd. (DIR), involved in research, systems development and consulting; NIF Ventures Co., Ltd., a leading venture capital company; Daiwa Securities Business Center Co. Ltd. which operates common infrastructure on behalf of the Group companies; and The Daiwa Real Estate Co., Ltd. which manages some of the Group's offices including most of the branches of the retail company.

The Group was further re-organized when, in the second half of FY 1999, the European and Asian operations of the Holding Company were transferred to Daiwa SBCM. Additionally, on April 28, 2000, Daiwa International Trust Bank Limited was sold to The Sumitomo Trust & Banking Co., Ltd.

Background and Market Dynamics

Japanese financial markets have entered a period of rapid evolution. Regulatory changes and the elimination of barriers to market entry have led to vast changes in both the threats and opportunities offered by the Japanese securities marketplace.

In the retail sector, households are starting to warm to the benefits of higher returns offered by securities markets while maintaining risk at acceptable levels through the application of appropriate diversification. The major drivers of this trend are the need of an aging population to provide for a lengthy retirement; low returns available on postal savings and bank deposits as well as other low-risk assets; the imminent maturation of a large pool of postal savings deposits placed at interest rates substantially above those available today; the ending of the safe-haven status of bank deposits with the restriction of amounts subject to deposit insurance; the introduction of defined-contribution pensions (Japanese version of 401(k)); and a generational change in attitudes to securities investment as substantial family assets are inherited by less risk-averse offspring. These opportunities are addressed by the Daiwa Securities Co. Ltd., the retail securities company within the Daiwa Securities Group.

In the corporate sector, Japanese companies are starting to embark on an extended period of restructuring. With the introduction of consolidated reporting and mark-to-market accounting, balance sheet restructuring has become a necessity for survival. Meanwhile, cul-

DAIWA SECURITIES GROUP
MEDIUM-TERM MANAGEMENT TARGETS

TARGET ONE

Achieve stable consolidated ROE of 15%

TARGET TWO

Double retail assets under custody
(to 28.3 trillion yen by 03/2003)

TARGET THREE

Obtain rating of single A or better from domestic and overseas rating agencies (two securities companies)

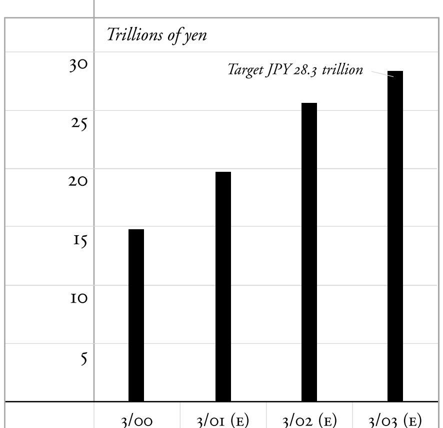
tural and legislative changes have greatly increased the opportunities for companies such as Daiwa SBCM, the investment banking and trading operations of which can benefit from the needs thrown up by the marketplace.

Corporate Governance

In order to provide for an optimal response to the above, the former Daiwa Securities Co. Ltd. was reorganized under the umbrella of the Holding Company.

A major goal of the new corporate structure is to separate the strategic from the tactical management of individual operations. By devolving responsibility for day-to-day operations to the individual group companies in the context of group-wide constraints and goals, the Daiwa Securities Group has established a system of corporate management conducive to

RETAIL ASSETS UNDER CUSTODY



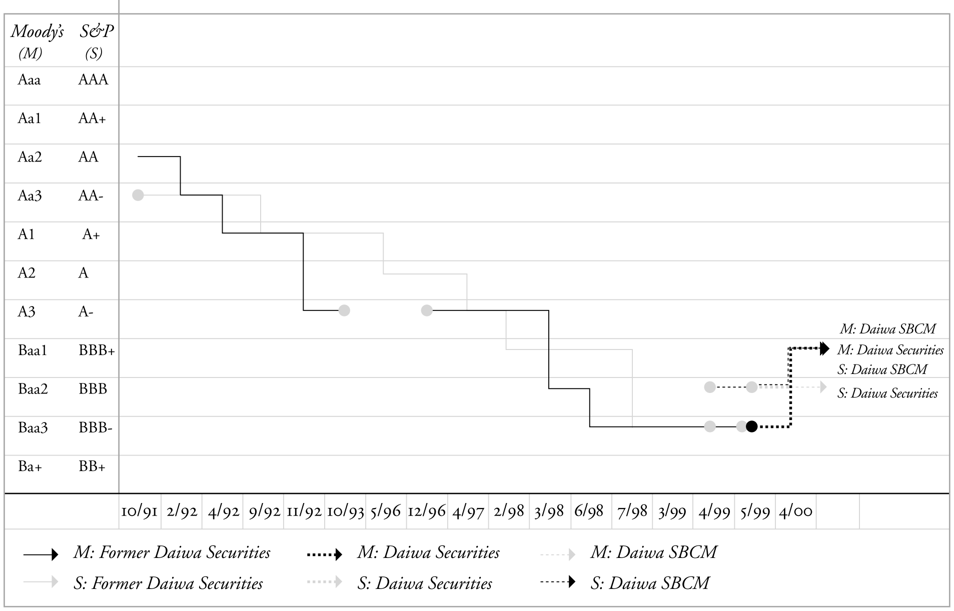
Source: Daiwa Securities Co. Ltd.

quick decision making. Moreover, each of the companies within the Group can focus on the most appropriate response to its own particular industry, including the setting of personnel policy, and allocation of management resources.

In May 2000 Daiwa Securities Group Inc. introduced a system of Group executive officers in order to clarify and consolidate decision-making responsibility. The current Group Management Meeting consists of the Holding Company board members who are also executive officers and Group executive officers comprising the presidents of each of the major group subsidiaries.

In general, the major operational assumption is that as much autonomy as possible will be given to individual subsidiaries consistent with the achievement of group targets. However, matters concerning overall group strategic planning and operational issues will also be considered by the Group Management Meeting.

TREND IN CREDIT RATING



NUMERICAL TARGETS - PROFIT TARGETS

	Ordinary income *Billions of yen*	Shareholder equity *Billions of yen*	ROE
Profit Targets *(Consolidated FY 02)*	320	1,000	15%

Personnel

Although domestic staffing levels have been reduced over the last two years, this has been achieved through natural attrition and voluntary early retirement, not through large-scale redundancy.

The Group has, however, abandoned the other pillar of the traditional system, according to which salary and benefits were determined by seniority. Today, the companies within the Group adjust compensation to reflect individual performance, industry norms, and the needs of the business unit concerned. The Group now practices accelerated promotion for high-flyers and demotion for under-achievers, something previously unthinkable in a Japanese company. The present system now allows managers as young as 36 or 37 to be promoted to general manager, for example.

The major strands of the Group's compensation policy are as follows.

1) Salaries will no longer be decided according to the traditional seniority system. Salary levels will be set in accordance with individual performance and capability.

2) Bonus evaluation will be a transparent process based on profitability and individual performance during the subject period. Already, as of the time of writing, the most highly paid members of the Daiwa Securities Group receive total compensation five times the standard amount for employees of the same rank. In these cases, approximately 70% of total annual compensation consists of discretionary bonus payment or other incentives based on performance.

3) The traditional system of retirement allowance has been changed from one based on seniority and years of service to one based on individual contribution. Employees are given a choice of receiving cash compensation at the time of award, or deferring compensation to a later date.

NUMERICAL TARGETS - NUMBER OF PERSONNEL

	FY 99**	FY 02 *Estimate*	CHANGE
Daiwa Securities Group Inc.	330	285	(45)
Daiwa Securities*	7,260	7,530	+270
Daiwa SBCM	1,570	1,770	+200
Domestic Subsidiaries	3,007	3,135	+128
Overseas	1,114	1,204	+90
Total	**13,281**	**13,924**	**+643**

* Includes commission based sales people.

** Figures are estimates used when the Medium-Term Management Plan was announced (March 24, 2000).

4) The use of stock options as a component of long-term compensation for management-level staff was implemented in March 1999. Prevailing legislation precludes the awarding of stock options in the parent company (the quoted vehicle) by subsidiaries. Although this legislation is expected to be amended in the near future, it is highly likely that there will be restrictions with regard to minimum holdings required in the subsidiaries. To address this situation, the Group is considering implementing stock-linked incentive schemes such as incentive warrants, in addition to stock options, with a view to motivating employees and management to cooperate in increasing corporate value.

5) Certain highly-qualified staff and specialized departments will receive compensation linked to prevailing market rates. The scheme is currently only applied to the Derivatives and Structured Finance Products Department of the wholesale company. However, expanded application to other departments of the same company is under consideration.

6) In July 2000, the Compensation Committee was formed within the Holding Company to define appropriate compensation for executive directors, including the CEO, with a view to gearing compensation to the increase achieved in the corporate value of the Daiwa Securities Group Inc.

Together with the personnel department at the Holding Company, each of the Group's personnel departments are working to support these initiatives by establishing strategic personnel policies, coordinating transfers between group companies and the hiring of new graduates, and by sharing infrastructure and resources where appropriate. In addition, the personnel departments are also responsible for planning, training and development programs for group managerial staff.

Each company has a system of job transfers and rotation designed to produce a cadre of employees with the appropriate specialist skills needed to compete in modern securities markets. By contrast, section, department, and branch managers are regarded as group resources and may be allocated to companies within the Group in order to fill positions with the most appropriate candidate.

In order to further promote the formation of a pool of strong managerial talent capable of serving at director or executive officer level, the Group has also set up the "Daiwa Management Academy" and taken other steps to increase the standard of training offered and encourage the formation of a strong corporate culture.

Pursuant to the above, the Group has also significantly revised its staff evaluation systems. This has been most fully realized in Daiwa SBCM, where a formal Management by Objectives scheme has been implemented. This scheme involves the setting of definite staff objectives that are decided together with an individual's immediate supervisor. An individual's performance appraisal reflects the degree to which he or she has succeeded in achieving the stated goals over the preceding months. At present, Daiwa SBCM has instituted a system dubbed 180-degree evaluation, whereby supervisor and subordinate submit evaluations of each other. Plans are in hand to extend this to a system dubbed 360-degree evaluation, whereby other staff members with whom an employee interacts in a professional capacity may be called on to evaluate his or her performance.

One further corporate goal is to bring total personnel costs more into line with the ebbs and flows of the securities business. In particular, a key objective is to increase the proportion of variable personnel costs, and reduce the proportion of fixed costs.

The Daiwa Securities Group hired a total of only 21 non-clerical new graduates joining in April 2000, compared with 120 in the previous year. The total employee head count within the three core companies (Daiwa Securities Group Inc., Daiwa Securities, and Daiwa SBCM) fell by 647 to 7,562 during the year as natural attrition and retirements more than offset new graduate and mid-career hiring.

The Daiwa Securities Group's new-graduate hiring plans for the next three years are modest considering the scale of the pickup seen in Japanese markets, with around 750 to 800 career staff to be hired, mostly by the retail securities company. Taking into consideration retirements, natural attrition and mid-career hires over the coming three years, at the time of writing, a net increase in head count of around 600 for the Group including overseas subsidiaries is expected.

Meanwhile, Daiwa Securities Group intends to aggressively step up the hiring of temporary and contract staff, who have long been used to fill non-significant clerical positions. Contract employees will be hired for the new call centers to be operated by the retail company, while re-hiring on contract of recently retired staff is another element of the company's staffing strategy.

Financial Strategy

The foundation of the Group's financial strategy is the maximization of shareholder value. Other priorities are to achieve a rapid improvement in the Group's financial condition, which deteriorated during the 1990s, and to restore its credit rating. The following define the Group's financial strategy.

1) Financial management to improve shareholder value
The Group will undertake appropriate disclosure to ensure that its fundamentals are correctly reflected in share prices and will work to maximize shareholder value taking into account share price appreciation, dividends and purchases of treasury stock.

2) Focus on areas of competitive advantage with emphasis on risk management
The Group will focus on domestic and cross-border securities operation and related activities, in which it holds a competitive advantage, within a framework of effective risk management.

3) Improvement in financial stability
   Improving the financial capacity of the Group to absorb risk is a high priority. Important components of this effort include ameliorating the effect of the natural variability in income arising from securities markets and achieving a credit rating of at least single A from leading domestic and overseas rating agencies, especially for the two main securities subsidiaries.

On completion of the Medium-Term Management Plan the Group intends to have achieved the financial strength needed to support aggressive risk taking, and the financial stability needed to attain a consolidated ROE of 15% on a consistent basis.

The Group's capital was seriously depleted in the second half of the 1990s, and its credit rating declined rapidly due to losses incurred because of the prolonged market slump that followed the collapse of the bubble economy, pressure on earnings due to the entry of bank-affiliated securities companies into the market as well as increased competition from foreign securities companies, losses on loans made by group members in non-banking businesses, and a credit crunch that forced it to close highly leveraged overseas operations.

The Group is working to improve its financial structure as a whole by focusing on domestic and cross-border securities operations, in which it has a competitive advantage. Over the past few years, it has substantially reduced its asset base related to non-core activities, particularly overseas assets and domestic non-bank loan assets.

The Group is also working to manage its liabilities across individual company lines. In addition to the reduction in the overall size of the balance sheet, it will introduce a Group Cash Management System (Group CMS) in FY 2000. This system is designed to reduce financing costs by reducing the size of the Group's external debt, and also to minimize debt rollover risk. The key elements of this system are as follows.

1) Group companies will replace external liabilities with loans from the Holding Company, which will become the Group's sole channel for external financing. The Holding Company will take responsibility for securing the necessary access to funds.

2) Funds realized through the sale of assets by group companies and surplus funds within the Group will be used to repay the external liabilities of the same or other Group companies.

3) The methods used to finance external liabilities and the maturity structure of those financing sources will be diversified.

The trading-related liabilities of Daiwa SBCM and the borrowings of NIF Ventures to support its venture capital business will be treated as exceptions under the Group CMS. There are benefits to be gained from allowing these companies to operate flexibly. In their financial management practices, the two securities companies and NIF Ventures will be allowed considerable autonomy to reflect the characteristics of their business activities and financial structures. However, the Holding Company will monitor their policies as well as the implementation of those policies. On the other hand, certain other group companies will maintain financial management structures that are closely integrated with that of the Holding Company.

Daiwa Securities Group Inc. issued 80 billion yen in domestic convertible bonds with a maturity of seven years and conversion price of 1,094 yen in September 1999. In June 2000 it filed a shelf registration for a 200 billion yen bond issue over a two-year period and issued 100 billion yen in five-year domestic straight bonds. Through these issues, it has secured long-term funds to finance the acquisition of shares in and provide loans to group companies, and to repay external liabilities. These bond issues have also helped to diversify sources of funding and the term structure of debt, as well as reduce rollover risk.

In relation to short-term liquidity risk, the Holding Company has completed a contingency plan that will enable it to secure adequate cash flow by means of commitment facilities and other methods in the unlikely event that short-term unsecured loans become unavailable due to a credit crunch. This plan will be continuously reviewed.

The much improved risk profile of the Group, together with better stock market activity in early 1999, resulted in a recovery in the Group's credit ratings. Earnings from the securities business by nature tend to be affected by market conditions. Thus, improvement in financial stability is crucial to the achievement of further improvements in its credit standing. Consequently, the following financial targets have been set for the Group companies.

1) Daiwa Securities will work to increase the stability of its earnings by doubling retail assets under custody, by decreasing the proportion of fixed costs in its cost base, and by increasing the percentage of fixed costs covered by stable earnings.

2) Daiwa SBCM will diversify its income composition and strengthen its risk management systems.

3) In the area of support operations, the Group will work to reduce fixed costs and increase the percentage of variable costs in its cost structure.

4) Daiwa Asset Management and Daiwa SB Investments will expand their trust fees from investment trusts. NIF Ventures will expand its stable operating fees from investment partnership funds.

In addition to the above, the Group will allocate capital and operating funds among the Group companies taking into account the earnings potential and risk involved.

The Group has already provided for past service obligations in relation to pensions and retirement benefits. With its conversion to a holding company structure, the former Daiwa

Securities liquidated its existing retirement benefit system and adopted a system under which employees can choose between a fixed amount of retirement benefit to be paid each year, or receipt of the retirement benefit at the time of retirement. Tax qualified plans have been abolished and liquidated, except for the portion on which beneficiary rights have already been incurred. However, employees of the main group companies belong to the Securities Companies' Welfare Pension Fund, which is a multi-employer pension fund for the securities industry. In the consolidated accounts for the year ended March 2000 the company took a charge in respect of this obligation related to an estimated shortfall in provisions based on a reduction in the projected rate of return from 5.5% to 3%.

Risk Management

Ultimate responsibility for risk management in the Daiwa Securities Group lies with the Holding Company. Within the Holding Company, risk management is the responsibility of the Chief Financial Officer (CFO), a representative director of the Holding Company, as well as the directors and executives in charge of financial affairs. Relevant financial matters are reported to and deliberated at the Group Management Meeting. Matters requiring resolutions of the Board of Directors include large borrowings, loans and the acquisition or disposal of assets. Risk management by the Holding Company is based on a combination of the following procedures.

The Daiwa Securities Group is concentrating on domestic and cross-border securities operations and related activities in which it can achieve a competitive advantage. This also includes competitive advantage in terms of its ability to cope with risk arising in the course of business activities. The growth of Group activities will inevitably be accompanied by increased IT investment and the expansion of trading positions in securities and venture capital holdings. To accommodate such expansion of the core business, and to avoid unnecessary risks, asset and liquidity risk will be minimized through the reduction of assets and liabilities outside of these areas.

The Holding Company will estimate risk factors relating to the scale and liquidity of assets held by each Group company on the basis of those companies' business plans, and the risks associated with the business activities in which they are engaged. It will provide each company with sufficient capital to bear liquidity risk and loss risk. This will be the main risk countermeasure for Group companies other than the securities and venture capital companies which require additional risk management measures.

Broker-dealer companies which are the heart of the Group's activities and the largest source of risk, are required to have self-contained risk management systems in accordance with the Securities and Exchange Law or equivalent rules in most jurisdictions. Because Daiwa SBCM and its affiliated overseas operations are involved primarily in the trading and underwriting of securities and the trading of derivatives, there is a concentration of risk factors, such as market risk, credit risk and liquidity risk. Because of its importance, the risk management structure that has been adopted in respect of this company will be described separately within this annual report. Daiwa Securities, the retail securities company, has also developed a risk management system in compliance with regulations. However, because it is mainly engaged in retail securities operations, especially brokerage, its exposure to market risk and credit risk is minimal. On the other hand, management of compliance in relation to solicitation activities, and the management of liquidity in relation to margin lending are important considerations.

NIF Ventures invests on behalf of investment partnerships as well as directly. For this reason, it is exposed to credit and liquidity risk. It is Group policy to increase the independence of NIF Ventures in preparation for an IPO, and it will therefore adopt its own risk management structure in consultation with the Holding Company. It will construct a self-contained risk management system that facilitates the reporting of its risk management status to the Holding Company.

All companies are exposed to operating risk and system risk. Key areas include research, systems development and consultation by the Daiwa Institute of Research, and the securities-related back office operations of the Daiwa Securities Business Center. The risk exposure from the asset management activities of Daiwa Asset Management and Daiwa SB Investments is minimal, since these companies do not apply their own assets. Through its involvement in real estate activities, including branch management, Daiwa Real Estate is exposed to liquidity risk as well as risks arising on real estate held.

As explained in the Financial Strategy section, the overall liquidity risk of the Group will be contained through the reduction of the Group's outstanding external liabilities under the Group Cash Management System (CMS), and through the diversification of funding sources and the maturity structure. The creditworthiness of the Holding Company will be used to establish commitment facilities that will fully cover the short-term liquidity risk of the Group as a whole.

Information Technology

The Daiwa Securities Group places great emphasis on information technology in its operations. The present Medium-Term Management Plan calls for information technology spending of 130 to 150 billion yen over the next three years.

Over the same time period the Group will be adding approximately 100 personnel engaging in IT bringing the total to approximately 300. These staff are spread among the various Group companies including Daiwa Institute of Research, the Group's research and systems development arm which is responsible for the majority of the Group's IT development. In addition, Daiwa Securities Group has traditionally outsourced a large proportion of its IT needs, accounting for external employment of around 400 people during the last financial year, including both contract employees and project-based outsourcing. This number is expected to rise to 600 and could rise further to 800.

Although the Group's system development efforts are multifaceted, the Group believes that it holds a competitive edge in system stability and in user-friendly interfaces. In addition, long experience in systems development for the securities industry has given the Group a competitive advantage in terms of planning and time to market.

An area of particular focus at present is making full use of the possibilities presented by the advent of the Internet. This embraces not only the high-visibility online brokerage operation Daiwa Direct, but also other areas such as application of the Internet to institutional business and the streamlining of communications among Group companies.

Daiwa Direct had just over 230,000 accounts as of the end of June 2000. Full capacity for the current system is around 500,000 accounts. However, the system is scalable and can be easily upgraded in-situ to handle additional traffic for over one million accounts without disruption.

In the institutional market, the Internet has been emphasized in execution reporting and is increasingly replacing the use of expensive leased lines. In addition, Daiwa SBCM is promoting the standardized FIX protocol to allow investors to place orders over the Internet.

The Total Bond Analysis (TBA) system is currently undergoing a program update to adapt it from a stand-alone system running on dedicated terminals over leased lines to one running on standard personal computer hardware over the Internet. This project, dubbed TBA Online (TOL), also includes upgrades to the functionality of the system and to the amount of information carried. TOL, provided free of charge to the Group's clients, is regarded as a significant area of competitive advantage in the fixed-income markets.

The ATRAS and PowerTrade II systems for front-office use in equity trading underwent a major upgrade during 1999 in anticipation of the need to support off-the-market transactions and basket trading. These are now leading-edge systems within the industry and will continue to be upgraded to maintain this position.

NUMERICAL TARGETS - IT INVESTMENT *(next 3 years)*

	Investment *Billion of yen*
Daiwa Securities	60 – 80
Daiwa SBCM	52
Daiwa Institute of Research	15
Others	4
Total	131 – 151

A further area of strength for the Daiwa Securities Group is an advanced capability in both quantitative analysis and the provision of systems to support this capacity. This capability has been brought to bear in new product development and in the establishment of strong middle offices in each of the product divisions within the wholesale company responsible for risk management.

The Daiwa Securities Group believes its domestic risk management system is superior to the systems of its competitors. It is in the process of being integrated with the risk management systems of the overseas offices, particularly in London and New York.

Finally, in settlement systems, where the Group holds a strong and entrenched position, trends such as the move to mark-to-market accounting and T+1 settlements (including the need to adapt to systems changes being made by the stock exchanges themselves) will entail significant expenditures over the next several years. The Group is involved in efforts to promote standardization within the industry to enable a smooth transition.

Establishing the Daiwa Brand (Publicity and Investor Relations)

Establishing a stable relationship of trust between the companies of the Daiwa Securities Group and their customers is a matter of the highest priority. It is a matter of importance for the Holding Company that each interaction between any member of the Group and a customer, regardless of product or type of transaction, should reflect a high and consistent level of professionalism and service.

Particularly crucial are Japanese individuals without securities holdings who can be expected to become first-time investors over the near term. The Group believes that providing services attuned to such clients' needs will enable it to build a stable sense of trust and relationship. In addition to steps being taken at the operational level to establish the requisite brand image, the Group has embarked on a large-scale advertising drive specifically targeting such investors.

The Daiwa Securities Group exploits such new channels of communication as the Internet in its branding and investor-relations activities. The Holding Company has invested in interactive systems and brought a state-of-the-art website online in November 1999, specifically dedicated to investor-relations activities and with a number of interactive features designed to promote two-way communication with investors. In addition, the Holding Company has heavily promoted the Internet as a means of communicating with investors in novel ways by, for example, making available streaming video covering important company events such as press conferences and investor relations meetings.

The Holding Company's Investor Relations Department is tasked with ensuring full disclosure of corporate information and with widespread information dissemination. This department undertakes a program of meetings and roadshows as well as making use of the Internet in order to ensure that investors are sufficiently well informed to arrive at an informed understanding of the Group's management strategy and business prospects.

Community

The Daiwa Securities Group Inc. regards growth in the securities markets as both a foundation and reflection of prosperity in the broader economy and society at large. To reflect this fact, the Holding Company has set up two foundations and an endowment to recycle a portion of the profit earned by the Group in its business operations for society's benefit. It has employed these vehicles to contribute to society on a variety of fronts. In July 1999 it established the Corporate Community Affairs Department in order to bring focus to its social and charitable endeavors. The Group believes that healthy companies and a healthy civil society are mutually reinforcing, improvement in one is impossible with improvement in the other. The Corporate Community Affairs Department provides an integrated framework for group initiatives as well as providing support to employees both senior and junior wishing to engage in volunteer activities. The Daiwa Securities Group's principal social-contribution efforts are described below.

Regional community action programs

The Daiwa Securities Group, which operates globally through a network of offices in Japan and abroad, participates in and benefits from civil societies around the world. The Group aims to be a "good corporate citizen," nursing a trusting relationship with the communities with which it interacts with an eye to mutual benefit and growth. Acting upon this, the Daiwa Securities Group seeks to deepen its roots within each community and to make available to that community wide-ranging support. The Group thereby aims to contribute to maintaining and developing a truly affluent and vital civil society.

Environmental action programs

The 20th century saw the greatest economic advance ever experienced in human history. With the flowering of the global economy money, goods, information, and services flow unfettered across national boundaries. That century also brought with it a number of problems including increasing conflict between the needs of human societies and the natural environment. Incorporating an appreciation of the environment we inhabit into our social organizations, lifestyles and expectations and promoting sustainable development has become an urgent issue. Developing models of economic development that will be sensitive to the needs of the environment is a prerequisite for social development. The Daiwa Securities Group is committed to making a positive contribution to the development of such an environmentally-conscious civil society.

Daiwa Securities Health Foundation

This Foundation was established in 1972 to mark the 30th anniversary of the former Daiwa Securities' founding. The Foundation is designed to support research projects concerning the prevention and treatment of diseases and to publicize information and educate the public about the management and promotion of health in adulthood. It also promotes health-care and welfare projects catering to the elderly.

The Foundation's operations are funded from income accruing from the investment of its endowment and portfolio assets (which amounted to 126.3 million yen as of March 31,

2000) as well as donations from the Daiwa Securities Group. The funds are used primarily for supporting research projects focusing on the health/medical care and welfare of middle-aged and senior citizens.

The Daiwa Foundation

This Foundation was established in 1994 to mark the 50th anniversary of the former Daiwa Securities' founding. The Foundation is designed to support volunteer work and promote and popularize the volunteer spirit principally in the area of welfare and medical care. It provides an opportunity for anyone, anytime, to participate in volunteering to the advancement of the general well-being.

Its operations are funded with income accruing from the investment of its endowment and portfolio assets (which amounted to 1,836.8 million yen as of March 31, 2000) as well as donations from the Daiwa Securities Group. The funds are used primarily for supporting volunteer projects for assistance of the elderly in need of home nursing care, adults and children with disabilities, and children in need. Research projects focusing on volunteer and other activities in the area of welfare, medical care, and health care are also eligible for support.

In FY 2000, the total amount of grants to support volunteer projects will be increased substantially (to 50 million yen compared with the 10.66 million yen actually granted in the preceding year) in order to step up such support.

