

(As of June 22, 2001)



RETAIL SECURITIES COMPANY Daiwa Securities Co. Ltd.

Directors:

Yoshinari Hara, $President \cdot Shinichi Yamamura$, $Deputy President \cdot Tetsuo Mae$, Senior Managing Director Tatsuei Saito, $Senior Managing Director \cdot Akira Hasegawa$, Managing Director

Takatoshi Okuyama, Managing Director · Akira Sakiyama, Managing Director

Executive Officers:

Hiroshi Ota · Yoshihide Shimamura · Tetsuya Ikeda · Taro Tanaka · Hiroshi Fujioka Toshifumi Shimizu · Yoshimi Murakami · Hiroshi Takeuchi · Tokuzo Takagi

Corporate Auditors:

Isao Tada · Toshio Shirai · Mitsugi Kishimoto

(As of June 22, 2001)

Interview with



HISASHI OTSUKA

General Manager of Daiwa Securities Co. Ltd.

Mr. Hisashi Otsuka joined the former Daiwa Securities in 1980. In 2000 he was appointed general manager of the Call Center, with responsibility for its development within Daiwa Securities Co. Ltd., and in April 2001, shortly after this interview, he was also given responsibility for the online securities business within Daiwa Securities.

The call center forms one of the three channels being offered by Daiwa securities in its three service packages, the others being the consulting (branch) channel and the Net (Internet) channel. Do you have any observations on how the three-channel policy is working in practice?

Overall, I believe that the three-service-package strategy is potentially a very strong point of competitive advantage for Daiwa Securities as a whole. Channel by channel it is too early to compare our call center strategy with those of our competitors. However, I believe that in the Internet field our own approach is far superior, a fact that has been reflected in our superior market share. I also believe that many of the features of our strength here are also probably relevant to the call center as well. Basically, we have positioned each of our channels to serve distinct investor seg-

ments and have also positioned them to allow seamless switching between channels as investors' needs and experience change. This differentiates us from the competition, where the call center and Internet operations are either integrated into a traditional service package or have been separated as a wholly separate company. In the former there is a danger that promotion of the non-traditional routes will be hindered by fears of cannibalizing the branches, while in the latter case synergies between channels will be harder to come by. I believe that our own approach, which segments our distribution according to client needs but also allows migration between channels as the need arises, allows us to enjoy the best of all worlds.

Daiwa securities was the first major securities company in Japan to embrace the call center channel, which was introduced in July 2000. Now, with almost one year's experience under your belt, how do you feel in general terms about progress to date?

As you mention, we were the first securities company in Japan to offer services via a call center channel when we introduced Daiwa Call. We were also the first to embrace the Internet for securities transactions and the first to introduce i-mode as well as EZ-Web and J-Sky channels for securities execution using mobile terminals. I believe that we at Daiwa Securities have a tradition of innovation in these areas that has served us well over the years. We have one of the largest shares of the Internet securities channel among the big three, and I believe we have now established a first-mover advantage in the call center channel as well.

I would be misleading you, however, if I pretended that this success came either easily or painlessly. In fact, although we formally introduced the call center channel in July (that is when the call center started taking orders; before that it was just an online help desk), we did not actively market it, by widely publicizing the service through newspaper advertising, for several months. During this period we honed our approach basically through a process of trial and error, with the result that it was only in October 2000 that we felt comfortable moving to full introduction of the service. Currently, our call center has around 200 seats and 192 TSRs (telephone service representatives). We offer services from 8 a.m. to 10 p.m. on weekdays and from 9 a.m. to 5 p.m. on Saturdays, Sundays, and national holidays, with IVR (interactive voice response) services available out of hours.

The call center channel is the middle channel in Daiwa's three-service-package strategy, bridging the gap between the over-the-counter consulting channel and the Internet-based Daiwa Net channel. The rationale for setting it up was to offer facilities to place orders as well as to answer various questions raised by investors. In terms of product line, we differ from the consulting channel in not offering

margin trading, options, or new bond issues, although we plan to start offering some of these services in the future. However, we do handle the full range of investment trusts, which means that we offer a somewhat broader range of products than is available through the Daiwa Net online channel.

In terms of client demographics, we have, as we expected, attracted a client base positioned between that of the branches (Daiwa Consulting) and that of Daiwa Net. While the typical branch customer is probably in his fifties to seventies and the typical Daiwa Net customer in his twenties to forties, our own client base seems to appeal to the thirties to fifties age group. In addition, while around 45 percent of Daiwa Consulting customers are female, only 17 percent of Daiwa Net customers are. We fall solidly between these two, with around 35 percent of our customers being female.

