

WHOLESALE SECURITIES COMPANY Daiwa Securities SMBC Co. Ltd.

Daiwa Securities SMBC Co. Ltd. Daiwa Securities Group Inc. 60% - Sumitomo Mitsui Banking Corporation 40%	Equity Division	Equity Officer
		Derivatives & Structured Financial Products Officer
	Fixed Income Division	Fixed Income Officer
	Corporate Sales Division	Financial Institutions & Public Institutions Officer
		Corporate Sales Officer
	Investment Banking Division	Corporate Institutions Officer
		Corporate Finance Officer
		Strategic Advisory (M&A) Officer
		Principal Finance Officer
		Osaka Branch Officer
		Nagoya Branch Officer
		Legal & Compliance Officer
		Finance & Administration Officer
		Sales Planning Officer
		Planning Officer
		International Operations Officer

(As of June 25, 2001)

Directors:

Akira Kiyota, *President* · Kensuke Uchida, *Deputy President* · Yoshiyuki Takemoto, *Deputy President*
 Michihito Higuchi, *Senior Managing Director* · Mitsutoshi Koyama, *Senior Managing Director*
 Masaki Hirabayashi, *Senior Managing Director* · Yoichiro Inoue, *Managing Director*
 Nobuaki Ohmura, *Managing Director* · Masayasu Ohi, *Managing Director*
 Yasuo Nakamura, *Managing Director*
 Sumio Fukushima, *Director* · Taro Sumitani, *Director*

Executive Officers:

Toshiro Ishibashi · Kenji Hayashibe · Mamoru Ohtani · Hideo Shimada
 Hidehiro Fujii · Kiyoshi Matsuba · Yutaka Murakami · Jun Kiseki · Tatsuro Inoue
 Hideo Watanabe · Kazuo Ariake · Akira Tanabe · Shinji Sunouchi · Shin Yoshidome

Corporate Auditors:

Masayuki Kano · Isao Takemura · Yoshiaki Senoo · Takayoshi Kobayashi

(As of June 25, 2001)



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CHANGE





Interview with
AKIRA KIYOTA
President of Daiwa Securities SMBC Co. Ltd.

Could you possibly start by reviewing the year under consideration for us? We would be grateful if you could let us know, in general terms, which areas of the business of Daiwa Securities SMBC you feel made progress and also any areas of the business where you were less satisfied.

I believe that we can claim with some justification that Daiwa Securities SMBC made progress during the year to March 2001. While comparison with other companies is somewhat complicated by differing corporate structures, consolidation methods, and disclosure, we believe that this company recorded the best performance of any major Japanese securities company in the investment banking sector. For example, in spite of the very poor conditions affecting the markets we serve, our revenues rose 34%, to 230.7 billion yen, while our ordinary income rose from 73.0 billion yen to 123.6 billion yen. Net income was 70.8 billion yen and our return on equity was 19.7%.

The largest contributor to this performance was our equity trading operations. In particular, we were successful in generating order flow from many institutional investors and continued to make gains in off-floor and out-of-hours trading, where we extended an already established leadership position. Our basket-trading business was brisk due to corporations and, more especially, financial institutions unwinding cross-shareholdings ahead of the introduction

of mark-to-market accounting from the fiscal year starting April 2001. Equity-trading gains were 115.4 billion yen, 2.5 times that of the previous fiscal year.

I should mention in this context, that in the third quarter we recorded a loss of some 8.6 billion yen from equity trading operations. This episode has required us to review our risk-management procedures to place more emphasis on stock liquidity risk.

At the same time, our bond operations reported sharply lower earnings than in the prior fiscal year due to narrower credit spreads compared to the situation pertaining previously which reduced opportunities for profitable trading. In addition, the introduction of the RTGS (Real Time Gross Settlement) had a depressant effect on activity in government bond markets, further affecting our ability to make money. Operating revenues from these operations thus fell by more than 60%, to 13.5 billion yen. On the positive side, we continued to narrow the gap with the market leader in underwriting of domestic straight bonds and maintained our strong position in the JGB auction rankings.

Both our structured finance and principal finance operations had a very good year. Daiwa Securities SMBC is the only securities company with a significant presence in these fields and has maintained its lead position ever since

these products were introduced to the Japanese market. In securitization we have had great success in extending our domestic distributional reach and have established an enviable record for creativity and innovation, as witnessed by the fact that two of the deals (one being the first issue using the master trust method and the second being the first securitization in connection with a life insurance company's fund raising exercise) completed during the year were voted number one and two structured deals of the year in the influential publication, the Nikkei Newsletter on Bond & Money published by R&I. In principal finance, which has just been separated from the old structured-finance department to form a new department in its own right, we have seen active buying of financial assets, including non-performing loans. Going forward, this operation will expand into other alternative asset classes such as private equity.

Our M&A operations also grew apace, with revenues rising by 50%. In this area, although we have yet to become a major player, we have seen business rise briskly and are well placed to continue this growth through our relationships both with Sumitomo Mitsui Banking Corporation and with Lazard.

In absolute terms, our derivatives operation, which ranks as number one in the industry in terms of client penetration in most major segments according to an independent survey by an authoritative U.S. consultancy, did not have a great year. However, much progress was made in broadening the product line and client penetration of this operation with the result that, going forward, the outlook seems good. In addition, the introduction of so-called market-based compensation schemes allowed this department to attract a relatively large number of qualified specialists from the market.

We even have good news to report in our IPO operations, where we ranked as number one in terms of number of lead underwriter positions obtained in spite of the disappointing market conditions seen during the year. Of the top ten companies (in terms of issue size) that went public, Daiwa Securities SMBC was lead manager for seven. Since we regard this operation as key to improving our competitive position in equity underwriting, an area of relative historic weakness for this company, we regard this out-turn as encouraging.

Unfortunately, our public offering operations for public companies once again failed to distinguish themselves. Most disappointing was the fact that we failed to obtain a significant role in any of the major issues during the year. Increasing our presence and competitive position in this area are matters of some importance for us.

Considering all of the above, I would sum up by saying that I am fairly happy with the overall performance of the company considering the adverse conditions we faced. On the other hand, there are certain issues that we need to address. The most critical issue in the short term is our dependence on equity trading revenues. Although I am happy that we were in a strong position to benefit from the demands of the market, I do not believe that it would be too strong to describe our current revenue stream as unbalanced. Reducing our dependence on equity trading is an immediate priority. Further out, improving our reach among corporations and the standing of our equity underwriting operations are perhaps the most pressing concerns we have. In this respect, our relationship with Sumitomo Mitsui Banking Corporation will have a major role to play.

Speaking of Daiwa Securities SMBC, it is now two years since this company was formed as a joint venture between Daiwa Securities Group Inc. and the former Sumitomo Bank. How would you rate your experience as a joint venture to date?

The main benefit to the Daiwa Securities Group of tying up with a major city bank was the increased domestic reach it gave us. Secondary but still important benefits included access to a pool of qualified staff with skill sets that complemented those of a securities company and access to capital.

This company was formed as a joint venture with the long-term goal of becoming Japan's strongest investment bank. Although it is fair to say that approximately half of the revenues during FY 2000 came from equity trading as I mentioned above, this is not a situation we would regard as particularly conducive to achieving our long-term goals. Indeed, while we are pleased with progress overall, diversification of our earnings base is a corporate priority. A reasoned assessment of the success or failure of our status as a joint-venture company drawing on the strengths of two parents will ultimately come down to an assessment of our progress in this area.