The Daiwa Anglo-Japanese Foundation

This Fund was established in Britain in 1988 to mark the 25th anniversary of the start of operations in London by the former Daiwa Securities. The company contributed almost 5 billion yen to the Fund's endowment. The Fund is designed to advance mutual understanding and friendship between Japan and Britain by promoting bilateral exchanges.

Its operations are funded with income accruing from the investment of its endowment (which amounted to 40.59 million pounds, or approximately 7 billion yen as of March 31, 2000). The Fund awards grants, administers the Daiwa Scholar Program, and operates the Daiwa Japan House. The Daiwa Scholar Program provides opportunities for young Britons to spend a period of time in Japan, learning the Japanese language and studying Japan's politics, economics and culture. It is hoped that future British leaders will emerge from this group to the benefit of mutual understanding between the two countries. The program has to date awarded a total of 62 scholarships amounting to 2.47 million pounds (approximately 530 million yen).

The Fund also extends grants in Japan and Britain to support initiatives which promote bilateral exchanges principally in education, science and the arts. A total of 1,100 projects have received grants totaling 6.11 million pounds (approximately 1.3 billion yen).

RETAIL COMPANY

daiwa securities co. ltd.

(As of July 3, 2000)

Directors:

Yoshinari Hara, *President* · Nobuo Kurakazu, *Deputy President* · Teruo Hatano, *Deputy President* · Tetsuo Mae, *Senior Managing Director*
Tatsuei Saito, *Managing Director* · Masaki Hirabayashi, *Managing Director* · Akira Hasegawa, *Managing Director*

Executive Officers:

Takatoshi Okuyama, *Senior Executive Officer* · Keiichi Sato, *Senior Executive Officer*
Akira Sakiyama · Hiroshi Ota · Yoshihide Shimamura · Tetsuya Ikeda · Taro Tanaka · Hiroshi Fujioka · Toshifumi Shimizu

Corporate Auditors:

Isao Tada · Toshio Shirai · Hideharu Takahashi

EFFECTIVE

Distribution Routes

Daiwa Securities is actively developing a suitable product range geared to the needs of customers shifting balances into securities for the first time.

Interview with

TOMIKI KOIDE

Branch Manager of the Shinjuku Center Building Branch, Daiwa Securities Co. Ltd. (interview took place May 2000)

Mr. Koide has spent 22 years with Daiwa Securities. Prior to taking up his present position from January 1999, he served as branch manager of the Himeji branch in the Kansai region of Japan.

Mr. Koide, I think it might be helpful to learn what the recent reorganization has meant to people such as you, who serve in the front line of retail securities operations. Would you start off by describing any major changes that you believe have occurred in the way you do business?

The main change to have occurred is, I believe, that lines of responsibility have become clearer. Now I would say that Daiwa Securities, the retail brokerage company, is better positioned to provide products and services meeting the needs of individual localities. This also means that the performance of the branch is now much more dependent on the efforts of the local branch manager, who consequently carries a heavier burden of responsibility.

When you say you have been marketing based on local needs, what do you mean?

Branches now have much more latitude in planning their response to local needs within the bounds set by Head Office's marketing strategy. For example, this branch is located in the heart of the Shinjuku business district of Tokyo. Recently we set up a storefront demonstration to promote the benefits of i-mode communications together with NTT DoCoMo responding to the local characteristics of the population. This turned out to be extremely popular. By maintaining an open-door policy during the fair we attracted a large number of new visitors to the branch.

The Nishi-Shinjuku area is also known for being home to a cluster of successful venture capital companies. In response to the sharp increase in the number of such venture companies seeking to go public, we have started what we call Power Lunch Seminars. These consist of study meetings held, in cooperation with an accounting firm, every other month and targeting potential IPO companies.

As is well known, deregulation has increased the spectrum and sophistication of financial products. What implications does that have for the skills and expertise of your marketing staff? What training do you provide for these staff?

Compliance has become a crucially important topic for the entire securities industry. Especially in marketing to the general public, rigorous compliance is a must. Daiwa Securities has increased both the quantity and quality of training available in this area. For example, Head Office routinely organizes large-scale seminars in which all of the branches participate. This is supplemented by local initiatives where experts from Head Office are invited to give instruction at the individual branch level. As products become more and more sophisticated staff training will become even more important. This is especially so given the rise seen in recent months in investors investing for the first time in securities markets. Recently, for example, this branch has opened around 300 new accounts each

Customers should be given

enough information to arrive

AT AN INFORMED OPINION

month. Hence, we have also started to provide twice-monthly lectures to familiarize first-time investors with securities markets and products.

Daiwa Securities has a stated objective of increasing customer assets under custody and has introduced related results-oriented elements into its staff evaluation mechanisms. Could you describe how this actually works at the individual branch level?

As a company, we have targeted a doubling in retail assets under custody in our Medium -Term Management Plan. This is, as you note, reflected in the performance evaluation for marketing staff. I myself put great emphasis on attracting assets from a wider range of customers in order to increase the balance of assets under custody held by this branch. This means that we have to ensure that the customer is familiar enough with the characteristics of a given product to arrive at an informed opinion before engaging in transactions. For example, in the case of purchases of investment trusts our policy is always to confirm that the client understands that the investment trust is intended for long-term investment not short-term speculation. At this branch, every time a customer requests a switch between investment trusts, that request is referred to the supervisor for authorization. If the supervisor considers that the switch is not in the client's best interests, the client will be told the reasoning for this and asked to reconsider the decision.

Needless to say, it is the investor who retains the final say in all investment decisions. However, we are not at all hesitant about offering contrarian opinions. There are occasional cases where the investor's inclinations will remain at odds with our own. Nevertheless, offering consistent advice as part of our customer service efforts has had the effect of reducing the frequency of complaints almost to zero.

The securities markets are now very active and the product range available to individuals has expanded. Yet, Daiwa Securities has kept its headcount essentially flat. Do you think that you can continue to offer satisfactory customer service at your current level of staffing?

The Shinjuku Center Building Branch currently employs 76 people. This is the lowest figure in the last few years. Between late 1998 and early 1999, we handled around 100 visits to the branch daily. Today, that number is over 400, and on a busy day over 600, if routine inquiries such as for stock price quotes are included.

Naturally, our workload per employee has expanded, which does make it difficult to provide an enthusiastic reception to every client. However, we have installed greater numbers of information terminals on the premises as well as automated consulting machines (ACMs). At a higher level, Daiwa Securities has introduced a new automated stock quote service and has expanded its call center capabilities to enhance the information infrastructure. I think that we have now done as much as we can to alleviate the staffing shortage.

One topic which has received wide coverage is the flow of maturing postal savings deposits into securities markets. What has been your experience?

At this particular branch, the major flow seems to have been not so much out of postal savings, as out of ordinary bank accounts.

It has been reported in the media that the flow of money out of postal savings has been slower than previously expected. This is because of the correction in the equity market driven by gyrations in the United States. Hence, we would describe investors' attitudes as being rather "wait-and-see" in nature. On the other hand, the outflow from postal savings has yet to peak and we are actively developing a suitable product range attuned to the needs of customers shifting balances into securities markets for the first time.

RETAIL
Company

Daiwa Securities Co. Ltd. (Daiwa Securities) is the retail securities arm of the Daiwa Securities Group. The company employs approximately 7,000 staff and operates nationwide primarily through a network of 124 branches. In addition, this company ranks among Japan's leading online brokerages, having pioneered the industry with the introduction of Daiwa Direct in 1996.

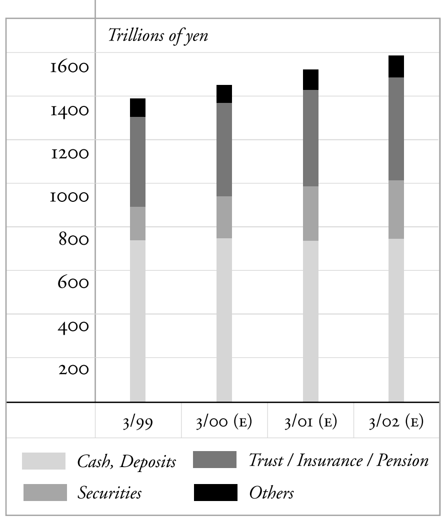
Japanese retail securities markets have changed dramatically in response to various factors including the so-called "Big Bang" financial deregulation and advances in information technology, particularly the advent of the Internet. In turn, these advances have led to a great increase in the products and methods of distribution available to investors as well as to a tendency for greater price competition taking into account the services offered, including information provision and the level of individual service.

FY 1999 was marked by the following events:

1) Deregulation measures continued to advance culminating in a total liberalization of equity brokerage commissions in October 1999. Securities companies are now free to decide commissions. This builds on prior rounds of deregulation which had allowed the introduction of greatly expanded product types to investors. These trends have increased retail participation in securities products.

2) Japanese households maintain only a little over 10% of their financial assets in securities. This is far below the 35% levels typical of the US for example. However, a study by the Daiwa Institute of Research (DIR) projects an 80% rise in securities holdings by households over the next three years, significantly outpacing the 13% increase expected in personal financial assets over the same period. During 1999 signs of this shift were in

TREND IN RETAIL FINANCIAL ASSETS IN JAPAN



Source: Daiwa Institute of Research, as of January 2000 evidence as Daiwa Securities and other brokerages saw an increase in securities investment from first-time investors.

3) Liberalization took place against a buoyant market background. Equity turnover on the Tokyo Stock Exchange measured in terms of value rose from a daily average of 663.3 billion yen during the April to June quarter of 1999 to 1,350.6 billion yen during the January to March quarter of 2000, marking a return to volumes last seen ten years ago.

4) While traditional securities channels including branch offices remained dominated by the larger traditional brokerage companies including Daiwa Securities, there was an increase in the brokerage activities of banks and companies from outside of the financial industry. In particular, there was a significant expansion in the number of securities companies offering services over the Internet. In April 1999 the number of online brokerages active in Japan numbered 22. By the end of October 1999 (when commissions were finally liberalized) this number had risen to 47. As of the end of March 2000, it was 52. Over this period the total number of accounts held with such brokerages has risen from 55,000 to approximately 775,000.

Against this background Daiwa Securities recorded an increase in revenues which reached 258.2 billion yen to report an ordinary income of 106.8 billion yen. The upward trending securities market and the expansion of the customer base were the main contributors to this growth.

Headcount in the retail securities company was kept essentially flat while other rationalization measures yielded additional cost savings. Total SG&A costs emerged at 150.5 billion yen, with income before income taxes at 89.3 billion yen after absorbing extraordinary losses of 17.4 billion yen, mostly relating to provisions for the multi-employer pension plan. Net income was 51.3 billion yen, after taking into consideration deferred taxes. During the year, the retail company's assets under custody increased to 19.5 trillion yen, of which 14.7 trillion was for retail customers. This represents an increase in retail customer assets of 40%, or 4.2 trillion yen. In light of this strong performance and the trend to greater securities investment in Japan, Daiwa Securities has raised its target relating to retail customer assets under custody. The target now is to increase retail customer assets, the main source of stable income, to 28.3 trillion yen over the next three years.

Business Development

Daiwa Securities intends to develop its business over the medium-term in the following ways:

1) The company will develop a mix of distribution channels designed to offer an appropriate level of service at an appropriate price to each major class of investor. This distribution mix already includes the established country-wide branch network, Daiwa Direct one of the nation's leading online brokerages, the call center, ATMs, and mini-branches equipped with ACMs (sales offices). In July this was expanded to include 100 post

office Gyro Terminals allowing purchases of MMF and medium term JGB funds as well as additional functions for the call center.

On July 3, 2000, Daiwa Securities introduced three service packages consisting of "Daiwa Consulting (branch account)," "Daiwa Call (call center account)," and "Daiwa Net (online account)" offering different levels of service at different commission levels.

Daiwa Securities has also taken steps to increase the size of the retail investor base in Japan. The aim of the "Daiwa One Two Desk", which had been introduced to all branch offices by April 2000, is to make Daiwa Securities more accessible to first time investors. Meanwhile "Daiwa Internet TV", which was introduced in March 2000, provides real time market information as well as lectures on investment products over the Internet.

2) One of the core strategies for Daiwa Securities is developing the Cash Management Program (CMP). By opening a CMP account a customer gains access to various types of services which are separated into "A" and "B" courses. Services for customers in course A include automatic investments into Money Reserve Funds (MRF), settlement of credit cards, as well as access to bank and post office ATMs. In addition to these services, customers in course B receive periodic publications on investment management, consultancy services on investment and tax matters, as well as a quantitative analysis of their portfolio. Asset based fee accounts or "Asset Plus" accounts which incur fees varying with the amount of outstanding assets under custody are scheduled for introduction. For a fixed fee the customer will be entitled to make a given number of transactions at no cost. In addition, he or she becomes entitled to receive consultancy on securities investments.

3) The company will continue to devolve responsibility for day-to-day operations to the regions and individual branches in order to allow for initiatives geared to the characteristics and demographics of each locality.

4) In addition to the Cash Management Program (CMP), the company will stress investment trusts as a core product area with an eye to the substantial increase expected in retail sector investment in securities.

5) As a member of the Daiwa Securities Group, Daiwa Securities will cooperate with other Group companies such as Daiwa Securities SB Capital Markets and Daiwa Asset Management to identify IPO candidates and to develop new products. Daiwa Securities intends to leverage the Group's comprehensive capability to establish a strong Daiwa Brand in the minds of the investing public.

6) The company has reinforced and will continue to strengthen its internal compliance functions.

Distribution

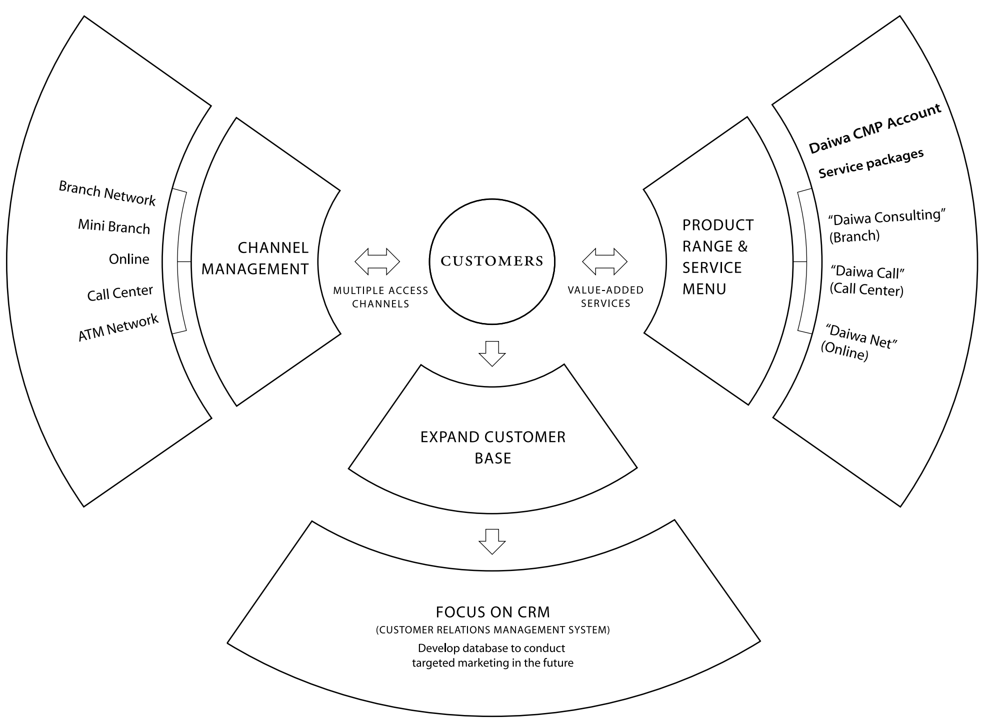
Daiwa Securities Co. Ltd. has traditionally relied on its national network of branch offices, which currently number 124, for distribution. In addition, the company ranks as one of Japan's largest online brokerages via Daiwa Direct which has operated since 1996. New innovations Daiwa Securities has brought to its retail distribution activities include the introduction of a large, technically-superior call center, expanded use of technology throughout the branch system and the introduction of mini-branches.

Daiwa Securities has been providing full line services via the branch network, and online services through Daiwa Direct which offers the convenience and low cost made possible by the Internet. From October 1999 Daiwa Securities offered commission schedules for the Internet channel approximately 25% below those applying to the full service channel. From July 3, 2000 a discount of 50% has been introduced for this channel (Daiwa Net).

A further service that was implemented in July 3, 2000 is the introduction of call center accounts (Daiwa Call) which are priced and offer a degree of service midway between full service branch accounts and online accounts. They are offered at a discount of approximately 30% to the full service price.

As of the end of March 2000, Daiwa Securities maintained around 2.4 million customer accounts of which approximately 2 million were active, having outstanding balances of cash or securities. Over the next three years the company intends to increase this latter number

EXPANDING THE CUSTOMER BASE



to 4 million, with approximately one half of the increase coming from call center and online accounts, and the remainder from branch accounts.

In addition to the above, Daiwa Securities needs to take account of the fact that it will, for the foreseeable future, continue to operate in an environment characterized by cyclical markets and fierce competition. The company therefore regards it as a priority to maintain as much flexibility in its cost base as possible in order to minimize earnings fluctuations. Business process re-engineering, reconfiguration and enhancement of IT systems support, increased use of part-time personnel and development of lower cost distribution methods in general are therefore regarded as matters of some urgency.

Branch Network

As noted above Daiwa Securities operates a nationwide network of branches. The number of customer visits to these branches has returned to levels last seen a decade ago. Additionally, many Daiwa Direct customers make use of the branches for routine query servicing adding to the load. This has led to a situation where the capacity of the branch network to handle increasing volumes needs to be reviewed.

Daiwa is responding to these developments in the following ways:

1) Over the next three years the company is planning to hire approximately 700 new graduates for marketing positions. In addition, part time personnel will be hired for such tasks as routine inquiry handling and reception and as call center operators. A program where recently retired Daiwa employees will be actively re-hired on a contract basis has been introduced. In total around 1,400 such staff are expected to be hired over the next three years to cope with the increasing work load.

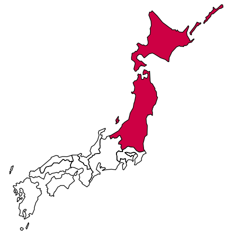
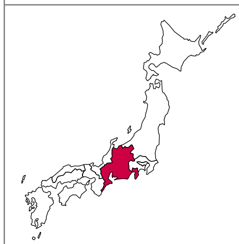
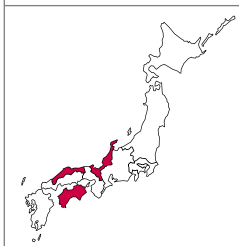
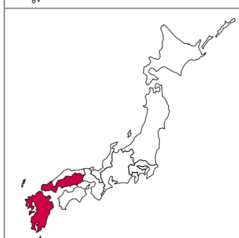
2) Daiwa Securities is also increasing the number of staff holding appropriate external qualifications. Over the last 18 months, 2,400 staff have acquired the AFP (Affiliated Financial Planner) qualification and can offer advanced advice on securities investment to individuals.

3) Branches are being equipped with automated stock quote services, automated consulting machines (ACMs) and other systems designed to allow branch customers access to routine services (such as stock-price updates) on a self-service basis.

4) In pursuit of increased efficiency it may be necessary for some branches to be relocated, consolidated or closed. The company will also give consideration to forming suitable strategic alliances. Regional banks, supermarkets and convenience stores may be candidates owing to their location and customer convenience.

One new distribution channel that warrants special mention is the smaller and more cost-efficient mini-branch office. These offices differ from the branches typical of the existing network in that they are smaller in scale, employing only 3 to 5 staff compared with the 30

BRANCH NETWORK (121 branches and 3 sales offices, as of June 30, 2000)

	EASTERN JAPAN REGION *(16 Branches)*	*Sapporo Branch* *Kushiro Branch* *Obihiro Branch* *Aomori Branch* *Morioka Branch* *Sendai Branch* *Akita Branch* *Yamagata Branch* *Fukushima Branch*	*Koriyama Branch* *Iwaki Branch* *Mito Branch* *Utsunomiya Branch* *Takasaki Branch* *Niigata Branch* *Nagaoka Branch*	
	TOKYO METROPOLITAN REGION *(24 Branches, 1 sales office)*	*Yokohama Branch* *Yokohamaeki- nishiguchi Branch* *Totsuka Branch* *Kawasaki Branch* *Yokosuka Branch* *Kamakura Branch* *Fujisawa Branch* *Chigasaki Branch*	*Atsugi Branch* *Kichijoji Branch* *Kunitachi Branch* *Tachikawa Branch* *Hachioji Branch* *Tama Branch* *Machida Branch* *Kawaguchi Branch* *Urawa Branch*	*Omiya Branch* *Koshigaya Sales Office* *Tokorozawa Branch* *Chiba Branch* *Funabashi Branch* *Matsudo Branch* *Usui Branch* *Kashiwa Branch*
	TOKYO REGION *(23 Branches, 1 sales office)*	*Main Branch* *Hibiya Branch* *Kudan Branch* *Tokyo Branch* *Ginza Branch* *Akasaka Branch* *Shinjuku Branch* *Shinjuku Center Building Branch* *Ueno Branch*	*Kaminarimon Branch* *Kameido Branch* *Gotanda Branch* *Jiyugaoka Branch* *Kamata Branch* *Omori Branch* *Seijo Branch* *Shibuya Branch* *Nakano Branch*	*Ikebukuro Branch* *Ikebukuro Nishiguchi Branch* *Niiza-shiki Sales Office* *Akabane Branch* *Nerima Branch* *Senju Branch*
	CENTRAL JAPAN REGION *(15 Branches)*	*Nagoya Branch* *Nagoyaeki-mae Branch* *Toyohashi Branch* *Okazaki Branch* *Ichinomiya Branch* *Gifu Branch* *Tsu Branch* *Shizuoka Branch* *Hamamatsu Branch*	*Numazu Branch* *Nagano Branch* *Matsumoto Branch* *Kofu Branch* *Toyama Branch* *Takaoka Branch*	
	KINKI/SHIKOKU REGION *(14 Branches)*	*Kyoto Branch* *Fukuchiyama Branch* *Hikone Branch* *Nara Branch* *Kanazawa Branch* *Fukui Branch* *Tottori Branch* *Matsue Branch* *Okayama Branch*	*Tokushima Branch* *Takamatsu Branch* *Matsuyama Branch* *Niihama Branch* *Kochi Branch*	
	KANSAI REGION *(14 Branches, 1 sales office)*	*Osaka Branch* *Umeda Branch* *Nanba Branch* *Kyobashi Branch* *Abeno Branch* *Kishiwada Branch* *Toyonaka Branch* *Kawanishi-noseguchieki Sales Office*	*Ibaraki Branch* *Wakayama Branch* *Kobe Branch* *Amagasaki Branch* *Nishinomiya Branch* *Himeji Branch* *Akashi Branch*	
	WESTERN JAPAN REGION *(15 Branches)*	*Hiroshima Branch* *Fukuyama Branch* *Shimonoseki Branch* *Tokuyama Branch* *Kita-Kyushu Branch* *Fukuoka Branch* *Kurume Branch* *Saga Branch* *Nagasaki Branch*	*Sasebo Branch* *Kumamoto Branch* *Oita Branch* *Miyazaki Branch* *Kagoshima Branch* *Naha Branch*	

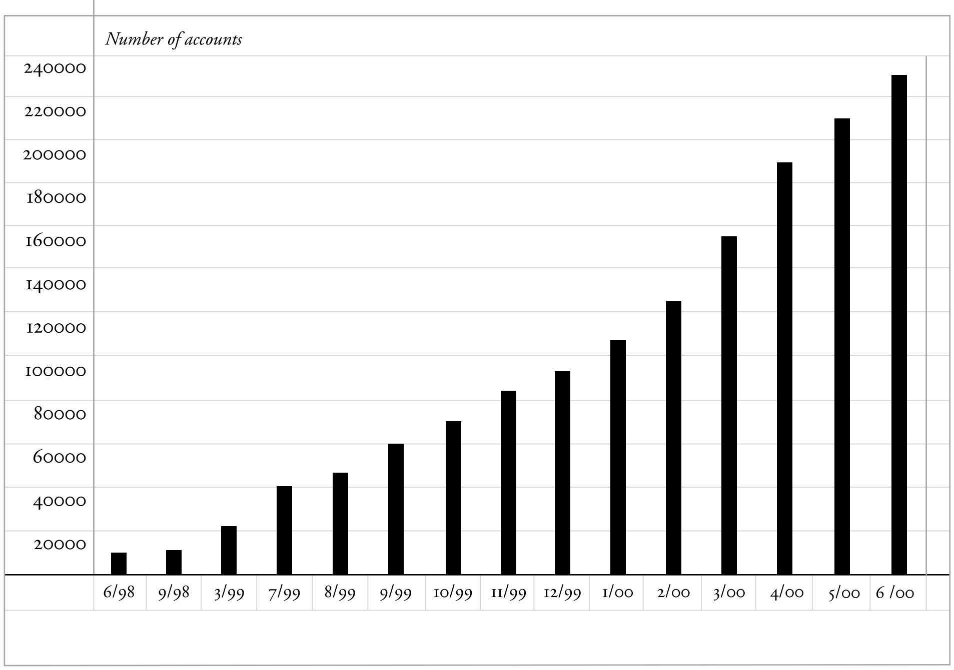
to 50 sales representatives characteristic of the mainstream branches. The cost of setting up such an office is approximately one-tenth of that of establishing a traditional branch. Smaller scale allows a lot of flexibility in locating such branches in areas where a full scale branch would be impractical or uneconomic. In fact, experience with the three mini-branch offices that are already in operation indicates that, on a per-branch basis, such mini-branch offices are just as effective in generating new customer accounts and growth of asset balances as traditional branches. Consequently, Daiwa Securities plans to open 25 to 30 such small and cost-efficient mini-branch offices, mainly in metropolitan areas, over the next 3 years.

Daiwa Direct

Daiwa Direct provides online brokerage services within Daiwa Securities. Daiwa Direct started operations from April 1996, making Daiwa Securities the first company in Japan to offer such services. The proportion of transactions conducted through the Internet has dramatically increased since October 1999 when equity brokerage was liberalized. In June 2000, about 31% of transactions and about 12% of commissions on unit shares were derived from the Internet. Daiwa Direct also offers services via the i-mode data communications capability of cellular telephones offered by NTT DoCoMo. As of March 2000, i-mode accounted for approximately 11% of transactions conducted over the Internet and this proportion is continuing to increase. Similar services utilizing other main telecommunications providers commenced in July.