While the style of investment practiced by our branch network might be labeled "outbound," requiring a high level of personal consultation and advice, the call center channel seems to be attracting a high level of what I would term "inbound" investment, in which the investor is generally acting on his or her own initiative and analysis. The characteristics of customers in each channel are actually very different. Thus, for example, when the Nikkei first broke below 14,000 in December 2000, the branches were very quiet. However, on that very day, the call center marked all-time high volumes.

It is difficult at this point for us to give meaningful figures for revenues and income in light of the novelty of this operation. However, our experience, such as it is, to date has been wholly satisfactory. In fact, we now estimate that we will reach breakeven over a period of between 18 months and two years, compared with the three-year period we had originally estimated.

You say that you proceeded through trial and error. Could you elaborate on this point, please?

Well, you should bear in mind that, as the pioneer in this area, we had no experience to draw on. Consequently, some of our initial attitudes and assumptions turned out to be rather naïve and required us to change our approach.

In general terms, I think that in the initial phase we placed too much emphasis on technology. For example, IVR services. We had assumed that the self-help aspects offered by IVR would appeal to the clientele we were trying to attract. But many callers were more interested in being quickly connected to a TSR than in self-help, considering the IVR only a supplementary service.

In other areas we had assumed that TSR duties would be fulfilled if they were able to offer the best information to callers. Actually, the attributes that make a good TSR are rather more multifaceted than that. Some TSRs turned out to have an ability to offer superior information to clients but nevertheless proved totally inadequate in providing client satisfaction. Indeed, some TSRs with the most in-depth knowledge and experience adopted such a haughty and condescending attitude to customers seeking clarification of some aspect of transactions undertaken that those clients became offended. Other TSRs, who may

not have had the same in-depth knowledge of securities markets, turned out to be far more adept at gaining client acceptance by providing easy-to-understand answers.

In short, I guess that we discovered that operating a call center is a more delicate operation than we had anticipated. Not only is the balance between the application of technology and personal service more tricky than we had expected, but the characteristics of good service itself are less easy to define than we had imagined. Fortunately, from an early stage we have taken a much more hands-on approach to the management of our call center than our rivals in the securities industry. Consequently, I believe that we have established a much steeper learning curve and position of advantage within the sector than they will be able to.

Again, could you elaborate?

One major difference between our call center and those being constructed by our rivals is that we have retained a very large measure of direct control of the management of the operation. By contrast, the other companies have outsourced a lot more of the day-to-day operations to telemarketing companies. While we do recruit almost one-half of our staff from agencies, we retain strict managerial control within the company. This has allowed us to keep a close watch on and control over quality, enabling us to implement appropriate policies much faster than would otherwise have been the case.

For example, we have implemented a policy of monitoring TSRs on a real-time basis to evaluate the quality of services they provide. We have produced a checklist of over 60 items to which a TSR must conform in the course of a single telephone conversation. All telephone conversations are monitored, and the performance of the TSR is rated against this list. In addition, from April 2001, we have started to follow up with random questionnaires by mail and telephone to try to gauge the level of client satisfaction with our service. Finally, maintaining direct control over the management of the call center has allowed us to integrate experience gained in other parts of the company. One example here is the fact that the Call Center, Daiwa Direct Department, and the Sales Planning Department for the branches meet monthly to analyze and resolve issues, including customer complaints received. All customer complaints are logged, no matter what the channel, and are considered at these meetings. This sort of process will be greatly augmented by the introduction of full-scale CRM systems into Daiwa Securities Co. Ltd.

One further issue I would mention would be in the area of staff recruitment and training. Again, by retaining direct control over these activities we are able to implement our own policies born out of long experience operating in retail securities markets. Our training programs are identical for our own staff and for those dispatched to us from agencies. Attracting suitable staff is a high priority for us, one over which we wish to maintain direct control. All TSRs are required, as a minimum, to obtain a securities representative license to take orders. However, further development of knowledge and skills is necessary to address higher-level customer needs.

To wrap up, looking forward, how do you see the call center channel developing within Daiwa Securities?

I think that our contribution to overall Group objectives will fall into two broad areas. In the first place, we have a role to play in filling that gap in the market that exists between the full-service over-the-counter consulting channel and the Internet channel to address the diversifying needs of our customers. I believe that we are well on our way to fulfilling that role.

In addition, I believe that we have a wider role to play in promoting greater efficiency within Daiwa Securities Co. Ltd. Daiwa Securities operates 124 branches. Every one of them offers its customers telephone-based services similar to those we offer here. There are obvious gains in both efficiency and quality of service to be had by centralizing and streamlining these functions. Moreover, staff brought up in the call center will gain a great deal of customer exposure in a controlled environment. Over time, these staff will become available to other areas of the group. I therefore believe that we have a role to play as a training ground for Daiwa Securities staff, particularly in the area of customer relations.

