

Our First Hundred Years: **Former Daiwa Securities** - c. 1972

Income Statement Summary

(Millions of Yen)

	FY 2001	FY 2000	% change yoy	FY 2001			
				4Q (1-3)	3Q (10-12)	2Q (7-9)	1Q (4-6)
Operating revenues	127,541	178,959	-28.7%	33,031	29,294	28,501	36,713
Commissions	103,774	157,918	-34.3%	25,027	22,475	23,936	32,335
Brokerage (Stock and others)	43,234	65,747	-34.2%	10,130	8,944	9,262	14,897
Brokerage (Bond and others)	3	14	-77.9%	0	0	0	2
Distribution	26,100	52,312	-50.1%	5,954	5,747	5,884	8,513
(Investment trust)	14,047	35,783	-60.7%	2,734	3,351	2,205	5,755
Other commission	34,207	39,841	-14.1%	8,863	7,740	8,681	8,921
(Investment trust)	22,097	29,939	-26.2%	4,708	5,160	5,760	6,467
Net gain on trading securities	21,897	17,021	+28.6%	7,620	6,418	4,015	3,842
Stock and others	64	203	-68.3%	162	184	-398	115
Bond, forex and others	21,832	16,818	+29.8%	7,457	6,233	4,414	3,727
Net gain on other commodities trading	-	13	-	-	-	-	-
Interest and dividend income	1,869	4,006	-53.3%	383	400	549	535
Interest expenses	828	1,326	-37.6%	203	198	227	198
Net operating revenues	126,713	177,633	-28.7%	32,827	29,096	28,273	36,515
SG&A	137,966	153,638	-10.2%	32,968	32,446	36,199	36,351
Ordinary income (loss)	-11,028	24,355	-	116	-3,483	-7,822	161
Net income (loss)	-3,641	13,396	-	-566	-2,198	-893	16
Capital Adequacy Ratio	328.0%	251.3%	-	328.0%	323.8%	318.5%	298.4%

Note: FY 2000 figures have been restated based on the new Japanese uniform accounting standards of securities companies.

Daiwa Securities Co. Ltd.

At a Glance

Business

Retail securities company, 100% owned by Daiwa Securities Group Inc. Operates through three distinct channels – a nationwide network of 126 branch offices, a call center and via the Internet. The branch offices also take responsibility for servicing institutional clients outside of the major commercial centers covered by Daiwa Securities SMBC. Daiwa Securities has embraced a unique segmentation of its service offerings, allowing access to different levels of service at different pricing levels. CRM systems implemented to all branch offices and sales people during FY 2001. Preparing to reorganize the branch network to concentrate on area marketing.

Review

In addition to steady deterioration in the equities market for much of the year, the collapse of the U.S. company Enron caused considerable dislocation in Japanese MMFs (Money Management Funds), an area of strategic importance to Daiwa Securities. Both brokerage commission and investment trust-related revenues declined sharply due to poor business environments.

Although SG&A expenses also declined due to implementation of various measures to reduce costs, both ordinary income and net income were negative.

Retail assets under custody, however, increased 440 billion yen to 13.1 trillion yen.

Outlook

Phasing out of blanket deposit insurance on bank accounts seems likely to lead to a flow of retail funds into securities markets during FY 2002. Against this background, Daiwa Securities intends to garner 2.9 trillion yen in additional retail assets under custody, unadjusted for changes in valuation, mainly from high-net-worth individuals and non-profit organizations.

Daiwa Securities Co. Ltd. is the retail securities brokerage within the Daiwa Securities Group. It has based its growth strategy on the premise that individual securities investment in Japan is under-developed compared to other major economies. Consequently, while continuing to maintain service to its existing customer base, the company has sought to attract new investors by drawing on its highly developed distribution network and strong product development capabilities.

Distribution

Daiwa Securities, in addition to operating a nationwide network of branch offices, ranks among Japan's largest online brokerages as well as being the most established, having commenced operations in 1996. Daiwa has brought to its retail distribution activities innovations such as a large, technically superior call center, expanded use of technology throughout the branch system and the introduction of sales offices or "mini-branches."

As of the end of March 2002, Daiwa Securities maintained approximately 2.7 million customer accounts, with 15.7 trillion yen in assets under custody.

