



Daiwa Securities Group

2003 Annual Report

Year ended March 31, 2003



**Embracing
Change**
- NOW or never -



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This annual report may contain forward-looking statements about the Daiwa Securities Group. You can identify these statements by the fact that they do not relate strictly to historic or current facts. These statements discuss future expectations, identify strategies, contain projections of results of operations or of financial condition or state other “forward-looking” information. These statements are based on currently available information and represent the beliefs of the management of the Daiwa Securities Group. These statements are subject to numerous risks and uncertainties that could cause the Daiwa Securities Group’s actual results, performance, achievements or financial condition to differ materially from those described or implied in the forward-looking statements. The Daiwa Securities Group undertakes no obligation to publicly update any forward-looking statements after the date of issuance of this annual report. These potential risks and uncertainties include, but are not limited to: competition within the financial services industries in Japan and overseas, our ability to adjust our business focus and to maintain profitable strategic alliances, volatile and sudden movements in the international securities markets, foreign exchange and global economic situations affecting the Daiwa Securities Group.

To ensure a sustainable future for the Daiwa Securities Group,

We will not be bound by existing circumstances
but will actively embrace innovation and change.

We will not find meaning simply in competing in the market,
but will always strive to create new value.

Our ultimate aim is to become “indispensable”
to all of our stakeholders.

Until we achieve this goal, we will work to the best of our ability
to build the Daiwa Securities Group Brand.



The Daiwa Securities Group At a Glance

Business Environment & Key Financial Data

Daiwa Securities Group Inc. & Subsidiaries
Years Ended March 31

	FY2002 *1	FY2001 *1	FY2002
	Millions of yen (unless otherwise specified)		Millions of U.S. dollars *2 (unless otherwise specified)
Market Data			
TOPIX (annual average, index)	932	1,133	—
TSE Trading Value(average per day)	729,049	812,432	6,075
Operating Performance			
Operating revenues	387,659	488,044	3,230
Net operating revenues	270,810	284,932	2,257
Operating income	24,109	22,769	201
Ordinary income	29,200	25,849	243
Net income (loss)	(6,323)	(130,547)	(53)
Balance Sheet			
Total assets	9,502,826	7,827,306	79,190
Total shareholders' equity	541,719	570,839	4,514
Per Share Data			
	yen		U.S. dollars
Net income (loss) *3	(4.75)	(98.27)	(0.04)
Total shareholders' equity *3	407.84	429.68	3.40
Cash dividends	6.00	6.00	0.05
Financial Ratios			
	%		
ROE *4	—	—	
Equity ratio	5.7	7.3	

*Notes : 1. FY2002 refers to the fiscal year ended March 31, 2003. FY2001 refers to the fiscal year ended March 31, 2002.

2. Translations of the Japanese yen amounts into U.S. dollars are made at the rate of ¥120.00=U.S.\$1.00, solely for the convenience of readers.

3. Net income (loss) and shareholders' equity per share are computed based on the average number of shares outstanding during the year.

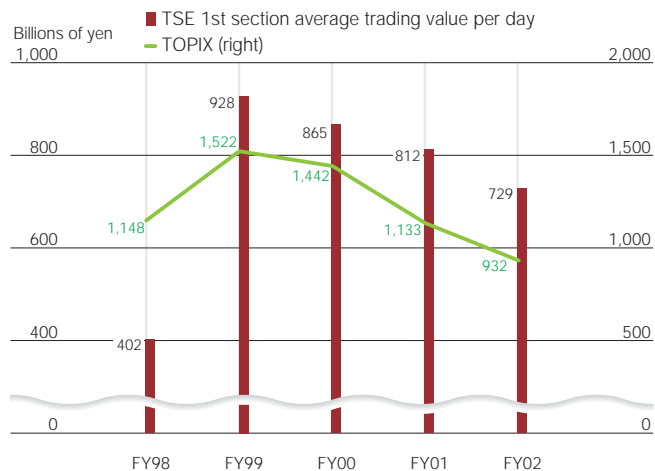
4. ROE is computed based on the average shareholders' equity at the beginning and end of the fiscal year.

The Daiwa Securities Group At a Glance

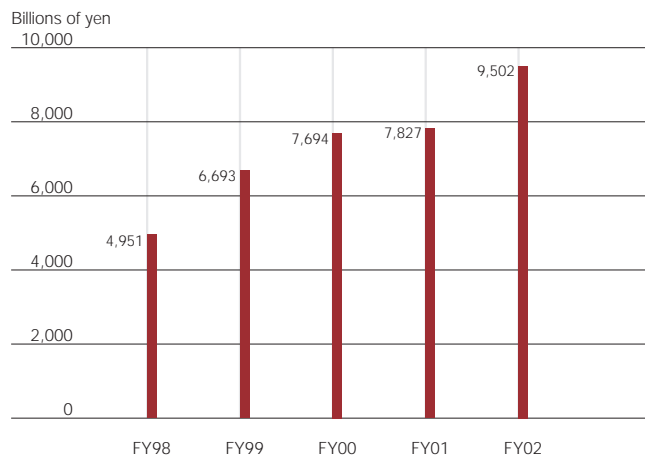
Business Environment & Key Financial Data

Daiwa Securities Group Inc. & Subsidiaries
Years Ended March 31

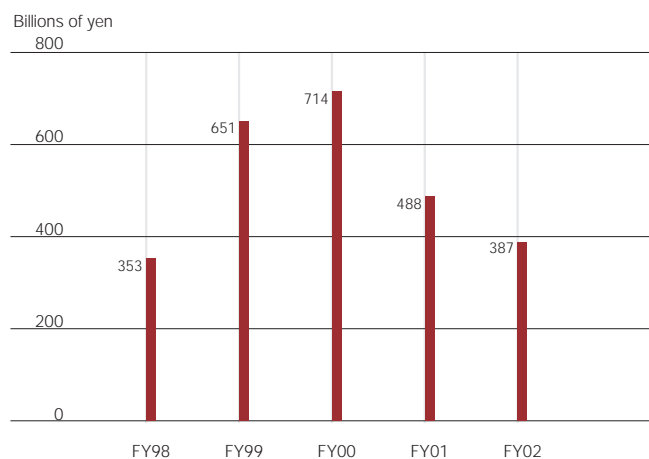
Equity market



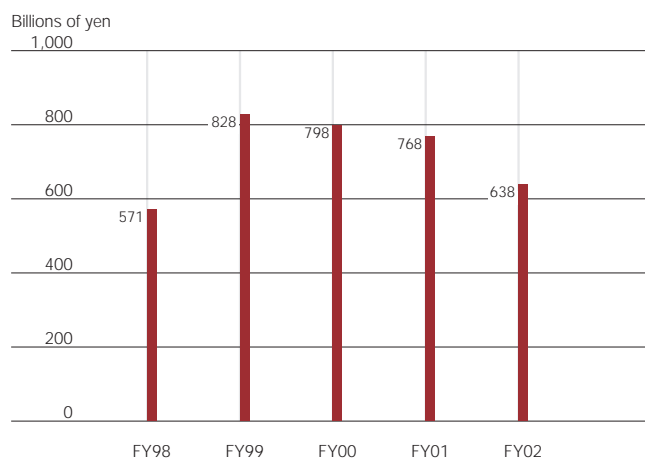
Total assets



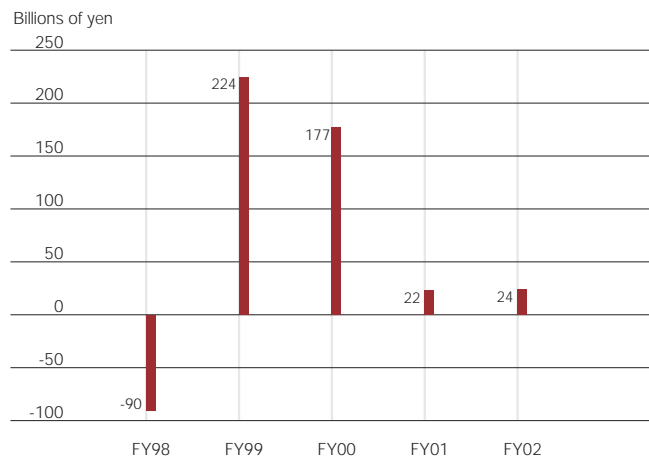
Operating revenues



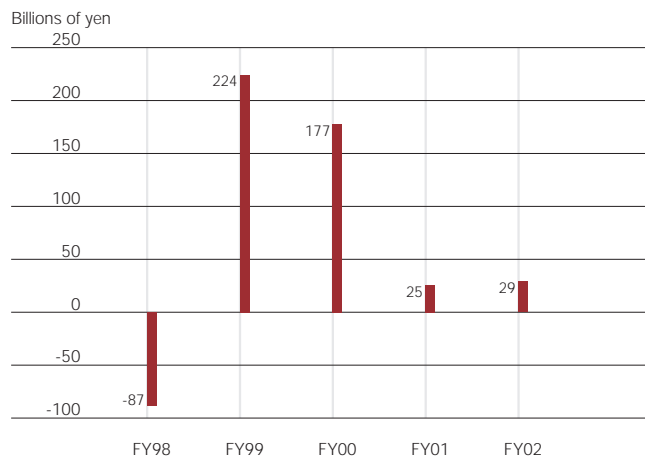
Non-current assets



Operating income



Ordinary income



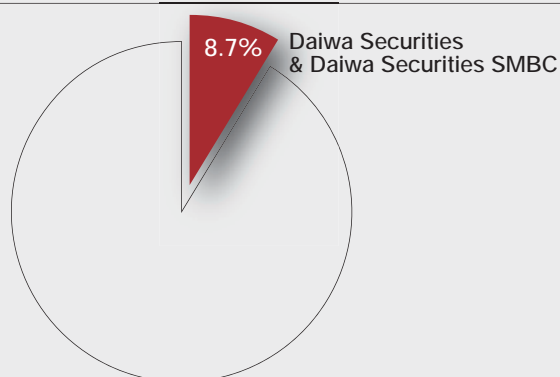
The Daiwa Securities Group At a Glance

Market Share

Market share is based on FY2002 results, unless otherwise specified

Equity

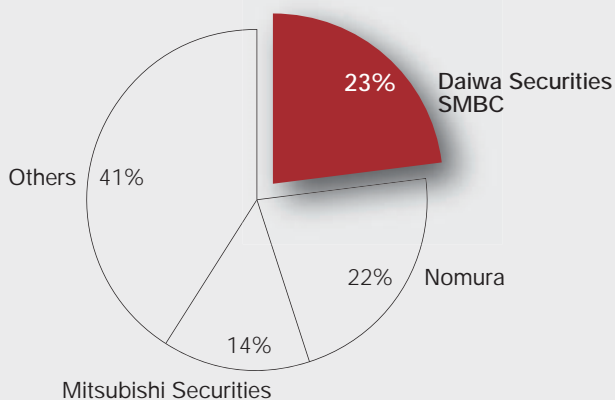
(on-floor & off-floor transactions at
The Tokyo Stock Exchange)



Source: Daiwa Securities SMBC

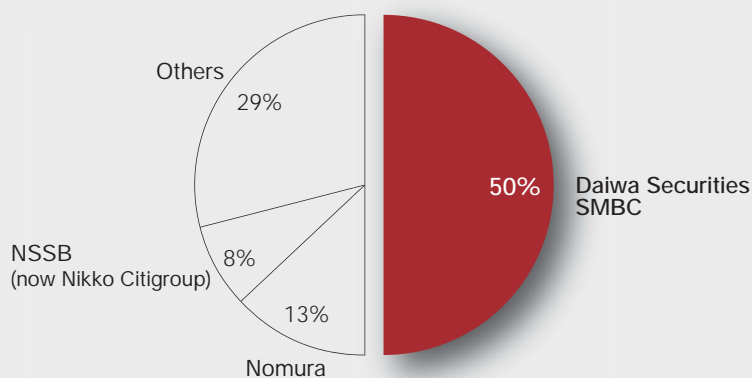
Lead Manager League Tables (based on pricing date)