For all of the above reasons — although I may be biased — I believe that the call center is a major step forward for Daiwa Securities.

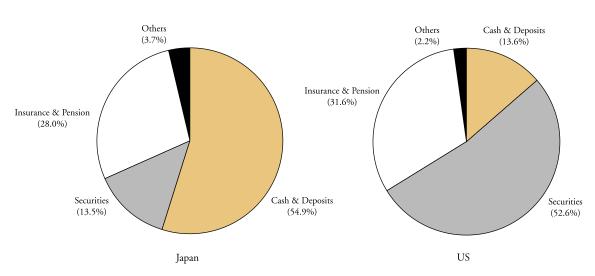
RETAIL Securities Company

Daiwa Securities Co. Ltd. is the retail-securities arm of the Daiwa Securities Group. This company operates through a network of 124 branches as well as non-traditional routes, including the Internet. Since July 2000, Daiwa Securities has also operated a full-fledged call center to provide telephone-based securities-related services.

Daiwa Securities, in common with most other informed observers of the Japanese retail-securities markets, believes that the potential for increase in the general level of retail investment in securities markets in Japan is high. This view is supported both by international comparisons with other developed economies and by fundamental analysis of the underlying demographic and economic forces at work in the Japanese economy today.

The general population's lack of exposure to securities markets is extreme. Measured as a percentage of personal financial assets, Japan lags most other developed countries in the amount of personal wealth held in securities. Whereas securities holdings account for about 53% of the financial wealth of U.S. households, in Japan that num-

HOUSEHOLD FINANCIAL ASSETS - JAPAN & USA



Source: Bank of Japan and FRB As of December 2000

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ber is around 14%. Household financial assets are concentrated in so-called safe-haven investments such as postal savings accounts and bank deposits.

However, greater personal involvement in securities markets would seem to be a necessity for a variety of reasons, including changes in prevailing employment and pension systems, low returns available on low-risk investments, and increasing availability of a wide range of solutions addressing personal financial needs. Efforts to draw funds into risk assets have attracted a high level of governmental support, with reform to securities-related taxation laws, for example, being widely discussed.

In light of the above, much of the company's strategy is predicated on the need to attract funds from investors new to securities markets. Key initiatives in this respect include the following:

- Daiwa Securities has diversified its distribution channels
 to include the Internet and call center channels in addition to its traditional branch channel to provide a range
 of services, each geared to meeting the needs of a targeted segment of the population. From July 2000, the
 company has introduced the three-service-package separating its service offerings into three main channels—
 Daiwa Consulting, Daiwa Call, and Daiwa Net—offering differing levels of service using different commission
 structures.
- The company has developed programs and initiatives specifically geared to the needs of first-time investors in securities markets. Daiwa One-Two Desks have been established at branches nationwide specifically to address the needs of this target audience. There has been a steady increase in the number of new accounts opened by customers registered with the Daiwa One-Two Desk.

- The company has embarked on a companywide corporate-branding campaign, which will be multifaceted and include not only external communications and advertising, but also an intense program of internal education and training. This project will be initiated by the CS (Customer Satisfaction) Promotion Department with the goal of increasing customer satisfaction by reviewing day-to-day operations. The branding initiative was described in an earlier section of this report.
- Daiwa Securities has initiated a strategic program calling for the creation of a Customer Relationship Management (CRM) system designed to promote rapid and timely responses to customer needs through multiple channels, and the New Century Innovation Project which aims to restructure the branch network to make the branches more attractive to first-time investors. To facilitate the creation of its in-house CRM system, the company has tied up with IBM Japan and Siebel Systems Japan, a subsidiary of Siebel of the United States, a leader in the field of CRM systems. The company expects to complete the introduction of the CRM system into its call center and its 124 branches nation-wide by the end of FY 2001.
- The company has changed the evaluation system used for its sales force to emphasize asset accumulation over commission income.

Review of FY 2000

Japanese retail-securities markets have been subject to several rounds of deregulation culminating in full liberalization of stock-brokerage commissions in October 1999. FY 2000 was thus the first full financial year in which the Japanese securities industry operated in a wholly deregulated environment. Unfortunately, the year was also

marked by very poor performance from equity markets and a major decline in the level of retail participation in Japanese securities markets. In general, conditions deteriorated throughout the year.