Branch Network

Daiwa Securities operates a network of 126 branches throughout Japan, with at least one branch in each of the 47 prefectures. In addition to serving as the nerve centers of the Daiwa Securities Group's retail securities operations, the branches have a very important responsibility to service smaller institutions and corporations, particularly those located outside the major commercial centers and not covered by Daiwa Securities SMBC.

At the same time, Daiwa Securities is experimenting with the introduction of smaller sales offices, sometimes referred to as mini-branches. These mini-branches are being located near stations with the aim of attracting new customers. As of March 2002, Daiwa Securities had opened 5 sales offices around Japan. Plans for a more aggressive opening schedule have been scaled back due to the harsh operating environment.

Systems

During FY 2001, in preparation for a major shift in the organization of the branch network, Daiwa Securities introduced an advanced Customer Relationship Management (CRM) system from the American CRM specialist, Siebel Systems, into every branch in the network.

Daiwa Direct

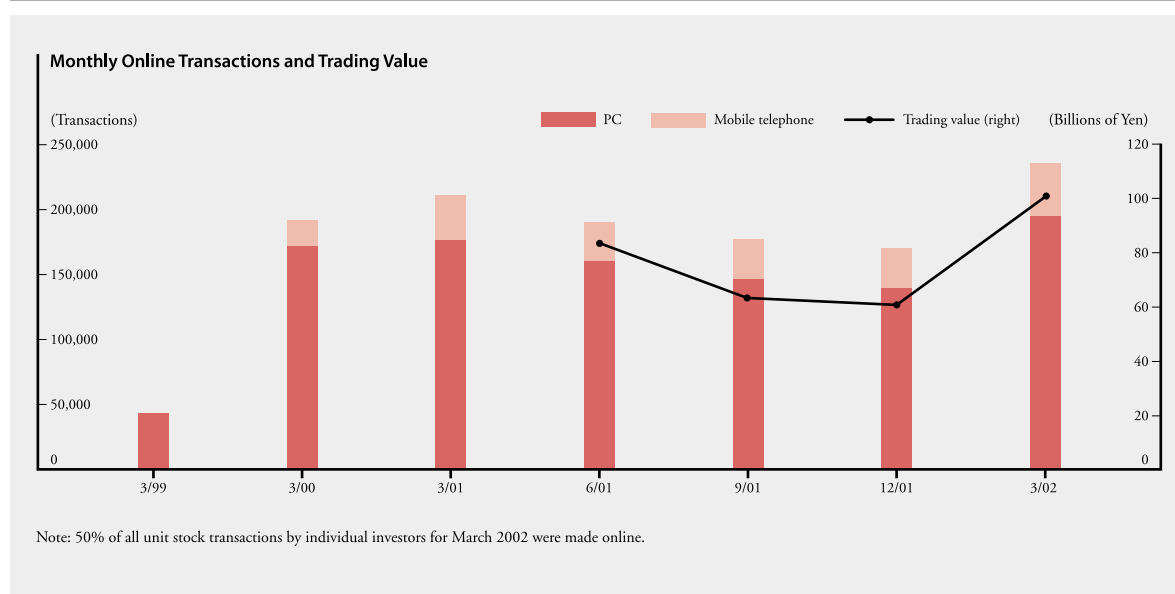
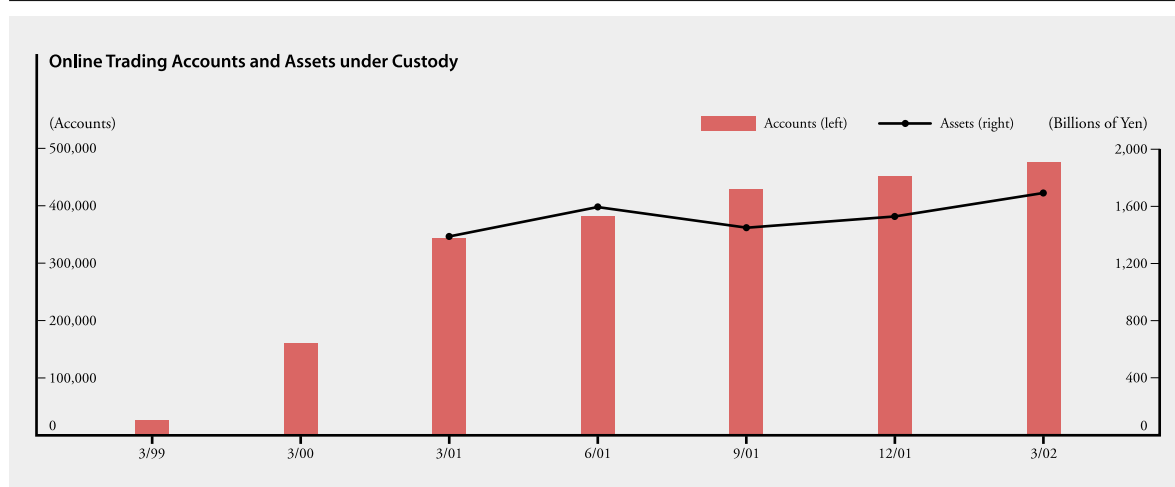
Internet