In some areas we have made rapid progress. Our relationship with the former Sumitomo Bank has directly and visibly contributed to the progress recorded in our M&A operations and in bond underwriting. While less quantifiable, all of our operations, including our securitization, principal finance, and derivatives operations, have benefited from the advanced risk-management and compliance skills as well as client access that we have inherited.

In addition, while the success our IPO operations enjoyed during the year can probably be attributed to efforts made before the formation of this company, cooperation with the banking channel seems poised to become more important in future. The IPO market is of extreme importance to us since, in spite of the greater access to listed corporations we now have, we believe that strengthening our IPO operations will be the single biggest lever we can use to improve the relative standing of our corporate-finance activities.

To develop this point somewhat further, it would be nice if we could report that we had achieved a large increase in the number of corporations to which we serve as lead underwriter due to our relationship with a major city bank. Unfortunately, hopes for quick progress on this front were always destined to be disappointed. We ourselves have never hoped for immediate results here for the simple reason that we understand very well the strong ties that bind corporations and their lead underwriters. We are under no illusions that we will automatically succeed simply by virtue of our connection to one of Japan's major banks. On the other hand, we do benefit from improved information flow and contact. These are weapons that might, over time, open doors for us that would otherwise have remained closed. This is likely to be truer of the companies within the Mitsui Group, where historically we have been poorly represented, than was the case within the Sumitomo Group, where we have always had a strong presence. We have high hopes of eventual success but warn that we would not expect obvious results for another several years.

You reorganized your investment banking business in April. Could you please explain the reasoning behind this move?

As you mention, we brought our relationship-management, underwriting, syndication, M&A, and structured-finance divisions together under a single umbrella. The rationale for doing so was to realize synergies and leverage internal resources more efficiently than in the past. By this reorganization, we aim to be able to accurately and quickly monitor our clients' diversifying needs, and provide appropriate and high value-added solutions.

Could you please say a few words about your overseas operations and your plans for expansion overseas?

As you know, as part of the strategic redistribution of management resources within the Daiwa Securities Group to concentrate on Japan-related securities operations, we were forced to sharply scale back our overseas operations in 1998. However, during FY 2000 we started to rebuild those networks. To date, most expansion has been in pursuit of strengthening our Japanese equity and bond underwriting, with related actions including the reopening of our branches in Milan and Madrid to expand our Japanese equity business. Furthermore, we have also started to strengthen our overseas presence in relation to our fixed-income operations. This has happened primarily in London, the center of our international fixed income business, where we have made a number of key appointments and have started to rebuild our position in the Euromarkets. However, we are committed to building the business profitably rather than quickly.

Although the Group has been unable to gain necessary approval to integrate the U.S. operation into Daiwa Securities SMBC, for the time being, this does not represent a particular problem. At present, coordination with the New York branch is sufficient to support our current goals.

So, to wrap up, what would you say are the most important issues for Daiwa Securities SMBC going forward?

I think that these should be clear from the preceding discussion. In the short term, it would be to build our fixed-income and investment banking income streams to the degree that our dependence on equity trading is reduced. In the longer term, improvement in equity underwriting, rebuilding the overseas networks, and squeezing as much benefit as possible from our unique position as a joint venture between a securities company and a major city bank are all central issues. Furthermore, corporate restructuring in Japan is inevitable, resulting in an increase in investment banking opportunities. We will increase our capacity in M&A, securitization, mobilization of assets and alternative investments to take advantage of these business opportunities. And, of course, it is important that we retain our ability to develop innovative new products across the board.

WHOLESALE Securities Company

Daiwa SB Capital Markets was formed in April 1999 as a 60%-owned joint venture with the former Sumitomo Bank. In April 2001 The Sumitomo Bank, Limited and The Sakura Bank, Limited merged to form Sumitomo Mitsui Banking Corporation. Associated with this merger, Sakura Securities, a securities subsidiary of Sakura Bank, was integrated into Daiwa SB Capital Markets, subsequently renamed Daiwa Securities SMBC.

During FY 2000 Daiwa Securities SMBC Co. Ltd. recorded a 70% increase in ordinary and operating income on a 34% increase in operating revenues. This was made possible during a very difficult year principally due to a sharp rise in equity trading revenues, which rose almost 2.5 times year-on-year, to just over 115.4 billion yen, supported by a modest rise in equity underwriting and distribution revenues, included in commission income, which rose 11%, to 29.3 billion yen, on the back of firm revenues from initial public offerings.

The rise in revenues was complemented by tight cost control with SG&A expenses rising only marginally from the level of the previous year. Comparisons with the previous year at the net income level are not meaningful because the company elected to write off goodwill acquired on formation of Daiwa SBCM in FY 1999 and therefore recorded a sizable extraordinary loss and consequently a net loss

during that year. However, reported net income for FY 2000 came in over 70 billion yen, with return on equity at 19.7%.

Equities

The Equities Division is one of the leading players in conducting transactions with institutional investors. In non-auction (out-of-hours and off-the-floor) transactions where Daiwa Securities SMBC ranks as the leading company in the industry in terms of market share, the company confirmed its leading position with said share rising from 25% during the previous term to 29%.

This result was achieved in spite of poor overall stock market conditions. The total average value of daily trading on the Tokyo Stock Exchange fell from a recent high of 1.35 trillion yen in the fourth quarter of FY 1999 to only 758 billion yen in the third quarter of FY 2000, with the decline accelerating into the second half of the financial year in spite of some recovery seen in the fourth quarter. Daiwa Securities SMBC was able to record good trading income in an adverse market primarily due to its ability to capture demand from financial institutions and business corporations such as for unwinding of cross-shareholdings, owing to its highly regarded execution capabilities and risk management techniques. It should be noted that

this result was achieved with no unwarranted increase in risk, as can be verified by examining the value at risk (VaR) data presented in the section dealing with risk management at Daiwa Securities SMBC.

Outside of the non-auction markets, which are geared to the needs of institutional investors, the Equities Division has also been quick to stake a claim to leadership. This position was reinforced when Daiwa Securities SMBC became the first in the industry to provide market making for all applicable OTC issues (260 as of March 2001). The company is further increasing its presence as a pioneer in this market.

The success of the Equities Division draws heavily on the company's advanced infrastructure, including the experience and capabilities of the sales force, traders and dealers, as well as the ATRAS system, and the PowerTradeII system, which provides traders and sales personnel with an advanced EUC (End User Computing) environment.

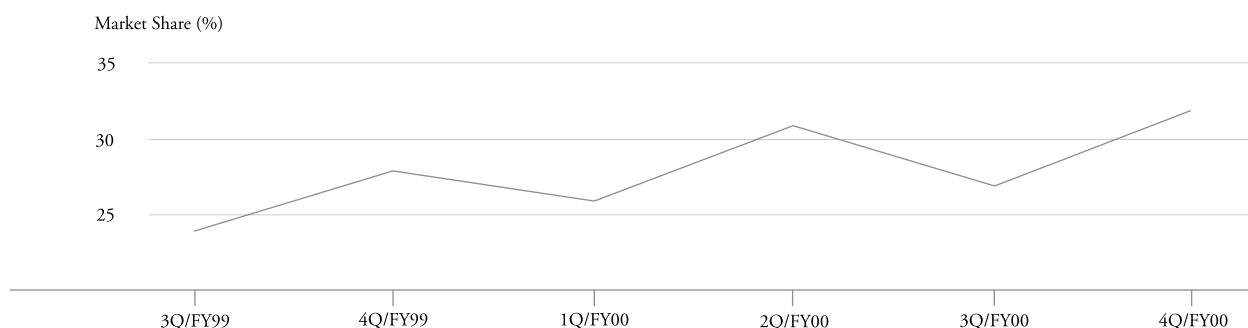
This division works closely with Daiwa Institute of Research (DIR) to offer timely analysis and advice to

clients. Furthermore, various seminars and meetings with top executives are arranged in coordination with other departments within the company to accommodate institutional investors needs.