Fiscal 2000 also saw the maturation of a large volume of postal savings deposits. Initial expectations were that a respectable proportion of these deposits would be shifted into securities markets in light of the long-term trend to investment in securities markets and the very low yields available on reinvestment. However, a disappointingly low inflow of funds was seen. Of 53 trillion yen in postal savings deposits maturing during the year to March 2001, 65% of the after tax amount of 49 trillion yen, was reinvested in similar instruments while a substantial portion of the remainder seems to have flowed into bank deposits or similar investments and appears to have been "parked" pending the availability of better rates of return. Only a relatively small percentage of the outflow seems to have found its way into securities markets for the purpose of achieving superior long-term returns. Retail contribution to trading on the Tokyo Stock Exchange dropped from 22% to 13% of the total.

Reflecting the above, there was a significant drop in retail investor activity, particularly via the branch-based consulting channel. As a result, operating revenues fell from 258.2 billion yen in FY 1999 to 178.9 billion yen in FY 2000. By segment, brokerage commissions fell from 112.8 billion yen to 65.7 billion yen, and distribution commissions, the majority of which consists of investment trust sales commissions, from 91.4 billion yen to 52.3 billion yen. By contrast, other commissions, which consist mainly of agency commissions relating to investment trusts, rose from 36.6 billion yen to 39.8 billion yen. In addition, net gains on trading accounts rose from 13.1 billion yen to 17.0 billion yen.

Bond and foreign exchange trading gains rose by nearly 50% on active retail demand for foreign-currency-denominated bonds, facilitated by close cooperation with Daiwa Securities SMBC in this area.

In addition to the decline in revenues, retail assets under custody, a key measure of corporate success embraced by the Daiwa Securities Group, fell from the level of 14.7 trillion yen recorded in March 2000 to 12.7 trillion yen one year later. However, the decline in the value of assets under custody was the result of a decline in underlying asset values amounting to some 3 trillion yen seen during the year. Daiwa Securities did record a net inflow of funds amounting to 1.1 trillion yen.

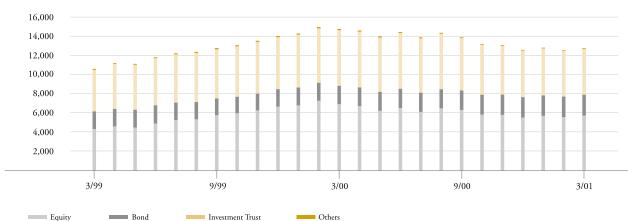
The number of Cash Management Accounts, which is a core vehicle for Daiwa Securities, rose steadily through the year, although the pace of increase was slower than in previous years. At year-end there were approximately 1.87 million CMP accounts versus 1.62 million at the end of the previous financial year.

Investor activity was most pronounced in the online segment. While it is difficult to make direct year-on-year comparisons since online trading picked up only in October 1999, with the last round of deregulation, there was an increase in the number of transactions recorded, reaching a record high in March 2001.

The relative importance of this channel increased. For the month of March 2001, Internet trading accounted for 39% of unit stock transaction trades and 15% of brokerage commissions. This segment was characterized during the year by active trading conducted by extremely price-sensitive and short-term oriented investors. Consequently, a number of companies specializing in the online route



(Billions of yen)



and offering services geared to short-term speculation, including low commissions and margin trading benefitted.

Operating expenses increased slightly, from 151.4 billion yen the previous year to 154.9 billion yen in FY 2000. SG&A expenses grew by 3 billion yen, to 153.6 billion yen. As Daiwa Securities commenced operations on April 26, 1999 the figures for FY 1999 are only for 11 months distorting year-on-year comparisons.

Looking at SG&A, aggressive advertising activities boosted advertising and publicity expenses to 9.4 billion yen, an increase of 4.3 billion yen over the 5.1 billion yen recorded in FY 1999. Furthermore, depreciation expenses rose on the back of higher IT-related investment. Meanwhile, company efforts to cut costs are showing results in the form of lower real-estate-related and office expenses.

As a result of the above, Daiwa Securities' ordinary income fell from 106.8 billion yen in FY 1999 to 24.3 bil-

lion yen, and net income for the term fell from 51.3 billion yen to 13.3 billion yen.

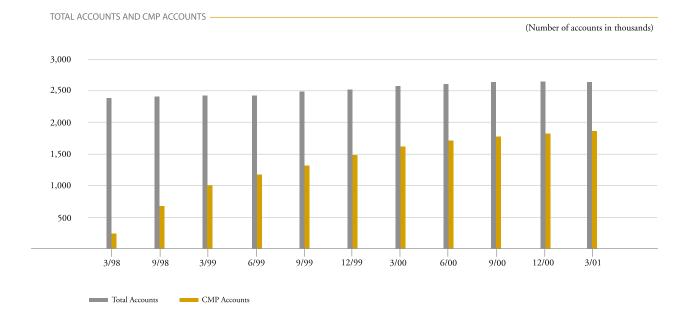
In spite of the disappointing outcome in FY 2000, Daiwa Securities continues to stress a basic strategy of increasing retail-client assets under custody and of making securities investment attractive to first-time investors. Key elements in achieving this goal are described below.