Daiwa Direct provides online brokerage services within Daiwa Securities. Daiwa Direct started operations in April 1996, making Daiwa Securities the first company in Japan to offer such services. The proportion of transactions conducted through the Internet has dramatically increased since equity brokerage was liberalized in October 1999. In March 2002, about 50% of transactions and about 17% of commissions on unit shares were derived from the Internet. Daiwa Direct also offers services via mobile telephones, utilizing the data communications capability of cellular telephones offered by NTT DoCoMo, AU and J-Sky. As of March 2002, mobile terminals accounted for approximately 17% of transactions conducted over the Internet.

At the time of the final deregulation of brokerage commissions in 1999, Daiwa Direct led the industry in terms of client accounts. Since then, the online brokerage industry in Japan has seen the advent of deep discounters—many lacking an existing client base—that have attempted to generate market share at the expense of profitability. Daiwa Securities has stayed aloof of this trend, being confident that its own business model, which regards the Internet as an integral part of its overall distribution strategy, is superior. Consequently, commissions charged by

Daiwa Direct are significantly higher than the average, being several times that of the lowest available commission level. Although Daiwa Securities, in common with other traditional brokerages, has lost market share to certain pure online brokers that focus on trading-oriented individual investors, it nevertheless remains one of Japan's leading online brokerages.

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



Call Center

Daiwa was the first securities company in Japan to establish a full-fledged call center in July 2000. It was launched in April 1999 with 25 seats as a help desk for Daiwa Direct customers. Today the call center has approximately 200 seats and employs 200 telephone service representatives (TSRs). The Center fills the distribution and service gap between the full-service branches and online trading, and it now provides services to call center accounts as well as maintaining its function as a help desk for online customers. Located in Tokyo, the call center has access to a large pool of qualified people.

To enhance flexibility, Daiwa Securities maintains a high level of training and has also installed various support systems, including automatic referrals and voice-response programs.

Building on its success in establishing strong representation in each of the major distribution channels, Daiwa also introduced its three-channel strategy as outlined below.

Three Service Packages

In July 2000, Daiwa Securities divided its product offerings into three distinct service packages, 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 expert advice and support.

Daiwa Call

This channel is geared to customers who choose to make transactions over the telephone. People who prefer to conduct transactions online, but who require advice, and people who have difficulty using the Internet or find it difficult to get to a branch are the potential customer base.

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 and transactions via the Internet are available to all Daiwa Securities customers regardless of channel selected. However, counter service is available only to Daiwa Consulting customers. A 25% discount applies to Daiwa Consulting customers for online transactions. In addition, 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% on orders placed over the Internet by Daiwa Net customers. Customers of all channels may receive discounts of up to 15% if they take advantage of a special fee-discount service offered to subscribers of the Daiwa Cash Management Program.

The goal of this three-channel strategy, which is unique in Japan, is to offer customized services while enabling seamless migration between channels.

Furthermore, Daiwa Securities will benefit by having customers utilize the call center and the Internet as it will allow maximum utilization of human resources at the branch offices.

Private Banking

The Private Banking Department within Daiwa Securities is responsible for addressing the asset management and other financial needs of high-net-worth individuals in Japan. As of March 31, 2002 the department consisted of members with expertise in

taxation and legal matters and asset allocation. The majority of these staff are stationed in Tokyo although the department does maintain a direct presence both in Osaka and in Nagoya. The department is responsible for assets under management of approximately one trillion yen.

The majority of assets consist of the equity assets of business owners, particularly those whose businesses have undergone an IPO lead managed by Daiwa Securities SMBC. This department thus works closely with the IPO Department of the wholesale securities company. It also offers advice on such matters as inheritance and business succession planning jointly with the Corporate Finance Departments of Daiwa Securities SMBC. Furthermore, the department has been successful in increasing its customer base by providing individually tailored advice concerning recent tax reforms.