Domestic corporate straight bonds (excluding agency bonds)



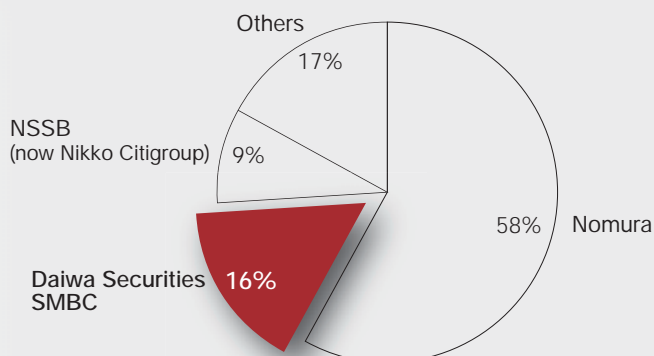
Source:
Nikkei Bonds & Financial Weekly (April 7, 2003)

Initial public offerings (IPOs)



Source: Daiwa Securities SMBC

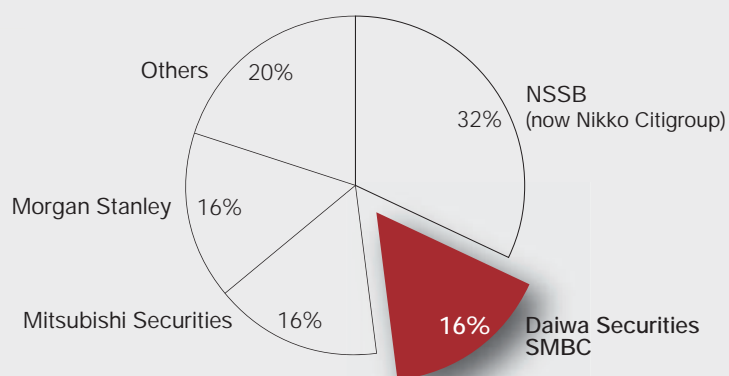
Equity offerings



Source: Daiwa Securities SMBC

Samurai bonds

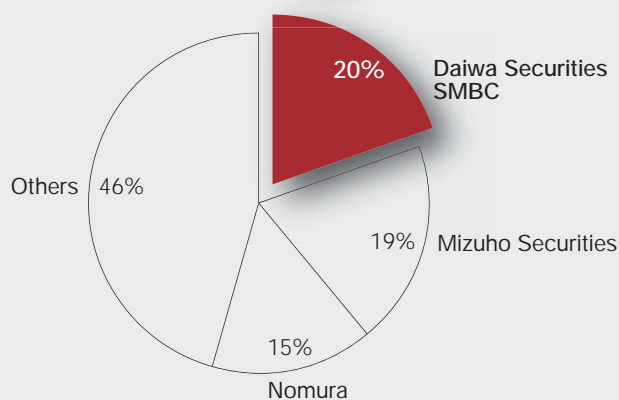
(yen-denominated bonds issued by non-Japanese issuers)



Source: Daiwa Securities SMBC

Domestic asset-backed securities (ABS)

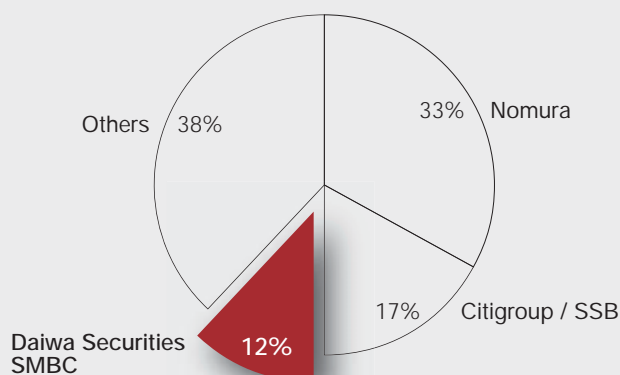
(bookrunner)



Source: THOMSON DealWatch

M&A

(based on transaction value from January 1, 2002 to December 31, 2002)

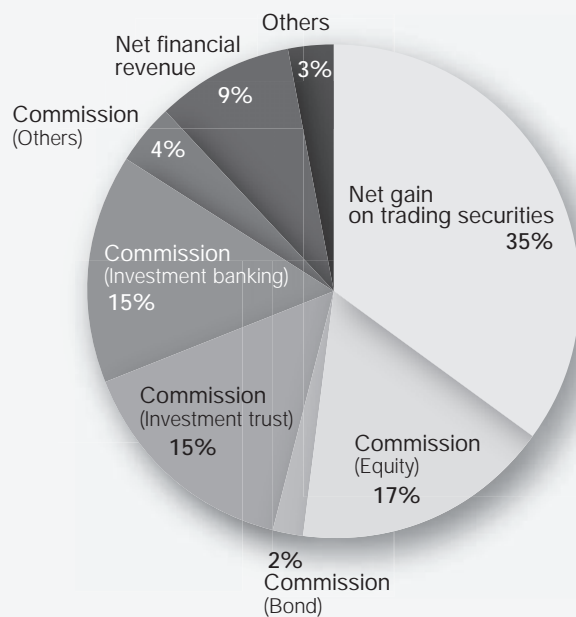


Source:
Thomson Financial, press release
*Announced Mergers & Acquisitions;
Any Japanese Involvement*

The Daiwa Securities Group At a Glance
Breakdown of Net Operating Revenues (FY2002)

By Business Sector

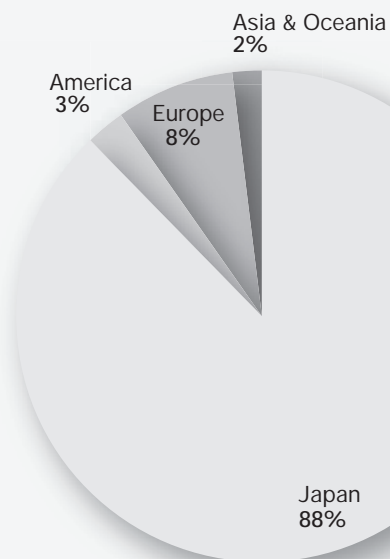
	(Millions of yen)
Commission	144,282
(Equity)	47,242
(Bond)	4,585
(Investment trust)	40,870
(Investment banking)	39,638
(Others)	11,948
Net gain on trading securities	93,932
Net financial revenue	24,113
Others	8,483
Total	270,810



By Geographic Area*

* Inter-area transactions are excluded

	(Millions of yen)
Japan	237,465
America	6,977
Europe	21,130
Asia & Oceania	5,238
Total	270,810



CEO Letter:

To Our Shareholders, Customers, Employees and All Other Stakeholders



My Uncompromising Commitment to Continued Reform

-Yoshinari Hara, CEO

During the past few years, we at the Daiwa Securities Group have steadily strengthened our business foundations and management base by diversifying our revenue streams, reining in costs to lower our breakeven point, reducing non-current assets, and implementing broad-based groupwide reforms in conjunction with our medium-term management plan ended March 31, 2003. However, we are far from satisfied with our current level of earnings, and this dissatisfaction is spurring us onward to the next phase of reforms. Now is the time to shift our focus from quantitative expansion to quality-oriented growth. We will continue striving to establish the Daiwa Securities Group brand and realize sustainable growth by providing our customers with differentiated services, building investor confidence in the stability of our operations, and creating an outstanding company for which our employees will be proud to work. As CEO, I am committed to making the Group indispensable to all stakeholders.

What Reforms Are We Pursuing?

Reforms Must Be Drastic and Timely

To date, the Daiwa Securities Group has aggressively implemented a number of business and management reforms well ahead of other firms in the Japanese securities industry. These include the introduction of the country's first online trading (1996), the implementation of a stock option system (1997), and becoming the first holding company listed on the stock exchange (1999).

Efforts to Eliminate the Weakness Inherent in the Securities Business

There are several reasons behind our urgent implementation of sweeping reforms. For one, we are anxious to minimize the weakness inherent in the securities business, shifting instead to a focus on steady and sustainable growth. This weakness is the earnings instability that results from economic fluctuations. While there is some variation according to company and country, the earnings of all brokerage houses are subject to a veritable rollercoaster ride determined by trends in the stock and bond markets, which mirror economic trends. The leading U.S. brokers are no exception. Sustainable growth—which had become a virtual given—began to falter as the outlook for the U.S. economy grew increasingly uncertain, triggering the first stock market downturn in more than a decade. This quickly forced brokers to implement staff cuts, scale back operations, and even pull out of the market altogether.

Volatility Won't Inspire Confidence or a Sense of Wellbeing

Why is high volatility a negative? The answer is simple. A volatile entity lacks reliability and stability. No one is interested in dealing with a company that cannot inspire confidence and convey a sense of wellbeing. Investors cannot view such a company as a stable long-term investment, and will thus relegate it to a simple trading buy. Customers can hardly be expected to turn over their assets to a company whose earnings are unstable. Employees cannot be expected to give their all to a company whose performance and pay scales are in a constant state of flux. Conditions such as these can cause a company's most talented personnel to seek employment elsewhere, creating a negative cycle that further weakens the company. The Daiwa Securities Group is seeking to eliminate this weakness and attain stable and sustainable growth.

A Turtle's Pace Can Threaten a Company's Very Survival

Another reason we are rushing to implement major reforms is the accelerating pace of change. The economic cycle of the past has disintegrated and is being replaced by a new, unknown paradigm in which past experiences no longer apply. This evolution can be attributed to several factors, one of which is political instability. For better or for worse, the Cold War did offer a certain stability and restrict the pace of change. Equality between two superpowers created stability, and their sheer size made for a slowness in the pace of change that made the changes relatively easy to anticipate. Today, however, circumstances have altered significantly. As evidenced by 9.11, a growing number of events are sudden and unanticipated, and political instability is mounting. Internationalization and the IT revolution are also accelerating the pace of change. Since the Big Bang, the securities industry has been called upon to make sweeping changes in its business model in order to seize business opportunities created by Japan's recent move towards direct financing in both corporate restructuring and the shift of individual financial assets from bank deposits into risk financial products.

In an era such as this, rigid adherence to past customs, businesses, and regional characteristics would be an egregious error. It is also futile to hope that past cycles will repeat themselves. Despite its inherent weaknesses, the securities industry has continued to exist thanks to the repetition of the economic cycle. It now looks likely that the current economic downtrend will last longer than ever before. Without change aimed at improving corporate quality, we can no longer be sure that any company will continue to exist. Herein lies our greatest motivation for pursuing rapid and wide-ranging reform.

Assessing Past Reforms

Results Have Been Mixed

In this section, we take an objective look at the reforms we have implemented based on the philosophy and strong convictions outlined above. Concerning our latest medium-term management plan, which covered the three years to FY 2002, I can say that we took successful steps toward our goal of achieving sustainable growth. However, we were unable to realize our targets in absolute terms.

Expansion of the Investment Banking Business to Stabilize Earnings Was Successful

One successful effort to attain sustainable growth was the expansion of our investment banking business. “New businesses” aimed at diversifying our revenue streams experienced particularly strong growth. These new businesses can be grouped into four categories: M&A, structured finance, derivatives, and principal finance. In FY 2002, the percentage of consolidated net operating revenues derived from these new businesses jumped to more than 9% from just 3.5% in FY 1999. Operating revenues from M&A activities have seen particularly robust growth, expanding 3.5-fold over the three years to FY 2002.