As is common with most online financial services, the current client base for Daiwa Direct consists mainly of young males holding salaried jobs. Men account for 85% of Daiwa Direct customers. In addition, investors in their thirties or forties account for 60% of online brokerage

NUMBER OF INTERNET TRADING ACCOUNTS

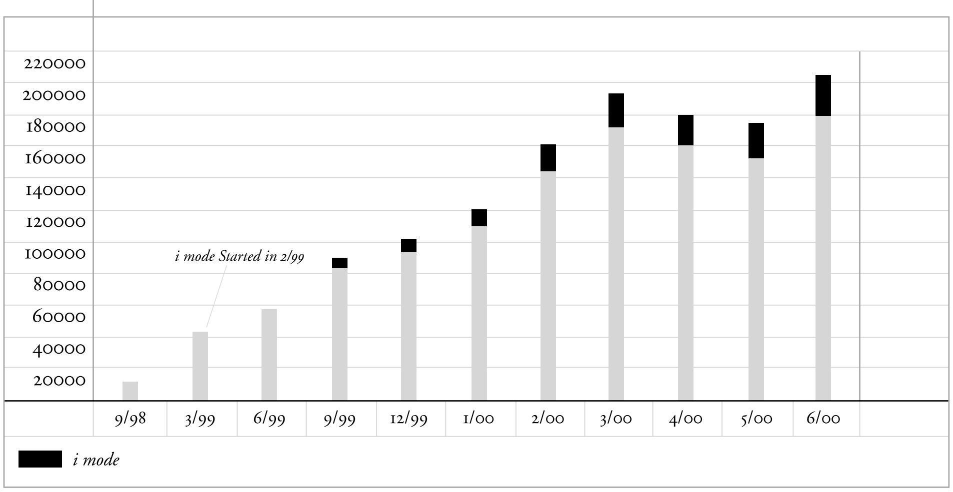


customers. As the market evolves, Daiwa Securities expects greater participation from other investors, including women. There would thus appear to be significant room for market expansion both from the existing and from new demographic groups. In fact, the Daiwa Institute of Research estimates that the number of online accounts in Japan will rise from approximately 775,000 as of end-March 2000 to over 2,000,000 by the end of December 2000. Daiwa Direct's target is to achieve a total of 500,000 accounts over the same period.

At the time of the final deregulation of brokerage commissions in October 1999 Daiwa Direct led the industry in terms of client accounts. Since October the company has pursued a policy of rational pricing and superior service and has offered its customers a 25% discount to commissions applied to the face to face channel. However, the online brokerage industry in Japan has seen the advent of deep discounters, many lacking an existing client base, attempting to generate market share at the expense of profitability. Daiwa Securities has stayed aloof from this fray being confident that its own business model, which regards the Internet as an integral part of its overall distribution strategy, is superior. Consequently, commissions charged by Daiwa Direct are significantly higher than the average, being up to ten times the lowest available commissions (approximately seven times after July 3). Nevertheless, the number of online accounts held with Daiwa Direct rose from 60,000 at end-September 1999 to 155,000 by end-March 2000 rising further to approximately 231,000 (assets under custody 1.18 trillion yen) as of end-June 2000.

Much of the success that Daiwa Direct has enjoyed can be ascribed to a high level of client satisfaction and positive brand image in the market. Independent surveys have indicated that trust in the Daiwa Brand is high and that confidence and after-sales support are major factors in customer satisfaction. Daiwa Securities believes that promotion of customer confidence is a crucial success factor. This will be achieved by maintaining the stability of the online system and by utilizing the Daiwa Securities branch network for support.

NUMBER OF TRANSACTIONS
VIA THE INTERNET



Call Center

The call center was initially established in April 1999 with 25 seats as a help desk for Daiwa Direct customers. Due to an unexpected increase in demand, the center was upgraded to seat 100 by the end of FY 1999. Building on the knowledge and experience acquired, it will be further upgraded to 200 seats in the early part of FY 2000. Together with this expansion, by commencing “Daiwa Call” call center accounts from July 3, 2000, the call center has filled the distribution and service gap between the full service branches and online trading. The call center now provides services to call center accounts as well as maintaining its function as a help desk for online customers.

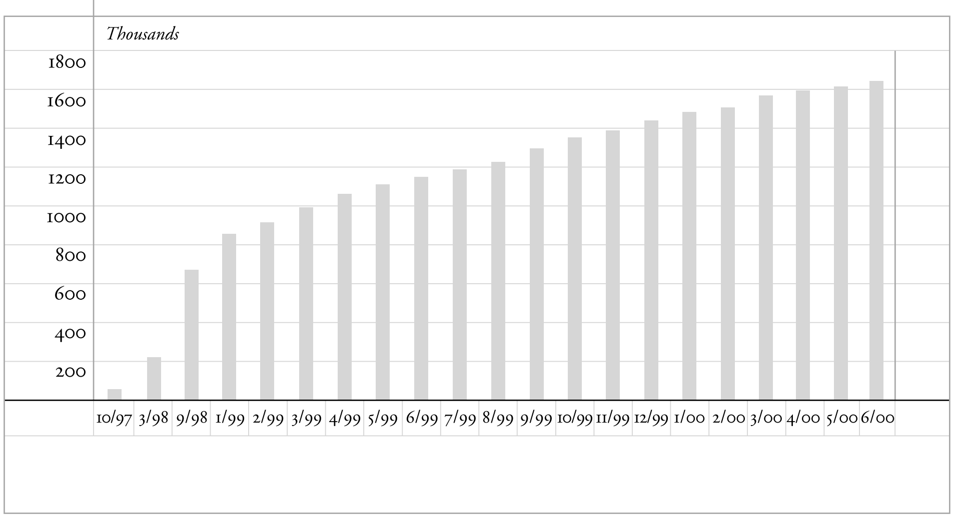
To reduce costs and enhance flexibility, Daiwa Securities has taken a decision to staff the call centers primarily with part-time and contract staff to handle general inquires. In line with the company’s general emphasis on staff education, training programs will be conducted on a regular basis. Finally, various support systems including automatic referrals and voice response programs will also be installed to provide low cost but efficient services.

Product Development

As noted above, it seems highly likely that the next several years will be marked by a substantial flow of retail assets into the securities markets. Core to Daiwa’s efforts to capture a major portion of these flows are the services offered by its CMP and the diversity of products offered such as investment trusts. Daiwa Asset Management, the Daiwa Securities Group’s asset management arm, is one of the largest investment trust companies in Japan, while Daiwa Securities’ CMP leads the industry in terms of its wide range of services.

CMP offers the facility to earn returns provided by MRF on readily-accessible funds. MRF is a type of investment trust that provides enhanced returns as well as safety, while at the same time allowing the holder immediate access to cash. For this reason this program is key

CASH MANAGEMENT PROGRAM (CMP) ACCOUNTS



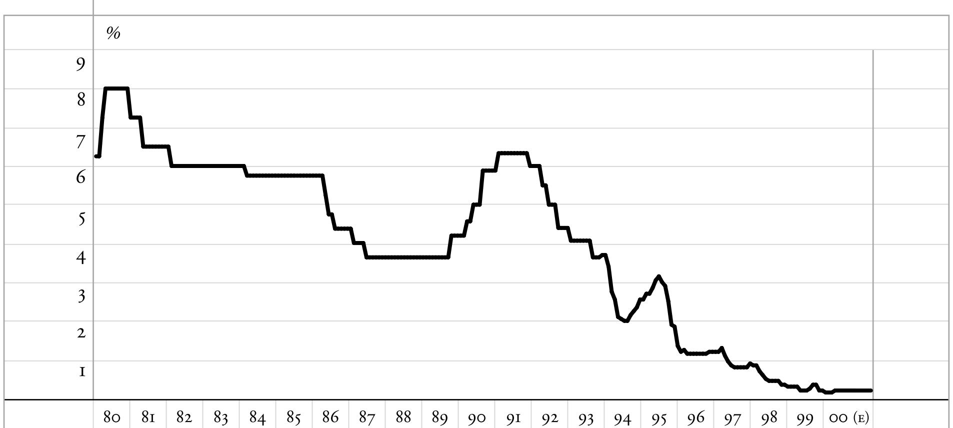
to attracting first time investors shifting funds from so-called safe-haven investments such as bank deposits and postal savings.

During FY 2000 and FY 2001, around 106 trillion yen in postal savings deposits will mature. These deposits were placed 10 years ago attracting rates of return varying between 5.0% and 6.3%, substantially above the near-zero rates available on such deposits today. The Ministry of Posts and Telecommunications expects that around half of the maturing amount will be reinvested in postal savings irrespective of the low interest rate available. Nevertheless, approximately 50 trillion yen will likely be reinvested in alternative vehicles. Of this outflow half is expected in FY 2000. Of this latter amount DIR expects that 14 trillion yen should find its way into alternative vehicles such as securities markets.

In addition, the introduction of 401(k) style defined contribution pension plans is expected in 2001. This should increase familiarity with securities markets among individuals participating in pension funds and help to increase the total customer base for the securities industry.

As mentioned before, DIR estimates that securities holdings in personal financial assets will rise 80% between April 2000 and April 2003. However, over the same period investment trust holdings should more than double to 73 trillion yen, while equity investment trusts will show even greater growth. Daiwa Securities is positioning itself to take maximum advantage of this trend with a broad range of investment trusts sourced mainly from the group asset management companies, Daiwa Asset Management and Daiwa SB Investments, but also from external asset management companies. Daiwa Securities offers an extremely wide range of fixed income type investment trusts ranging from low-risk MMFs and MRFs, as well as other products such as equity investment trusts offering the possibility of higher returns.

LONG-TERM TREND IN INTEREST PAID ON POSTAL SAVINGS DEPOSITS



Source: Daiwa Institute of Research

During FY 1998 and FY 1999, Daiwa Securities launched several flagship funds which were well-received by the market. These include “Musashi” an active Japanese equity fund and “0101” investing in the IT sector. Both have grown to more that 200 billion yen in terms of funds under management. In future, alternative asset classes such as REITs (real estate investment trusts) will be introduced as appropriate.

Compliance and Reputation Risk

Retail securities markets the world over raise substantial compliance issues due to the nature of the market in dealing with price sensitive products such as stocks, bonds and investment trusts. These issues are, of course, not specific either to Japan or to Daiwa Securities. In the past, problems arising between investors were thought to be minimized by legislation restricting the products that could be handled and by limiting price competition between securities companies.

Unfortunately, this state of affairs in which competition on the basis of price and product differentiation was impossible led to the industry competing on the basis of market share alone. Such a situation was not conducive to the development of an active compliance function, which remained underdeveloped in Japan compared with other securities markets.

Over the last several years Daiwa Securities has worked steadily on improving internal compliance. This commitment has been dictated by a number of factors including the need to deal with multiple new distribution channels and product lines in an age of liberalized securities markets. The company now has to contend with an increased threat of ethical violations occurring, a generally tighter legal framework, and the conviction that the greatest threat to attempts to establish a strong brand image is the risk of damage to the company’s reputation stemming from real or imagined ethical violations. Promoting an effective compliance framework and high standard of ethical behavior among employees is a vital component of competitive advantage in contemporary securities markets. A well established compliance system will enable the company to differentiate itself from its competitors, increase its corporate credibility, and help build the Daiwa brand name.

The potential for securities companies to sustain damage to their reputations has been magnified by the advent of such modes of communication as the Internet. In the absence of methods to control such risk, securities companies such as Daiwa Securities that are attempting to promote and expand securities investment among the general public would be hostages to fate. This is another reason why Daiwa Securities believes that establishing an effective compliance system as well as a strict code of ethical conduct is crucial.

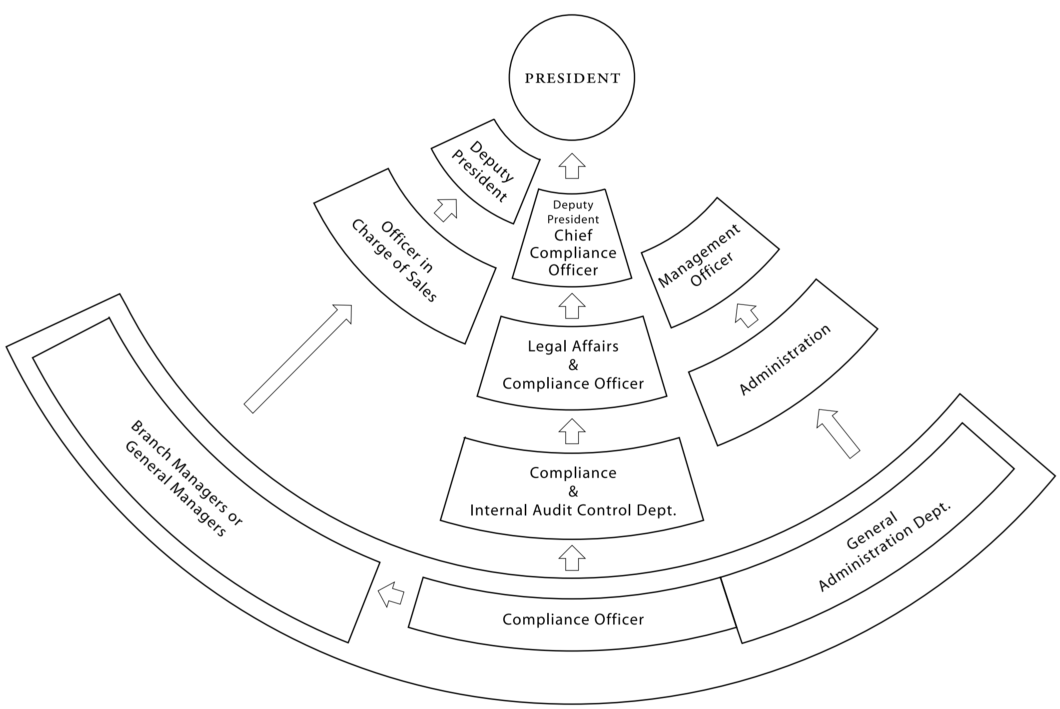
Daiwa Securities believes that compliance-related risks stem from three generic sources. The first is intentional or unintentional misconduct by its own staff; the second is the potential for clients to misunderstand the nature of the products sold to them, a problem which in turn might be the result of insufficient explanation of the nature of the transaction by the salesperson concerned; and the third is for systemic problems to arise, perhaps where inappropriate practices by one securities company tarnishes the reputation of all.

Daiwa Securities has responded to the first two potential threats by bolstering its efforts geared to monitoring and education of its own staff and to make sure that customers are provided with sufficient information concerning products to arrive at an informed opinion. The third threat is inherently uncontrollable at the individual company level. However, Daiwa Securities welcomes industry or administrative action in this area and, together with promotion of its internal monitoring system, is committed to working constructively with the appropriate bodies.

Monitoring and Education

As part of the move to establishing an appropriate compliance system Daiwa Securities changed the functional reporting line for the general administration department of each branch office in January 1998. Since then, this department, which has day-to-day responsibility for compliance matters, reports functionally to the Compliance & Internal Audit Control Department of the Head Office. This change in reporting line has increased the independence of the compliance functions and also enhanced the monitoring within the organization.

FUNCTIONAL REPORTING LINE



In addition, full time compliance officers are now stationed at 23 branches around the country with responsibility for the 124 branches of Daiwa Securities. These officers are charged with investigating complaints by clients, resolution of disputes, staff education, and such preventative functions as internal auditing. The head of the General Administration Department retains responsibility for day-to-day compliance matters working closely with the local compliance officer to preempt potential problems.

Daiwa Securities believes that the establishment of preemptive procedures, employee education, and provision of adequate information and analysis to customers are the most important functions of the Compliance & Internal Audit Control Department.

Compliance issues have been made an integral part of the corporate curriculum at many levels, wherever possible drawing on internal case studies. A one page “crib-sheet” analyzing compliance issues reported to the Compliance & Internal Audit Control Department together with appropriate solutions are included in the Compliance Weekly magazine, thereby highlighting potential problems and the appropriate countermeasures to all staff in order to improve services. Regular seminars and study sessions are held at each branch with support from the Head Office concerning such matters as new product introductions and related compliance risks. In addition, Daiwa Securities has implemented an internal staff assessment scheme to insure that only those employees qualified to give appropriate advice are allowed to conduct sales activities for certain products. Other initiatives are undertaken at the individual branch level in light of local circumstances.

DAIWA SECURITIES CO. LTD. FINANCIAL STATEMENTS

1). Income Statement (apr 1, 1999 - mar 31, 2000)

	Fiscal 1999 Millions of yen
Operating revenues	258,286
Commissions	240,898
Net gain on trading securities	13,162
Net gain on other commodities trading	5
Interest and dividend income	4,220
Operating expenses	151,426
Selling, general and administrative expenses	150,594
Commission and other expenses	30,984
Employees' compensation and benefits	64,623
Real estate expenses	27,179
Data processing and office supplies	22,762
Depreciation expenses	1,720
Taxes other than income taxes	367
Others	2,957
Interest expenses	831
Operating income	106,859
Non-operating income	184
Non-operating expenses	206
Ordinary income	106,837
Extraordinary gains	–
Extraordinary losses	17,484
Provision for multiemployers' pension plan	15,220
Expenses for foundation	1,078
Expenses for reorganization of system	950
Provision for securities transaction liabilities	236
Income before income taxes	89,352
Income taxes	52,200
Income taxes-deferred	-14,191
Net income	51,343
Unappropriated retained earnings-carryforward	-7
Unappropriated retained earnings	51,336

2). Statement of appropriation of retained earnings

		Fiscal year 1999 millions of yen
Unappropriated retained earnings		51,336
Reversal of general reserve		–
Total		51,336
Appropriations of retained earnings		13,547
Legal reserve	1,210	
Cash dividends(*)	12,000	
Bonuses to directors	99	
Reserve for special depreciation	238	
Unappropriated retained earnings carried forward		37,788

(*) Cash dividend: 3,750,000 yen per share.

3). Balance Sheet (Assets)

	As of March 31, 2000 Millions of yen
Current assets:	1,017,259
Cash and time deposits	279,799
Cash segregated as deposits related to securities transactions	1,787
Receivables	15,230
Trade date accrual	199
Advance payments on securities subscribed	510
Short-term loans	22,446
Accrued receivables	693
Accrued income	11,699
Trading assets:	9,924
Trading securities and others	9,885
Derivative valuation accounts	39
Receivables related to margin transactions:	308,210
Loans receivable from customers for margin transactions	308,011
Cash deposits as collateral for securities borrowed from securities finance companies	198
Cash deposits as collateral for securities borrowed	19,703
Securities in custody	331,852
Short-term guarantee money deposited	6,809
Deferred income tax assets-current	7,307
Other current assets	1,653
Less: Allowance for doubtful accounts	-568
Non-current assets:	68,955
Tangible fixed assets	4,334
Intangible fixed assets	1,898
Investments and others:	62,721
Long-term loans	5,000
Long-term guarantee deposits	48,954
Deferred income tax assets-non-current	6,884
Other investments	1,893
Less: Allowance for doubtful accounts	-10
Total assets	1,086,214

4). Balance Sheet (Liabilities)

	As of March 31, 2000 Millions of yen
Current liabilities:	867,793
Short-term borrowings	268,000
Deposits received	88,258
Advance receipts on securities subscribed	725
Accounts payable	8,212
Trading liabilities:	205
Trading securities and others	0
Derivative valuation accounts	205
Payables related to margin transactions:	29,994
Loans from securities finance companies for margin transactions	24,747
Proceeds from securities sold for margin transactions	5,247
Short-term securities borrowed	32,687
Cash deposits received from customers	70,140
Securities deposited by customers as collateral	299,164
Accrued income taxes	52,073
Accrued bonuses	9,500
Other current liabilities	8,829
Non-current liabilities:	16,838
Accrued retirement benefits	1,618
Multiemployers' pension plan	15,220
Statutory reserves:	236
Reserve for securities transaction liabilities	236
Total liabilities	884,868
Stockholders' equity	
Common stock	100,000
Legal reserve:	50,010
Additional paid-in capital	50,010
Retained earnings:	51,336
Unappropriated retained earnings	51,336
(Net income for the current year)	51,343
Total stockholders' equity	201,346
Total liabilities and stockholders' equity	1,086,214

Basis of financial statements for the fiscal year 1999

1) Valuation of specified trading account
Securities, assets and derivative transactions in specified transaction account are recorded on a trade date basis at market value.

2) Valuation of non-trading securities and commodities other than securities
Unlisted securities and commodities other than securities are valued on a settlement date basis at cost determined by the moving-average method.

3) Depreciation of tangible fixed assets
Depreciation is computed under the declining-balance method in accordance with the Corporate Tax Law.

4) Accounting for certain lease transactions
Finance leases in which ownership is not transferred to a lessee are accounted for in the same manner as operating leases.

5) Accounting for consumption taxes
Consumption taxes are separately recorded.

6) Accounting policies for various provisions
a) Provision for doubtful accounts
Allowance is provided, based on the specific assessment and the historical deterioration rate stipulated by the Corporate Tax Law.
b) Accrued employees' bonuses
Expected employees' bonuses are accrued, based on the company regulations.
c) Accrued retirement benefits
Retirement benefits for employees and directors are accrued based on the company regulations.
d) Multiemployers' pension plan
Daiwa Securities is a member of a multiemployers' pension plan that is an industry-wide multiemployer contributory welfare pension plan administered by the Securities Companies' Welfare Pension Fund. The funded pension plan has faced the problems arising from the decreasing members and continuing low interest rates. The company's liability is calculated, based on the difference between its projected benefit obligation and the fair value of its plan assets.

Notes to income statement

1) Commission and other expenses
The Board of Directors of Daiwa Securities approved on January 11, 2000 that the company came into agreement to pay royalty on “trademark” to Daiwa Securities Group Inc. Royalty on trademark of 12,914 million yen covering the period from April 26, 1999 to the end of this fiscal year is recorded in “commission and other expenses”.

2) Expenses for foundation
Expenses for foundation are posted as an extraordinary loss as the company charges development costs and new share issue costs on its commencing operations in a lump-sum.

3) Expenses for reorganization of systems
Expenses for reorganization of systems are posted as an extraordinary loss as the costs of replacing a part of obsolete systems.

Notes to balance sheet

1) Accumulated depreciation of tangible fixed assets 1,263 million yen

2) Intangible fixed assets
Software included in “Other investments” until the previous year is reclassified as “Intangible fixed assets” in accordance with amendment (Ministry of Finance, Ministerial Order number 135, 1998) of “Regulation on Terminology, Forms, and Preparation Methods of Financial Statements”Ministry of Finance, Ministerial Order No. 59, 1963).

WHOLESALE COMPANY

daiwa securities sb capital markets co. ltd.

(As of July 3, 2000)

Directors:

Akira Kiyota, *President* · Kensuke Uchida, *Deputy President* · Kenji Ebihara, *Deputy President* · Masahide Morimoto, *Senior Managing Director*
Yoshiyuki Takemoto, *Senior Managing Director* · Michihito Higuchi, *Senior Managing Director* · Shoichi Oshima, *Managing Director*
Yoichiro Inoue, *Managing Director* · Nobuaki Ohmura, *Managing Director* · Sumio Fukushima, *Director*

Executive Officers:

Mitsugi Kishimoto, *Senior Executive Officer* · Nagayoshi Miyata · Toshiro Ishibashi · Yasuo Nakamura · Kenji Hayashibe · Mamoru Ohtani · Kanichiro Hirata
Hideo Shimada · Hidehiro Fujii · Kiyoshi Matsuba · Yutaka Murakami · Jun Kiseki · Tatsuro Inoue · Hideo Watanabe · Kazuo Ariake

Corporate Auditors:

Masayuki Kano · Toshihiko Akuta · Yoshiaki Senoo · Takayoshi Kobayashi

FOCUSED
Services

The wholesale securities company also had a very good year. It established itself as a market leader in trading and in institutional sales of both equities and bonds. In addition, the new business operations — derivatives, structured finance, and mergers & acquisitions — increased their contribution to revenue. Meanwhile, the relationship with Sumitomo Bank is starting to bear fruit.

Interview with

AKIRA KIYOTA

President of
Daiwa Securities SB Capital Markets

Could you please give us a brief overview of the year to March 2000 as you see it? Since we will be covering the individual operations of Daiwa Securities SB Capital Markets (Daiwa SBCM) in more detail later on, we would be grateful if you could concentrate on matters of strategic importance.

I suppose that I should start by pointing out that we started the year publicly stating our goal of achieving ordinary income of 60 billion yen and a return on equity of 15% within three years. In the event, our operating income during FY 1999 emerged at 73.0 billion yen.

Of course, we are not oblivious to the fact that the strong stock market was a major contributor to these profits. However, there were several major developments during the year that may not be obvious at first glance but which are nonetheless extremely important.

The first was increasing evidence of the benefits accruing to this company stemming from its close relationship with The Sumitomo Bank, Limited (Sumitomo Bank). Moreover, these benefits were such that I believe they will increase with the passage of time.

The second was the degree of success we have enjoyed in our equity trading operations since the final deregulation of commissions in October 1999. The two securities companies (Daiwa Securities and Daiwa SBCM) combined claimed the top slot for equity trading revenue during the third quarter. Our strong position in this area is attributable to thorough preparation and the establishment of sufficient technology support through our PowerTrade II and ATRAS systems which support the equity front office.

Finally, I would like to mention the three new business areas on which we place much emphasis. These are our derivatives, structured finance and M&A operations. These operations have gotten off to a very good start with their contribution to profits already at record highs. They also have the added benefit of diversifying our revenue sources.

You mentioned evidence of synergy with Sumitomo Bank. Could you elaborate?

We have benefited from utilizing Sumitomo Bank's business network. For example, in our derivatives operations, we made great strides by combining a securities company's expertise in equity with a banks expertise in interest and foreign exchange. In M&A, although due to the confidential nature of the business I cannot name specific projects, we have succeeded in winning significant business together with Sumitomo Bank with still more in the pipeline. In our securitization activities we have completed several large scale projects, of which I can mention securitization of the NEC Head Office Building, securitization of the Omori Plant of Asahi Breweries and securitization of the Sumitomo Real Estate Building in Shinjuku.

Our bond underwriting business also benefited greatly from our joint venture status with a major city bank. Our market share for FY 1999 as lead manager for public straight bond

Our
ABILITY TO RESPOND
to changing market conditions and
ABILITY TO INNOVATE
has been
VASTLY IMPROVED

issues is larger than that of the former Daiwa Securities and Sumitomo Capital Securities combined in FY 1998. The Sumitomo Bank issue, lead managed by Daiwa SBCM, was the first straight bond issue from a bank after restrictions were lifted in October 1999. This bond, for which we are committed to market making, is considered the benchmark for all bank bond issues, and is highly regarded in the industry. Actually, there are many more examples where joint efforts have borne fruit.

Were there any parts of the business that you would like to improve on?

Our equity underwriting and IPO operations did not distinguish themselves during the last financial year. This was mainly due to the fact that the other two major securities companies each managed to obtain large privatization mandates. We fully acknowledge that we need to work with Sumitomo Bank and cultivate our expanded client base. The IPO and equity underwriting market is dominated by the major Japanese securities companies, of which we are one. We are lead underwriters to over 600 publicly listed corporations which sets us apart from certain competitors such as foreign securities companies. Unfortunately, both of our major rivals have historically been stronger than us in this segment. In a sense, since this business has long lead times and substantial barriers to market entry, the situation during 1999 was a natural result of this historical background. For example, 60% of new equity issues were from companies which had undergone an IPO during the last 5 years and a full 80% of issues from companies which had listed within the last 10 years. Moreover, many IPOs during the year were parented by companies which had themselves gone through an IPO in recent memory. This sort of situation tended to mean that those securities companies with established relationships continued to reap the rewards with little chance of a major shift in market power occurring. However, since this sector is strategically important to us, improving our relative competitive position is a matter of priority.

So now, after one year, what would you rate as the strategic strengths and weaknesses of Daiwa SBCM?