Innovation in Retail Brokerage 1999-2002

FY 1999

Daiwa Securities is incorporated as the retail securities company within the Daiwa Securities Group. Retail assets under custody replaces brokerage commission as the main measure of marketing excellence within Daiwa Securities.

FY 2000

The call center becomes fully operational. Daiwa Securities introduces three distinct distribution channels catering to different segments of the retail securities market. The re-organization of the branch network also begins. Sales offices (mini-branches) are introduced.

FY 2001

Advanced customer relationship management (CRM) systems are rolled out to all branches. A Groupwide branding campaign seeks to develop a common corporate culture.

FY 2002

Daiwa Securities builds on previous innovations and radically changes the organization of the branch network to a satellite branch system. Simultaneously, the company introduces a more disciplined approach to institutionalize marketing best practice throughout the branch network.

Reform of the Retail Distribution Network

At the beginning of FY 2002, Daiwa Securities announced a major multifaceted reform of its distribution network. This reform seeks to maximize the utility of Daiwa's established branch network while also making use of recent innovations such as the introduction of CRM systems into all branches during FY 2001.

The reforms have two main thrusts. The first is the reorganization of the branch network into a satellite branch structure in which branches around Tokyo and Osaka will be grouped into semi-autonomous units, based on locale, under the leadership of a "mother branch." Henceforth, such units or "areas" will be treated as a whole in forming marketing strategies.

The second is the adoption of a more focused and disciplined approach to sales management than has been attempted previously. This new approach builds

on the capabilities of the new CRM systems. It will involve focused application of sales effort in an attempt to build effective marketing channels for targeted customers and to promote the development of continuing relationships and repeat business.

Satellite Branch System

To date, each branch has operated under the control of the head office, with all branches engaging in the same business activities. Starting in FY 2002, this situation will change radically. Branches in the same geographical area will be grouped into one unit under the leadership of a mother branch. This will reduce the head office's administrative overhead while allowing the branch network to continue responding to diverse customer needs.

New Marketing Paradigm

As mentioned previously, the introduction of CRM systems to all branches and offices of Daiwa Securities was completed in FY 2001. These systems enable information on customers' preferences and attributes to be fully institutionalized within Daiwa Securities. Prior to the introduction of these systems, most customer information was stored in the form of personalized lists and databases maintained by each sales staff member. This in turn meant that such information was lost when staff were transferred or retired and had to be laboriously re-constructed. Introduction of the CRM system will ensure that this information is made permanently available to all sales

staff, thereby ensuring that individually-tailored proposals can be extended to customers as appropriate. The customer database compiled through the CRM system will also be utilized for other marketing efforts.

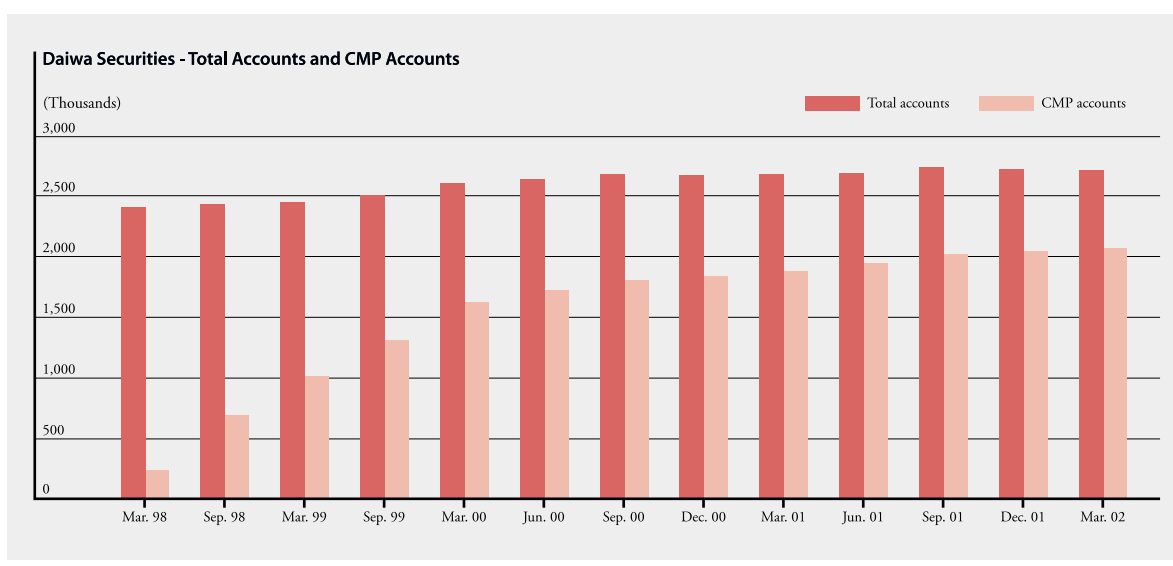
The Daiwa Securities Group has already actively embraced branding as a key component of its business activities. However it is expected that the introduction of the CRM systems will contribute to enhancing the value of the Group's brand. Utilization of these systems will also promote the consulting business – an activity that is strongly rooted in customer trust – which, it is hoped, will in turn lead to a larger customer base and a further increase in brand value.