The Equities Division is aggressively preparing to facilitate the increasingly diversified needs of institutional and corporate clients. Looking forward, demand for unwinding of cross-shareholdings remains strong and seems set to continue through at least the first half of FY 2001. Further out, fluctuations in new listings, the move to discretionary management of public funds, and overseas demand for Japanese equities will all have an impact on the future course of the equity market and the opportunities available to Daiwa Securities SMBC.

At a strategic level, the division will continue investing in its front-end systems to further enhance the level of execution capability. It will also increase its capacity to provide high-quality global research facilities to clients through cooperation with DIR.

OUT-OF-HOURS AND OFF-THE-FLOOR TRADING FOR DAIWA SECURITIES SMBC (TSE, OSE, NSE)



Source: Daiwa Securities SMBC

Derivatives & Structured Financial Products

The Derivatives & Structured Financial Products Division of Daiwa Securities SMBC is one of Japan's leading players in derivatives markets. It ranks as the leading company for customer satisfaction in equity derivatives and structured bond markets and also is ranked number three in interest rate derivatives, these figures being based on independent surveys conducted by a reputable U.S.-based consultancy.

During FY 2000, this division suffered a decline in revenues due to the continuing low interest rate environment and poorly performing stock market. Although deal flow from investors improved significantly, a decline in liquidity reduced earnings.

However, revenues from interest rate derivatives rose greatly on the back of brisk demand for Medium Term Notes (MTNs). Establishment of Daiwa Securities SMBC's own MTN program and the internalization of structuring which was made possible by an upgrade in the company's credit rating also contributed to increased profitability. The introduction of mark-to-market and hedge accounting increased the demand for consultancy services regarding construction of off-balance-sheet portfolios. Daiwa Securities SMBC, having strong structuring capabilities, advanced quantitative abilities, and an in-depth knowledge of client needs faced minimal competition in serving these clients.

Currency derivatives recorded a substantial increase in revenues due to client transactions in structured bonds and successful dealing.

Starting from FY 2000, the Derivatives & Structured Financial Products Division of Daiwa Securities SMBC has changed its compensation system to give employees a

choice of traditional Japanese salaried employment or annual contracts with remuneration decided with reference to market rates. The effect of the introduction of this system was that the division was able to attract 17 valuable, qualified staff members bringing with them a diverse set of experience and skills. The company believes that such measures are essential to attract high-quality staff and maintain long-term competitiveness.

Other major developments during the year included enhancements to internal risk management systems. Now an Integrated Value at Risk (IVaR) system has been introduced for all products, enhancing the division's ability to control risk at the portfolio level. In addition, advanced Monte Carlo simulation methods were introduced for efficient use of capital and for measuring and controlling market risk.

Two major new systems are being tested for implementation in the near future. The first is a core system for equity derivatives and the second is a system geared to exotic products incorporating interest and foreign exchange derivatives. Both systems are based on state-of-the-art IT technologies and are expected to be introduced during FY 2001.

Current Market Position and Outlook

Moving forward, a key goal for the division in FY 2001 will be to introduce customers to alternative investment opportunities based on hedge funds and fund-of-funds. This will provide customers who are suffering from limited investment opportunities with products that enhance returns as well as portfolio diversification.

In addition, retail-oriented products are also slated for further expansion. In this area the appropriate product and sales channel mix is undergoing detailed review.

The division is also making efforts to build its exposure to overseas investors, a first step in this direction being taken during FY 2000, when a presence was established in London.

Fixed Income

The main business of the Fixed Income Division is to facilitate the bond trading needs of Japanese institutional investors. This division maintains a leading domestic market presence as gauged by the fact that for two years running a survey of institutional investors by a leading U.S. consultancy has ranked Daiwa Securities SMBC first in terms of client satisfaction. According to this survey, this division boasts penetration among institutional investors of more than 90%.

The volume of domestic bond market transactions was lower during FY 2000 than it had been during the previous year. FY 1999 had benefited from a contraction in credit spreads from the very high levels reached during the unsettled years of FY 1997 and FY 1998. This yielded opportunities for profitable trading that were not present during FY 2000. Daiwa Securities SMBC consequently experienced a dramatic drop in profitability. Trading in domestic bond markets was further disrupted by the introduction of Real Time Gross Settlement (RTGS) in January 2001, which had the effect of depressing trading

volumes, particularly in the third quarter, due to investor concern over the potential for failed settlements. In addition, securities companies, which traditionally have maintained large bond positions, were forced to adopt a very defensive stance in the run-up to the introduction of RTGS. Meanwhile, widening spreads on corporate bonds in overseas markets lead to valuation losses on holdings. Consequently, the division reported trading revenues for bonds and others of 18.6 billion yen for FY 2000, significantly below the level of 37.4 billion yen reported for the previous financial year.

On the other hand, although the Fixed Income Division reported disappointing earnings due to the adverse market conditions, its market presence was strengthened in a number of ways.

The company maintained its position as number two in JGB auctions and the gap with the market leader was once again narrowed.

Sales of bonds, including JGB's, regional, corporate and foreign bonds through Daiwa Securities, the Group's retail securities company increased from a monthly average of 76 billion yen to 97 billion yen in FY 2000. Corporate bonds geared to the retail channel are slated to become increasingly important to this division over the next several years.

BEST DEALS OF 2000 - ISSUE (Lead Manager)

Domestic SB	Sumitomo Bank Subordinated Bond Series 2 (Daiwa Securities SMBC)
Global / Euro SB	Japan Bank for International Cooperation (UBS Warburg / Goldman Sachs)
Samurai Bond	IBM Series 1 (Daiwa Securities SMBC / Merrill Lynch)
Structured Bond	QUOQ Master Trust (Daiwa Securities SMBC)
Equity Finance	NEC CB Series 11 (Daiwa Securities SMBC)

Source: Nikkei Newsletter on Bond & Money, published by R&I

FY 2000 DOMESTIC SB ISSUANCE LEAD UNDERWRITER

	Number of Issues	Value (Millions of yen)	Share (%)
Nomura Securities	82	1,528,833	20.5
Daiwa Securities SMBC	69	1,361,333	18.3
Tokyo Mitsubishi Securities	46	1,011,083	13.6
NSSB	63	917,667	12.3
Mizuho Securities	61	819,250	11.0

Source: Nikkei Newsletter on Bond & Money, published by R&I

During FY 1998 the former Daiwa Securities was forced to significantly scale down its overseas network. This has left the bond business under-represented overseas and has made rebuilding of those networks to serve the corporate goals a priority. A measure of success was recorded during FY 2000, with the number of staff employed in the London office rising by 10 as Daiwa Securities SMBC continued to strengthen its position in bond syndication and trading in that office. A further rise in headcount of around 15 is planned. A greater international presence