Three Service Packages

In July 2000, Daiwa Securities introduced the three-service-package, as follows.

Daiwa Consulting. This channel provides a full range of services drawing on Daiwa Securities' extensive branch network and access to trained personnel capable of offering a high level of advice and support.

Daiwa Call. This channel is geared to those customers who prefer to conduct transactions by telephone. These include customers who wish to conduct transactions from



the comfort of their own homes but who require advice and customers who have trouble using the Internet. Presently, Daiwa Call customers have access to a somewhat restricted range of products compared to those available to Daiwa Consulting customers, but these will be gradually expanded to include the majority of products.

Daiwa Net. This channel is geared to investors who appreciate the benefits of Net trading and do not require investment advice. The range of products offered through Daiwa Net is somewhat more restricted than those available through either of the other packages.

ATM services at branches are available to all Daiwa Securities customers regardless of channel selected. However, counter service is available only to Daiwa Consulting customers. Brokerage commissions for Daiwa Call customers for trades placed with the call center or via the Internet are set at 70% of the full commission rate applicable to Daiwa Consulting customers. This discount rises to 50% in the case of orders placed over the Internet by Daiwa Net customers. Daiwa Consulting customers

may receive discounts of up to 15%, if they take advantage of a special fee-discount service offered to subscribers of the Daiwa CMP service and a 25% discount for trades conducted over the Internet.

The goal of the three service packages is to offer Daiwa Securities customers services geared to their individual needs while enabling seamless migration between channels.

Branch Network

Daiwa Securities operates a network of 124 branches throughout Japan. Despite the poor out-turn in the retail segment, Daiwa Securities made much progress in honing its distributional strategy. The company had earlier established a policy of expanding the number of sales offices, sometimes dubbed "minibranch offices" throughout Japan while keeping the number of full branches at the current level. Sales offices employing fewer than 20 staff members have a solid cost advantage over the full branches, costing only one-eighth as much to establish. In addi-

tion, these outlets can be flexibly located in attractive areas such as those close to major transportation terminals.

Three experimental sales offices were operational during FY 2000. These offices had floor areas of 55, 100 and 330 square meters as well as differing interior layouts. Experience with this format has yielded a number of interesting conclusions.

Daiwa Securities has concluded that the minimum feasible floor area for a sales office is in the 250 to 400 square meters range since smaller offices tend to build a psychological barrier to entry, especially among the core target population of first-time securities investors. A second key conclusion drawn from experience over the last year is that the optimal design for an office is dependent on the demographics and characteristics of the location.

Drawing on this experience, the company has produced a set of six standard office layouts geared to meeting the needs of various locales, ranging from central locations in the major metropolitan areas to suburban locations and local cities outside of the main metropolises. Although differing in certain respects, these plans share a common feature, which is the elimination of the "across-thecounter" layout common in Japanese securities offices including those of Daiwa Securities — in which customers and staff areas are largely segregated. Each features an open-plan approach, with segregated areas reduced to a minimum. The great majority of the space in each of the approved layouts consists of common area. These innovations break down the psychological barriers — still strong among many segments of the Japanese population — to entering a securities company's offices. Technological progress has also allowed a reduction in the space needed for information systems in sales outlets.



Example of New Branch Layout

Building on experience gained during FY 2000, additional outlets are expected to open in 2001 at Ofuna (near Kamakura in Kanagawa Prefecture) and Mizonokuchi (in Kawasaki, also part of Kanagawa Prefecture) as well as the Tokorozawa Branch Station Plaza in Tokorozawa City, Saitama Prefecture, which opened in June. Now that sufficient experience has been built, Daiwa has started to identify additional locations. The company's objective is to open 20 to 30 sales offices over the next two years.

Furthermore, plans are in place to remodel the existing traditional branch network in a similar fashion. The company will change the floor plan to increase common space shared by staff and clients and to improve the quality of the client experience in using the existing branch network. In addition, current back-office systems, which are based around dedicated single-use terminals, will be replaced with multi-use PC-based terminals. Daiwa Securities intends to remodel and upgrade the information-systems infrastructure of all branches.

Serious consideration is also being given to other methods of improving customer service, including extended opening hours at selected branches and opening on weekends. Daiwa Securities is also working with IBM Japan and Siebel Systems Japan, as mentioned above, to more accurately record and analyze trends in customer preferences and transaction data.