- Utilization of the CRM system will enable Daiwa Securities to work towards set goals and further develop marketing activities. High net-worth individuals, regional public corporations and various foundations will form the target group for FY 2002 in light of the end of blanket government insurance on bank deposits and the possibility of a shift of a proportion of these deposits into the securities markets.
- Through the incorporation of best marketing practices, founded on the tenets of the Group brand, into a manual, Daiwa Securities will accumulate a wealth of knowledge accessible to all staff of the company.

Review of FY 2001

Daiwa Securities operated in an extremely challenging environment during FY 2001. The equity market trended lower for most of the year, with only initial enthusiasm for the Koizumi administration's reform efforts and a brief year-end rally breaking the gloom. In addition, risk-averse investors were shaken by several defaults among issues previously assumed safe. In particular, the sudden bankruptcy of the U.S. energy trader Enron caused problems for several MMF funds in Japan that had substantial exposure to that company's debt. In some cases, valuations were reduced to below par value. This, in turn, triggered a massive outflow of funds from MMFs industrywide. Although MMFs managed by Daiwa Asset Management did not have exposure to Enron debt, Daiwa suffered from an indiscriminate withdrawal of funds that affected all MMFs. Because of Daiwa's

strong market position, with a market share of over 50%, and because Daiwa has positioned MMFs at the center of its strategy to capture flows of funds into securities markets from first-time investors, the events of FY 2001 were unwelcome. Initial indications in FY 2002, however, are that investors are indeed starting to move funds from bank accounts to securities markets, including MMFs, in anticipation of the end of blanket government insurance of bank accounts. The company saw active retail interest in its range of medium-term government bond funds during FY 2001. In addition, retail interest in foreign-currency denominated bonds reached high levels in light of the substantial yield pickup over that available domestically and the trend to a weaker yen. Consequently, Daiwa Securities experienced a net inflow of new funds totaling some 950 billion yen. Total retail funds under custody on the other hand, showed only a modest increase from 12.7 trillion yen to 13.2 trillion yen due to valuation losses in line with the depressed equity market.



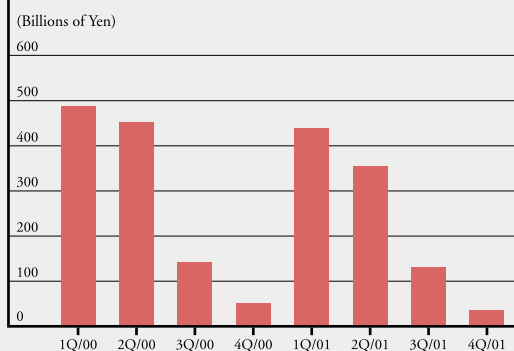
In addition to the above, Daiwa Securities lost market share in the retail securities sector, primarily to the plethora of price-driven Internet brokerages that have an active client base. Daiwa Securities' share of trading on the TSE (Tokyo Stock Exchange) fell from 1.9% at the end of FY 2000 to 1.3% as of end-FY 2001 in terms of value of shares traded.

In light of all of the above, operating revenues fell by 29% to 127.5 billion yen. Daiwa Securities recorded a loss at the ordinary income level of 11.0 billion yen and a net loss of 3.6 billion yen. Almost all areas of business contributed to the decline. Brokerage commissions fell 34% year-on-year, to 43.4 billion yen; distribution income fell by 50% to 26.1 billion yen, primarily due to an abrupt fall in income related to investment trusts; and for the same reason, other commissions fell by 14% to 34.2 billion yen. This was somewhat offset by a small rise in trading gains to 21.9 billion yen from 17.0 billion yen during the previous year related to active domestic demand for foreign currency denominated bonds.