In other areas as well, the Daiwa Securities Group has seen a steady increase in its presence in the investment banking business. In the FY 2002 lead manager league tables (rankings based on pricing dates), we ranked No. 1 in three categories: domestic corporate straight bonds, initial public offerings (IPOs), and domestic public ABS (bookrunner). We also took the No. 2 position in public equity offerings and Samurai bonds (yen-denominated bonds issued by non-Japanese issuers). In these two categories, our market share has increased markedly compared with three years earlier. Specifically, our share of equity offerings rose to 16.4% from 6.9%, while our share of Samurai bonds jumped to 16.4% from 2.6%. We attribute this success to the fact that in 1999, we became the first company in the industry to move to a holding company structure while spinning off our wholesale securities business to form a joint-venture with the Sumitomo Mitsui Financial Group. This strategy is now bearing fruit.

Making Progress in Our Efforts to Revamp the Cost Structure; Non-current Assets Steadily Shrinking

In FY 2002, our consolidated SG&A expenses shrank to ¥246.7 billion from ¥287.4 billion in FY 1999, declining 14% over the three-year period. We accomplished this by reducing personnel costs, overhead, and other expenses and/or converting them to variable costs, and by restricting increases in depreciation expenses by streamlining investment in computer systems. We attribute these results to our efforts to lower our breakeven point by revamping our cost structure and to move away from an inherently weak business structure. In short, while the macroeconomic environment turned out to be significantly worse than we expected, we were able to handle this by altering our course.

We have also been able to boost financial efficiency by reducing non-current assets. Most notably, we have slashed real estate and other tangible fixed assets by 50% over the three-year period and cut investment securities including cross-shareholdings by 2%. The reduction in tangible fixed assets resulted mainly due to our decision to withdraw from the non-group real estate leasing business. The reduction in investment securities may appear small; however, this was due to the fact that changes in the rules regarding the management of money management funds

(MMF) issued by The Investment Trusts Association, Japan prompted Daiwa Asset Management Co. Ltd. (DAM), one of the Group's main companies, to purchase bank subordinated debt of approximately ¥140 billion from its MMF portfolio. Excluding this impact, the balance of investment securities shrank some 34%.

We are Making Progress but Still Have a Long Way to Go

The previous Group medium-term management plan, which was formulated in March 2000, set three targets to be reached by FY 2002: (1) achieve a consolidated ROE of 15%; (2) double retail client assets under custody (to ¥28.3 trillion); and (3) achieve a credit rating of single-A or better from the leading domestic and foreign credit rating agencies (for our two securities subsidiaries). As will be discussed in detail in Special Feature I (from page 15) of this annual report, we fell considerably short of all three of these goals. We attribute this to several factors. For example, the macroeconomic environment was far weaker than we anticipated. Specifically, we assumed that real GDP would grow an average of 2.5% per annum, while it actually grew only 1.2%. We also assumed that the TOPIX index would rise an average of 13% per annum; instead, it declined 14%.

However, we do not blame our inability to reach these goals on the macroeconomic environment alone; indeed, we believe much of the responsibility lies in our own inadequate efforts. We think there was considerable room for improvement in our marketing and product development efforts. In FY 2002, our trading gains jumped 48% to ¥93.9 billion, a sharp improvement over FY 2001. However, this figure was still well below the more than ¥165.6 billion in trading gains recorded in FY 2000. In addition to further increasing our trading gains, we must also work to (1) revitalize our languishing asset management operations, (2) redouble our efforts to develop a customer base of mid-sized corporations and individual investors with high net worth; and (3) enhance the post-sale follow up for retail customers.

Assessment of the FY 2002 Results

In FY 2002, we managed to hold the decline in consolidated net operating revenues to 5% despite an approximately 10% drop in the average daily trading value on the Tokyo Stock Exchange. Moreover, we achieved a 13% increase in ordinary income. The Group's mainstay securities business staged a dramatic rebound, as evidenced by the fact that Daiwa Securities Co. Ltd. (retail subsidiary) and Daiwa Securities SMBC Co. Ltd. (wholesale subsidiary) attained a 5.3-fold jump in ordinary income. (Note: The results of Daiwa Securities SMBC include the performance of its subsidiary Daiwa Securities SMBC Principal Investments.) This performance indicates that we are making steady progress with our efforts to strengthen our earnings foundation through reforms, particularly given that in FY 1997, when consolidated net operating income was roughly the same as in FY 2002, we incurred a consolidated ordinary loss of more than ¥13.1 billion. Nevertheless, the current level of earnings is still extremely low, and we are by no means satisfied with this result.

In FY 2002, we incurred a ¥6.3 billion net loss despite achieving consolidated ordinary income of ¥29.2 billion. This was primarily due to (1) a ¥4.1 billion addition to the account for doubtful debts made to increase the balance sheet transparency of our venture capital business, and (2) a ¥19.7 billion write-down of investment securities resulting from the stock market slump.

Future Reforms

Difficult Circumstances Offer Opportunities for Growth

The Daiwa Securities Group will continue to forge ahead in the coming years, stepping up the pace of change as we strive to stay in step with the rapidly evolving business climate. For the time being, at least, we expect Japan's economic growth to remain sluggish while deflationary pressures continues to intensify. However, we anticipate that even this difficult environment will offer unique opportunities for growth. If interest rates remain low, we have every expectation that both individual and corporate asset management needs for risk products will certainly rise, as evidenced by the fact that our sales of foreign currency-denominated bonds nearly doubled in FY 2002.

Japan's individual financial assets, which amount to slightly less than ¥1,400 trillion, have remained in ultra-low interest risk free products, rather than flowing into risk financial products, largely because (1) products and services lack sufficient appeal and (2) there is inadequate transparency with respect to business management and financial situation of securities companies. In short, we believe that individual financial assets remain stalled in ultra-low return financial products primarily due to our own inadequate efforts to offer attractive alternatives. The prolonged slump in the Japanese stock market has finally convinced the government to take steps to revive the market through deregulation. The protracted economic downturn has left the banks no choice but to accelerate writing-off of their bad debts. In the corporate world as well, the need for reorganization can only increase. These circumstances will inevitably create new business opportunities for the securities industry, and it is essential that we implement reforms rapidly and effectively if we hope to become a winner in this new business arena.

Call for Stepped-Up Efforts to Establish the Daiwa Securities Group Brand: Quality and Productivity Are Essential

As customer needs continue to diversify and competition intensifies, it is essential that we become a company that is chosen by those customers. In order for this to happen, we must develop products and services that set us apart from the competition. Moreover, in order for our customers to deal with us confidently, we must improve corporate governance and practice timely disclosure. In essence, it is crucial that we strengthen the Daiwa Securities Group "Brand." To this end, we have established a new medium-term management plan that reflects the hard lessons we learned through our previous plan. Dubbed "Best Brand Daiwa 2005," the new medium-term management plan spans the three years from FY2003 to FY2005 and focuses on two main goals: (1) to achieve superlative quality in every area of our operations and (2) to attain an equally high level of productivity. We believe that quality is at the heart of our ability to differentiate ourselves from our competitors and will thus become the identifying feature of the Daiwa Securities Group brand. Furthermore, the severity of the prevailing business environment means that we must provide high-quality products and services in a timely manner with limited human resources. For this reason, we must also strive to achieve top-notch productivity.

Learning from Past Lessons while Progressing Our Policies and Philosophy

Our new medium-term management plan has five key goals: (1) to strengthen the marketing structure for our retail business, (2) to supply high-value-added products and services that will enable us to boost trading gains, (3) to increase our presence



in businesses stemming from corporate restructuring in Japan, (4) to revamp our personnel management system, and (5) to enhance corporate governance. The first two of these goals are directed at resolving inadequacies that prevented us from realizing the goals laid out in our previous medium-term management plan. The third goal, on the other hand, builds on successes achieved through the previous management plan. The fourth and fifth goals will help further our long-standing commitment to value human resources and improving business transparency. We believe that all five of these goals are an essential part of our efforts to differentiate ourselves by establishing the Daiwa Securities Group brand.

In Special Feature II (from page 23), we outline the action plan that we have devised to realize these goals. The plan consists of a three-pronged approach focusing on (1) framework improvements (marketing and management frameworks), (2) evaluation improvements (personnel evaluations), and (3) the strengthening of intra-group relationships. Although we have not included it in the action plan's primary goals, we will naturally be improving cost management with an eye to changes in the macro environment. In addition, we will continue our efforts to lower our breakeven point by promoting a shift to variable costs, particularly in our retail business. In sum, over the next three years, the Daiwa Securities Group aims to implement a new strategy focusing on qualitative rather than quantitative growth.

To All Our Stakeholders

Impetus for Growth Must Come from Within

We aim to achieve sustainable growth by carrying out reforms that will strengthen the growth factors that lie within our control. Specifically, this will include efforts to further diversify revenue streams, enhance competitiveness by differentiating products and services, implement structural reforms and strengthen internal control in order to improve our credibility.

Our Goal Is to Achieve Growth by Building Credibility and Increasing Attractiveness

In the years to come, we will strive to achieve these goals, abandoning past practices and business models in favor of a new value system of our own creation. Our ultimate goal is to make the Daiwa Securities Group an indispensable presence to all of our stakeholders.

(1) To Our Shareholders and Investors

In order to inspire confidence in our company as a long-term investment, the Daiwa Securities Group will promote earnings stability and sustainable growth. We aim to stay one step ahead of the competition by enhancing the transparency of our operations and taking a proactive and timely approach to disclosure.

We will return the fruits of our success, taking into consideration the best combination of (1) dividend payout and (2) retained earnings and investments that promise long-term growth.

(2) To Our Customers

The Daiwa Securities Group aims to rapidly grasp customer needs and develop unique and profitable products and services in areas such as asset management and corporate restructuring. To enable customers to entrust their assets to us with confidence, we will take the lead in strengthening our management organization and undertaking timely disclosure.

Rather than continuing to emphasize our traditional focus, which was simply selling products, we plan to add value to our business through product design and post-sales follow up.

(3) To Our Employees

The Daiwa Securities Group will strive to create a company environment that enables employees to maximize their abilities by stabilizing operations and refining and clarifying our employee evaluation system. "Number one in quality" also refers to our desire to become a company that our employees can be proud to be a part of.

Under the new personnel evaluation system, our employees will be able to concentrate their energies on improving quality, as laid out in the medium-term management plan. If achieving these targets does not serve to improve our performance, the strategy, not the employees, will be at fault, and management stands ready to take final responsibility.

In sum, the Daiwa Securities Group will endeavor to achieve sustainable growth by winning the confidence of and providing a sense of wellbeing to all its stakeholders.

July 2003



Yoshinari Hara
President and CEO
Daiwa Securities Group Inc.

Special Feature I. Review of the Previous Medium-term Management Plan (FY 2000-2002)

We must reflect on how the assumptions in our previous medium-term management plan differed from actual business conditions in order to objectively analyze where our efforts at corporate self-improvement fell short. In doing so, we will be able to determine the next steps we should take to move forward.

In our retail securities business, further reforms are needed, especially in our marketing structure. This is because we have not been able to tap into the huge latent demand that exists among personal financial assets.

In our wholesale securities business, trading gains showed some improvement, but earning levels are still low. This, however, is not only a problem with our wholesale business. We are aware that cooperation across the Group is absolutely necessary to strengthen our product development capabilities, which in turn will lead to higher trading gains. On the other hand, our investment banking operations are experiencing a steady increase in benefits from our collaboration with Sumitomo Mitsui Banking Corporation.