I have already alluded to the strength of our two parents, the Daiwa Securities Group and Sumitomo Bank. Mostly, we are talking here about access to clients. In this respect, although details are yet to be worked out, I think that the Sumitomo Sakura Bank merger which will integrate the client bases of four banks — Sumitomo, Mitsui, Taiyo and Kobe — will be exceptionally positive for us.

I also rate our status as a stand-alone wholesale securities company as a very significant competitive strength. I would urge you not to underestimate the competitive power of being able to focus on the professional securities markets. For example, in the days before the formation of this company, the ability of the former Daiwa Securities to formulate personnel policies appropriate to the retention of highly qualified staff was limited. To be brutally frank, there have been times in the past when I felt we were running a training academy for the benefit of foreign securities houses and headhunters. Since the corporate restructuring this situation has changed completely. We have established a remuneration system that better reflects performance. This will open the door to hiring talented market specialists. There is now even a flow of qualified staff back to Daiwa SBCM from those very companies to whom we had earlier lost them.

On the product side, I would point to our equity trading capability as a core strength of this company. For example, in basket trading with institutions we rank among the top houses and command around one fourth of the market. We intend to strengthen our equity underwriting capabilities by utilizing this position in the secondary market.

In the bond market we also rank among the top houses for corporate bonds and in the JGB market in terms of providing liquidity. In addition, it is a point of some pride for us that according to an independent survey of institutional investors, we rank number one overall taking into account quality of information, underwriting and trading prowess.

Our status as a
STAND-ALONE
Wholesale Securities Company
is a significant competitive
STRENGTH

Of course, I have already alluded to the strong start we have made in business sectors such as derivatives, structured finance and M&A. These are areas which have sprung into being as a consequence of the Big Bang reforms and where we have been able to exploit our new-found corporate agility to establish an early lead.

Finally, I would like to allude to our strong IT backbone. Indeed the importance of technology in our business is so pervasive that neither quality service for customers nor competitive advantage can be achieved without it. Daiwa made significant investments in this area a long time before Daiwa SBCM was positioned as a joint venture. This is because qualities such as speed, accuracy, efficiency, capacity and convenience for customers as well as ultimately the performance of the company, are directly linked to the quality of the systems infrastructure. A great deal of the leadership we enjoy in such areas as equity trading can be directly attributed to the strong systems we have in place, including our PowerTrade II and ATRAS systems in the equity area and our Total Bond Analysis (TBA) system in bonds. One area in which we are making great strides is in the application of Internet technology to the professional securities markets. For example, in April 2000, this company became the first company in Japan to manage the underwriting procedure for a corporate bond, in our case for Sumitomo Bank, entirely over the Internet. In future, we will continue to streamline the flow from order to settlement and strengthen our risk management systems drawing on our past experience.

In the interests of balance, I should also point out our areas of weakness. This includes primarily the lack of relative strength in equity underwriting that I referred to above. Our first priority here is to greatly enhance our IPO operations since these represent the motherload from which other business opportunities eventually follow.

Secondly, as a challenge to be faced, I would point out that the status of our overseas network is under review now that we have completed the restructuring phase. To clarify responsibilities, we have implemented a functional reporting system where the head of each product line monitors profitability and risk control.

I would like to note here that our overseas equity operations remain intact and are adequately structured to support the Group's ambitions going forward. We have a strong sales and trading capability, adequate placing power for global offerings of Japanese issues, and are the market leader in Japanese placement of global equity offerings by overseas issuers. The placement of Deutsche Telecom shares in Japan is a good example of our position as the industry leader in this field. In the bond area, we are investigating expanding the operations of our London subsidiary to boost its presence in the Euromarkets.

WHOLESALE
Company

Daiwa Securities SB Capital Markets Co. Ltd. (Daiwa SBCM) was established through an alliance between the wholesale division of the former Daiwa Securities Co. Ltd. and The Sumitomo Bank, Limited (Sumitomo Bank). This 60% Daiwa-owned consolidated subsidiary started operations on April 5, 1999.

During the financial year that ended on March 31, 2000, Daiwa SBCM recorded revenues of 172.0 billion yen, operating income of 72.5 billion yen and ordinary income of 73.0 billion yen. To strengthen the quality of its balance sheet, the company took an extraordinary loss of 219.3 billion yen accounted for almost entirely by writing off the goodwill acquired on commencement of operations and by expenses relating to the company's creation as well as a provision related to a multi-employer pension plan. The company recorded a pretax loss of 146.3 billion yen which, under applicable tax-deferred accounting, became a net loss of 85.0 billion yen.

Daiwa SBCM's sales and trading activities cover a full range of both equities and fixed-income securities. The company's investment banking activities include mergers and acquisitions (M&A), structured finance, derivatives, IPOs and underwriting. Several of these businesses are traditional strengths of the Daiwa Securities Group. Others such as derivatives, structured finance and M&A are new strategic businesses addressing markets emerging in response to regulatory and market change.

Major market transformations forecast by Daiwa SBCM over the next several years are as follows:

1) The reform of Japan's legal and tax framework and the growing trend to direct financing as well as measures geared to corporate reorganization such as mergers, divestitures, and new incorporations will drive substantial growth in the capital markets.

2) Major revisions to Japanese accounting standards and practices will force a paradigm shift in asset liability management (ALM). Foremost among the changes anticipated are consolidated accounting, mark-to-market standards for assessing the value of financial products, and retirement benefit accounting.

3) Amendments to the Special Purpose Company Law and the Investment Trust Law will lead to increasing securitization of assets. Of special interest are developments relating to the securitization of real estate assets.

4) Pension system reform will add impetus to increased interest in alternative asset classes offering superior long-term returns.

Given these trends, it is certain that the next several years will see major changes in wholesale securities markets in Japan. While direct comparison with overseas markets is at best a rough guide, trends in already deregulated markets point to the following changes in Japanese financial markets:

TIMETABLE OF REGULATORY CHANGES

	1997	1998	1999	2000	2001
ASSET MANAGEMENT BUSINESS					
Introduce various types of investment trusts *Introducing mutual funds, private funds, and lifting of OTC derivatives rules*		O			
CORPORATE FINANCE					
Change rules of issuing MTN and ABS *1997: MTN, 1998: ABS*	O	O			
Facilitate IPO process *Introduction of book-building method for IPO pricing*	O				
Reinforce functions of OTC equity market *Introduction of stock lending*	O				
Lift restrictions on handling private equity *Securities firms to handle private equity*	O				
BROKERAGE					
Abolish restrictions on dual operations *Introduction of general securities accounts and wrap accounts permitted in 1997 & 1998 respectively. Securities firms permitted to operate as investment advisors.*	O	O			
Introduction of Private Trading System (PTS) *Securities firms are permitted to establish and manage PTS*		O			
Liberalisation of equity brokerage commissions *Full liberalization of stock brokerage commissions*		O	O		
Abolish regulation regarding entry and exit of securities firms *Move from licensing to registration system*		O			
Business entry between banking and securities business *Abolish restrictions regarding operations of banking, and securities affiliates: Restrictions on operations excluding equity-related products in 1997. Full liberalization in 1999.*	O		O		
Holding company structure *Approval of two laws regarding holding company structure*	O				
EFFICIENT MARKET SYSTEM					
Abolish rules on concentrating securities transactions to exchanges *Promote competition among markets*		O			
Improve securities transactions and settlement methods *JGB, corporate bonds and equity to move to T+1 settlement by FY2002*	O	O	O	O	O
FAIR AND TRANSPARENT TRANSACTIONS					
Expand scope of definition for securities *Covered warrants and DR (Depository Receipt) added*		O			
Emphasis on consolidated-basis accounting *Introduction of consolidation based on control, and consolidated financial statements*		O	O	O	
Introduction of accounting standards for financial products *Mark-to market accounting and hedge accounting*				O	O
Introduction of accounting method for retirement benefits *Accrual basis accounting. Pension to be shown on balance sheet*				O	
RULES FOR BROKERS - SOUNDNESS AND LIQUIDITY					
Expansion of securities firms disclosure and enforcement of segregation of client assets *Disclosure of capital adequacy ratio of securities firms. Establishment of protection trust fund for investors*		O			

1) Despite the increase in activity for the wholesale securities industry, consolidation will lead to a concentration of market share, with the emergence of a limited number of dominant players.

2) There will be a major shift in revenue structure away from sales-oriented commissions towards trading and investment banking.

3) Increasing deal size will drive expanded need for capital.

4) As new product development increases in importance, information technology (IT) will play an ever more vital role in sharpening the leaders' edge.

Given these market transformations, key leadership factors will include management flexibility in responding to new opportunities and threats; enhanced product development capabilities; breadth and depth of reach in all client categories, both domestic and foreign; and the power to procure and allocate capital efficiently.

Competitive Advantages

In its first year of operation, Daiwa SBCM has both decisively demonstrated a number of competitive advantages and identified the competitive challenges that must now be overcome to achieve its corporate goals.

Advantage number one is Daiwa SBCM's solid relationships with its two shareholders: the Daiwa Securities Group Inc. and Sumitomo Bank, one of Japan's strongest commercial banks. The company's dual parentage vastly increases access to clients, particularly corporate clients, as well as a wide range of synergies drawing on the complementary strengths of the two companies.

Advantage number two is the business model, which is clearly focused on wholesale securities markets. This enables swifter and more accurate management response to market developments, and improved ability to tailor human resources and other policies to the specific needs of the company. In this way, Daiwa SBCM can take full advantage of new opportunities as the pace of change in Japanese wholesale securities markets accelerates.

Market Leadership

As a member of one of a handful of fully integrated securities groups in Japan, Daiwa SBCM benefits not only from immense domestic reach but also important synergies with the retail and other Group companies.

Daiwa SBCM enjoys an especially strong position in equity and fixed income trading where it has been able to achieve an outstanding performance due to support from institutional investors. Building on these fundamental strengths, the company has moved quickly to establish a lead among major Japanese securities houses in derivatives and asset securitization. In addition, Daiwa SBCM is consolidating resources and forming alliances to establish a leadership position in other areas of investment banking.

There are, however, areas — equity underwriting, IPOs and, in a different form, M&A, for example — where the company trails the market leaders. Effective use of the greater reach provided by the company's relationship with Sumitomo Bank and agility in responding to shifts in the underlying structure of markets are the keys to closing these gaps.

Daiwa SBCM's short-term goals are those set out in the Daiwa Securities Group's group strategy, i.e., to establish a clear leadership position in domestic securities markets, to improve the quality of earnings, and to strengthen the group balance sheet. For example, overseas branches of the former Daiwa Securities Co. Ltd, which sustained major losses in FY 1998, have been scaled back and restructured. Since October 1999, with limited exceptions, they operate along functional reporting lines as subsidiaries of Daiwa SBCM. The immediate results of strategically concentrating management resources on Japan-related businesses include a striking improvement in financial performance. However, the globalization of the Japanese economy calls for Daiwa SBCM to reconstitute its presence in the global capital markets. Rebuilding the overseas network in support of this new paradigm is a top-priority objective for the coming financial year.

Equities Division

Daiwa SBCM's Equities Division is one of the leading players in equity trading in Japan, with a strong base in principal trading and IT intensive services. Daiwa SBCM has firmly established its position, with an approximately one-fourth market share in the non-auction markets (off-market and out-of-trading-hour transactions). These transactions consist mainly of basket trading and large lot transactions with institutional investors. During Daiwa SBCM's first year of operation, the Equities Division recorded brokerage commissions of 31.9 billion yen and trading gains of 33.2 billion yen, accounting for over one-third of the company's total revenues.

Equity brokerage commission revenues for the year to March 2000 declined following the total liberalization of commission rates in October. The main reason for this decline lies in the fact that most institutional investors shifted to transactions conducted on a net commission basis (transactions where commissions are included in the quoted price). Due to the rise in volumes, the liberalization of commissions had a minimal net impact on the total of commission and trading revenues considered together.

Sophisticated support systems have been developed to take full advantage of the talents and experience of Daiwa SBCM's traders and sales personnel. An example is ATRAS, an order system which allows for speedy execution of complicated transactions. PowerTrade II monitors the market, supports position control and provides traders and salespeople with an advanced End-User Computing (EUC) environment. Combined these functions enable strict real time position control and quick and accurate pricing. By utilizing these systems, the division has been able to provide competitive execution services to institutional investors.

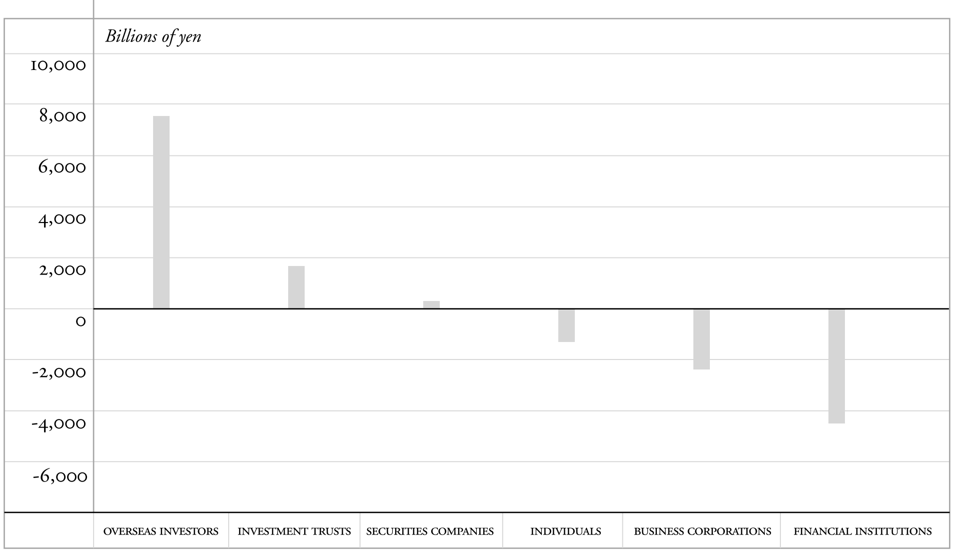
The Equities Division actively pursues opportunities arising from changes in the share ownership of Japanese corporations. The need to unwind corporate cross-shareholdings is facilitated through block trading and placement of shares with institutional investors. These methods enable corporations to unwind shareholdings with limited negative impact on market prices. Daiwa SBCM's global product line, which provides access to both the domestic and overseas networks, is key to its competitive advantage in this business.

The division is also Japan's front runner in electronic trading. The Daiwa Integrated Order (DIO) system utilizes the Financial Information Exchange (FIX) Protocol, the standard for electronic execution of stock transactions by institutional investors, and provides overseas institutional investors with the ability to place orders directly with stock exchanges in Japan. Furthermore the ATRAS Management System provides domestic investors with access to back office facilities. Daiwa SBCM has been able to apply its accumulated technological know-how to differentiate itself in this area.

The division works closely with Daiwa Institute of Research analysts to provide clients with corporate research and other information on a timely basis. Steps are being taken to enhance advisory functions extended to corporate investors in respect of the effects introduction of mark-to-market accounting may have on their portfolios.

The Equities Division is already providing the retail securities company with Volume Weighted Average Pricing (VWAP) transaction facilities and will continue to utilize its capability and knowledge of equity trading for the benefit of other Group companies. The

FY 1999 NET INVESTMENT
BY INVESTOR TYPE (TSE+OSE+NSE)



division will continue its development efforts and investments to maintain its leading position in the area of IT. Furthermore the division regards it as important to utilize its technological resources for the development of promising markets such as TSE Mothers, Nasdaq-Japan of the Osaka Securities Exchange and JASDAQ, and to provide higher levels of service to clients as well as in its trading operations.

Reporting lines for all aspects of the Equity Division's business are now functional, run from Tokyo, and global in scope. Japanese equity sales and trading conducted at the overseas offices are closely linked to Tokyo's equity positions. This enables Daiwa SBCM to service clients globally on a 24-hours basis.

Financial Markets Division

The main business of the Financial Markets Division of Daiwa SBCM is to facilitate the bond trading needs of institutional investors. FY 1999 saw vigorous trading by investors in corporate and emerging market bonds as interest rates globally fell from the highs reached during 1997 and 1998. Moreover, as the Bank of Japan (BOJ) adhered to its zero interest rate policy, investors purchased large quantities of structured notes in an attempt to achieve higher yields. The Financial Markets Division was able to respond flexibly and swiftly to accommodate these trends with beneficial results for the bottom line.

Mark-to-market accounting for financial instruments became applicable in April 2000, while real-time gross settlement (RTGS) for government bonds is scheduled for introduction from December or later. In addition to the rapidly changing regulatory landscape, the bond market itself is also rapidly evolving, especially as competition increases and online trading gains ground. Business trends which historically would have been spread over the course of several years are now compressed into a single year or even into a timescale measurable in months. Innovation, building on strength in traditional bond markets and the strength of the Daiwa Securities Group, is the core competitive requirement for the Financial Markets Division.

The division has, for example, established a dedicated team to assist customers in making a smooth transition in the application of mark-to-market accounting. The division already offers its proprietary Total Bond Analysis (TBA) system allowing customers to analyze their own portfolios independently. Work is in progress to enhance the system and improve its operability with a keen eye to the rapidly approaching age of the Internet. Daiwa SBCM is convinced that completion of this new TBA (named TBA Online or TOL) should dramatically benefit clients as it enables them to perform online, market value-based portfolio evaluations. Because the changes planned for government bond settlement requirements will require a huge investment to build new systems and infrastructure, decisions made in this area will be important to the long-term outlook of the division. In this area, too, the division has formed a project team to assist its customers in successfully shifting to the new system.

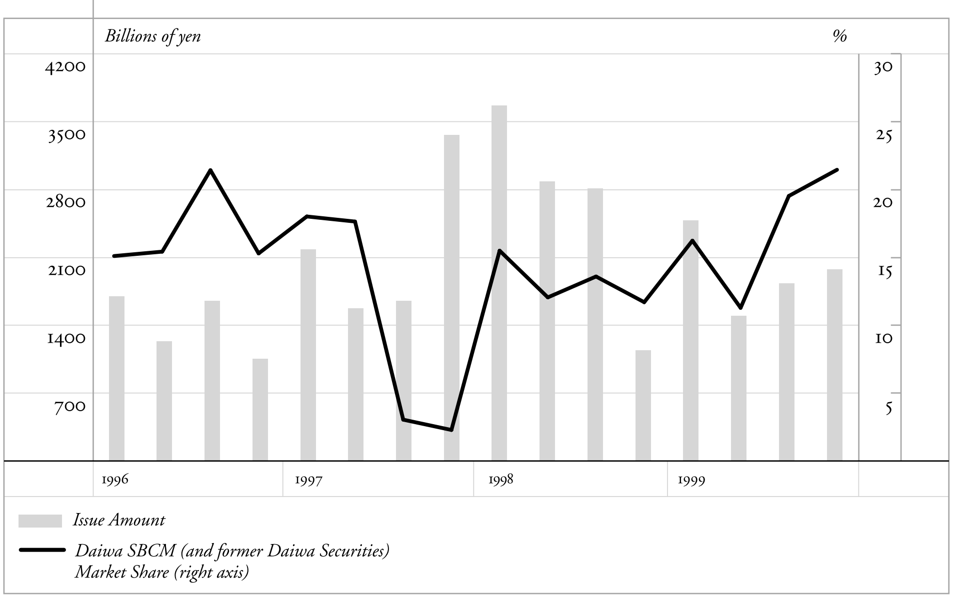
The Internet is a vital tool for the Financial Markets Division. It has been aggressive in promoting the usage of this technology in areas such as underwriting and syndication. Furthermore, Daiwa SBCM has taken an equity stake in asiabondportal.com, Inc. together with other major international investment banks to provide information and market making facilities for Asian bonds.

Against this background, the Financial Markets Division will continue to place emphasis on analysis of the bond market and individual bonds encompassing research, strategy assessment, credit evaluation, and quantitative analysis. As a consequence of low interest rates, institutional investors, particularly financial institutions, are now more conscious than ever of portfolio performance. Consequently, the demand for research and analysis can only increase. Investors now demand ever more sophisticated investment methods and techniques. The Financial Markets Division is committed to meeting the needs of such investors by assigning the correct human resources and implementing systems to reflect customer feedback in service provision.

The division prides itself on its ability to satisfy client needs across a wide spectrum. This was reflected in the high marks received in a survey of investors conducted by a prominent American consulting house. It listed Daiwa SBCM's Financial Markets Division as ranking top in terms of customer satisfaction in the handling of domestic bonds.

The most vital near-term objective for the division is to increase its reach among overseas investors to match the success it enjoys domestically, as the weight international investors occupy in the division's target markets naturally increases. Consequently, it intends to reinforce its services and infrastructure overseas, especially in Europe and Asia.

DOMESTIC CORPORATE STRAIGHT BOND ISSUE (QUARTERLY BASIS)



Investment Banking and Corporate Institutions Division

Bonds

Driven down by falling capital expenditures and balance sheet rationalization, the volume of straight bonds issued in Japan fell by around 26% to 7.8 trillion yen during the year to March 2000. While some of Japan's traditional securities companies lost market share to securities companies affiliated with banks, Daiwa SBCM performed well during the year, not only losing no market share, but actually seeing its share of the overall market increase. The improvement was mainly due to an increase in the underwriting of issues sourced from Sumitomo Bank's client networks.

Equities

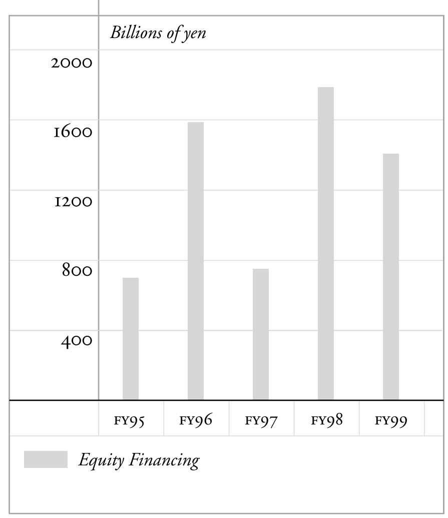
In Japan, the equity IPO and underwriting business is dominated by the three major Japanese securities firms due to the necessity of having a strong retail network in order to compete effectively in this business.

During the year to March 2000, equity underwriting and distribution revenues for Daiwa SBCM were 23.4 billion yen. This figure is 68% above the 14.0 billion yen recorded by the former Daiwa Securities Co. Ltd. during the previous year.

Improving its position in this business is a top-priority goal for Daiwa SBCM. It is seen as especially important since primary business including IPOs are the starting point for many other kinds of business.

The company currently has a team of relationship managers, responsible for major companies in the cities in which their offices are located, split between offices in Tokyo, Osaka

EQUITY FINANCING
BY JAPANESE COMPANIES



and Nagoya. Daiwa Securities, the retail securities company, is responsible for relationship management for companies outside of, or on the fringes of, the major metropolitan areas. Prior to a reorganization in February 2000, relationship management responsibilities for non-public and public companies were managed by separate divisions. Following the reorganization, responsibilities have been allocated functionally and divided into relationship management and deal execution. In this way, clients will maintain contact with the same division even after going public. Furthermore, to strengthen the marketing and investigation functions, professional staff such as accountants and tax accountants have been hired externally.

In order to build relationships with potential IPO candidates, Daiwa SBCM is supplementing the efforts of its own sales force by working closely with NIF Ventures, the Group's venture capital arm, and Sumitomo Bank as well as by utilizing information collected from accounting firms, life insurance companies, and other venture capital companies.

Daiwa SBCM has, for some time now, emphasized growth sectors with better than average prospects, with top priority given to IT. Further out, it has also targeted the environmental, biotechnology, nursing care, and e-business sectors. Daiwa SBCM will continue to strengthen its capacity to introduce companies with high growth potential to traditional markets as well as to newer markets such as TSE Mothers and Nasdaq - Japan of the Osaka Securities Exchange.

Daiwa SBCM is convinced that its current strategy is a viable long-term approach to achieving market leadership.

Financial Products Division

The Financial Products Division enjoyed an excellent year. Derivative revenues approximately doubled compared to the previous year's combined results for the former Daiwa Securities and Sumitomo Bank. Derivatives are one of the three pillars of growth (comprising derivatives, structured finance and M&A) identified by Daiwa SBCM.

The division is active in all segments of the derivatives markets but has staked an especially strong position in equity derivatives, which were greatly liberalized following legislative changes in December 1998. According to statistics regarding "Trading of Derivatives on the Securities OTC Market" released by the Japan Securities Dealers Association covering the period from October 1999 to March 2000, Daiwa SBCM ranked top in terms of trading value, volume outstanding and in number of transactions of equity derivative products. Equity derivatives carry higher profit margins than other products and are expected to continue to be a major contributor to revenues. Other revenue sources included interest rate/currency derivatives, structured bonds, and credit derivatives. Demand for interest rate and currency derivatives decreased due to limited needs for hedging by investors owing to the BOJ's zero interest policy. However, taking into consideration the implementation of mark-to-market accounting and the recovery of the Japanese economy, demand for interest rate derivatives will most likely recover and contribute to revenues to a degree comparable to that of equity derivatives.

In the institutional market, Daiwa SBCM's success was due to its capacity to provide solutions, which in turn was made possible by an enhanced risk management ability and the strength of the trading departments. Keys to these abilities include an extremely strong middle office, with quantitative analysis skills far superior to the industry norm. In addition, sales traders are in constant touch with major institutions to ensure the highest possible level of client service and support. Moreover, the division is the first in Daiwa SBCM to implement a remuneration system based on merit and market norms. This has enabled the division to hire high-quality professionals as well as leading to an increase in productivity.

The advent of mark-to-market accounting for equity cross-holdings, which is scheduled to become mandatory in Japan for results to be announced after March 2002, will increase demand for derivatives. Strategic hedging of portfolios to minimize price risk will also require use of derivative products. To address these opportunities, the division is adding expert accountants to its current staff to deal with market-to-market issues raised by clients.

Derivative products placed through retail channels include stock-linked deposits through Sumitomo Bank as well as equity-linked bonds and covered warrants distributed through Daiwa Securities. To diversify revenue sources, the Financial Products Division will continue to develop products customized for the retail channel in the current low interest rate environment.

Compliance plays an important role in trading with both institutional and individual investors. In the institutional sector, the division concentrates on economically rational business opportunities and on building long-term relationships with clients by acting as a risk management solution provider. Although one current focus is on opportunities created by the introduction of mark-to-market accounting, high-risk, non-transparent transactions involving derivatives are avoided. In the retail sector, improvements in customer education and sales force training are laying the groundwork for future growth.

Together with a strong middle office and superior skills in quantitative analysis, providing customers with information to raise their level of product understanding lies at the heart of the division's activities. From the beginning it has been the Financial Products Division's policy to contribute to the healthy development of the derivatives markets by providing educational programs to market participants. The division has been the industry leader in providing both financial and human resources for this purpose.

Regularly published client guides, recent examples being the publication of guides related to integrated risk management techniques and derivative disclosure requirements, have been well received by customers. In addition, both large-scale and client-specific presentations are regularly held. For example, a seminar on mark-to-market accounting early in 2000 drew 1,500 attendees.

Structured Finance Division

Structured Finance Division staff include qualified attorneys and real estate appraisers, together with accountants and other specialists to handle securitization and principal finance businesses.

The Division has rapidly established itself as the market leader in the Asset Backed Securities (ABS) market. Securitization was initially limited to leases and credit receivables, but has recently been applied to an increasingly diversified range of assets. In FY 1999, the securitization of real estate commenced and has since grown to become one of the main businesses.

