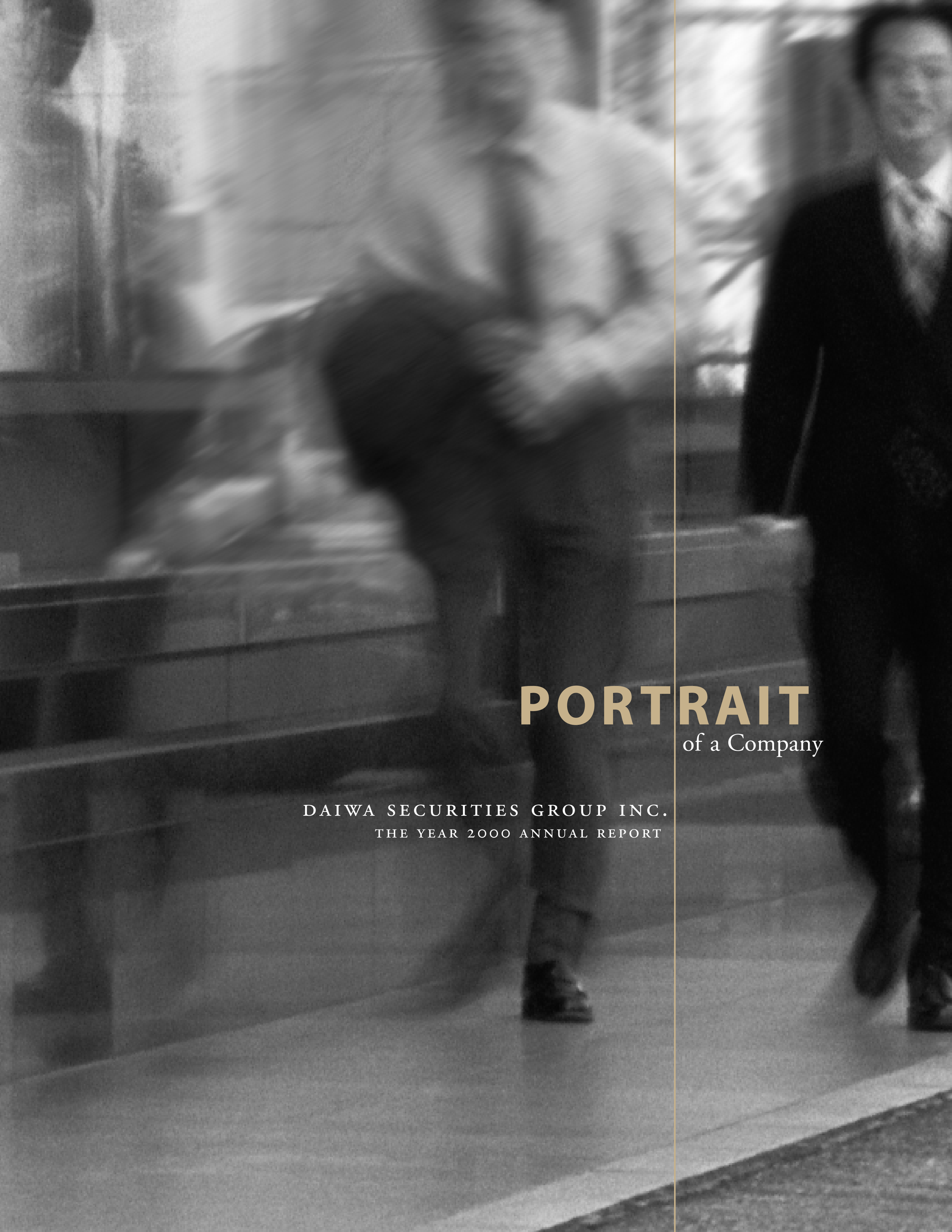


PORTRAIT
of a Company

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

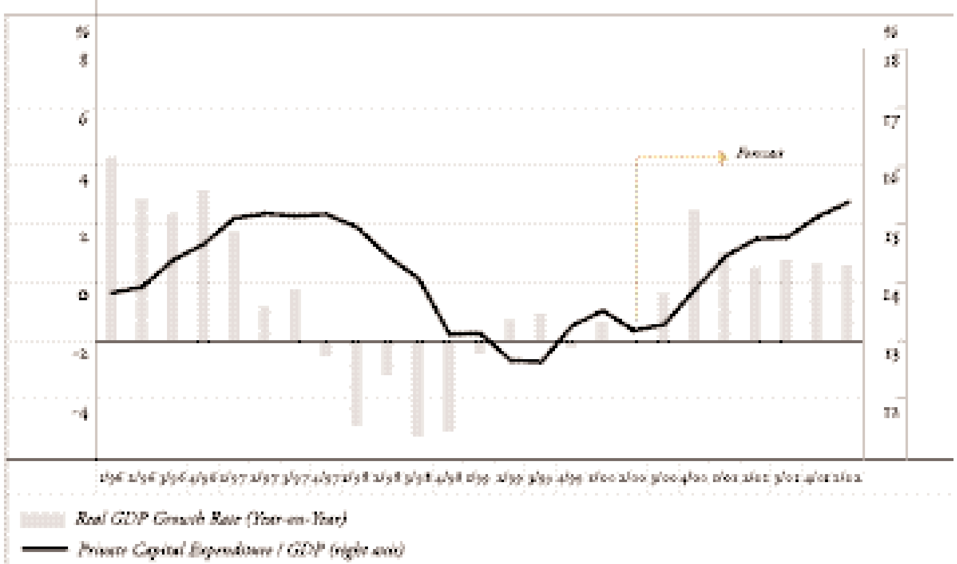
Background

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



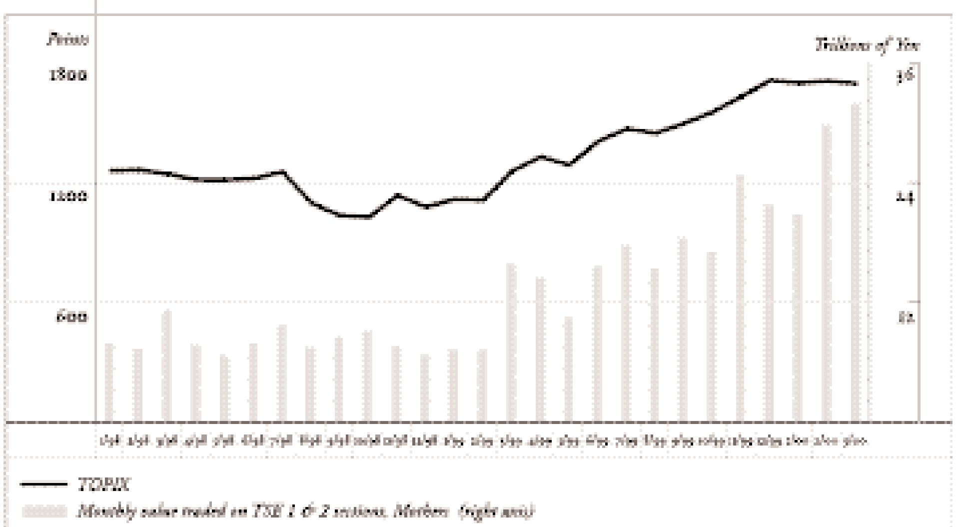
* Source: Daiwa Institute of Research (Japan's Economic Outlook No. 125, June 14, 2000)

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	143.3			
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	564.1	185.4
Brokerage	147.4	68.9
Underwriting	54.8	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	57.1
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