In the asset management business, low interest rates resulted in sizeable cancellations of bond investment trusts while the lackluster stock market led to a sharp decline in sales of Japanese equity-linked investment trusts. In addition, zero interest rates have caused a continuing decline in management trust fees. Similar to the problems besetting trading activities, an increase in product development capabilities and better interaction within the Daiwa Securities Group are issues that must be addressed before the asset management business can recover.

Our financial base has improved, but more progress is needed. We must also exercise greater control over the investments that we are making in our employees and computer systems, to the extent it does not sacrifice our growth potential.



Assessing the Impact of the Business Climate

Outline of the Business Climate over the Last Three Years

Believing that the high-tech industry would play a leading role in the global economy on the back of the IT revolution, we set our previous medium-term management plan in March 2000 based on the following business scenarios: (1) a continued expansion of the global economy with the U.S. as the driving force of that expansion; (2) growth in Japan's economy led by a recovery in corporate earnings stemming from deregulation and an expansion of exports; and (3) a huge rebound in the stock market in response to the aforementioned scenarios, which would lead to the dramatic shift of expanding personal financial assets into the securities market. (We expected that the large volume of fixed-rate postal savings accounts reaching maturity, the phasing out of blanket deposit insurance on bank accounts and the introduction of a defined-contribution corporate pension system would all contribute to accelerating the aforementioned shift.)

Unfortunately, the reality over the past three years was radically different from what we had expected in our scenario.

There was once considerable talk of how the "new economy" had helped the U.S. achieve steady growth in the 1990s. At the start of the 21st century, however, the tone changed and economic performance in the U.S. began to stumble, due in part to excess investment in the high-tech industry and also due to the after-effects of the September 11 terrorist attacks. As a result, the New York Dow Jones Index, after peaking at 11,722 in January 2000, showed little movement over the next year and a half, before eventually plunging to almost 7,200 in October 2002.

Meanwhile, Japan's economy was digging itself a deeper hole. While the

government continues to tighten its budget and put a priority on fiscal reconstruction, not as much progress has been made with structural reform and deregulation as we expected. Also, the conversion to domestic demand-led economic growth has not been realized and faltering exports have had a direct negative impact on the Japanese economy.

Goals We Did Not Meet

Unfortunately, we fell far short of the goals set in our previous medium-term management plan up through FY 2002. For example, while we set a consolidated ROE target of 15% for FY 2002, the actual figure we attained was -1.1%.

Daiwa Securities Co. Ltd. (Daiwa Securities) and Daiwa Securities SMBC Co., Ltd (Daiwa Securities SMBC), the two securities-related arms in our Group, are rated BBB, due to stagnant earnings and a harsher business environment. This was in contrast to our goal of obtaining a better-than-single-A rating.

Reviewing External Factors to Determine How We Could Have Done Better

By assessing the actual business environment against the assumptions made at the time the medium-term management plan was set, we do not mean to blame the failure to achieve our goals on external factors. On the contrary, our purpose is to analyze what we did well and what we did not do very well regardless of the external environmental factors. In doing so, we can continue improving on our successes, amend our errors and change course where necessary.

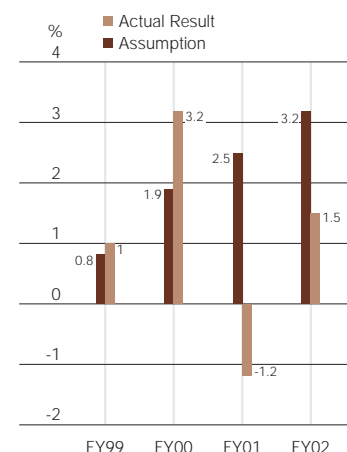
GDP :

Growth Rates Were Significantly Lower Than our Assumptions

There were three assumptions we made about the business environment in our previous medium-term management plan. These were forecasts for (1) GDP growth, (2) TOPIX and (3) the amount of personal financial assets. Regarding GDP, we assumed that real GDP would grow by an annual average of 2.5% while nominal GDP would increase an average of 2.7% over the three-year period. These GDP

growth assumptions were based on our expectations of an end to deflation and positive economic growth. The actual GDP results, however, were totally at odds with this outlook. Real GDP showed nearly flat growth, increasing only an average of 1.2% over the three years, while nominal GDP actually shrank an average of 0.7%.

Assumptions vs. Actual Results of the GDP



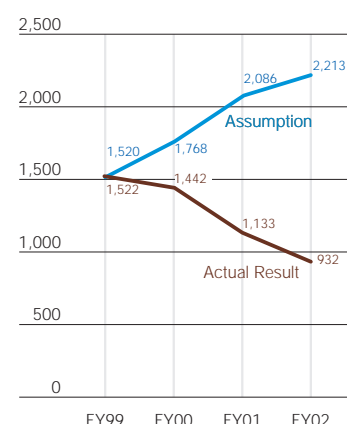
TOPIX :

Our Assumption Was an Increase of 46%, but the Reality Was a Decline of 39%

With respect to the stock market, there was a much greater difference between our assumptions and the actual results than with the GDP figure. While we assumed that the TOPIX index(annual average) would rise 46% over three years, it instead declined by 39%. If there is any truth in the sayings “share prices are leading indicators of the real economy” and “the market is always right,” the fact that

the difference between our stock market performance assumption and the actual result was larger than that for GDP suggests an uncertain outlook for the economy. The reason why we did not formulate our new medium-term management plan assuming recoveries in the domestic economy and the stock market is because we have analyzed the situation and learned our lesson.

Assumptions vs. Actual Results of the TOPIX index (annual average)

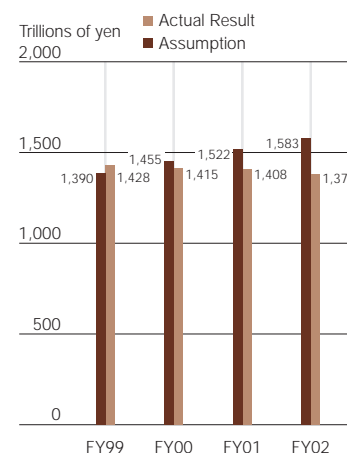


Analyzing Personal Financial Assets

On the other hand, our assumptions regarding the size of personal financial assets did not differ as much from reality as those for the GDP and the stock market. While we assumed that personal financial assets would increase by 14% over the three years, the reality was a 4% decrease. The expected shift in assets toward securities hardly became a reality. However, while this is a reflection of the

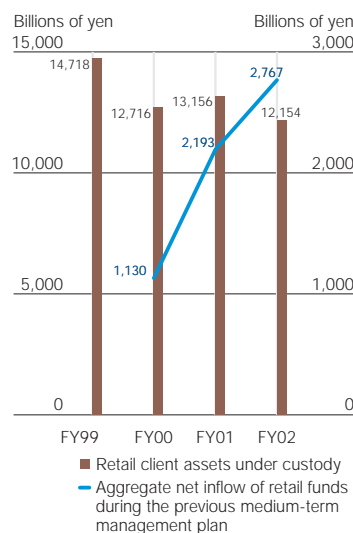
difficult past of the Japanese securities industry, we also believe it indicates huge potential growth. Despite the large drop in share prices, the amount of personal financial assets did not decrease very much simply because the money held by individuals mostly remained in risk-free financial products.

Assumptions vs. Actual Results of Personal Financial Assets



Assessment of Performance and the Lessons Learned over the Past Three Years

Retail Client Assets under Custody and the Net Inflow of Retail Funds



Retail Securities Business :

Operational Efforts Have Been Rewarded but Not Enough

In addition to the consolidated ROE and credit rating targets mentioned earlier, the Daiwa Securities Group had another goal in its previous medium-term management plan: increasing its retail assets under custody. At the end of FY 1999, retail client assets under custody totaled ¥14.7 trillion. Our aim was to double this amount to ¥28.3 trillion by the end of FY 2002. Instead, as of the end of FY 2002, these client assets declined 17% over the three-year period to ¥12.1 trillion, leaving us to reflect on why we missed our target by such a large margin.

In fact, however, value of client assets tend to be volatile depending on share price movement. The decline in value, therefore, cannot entirely be blamed on inadequate effort. Since the amount of client assets is subject to large inflows and outflows as a result of (1) purchases, (2) withdrawals and (3) selling and various other factors, it is not easy to analyze the impact of external and internal factors. We would like to point out, however, that the TOPIX index fell 39% during the

three years of our medium-term plan, while the value of retail assets under custody shrank slightly less than 20%. In our opinion, this result indicates that our efforts to increase assets under custody were not unsuccessful. In fact, the net inflow of retail funds came to ¥2.7 trillion over the three years. Despite our efforts, however, we believe our accomplishments remain far too limited. We are aware that there is a lot of room for improvement in the attractiveness of our products and services. We believe that making improvements in these areas is an important part of moving forwards.

In order to examine what can be done to make our products and services more appealing to our customers, we began to conduct in-depth customer satisfaction surveys three years ago as part of our branding activities. From the surveys, we have learned that our products and services can be improved in quite a few ways. The survey details are presented in Special Feature II (from page 23).

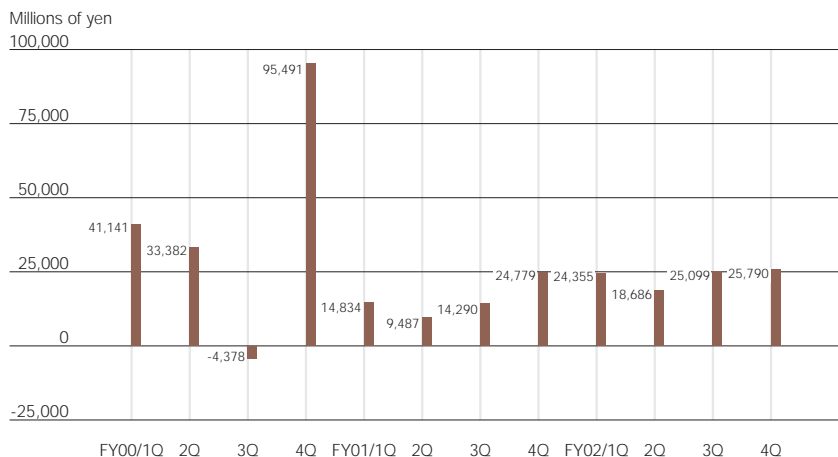
Trading Gains : A Recovery, but at a Low Level

Our net gain on trading securities increased more than 40% year over year in FY 2000, only to then sustain a sharp drop of more than 60% in FY 2001. We are well aware that large fluctuations in trading gains such as these must be addressed as they could become a serious problem, destabilizing our overall revenues. While we should of course take advantage of business opportunities such

as those related to the unwinding of cross shareholdings and other business opportunities, inter-departmental collaboration within Daiwa Securities SMBC and inter-company collaboration between Daiwa Securities SMBC and Daiwa Securities are both essential to achieve stable revenues. In FY 2001 as well as in FY 2002, we strengthened this collaboration by making some organizational and person-

nel changes. As a result, FY 2002 trading gains rebounded to grow 48% year over year to ¥93.9 billion, earnings volatility in each quarter of the term was minimized and, above all, collaboration with Daiwa Securities delivered positive benefits. Nevertheless, despite reaching higher levels, our trading gains were disappointing relative to the level of ¥165.6 billion achieved in FY 2000.