One measure of the recognition this division has achieved in the market came when Daiwa SBCM was named the ABS House of the Year for 1999 by Thomson Dealwatch, a well-known industry monitoring service. The division has received high marks from the market due to its commitment to asset securitization and to developing new methods and structures.

Some of the main securitization transactions in FY 1999 were:

1) Shopping credit receivables by Orient Corporation (publicly issued securities backed by revolving shopping credit receivables)

ABS ISSUES DURING 1999

Deals closed in FY99		
Sumitomo Real Estate *Office building*	Nissan Credit *Auto loan*	Nippon Life *Office building*
Asahigin Leasing *Lease*	Daiei OMC *Card shopping*	NEC *Headquarters building*
Asahi Breweries *Factory site*	QUOQ *Reform loan*	NEC Leasing *Lease*
Orient Corporation *Shopping credit*	Sumitomo Bank *Branch offices*	Hotel New Hankyu *Hotel*

2) House improvement loans by QUOQ (Japan's first pass-through type ABS)

3) Lease assets by NEC Leasing (Japan's first soft-bullet type ABS backed by lease assets)

4) Securitization of 20 branches of Sumitomo Bank (Japan's first public ABS issue backed by real estate)

5) Securitization of an office building for Sumitomo Real Estate (Japan's first securitization of an office building)

6) Securitization of Asahi Breweries' Omori Plant (a highly complex deal involving an operating plant)

7) Securitization of the head office of NEC Corporation (Japan's largest securitization of a headquarters building)

Daiwa SBCM has also entered the aircraft financing market and is actively considering opportunities for further expansion in this sector, particularly in Europe and Asia. Aircraft financing is a potential growth area due to the relatively stable secondary market for aircraft and the presence of a huge lease market. Expansion into this market will further diversify the range of products Daiwa SBCM can offer its investors.

As the examples mentioned above demonstrate, Daiwa SBCM has moved quickly to position itself as a leader in securitization, expected to become a one trillion yen plus market. To meet originator and investor needs, the asset financing business will be further enhanced to cover a wider range of underlying assets including financial assets, real estate related assets such as residential loans, and real estate held by the national and regional governments, as well as aircraft and intellectual property. Business development based on already powerful structuring capabilities, the Company's relationships with the Daiwa Securities Group and Sumitomo Bank and the ability to market to a wide range of clients in Japan, are central components in efforts to widen an already well-established lead.

Principal finance activities consist of making investments in instruments that are non-traditional for a securities company, falling outside of traditional areas such as publicly traded equity, bonds and investment trusts. Although the main assets used to date have been financial assets held by financial institutions, expansion into areas such as private equity is presently under consideration.

Establishment of a Real Estate Investment Fund

Daiwa SBCM believes that Japanese real estate investment trusts (REITs) will experience similar market expansion to that seen in the US subject to the passage of relevant legislation, the introduction of an accurate real estate valuation process, and the establishment of a liquid secondary market. The need for a more diversified product range under the current low interest rate environment is also a supportive factor.

In preparation for deregulation measures allowing establishment of REITs, Daiwa SBCM established a 50:50 real estate investment fund with Mori Trust Co., Ltd. (Mori Trust), a major Japanese real estate firm, in February 2000. This company was the first to be established with a focus on creating and managing REITs based on the amended Investment Trust Law expected to be enforced after the fall of 2000.

This alliance is based on the recognition by both companies that the promotion of real estate securitization and the liquidity of the real estate market are important social issues. Mori Trust is one of Japan's leading companies in real estate investment and management and is an owner of prime office buildings in the metropolitan area. Thus the alliance with Mori Trust represents a competitive advantage for Daiwa SBCM in this field.

The first real estate fund is expected to be listed as early as the current fiscal year. Daiwa SBCM aims to become a market leader in REITs.

Mergers and Acquisitions Division

Corporate restructuring, including mergers and acquisitions (M&A), is rapidly moving to center stage in Japan. This has, in turn, given rise to strong demand from corporations for advisors that can introduce a wide range of global counterparties, provide fair valuations, a variety of solutions, and appropriate tax planning advice. In such transactions, it has become increasingly important for corporations to choose an advisor with the correct credentials including track record, knowledge, and access to quality information. Moreover, with the legal system being amended to accommodate transactions utilizing stock transfers and stock exchanges, the increase in M&A activity will be accompanied by a trend to larger and more complex transactions.

Daiwa SBCM's parentage gives the company a strong market position in domestic M&A transactions. Combining a strong domestic image with close ties to the information networks of both the Daiwa Securities Group and Sumitomo Bank, Daiwa SBCM is now in a good position to source new transactions.

While the Mergers and Acquisitions Division operates across all sectors, it assigns strategic priority to the automobile-related industries, pharmaceuticals, IT, telecommunications, distribution, and the food industry. This focus reflects both current market trends and also the traditional strengths of Daiwa SBCM.

Alliance with Lazard

To date, large cross-border M&A transactions for Japanese corporations have been dominated by well-placed foreign banks. The signing of a non-exclusive memorandum of understanding with the US-based M&A specialist Lazard has significantly strengthened Daiwa SBCM's market position. The relationship is a natural one, since Lazard, the Daiwa Securities Group and Sumitomo Bank have long worked closely together. Lazard with offices in New York, Paris and London has a track record in Europe and the US while Daiwa SBCM boasts a strong domestic client base. The alliance allows the partners to significantly strengthen their M&A activities in Asia, Europe and the US.

The Lazard relationship has greatly enhanced the company's ability to contribute to Japanese companies' restructuring efforts by providing access to overseas investors and corporations and will expand Daiwa SBCM's potential deal stream for the foreseeable future.

Joint Venture with GE Capital

Daiwa SBCM has also signed a memorandum of understanding with GE Capital, a wholly owned subsidiary of the US-based General Electric Company, to form the "Japan Equity Capital Fund" (Fund), a new private equity investment fund in Japan. Owned 50% by GE Capital and the balance by the Daiwa Securities Group, Sumitomo Bank and Sumitomo Corporation, the Fund will be jointly managed and operate independently of the partners' existing businesses. The initial investment cap was set at 20 billion yen. Due, however, to strong demand, the Fund may be increased to up to 100 billion yen.

The Fund is designed to address opportunities thrown up by the wave of corporate restructuring now prevailing in Japan, as larger corporations spin off non-core operations and medium-sized companies become more willing to accept equity capital in the course of restructuring of operations. Demand for this sort of fund is expected to increase.

Investment opportunities are concentrated in IT related and mature industries, The Fund has an investment horizon of between five and seven years with a goal of exiting via an IPO or acquisition.

Overseas Operations

Major changes were made to the structure and management of the overseas operations of the Daiwa Securities Group during FY 1999.

On October 1, 1999 the following overseas securities subsidiaries of the Daiwa Securities Group. Inc. were transferred to Daiwa SBCM.

Europe and Middle East

Daiwa Securities SB Capital Markets Europe Limited (including branches in Paris, Frankfurt, Geneva, and Bahrain)

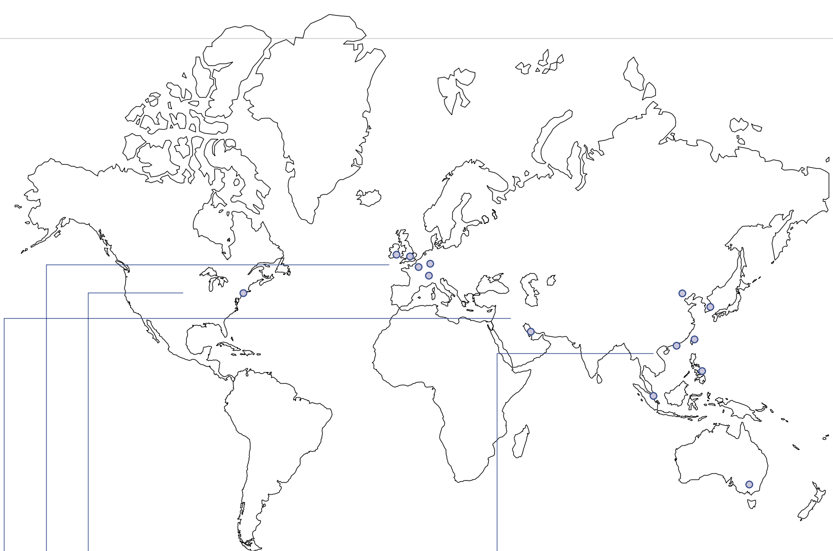
Asia and Oceania

Subsidiaries in Hong Kong, Singapore, Australia, Taiwan and the Philippines (a joint venture company)

For managerial purposes, these subsidiaries are now organized along functional rather than geographic lines. Reporting lines, applied globally, are now to the heads of the Equity, Financial Markets, Investment Banking, Finance & Administration and Legal & Compliance functions as appropriate.

The overseas equity operations of Daiwa SBCM remain fully capable of supporting the Daiwa Securities Group's equity trading and sales activities. The Group supported by Daiwa SBCM's investment banking capabilities has adequate placing power to support global Japanese equity offerings. Moreover, in certain segments of the overseas equity markets, for example in selling US equity products to Japanese retail and institutional investors,

OVERSEAS BRANCHES



U.S.A
Daiwa Securities America Inc.
Daiwa Securities Trust Company

EUROPE
Daiwa Securities SB Capital Markets Europe Limited
Paris Branch
Frankfurt Branch
Geneva Branch
Daiwa Securities Trust and Banking (Europe) plc
Dublin Branch

MIDDLE EAST
Daiwa Securities SB Capital Markets Europe Limited
Middle East Branch

ASIA
Daiwa Securities SB Capital Markets Hong Kong Limited
Daiwa Securities SB Capital Markets Singapore Limited
Daiwa Securities SB Capital Markets Australia Limited
DBP - Daiwa Securities SB Capital Markets Philippines Inc.
Daiwa Global Securities Co. Ltd.
Daiwa Securities SB Capital Markets Co. Ltd.
Seoul Branch
Beijing Office
Shanghai Office

the company ranks as a significant force. In addition, as the lead manager in Japan for global offerings during FY 1999 for Deutsche Telecom, Societe Generale and Australia-based Telstra, Daiwa SBCM has already established itself as a leader in primary offerings of overseas equity into the Japanese market. The overseas fixed income business, with an emphasis on yen-denominated products, is presently under review with a view to further establishing its position as a major player in the global bond business. Expansion into other areas will also be considered as financial, technological and human resources become available.

Daiwa SBCM is giving active consideration to increasing the value of its overseas operations through expansion of business lines related to Japanese securities markets, particularly in its primary markets activities.

Risk Management

Daiwa SBCM and its affiliated overseas securities operations handle all aspects of the Group's involvement in the wholesale securities business. Their activities include the trading and underwriting of securities and trading of derivatives.

The main authority for risk management within Daiwa SBCM lies with the Risk Management Committee, the members of which include the president, deputy presidents, and executives of relevant departments. This committee meets quarterly to decide risk management policy and to set acceptable levels of credit, market, and liquidity risk as part of an integrated risk management process. Specific issues concerning risk management are considered at monthly meetings of the Risk Management Committee-General Managers Meeting.

Risk measurement and management basically starts with position management and hedging at the front office level in each product area. A two-stage monitoring mechanism has been established. Firstly, each product category has a specialist middle office department that operates independently of the front office and manages all aspects of market risk, credit risk and liquidity risk. Secondly, the Risk Management Department, which is independent from the product and sales departments, monitors market risk and credit risk in cooperation with the middle office departments and reports to management. Management of liquidity risk is the responsibility of the Treasury Department.

The Treasury Department also operates independently of the marketing and trading operations, and has responsibility for ensuring availability of adequate funding and management of potential liquidity risk.

Overseas securities offices have their own internal independent risk management systems and are subject to supervision by the authorities in each country. Reporting lines have been restructured so that risk management reports are sent to the Risk Management and Treasury Departments.

Market risk is managed through the assignment of risk limits. The Risk Management Department uses the Value at Risk indicator, stress tests and scenario analysis to set risk limits that reflect the characteristics of each type of product. The product departments are obliged to conduct trading and other activities within the risk limits set for each product. Clear internal rules govern the procedures for setting and reviewing these limits.

Counterparty risk management is based on the type of transaction involved, including swaps, repos, and foreign exchange, using an in-house developed rating system. The system is used to assess the credit risk for clients involved in these transactions and was developed by the Risk Management Department in 1993. This rating system, which has been updated a number of times, covers approximately 4,200 Japanese corporations including all listed and OTC-traded companies, as well as all banks, life and non-life insurance companies, and regional financial institutions. Before undertaking transactions, sales and product departments and overseas offices are required to obtain credit limits from the Risk Management Department. These credit limits are based on credit exposure, which consists of current exposure (restructuring costs) and potential exposure.

DAIWA SECURITIES SB CAPITAL MARKETS CO. LTD
Income Statement fiscal 1999 (apr.1, 1999 - mar.31, 2000)

	Amount Millions of yen
Operating revenues	172,069
Commissions	92,471
Net gain on trading securities	70,679
Net gain on other commodities trading	340
Interest and dividend income	8,578
Operating expenses	99,488
Selling, general and administrative expenses	93,816
Commission and other expenses	37,518
Employees' compensation and benefits	22,834
Real estate expenses	9,832
Data processing and office supplies	16,364
Depreciation expenses	4,115
Taxes other than income taxes	1,913
Others	1,237
Interest expenses	5,671
Operating income	72,581
Non-operating income	579
Non-operating expenses	150
Ordinary income	73,010
Extraordinary gains	–
Extraordinary losses	219,392
Income before income taxes	-146,382
Income taxes	17,358
Income taxes-deferred	-78,659
Net income	-85,080
Unappropriated retained earnings-carryforward	-8
Unappropriated retained earnings	-85,088

DAIWA SECURITIES SB CAPITAL MARKETS CO. LTD.
Statement of deficit

		Fiscal year 1999 Millions of yen
Undisposed deficit for the period		85,088
Surplus from reduction of additional paid-in capital		85,088
Total		0
Disposal of deficit		517
Reserve for special depreciation	517	
Deficit of carryover		517

(Note) Reserve for special depreciation is provided by regulation of "The Notifications on the Special Taxation Measures Law".

DAIWA SECURITIES SB CAPITAL MARKETS CO. LTD.
Balance sheet (assets)

	As of March 31, 2000 Amount millions of yen
Current assets:	5,545,267
Cash and time deposits	118,356
Cash segregated as deposits related to securities transactions	785
Receivables	5,942
Advance payments on securities subscribed	199
Short-term loans	31,835
Accrued income	4,863
Trading assets:	2,592,120
Trading securities and others	2,470,177
Option transactions	12,343
Derivative valuation accounts	109,599
Receivables related to margin transactions:	85,418
Loans receivable from customers for margin transactions	315
Cash deposits as collateral for securities borrowed from securities finance companies	85,103
Receivables related to gensaki transactions	24,099
Cash deposits as collateral for securities borrowed	1,004,175
Securities in custody	1,659,021
Short-term guarantee money deposited	9,547
Deferred income tax assets-current	4,387
Other current assets	4,583
Less: Allowance for doubtful accounts	-70
Non-current assets:	141,385
Tangible fixed assets	5,333
Building and structures	18
Equipment and others	5,314
Intangible fixed assets	11,543
Software	11,528
Telephone subscription rights	15
Investments and others:	124,508
Investment securities	590
Investment in subsidiaries	34,928
Long-term loans	35
Long-term guarantee deposits	8,336
Deferred income tax assets-non-current	74,272
Other investments	6,344
Less: Allowance for doubtful accounts	- 0
Total assets	5,686,652

Balance sheet (liabilities)

	As of March 31, 2000 Amount millions of yen
Current liabilities:	5,257,012
Short-term borrowings	230,200
Commercial paper	145,600
Deposits received	10,763
Trade date accrual	125,262
Advance receipts on securities subscribed	6,574
Accrued expenses	4,853
Trading liabilities:	1,078,232
Trading securities and others	962,454
Option transactions	12,806
Derivative valuation accounts	102,971
Payables related to margin transactions:	34,198
Loans from securities finance companies for margin transactions	168
Proceeds of securities sold for margin transactions	34,030
Payables related to gensaki transactions	1,123,837
Cash deposits as collateral for securities loaned	803,975
Short-term securities borrowed	1,451,897
Cash deposits received from customers	12,737
Securities deposited by customers as collateral	207,124
Accrued income taxes	16,878
Accrued bonuses	3,300
Other current liabilities	1,576
Non-current liabilities:	105,974
Long-term borrowings	100,000
Accrued retirement benefits	1,029
Multiemployers' pension plan	4,232
Other non-current liabilities	712
Statutory reserves:	744
Reserve for securities transaction liabilities	744
Reserve for financial futures transaction liabilities	0
Total liabilities	5,363,731
Stockholders' equity	
Common stock	205,600
Legal reserve:	202,410
Additional paid-in capital	202,410
Deficit	85,088
Undisposed deficit for the period	85,088
(Net loss for the current year)	85,080
Total stockholders' equity	322,921
Total liabilities and stockholders' equity	5,686,652

Basis of financial statements for the fiscal year 1999

1) Valuation of specified trading account
   Securities, assets and derivative transactions in specified transaction account are recorded on a trade date basis at market value.

2) Valuation of non-trading securities and commodities other than securities
   Listed securities are valued on settlement basis at the lower of cost-or-market, cost being determined by the moving average method. Unlisted securities and commodities other than securities are valued on a settlement date basis at cost determined by the moving average method.

3) Depreciation of assets
   a) Tangible fixed assets
      Declining-balance method is applied in accordance with the Corporate Tax Law. Properties (except appendix) acquired after April 1, 1998 are computed under straight-line method in accordance with 1998 amendment of the Corporate Tax Law.
   b) Intangible fixed assets and investments
      The Goodwill is written-off as an extraordinary loss. Intangible fixed assets other than goodwill are computed under straight-line method in accordance with the Corporate Tax Law.

4) Amortization of deferred assets
   Stock issue expenses and development expenses are amortized in a lump sum when disbursed.

5) Accounting for certain lease transactions
   Finance leases in which ownership is not transferred to a lessee are accounted for in the same manner as operating leases.

6) Accounting for consumption taxes
   Consumption taxes are separately recorded. Non-deductible consumption tax in connection with assets is expensed when incurred.

7) Accounting policies for various provisions
   a) Provision for doubtful accounts
      Allowance is provided, based on the specific assessment and the historical deterioration rate stipulated by the Corporate Tax Law.
   b) Accrued employees' bonuses
      Estimated amount of employees' bonuses are accrued based on company regulations.
   c) Accrued retirement benefits
      Retirement benefits for employees and directors are accrued based on the company regulations.
   d) Multiemployers' pension plan

The company is a member of a multiemployers' pension plan that is an industry-wide multi-employer contributory welfare pension plan administered by the Securities Companies' Welfare Pension Fund. The funded pension plan has faced the problems arising from the decreasing members and continuing low interest rates. The company's liability is calculated, based on the difference between its projected benefit obligation and its fair value of the plan assets.

Notes to balance sheet

1) Accumulated depreciation of tangible fixed assets 2,016 million yen

2) Intangible fixed assets
Software included in "Other investments" until the previous year is reclassified as "Intangible fixed assets" in accordance with amendment (Ministry of Finance, Ministerial Order number 135,1998) of "Regulation on Terminology, Forms, and Preparation Methods of Financial Statements" (Ministry of Finance, Ministerial Order No. 59, 1963).

3) Subordinated borrowings
Long-term borrowings are the subordinated borrowings stipulated under "Article 2 of the Ministerial Ordinance on the Capital Adequacy Rule for Securities Companies"(the Prime Minister's Office Ordinance and Ministry of Finance Ordinance No. 28, 1999).

Notes to income statement

1) Details of extraordinary losses

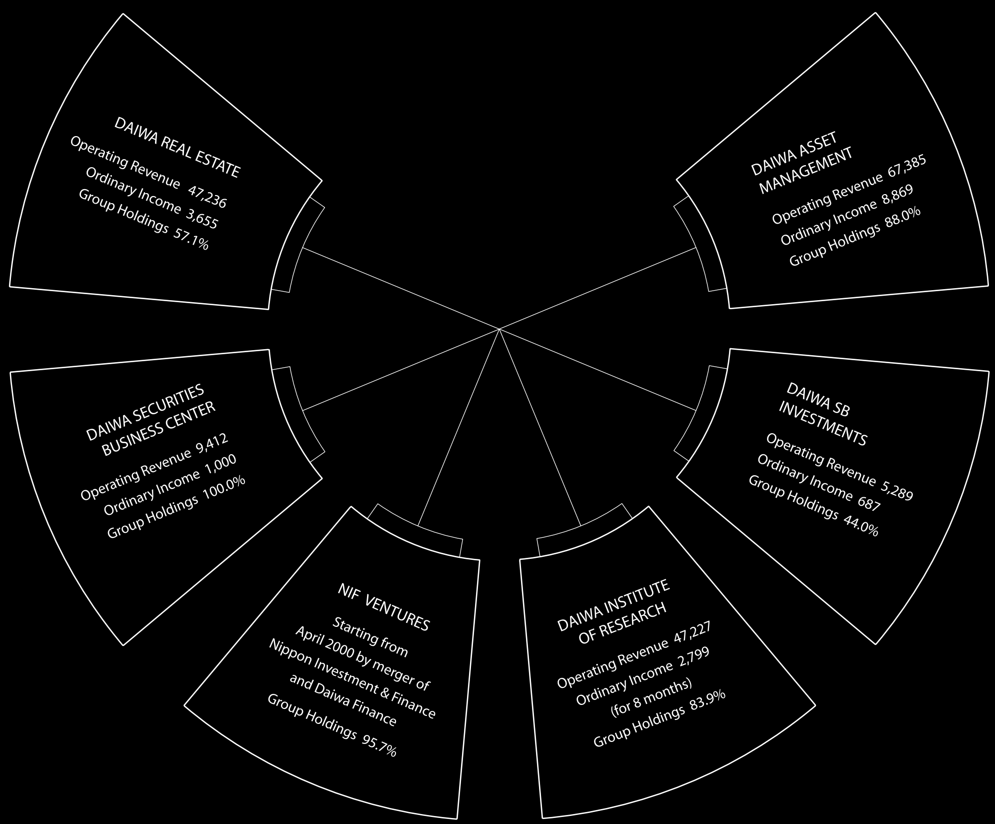
	Millions of yen
Write-off of goodwill	208,000
Non-deductible consumption tax and others regarding goodwill	4,359
Provision for multiemployers' pension plan	4,232
Expenses for foundation	2,056
Provision for reserve for securities transaction liabilities	7449
Provision for financial futures transaction liabilities	0

2) Write-off of goodwill
The goodwill acquired on commencing operations was written-off in a lump sum as an extraordinary loss.

3) Expenses for foundation
Expenses for foundation were posted as an extraordinary loss as the company amortized the development costs and new share issue costs on its commencing operations in a lump sum.

OTHER MAIN GROUP COMPANIES

daiwa asset management co. ltd. · daiwa sb investments ltd.
daiwa institute of research ltd. · nif ventures co., ltd.
daiwa securities business center co. ltd. · the daiwa real estate co., ltd.



Units: Millions of yen
Data for FY 1999

The Daiwa Securities Group includes two distinct asset management companies. Daiwa Asset Management Co. Ltd., 88% owned by the Holding Company and a consolidated subsidiary and Daiwa SB Investments Ltd., a 44% owned joint venture with Sumitomo Bank, T. Rowe Price (10%) and Sumitomo Trust & Banking (2%).

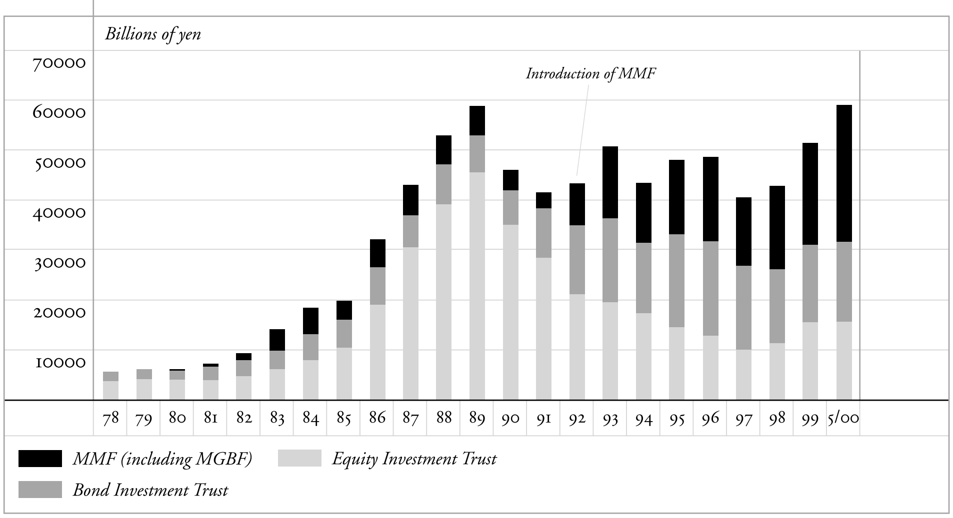
DAIWA ASSET MANAGEMENT CO. LTD.

Daiwa Asset Management (DAM) is one of Japan's leading investment trust companies. During the year to March 2000, investment trust net assets managed by DAM grew by approximately 31% to 14.6 trillion yen representing a market share of some 27% of all outstanding investment trusts in Japan. For FY 1999, DAM recorded ordinary income of 8.8 billion yen on operating revenues of 67.3 billion yen.

DAM is particularly strong in bond investment trusts where it maintains a market share in excess of 30% principally due to an extremely strong position in MMF (Money Management Fund), which is regarded as a strategic product by the Daiwa Securities Group and where it boasts a market share of over 40%. DAM also enjoys a strong position in equity investment trusts, maintaining a high ranking in the industry.

Starting with "Musashi" which was launched in November 1998, DAM has launched four flagship equity investment trusts to date. They are "0101" focused on IT stocks, "Daiwa Daisuke" investing in small to medium sized companies and "Sokojikara" targeting value stocks. Together, these four equity investment trusts had outstanding assets under management of over one trillion yen as of the end of March 2000.

TREND IN INVESTMENT TRUSTS (TOTAL JAPAN)



* Source: The Investment Trusts Association, Japan

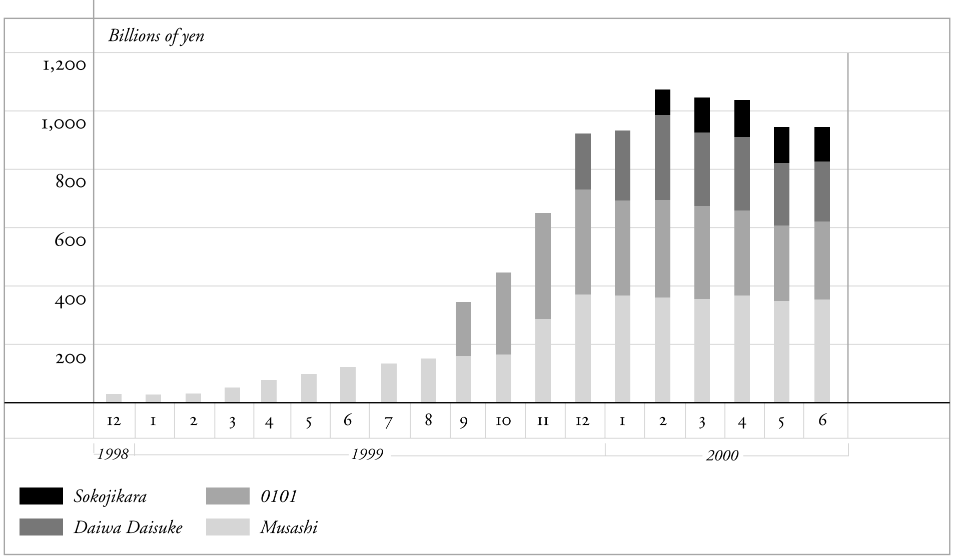
The company maintains a broad range of investment trusts and is not identified with any particular investment style. However, DAM believes that it has a competitive edge in active equity and quantitative style investing. The company operates using a wide investment universe consisting of all quoted vehicles but excluding certain stocks which are felt to exhibit unnecessarily high financial risk or where corporate governance is felt to be lacking. Formal asset allocation policies are decided centrally but interpreted by each fund manager in light of the specific constraints applicable to each individual fund.