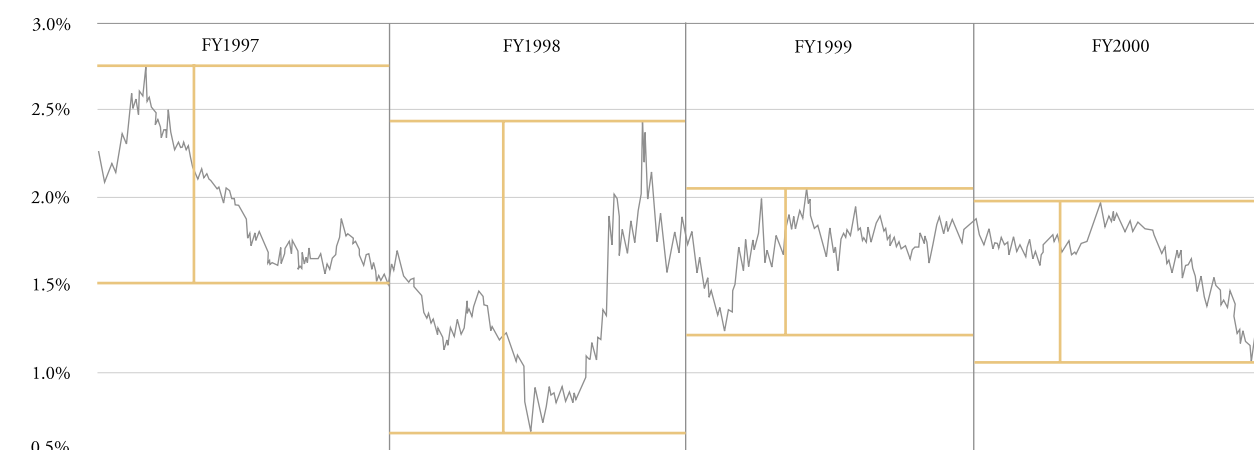
will serve to further improve Daiwa Securities SMBC's position in bond underwriting.

FY 2000 saw an improvement in the ratings awarded to Daiwa Securities SMBC by the major credit rating agencies. Reflecting this improvement in credit standing, the company was able to resume business with a number of customers, including certain central banks, which maintain minimum thresholds for the credit rating of counterparties.

Current Market Position and Outlook

Looking forward, the introduction of RTGS, mark-to-market accounting, and further out, T+1 settlements seems slated to have a major effect on the structure of Japanese fixed income markets. Most likely, in the opinion of the company, the bond business will become dominated by a limited number of market participants. A key success factor in this business is likely to be the degree of systems sophistication brought to bear. Fortunately, Daiwa Securities SMBC is well equipped in this respect.

10 YEAR JGB YIELD



Source: Daiwa Securities SMBC

FY 2000	Billions of Yen	Market Share (%)	FY 1999	Billions of Yen	Market Share (%)
Nomura Securities	6,079.3	12.5	Nomura Securities	4,759.9	14.1
Daiwa Securities SMBC	4,162.9	8.6	Daiwa Securities SMBC	3,113.1	9.2
Goldman Sachs	3,041.8	6.3	IBJ Securities	2,300.3	6.8
Morgan Stanley Dean Witter	2,893.2	6.0	Tokyo Mitsubishi Securities	2,014.8	6.0
Tokyo Mitsubishi Securities	2,835.0	5.8	DKB Securities	1,976.7	5.9

Source: Daiwa Securities SMBC

Daiwa Securities SMBC remains one of a handful of market participants that can provide the pricing information services needed to analyze bond portfolios. During the year, demand for such services exploded in advance of the introduction of mark-to-market accounting standards. Daiwa Securities SMBC is capable of providing pricing information for more than 15,000 securities. Demand has been so strong, however, that traditional reporting methods such as mail or fax have become strained. The company therefore intends to make increasing use of the Internet for this purpose.

Daiwa Securities SMBC has for several years now provided customers with access to its proprietary Total Bond Analysis (TBA) system for analyzing bond holdings. During FY 2000 the company rolled out the first version of its next-generation TOL (TBA Online), which features enhanced functionality while utilizing the Internet and standard computing equipment rather than the dedicated lines and terminals used by its predecessor. This system has been in full-scale use since February 2001, having previously been opened to a test group of 250 customers from whom feedback has been positive.

FY 2001 is slated to see the start of full-scale use of the Internet in Japanese secondary markets to complement its

established role in the primary markets. Daiwa Securities SMBC has taken steps to prepare for this trend and is a shareholder in the Internet-based bond trading system Yensai.com Co., Ltd.

The introduction of Internet-based bond trading will enable efficient automated price checking and comparisons. This in turn will make it possible for Daiwa Securities SMBC to reallocate human resources to higher value-added areas.

IPO

In spite of the bearish underlying tone of the equity markets during the year, due to the establishment of TSE Mothers and Nasdaq Japan, the number of initial public offerings in Japan rose greatly, from 126 to 201 issues (on a listed date basis). This was, however, below the 250 or so level expected at the start of the year, as certain companies that had previously expressed an interest to list or to seek listings for subsidiaries deferred or canceled these plans.

Although the number of new initial public offerings emerged below expectations, Daiwa Securities SMBC's IPO operations could boast some success, ranking first in

terms of number of companies to which it acted as lead manager. During FY 2000 Daiwa Securities SMBC acted as lead manager to 53 companies (on a listed date basis) and as manager to a further 102. Major IPOs to which Daiwa Securities SMBC served as lead underwriter during FY 2000 include Shinkin Central Bank, TV Asahi, Toys "R" Us Japan, Rakuten, NEC Soft, and JSAT (as joint-lead with Nomura Securities Co. Ltd.).

Current Market Position and Outlook

The division operates in a Japanese IPO market having the following characteristics:

- In recent years, many issuers have been subsidiaries of larger corporations; this naturally favors the parent's lead manager.
- In Japan, IPOs are often sold through the retail channel directly with individual investors. The proportion of an issue placed in this manner can reach 90% in certain cases. This differs from overseas IPOs, particularly in the U.S., where the majority of new issues are placed with institutional investors. This has tended to strongly favor Daiwa Securities SMBC and the other major domestic securities companies having strong retail securities distribution networks in domestic IPOs.

IPO LEAGUE TABLE (April 2000 to March 2001 (listed date))

Lead Manager	Number of Issues	Value (Billions of yen)
Daiwa Securities SMBC	53	464.0
Nomura Securities	51	520.5
NSSB	33	112.2
Kokusai Securities	20	30.1
Shinko Securities	16	35.6
TOTAL (Including Others)	201	1,243.1

Source: Daiwa Securities SMBC

- In recent years, the IPO market has tended to be highly stratified, with a relatively small number of major issues accounting for the majority of the market in current value terms. During FY 2000, for example, of 201 issues, 125 had issued offering value of less than 5 billion yen.

Improving Daiwa Securities SMBC's position in the IPO market is regarded as one of the top priorities by management since success here will eventually feed through into other areas, including equity underwriting. In this respect, the division's progress during FY 2000 can be regarded as very good and, in light of the long lead times applying in this business, reflects favorably on significant efforts made over the last several years.

Reflecting trends in the overall market, the division emphasizes business opportunities with IT and other high-growth companies. However, life science, industrial waste management, as well as welfare and health care are also regarded as attractive targets.

Since the formation of Daiwa SBCM, latterly Daiwa Securities SMBC, this division has sought to exploit the extensive customer networks of Sumitomo Mitsui Banking Corporation. The long lead times involved in this business means that results so far have been relatively small. Nevertheless, information-gathering activities have been significantly strengthened with the addition of access to the former Sakura Bank's customer base, and Daiwa Securities SMBC believes that it can achieve further progress in this area.

Equity Offering for Public Companies

Equity related offerings by public companies totalled only 3.6 trillion yen for just over 100 companies. Like the IPO market, the public offering market was affected by the col-

lapse in IT stocks at the beginning of the year and the subsequent lackluster stock market. A recent trend that has continued into FY 2000 is the increase in issues targeted to the global markets. The company's recent performance in this segment of the market has lagged expectations. Various measures to remedy this situation are currently being considered and executed.