Trading Gains over the Past Three Years (quarterly)

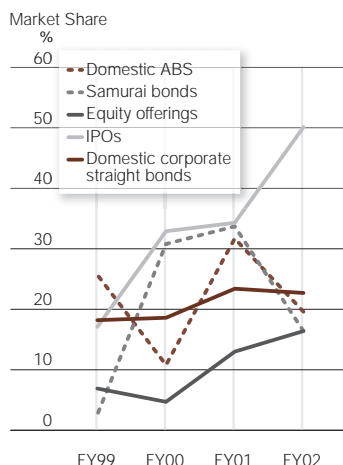


Favorable Growth in Some Areas of Our Wholesale Securities Business

In areas outside of trading, our wholesale securities business generally achieved solid growth. The lead manager league tables (ranked on the basis of pricing date) for the last three years reveal that our presence has increased significantly. In terms of market share, we improved from 18.2% to 22.7% in the corporate straight bonds category and from 17.1% to 50.1% in initial public offerings (IPOs). In each of these categories plus in domestic public ABS issuance(bookrunner), we were at the top of the league tables in FY 2002. We were second in equity offerings and the Samurai bond categories, but nevertheless managed to improve our market share in both categories, from 6.9% to 16.4% in the former and from 2.6% to 16.4% in the latter. Another important element in achieving sustainable growth is diversification of the revenue stream. We expected that four new areas of business—M&A, structured finance, derivatives and principal finance—would contribute to diversifying our revenue stream. In fact, these new businesses did start to generate sharp revenue increases over the

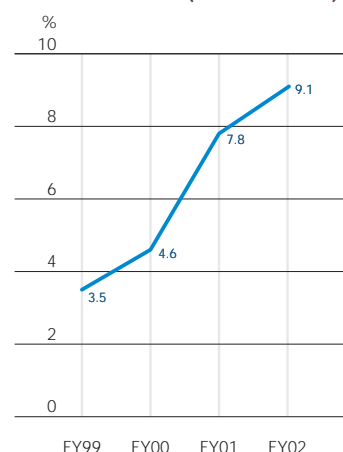
past three fiscal years and accounted for slightly more than 9% of net operating revenues in FY 2002, up from 3.5% in FY 1999 (consolidated basis).

Market Share of Lead Managed Issues (value)

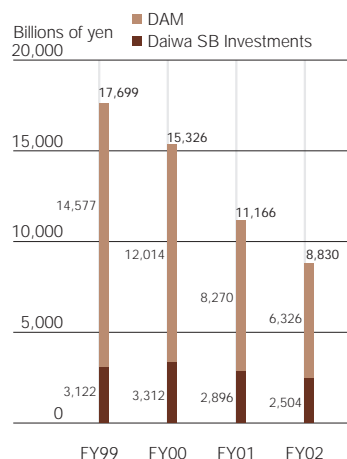


Source: Daiwa Securities SMBC, THOMSON DealWatch for Domestic ABS(bookrunner)

Percentage of Net Operating Revenue from New Businesses(Consolidated)



Assets under Management



Asset Management Business : An Extremely Adverse Setback

Daiwa Asset Management Co. Ltd. (DAM) and Daiwa SB Investments Ltd. (Daiwa SB Investments), our two asset management companies, continued to experience punishing business conditions. DAM especially suffered from the adverse business environment, recording declines in equity investment trusts under management. DAM also posted a 60% reduction in fixed income investment trusts under management over the three-year period ended FY2002. This was due to Japan's prolonged near zero interest

rates and a drop in value below par of a competitor's MMF (money management funds), triggered by the bankruptcy of Enron during FY 2001. While the industry as a whole continues to be plagued by extremely unfavorable business conditions, we believe we can improve our asset management business by developing products structured to meet customers' needs and by building a more effective marketing structure through stronger inter-company cooperation within the Group.

Assessment of Balance Sheet Reforms over the Past Three Years

The Meaning of Balance Sheet Reform

We improved our balance sheet by reducing risk assets and external debt unnecessary for our core businesses. Taking steps to ensure greater financial health and capital efficiency is essential to provide our customers with a sense of security. Furthermore, we believe that establishing a stronger relationship with our customers will lead to the attainment of sustainable growth, which will benefit all of our stakeholders.

Core Financial Strategy

The largest risk asset in our Group is trading assets included in current assets, most of which are held by the wholesale securities company. As trading is one of our core businesses, we plan to proactively engage in trading operations backed by transactions with clients, while carrying out sound risk management. The large fluctuations in our trading positions are due to changes in our clients' trading activities as well as our product strategy. Our venture capital and private equity businesses engage in direct investments. These important risk assets are accounted for as "operational investment securities" in current assets and as "other investments" in fixed assets and have not been

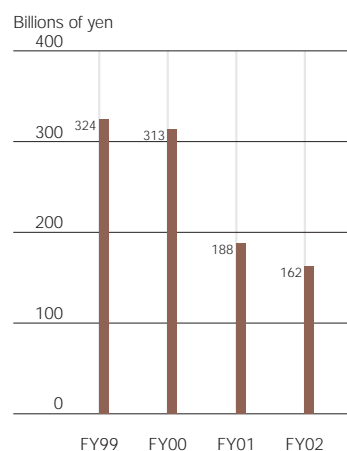
subject to excessive reductions. To the contrary, as we believe that (1) it is inevitable that corporate demand for business restructuring will increase in the future and (2) we will be able to take full advantage of our management analysis and business restructuring know-how in this field, we expect investments in this area to grow under appropriate risk management control.

Our core strategy is to improve our financial health and capital efficiency by reducing risk assets in non-core businesses, both in tangible fixed assets and investment securities such as real estate and cross-shareholdings, while expanding investments in potential growth areas of our core businesses.

Restructuring of the Real Estate Business Is Close to Completion

The value of our tangible fixed assets (consolidated basis) almost halved, from ¥324.5 billion at the end of FY 1999 to ¥162.3 billion at the end of FY 2002. This reduction came about as a result of our decision in the second half of FY 2001 to withdraw from the business of leasing real estate to non-group companies and to dispose of the related assets. This decision, not anticipated at the time our previous medium-term management plan was for-

Tangible Assets (consolidated)



mulated, was made to prepare for an accelerated adoption of asset impairment accounting. In the second quarter of FY 2001, we recorded ¥127.4 billion in extraordinary losses as an expense related to the reorganization of our real estate business. At that time, the book value of the assets was revised to the estimated sales value of ¥36 billion, based on the discount cash flow method. By the end of FY 2002, we disposed of approximately ¥32 billion. With the remaining balance at ¥4 billion, we believe that the real estate restructuring of the Group is near completion.

The Value of Investment Securities Declined 30% (excluding bank subordinated debt held by DAM)

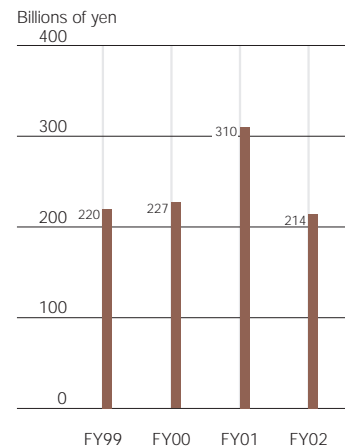
Investment securities at the end of FY 2002 stood at ¥214.4 billion, almost unchanged from the end of FY 1999 amount of ¥220 billion. However, this reflects DAM's purchase of bank subordinated debt with a face value of ¥143.6 billion from its MMF portfolio in FY2001 in response to new rules set by The Investment Trusts Association, Japan regarding MMF management. Roughly

half of this subordinated debt was later sold to non-group companies. This subordinated debt purchase aside, the value of the Group's investment securities have decreased by slightly more than 30% over the last three years.

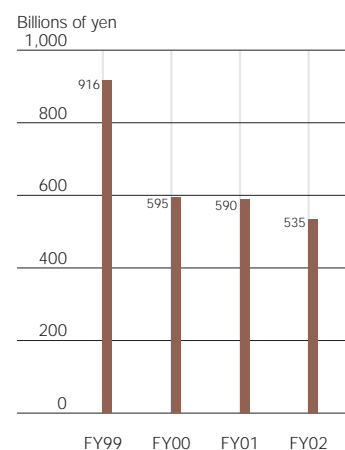
Despite a 42% Reduction, We Must Further Cut Our External Debt (excluding the two securities companies and NIF Ventures)

We reduced our external debt by 42%, from ¥916 billion at the end of FY 1999 to ¥535 billion at the end of FY 2002. This is 76% of our goal of ¥500 billion that we set in our previous medium-term management plan. The reasons why we fell short of this goal are, as previously mentioned, (1) the need for cash to purchase bank subordinated debt held in our MMF portfolio and (2) the failure to achieve our earnings targets. As mentioned in more detail in the Special Feature II section (from page 23), we will continue to take measures to reduce our external debt by making effective use of commitment facilities based on the Group CMS (cash management system).

Value of Investment Securities (consolidated)



External Debt (consolidated)



* Consolidated companies excluding Daiwa Securities, Daiwa Securities SMBC (including its subsidiaries) and NIF Ventures

Assessment of Other Issues Pertinent to the Past Three Years

Leveraging Our Marketing Operations and Adjusting Investments in Infrastructure

We did not stand idly by while the surrounding business environment diverged substantially from the scenario contained in our previous medium-term management plan. We made steady improvements in our balance sheet and took appropriate steps as necessary to put our marketing operations and investments in infrastructure on the right track.

Investment in Infrastructure:

Adjustments to Our Infrastructure Investments

We initially pursued a program of infrastructural expansion on the assumption that business conditions would stage an impressive recovery. But, due to the pro-

longed sluggishness of the business environment, we changed course and brought our investments in computer systems down to a level lower than planned, but not to the extent that we would jeopardize our business growth potential.

Business Operations:

Creating a Foundation for

CS (Customer Satisfaction) Management

With respect to our sales activities at the retail company, we mainly revised the marketing structure in light of the slow pace of personal asset inflows we experienced relative to the size of the market potential. One measure that we implemented was the introduction of the "Satellite Branch System," in FY 2002. The purpose of this system is to create a

more efficient marketing system, by organizing multiple branch offices operating in the same particular area into one operational marketing area under the control of a core (mother) branch. Under this system, each area can respond to customer needs more promptly and accurately by identifying area-specific customer characteristics. It is too early to quantify the beneficial effects of this system, but we are gradually constructing a database on the unique customer needs and attributes in each marketing area. Going into FY 2003, we are building a foundation based on management of customer satisfaction, a strategy we believe will differentiate ourselves from our competitors.

Cost Controls in Response to the Business Climate

In response to the worse-than-expected deterioration of the business climate, we have strengthened our cost controls. Specifically, we managed to reduce SG&A expenses on a consolidated basis from ¥287.4 billion in FY 1999 to ¥246.7 billion in FY 2002, a decline of approximately 14%. Personnel, office management and real estate related expenses are some of the areas where we succeeded in curbing costs.

In our previous medium-term management plan, we anticipated that an increase in staff levels in areas related to the securities business and aggressive investment in IT would cause personnel and depreciation expenses to rise substantially.

However, owing to the deterioration in the business environment, we restrained new hiring and investments in computer systems that were either nonessential or not urgent. As a result, personnel costs and depreciation expenses for FY 2002 were below what we anticipated at the beginning of the previous medium-term management plan, the former by about ¥36 billion and the latter by about ¥9 billion. The lower personnel costs can be attributed to a reduction in the number of permanent employees and the changes made to convert fixed costs to variable costs (by, for example, making greater use of part-timers and tying a larger portion of bonuses to corporate earnings).

At the consolidated level, the total number of employees (including those at the equity-method subsidiary Daiwa SB Investments) declined by 342 over the three-year period, compared to the increase of 643 originally projected under our previous medium-term management plan. Although depreciation expenses rose over the same time period, additional IT investments amounted to ¥91 billion, which was below the range of ¥131 billion to ¥151 billion originally envisioned in the plan.