DAM relies on the Daiwa Securities Group, including both the retail and wholesale companies for distribution of approximately 80% of its products. The balance is distributed through various securities companies and financial institutions such as banks as well as via direct marketing through the Internet. The balance of investment trusts under custody at banks has been steadily increasing ever since banks commenced sales activities for these products through their branch network. DAM regards this distribution channel as a particularly attractive one in terms of long-term potential.

During FY 1999, the Japanese investment trust industry saw considerable demand especially through the retail channel. This demand, which can partially attributed to the upward trend in the equity market, was wide-ranging but was particularly notable for equity investment trusts which recorded a 38% year-on-year or a 4.6 trillion yen increase. Demand was also firm for fixed income investment trust products such as MMF and medium term JGB funds (MGBF) which provide returns that are higher than bank deposits and are more convenient. Outstanding balances of such products rose by 24% or 7.5 trillion yen during the year.

Over the next several years, DAM expects demand for investment trusts, particularly for equity investment trusts to remain at high levels. This growth will be fueled by redemption

FLAGSHIP FUNDS (DAIWA ASSET MANAGEMENT)



of postal savings which will amount to over 100 trillion yen over the next two years, the introduction of 401(k) style defined contribution pension plans and the ending of unlimited deposit insurance coverage on bank accounts.

Given the excellent growth prospects of the industry, the number of investment trust firms active in Japan has increased by around five times to a little over 70 in number over the last ten years as major domestic and foreign financial institutions have entered the market. Maintaining a leadership position will involve advanced product development capabilities as well as timely provision of information.

Investment performance is likely to increase in importance within the Japanese investment trust industry. Internally, DAM uses a range of performance measures appropriate to the characteristics of the product concerned, including ratings from investment trust rating agencies. Although the company's performance has been superior within the industry, DAM intends to consolidate this lead in the following ways:

1) Strengthening the buy-side analytical function of the company by upgrading the overall capacity of its teams of inhouse fund managers, analysts and economists.

2) Making use of information from Group companies to plan and develop products that are responsive to the needs of investors.

3) Strengthening sales support to the Group's two securities companies. Developing new sales channels. Increasing direct sales through the call center and the Internet.

4) Developing products for 401(k) together with Daiwa Securities and Daiwa SBCM.

5) Improving DAM's brand recognition through increasing marketing including TV commercials and advertisements in newspapers and magazines.

DAIWA SB INVESTMENTS LTD.

This company was formed on April 1, 1999 through the merger of Daiwa International Capital Management Co., Ltd., SB Investment Management Co., Ltd. and SBIM Investment Trust Management Co., Ltd. In addition, at its inception, T. Rowe Price and the UK asset manager Robert Fleming formed a joint venture outside of Japan, with the goal of managing the non-Japanese portion of investment trust products for customers of the company in Japan. Daiwa SB Investments Ltd. is included in Daiwa Securities Group consolidated accounts as an equity method affiliate. For FY 1999 it recorded ordinary income of 687 million yen on operating revenues of 5.2 billion yen.

As of March 2000, Daiwa SB Investments had outstanding funds under management amounting to approximately 3 trillion yen. Of this amount, approximately 1.7 trillion yen related mainly to domestic pension contracts, 870 billion yen to overseas contracts and 200 billion yen to investment trusts under management. With the implementation of the

401(k), it seems likely that pension fund money will flow into the investment trust market. Daiwa SB Investments aims to take advantage of this trend to increase investment trust assets under management. Investment trusts are thus slated to become a major pillar of earnings growth over the next three years.

Daiwa SB Investments main goals are to achieve a competitive track record in investment performance, to provide customers with a superior level of service and to increase profitability by developing and marketing attractive investment trusts. For this purpose the company will:

1) Introduce small fund management teams based on investment style and product line. Increase fund management performance and ranking by strengthening research capabilities.

2) Maintain its current position as one of Japan's premier asset management companies in terms of pension and public fund money under management. This will be achieved through joint marketing efforts with Daiwa SBCM and Sumitomo Bank, and by leveraging the capabilities of Daiwa Institute of Research and The Japan Research Institute, which is the think tank within the Sumitomo Bank Group.

3) Expand its presence in the investment trust industry by introducing various products such as long-term focused investment funds in preparation for 401(k) and by concentrating management resources on the development of investment trust products.

DAIWA INSTITUTE OF RESEARCH LTD.

Daiwa Institute of Research Ltd. (DIR) takes responsibility for research, systems development and consulting within the Daiwa Securities Group and also serves as the Group's think tank. DIR also provides services to non-group companies drawing on its accumulated know-how. During the financial year to March 2000 (DIR changed from an end July to an end March financial year in FY 1999, thus figures for the year under consideration are in respect of eight months only), DIR recorded ordinary income of 2.7 billion yen on operating revenues of 47.2 billion yen.

Although the Daiwa Securities Group had been a major source of revenue, historically DIR had acted with a considerable degree of autonomy and was responsible for developing its own business plan. Under the "Medium-Term Management Plan", DIR has been redefined as the Group's core research and systems company and its mission is now aligned more closely with the overall objectives of the Group. In this respect DIR will endeavor to increase its presence and pursue opportunities in a wide range of business areas with the aim of contributing to the maximization of group corporate value. As part of this process, the Holding Company is presently negotiating with outside shareholders to acquire the outstanding minority stake in this company. As of the end of March 2000, the Group maintained a holding of 83.9% but wishes to increase this to 100%.

The major tasks allocated to DIR under the recently announced three year plan are as follows:

1) Focusing on areas of competitive strength through concentration of effort in key fields. DIR's areas of endeavor will be rationalized and prioritized taking into account their value to the group as a whole as well as such basic criteria as profitability and growth potential.

2) Utilizing accumulated knowledge and experience to establish a pro-active internal think tank function capable of providing group management with high quality advice and proposals in strategic, financial and IT related issues. DIR will also be responsible for provision of state of the art technology as the Group's core company in IT related businesses.

3) Increasing its contribution to group corporate value by increasing capacity and recognition in research, systems and consulting.

4) Contributing to consolidated profits by improving the profitability of sales to non-group companies and the efficiency of system investments.

DIR operates in four related markets. These are research, systems development for Group companies, consultancy and systems marketing to non-group companies as described below.

Research

The Research Division of the Daiwa Institute of Research employs a total of 101 professional staff including 65 analysts, 24 economists, 7 strategists and 5 quantitative analysts as of the end of March 2000. In addition DIR has 10 overseas offices with 63 research staff. In terms of size, this ranks DIR among the largest research organizations in Japan. DIR has started to work increasingly closely with both the trading and investment banking arms of Daiwa Securities SB Capital Markets Co. Ltd. (Daiwa SBCM) as well as continuing to provide research support to the retail securities company, Daiwa Securities Co. Ltd. (Daiwa Securities).

DIR ranks among the top ten research houses in Japan according to most independent surveys of analyst excellence. However, this ranking is regarded as inadequate and considerable effort will be made over the next several years to improve the external perception of DIR's research ability with a view to eventually establishing a leadership position. This will be achieved by upgrading personnel through external hiring, graduate recruitment and internal recruitment from other Group companies; by revamping the evaluation system to better reflect performance; and by laying a firm foundation for information gathering activities. Regarding the evaluation system, an incentive system where Daiwa SBCM will reward analysts based on the analyst's contribution to generating income on IPO, M&A and equity offerings has already been implemented.

The style and focus of research is also being reorganized as this effects the overall ranking of DIR. A major objective will be to refocus on activities supporting two key areas of the business of the Daiwa Securities Group - research driven sales and investment banking operations including M&A and the venture capital business. Present research methods will be reviewed with a view to focusing on core micro and macro issues. Furthermore, coverage of companies will be reviewed to increase research depth on core stocks, information management will be systematized to increase productivity and dissemination, and global research functions will be restructured. Also, a system to reflect feedback from Group companies has been put in place to better meet their needs.

Systems Development

As mentioned earlier, DIR is the Group's system development arm, which is responsible for the majority of the Group's IT development and acts to implement Group IT initiatives. Headcount is being increased in this area as described in the section on the Holding Company.

The securities industry is faced with the necessity of investing heavily in systems development to cope with T+1 settlement, the introduction of defined contribution pension plans (Japanese version of 401(k) pension plan) and increased transaction volume over the Internet. To face these challenges the Group must utilize state of the art IT in constructing systems infrastructure to strengthen its competitiveness. As the company responsible for the Group's system infrastructure, DIR will play an important role in dealing with these issues.

DIR aims to add corporate value to the Daiwa Securities Group by establishing systems infrastructure that can meet the demanding requirements resulting from the rapidly changing business environment. This will be realized by providing Group companies with overall services such as strategic planning, development and maintenance. Consequently, there will be a significant increase in the number of people engaged in supporting these areas as well as in advisory functions to provide high quality services. As a further innovation, DIR is promoting pro-active monitoring functions designed to anticipate rather than react to system problems.

The company regards it as important to promote a greater openness in its development of settlement systems in order to conform to global standards. The establishment of standards within the Japanese securities industry is a priority, not only for the Group itself, but also for the competitiveness of the Japanese securities industry as a whole given the very large sums that will need to be spent by the industry.

Consultancy

The consultancy business has been largely focused on the public sector, particularly related to certain organizations affiliated to the Ministry of Foreign Affairs. Establishing areas of strength and pursuit of profitability are key issues DIR faces in establishing its position as a top-ranked consultancy firm.

Areas that are regarded as strategic for this division include the promotion of joint projects between universities and industry.

Consultancy operations regarding pension business will be integrated into the Group's overall strategy in preparation for the expected introduction of the Japanese version of 401(k).

Systems Marketing to Non-Group companies

Marketing activities to non-group companies are being reviewed with a view to profitability. DIR will continue to pursue attractive and profitable business opportunities in areas such as e-commerce and areas related to the prevailing demographic trends in Japan.

One example of such business is a JV with NEC Corporation that was announced in April 2000. This JV, owned 45% each by DIR and NEC (10% by outside parties), will have a paid-in-capital of 490 million yen and was established as an application service provider (ASP) for services related to online trading systems and other securities transactions.

NIF VENTURES CO., LTD.

NIF Ventures Co., Ltd. (NIF) serves as the venture capital arm of the Daiwa Securities Group and is the second largest Japanese venture capital company. NIF was formed from the merger of the former Nippon Investment & Finance Co. Ltd. and Daiwa Finance Co. Ltd. on April 1, 2000 and will focus on venture capital business. At the time of merger, the credit card operations of Daiwa Finance were transferred to Daiwa Card Services Co., Ltd.

NIF employs around 150 professional staff in total. Of these, 15 are located overseas in Taiwan, Singapore and in Silicon Valley in the United States. In addition to the Tokyo Headquarters, domestic offices are located in Osaka, Nagoya and Fukuoka. Furthermore NIF has established venture capital companies and funds on a joint venture basis in North America, Europe and various Asian countries.

The promotion of a thriving venture capital industry in Japan has been made a priority by the government and is widely regarded as a prerequisite for long term recovery of the national economy. New bourses including the TSE Mothers market and Nasdaq-Japan of the Osaka Stock Exchange have been opened specifically to allow venture companies access to early-stage equity funding.

NIF raises money from investors and together with its own funds forms investment partnerships to invest in various venture companies. There are also occasions where NIF invests its own funds directly.

As of the end of May 2000, NIF had an accumulated 43 investment partnerships/funds with an accumulated balance of 158.8 billion yen. This includes the biggest investment partnership formed to date of 20.4 billion yen which was closed in March and May. One of the characteristics of this fund is that the main investors are smaller financial institutions such as regional banks, shinkin banks and credit cooperatives investing in this type of fund for the first time. The fund will allocate 50% of funds to Japan and the rest mainly to the US, Europe, Taiwan and Israel. In addition to the IT related industry, investments in the environment and biotechnology sectors are expected. Furthermore, NIF believes that the health care business is an area of growth and will also put an emphasis on investing in this sector.

A decision to invest in a given company is made at weekly investment committee meetings based on a wide range of factors, including details of the business plan and quality of management.

During the year to March 2000 around 60% of the investments made by NIF were directed to early-stage companies. Holdings in IT related, biotechnology and service related companies make up approximately 90% of all domestic investments. NIF believes that it has a competitive edge in investment into technology companies which are a particular strength of the company. A lot of this strength stems from access to a network of technical advisors consisting of professionals and academics. In addition, the company maintains close contact with companies located in the so-called “Bit Valley” area located in the Shibuya region of Tokyo.

Exit strategies used by NIF currently consist almost entirely of IPOs although other exit strategies including M&A and MBO have been employed and may be employed more actively in future. Of course, as with all venture capital firms, there are cases when companies fail and investments cannot be recovered. NIF works closely with various securities companies, including of course the other members of the Daiwa Securities Group where appropriate, in preparing companies for the IPO process.

Although the major securities companies and banks continue to dominate the venture capital business in Japan, there has recently been a major increase in the number of companies active in this area including corporations from outside of the financial industry and many foreign-capital affiliated firms. NIF believes that it has the experience, track record and the client base that the new entrants lack. Furthermore, the network it has created among promising companies, the efficiency achieved from outsourcing and the building of a strong support system differentiates it from existing competitors.

NIF maintains a strong investment presence overseas and a superior ability to manage global investments leveraging the resources not only of its own overseas offices but also those of the Daiwa Securities Group. NIF intends to promote further development of its functions on a global basis with expansion into North America, Asia and Europe. To this end the company will be expanding its full time headcount and will give consideration to establishing new offices in areas such as the East Coast of the United States and in Europe.

NIF's first target laid down in the second Medium-Term Management Plan is a return on equity of 30%. This target will be achieved by improving efficiency in investment activities, as well as strengthening network and support functions. Fund raising activities taking advantage of the favorable market and regulatory environment will be stepped up together with active investment of its own funds. The target IRR for investment partnerships has been set at 30%.

The second target is to go public in FY 2001. By going public, NIF will raise its profile at the same time as becoming subject to the discipline of the markets to increase credibility. This in turn will provide opportunities to expand its client base.

DAIWA SECURITIES BUSINESS CENTER CO. LTD.

Daiwa Securities Business Center Co. Ltd. is a fully-owned subsidiary of the Daiwa Securities Group Inc. Aimed at providing reliable, high-quality services, the company is responsible for providing comprehensive securities back-office operations mainly for the Group companies, as well as dispatchment of personnel specializing in securities-related operations. In FY 1999 Daiwa Securities Business Center recorded ordinary income of 1.0 billion yen on sales of 9.4 billion yen. These results reflect substantial rationalization measures taken during FY 1999 including integration of 3 offices previously maintained in the Tokyo area into one and streamlining of certain internal functions to achieve efficiency gains.

The main goals for this company going forward are to reduce costs while continuing to provide strong back-office support to the Group, and to provide shared infrastructure allowing the Group to minimize personnel and capital costs.

THE DAIWA REAL ESTATE CO., LTD.

The Daiwa Real Estate Co., Ltd. is mainly involved with the holding and renting of the Daiwa Group's office premises, housing, dormitories and other properties. This company is 57.1% owned by the Group companies. For FY 1999 it recorded ordinary income of 3.6 billion yen on operating revenue of 47.2 billion yen. The company has already made a decision to withdraw from housing development and now concentrates on rental and leasing businesses, mainly concerned with the Daiwa Group's branches and offices. The mission of this company is to promote efficient asset utilization across the entire Group.

Information in this annual report may contain forward-looking statements regarding expectations of Daiwa Securities Group Inc. These statements are based on currently available information and represent the beliefs of the management of Daiwa Securities Group Inc. These statements are subject to numerous risks and uncertainties that could cause actual results, performance and achievements to differ materially from those described or implied in the forward-looking statements. These potential risks and uncertainties include without limitation volatile and sudden movements in the international securities markets, foreign exchange and global economic situations affecting the Daiwa Securities Group.

FINANCIAL
Statements

FIVE-YEAR FINANCIAL SUMMARY

Daiwa Securities Group Inc. & Consolidated Subsidiaries (years ended march 31, 1996 through 2000)*

	Millions of yen					Thousands of U.S. dollars
	2000	1999	1998	1997	1996	2000
Operating Results:						
Revenues:						
Commissions	¥ 364,116	¥ 185,450	¥ 198,118	¥ 242,599	¥ 221,829	$3,435,057
Net gain (loss) on trading	126,170	(20,708)	39,385	57,159	72,017	1,190,283
Interest and dividend income	103,882	190,219	286,393	282,965	233,537	980,019
Service fees and other sales	60,482	-	-	-	-	570,584
Total	654,650	354,961	523,896	582,723	527,383	6,175,943
Operating expenses	427,720	443,527	538,065	534,035	460,912	4,035,094
Income (loss) before income taxes and minority interests	135,173	(208,538)	(83,936)	(77,559)	58,895	1,275,217
Net income (loss)	105,376	(127,890)	(83,657)	(80,021)	47,051	994,113
Financial Position:						
Total assets	8,514,213	6,268,596	10,132,457	13,425,965	8,879,277	80,322,764
Shareholders' equity	666,072	639,859	774,699	873,191	964,570	6,283,698

	Yen					U.S. dollars
Per Share Amounts:						
Net income (loss)	¥ 79.43	¥ (96.00)	¥ (62.35)	¥ (59.51)	¥ 35.00	$ 0.75
Cash dividends applicable to the year	13.00	5.00	6.00	8.00	8.00	0.12
Shareholders' equity	502.05	480.47	580.08	649.42	717.59	4.72

	Percent				
Financial Ratios:					
Pretax profit margin (Income before income taxes and minority interests to total revenues)	20.6 %	– %	– %	– %	11.2 %
Net profit margin (Net income to total revenues)	16.1	–	–	–	8.9
Return on average shareholders' equity (Net income to average shareholders' equity)	16.1	–	–	–	5.0
Equity ratio (Shareholders' equity to total assets) **	10.0	12.9	9.3	8.1	13.3
Other Data:					
Number of employees ***	11,415	8,855	10,006	9,880	10,184

Notes

1. Unless indicated otherwise, all dollar figures herein refer to US currency. Dollar amounts represent translations at the rate of ¥106 = US$1, the rate prevailing on March 31, 2000
2. Net income and shareholders' equity per share are computed based on the average number of shares outstanding during the year

* As of April 26, 1999 the former Daiwa Securities Co. Ltd. was reorganized and officially renamed Daiwa Securities Group Inc.

** Securities in custody account has been deducted from total assets

*** Figures are the sum of the Holding Company and its consolidated subsidiaries

MANAGEMENT'S DISCUSSION AND ANALYSIS

Pursuant to shareholders' approval granted at an extraordinary general shareholders' meeting held on February 5, 1999, the former Daiwa Securities Co. Ltd. transferred its wholesale securities operations to Daiwa Securities SB Capital Markets Co. Ltd. (Daiwa SBCM), a subsidiary in which it has 60% ownership, on April 5, 1999. The Company also transferred its retail securities operations to its wholly-owned subsidiary Daiwa Securities Retail Preparation Co., Ltd. on April 26, 1999, with a change in trade name to Daiwa Securities Co. Ltd. (Daiwa Securities) on the same date.

Along with these transfers, the Company's trade name was changed from Daiwa Securities Co. Ltd. to Daiwa Securities Group Inc. on April 26, 1999. The Company subsequently became a holding company owning shares in Daiwa Securities Group companies and controlling their business operations.

CORPORATE ACTIVITIES

1. Transfer of operations

On April 5, 1999, the Company transferred its wholesale securities operations to Daiwa SBCM. Assets transferred totaled ¥3,095.4 billion (US$29,202 million), liabilities ¥2,642.2 billion (US$24,926 million), with ¥200 billion (US$1,886 million) of the assets transferred representing trade rights. In addition, on April 26, 1999, domestic retail securities operations were transferred to the New Daiwa Securities Co. Ltd. Assets and liabilities transferred totaled ¥701.2 billion (US$6,615 million) and ¥651.8 billion (US$6,149 million), respectively.

2. Acquisition and transfer of Group companies and organizational changes

During the term under review, the Holding Company has underwritten a capital increase by Daiwa Securities and Daiwa SBCM and increased its interest in the Group companies by acquiring outstanding equity of other Group companies. As a result, the Company acquired majority voting rights in Daiwa Asset Management Co. Ltd., Daiwa Institute of Research Ltd., and the Daiwa Real Estate Co. Ltd. It also acquired 44% of the voting rights in Daiwa SB Investments Ltd., a joint venture formed with participation from The Sumitomo Bank, Limited and others. In addition, the Company decided to merge Nippon Investment & Finance Co. Ltd. and Daiwa Finance Co. Ltd. Prior to the merger, the credit card operations of Daiwa Finance Co. Ltd. were transferred to the Company's wholly-owned subsidiary Daiwa Card Service Co., Ltd. in March 2000 in order to conduct credit card services independently. The amount of equity in Group companies acquired during this term consisted of ¥422.6 billion (US$3,987 million) from underwriting capital increases and ¥88.6 billion (US$836 millions) from acquisition of shares outstanding.

The Company's overseas operations will be centralized under Daiwa SBCM. Accordingly, the Beijing and Shanghai offices and the Seoul Branch were transferred to Daiwa SBCM in April 1999, as were the subsidiaries in Europe, the Middle East, Asia and Oceania in October of the same year for a total of ¥34.8 billion (US$328 million). The Company is also considering transferring the United States subsidiary to Daiwa SBCM subject to local regulatory approval.

The Holding Company decided to sell its stake in Daiwa International Trust Bank Limited to The Sumitomo Trust & Banking Co., Ltd. with a view to concentrating resources in securities-related business.

3. Establishment of executive committees

In order to allow the Company to effectively function as a holding company and in addition to establishing the executive committees and management boards specified by law, a Group Management Meeting whose members include the presidents of the main Group companies has been formed. Furthermore, in order to share information concerning Group management objectives and the business strategies of the main Group companies, the Company has established a Group Officers Meeting. The Group Officers Meeting include all board members, General Managers & Branch Managers of the main Group companies. The Company has also established an Advisory Board to obtain wide-ranging management advice from well-informed persons in business and academic fields.

PROGRESS IN CORPORATE INTEGRATION

1. Economic environment

Although the Japanese economy continued to struggle following two consecutive years of negative growth, hopes for economic recovery were buoyed by government measures to stabilize the financial system and to boost the economy and by the BOJ's financial relaxation measures.

With continuing high unemployment and and limited improvement in sight for personal income, consumer spending remained subdued. On the other hand, corporate activity picked up as evidenced by a moderate increase in production as inventory adjustments came to an end. The start of 2000, moreover, witnessed an upward turn in capital investment and gradual appearance of a self-sustaining economic recovery.

2. Market environment

Amid this economic environment, the stock market rebounded following an influx of funds from foreign investors and mutual funds. As a result, the securities industry enjoyed a prosperous year after a long hiatus. By the end of March 2000, the Nikkei Average had risen to ¥20,337, a 28% increase over the previous term. Trading on the Tokyo Stock Exchange during the term increased 135% to ¥237,855.3 billion, a 10-year high.

In the bond market, the yield on the JGB Benchmark declined, touching 1.2% at one point due to BOJ financial relaxation measures. As the year progressed, the zero interest rate policy set by the BOJ, the anticipated increase in JGB issuance, together with the inflow of funds from financial institutions set a nervous tone in the market with long term interest rates fluctuating in a narrow range.

3. Overview of consolidated results

There were 56 consolidated subsidiaries in the Group this term. The equity method was applied to four companies.

(a) Revenues

Reflecting the rebound of the stock market, consolidated revenues for the term grew a substantial 184% to ¥654.6 billion.

	Billions of yen	Million of U.S. dollars
Operating Revenues	654.6	6,176
Commissions	364.1	3,435
Brokerage	147.4	1,391
Equity	145.9	1,377
Bonds	1.4	14
Underwriting	34.8	329
Equity	24.7	234
Bonds	9.6	91
Distribution	88.2	832
Investment trusts	86.7	819
Other commission	93.5	883
Investment trusts	70.4	664
Net Gain on Trading Accounts	117.6	1,110
Equity	52.3	494
Bonds	65.2	616
Net Gain on Operational Investment Securities	8.1	76
Net Gain on Other Commodities Trading	0.3	2
Financial Revenues	103.8	980
Others Revenues	60.4	569

Commission income, particularly brokerage commissions, increased considerably due to buoyancy in the domestic stock market and increases in trading volume.

Trading activities, meanwhile, returned to profitability thanks to healthy profits from equity trading stimulated by market recovery as well as profits from trading of bonds by overseas subsidiary companies.

Financial income declined due to continuing low interest rates and a reduction in the bond repo activity of the overseas offices.

“Other Revenues” includes revenues from newly consolidated companies which do not belong to any of the operating revenue categories.

Commissions

	Millions of yen					
	Equity	Fixed Income (Bond)	Asset Management	Investment Banking	Others	Total
Brokerage	¥ 145,968	¥ 1,488	¥ 7	¥ –	¥ 13	¥ 147,476
Underwriting and Distribution	–	–	–	34,887	–	34,887
Subscription and Distribution	–	–	86,764	1,439	–	88,203
Other	2,876	3,395	70,431	7,218	9,630	93,550
Total	¥ 148,844	¥ 4,883	¥ 157,202	¥ 43,544	¥ 9,643	¥ 364,116

Equities Division

Amid the continuing buoyancy of domestic markets since last term and the expansion of trading volume, Daiwa Securities and Daiwa SBCM increased their market share. Notwithstanding liberalization of commissions, brokerage commissions amounted to a ¥145.9 billion (US$1,377 million), with total commissions for the division increasing to ¥148.8 billion (US$1,404 million). This division's commissions also include brokerage commissions relating to convertible bonds and bonds with warrants.

Fixed Income (bond) Division

Brokerage commissions earned by consolidated subsidiaries, including overseas subsidiaries, amounted to ¥1.4 billion (US$14 million), while agent commissions and others earned in Japan were ¥2.9 billion (US$27 million), resulting in a total of ¥4.8 billion (US$46 million).

Asset Management Division

Helped by the recovery of the stock market, investment trusts outstanding increased, resulting in commissions for mutual funds steadily rising to a total of ¥157.2 billion (US$1,483 million).

Investment Banking Division

This division brought in ¥34.8 billion (US$329 million) in domestic and overseas underwriting and distribution commission, ¥1.4 billion (US$14 million) in domestic underwriting and distribution commission, and ¥7.2 billion (US$68 million) in other commissions. Overall, revenue totaled ¥43.5 billion (US$411 million).