Major issues that debuted during the year included Nippon Oracle, NTT Tranche 6, and NTT DoCoMo. These three issues alone accounted for 83% of the total mentioned above. Unfortunately, Daiwa Securities SMBC did not manage to secure a lead position in these three issues. But on the other hand, of 104 issues, the company lead managed 33, including a 77 billion yen global issue for Fuji Television. In addition the company ranked top in the league table for issuance of convertible bonds. The 100-billion yen NEC Series 11 Convertible

Bond, the only convertible bond to be structured as a global offering, was named the best equity finance deal of 2000 by Nikkei Newsletter on Bond & Money. Furthermore this issue was chosen as the equity linked deal of the year and Daiwa Securities SMBC (formerly Daiwa SBCM) was chosen as House of the Year in this category by Thomson DealWatch.

In recent years, following the financial big bang, there has been a paradigm shift in domestic corporations' attitudes to capital structure. In the past, Japanese corporations have tended to regard the cost of equity as comprising the cost of the dividend. Consequently, equity capital markets were heavily utilized as they were regarded as a low cost method of raising funds. But now, with wider understanding of the real cost of equity, management has placed increased emphasis on efficient use of capital. Maximizing corporate value has become the most important issue for management, with corporations seeking advice from investment banks, such as Daiwa Securities SMBC. The company faces stiff competition mainly from experienced US investment banks, and needs to take immediate measures to bolster its competitiveness in this area.

Looking forward, the outlook for the new issues and offering market as a whole remains subdued. There will be continuing needs for financing on the part of young growth firms, which have been actively accessing the capital markets for the last several years. In addition, the need for share offerings in pursuit of cross-shareholding unwinding remains strong. However, other demand for financing via the equity capital market remains weak.

On the other hand, there is no doubt that the demand from large scale corporates for advice on ways to maximize corporate value will remain high. Daiwa Securities SMBC has reorganized its structure integrating the product

FY 2000 PUBLIC OFFERING LEAGUE TABLE

	Number of Issues	Value (Billions of yen)
Nomura Securities	36	555.8
Daiwa Securities SMBC	33	143.8
NSSB	19	1,733.2
Shinko Securities	6	5.5
Kokusai Securities	3	4.1
Goldman Sachs	2	783.6
Mizuho Securities	2	5.1
Tokyo Mitsubishi Securities	2	2.9
Tokai Tokyo Securities	2	0.8
Merrill Lynch	1	308.4
UBS Warburg	1	38.5
Mizuho Investors Securities	1	3.2
BNP Paribas	1	0.4
TOTAL	104*	3,585.3

* Issues with multiple lead managers are counted as one issue in the TOTAL.

Source: Daiwa Securities SMBC

departments within the Investment Banking Division with the Corporate Institutions Department, responsible for relationship management, from April 2001, to promote further cooperation between the departments and strengthen its capability in this area.

The company's domestic reach has been strengthened by virtue of access to the client networks of Sumitomo Mitsui Banking Corporation, one of Daiwa Securities SMBC's two parents. In particular, the client base of the former Sakura Bank is regarded as a key competitive strength, representing new territory for the division. In fact, among companies to which the former Sakura Bank served as main bank, Daiwa serves as lead underwriter to only 68 companies compared with 140 companies having a main bank relationship with the former Sumitomo Bank (as of April 1, 2001). The company anticipates that this access to new corporate clients will yield it a competitive advantage, particularly among the midsize listed companies having a main bank relationship with Sumitomo Mitsui Banking Corporation.

Mergers and Acquisitions

Over recent years the domestic market for mergers and acquisitions has greatly expanded. During FY 2000, Japanese M&A activity stayed on a growth trend in terms of number of deals, although in volume terms some slowdown was recorded from the previous year. According to figures compiled by Thomson Financial, the total value of announced deals involving Japanese targets was U.S.\$99.9 billion, showing a 49% decline from the previous year's figure of U.S.\$197.3 billion, while the number of deals increased from 1,450 in 1999 to 1,517 in 2000.

Traditionally the banking sector has taken an active part in facilitating necessary corporate restructuring by promoting changes in management, financing, and corporate

structure when necessary. However, the banking sector now faces its own problems in disposing of nonperforming loans and is no longer able or willing to serve in this role. This has opened the door to greater participation by third parties. These opportunities have been further extended by a greater willingness on the part of the banking sector to take a tougher approach to bad loans. It seems likely that one benefit of increasing M&A activity will be increasing pressure on management to improve corporate governance.

Furthermore, there is a trend for cash rich blue-chip corporates who are consolidating their operations to actively pursue M&A as a tool to invest in and acquire businesses including overseas businesses.

This has been reflected throughout the market in an increasingly serious attitude to consideration of M&A with Daiwa Securities SMBC's team now negotiating increasingly with clients willing to bow to the logic of the market. Approximately 60% of referrals during FY 2000 were from the former Sumitomo Bank. During the year demand continued at such a high level that the division was capacity limited. Consequently, it became more selective in the transactions accepted, with the result that average deal size rose although the number of transactions handled remained constant.

In spite of the favorable increase in revenues, Daiwa Securities SMBC does not yet rank as a significant force in the mergers and acquisitions market in Japan. In particular, the company has not yet established a significant presence in large cross-border transactions. Key to improving this position has been a tie-up with the Lazard Freres & Co. LLC. This relationship was forged in November 1999 and has already produced tangible results. Major transactions completed during the year include the following:

- Daiwa Securities SMBC and Lazard advised Takata in their purchase of over 50% of Petri Germany's outstanding shares. As a result, Takata increased its market ranking in airbags from No.4 to No.3.
- Daiwa Securities SMBC and Lazard advised Rihga Royal Hotel New York in its \$193 million takeover by Thayer Hotel Investors.
- Daiwa Securities SMBC and Lazard advised Hotel Nikko de Paris in its takeover by ACCOR and Colony.
- Daiwa Securities SMBC and Lazard advised Hokuriku Seiyaku a subsidiary of BASF, in its takeover by Abbott Laboratories in a deal valued at \$445 million.

Current Market Position and Outlook

It seems likely that a large increase in transactions handled will be seen in this division during FY 2001. This is especially so given the transaction stream that is expected to result from the client networks of the former Sakura Bank which merged with the former Sumitomo Bank on April 1, 2001. As a consequence of this merger, the division gained 33 highly qualified staff from the former Sakura Bank, taking total headcount to 75 and greatly augmenting its capacity to handle this increase in business volume.

At the same time, the division regards it as a priority to build on the network of the Daiwa Securities Group, Sumitomo Mitsui Banking Corporation and Lazard to increase involvement in prominent M&A transactions, increasing its ability to complement the business originating within Daiwa Securities SMBC. In addition, a further strengthening of the relationship with Lazard is under consideration in order to increase the division's position in cross-border M&A.

Structured Finance

In April 2001 the Principal Finance Section of the Structured Finance Department was separately organized as the Principal Finance Department. Henceforth, the Structured Finance Department will concentrate on securitization and REITs, while the Principal Finance Department will continue to take principal positions in assets that are nontraditional for a securities company.

Daiwa Securities SMBC is the only securities company to maintain a substantial presence in this area, which is otherwise the province of domestic banks. The success that this division enjoys can be attributed to its high level of expertise and reputation for problem solving. The division boasts a strong track record for innovation in this area since having pioneered the market by launching the first domestic ABS issue in 1996.