Call Center

In July 2000 Daiwa Securities again became the pioneer in the industry when it formally introduced the Daiwa Call service package, giving clients access to a call center staffed by telephone service representatives (TSRs) qualified to offer intermediate advice on securities investment. The Call Center had been introduced in April 1999 to

function as an on-line help desk for Daiwa Direct and retains its role as a remote help desk for the Group as well as offering telephone services to Daiwa Call customers.

The Call Center currently employs approximately 200 TSRs, some 130 of whom are qualified as registered representatives.

Although full-scale deployment was seen only during the latter part of FY 2000, experience to date has been highly satisfactory. The Call Center seems destined to play a major role in the development of Daiwa Securities' distribution strategy. An interview with Hisashi Otsuka, the general manager in charge of the Call Center, is included in this report.

Daiwa Direct

Daiwa Direct is the online brokerage within the Daiwa Securities Group. It offers Internet-based services to Daiwa Consulting, Daiwa Call, and Daiwa Net customers. Daiwa Securities became the first securities company to start Internet brokerage operations in Japan when it commenced service in April 1996. In addition, it was the first to offer services through NTT DoCoMo's i-mode mobile Internet service.

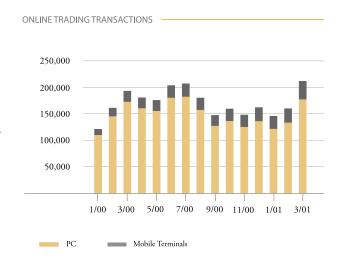
During FY 2000 Daiwa Direct continued to maintain a leadership position in the online segment of the retail-securities markets, with the number of accounts more than doubling to just over 340,000 as of end-March 2001. The company believes that this represents an approximately 18% market share of approximately 1.9 million accounts extant across the industry. The online channel continued to gain momentum during the year. Although the absolute levels of commissions received fell, this channel accounted for a full 39% of unit trades in the

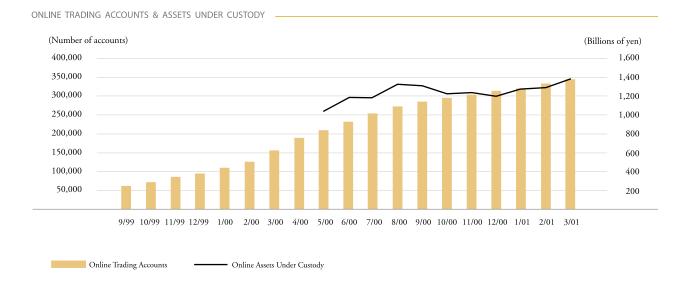
retail company, up from 25% in the previous year, and around 15% of commissions, up from 8%. This is despite an increase in the discount applied to the Daiwa Net channel on inauguration of the three-service package in July 2000. For certain products the reliance on the Internet channel is much higher. For example, around three-quarters of so-called mini-kabu transactions are conducted via the Net.

Although Daiwa Direct maintained a strong position within the industry and continued to outpace the online operations of its nearest competitors, some ground was given up to smaller pure-play Internet brokerages offering steeply discounted commissions and additional services, such as margin trading, geared to short-term speculation. Daiwa Direct operates as an integral part of Daiwa Securities in which stress is placed on asset accumulation and the proper application of diversification in search of higher returns at an acceptable risk level. Consequently, the company has refrained from over-orienting its operations to the facilitation of speculative activity. It did not, for example, offer margin accounts or investment trusts employing derivatives during FY 2000. While an expan-

sion in the product range offered via the Internet, including higher-risk products, is under consideration, these will be embraced only as an integral part of the asset-accumulation process.

During the year Daiwa Direct made a number of incremental improvements. Among these was extension of online trading services to cover J-Sky and EZ-Web portable terminals. Daiwa Direct has pioneered the use of the Internet in all of the major extant formats, including





all of the main portable formats. The proportion of trading via mobile terminals has risen rapidly and accounted for 17% of the number of on-line transactions as of March 2001 compared to approximately 11% during the previous year.

In addition to the above, the information-provision capability of the service was enhanced when Nikkei Telecom 21, an online information service operated by the Nihon Keizai Shimbun (Japan Economic Daily newspaper), was made available through Daiwa Direct.

In a move to further consolidate its position as the front-runner in Internet trading, Daiwa Securities also formed a relationship with the leading Japanese portal, Yahoo Japan, to produce a co-branded extension to the Yahoo website. Named "Daiwa My Yahoo," this branch of the Yahoo website draws on content supplied by both Yahoo and Daiwa Securities. The site is dedicated to providing online access to useful securities-related information to investors interested in online trading and allows visitors to customize pages to suit their information needs.