Daiwa Securities was able to significantly squeeze SG&A expenses during the year. For FY 2001, SG&A expenses were 137.9 billion yen, down 10% over the preceding year. The improvement can be attributed to

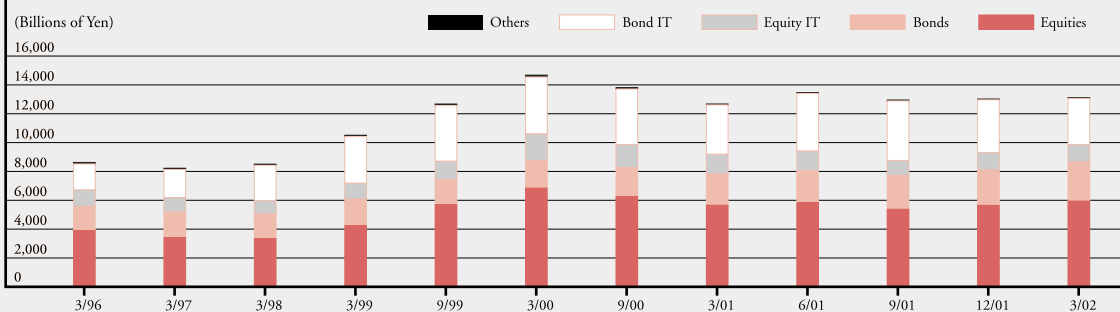
a decline in commissions paid to the stock exchange and other expenses, in turn a reflection of subdued trading activity during the year, as was a drop in personnel expenses linked to commissions earned and real estate expenses. On the other hand, depreciation increased due to a steep increase in IT investments. It should be noted that this reduction was achieved without drastic reductions in employee numbers. Daiwa Securities continues to resist making drastic cuts in this area due to the need to protect institutional memory and the need to secure access to adequate resources into an eventual market upturn.

Daiwa Securities - Inflow of Individual Assets



Note: 1. Figures are for individuals (institutions are not included).
2. Inflow = net inflow / outflow of money + net deposit / withdrawal of securities for the quarter

Trend in Daiwa Securities' Retail Assets under Custody



Other Highlights

Other highlights of FY 2001 include the following:

