

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**

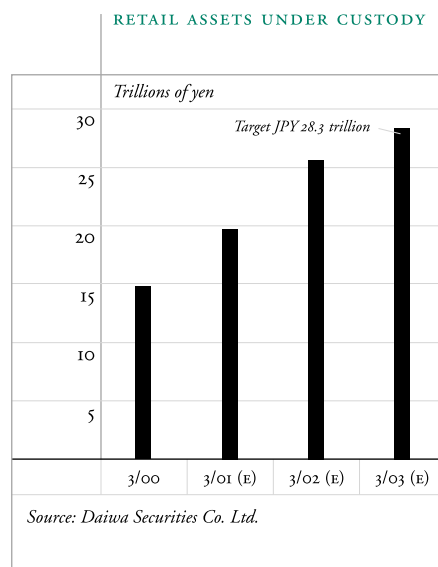
- TARGET ONE**
Achieve stable consolidated ROE of 15%
- TARGET TWO**
Double retail assets under custody
(to 28.3 trillion yen by 03/2003)
- TARGET THREE**
Obtain rating of single A or better from domestic
and overseas rating agencies (two securities companies)

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.

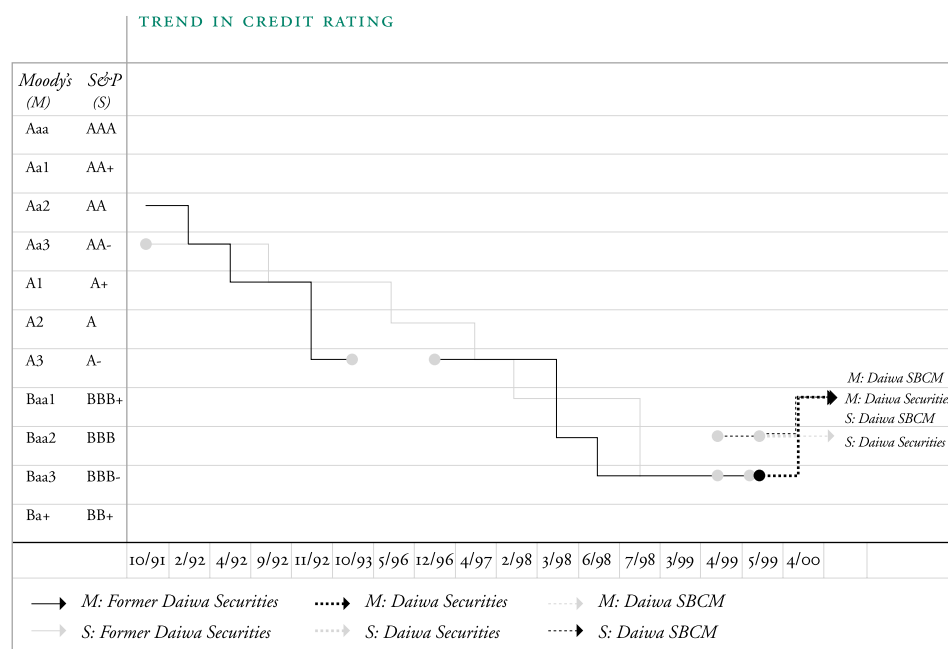
A major goal of the new corporate structure is to separate the strategic from the tactical management of individual operations. By devolving responsibility for day-to-day operations to the individual group companies in the context of group-wide constraints and goals, the Daiwa Securities Group has established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



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.



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 <i>Estimate</i>	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).