An IPO system that allows Daiwa Net and Daiwa Call customers to participate in initial public offerings through a lottery system was introduced in April 2001.

Other innovations in the non-traditional channels include discounts for investment in mini-kabu stocks. Henceforth, a discount of 30% of standard commissions will be applied for Daiwa Call and 50% for Daiwa Net customers. These discounts have been applied in order to promote securities investment among first-time investors, many of whom come first to the non-branch channels.

With the number of available terminals for Internet use expanding rapidly, Daiwa Securities will increasingly take special care in providing products and services to customers to tailor its offerings to the characteristics of the channel concerned.

	Fiscal 2000 Apr. 1, 2000 - Mar. 31, 2001 Millions of yen	Fiscal 1999 Apr. 1, 1999 - Mar. 31, 2000 Millions of yen
Operating revenues	178,959	258,286
Commissions	157,918	240,898
Net gain on trading securities	17,021	13,162
Net gain on other commodities trading	13	5
Interest and dividend income	4,006	4,220
Operating expenses	154,965	151,426
Selling, general and administrative expenses	153,638	150,594
Commission and other expenses	33,022	30,984
Employees' compensation and benefits	66,243	64,623
Real estate expenses	26,613	27,179
Data processing and office supplies	22,066	22,762
Depreciation expenses	2,233	1,720
Taxes other than income taxes	483	367
Others	2,976	2,957
Interest expenses	1,326	831
Operating income	23,994	106,859
Non-operating income	1,083	184
Non-operating expenses	722	206
Ordinary income	24,355	106,837
Extraordinary gains	-	-
Extraordinary losses	196	17,484
Provision for multiemployers' pension plan	-	15,220
Expenses for foundation	-	1,078
Provision for securities transaction liabilities	196	236
Expenses for reorganization of system	-	950
Income before income taxes	24,158	89,352
Income taxes - current	6,100	52,200
Income taxes - deferred	4,662	-14,191
Net income	13,396	51,343
Unappropriated retained earnings - carryforward	37,788	-7
Unappropriated retained earnings	51,185	51,336

STATEMENT	∩F	APPROF	PRIATION OF	RETAINED	FARNINGS
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TATEMENT OF ALTROPRIATION OF REPAINED ENRINGS		
	Fiscal 2000 Millions of yen	
Unappropriated retained earnings	51,185	
Reversal of reserve for special depreciation	34	
Total	51,219	
Appropriations of retained earnings	13,484	
Legal reserve	1,220	
Cash dividends *	12,000	
Directors' bonuses	102	
Reserve for special depreciation	162	
Unappropriated retained earnings - carried forward	37,735	

 $^{^{\}ast}$ Cash dividends for fiscal 2000: 3,750,000 yen per share.

BALANCE SHEET —

(Assets)

	Fiscal 2000 As of March 31, 2001 Millions of yen	Fiscal 1999 As of March 31, 2000 Millions of yen
Current assets:	507,636	1,017,259
Cash and time deposits	118,831	279,799
Cash segregated as deposits related to securities transactions	1,363	1,787
Receivables	8,545	15,230
Trade date accrual	687	199
Advance payments on securities subscribed	293	510
Short-term loans receivable	61,103	22,446
Accrued income	8,670	11,699
Trading assets:	36,331	9,924
Trading securities and others	36,217	9,885
Derivative valuation accounts	113	39
Receivables related to margin transactions:	90,644	308,210
Loans receivable from customers for margin transactions	88,171	308,011
Cash deposits as collateral for securities borrowed from securities finance companies	2,472	198
Cash deposits as collateral for securities borrowed	6,035	19,703
Securities in custody	168,527	331,852
Short-term guarantee money deposited	2,587	6,809
Deferred income tax assets-current	2,018	7,307
Other current assets	2,415	2,347
Less: Allowance for doubtful accounts-current	-417	-568
Non-current assets:	79,017	68,955
Tangible fixed assets	6,717	4,334
Intangible fixed assets	10,936	1,898
Investments and others:	61,362	62,721
Long-term loans receivable	5,000	5,000
Long-term guarantee deposits	46,724	48,954
Deferred income tax assets-non-current	7,511	6,884
Other investments	2,354	1,893
Less: Allowance for doubtful accounts-non-current	-227	-10

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Total assets	586,653	1,086,214