This strength was in evidence during FY 2000 and is illustrated by the fact that two of the transactions completed during the year were voted the first and second best deals of the year by the Nikkei Newsletter on Bond & Money.

- During FY 2000 the division securitized shopping card receivables owned by QUOQ on two separate occasions. This issue broke new ground by introducing the master trust structure into Japan and was voted best deal of 2000.
- In September the division securitized 180 billion yen of Kikin funds for the Nippon Life Insurance Company. This marked the first time a mutual life insurance company was able to raise funds through securitization and was voted second best deal of 2000. The company holds high expectations that similar future needs for securitization will be forthcoming.

ABS MARKET COMPOSITION

	FY 2000		FY 1999	
	Billions of yen	(%)	Billions of yen	(%)
Lease Receivables	265.1	15.2	490.0	25.2
Shopping / Auto Loans	404.4	23.1	568.0	29.2
Credit Card Receivables	-	-	10.0	0.5
Consumer Loans	49.9	2.9	19.1	1.0
Residential Mortgage-Backed Securities	223.6	12.8	50.3	2.6
Commercial Mortgage-Backed Securities	478.6	27.4	324.5	16.7
Collateralized Debt Obligations	128.0	7.3	476.9	24.6
Others	200.2	11.4	3.2	0.2
TOTAL	1,749.8	100.0	1,942.0	100.0

Source: Daiwa Securities SMBC

Current Market Position and Outlook

The key success factors in this business are structuring capability and distribution power. The ability to produce leading-edge products in turn draws on a wide array of knowledge, including legal, taxation, and financial expertise. Daiwa Securities SMBC has established an enviable position in this area and a strong first-mover advantage.

Further diversifying the investor base is a continuous goal for the division, which also believes that this will yield it a competitive advantage with respect to its major competitors, which do not boast the domestic reach among mid-size financial institutions that Daiwa Securities SMBC can bring to bear. The division is also considering more actively addressing the potential of the retail channel together with the creation of retail and overseas investors-oriented products, the most significant example of which are ABS products targeting retail clients and REITs considered below.

Looking forward to FY 2001, it seems likely that the securitization of credit and lease receivables, historically a mainstay of the industry, will continue to be maintained

in terms of issue amount. The market for securities backed by bank loans or corporate bonds continued to fall rapidly during FY 2000 and seems unlikely to increase during FY 2001. The major areas in which an increase in activity is expected are securities backed by commercial or residential mortgages (CMBS, RMBS), as well as new areas such as securitization of kikin (funds) for life insurance companies.

The market for commercial mortgages-backed securities (CMBS) continued to grow briskly in FY 2000 after the surge in activity recorded in the previous financial year. There was a trend to inclusion of a wider range of underlying assets, including hotels, department stores, and shopping malls to complement the strong demand for securities over office buildings, land, and non-performing real-estate backed assets seen during the previous financial year. The driving force behind this market growth is a change in accounting standards, which may force Japanese corporations to reevaluate the value of their land holdings under certain circumstances and thereby make securitization an obvious and attractive option.

Residential mortgage-backed securities (RMBS) also showed brisk growth during FY 2000 following issue of the first Japanese RMBS in FY 1999. Strong growth is also expected in FY 2001 since the Government Housing Loan Corporation issued its first RMBS in March 2001 and is expected to issue at regular intervals from now on.

While official statistics for the size of the market for asset-backed securities in Japan are not available, Daiwa Securities SMBC estimates that the total size of the market is around 1.7 trillion yen for structures with a maturity of one year or more. If shorter-term securities such as trust certificates and asset-backed commercial paper were included, this number would rise by perhaps another 1 trillion yen, for a total of 2.7 trillion yen. Going forward, the division expects this latter figure to rise to around 3.0 trillion yen during FY 2001. If integration among major financial institutions results in reviews of asset portfolios, however, it is possible that there will be a sharp increase in ABS issues relating to loan assets, etc., including housing loans, thus further expanding the market. In any event, a year of market growth seems highly likely.

Key goals for the division during the year in addressing these opportunities will be to maintain the strong presence it already enjoys in structuring expertise while aggressively building channels to new classes of investors as described above and increasing its presence among domestic originators. A key facilitator of this latter goal will be Sumitomo Mitsui Banking Corporation, where the client networks of the former Sakura Bank can be utilized to effect. The integration with the former Sakura Securities has already led to measurable benefit in this area since it was already active in the securitization markets, with a client base complementary to that of the former Daiwa SBCM.

REITs

The Financial Services Agency has approved seven asset management companies including Mori Trust Daiwa Real Estate Investments Co., Ltd. to engage in managing REITs.

It is currently expected that the first Japanese REIT will be launched in summer 2001. Daiwa Securities SMBC anticipates a great deal of interest from individual investors, trust banks, life insurance companies, and pension funds due to the relatively high yield that is likely to be available.

Adequate supply seems to be assured, with several very large-scale construction projects suitable for securitization going forward amid an expected rise in the supply of office buildings in 2003 and with REITs being clearly attractive to companies such as major real estate developers in controlling balance sheet risk. Consequently, by the end of FY 2001, Daiwa Securities SMBC anticipates that the total value of REITs listed on the Tokyo Stock Exchange will rise to 500 billion yen. The company expects that this figure will rise further, to around 5 trillion yen, over the next 10 years.

Daiwa Securities SMBC will contribute to the development of the REIT market by providing financial advisory services to REIT management companies, educating investors, and providing REIT analysis to domestic and overseas investors holding real estate.

It is the division's intention to exploit its established position in ABS markets and its domestic and overseas investor base to establish a leading position in the Japanese REIT market as it develops.

Principal Finance

This department, which as mentioned above operated within the Structured Finance Division during FY 2000, makes principal investments in asset classes that are non-traditional for a securities company. The two main assets are loans including non-performing loans sold by banks and other financial institutions, and equity of distressed companies.

The department ranks as a major participant in the bulk-sales market for loans. A vitally important area of competitive advantage here is the department's ability to accurately assess the value of future cash flows and underlying real estate collateral.

The potential for investing in distressed equity has been enhanced by a change in Japanese corporate restructuring laws and the advent of procedures similar to those of Chapter 11 in the United States. The division has formed a relationship with Wilbur Ross of the United States, one of the most successful participants in corporate restructuring.

Japan Equity Capital Co. Ltd.

Daiwa Securities SMBC is a 25% stakeholder in Japan Equity Capital Co., Ltd. (J-Cap). The other shareholders are GE Capital International Holdings Corporation of the U.S. (50%) and Sumitomo Corporation (25%). These three shareholders, together with their affiliates, have committed a 20 billion yen fund (the Fund) to which J-Cap provides investment advice.

J-Cap's advice to the Fund focuses on both controlling and minority growth equity investment opportunities in midmarket businesses in Japan. Acceleration of restructuring of the domestic economy, increase in M&A activity, unwinding of cross-shareholdings, and increase in labor mobility have stimulated the need for corporate spin-offs,

hence the increase in MBO activity. Also, privately owned small and midsize companies facing succession problems should offer good MBO opportunities for the Fund.

J-Cap can serve as a strategic and financial partner for portfolio companies by applying certain managerial techniques used by the sponsors. After creating value through these processes, J-Cap expects that the Fund's typical exit strategies will include sales to strategic or financial buyers or initial public offering.