Other divisions

The other principal sources of commissions this year include custody fees of ¥1.5 billion (US$14 million) posted by overseas banking subsidiaries and ¥2.6 billion (US$25 million) in investment management fees earned by Nippon Investment & Finance, a newly consolidated subsidiary from this term (renamed NIF Ventures Ltd. from April 2000).

Gains on Trading Account

Net gains or losses on trading activities moved solidly into positive territory due to equity trading profits accompanying the recovery of the domestic stock market and bond trading profits, particularly by overseas subsidiaries. Gains in trading activities were ¥52.3 billion (US$494 million) for equities and ¥65.2 billion (US$616 million) for bonds.

(b) Profits & Losses

Although trading expenses increased due to the rise in trading volume accompanying the rebound of share prices and the increase in number of subsidiaries, financial expenses dropped considerably, resulting in a decline in consolidated operating expenses to ¥427.7 billion (US$4,035 million), or 3.6% of the previous term's amount.

Consolidated ordinary income rebounded to ¥224.1 billion (US$2,114 million) from the preceding term's ¥87.9 billion (US$830 million) loss.

Consolidated net income for the term was ¥105.3 billion (US$994 million) after posting a ¥32.5 billion (US$307 million) loss in minority interests (credit for consolidated net income) stemming from extraordinary losses including amortization of good-will posted by Daiwa SBCM. As a result, consolidated net profit per share was ¥79.43 (US$0.75). Return on Equity (ROE) was 16.1%.

(c) Assets, Liabilities, & Shareholders' Equity

Assets at term end totaled ¥8,514.2 billion (US$80,323 million), a ¥2,245.6 billion (US$21,185 million) increase resulting from a rise in securities deposited from customers and borrowed securities for collateral stemming from the buoyant stock market. Liabilities increased ¥2,079.3 billion (US$19,616 million) to ¥7,706.2 billion (US$72,701 million). Meanwhile shareholders' equity increased ¥26.2 billion (US$247 million) to ¥666.0 billion (US$6,284 million), and shareholders' equity per share increased ¥19.68 (US$0.19) to ¥500.15 (US$4.72).

CONSOLIDATED BALANCE SHEETS (march 31, 2000 and 1999)

	Millions of yen		Thousands of U.S. dollars (note 1)
Assets	2000	1999	2000
Cash and cash deposits:			
Cash and time deposits (note 11)	¥ 732,475	¥ 566,455	$ 6,910,142
Cash segregated as deposits related to securities transactions	8,060	14,753	76,037
	740,535	581,208	6,986,179
Receivables:			
Loans receivable from customers	29,122	69,152	274,736
Loans receivable from other than customers (note 11)	114,707	143,001	1,082,141
Receivables from brokers, dealers and customers	–	345,475	–
Receivables related to margin transactions (note 5)	393,629	141,262	3,713,481
Other	125,946	158,364	1,188,170
Less allowance for doubtful accounts	(7,828)	(3,202)	(73,849)
	655,576	854,052	6,184,679
Collateralized short-term financing agreements (note 6)	1,392,219	1,178,114	13,134,142
Trading assets (notes 7 and 11)	2,927,868	1,678,742	27,621,396
Securities in custody (notes 10 and 11)	1,820,905	1,317,327	17,178,349
Deferred income taxes (note 17)	113,538	83,553	1,071,113
Other assets:			
Property and equipment, at cost (note 11)	408,529	107,978	3,854,047
Less accumulated depreciation	(83,968)	(40,589)	(792,151)
	324,561	67,389	3,061,896
Lease deposits (note 12)	33,672	68,870	317,660
Investment securities (notes 8 and 11)	220,072	318,050	2,076,151
Long-term loans receivable (note 12)	24,789	40,942	233,859
Other (notes 7 and 11)	451,071	88,764	4,255,387
Less allowance for doubtful accounts	(190,593)	(8,415)	(1,798,047)
	863,572	575,600	8,146,906
	¥ 8,514,213	¥ 6,268,596	$80,322,764

see accompanying notes.

Liabilities and shareholders' equity	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars (note 1) 2000
Loans:			
Short-term bank borrowings (notes 11 and 15)	¥ 826,066	¥ 431,427	$ 7,793,075
Commercial paper	145,600	33,170	1,373,585
Long-term debt (note 15)	688,333	410,009	6,493,708
	1,659,999	874,606	15,660,368
Payables:			
Payables to customers (note 14)	184,416	221,428	1,739,774
Time deposits received	20,184	114,775	190,415
Payables from brokers, dealers and customers	57,537	–	542,802
Payables related to margin transactions (note 5)	53,618	71,103	505,830
Other	48,634	16,847	458,810
	364,389	424,153	3,437,631
Collateralized short-term financing agreements (note 6)	2,418,487	2,033,137	22,815,915
Trading liabilities (note 7)	1,234,298	808,982	11,644,321
Accrued and other liabilities:			
Income taxes payable	74,430	1,378	702,170
Accrued bonuses	19,491	11,934	183,877
Multiemployers' pension plan (note 16)	28,443	–	268,330
Retirement benefits (note 16)	4,793	1,663	45,217
Provision for assistance to related companies (note 12)	–	58,200	–
Other	80,082	94,815	755,491
	207,239	167,990	1,955,085
Securities borrowed and deposited by customers (notes 10 and 11) (Contra account of securities in custody)	1,820,905	1,317,327	17,178,349
Statutory reserves (note 18)	981	784	9,255
Minority interests	141,843	1,758	1,338,142
Contingent liabilities (note 19)			
Shareholders' equity (notes 20 and 21):			
Common stock, par value ¥50 per share;			
Authorized - 4,000,000 thousand shares			
Issued - 1,331,733 thousand shares *(1,331,722 thousand shares in 1999)*	138,431	138,425	1,305,953
Preferred stock, no par value;			
Authorized - 100,000 thousand shares			
Issued - 0 share	–	–	–
Additional paid-in capital	117,785	117,779	1,111,179
Retained earnings	413,469	383,672	3,900,651
Less treasury stock, at cost	(3,613)	(17)	(34,085)
Total shareholders' equity	666,072	639,859	6,283,698
	¥ 8,514,213	¥ 6,268,596	$80,322,764

CONSOLIDATED STATEMENTS OF OPERATIONS (years ended march 31, 2000, 1999 and 1998)

	Millions of yen			Thousands of U.S. dollars (note 1)
	2000	1999	1998	2000
Revenues (note 22):				
Commissions (note 23)	¥ 364,116	¥ 185,450	¥ 198,118	$ 3,435,057
Net gain (loss) on trading	126,170	(20,708)	39,385	1,190,283
Interest and dividend income	103,882	190,219	286,393	980,019
Service fees and other sales	60,482	–	–	570,584
	654,650	354,961	523,896	6,175,943
Operating expenses (note 22):				
Selling, general and administrative expenses (notes 12, 16 and 24)	287,498	271,085	283,599	2,712,245
Interest expense	90,524	172,442	254,466	854,000
Cost of service fees and other sales	49,698	–	–	468,849
	427,720	443,527	538,065	4,035,094
Operating income (loss) (note 22)	226,930	(88,566)	(14,169)	2,140,849
Other income (expenses):				
Reversal of statutory reserves, net (note 18)	(197)	45,883	58	(1,858)
Other, net (note 25)	(91,560)	(165,855)	(69,801)	(863,774)
	(91,757)	(119,972)	(69,743)	(865,632)
Income (loss) before income taxes and minority interests	135,173	(208,538)	(83,912)	1,275,217
Income taxes (note 17):				
Current	77,643	(1,672)	1,251	732,481
Deferred	(15,273)	(78,952)	(1,508)	(144,085)
	62,370	(80,624)	(257)	588,396
Minority interests	32,573	24	(2)	307,292
Net income (loss)	¥ 105,376	¥ (127,890)	¥ (83,657)	$ 994,113
Per share amounts:	Yen			U.S. dollars (note 1)
Net income (loss)	¥ 79.43	¥ (96.00)	¥ (62.35)	$ 0.75
Diluted net income	76.19	–	–	0.72
Cash dividends applicable to the year	13.00	5.00	6.00	0.12

see accompanying notes

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(years ended march 31, 2000, 1999 and 1998)

	Millions of yen			
	Number of shares of common stock (thousands)	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1997	1,344,575	¥ 138,425	¥ 117,779	¥ 616,999
Net loss				(83,657)
Cash dividends paid				(10,757)
Redemption of treasury stock (note 20)	(9,021)			(4,057)
Balance at March 31, 1998	1,335,554	138,425	117,779	518,528
Net loss				(127,890)
Cumulative effect of adoption of tax effect accounting (note 17)				3,017
Cash dividends paid				(8,013)
Redemption of treasury stock (note 20)	(3,832)			(1,970)
Balance at March 31, 1999	1,331,722	138,425	117,779	383,672
Net income				105,376
Revisions in accounting for subsidiaries and affiliated companies (note 3)				(68,913)
Cash dividends paid				(6,658)
Bonuses to directors				(8)
Shares issued upon conversion of bonds	11	6	6	
Balance at March 31, 2000	1,331,733	¥138,431	¥117,785	¥413,469

	Thousands of U.S. dollars (note 1)		
	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1999	$ 1,305,896	$ 1,111,122	$ 3,619,547
Net income			994,113
Revisions in accounting for subsidiaries and affiliated companies (note 3)			(650,123)
Cash dividends paid			(62,811)
Bonuses to directors			(75)
Shares issued upon conversion of bonds	57	57	
Balance at March 31, 2000	$ 1,305,953	$ 1,111,179	$ 3,900,651

see accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS (years ended march 31, 2000, 1999 and 1998)

	Millions of yen			Thousands of U.S. dollars (note 1)
	2000	1999	1998	2000
Cash flows from operating activities:				
Net income (loss)	¥ 105,376	¥ (127,890)	¥ (83,657)	$ 994,113
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	14,780	8,531	6,646	139,434
Provision for doubtful accounts, net	33,959	3,049	9,098	320,368
Provision for retirement benefits, net (note 16)	(2,584)	17,237	1,016	(24,377)
Reversal of statutory reserves, net (note 18)	197	(45,883)	(58)	1,858
Provision for financial assistance to related companies (note 12)	–	58,200	–	–
Losses related to fixed assets (note 25)	9,182	15,873	4,068	86,623
Losses (gains) related to investment securities (note 25)	(10,992)	8,038	16,452	(103,698)
Deferred income taxes (note 17)	(15,273)	(78,952)	(1,508)	(144,085)
Expenses for reorganization of related companies (note 25)	10,552	–	–	99,547
Provision for multiemployers' pension plan (note 25)	28,443	–	–	268,330
Write-off of goodwill (note 25)	8,000	–	–	75,472
Non-deductible consumption taxes derived from goodwill (note 25)	4,359	–	–	41,123
(Increase) decrease in receivables	400,786	(517,618)	(50,964)	3,781,000
(Increase) decrease in trading assets	(823,810)	1,658,479	(175,796)	(7,771,792)
(Increase) decrease in receivables related to margin transactions	(263,189)	(39,670)	24,710	(2,482,915)
(Increase) decrease in collateralized short-term financing agreements	205,822	(821,631)	578,241	1,941,717
(Increase) decrease in other assets	(11,357)	(21,728)	95,926	(107,142)
Other, net	(4,612)	40	(414)	(43,509)
Total adjustments	(415,737)	243,965	507,417	(3,922,046)
Net cash provided by (used in) operating activities	(310,361)	116,075	423,760	(2,927,933)

	Millions of yen			Thousands of U.S. dollars (note 1)
	2000	1999	1998	2000
Cash flows from investing activities:				
Payments for purchases of property and equipment	(14,681)	(13,875)	(18,427)	(138,500)
Proceeds from sales of property and equipment	9,755	1,336	82	92,028
Payments for purchases of investment securities	(88,326)	(26,292)	(30,532)	(833,264)
Proceeds from sales of investment securities	205,783	120,379	103,905	1,941,349
Decrease in long-term loans receivable	28,945	7,871	10,122	273,066
Other, net	(673)	2,175	(827)	(6,349)
Net cash provided by investing activities	140,803	91,594	64,323	1,328,330
Cash flows from financing activities:				
Increase (decrease) in short-term loans	121,138	(213,915)	(331,108)	1,142,811
Increase (decrease) in long-term debt	(9,970)	95,797	(4,116)	(94,057)
Proceeds from issuance of notes by subsidiaries	80,000	40,919	119,738	754,717
Payments for redemption of bonds and notes	(39,409)	(140,967)	(175,562)	(371,783)
Proceeds from issuance of stocks to a minor shareholder	162,000	–	–	1,528,302
Payments of cash dividends	(6,658)	(8,013)	(10,757)	(62,811)
Payments of cash dividends to minor shareholders	(233)	–	–	(2,198)
Payments for redemption of treasury stock	–	(1,970)	(4,057)	–
Net cash provided by (used in) financing activities	306,868	(228,149)	(405,862)	2,894,981
Effect of exchange rate changes on cash	8,839	(10,606)	5,092	83,387
Net increase (decrease) in cash	146,149	(31,086)	87,313	1,378,765
Cash at beginning of year	566,455	597,541	510,228	5,343,915
Increase in cash due to change in scope of consolidation	19,871	–	–	187,462
Cash at end of year	¥ 732,475	¥ 566,455	¥ 597,541	$ 6,910,142
Supplemental information on cash flows:				
Cash paid during the year for:				
Interest	¥ 93,939	¥ 204,887	¥ 220,669	$ 886,217
Income taxes	10,937	5,106	5,491	103,179
Non-cash investing and financing activities:				
Conversion of convertible bonds into common stock and additional paid-in capital	12	–	–	114

see accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of financial statements

Daiwa Securities Group Inc. (the “Company”) changed its name from Daiwa Securities Co. Ltd. and transformed into a holding company on April 26, 1999, after transferring its wholesale business divisions and retail business divisions as mentioned below.

On April 5, 1999, the Company transferred its wholesale business divisions to Daiwa Securities SB Capital Markets Co. Ltd., a 60% owned subsidiary, in accordance with the agreement with The Sumitomo Bank, Limited dated on December 18, 1998 and the approval regarding the transfer in the extraordinary meeting of shareholders held on February 5, 1999 (Common stock - ¥205,600 million, Additional paid-in capital - ¥202,410 million).

On April 26, 1999, the Company transferred its retail business divisions to Daiwa Securities Retail Preparation Co. Ltd., in accordance with the approval regarding the transfer in the extraordinary meeting mentioned above. This company changed its corporate name to (new) Daiwa Securities Co. Ltd. on the same date (Common stock - ¥100,000 million, Additional paid-in capital - ¥50,010 million).

The Company is a Japanese corporation and maintains its records and prepares its financial statements in yen. The accompanying consolidated financial statements are basically an English version of those prepared for Japanese domestic purposes in accordance with the provisions of the Securities and Exchange Law of Japan and filed with the Ministry of Finance (“MOF”) and stock exchanges in Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically, including the 2000 consolidated cash flow statement prepared in accordance with the “Standards for Preparation of Consolidated Cash Flow Statements, etc.” effective in 2000, in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows for 1999 and 1998 have been prepared for the purpose of inclusion in the accompanying consolidated financial statements even though such statement was not customarily prepared in Japan and not required to be filed with MOF at that time. Consolidated statements of shareholders’ equity are also prepared, while they are not required to be filed with MOF.

Significant differences between the accounting policies followed by the Company and International Accounting Standards are described in note 4.

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, 2000, which was ¥106 to U.S. $1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Certain reclassifications have been made in the 1999 and 1998 financial statements to conform to the presentation for 2000.

2. Change in accounting policies

In 1999, the Company and a consolidated subsidiary changed its accounting method to provide for directors' retirement benefits on an accrual basis from expensing it at the time of payment for better allocation of expenses. As a result of this accounting change, net loss before income taxes and minority interests for the year ended March 31, 1999 increased by ¥1,482 million, which consisted of accrual for 1999 of ¥449 million classified in selling, general and administrative expenses, and the cumulative effect of prior years from the change in accounting policy of ¥1,034 million classified in other expenses (See note 25).

3. Significant accounting policies

Consolidation - The Company prepared the consolidated financial statements for the year ended March 31, 2000 in accordance with the revised Accounting Principles for Consolidated Financial Statements (the "Revised Accounting Principles") effective for the year ended March 31, 2000. The consolidated financial statements for 2000 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 high percentage of the voting rights and the existence of certain conditions evidencing control by the Company of the decision-making body of such companies.

Under the Revised Accounting Principles, certain companies of which the Company has at least 15% and less than 20% of the voting rights in the case where the Company has the ability to exercise significant influence over operating and financial policies of the investees are also accounted for using the equity method.

Previously, only majority-owned companies were consolidated and only investments in companies of which the Company owns 20% to 50% of the voting rights and has the ability to significantly influence financial, operational or business policies were accounted for using the equity method. Due to the revision, eight subsidiaries and three affiliates were newly consolidated or accounted for on the equity method in the accompanying financial statements for 2000. The prior years' consolidated financial statements have not been restated.

Significant intercompany balances, transactions and profits have been eliminated in consolidation.

Statement of cash flows - For purposes of reporting cash flows, cash includes "cash and time deposits" with maturities of not exceeding one year in the accompanying statements of cash flows, which is referred to the corresponding account balance in the accompanying balance sheets.

In preparing the cash flow statements for the year ended March 31, 2000 for MOF reporting purpose, cash is considered to be "cash and cash equivalents", which includes cash on hand, readily-available deposits and highly liquid investments with original maturities of not exceeding three months. "Cash and time deposits" were used instead of "cash and cash equivalents". Difference between "cash and time deposits" and "cash and cash equivalents" as of March 31, 2000 is reconciled as follow:

	Millions of yen	Thousands of U.S. dollars
Cash (Cash and time deposits)	¥ 732,475	$ 6,910,142
Deposits segregated for customers	(235,300)	(2,219,811)
Time deposits more than three months	(8,310)	(78,396)
Cash and cash equivalents	¥ 488,865	$ 4,611,935

Trading assets and trading liabilities - Trading assets and trading liabilities, including cash securities and financial derivatives for trading purpose held by the securities subsidiaries are recorded on a trade date basis at market value or fair value. Revenues and expenses related to trading securities transactions are recorded on a trade date basis. Unrealized gains or losses from financial derivatives such as futures, options and swaps transactions are reflected as net gain on trading in the accompanying statements of operations. Cash securities owned for non-trading purpose, shown in the accompanying balance sheets as "Investment securities", are discussed below.

Collateralized short-term financing agreements - Collateralized short-term financing agreements consist of securities purchased under agreements to resell or securities sold under agreements to repurchase (Repurchase transactions), securities borrowed or loaned and Buy or Sell Gensaki which have been accounted for as financing transactions. Repurchase transactions are traded in overseas subsidiaries and recorded at their contractual amounts. Securities borrowed or loaned are recorded at the amount of cash collateral advanced or received. Buy Gensaki or Sell Gensaki represents a form of securities purchased under resale agreements or securities sold under repurchase agreements originated in Japan. Gensaki transactions have been accounted for in the same manner as financing transactions in accordance with the amendment of the Securities and Exchange Law of Japan.

Investment securities and derivatives for non-trading purposes - Investment securities listed on stock exchanges are recorded on a settlement date basis at the lower of cost or market. Unlisted investment securities are recorded on a settlement date basis at cost, except where management determines there is permanent diminution in value. Valuation loss or write-off of investment securities are reported as other expenses in the statements of operations. Derivatives for non-trading purposes other than trading assets and trading liabilities are utilized as market risk management for certain non-trading assets and non-trading liabilities such as loans receivable from customers and bank borrowings. Unrealized gains or losses of certain investment securities which have a quoted market price and of derivatives for non-trading purposes, are not included in earnings and disclosed in note 8.

Provision for doubtful accounts - Provision for doubtful accounts of domestic consolidated subsidiaries is provided on the estimated uncollectible amounts of doubtful accounts included in other assets and the amounts on a formula as permitted by the Corporation Tax Law of Japan. Overseas consolidated subsidiaries provide specifically assessed amounts.

Property and equipment - Property and equipment are stated at cost. Depreciation is computed principally by the declining balance method over estimated useful lives as stipulated by corporate tax regulations. Depreciation for buildings purchased in Japan after April 1, 1998 is computed by the straight-line method due to the amendment of Japanese corporate tax regulations. There was no material effect due to the amendment.

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, which are subject to approval at the shareholders' meeting, are accounted for as an appropriation of retained earnings.

Income taxes - Through 1998, the Company did not recognize tax effects of temporary differences, which accounting was not required by accounting principles generally accepted in Japan.

In 1999, the Company and certain consolidated subsidiaries have early adopted tax effect accounting in accordance with the new standards, which were mandatory for the year beginning after April 1, 1999 in Japan. Deferred taxes are recorded for the future tax consequences of events that have been recognized in the financial statements or tax returns, based upon enacted tax laws and rates, including an appropriate provision for taxes on undistributed earnings of subsidiaries and affiliates. The prior years' effect before 1999 of this new accounting has been recorded in retained earnings as of April 1, 1998, as explained in note 17.

Translation of foreign currencies - Foreign currencies and current receivables and payables denominated in foreign currencies are translated into yen at year-end exchange rates. Investment securities and non-current receivables and payables in foreign currencies are translated at historical exchange rates by the Company and domestic subsidiaries and at year-end exchange rates by the foreign subsidiaries.

Foreign currency items with forward exchange contracts are translated at the contracted rates.

Translation of foreign currency financial statements - Financial statements of foreign subsidiaries are translated into yen on the basis of the year-end rates for assets and liabilities except that retained earnings are translated at historical rates. The average rates for the years are used for translation of income and expenses.

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

Diluted net income per share is computed based on the average number of shares of common stock outstanding plus the number of shares of common stock that would have been issued had the outstanding convertible bonds been converted at the beginning of the year.

4. Significant differences between accounting policies followed by the Company and domestic subsidiaries and International Accounting Standards

The accompanying consolidated financial statements are prepared in conformity with accounting principles generally accepted in Japan. Differences from IAS include the following.

Consolidation - Japanese accounting standards on consolidation do not require that consolidated financial statements be prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies followed by certain foreign subsidiaries are different from those of the Company. Such differences, as described in note 3, mainly consist of (1) recognition of tax effects of temporary differences in the 1998 financial statements and (2) translation of foreign currencies.

It is not practicable to disclose proportions of the items in the consolidated financial statements to which the different accounting policies have been applied as required by IAS 27.

Translation of foreign currency items - As described in note 3, foreign currency monetary items of the Company due after one year are recorded at historical rates, while items due within one year are recorded at the closing rate. In this respect, the accounting policy is not in accordance with IAS 21 which requires foreign currency monetary items be reported at the closing rate.

Investment securities - Through 1999, under accounting principles generally accepted in Japan, the Company did not disclose the market value of all its marketable investments on a consolidated basis. This practice was not in accordance with IAS 25 which requires such disclosure.

Securities in custody - As described in note 10, “Securities in custody” is presented as an asset in the balance sheets with a contra account entitled “Securities borrowed and deposited by customers” as a liability.

Tax effect accounting - Through 1998 the Company did not recognize tax effects of temporary differences as described in note 3. Therefore, the Company’s policy differed from IAS 12 which requires that the tax expense for a period be determined on the basis of tax effect accounting. In 1999 the Company has adopted tax effect accounting in accordance with the new accounting standards in Japan. Accordingly, no material differences between the Company's policy and IAS 12 are noted as for accounting for income taxes in the 2000 and 1999 financial statements.

Statutory reserves - As described in note 18, the Securities and Exchange Law of Japan requires a securities company to maintain certain special purpose reserves which are not liabilities or contingent losses as described in IAS 10.

5. Margin transactions

Margin transactions at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Assets:			
Loans receivable from customers	¥ 308,327	¥ 72,452	$ 2,908,745
Cash deposits as collateral for securities borrowed from securities finance companies	85,302	68,810	804,736
	¥ 393,629	¥ 141,262	$ 3,713,481
Liabilities:			
Loans from securities finance companies	¥ 24,916	¥ 18,099	$ 235,057
Proceeds of securities sold for customers' accounts	28,702	53,004	270,773
	¥ 53,618	¥ 71,103	$ 505,830

Loans receivable from customers are stated at amounts equal to the purchase prices of the relevant securities and are collateralized by customers' securities and customers' deposits of cash or securities. Proceeds of securities sold for customers' accounts were stated at the sales prices of the relevant securities on the respective transaction dates.

6. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Assets:			
Securities borrowed	¥ 351,710	¥ 644,779	$ 3,318,019
Securities purchased under agreements to resell	1,016,409	213,273	9,588,765
Buy Gensaki	24,100	320,062	227,358
	¥ 1,392,219	¥ 1,178,114	$ 13,134,142
Liabilities:			
Securities loaned	¥ 411,182	¥ 685,297	$ 3,879,075
Securities sold under agreements to repurchase	883,468	754,524	8,334,604
Sell Gensaki	1,123,837	593,316	10,602,236
	¥ 2,418,487	¥ 2,033,137	$ 22,815,915

7. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Trading assets:			
Corporate shares	¥ 249,537	¥ 101,322	$ 2,354,123
Government, corporate and other bonds	2,239,353	1,053,633	21,125,972
Beneficiary certificates	9,764	76,803	92,113
Commercial paper, certificates of deposits and others	238,215	236,021	2,247,311
Option transactions	12,407	19,968	117,047
Futures transactions	2,275	4,440	21,462
Swap agreements	108,071	175,835	1,019,538
Other derivatives	0	10,720	0
Operational investment securities	44,173	–	416,726
Other inventories	24,073	–	227,104
	¥ 2,927,868	¥ 1,678,742	$ 27,621,396

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Trading liabilities:			
Corporate shares	¥ 84,662	¥ 54,000	$ 798,698
Government, corporate and other bonds	1,032,657	555,218	9,742,047
Commercial paper, certificates of deposits and others	120	0	1,132
Option transactions	10,592	6,591	99,925
Futures transactions	8,795	6,526	82,972
Swap agreements	97,412	174,922	918,981
Other derivatives	60	11,725	566
	¥ 1,234,298	¥ 808,982	$ 11,644,321

Operational investment securities represent shares and bonds including various investments in partnerships of small and medium-sized companies which are expected to go-public in the future.

In addition to the above, securities amounting to ¥65,277 million ($615,821 thousand) held by non-securities subsidiaries for the purpose of short-term sales are included in other assets as of March 31, 2000 (see note 3 as to newly consolidated subsidiaries).