Personnel: Initial Plan vs. Actual

(persons)

FY99-end – actual –	FY02-end – initial plan – (A)	FY02-end – actual – (B)	(B)-(A)
13,019	13,662 (+643)	12,677 (-342)	-985

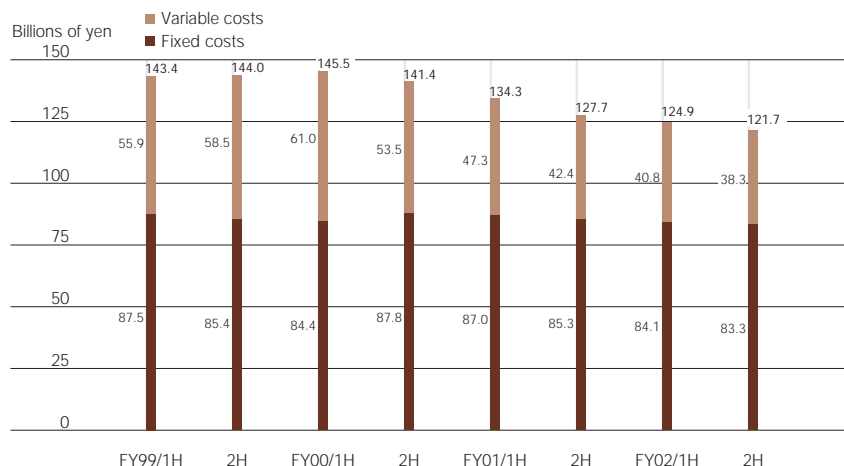
(change from FY99-end)

IT Investment Plan: Plan vs. Actual (for three years)

(Billions of yen)

– initial plan – (A)	– actual – (B)	(B)-(A)
131~151	91	-40~-60

Consolidated SG&A (fixed costs, variable costs)



<Variable costs> Commission and other expenses, personnel costs such as bonuses and costs for hiring part time workers.

<Fixed costs> Personnel costs such as wages and fringe benefits, real estate expenses, depreciation, tax other than income taxes

Special Feature II.

New Medium-term Management Plan - "Best Brand Daiwa 2005"

We will step up our pursuit of "quality-driven" growth and strive to differentiate ourselves from our competitors by implementing a strategy focused on "quality" and "productivity." This decision is based on the following three factors: (1) diversification of customer demand, (2) increased competition, and (3) the lessons we learned in reviewing our performance under the previous medium-term management plan.

We will step up development and improve deliverability of high value-added products and services, by strengthening the marketing structure in our retail securities business and promoting intra-group cooperation in our wholesale securities and asset management businesses.

In the wholesale securities business, we will enhance our presence in the corporate restructuring field, by taking advantage of both the vast opportunities offered by the current business conditions and the superiority of our position in this field.

We aim to win the unreserved trust of all our stakeholders, by making further improvements to our management system, centering on personnel management and corporate governance.

We will strive to raise capital efficiency and increase our ability to withstand turbulent economic conditions.

Our ultimate goal is to make ourselves indispensable to all of our stakeholders.



Our Assumptions for the Business Environment over the Next Three Years

Sluggish Economic Conditions and Deflation to Continue

In FY 2002, Japan's real GDP showed signs of a recovery after posting negative growth in FY 2001, thanks mainly to a quick expansion of exports in the first half of the fiscal year. However, due to delays in structural reform and deregulation, there were no signs of a recovery in domestic demand. In the meantime, the U.S. economy, which had absorbed the bulk of Japanese exports, suffered a slow-down, while in Europe, business confidence in Germany and other countries started to wane. Reflecting these conditions, Japan's industrial production year on year growth rate started to fall from the fourth quarter of FY 2002, while capital investments continued to be sluggish.

In our view, the current economic cycle can be characterized as follows: (1) the recovery was short-lived and peaked out at a low-level, and (2) there was only moderate pressure to adjust inventories. Consequently, we do not believe the current cycle will be subject to any serious economic adjustments. That said, however, we see no major driving force that could bring about an economic recovery. Accordingly, our view is that severe economic conditions accompanied by persist-

ent deflation are likely to continue for the time being.

The Challenging Environment Is Providing Us with New Business Opportunities

Given this difficult business environment, we believe that corporate reorganization and the reworking of balance sheets will accelerate. In addition, with no upsurge in domestic demand in the horizon, many companies have surplus capital as a result of their hesitancy to make any capital investments. These companies, in the meanwhile, are reducing their external debt and buying back shares, but further down the road we believe they will have a greater need to manage their surplus capital.

Due to uncertainty regarding employment and the pension scheme, rising medical expenses and the absence of confidence in future income growth, individuals' appetite for high risk financial products is unlikely to grow suddenly. Nevertheless, owing to the prolonged ultra-low interest rate environment, we are seeing a gradual shift of funds away from risk-free financial products to products with prospects for higher returns, especially among the elder generation.

Backbone of the New Medium-Term Management Plan

Lessons Learned from the Previous Medium-term Management Plan and Business Environment

We have created a new medium-term management plan titled "Best Brand Daiwa 2005" for the three year period from FY 2003 to FY 2005. In forging the future of the Daiwa Securities Group, we have incorporated the following three elements into our medium-term management plan: (1) the strengths and weaknesses of

the Daiwa Securities Group, that were revealed as a result of our reflections on the previous medium-term management plan; (2) our business environment assumptions for three years; and (3) the fundamental strategies and principles of the Daiwa Securities Group.

Becoming the Customers' First Choice

With competition intensifying, a business strategy that lacks a strong customer orientation is unlikely to meet with success.

In an era when customers have access to a wide range of information through the Internet and other media, it is obvious that it is the customer who chooses the company, not the company that chooses what to sell and to whom. This is why the Daiwa Securities Group's brand management, which has been based on improving customer satisfaction, is exactly what is needed in the current times. Moreover, as mentioned in our summary analysis of the previous medium-term management plan, we are aware that one reason why we were unable to record satisfactory results in our retail operations and in trading was because our organization was unable to provide customers with products and services that meet their needs.

Aiming to Be "Number One in Quality" and "Number One in Productivity" through Quality-driven Growth

The most important feature of our new medium-term management plan is "quality-driven growth." Specifically, our goal is to be "number one in quality" and "number one in productivity."

As we mentioned in Special Feature I, our marketing strategy did not pay enough

attention to the needs of our customers, which is why our previous medium-term management plan lacked success in some areas. In other words, we deviated from some of our pro-customer ideals and strategies that we should have adhered to, and instead merely tried to increase the immediate volume of business.

In the business world, making objective judgments about "quality" is ultimately in the hands of the customer. But no matter how good the quality might be, the notion itself becomes meaningless if customer needs are not dealt with precisely and rapidly. Given the tough business climate prevailing in Japan, it goes without saying that there are limits in the investment of management capital, including increasing headcount. The situation, therefore, calls for increased productivity, so that we can offer our clients high-quality products and services that meet their needs quickly and accurately. This is the reason why we are aiming to be number one in both quality and productivity.

The Daiwa Securities Group intends to push forward with these goals over the next three years. In our opinion, the results of our efforts will come to be reflected in our earnings.

Action Plan

Five Main Issues

Below we present an explanation of our action plan for achieving quality-driven growth. As part of this plan, we have identified five main issues that need to be addressed over the next three years.

The first is our retail securities business. Our main objective here is to overhaul its marketing structure and achieve quality-driven growth.

The second issue concerns strengthening the development and deliverability of value-added products and services in our wholesale and asset management operations. This goal cannot be achieved by

these two operations alone; all members of the Group must cooperate in developing the necessary products and services as well as in collecting customer feedback through marketing efforts and post-sales follow up.

The third issue involves increasing our presence in business opportunities related to corporate restructuring. Our previous medium-term management plan did help boost our presence in this area, but we aim to do better. One way we can achieve this is by further improving intra-group cooperation and by strengthening our collaborative business alliance with

Sumitomo Mitsui Banking Corporation.

The fourth issue is the enhancement of our human resource management system and the fifth is enhancing our corporate governance. These enhancements will enable us to secure the trust of all who have a stake in our company, most importantly, our shareholders, customers and employees, and bring us closer to our goal of being "number one in quality."

1. Strengthening Our Retail Securities Business

We plan to expand and reinforce the marketing system for our retail securities business. To accomplish this, we have formulated a five-point action plan.

(1) Marketing Based on the Satellite Branch System

The first part of this plan is the reconstruction of our marketing structure and improvement of the feedback mechanism, through the Satellite Branch System. The Satellite Branch System, which we briefly mentioned in Special Feature I, was introduced in July 2002 in the Tokyo metropolitan area and the Osaka region. This new system has been successful so far, enabling us to compile a useful database by identifying area-specific customer needs and characteristics. We believe that the success of the new marketing system should help to make Daiwa Securities an attractive choice among retail investors. In February 2003, as the second phase, the system was introduced in the Nagoya region. The know-how and knowledge that the Satellite Branch System places in our hands will be used extensively at our nationwide retail branch network. Furthermore, we are accelerating the delegation of authority to area managers. This will enable the area managers to provide products and services in response to the diverse and unique needs of customers in a timely fashion. At the same time, having the area managers submit semi-annual

reports will give management the means of reviewing the strategies and performance of each area.

(2) Introduction of Sales Specialist Position (in-house certification)

The second point is the introduction of the position of sales specialist. We plan to implement an in-house certification system. Under this system, employees will be given training to increase their knowledge in areas such as asset management and taxation. Marketing representatives who pass the exams will be assigned to branches as certified sales specialists to serve as consultants and further their involvement in the management and investment of our customers' assets. In this way, we can provide higher quality services and increase the level of customer satisfaction.

(3) Reforming Sales Channels

The third point is the reform of sales channels at Daiwa Securities. Up to now, Daiwa Securities has operated three sales channels: (1) over-the-counter sales (Daiwa Consulting), (2) a call center (Daiwa Call) and (3) the Internet (Daiwa Net). Each channel provided a different level of service and had a different fee structure. Of the three channels, we combined Daiwa Net and Daiwa Call into "Daiwa Direct" in May 2003 and moved to a two course structure. The main purpose of this reform was to provide a higher level of service. Before the reforms, customers were restricted in the products they could transact in according to channels. For instance, customers were unable to buy or sell certain investment trusts, overseas stocks, cumulative stock investments and bonds via Daiwa Net, and foreign currency-denominated bonds via Daiwa Call. Under the two course system, customers are free to enter into transaction in most products that we offer, regardless of the course. Furthermore, the range of services has

been expanded to meet the customers' needs.

In order to offer more information on our website, we have started to make prospectuses available there as well. Above all, we believe that we have made both courses more user friendly by streamlining our services. The only difference in service between the two courses is regarding consultation on investment.

(4) New Services That Reflect Customer Transaction Volumes

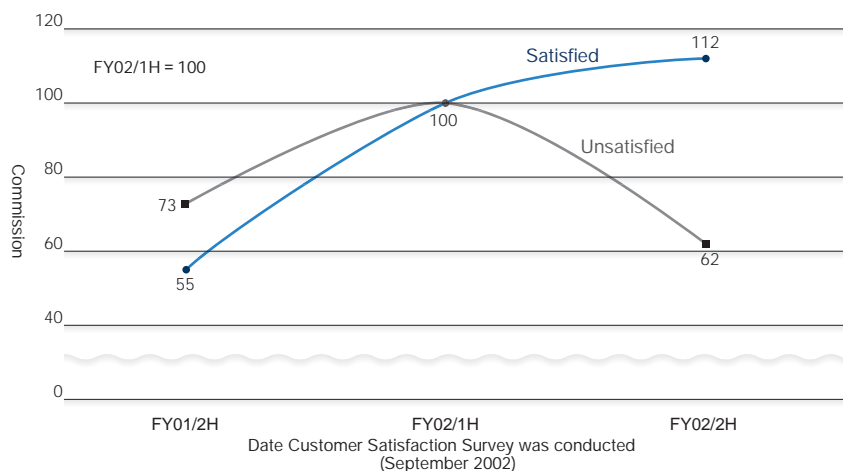
The fourth point is the introduction of the "Daiwa Comprehensive Account Service (Cash Management Program) Port One" in December 2002. Port One features the Daiwa Point Program, a mileage-like program. Under the Daiwa Point Program, customers accumulate points based on their assets under custody with Daiwa Securities and the value of commissions generated and bonds purchased. The point program provides "preferential service," which includes a waiver of the account management fee, and an "exchange service" through which accumulated points can be exchanged for various merchandise.