Risk Management

As a company involved in wholesale securities markets, risk management for Daiwa Securities SMBC is a matter of the utmost importance. The role of risk management has increased generally within the industry due to a rising reliance on investment banking activities relative to brokerage commission as a consequence of deregulation of financial services. The company's risk management is grounded in the following fundamental policies:

- Active management involvement in the risk management process
- Active internal supervision
- Unified risk management, including setting of appropriate risk limits
- Stress testing and contingency planning
- Documentation and standardization of the risk management process to promote transparency

Active Management Involvement

Ultimate responsibility for risk management rests with the Risk Management Committee, which meets every three

months to set basic goals and policies. A subcommittee of this committee decides the agenda in advance. The members of the Risk Management Committee consist of the president, deputy presidents, and divisional directors. The members are charged with setting applicable risk management policies for credit, market, and liquidity risk; with establishing appropriate rules covering transactions in each product category; with deciding appropriate levels of credit, market, and liquidity risk; and with considering the current risk profile.

A subcommittee of the Risk Management Committee meets monthly to preview the agenda to be submitted to the full committee; to discuss details relating to the implementation of stated policy; and to consider the current profile of credit, market, and liquidity risk. The members of this subcommittee are the general managers in charge of the product planning, marketing and administration activities of the company.

In addition to the above, market risk and liquidity risk are measured and reported daily to management by the Risk Management Department and the Treasury Department, respectively. Credit risk is reported to the director of the Risk Management Department on a weekly basis. The director also attends the executive director's weekly meeting and reports on the current status of credit, market, and liquidity risk. A report is also submitted to the holding company on a timely basis.

Active Internal Supervision

The front office divisions are the first line of risk management within Daiwa Securities SMBC. In particular, marketing and trading divisions are responsible for monitoring the credit standing of counterparties, while trading divisions also bear responsibility for market risk.

In addition, middle offices have been established in the trading divisions to manage credit, market, and liquidity risk. These offices are independent of the front offices, although having a common reporting line.

The Risk Management Department, which is independent of the marketing and trading divisions and has a separate reporting line, is responsible for overall control and monitoring of credit and market risk as well as settlement risk. It manages these risks in consultation with the middle offices mentioned above.

The Treasury Department takes responsibility for managing liquidity risk and for fund-raising. The department is also functionally independent of the marketing and trading divisions.

A similar system to the above, with independent middle offices, has also been introduced in overseas branches. Overseas branches report market risk and funding schedules on a daily basis and credit risk on a weekly basis.

Unified Management

Risk limits are set by product using the most appropriate measures for each category. However, these individual limits are supplemented by integrative measures centered on VaR. This measure has been applied to market risk for some time. From September 2000 it has also been applied to credit risk.

The Risk Management Department also calculates Regulatory Market Risk using the standard methods laid down by the Financial Services Agency to measure regulatory risk capital. The minimum level for this ratio is 140%. As of end-March 2001, the corresponding ratio for Daiwa Securities SMBC was 364%.

VALUE AT RISK

(Billions of Yen)

	March 2000	June 2000	September 2000	December 2000	March 2001
Equity	6.4	1.8	3.5	2.5	2.7
Interest	0.3	1.2	0.6	0.6	0.9
Currency	0.1	0.1	0.1	0.2	0.1
Sub-total	6.6	3.0	4.1	3.1	3.6
Diversification benefit	-0.2	-0.8	-0.5	-0.6	-0.5
TOTAL	6.4	2.1	3.6	2.5	3.1

Total figures may differ due to rounding up of VaR figures and rounding down of Diversification benefit figures.

- Confidence level: 99%
- One day
- High 19.4 billion yen (July)
- Low 1.4 billion yen
- Average 4.4 billion yen

Stress Testing and Contingency Planning

The events of the last several years have highlighted the limits of risk management based on statistical analysis. Daiwa Securities SMBC has consequently supplemented its traditional risk measures with additional measures, including stress-testing for equity specific risk and bond spread risk for emerging market bonds. The specific scenarios assume sudden and serious disturbances, including those seen in recent years as, for example, during the period of the Japan Premium, hedge-fund crisis in the U.S. and disorder in emerging market debt. It also includes theoretical scenarios, including the assumption of severe disruption to domestic repo markets.

In the event of a sudden and catastrophic decline in the company's ability to maintain liquidity, in addition to having established commitment lines, contingency plans are in place to implement a phased reduction in the company's trading positions to within specified limits. In the

most extreme case, positions would be reduced to within the limits of the company's long-term available funds and access to finance already granted by banks.

Documentation and Transparency

The authority and responsibilities of each department and division within Daiwa Securities SBCM have been thoroughly documented to nullify any possible confusion or ambiguity. In addition, the internal procedure of the Risk Management Department itself is also formally specified in writing.

Transparency of the risk-management process is also being promoted by the introduction of an internal rating system to standardize credit reviews.

INCOME STATEMENT

	Fiscal 2000 Apr. 1, 2000 - Mar. 31, 2001 Millions of yen	Fiscal 1999 Apr. 1, 1999 - Mar. 31, 2000 Millions of yen	Increase / decrease	Comparison (%)
Operating revenues	230,735	172,069	58,665	134.1
Commissions	73,643	92,471	-18,828	79.6
Net gain on trading securities	128,934	70,679	58,255	182.4
Net gain on other commodities trading	2	340	-337	0.7
Interest and dividend income	28,155	8,578	19,577	328.2
Operating expenses	107,251	99,488	7,763	107.8
Selling, general and administrative expenses	94,993	93,816	1,176	101.3
Commission and other expenses	34,743	37,518	-2,775	92.6
Employees' compensation and benefits	24,963	22,834	2,128	109.3
Real estate expenses	9,917	9,832	85	100.9
Data processing and office supplies	14,282	16,364	-2,082	87.3
Depreciation expenses	5,768	4,115	1,653	140.2
Taxes other than income taxes	2,833	1,913	919	148.1
Others	2,485	1,237	1,247	200.8
Interest expenses	12,258	5,671	6,586	216.1
Operating income	123,484	72,581	50,902	170.1
Non-operating income	677	579	98	117.0
Non-operating expenses	521	150	371	346.8
Ordinary income	123,640	73,010	50,629	169.3
Extraordinary gains	-	-	-	-
Extraordinary losses	797	219,392	-218,595	0.4
Write-off of goodwill	-	208,000	-208,000	-
Consumption tax incurred regarding goodwill not falling under other deductions	-	4,359	-4,359	-
Provision for multiemployer pension plan	-	4,232	-4,232	-
Business start-up-related expenses	-	2,056	-2,056	-
Provision for securities transaction liabilities	797	744	52	107.1
Provision for financial futures transaction liabilities	0	0	0	13.4
Income/losses before income taxes	122,843	-146,382	269,225	-
Income taxes - current	36,661	17,358	19,302	211.2
Income taxes - deferred	15,379	-78,659	94,039	-
Net income/losses	70,802	-85,080	155,883	-
Unappropriated retained earnings - carryforward	517	8	509	-
Unappropriated retained earnings	70,284	-85,088	155,373	-

STATEMENT OF APPROPRIATION OF RETAINED EARNINGS

	Fiscal 2000 Millions of yen
Unappropriated retained earnings	70,284
Reversal of reserve for special depreciation	260
Total	70,545
Appropriations of retained earnings	56,652
Legal reserve	5,141
Cash dividends *	51,200
Directors' bonuses	210
Reserve for special depreciation	101
Unappropriated retained earnings carried forward	13,892