8. Investment securities and derivatives for non-trading purpose

Investment securities at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Corporate shares	¥ 189,929	¥ 167,878	$ 1,791,783
Government, corporate and other bonds	21,850	112,431	206,132
Other	8,293	37,741	78,236
	¥ 220,072	¥ 318,050	$ 2,076,151

At March 31, 2000 (on a consolidated basis) and 1999 (on a non-consolidated basis), net unrealized gains of investment securities which have a quoted market price on a settlement date basis were as follows:

	Millions of yen		
	Book value	Market value	Unrealized Gains
March 31, 2000:			
Corporate shares	¥ 119,492	¥ 190,052	¥ 70,560
Other	29,687	30,243	556
	¥ 149,179	¥ 220,295	¥ 71,116
March 31, 1999:			
Corporate shares	¥ 131,694	¥ 182,524	¥ 50,830
Other	12	60	48
	¥ 131,706	¥ 182,584	¥ 50,878

	Thousands of U.S. dollars		
	Book value	Market value	Unrealized Gains
March 31, 2000:			
Corporate shares	$ 1,127,283	$ 1,792,943	$ 665,660
Other	280,066	285,311	5,245
	$ 1,407,349	$ 2,078,254	$ 670,905

At March 31, 2000 (on a consolidated basis) and 1999 (on a non-consolidated basis), net unrealized gains of derivatives for non-trading purposes consisted of the following:

	Millions of yen		
	Contract amount	Market value	Unrealized Gains
March 31, 2000:			
Interest rate swap	¥ 94,067	¥ 2,457	¥ 2,329
Currency swap	8,107	1,399	1,329
March 31, 1999:			
Interest rate swap	¥ 5,000	¥ 173	¥ 189
Currency swap	2,000	399	318

	Thousands of U.S. dollars		
	Contract amount	Market value	Unrealized Gains
March 31, 2000:			
Interest rate swap	$ 887,425	$ 23,179	$ 21,972
Currency swap	76,481	13,198	12,538

9. Risk management information

The two domestic securities subsidiaries, Daiwa Securities Co. Ltd. and Daiwa Securities SB Capital Markets Co. Ltd. (“Securities subsidiaries”), enter into transactions involving trading assets and trading liabilities to meet customer needs, and for its proprietary trading activities, as a broker and an end-user. These trading assets and trading liabilities include (1) cash securities such as stocks 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, Securities subsidiaries determine the balance of and profit or loss on each instrument and use a value-at-risk method to manage this risk. Credit risk represents the potential for loss arising from the failure of the counterparty in a transaction to fulfill its terms and conditions. Securities subsidiaries assess the credit risk of their counterparties applying internal credit rating and monitor their exposure by measuring notional principal and credit exposure.

Daiwa Securities SB Capital Markets Co. Ltd., ("Daiwa SBCM") has established five risk management principles: 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 principles, Daiwa SBCM expects that risks associated with trading activities are well controlled within a range that the management is willing to assume.

10. Securities in custody

Securities in custody at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Securities borrowed for less than one year	¥ 1,335,084	¥ 900,375	$ 12,595,132
Securities deposited by customers as collateral mainly for margin and futures transactions	485,821	416,952	4,583,217
	¥ 1,820,905	¥ 1,317,327	$ 17,178,349

Securities in custody account is presented as an asset in the balance sheets. A contra account entitled "Securities borrowed and deposited by customers" is presented as a liability. Securities in custody are stated at market value on the respective dates when such borrowings or deposits were made.

11. Pledged assets

At March 31, 2000, short-term bank borrowings amounting to ¥90,189 million ($850,840 thousand), loans from securities finance companies for margin transactions amounting to ¥24,916 million ($235,057 thousand), securities borrowed amounting to ¥1,576 million ($14,868 thousand) and long-term bank borrowings amounting to ¥78,786 million ($743,264 thousand) were secured by the following assets:

	Millions of Yen	Thousands of U.S. dollars
Trading assets	¥ 49,697	$ 468,840
Investment securities	46,243	436,255
Securities in custody	60,128	567,245
Property and equipment	159,616	1,505,811
Other	4,875	45,991
	¥ 320,559	$ 3,024,142

The following securities were deposited with stock exchanges as guarantee for stock index and bond future contracts, etc. as of March 31, 2000:

	Thousands of Millions of Yen	U.S. dollars
Trading assets	¥ 3,977	$ 37,519
Investment securities	52,492	495,208
	¥ 56,469	$ 532,727

The following securities were deposited as guarantee for swap transactions and other derivatives as of March 31, 2000:

	Millions of Yen	Thousands of U.S. dollars
Loans receivable from other than customers	¥ 5,030	$ 47,453
Securities in custody	4,200	39,623
	¥ 9,230	$ 87,076

In addition to the above, the following securities were deposited to secure bank borrowings as of March 31, 2000:

	Millions of Yen	Thousands of U.S. dollars
Cash and time deposits	¥ 208	$ 1,962
Property and equipment	19,258	181,679
	¥ 19,466	$ 183,641

These amounts were stated at book value at the balance sheet date.

12. The Company's transactions with related parties

The Company has several related companies as explained below, which were less than 5% directly owned companies and their financial statements were not consolidated into the accompanying financial statements for 1999 and 1998. In the normal course of its operations, the Company leases most of its office space from Daiwa Building Co., Ltd. (DBC) which merged with Daiwa Real Estate Co., Ltd. (DRE) on July 1, 1998, and receives research and data processing services from Daiwa Institute of Research Ltd. (DIR).

In these reporting periods, the Company provided financial assistance to the related companies. In 1998, the Company recorded ¥39,900 million to DRE, which sells real estate, for the purpose of supporting DRE's charging-off of inactive real estate. In 1999, the Company also recorded ¥115,800 million in the aggregate to Daiwa Finance Co. Ltd. (DFC), which issues mortgage securities, Nippon Investment & Finance Co. Ltd. (NIF), which invests in venture capital, and Daiwa Sanko Co., Ltd. (Sanko), which engages in trading with office equipment and electric parts (See note 25). In 1999 the Company paid ¥57,600 million in the aggregate to these companies and the remaining financial assistance of ¥58,200 million was accrued and presented in the consolidated balance sheets at March 31, 1999.

Significant account balances and transactions with these companies at March 31, 1999 and for the two years ended March 31, 1999 were as follows:

At March 31:	Millions of yen 1999
Lease deposits to DRE/DBC	¥ 57,390
Loans to DRE/DBC	20,000

For the year ended March 31 :	Millions of yen 1999	1998
Selling, general and administrative expenses :		
Rental expenses paid to DRE/DBC	¥ 21,044	¥ 21,017
Research and data processing fees paid to DIR	23,011	22,623
Financial assistance expense to :		
DFC	82,000	–
DRE	–	39,900
NIF	24,000	–
Sanko	9,800	–

As described in note 3, all of these related companies have been consolidated and significant account balances and transactions with these companies at and for the year ended March 31, 2000 have been eliminated.

13. Lease transactions

Financial leases that do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases ("non-capitalized finance leases"). Certain related information at March 31, 2000 and 1999 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Total assets under non-capitalized finance leases	¥ 29,425	¥ 25,639	$ 277,849
Accumulated depreciation	16,775	22,279	158,255
Future lease payments of non-capitalized leases	13,506	3,459	127,415
Due within one year	4,882	2,668	46,057
Future lease payments of operating leases	15,174	18,485	143,151
Due within one year	1,582	2,455	14,925

14. Payables to customers

Payables to customers at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Cash received for customers' accounts on trading	¥ 98,323	¥ 122,226	$ 927,575
Cash deposits received from customers mainly for margin and futures transactions	84,266	46,500	794,962
Other	1,827	52,702	17,237
	¥ 184,416	¥ 221,428	$ 1,739,774

15. 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, and such bank has the right to offset cash deposited with it against any debt or obligation that becomes due and, in the case of default and certain other specified events, against all debts payable to the bank. No such request has been made and no such right has been exercised.

Long-term debt at March 31, 2000 and 1999, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Convertible bonds payable in yen, convertible into common stock at ¥3,035.90 per share:			
1.5% due 2002	¥ 19,440	¥ 19,440	$ 183,396
1.5% due 1999	–	19,419	–
Convertible bonds payable in yen, convertible into common stock at ¥2,367.00 per share:			
1.4% due 2003	36,269	36,269	342,160
1.4% due 2000	38,662	38,662	364,736
Convertible bond payable in yen, convertible into common stock at ¥1,094.00 per share:			
0.5% due 2006	79,988	–	754,604
Notes payable in yen issued by a subsidiaries:			
Series of notes with various rates and maturities from 1999 through 2002	3,098	7,109	29,226
5.0% subordinated due 2005	1,033	1,016	9,745
2.0% Euro-yen bond due 2002	80,000	–	754,717
Euro medium-term notes (authorized $5,000 million) issued by subsidiaries, with various rates and maturities through 2008	56,466	71,636	532,698
Yen subordinated loan due 2004	40,000	–	377,358
Yen subordinated loans due 2002 and 2003	–	195,000	–
Borrowings from financial institutions	331,760	21,000	3,129,812
Other	1,617	458	15,256
	¥ 688,333	¥ 410,009	$ 6,493,708

The conversion prices shown above are subject to adjustment in certain circumstances.

At March 31, 2000, the number of shares of common stock issuable upon full conversion of outstanding convertible bonds was 111,175 thousand shares in aggregate.

The aggregate annual maturities of long-term debt as of March 31, 2000 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2001	¥ 64,584	$ 609,283
2002	221,165	2,086,462
2003	118,955	1,122,217
2004	139,939	1,320,179
2005	48,732	459,736
2006 and thereafter	94,958	895,831

16. Retirement benefits

Employees - The Company and domestic subsidiaries have unfunded lump-sum benefit plans for employees.

Under the terms of the lump-sum benefit plan, eligible employees are entitled, under most circumstances upon reaching mandatory retirement age or earlier voluntary termination, to a lump-sum benefit payment. The amount of retirement benefits to be paid is reduced by the benefits payable under the pension plan. Up to the year ended March 31, 1998, the accrued retirement benefits were stated at an amount which would be required if all employees covered by the retirement benefit plan voluntarily terminated their employment as of the balance sheet date, net of the assets of the pension fund.

On March 31, 1999, the Company and a domestic consolidated subsidiary canceled all their employees' retirement benefit plans, both unfunded and funded, and liquidated their plan assets in order to pay an amount to entitled employees which would be required if they involuntarily terminated their employment in the course of shifting to the holding company structure. The Company and the subsidiary included payables of the retirement benefits to entitled employees in other current liabilities in the balance sheet as of March 31, 1999, and recorded liquidation losses of employees' pension plans of ¥12,806 million in earnings for the year then ended (See note 25).

On March 31, 2000, certain domestic consolidated subsidiaries also canceled all their employees' retirement benefit plans, both unfunded and funded, in a similar manner as the Company did in prior year. Those subsidiaries included payables of the retirement benefits to entitled employees in other current liabilities in the balance sheet as of March 31, 2000, and recorded liquidation losses of employees' pension plans of ¥3,171 million ($29,915 thousand) in current earnings (See note 25).

Directors - In 1999, the Company and a domestic consolidated subsidiary changed their accounting method to provide for directors' retirement benefits on an accrual basis from expensing at the time of payment as described in note 2.

Directors' retirement benefits of ¥1,536 million ($14,491 thousand) were included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2000.

Multiemployers' pension plan - The Company and certain of domestic consolidated subsidiaries are members of a multiemployers' pension plan that is an industry-wide multiemployer contributory welfare pension plan administered by the Securities Companies' Welfare Pension Fund. The funded pension plan has faced the problems arising from the decreasing members and continuing low interest rates. The Companies' liability is calculated, based on the difference between its projected benefit obligation and its fair value of the plan assets as of March 31, 2000. Provision for the multiemployers' pension plan was charged to income (note 25) and reported in the balance sheets as "Multiemployers' pension plan" as of March 31, 2000.

17. Income taxes

In 1999 the Company and certain domestic consolidated subsidiaries early adopted tax effect accounting in accordance with the new standards as described in note 3. With regard to the cumulative effect on prior years of adopting tax effect accounting, net loss for the year ended March 31, 1999 decreased by ¥78,952 million and retained earnings as at March 31, 1999 increased by ¥3,017 million as presented in the accompanying statements of shareholders' equity.

The normal effective statutory income tax rate in Japan arising out of the aggregation of corporate, enterprise and inhabitants taxes was approximately 42%, 48% and 51% for 2000, 1999 and 1998, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

Details of deferred tax assets and liabilities at March 31, 2000 and 1999 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Deferred tax assets:			
Write-off of goodwill	¥ 69,973	¥ –	$ 660,123
Net operating losses	62,337	90,896	588,085
Provision for financial assistance to related companies	–	23,804	–
Provision for the multi-employers' pension plan	11,194	–	105,604
Accrued employees' compensation	–	11,280	–
Other	34,584	4,602	326,263
Gross deferred tax assets	178,088	130,582	1,680,075
Less-Valuation allowance	(62,595)	(47,029)	(590,519)
Total deferred tax assets	115,493	83,553	1,089,556
Deferred tax liabilities	1,955	394	18,443
Net deferred tax assets	¥ 113,538	¥ 83,159	$ 1,071,113

The Company and certain subsidiaries recorded a valuation allowance to reflect the estimated amount of deferred tax assets that will not be realized.

The deferred tax assets and liabilities at March 31, 2000 and 1999 may be attributed to current amount and non-current amount as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Deferred tax assets :			
Current	¥ 15,463	¥ 81,955	$ 145,877
Non-current	98,075	1,598	925,236
Total deferred tax assets	113,538	83,553	1,071,113
Deferred tax liabilities :			
Current	¥ –	¥ 394	$ –

A reconciliation of the difference between the normal effective statutory tax rate and the effective income tax rate reflected in the accompanying statements of operations for the year ended March 31, 2000 is as follow:

	2000
Normal effective statutory tax rate	42.0%
Valuation allowance for deferred income tax assets	11.5
Lower tax rate applicable to income of foreign subsidiaries	(2.0)
Other, net	(5.4)
Effective tax rate	46.1%

18. Statutory reserves

Statutory reserves at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Reserve for securities and financial futures transaction liabilities	¥ 981	¥ 784	$ 9,255

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.

The statutory reserve for possible trading losses from stock, bond and warrant was abolished as the Securities and Exchange Law was amended on December 1, 1998, which had required a securities company to maintain reserve for possible losses from stock, bond and warrant transactions for its own account at fixed percentages of net trading gains. The remaining balance of the reserve was reversed and credited to income for the fiscal year ended March 31, 1999.

19. Contingent liabilities

At March 31, 2000, the Company and its consolidated subsidiaries were contingently liable as guarantors of loans and lease deposits amounting to ¥1,571 million ($14,821 thousand).

20. Shareholders' equity

The Commercial Code of Japan allows a company to retire a portion of its outstanding shares upon approval of the shareholders at the annual general shareholders' meeting. On December 8, 1997, the directors' meeting passed a resolution to enable the Company to purchase and retire outstanding shares up to a maximum aggregate acquisition cost of ¥25,000 million. In 1999 and 1998, the Company purchased and retired shares having a market value of ¥1,970 million and ¥4,057 million, respectively. As a result of such share acquisitions, retained earnings as of March 31, 1999 and 1998 decreased by ¥1,970 million and ¥4,057 million, respectively, and the number of issued and outstanding shares decreased by 3,832 thousand and 9,021 thousand shares, respectively.

The shareholders of the Company approved a stock incentive plan on June 25, 1998. The plan provides for the issuance of up to 6,000 thousand shares in the form of options to directors and key employees. On March 30, 1999, options were awarded to those who were with Daiwa Securities Co. Ltd. listed as the grantees at the time of the shareholders' meeting, and at the time of grants were either (1) Directors or (2) General Managers, Deputy General Managers or Assistant General Managers under the plan. The options may be exercised during the period from July 1, 2000 until June 20, 2003, and the exercise price is ¥667 ($6).

The Company is authorized to issue 4,000,000 thousand shares of common stock and 100,000 thousand shares of preferred stock on approval of the shareholders' meeting held on June 25, 1998. Contents of preferred shareholders' right are (1) preferred shareholder shall not have any voting rights at a shareholders' meeting, (2) no share consolidation nor share split shall be made with respect to preferred shareholders, (3) the Company shall not grant to the preferred shareholders pre-emptive rights to subscribe for new shares or rights to subscribe for convertible bonds or bonds with warrants to subscribe for new shares. At present the Company has not yet issued any preferred stock.

21. Capital adequacy requirements

In Japan, the securities company is subject to risk-based capital adequacy rules established and administered by MOF and the Financial Supervisory Agency. Securities subsidiaries report their capital adequacy ratio as defined pursuant to these rules.
The authorities will take certain administrative measures if such ratio declines below 140%. As of March 31, 2000, capital adequacy ratios of Daiwa Securities Co. Ltd. and Daiwa SBCM were 262.7% (unaudited) and 507.4% (unaudited), respectively.

22. Segment information

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

A summary of revenues by geographic area for the three years ended March 31, 2000 and a summary of total assets by geographic area for the three years ended March 31, 2000 were as follows:

	Millions of yen					
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended March 31, 2000:						
Revenues:						
Outside customer	¥ 528,090	¥ 85,359	¥ 31,969	¥ 9,232	¥ –	¥ 654,650
Inter-area	17,703	(516)	(1,960)	(454)	(14,773)	–
Total	545,793	84,843	30,009	8,778	(14,773)	654,650
Operating expenses	325,440	82,305	23,878	7,227	(11,130)	427,720
Operating income	¥ 220,353	¥ 2,538	¥ 6,131	¥ 1,551	¥ (3,643)	¥ 226,930
At March 31, 2000:						
Total assets by geographic area	¥7,807,069	¥ 709,836	¥ 339,697	¥ 57,810	¥ (400,199)	¥ 8,514,213
Year ended March 31, 1999:						
Revenues:						
Outside customer	¥ 247,423	¥ 103,781	¥ (3,705)	¥ 7,462	¥ –	¥ 354,961
Inter-area	16,295	418	(181)	151	(16,683)	–
Total	263,718	104,199	(3,886)	7,613	(16,683)	354,961
Operating expenses	245,957	146,191	54,097	10,603	(13,321)	443,527
Operating income (loss)	¥ 17,761	¥ (41,992)	¥ (57,983)	¥ (2,990)	¥ (3,362)	¥ (88,566)
At March 31, 1999:						
Total assets by geographic area	¥ 4,861,237	¥ 1,094,083	¥ 615,713	¥ 63,421	¥ (365,858)	¥ 6,268,596
Year ended March 31, 1998:						
Revenues:						
Outside customer	¥ 246,998	¥ 204,861	¥ 63,861	¥ 8,176	¥ –	¥ 523,896
Inter-area	17,962	(534)	(1,830)	411	(16,009)	–
Total	264,960	204,327	62,031	8,587	(16,009)	523,896
Operating Expenses	259,803	203,156	67,225	19,157	(11,276)	538,065
Operating Income (loss)	¥ 5,157	¥ 1,171	¥ (5,194)	¥ (10,570)	¥ (4,733)	¥ (14,169)
At March 31, 1998:						
Total assets by geographic area	¥ 6,360,719	¥ 2,530,169	¥ 1,839,882	¥ 87,519	¥ (685,832)	¥10,132,457

	Thousands of U.S. dollars					
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended March 31, 2000:						
Revenues:						
Outside customer	$ 4,981,981	$ 805,273	$ 301,595	$ 87,094	$ –	$ 6,175,943
Inter-area	167,010	(4,868)	(18,491)	(4,283)	(139,368)	–
Total	5,148,991	800,405	283,104	82,811	(139,368)	6,175,943
Operating Expenses	3,070,189	776,462	225,264	68,179	(105,000)	4,035,094
Operating Income	$ 2,078,802	$ 23,943	$ 57,840	$ 14,632	$ (34,368)	$ 2,140,849
At March 31, 2000:						
Total assets by geographic area	$ 73,651,594	$ 6,696,566	$ 3,204,689	$ 545,377	$(3,775,462)	$80,322,764

Geographic overseas revenues for the three years ended March 31, 2000 were as follows:

	Millions of yen			
	America	Europe	Asia & Oceania	Total
Year ended March 31, 2000:				
Overseas revenue	¥ 79,516	¥ 23,668	¥ 10,529	¥ 113,713
Total revenue				654,650
% of total revenue	12.1%	3.6%	1.6%	17.4%
Year ended March 31, 1999:				
Overseas revenue	¥ 136,128	¥ 16,148	¥ 8,592	¥ 160,868
Total revenue				354,961
% of total revenue	38.4%	4.5%	2.4%	45.3%
Year ended March 31, 1998:				
Overseas revenue	¥ 217,953	¥ 24,323	¥ 4,743	¥ 247,019
Total revenue				523,896
% of total revenue	41.7%	4.6%	0.9%	47.2%

	Thousands of U.S. dollars			
	America	Europe	Asia & Oceania	Total
Year ended March 31, 2000:				
Overseas revenue	$ 750,151	$ 223,283	$ 99,330	$ 1,072,764
Total revenue				6,175,943
% of total revenue	12.1%	3.6%	1.6%	17.4%

23. Commissions

Commissions derived from each department for the year ended March 31, 2000 were as follow:

	Millions of yen					
	Equity	Fixed Income (Bond)	Asset Management	Investment Banking	Others	Total
Brokerage	¥ 145,968	¥ 1,488	¥ 7	¥ –	¥ 13	¥ 147,476
Underwriting and distribution	–	–	–	34,887	–	34,887
Subscription and distribution	–	–	86,764	1,439	–	88,203
Other	2,876	3,395	70,431	7,218	9,630	93,550
Total	¥ 148,844	¥ 4,883	¥ 157,202	¥ 43,544	¥ 9,643	¥ 364,116

	Thousands of U.S. dollars					
	Equity	Fixed Income (Bond)	Asset Management	Investment Banking	Others	Total
Brokerage	$ 1,377,057	$ 14,028	$ 66	$ –	$ 132	$ 1,391,283
Underwriting and distribution	–	–	–	329,123	–	329,123
Subscription and distribution	–	–	818,529	13,575	–	832,104
Other	27,132	32,019	664,434	68,094	90,877	882,547
Total	$ 1,404,189	$ 46,047	$ 1,483,029	$ 410,792	$ 91,009	$ 3,435,057

Commissions earned for 1999 and 1998 consisted of the following:

	Millions of yen	
	1999	1998
Brokerage	¥ 68,986	¥ 81,573
Underwriting and distribution	62,247	69,285
Other	54,217	47,260
	¥ 185,450	¥ 198,118

24. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for 2000, 1999 and 1998 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	2000
Employees' compensation and benefits	¥ 140,648	¥ 126,890	¥ 127,303	$ 1,326,868
Commissions and floor brokerage	9,816	12,950	16,129	92,604
Communications	15,896	17,118	18,421	149,962
Occupancy and rental	40,787	49,910	49,021	384,783
Data processing and office supplies	20,874	30,614	30,546	196,925
Taxes other than income taxes	7,312	9,211	18,095	68,981
Depreciation	14,780	8,535	6,645	139,434
Other	37,385	15,857	17,439	352,688
	¥ 287,498	¥ 271,085	¥ 283,599	$ 2,712,245

25. Other income (expenses)

Details of "Other, net" in the statements of operations for the three years ended March 31, 2000 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	2000
Gains on sales of investment securities	¥ 16,755	¥ 1,921	¥ 5,469	$ 158,066
Write-off of securities	(4,104)	(1,200)	(977)	(38,717)
Valuation losses of investment securities	(1,659)	(8,760)	(20,944)	(15,651)
Financial assistance to related companies (note 12)	–	(115,800)	(39,900)	–
Valuation losses related to fixed assets	(2,489)	(15,873)	(4,068)	(23,481)
Losses on disposal and sale of fixed assets	(6,693)	–	–	(63,142)
Expenses for liquidation of related companies	(12,418)	–	–	(117,151)
Losses related to foundation of domestic subsidiaries	(15,493)	–	–	(146,161)
Cumulative effect of an accounting change (notes 2 and 16)	–	(1,034)	–	–
Liquidation losses of employees' retirement plans (note 16)	(3,171)	(12,806)	–	(29,915)
Provision for multiemployers' pension plans (note 16)	(28,443)	–	–	(268,330)
Restructuring of overseas business	–	(6,176)	(2,008)	–
Expenses for the holding company structure	–	(2,562)	–	–
Losses on restructuring of property and equipment	–	(2,268)	–	–
Provision for doubtful accounts	(30,603)	(1,904)	(8,386)	(288,708)
Equity in earnings (losses) of affiliated companies	(551)	1	24	(5,197)
Other	(2,691)	606	989	(25,387)
	¥ (91,560)	¥ (165,855)	¥ (69,801)	$ (863,774)

Valuation losses related to fixed assets for 1999 and 1998 were derived from updated development appraisal of the investment property called Daiwa Europe House (DEH) held by Daiwa Europe Property plc. (DEP), a consolidated subsidiary. DEP has been in the course of completing the constructing of DEH, the original intention having been that Daiwa Europe Limited (DEL), a consolidated subsidiary would occupy the property once the work was completed. A decision was taken by DEL in 1999 not to move into DEH, and DEP changed the purpose of holding of the building to commercial usage. Due to the change of the purpose of holding the property, DEP had the land and building appraised according to the local accounting standard and recorded a valuation loss in the amount of ¥20,137 million for the year ended March 31, 1999. In this connection, DEL also reversed the reserve for relocation to DEH in the amount of ¥4,264 million for the same period.

Valuation losses related to fixed assets for 2000 were derived from appraisal of the golf club membership.

Losses related to foundation of domestic subsidiaries for 2000 consisted of write-off of goodwill of ¥8,000 million ($75,472 thousand), non-deductible consumption taxes derived from goodwill of ¥4,359 million ($ 41,123 thousand) and expenses for starting costs of ¥3,134 million ($29,566 thousand).

26. Subsequent events

Appropriation of retained earnings - Under the Commercial Code of Japan, a plan for appropriation of retained earnings proposed by the Board of Directors must be approved at a shareholders' meeting to be held within three months after the end of the fiscal year. The appropriation of retained earnings for the year ended March 31, 2000 was approved by the shareholders' meeting held on June 28, 2000 as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥13 ($0.12) per share)	¥ 17,247	$ 162,708
Bonuses to directors	110	1,038

Bonds and notes issue - The Company issued ¥100 billion ($943 million) principal amount 1.4% first series of unsecured bonds due in five years under a shelf registration in Japan. This shelf registration permits the issuance of up to ¥200 billion ($1,887 million) of domestic bonds prior to June 8, 2002. The bonds were priced at 100%. The net proceeds from the issuance will be used for redemption of convertible bonds and borrowings, and investing in a making loans to subsidiary companies.

Daiwa SBCM issued seven tranches, total principal amount of ¥13.5 billion ($127 million) by June 28, 2000 under the Euro Medium Term Notes Programme set up on May 15, 2000, which permits the issuance of up to ¥200 billion ($1,887 million). On June 19, 2000, the Board of Directors of Daiwa SBCM approved the issuance of notes due within ten years up to ¥50 billion ($472 million) for the period from June 19, 2000 to September 30, 2000 under the programme.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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. (formerly "Daiwa Securities Co. Ltd.", a Japanese corporation) and subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2000, expressed in yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Daiwa Securities Group Inc. and subsidiaries as of March 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2000, in conformity with accounting principles generally accepted in Japan which, except for the change in the method of accounting for directors' retirement benefits effective April 1, 1998 referred to in Note 2, were applied on a consistent basis.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from yen on the basis set forth in Note 1.

Asahi & Co.

Tokyo, Japan

June 28, 2000

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

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Date of Founding
May 1, 1902

Commencement of Operations
April 26, 1999

Shares of Common Stock
Authorized
4,000,000 thousand shares
Issued and Outstanding
1,331,733 thousand shares (as of March 31, 2000)

Shares of Preferred Stock
Authorized
100,000 thousand shares
Issued and Outstanding
0 shares

Number of Shareholders
89,859 (as of March 31, 2000)

Independent Public Accountants
Asahi & Co.

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