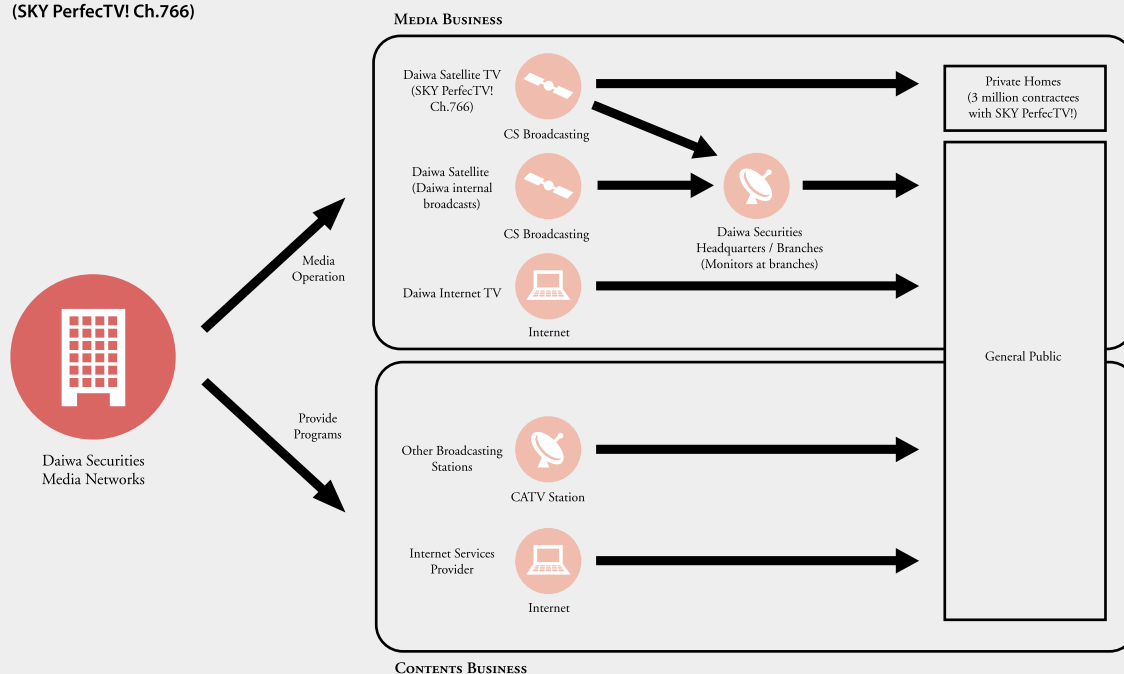
- Daiwa Securities introduced a customer support hotline to improve customer satisfaction. Customer awareness of this service is steadily increasing.
 - Daiwa Securities has started to open branches on Saturdays. All branches except sales offices (mini-branches) have opened each Saturday since October 2001. Sales offices open only on the first and third Saturdays of the month. Initial customer feedback has been very positive.
 - Daiwa Securities implemented “cashless” operations in all branches from April 2002 to enable branches to dedicate themselves to customer consultations, with the aim of freeing up as much time as possible for customer consultations.
 - Daiwa Securities started providing variable annuity products in November 2001. Currently, these products include 2 variable rate annuities products, “Pension Plus” (provided by T&D Financial Life Insurance) and “Good Stage” (provided by Scandia Life Insurance), and a variable interest rate annuity, “EXT” (provided by Sumitomo Life Insurance).
- In the unstable economic climate brought about by the low birth-rate and aging society and unsustainable structure of public pension plans, the need for funds to allow individuals to support themselves in old-age is expected to continue to grow even further. As a result, Daiwa Securities has given top priority to its pension and insurance products and is strengthening its consulting facilities to concentrate on customers’ mid-term financial needs.
- On 5 November, 2001, Daiwa Securities introduced margin trading, with a minimum deposit requirement of 3 million yen, as a component of the Daiwa Call and Daiwa Net packages. Daiwa has introduced margin accounts to facilitate the needs of Daiwa Securities customers with legitimate trading needs. The minimum deposit requirement was reduced to 1 million yen from 23 July, 2002.
 - Daiwa believes that investor education is vital to the healthy development of capital markets. Consequently, Daiwa Securities provides CS broadcasts via Daiwa Securities Media Networks, supports the establishment of investment clubs and sponsors lectures at a number of universities such as the Tohoku Fukushi University.

Daiwa Securities Media Networks

Daiwa Securities Media Networks is a media strategy company within the Daiwa Securities Group. It started operation on 1 October, 2001 and commenced broadcasts of “Daiwa Satellite TV” on channel 776 of CS Broadcast’s “SKY PerfecTV!” on 1 December of the same year. As the only true broadcasting operator in the finance industry, Daiwa Securities Media Networks is hoping to develop this into a

business and economics channel offering a full variety of high quality finance- and securities-related information. In the future, the Group would like to gradually expand its product offerings to a much wider range of related transmissions of worthwhile information, including provision of programs to local broadcast stations and distribution of programs over the Internet.

Commenced Broadcast in December 2001
(SKY PerfecTV! Ch.766)



Outlook

In April 2002, blanket deposit insurance for time deposits was eliminated in Japan. Henceforth, the insurance program will cover only 10 million yen per depositor per bank. From April 2003, this will also apply to ordinary savings deposits. Indications are that this might well stimulate a flow of funds out of bank deposits and into securities markets, particularly the bond markets. For FY 2002, Daiwa Securities believes that the most promising strategic targets in this respect are high-net-worth individuals, regional governmental organizations, and government-related companies and foundations. A key source of competitive advantage in seeking to attract these clients is the newly installed CRM system and the reorganized branch network described earlier.

On the product-development front, Daiwa will continue to stress its wide range of investment trust products, particularly public bonds and structured bonds to corporations, and variable annuities, investment trusts and foreign bond funds to individuals.

As of January 2003, equity capital gains will be subject to taxation separately from earned income. Instead of being subject to withholding tax, there will be a special system allowing investors to easily calculate and make allowance for tax due. In addition, a variety of preferential tax measures applicable to securities taxation were introduced at the end of 2001. In light of this, Daiwa strengthened its consulting services related to these tax systems to be able to deal effectively with customer needs arising.

As noted before, the key management goal laid down for the retail securities operation during FY 2002 is to achieve an increase in retail client assets under custody of 2.9 trillion yen, excluding valuation effects.