* Cash dividends for fiscal 2000: 16,000,000 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:	5,490,024	5,545,267
Cash and time deposits	41,894	118,356
Cash segregated as deposits related to securities transactions	1,586	785
Receivables	1,929	5,942
Advance payments on securities subscribed	806	199
Short-term loans receivable	289,539	31,835
Accrued income	8,703	4,863
Trading assets:	2,490,598	2,592,120
Trading securities and others	2,174,429	2,470,177
Option transactions	42,341	12,343
Derivative valuation accounts	273,827	109,599
Payables related to margin transactions:	137,648	85,418
Loans receivable from customers for margin transactions	-	315
Cash deposits as collateral for securities borrowed from securities finance companies	137,648	85,103
Receivables related to gensaki transactions	217,451	24,099
Cash deposits as collateral for securities borrowed	777,872	1,004,175
Securities in custody	1,501,176	1,659,021
Short-term guarantee money deposited	8,335	9,547
Deferred income tax assets-current	6,062	4,387
Other current assets	7,362	4,583
Less: Allowance for doubtful accounts-current	-944	-70
Non-current assets:	136,555	141,385
Tangible fixed assets	4,972	5,333
Intangible fixed assets	21,856	11,543
Investments and others:	109,726	124,508
Investment securities	37,758	35,519
Long-term loans receivable	37	35
Long-term guarantee deposits	9,045	8,336
Deferred income tax assets-non-current	57,218	74,272
Other investments	5,790	6,344
Less: Allowance for doubtful accounts-non-current	-123	0
Total assets	5,626,580	5,686,652

(Liabilities and Stockholders' equity)

	Fiscal 2000 As of March 31, 2001 Millions of yen	Fiscal 1999 As of March 31, 2000 Millions of yen
Current liabilities:	5,050,326	5,257,012
Short-term borrowings	220,503	230,200
Commercial paper	516,300	145,600
Bonds due within one year	4,400	-
Deposits received	8,471	10,763
Trade date accrual	36,658	125,262
Advance receipts on securities subscribed	1,011	6,574
Accrued expenses	5,365	4,853
Trading liabilities:	1,094,936	1,078,232
Trading securities and others	789,771	962,454
Option transactions	40,317	12,806
Derivative valuation accounts	264,847	102,971
Payables related to margin transactions:	59,876	34,198
Loans from securities finance companies for margin transactions	-	168
Proceeds of securities sold for margin transactions	59,876	34,030
Payables related to gensaki transactions	741,938	1,123,837
Cash deposits as collateral for securities loaned	776,512	803,975
Short-term securities borrowed	1,321,226	1,451,897
Cash deposits received from customers	50,115	12,737
Securities deposited by customers as collateral	179,950	207,124
Accrued income taxes	27,518	16,878
Accrued bonuses	3,600	3,300
Other current liabilities	1,941	1,576
Non-current liabilities:	180,576	105,974
Bonds	73,200	-
Long-term borrowings	100,000	100,000
Deferred income tax liabilities-non-current	299	-
Accrued retirement benefits	1,865	1,029
Multiemployer pension plan	4,232	4,232
Other non-current liabilities	979	712
Statutory reserves:	1,541	744
Reserve for securities transaction liabilities	1,541	744
Reserve for financial futures transaction liabilities	0	0
Total liabilities	5,232,444	5,363,731
Stockholders' equity		
Common stock	205,600	205,600
Legal reserve:	117,321	202,410
Additional paid-in capital	117,321	202,410
Retained earnings:	70,802	-85,088
Special reserve for depreciation	517	-
Unappropriated retained earnings	70,284	-85,088
(Net income/losses for the current term)	(70,802)	(-85,080)
Revaluation reserve for investment securities, net of tax	412	-
Total stockholders' equity	394,136	322,921
Total liabilities and stockholders' equity	5,626,580	5,686,652

BREAKDOWN OF COMMISSION INCOME

(Asset class)

	Fiscal 2000 Millions of yen	Fiscal 1999 Millions of yen	Comparison (%)
Stock and other *	44,296	59,974	73.9
Bond and other	10,483	11,281	92.9
Beneficiary certificates	10,914	14,669	74.4
Others	7,949	6,546	121.4
Total	73,643	92,471	79.6

BREAKDOWN OF NET TRADING GAINS

	Fiscal 2000 Millions of yen	Fiscal 1999 Millions of yen	Comparison (%)
Stock and other *	115,403	33,213	347.5
Bond, Forex and other	13,531	37,466	36.1
(Bond and other)	(18,606)	(37,425)	(49.7)
(Forex and other)	(-5,075)	(41)	(-)
Total	128,934	70,679	182.4

(Activity)

	Fiscal 2000 Millions of yen	Fiscal 1999 Millions of yen	Comparison (%)
Brokerage commission	13,714	33,722	40.7
(Stock and other) *	(13,531)	(33,167)	(40.8)
(Bond and other)	(182)	(549)	(33.1)
Underwriting	37,296	33,979	109.8
(Stock and other) *	(29,381)	(26,417)	(111.2)
(Bond and other)	(7,914)	(7,562)	(104.6)
Distribution **	3,384	3,713	91.1
(Beneficiary certificate)	(1,680)	(2,496)	(67.3)
Other commission	19,247	21,055	91.4
(Beneficiary certificate)	(9,232)	(12,167)	(75.9)
Total	73,643	92,471	79.6

* Including commission revenue on CBs and warrants.

** Including secondary offering and private placement.

UNDERWRITING ACTIVITIES

	Fiscal 2000 Millions of shares, Millions of yen	Fiscal 1999 Millions of shares, Millions of yen	Comparison (%)
Underwriting:			
Stock: number of shares	73	92	79.7
Yen amount	648,552	662,799	97.9
Bond: face value	3,097,155	3,055,531	101.4
CP & others: face value	1,822,300	1,192,600	152.8
Distribution *:			
Stock: number of shares	133	98	134.9
Yen amount	672,230	665,745	101.0
Bond: face value	3,129,498	3,136,207	99.8
Beneficiary certificates: face value	4,667,340	5,024,142	92.9
CP & others: face value	1,822,300	1,162,600	156.7

* Including secondary offering and private placement.

TRADING VOLUME OF STOCKS (EXCLUDING FUTURES TRANSACTIONS)

	Fiscal 2000		Fiscal 1999		Comparison	
	(Millions of shares, Millions of yen)		(Millions of shares, Millions of yen)		(Millions of shares, Millions of yen)	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Total	39,514	60,131,859	36,854	60,773,098	107.2%	98.9%
(Dealing) (a)	(20,817)	(31,387,302)	(17,483)	(29,146,860)	(119.1)	(107.7)
(Brokerage) (b)	(18,696)	(28,744,556)	(19,371)	(31,626,237)	(96.5)	(90.9)
(b) / (a+b)	47.3%	47.8%	52.6%	52.0%		
TSE share	6.7%	7.7%	6.2%	6.6%		

CAPITAL ADEQUACY RATIO

	March 31, 2001 Millions of yen	March 31, 2000 Millions of yen
Basic item: Stockholders' equity * (A)	342,313	322,921
Supplementary item: (B)	102,897	101,505
Valuation profits of Investment securities	412	690
Statutory reserve	1,541	744
Allowance for doubtful accounts	944	70
Subordinated borrowings	100,000	100,000
Assets excluded from capital: (C)	137,876	141,675
Capital after exclusion (A)+(B)-(C): (D)	307,335	282,751
Risk equivalent: (E)	84,265	55,720
Market risk equivalent	49,056	28,667
Counterparty risk equivalent	16,399	9,384
Fundamental risk equivalent	18,809	17,668
Capital adequacy ratio: (D)/(E) X 100%	364.7%	507.4%

* Dividends, directors' bonuses and revaluation reserve for Investment securities 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.