	Fiscal 2000 As of March 31, 2001 Millions of yen	Fiscal 1999 As of March 31, 2000 Millions of yen
Current liabilities:	364,922	867,793
Short-term borrowings	67,500	268,000
Deposits received	57,164	88,258
Advance receipts on securities subscribed	811	725
Accrued expenses	6,245	8,829
Trading liabilities:	56	205
Trading securities and others	-	0
Derivative valuation accounts	56	205
Payables related to margin transactions:	23,367	29,994
Loans from securities finance companies for margin transactions	14,453	24,747
Proceeds from securities sold for margin transactions	8,913	5,247
Short-term securities borrowed	12,015	32,687
Cash deposits received from customers	29,812	70,140
Securities deposited by customers as collateral	156,511	299,164
Accrued income taxes	297	52,073
Accrued bonuses	8,100	9,500
Other current liabilities	3,040	8,212
Non-current liabilities:	18,653	16,838
Accrued retirement benefits	3,189	1,618
Multiemployers' pension plan	15,220	15,220
Other non-current liabilities	243	-
Statutory reserves:	433	236
Reserve for securities transaction liabilities	433	236
Total liabilities	384,009	884,868
Stockholders' equity		
Common stock	100,000	100,000
Legal reserve:	51,220	50,010
Additional paid-in capital	50,010	50,010
Earned surplus reserve	1,210	-
Retained earnings:	51,424	51,336
General-purpose reserve	238	-
Unappropriated retained earnings	51,185	51,336
(Net income for the current year)	13,396	51,343
Total stockholders' equity	202,644	201,346
Total liabilities and stockholders' equity	586,653	1,086,214

BREAKDOWN OF COMMISSION INCOME — BREAKDOWN OF NET TRADING GAINS — (Asset class)

	Fiscal 2000 Millions of yen	Fiscal 1999 Millions of yen
Stock and other *	78,609	125,141
Bond and other	11,720	8,999
Beneficiary certificate	65,725	105,268
Others	1,863	1,488
Total	157,918	240,898

	Fiscal 2000 Millions of yen	Fiscal 1999 Millions of yen
Stock and other	203	1,945
Bond, Forex and other	16,818	11,216
(Bond and other)	(10,765)	(6,930)
(Forex and other)	(6,053)	(4,286)
Total	17,021	13,162

(Activity)

	Fiscal 2000 Millions of yen	Fiscal 1999 Millions of yen
Brokerage commission	65,764	112,856
(Stock and other) *	(65,747)	(112,835)
(Bond and other)	(14)	(16)
Distribution **	52,312	91,430
(Beneficiary certificate)	(35,783)	(78,229)
Other commission	39,841	36,611
(Beneficiary certificate)	(29,939)	(27,034)
Total	157,918	240,898

^{*} Including commission revenue on CBs and warrants.

UNDERWRITING ACTIVITIES —

	Fiscal 2000 Millions of shares, Millions of yen	Fiscal 1999 Millions of shares, Millions of yen
Distribution *:		
Stock: number of shares	59	92
Yen amount	528,329	464,488
Bond: face value	289,097	365,732
Beneficiary certificates: face value	10,640,152	12,809,138

 $[\]ensuremath{^*}$ Including secondary offering and private placement.

^{**} Including secondary offering and private placement.

TRADING VOLUME OF STOCKS (EXCLUDING FUTURES TRANSACTIONS)

	Fiscal 2000		Fiscal 1999	
	Millions of share	es, Millions of yen	Millions of shar	es, Millions of yen
	Number of shares	Amount	Number of shares	Amount
Total	9,631	10,221,530	11,606	17,752,427
(Dealing) (a)	(593)	(958,064)	(542)	(1,057,218)
(Brokerage) (b)	(9,037)	(9,263,466)	(11,064)	(16,695,208)
(b) / (a+b)	93.8%	90.6%	95.3%	94.0%
TSE share	2.5%	1.9%	3.3%	3.0%
Brokerage commission per share	6.90) Yen	9.8	7 Yen

CAPITAL ADEQUACY RATIO ——————

	March 31, 2001 Millions of yen	March 31, 2000 Millions of yen
Basic item: Total stockholders' equity (A)	190,542	201,346
Supplementary item: (B)	648	814
Statutory reserve	433	236
Allowance for doubtful accounts	215	578
Assets excluded from capital: (C)	82,487	72,126
Capital after exclusion (A)+(B)-(C): (D)	108,702	130,033
Risk equivalent: (E)	43,239	49,494
Market risk equivalent	565	1,487
Counterparty risk equivalent	3,605	7,810
Fundamental risk equivalent	39,068	40,196
Capital adequacy ratio: (D)/(E) X 100%	251.3%	262.7%

^{*} Dividends, directors' bonuses are excluded as of March 31 2001, as "Cabinet Office Ordinance on the Capital Adequacy Rule for Securities Companies" (Cabinet Office Ordinance No. 23, 2001) was implemented on March 31, 2001.