Introducing the point program has enabled us to provide greater benefits to customers who appreciate the value of our products and services. In other words, customers will benefit from bringing their assets to Daiwa Securities and, by doing so, will be able to benefit from the higher quality of services that we are able to offer. This will all lead to higher customer satisfaction.

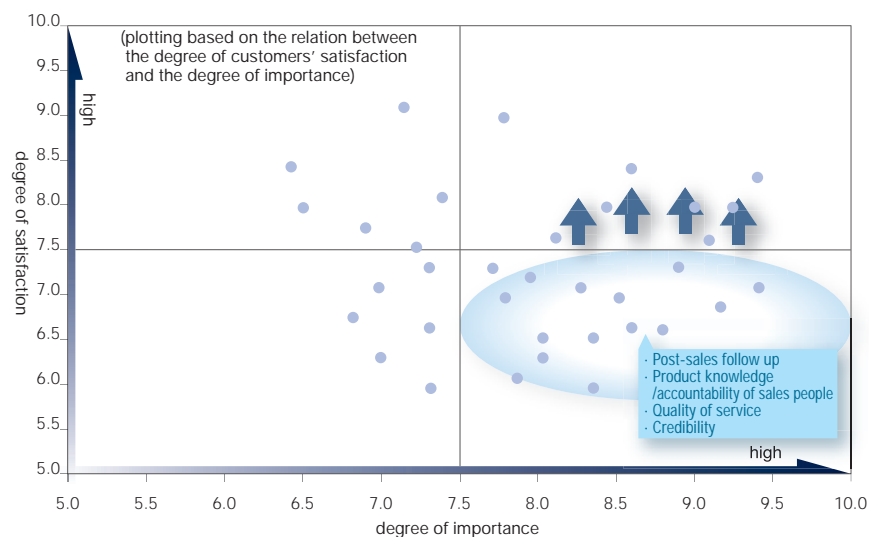
(5) Enhancing Post-sales Follow up

The fifth is enhancing post-sales follow up. As part of our branding activities started in FY 2000, the Daiwa Securities Group has twice conducted a customer satisfaction survey. Our analysis of the surveys reveals a correlation between customer satisfaction and the frequency

Trend in Commission Based on Level of Customer Satisfaction



Results of Our 2nd Branding Survey (Conducted in September 2002)



and volume of transactions (see above graph). We also discovered that we were not able to satisfy our customers in certain service fields, although the customers considered these as important. Post-sales follow up was one of them.

Based on these findings, we believe that we must not only strengthen our product development (i.e., the "entry" side) but also provide adequate post-sales services (the "exit" side); this will lead to better quality products and services through greater added value and differentiation from our competitors. The results of our surveys suggest that conducting surveys to understand what leads to customer satisfaction is extremely important. Henceforth, we are considering shorten-

ing the interval between surveys as well as instituting regular monitoring by including customer feedback forms in our account balance statements.

2. Enhancing the Development and Deliverability of Value-added Products and Services

A Challenging Environment

As we mentioned in Special Feature I, the net gain on trading securities in FY 2002 recovered to grow 48% year over year, but the level of gains was far short of our target. In the asset management business operated by Daiwa Asset Management Co. Ltd. (DAM) and Daiwa SB Investments Ltd. (Daiwa SB Investments), the business environment remains difficult. Particularly for DAM, management trust fee revenues from bond investment trusts declined as a result of the prolonged zero-interest rate environment while sales of Japanese equity related investment trust products dropped sharply. Moreover, as a result of the bankruptcy of Enron in the U.S., DAM experienced a 60% decline in the amount of bond investment trusts under management over the three-year period from the end of FY 1999 to the end of FY 2002.

Strengthening Our Product Development Capabilities

In our trading business operations, we believe it is necessary to expand businesses related to foreign currency-denominated bonds and structured bonds, the demand for which has been increasing recently. Therefore, we will continue to make investments in computer systems that handle our trading business. Over the next three years, we plan to reduce the Group's investment in IT by 23% over the actual amount of investment made during our previous medium-term management plan, but the investment level at Daiwa Securities SMBC will remain essentially

unchanged.

Also, in the asset management business, of the 200 funds managed by DAM and under review, we intend to reduce the number of funds to around 150 over the next three years, in keeping with our goal of improving our investment performance by using resources more efficiently.

Cooperation within the Group Is Essential to Making Improvements

It will be not enough just to strengthen our product development capabilities in the wholesale securities and asset management businesses. More so than our other operations, the sales departments are capable of quickly and accurately understanding customer needs and obtaining feedback from customers about our products. In short, therefore, it will be vital to secure cooperation from our sales division in order to improve our product development capabilities. We plan to strengthen our trading and asset management businesses by enhancing coordination among group companies, especially with Daiwa Securities and Daiwa Securities SMBC. One specific measure we already took in February 2003 was the creation of a financial product research team within Daiwa Securities' Product Planning Department.

3. Building a Stronger Presence in the Corporate Restructuring Field

Finding Ways to Take Advantage of Favorable Trends

As we explained in Special Feature I, our new business activities in the investment banking field showed strong growth over the three-year period covered by our previous medium-term management plan. We intend to continue to develop these businesses by steadily tapping into corporate needs for restructuring and revitalization, balance sheet reform and investment of capital. One of our focal points is

increasing our presence in the corporate restructuring area. Strengthening our relationship with Sumitomo Mitsui Banking Corporation lies at the core of this strategy.

M&A and principal finance, which are the central businesses involved in the revitalization of the Japanese economy, have shown strong growth over the last three years. We expect these businesses to continue to have excellent growth potential. Our target is to increase revenues from M&A related business by two fold and principal finance business by 60% in the next three years.

4. Enhancement of the Human Resource Management System

Reform of Compensation Practices

We will strengthen our human resource management system by focusing on (1) enhancement of performance-based evaluation system (2) providing diverse career options (3) implementing a fair evaluation system and (4) improving the quality of human resources. With regard to the reform of our employee compensation system, which we first announced in March 2003, we plan to take three specific steps: First, we will introduce a compensation system based on work classifications. Second, we will increase the number of steps in our monthly salary evaluation to 16 from the current 11. Third, we will introduce a “senior work system” and transfer our general career employees (sogoshoku) aged 55 and above to senior employment ranks. In addition, we plan a thorough review of regular increases in base salaries during FY 2005, a practice that we already abolished for management level employees.

Aiming for Broad and Fair Employee Appraisals

To transform our compensation system, we need to set up a more detailed job per-

formance evaluation system that our employees find convincing. A system that relies solely on supervisor evaluations is inadequate to measure employee performance accurately. It is essential to introduce a thorough evaluation program that also includes input from subordinates and other divisions. We are also considering implementing a monitoring system through which we can solicit customer feedback. Furthermore, we will proceed with giving more detailed evaluative feedback to our employees in order to maintain the fairness of the evaluation process and increase employee confidence in its effectiveness.

High-quality Services Come from High-quality Employees

Improving the quality of our personnel is integral to raising the quality of our products and services. As we later describe in the section on our “Group Management System” (from page 31), we plan to strengthen our human resources and bolster career management through a wide variety of training programs.

No Change to the Total Headcount, but More Use of Part-timers Will Improve Efficiency

According to our consolidated-level employment plan (which includes Daiwa SB Investments and security advisors) for the next three years, the total number of employees, including both full-timers and part-timers, will remain largely unchanged. However, we plan to reduce the number of full-time employees by 400 and raise the percentage of part-timers who handle office work from the current 40% to more than 50% over the next three years. In doing so, we believe we can convert more of our fixed personnel costs to variable costs.

5. Upgrading Our Corporate Governance System

Ensuring Better Brand Management

We are committed to continue upgrading our corporate governance structure and to ensure that our brand management strategy is well executed. For this purpose, our chief focus will be to (1) increase the number of outside directors on our Board, (2) move to a "committee system," (3) fully equip the Group with internal controls, (4) establish the Daiwa Securities Group Corporate Governance Principle, and (5) introduce a new executive compensation system linked to shareholders value. Details regarding these initiatives are explained in the section, "Group Management System".

Improving our corporate governance structure is also necessary to enhance compliance. During FY 2002, we experienced several regrettable incidents that were a complete deviation from the Daiwa Securities Group's goal of management based on building a brand. These incidents included cases of insider trading that caused administrative sanctions to be placed on Daiwa Securities SMBC. To prevent a reoccurrence of these incidents and to regain the trust of our stakeholders, Group companies have reestablished internal rules and upgraded their training programs.

Balance Sheet Reform and Continued Cost Controls

Management of External Debt and Risk Assets

While we did not include balance sheet reform and the continuation of cost controls among the five important issues contained in our new medium-term management plan, we will continue to push forward in these areas so as to attain less-volatile business results and improve our capital efficiency. Balance sheet reform will involve a tighter squeeze on external debt and risk assets in non-core business areas. We hope to reduce our external debt by around ¥120 billion over the next three years by, in part, boosting revenues via qualitative improvements and making use of commitment facilities. We plan to decrease our non-core business related risk assets by about ¥100 billion.

Making Our Cost Structure Better Able to Withstand Turbulent Business Conditions

Our basic approach towards costs will be tighter controls, but much depends on business conditions. As we explained earlier, we plan to convert more of our cost base to variable costs so as to be better protected from the ups and downs of the business environment. On the other hand, we intend to make ¥70 billion worth of IT-related investments over the next three years, compared with the total amount of ¥91 billion invested during our previous medium-term management plan. Within a limited investment framework, we will focus on areas that lead to improvements in quality and productivity.

Group “Management” System

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The Daiwa Securities Group will strive to maintain its leadership role in the area of corporate governance.

Currently, our corporate governance is carried out by (1) the Board of Directors, (2) the Board of Statutory Auditors, (3) the Management Committee and the Executive Committee and (4) various advisory committees. In FY 2004, this organizational structure will be further enhanced with the aim of shifting to a committee system. This change will result in greater transparency and objectivity in the division between management/oversight, and the executive functions of corporate affairs.

At the same time, we will establish the Daiwa Securities Group Corporate Governance Principle, redoubling our efforts in support of good corporate governance. Based on the Group's medium-term management plan, we will foster a management approach that focuses even more on enhancing shareholder value, by assessing accurately the performance of each company within the Group.

Taking the Lead in Reforms of the Corporate Governance System

The Daiwa Securities Group has steadily moved towards the construction of a more ideal form of corporate governance, one that is firmly grounded on the concept that shareholders are the rightful leaders of a company. Beginning in FY 1999, the Daiwa Securities Group Inc. became the first publicly traded Japanese corporation to make the transition to the holding company system. In so doing, it created a practical system for group management, maintaining the independence and unique expertise of each company within the Group.

Management That Consciously Listens to Outside Views

The management of the Daiwa Securities Group is the responsibility of the Board of Directors, which lays down the basic management policy and supervises the Group, and the Management Committee, which is charged with the implementation of corporate administration. With its four members who play an active part in organizations outside the Daiwa Securities Group, the Advisory Board serves as an extremely useful tool for developing managerial strategies and for raising various issues. In addition, the Board of Statutory Auditors audits the Directors in the execution of their duties.

Improving the Transparency of Directors' Compensation

In FY 2002, the Daiwa Securities Group established a Compensation Committee, comprised of the CEO, two external advisors and an outside Director. The purpose of the Committee is to increase the transparency of compensation received by members of the Board of Directors and the Executive Committee and to discuss appropriate yardsticks for executive compensation.

Transition to the "Committee System"

The Daiwa Securities Group continues to advance in reforming its system for corporate governance. Three major reforms are due to be carried out as part of the new medium-term management plan. The first is the transition in FY 2004 to a "committee system" of corporate governance. In the committee system of governance, broad authority for the implementation of corporate policy devolves from the Board of Directors. Three committees – a Nominating Committee, a Compensation Committee, and an Audit Committee – will be put in place, effectively separating the management and oversight functions from corporate administration. In addition to enable the rapid and responsive execution of management decisions, this system will enhance the objectivity and transparency of management oversight due to the fact that more than half the member-

ship of each committee will consist of outside Directors. An additional outside Director was appointed at the annual shareholders meeting held in June 2003. Of the seven Directors of the Company, two are now outside Directors.

To make the transition to the committee system of corporate governance, the Daiwa Securities Group will be undertaking various internal reorganizations. Toward this end, the Internal Audit Department was established within the holding company in February 2003.

Establishment of the Daiwa Securities Group Corporate Governance Principle

The second reform initiative is the establishment of the Daiwa Securities Group Corporate Governance Principle. As markets grow more global and institutional in nature, corporate governance concerns are increasingly influencing investment decisions. Daiwa's Corporate Governance Principle, which will be established in FY 2004, is part of our efforts to clarify the standards and concepts of corporate governance.

Compensation System Linked to Shareholder Value

The third initiative relates to the reorganization of the executive compensation system. As one means of improving the effectiveness of management strategy and linking executive incentives to shareholders' interests, as expressed in the medium-term management plan, we will redirect a portion of our Directors' accrued retirement funds to annual remuneration after which 10% of the original annual remuneration will be used to purchase shares of our stock through the Executive Shareholding Association.

Corporate Governance of the Daiwa Securities Group under the Present System and after the Transition to the Committee System

Image of Present system

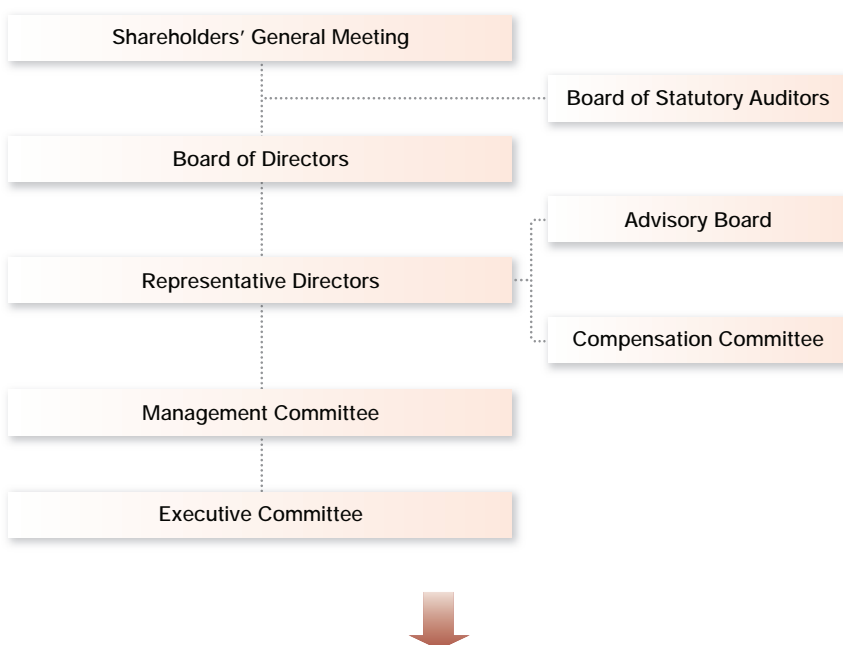
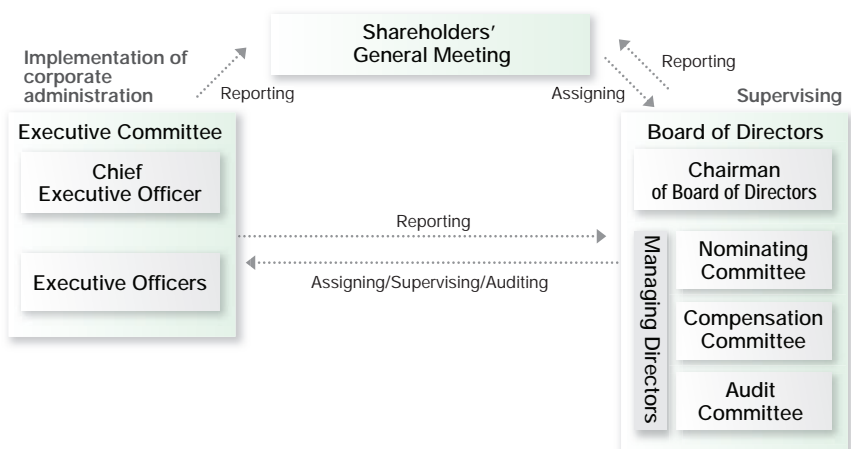


Image of New system (after transition to the committee system)



*more than half the membership of each committee will consist of outside Directors.

Compliance

To earn the trust of our stakeholders, we are further enhancing our compliance system. For example, we have implemented a "whistle-blower" system to check for and stop improper activities and to raise the level of awareness of all our executives and staff.

The Cornerstone of the Daiwa Securities Group Brand Is Compliance

Compliance lies at the foundation of the Daiwa Securities Group Brand that we aim to build. The very existence of our company will be jeopardized if we fail to win the trust of all our shareholders, customers and investors. It is on the basis of this awareness that we have established guidelines for ethical behavior. We have been inculcating these guidelines through study sessions for all Group managers and have set up a monitoring system for ethical behavior which is administered primarily by the Corporate Ethics Department and the Legal Department.

Vow to Prevent the Recurrence of Improper Activity

As mentioned earlier in this annual report, there were a number of scandals involving Group employees during FY2002. To prevent the recurrence of these incidents, we have already taken or will be taking the following steps to ensure that all Group managers and staff respect the fundamentals of compliance.

Establishment of an Internal Reporting System ("Whistle-blower" System)

The Corporate Ethics Hotline, an internal reporting system (also known as a "whistle-blower" system), was set up in January 2003 as a Group-wide initiative. This system is intended to be a self-monitoring system for the Group and to serve as a check on activities that could damage the Daiwa Securities Group brand. The protection of employees who report improprieties and the wide use of different forms of communication, such as the Group's intranet, e-mail, letters, teleconferencing, and meetings, as well as establishment of counseling system with outside lawyers will encourage the use of the system.

New Developments at Daiwa Securities

We will carry out thorough measures to prevent the occurrence of improper activities in Daiwa Securities' retail operations by more closely examining records of discussions between sales people and customers and by having compliance officers randomly sample the records of such meetings. To this end, we increased the number of staff in the Compliance Division whose responsibility is to examine retail offices by nine to a total of 60 starting in February 2003.

New Developments at Daiwa Securities SMBC

We will expand the scope of the compliance training system for the wholesale securities operations conducted by Daiwa Securities SMBC. Furthermore, employees seconded to Daiwa Securities SMBC will be obligated to participate in this training program. In addition, effective April 2003, insider-related information has started to be administrated on an individual basis (from a departmental basis), the rules governing the ability of managers' family members to open accounts were tightened, and a trading monitoring system was set up under the aegis of the Legal & Compliance Department.

Human Resource Management

Sustainable growth can only be achieved by companies that have the ability to attract talented people.

Our goal is to create an environment where employees thrive, take pride in their work and are satisfied. Along with implementing a performance-based evaluation system and offering a broader range of choices to our employees, we will establish a fair evaluation system and continue reforms aimed at enhancing employee capabilities.

Emphasis on People: The Cornerstone of the Daiwa Securities Group Corporate Principles

The source of the Daiwa Securities Group's competitive edge and the foundation of its brand building are its people. It is not simply enough to increase the capabilities of our employees; we must also create systems and an environment in which they believe in what they are doing, as well as take pride in and derive satisfaction from their work. Based on this philosophy, and within the framework of the "Best Brand Daiwa 2005" medium-term management plan running from FY 2003 to FY 2005, the Daiwa Securities Group is implementing a four-point program for human resource management within the Group: (1) enhancement of performance based evaluation system (2) providing diverse career options (3) implementing a fair evaluation system and (4) improving the quality of human resources.

Taking a More Comprehensive Approach to Performance-based Evaluation System

The first main point of the human resource strategy laid out in the medium-term management plan is the comprehensive implementation of performance-based standards. The primary aim of this is to motivate our employees by having their compensation reflect differences in performance, based upon the yardsticks of "quality of work" and "productivity." We intend to carry out the following reforms of our personnel system:

1. *Introduce a system for employee compensation based on work classification, and*
2. *Use more detailed personnel evaluations and create wider differences in salary.*

In introducing the system for compensating employees based on their job classification, the Group will develop a separate salary scale for each work classification – such as sales, administration and clerical. Bonus payments will also be differentiated under this system. Regarding personnel evaluations, the current 11-step monthly salary evaluation will be refined to a 16-step evaluation. This will help us to compensate our employees more appropriately in accordance with their work performance.

Providing Diverse Career Options

The second main point in our human resource strategy is an expansion in career choices. Along with extending the intra-group job posting system, which started in 2001, we will proactively promote management level personnel exchanges between Group companies. Daiwa Securities will provide enhanced career opportunities for employees interested in pursuing a career in sales by expanding our Area Financial Advisors – i.e., sales people who work in a specific geographic area. We will also implement career management programs that support our employees' ability to design their own careers.

Implementing a Fair Evaluation System

The third main point is the establishment of a fair personnel evaluation system. A multi-directional evaluation system was introduced to the Group holding company in January 2002. Under this evaluation system, members of one department evaluate other departments. This is in addition to the existing two-way evaluation system, in which managers evaluate their subordinates and vice-versa. Plans are in place to introduce this evaluation system beyond the holding company to include all Group companies. In addition, the Group's retail subsidiary, Daiwa Securities is considering including feedback from customers in its evaluation system.

Improving the Quality of Human Resources

The fourth aspect of our personnel strategy is to improve the quality of our personnel. In addition to bringing in outside expertise, the Daiwa Securities Group will strengthen its capabilities through a wide variety of training programs and personnel exchanges. While further enhancing management development programs such as the Daiwa Management Academy, additional programs will be introduced to prepare for the introduction of a nominating committee as we make the transition to the committee system of management in FY 2004.

Financial Strategy

The Daiwa Securities Group aims to achieve "sustainable growth." We will achieve this by focusing management resources on our core businesses and thus enhancing the quality of our services and by managing the risks inherent in each of our businesses.

We will continue to control risks, increase liquidity, and reduce financial costs by reducing non-core assets and external debt.

We will increase our exposure in businesses related to industrial revitalization and support start-up businesses while maintaining an appropriate level of shareholders' equity.

Maintaining a Balance between Growth and Financial Strength

In addition to the traditional securities and asset management businesses, our core businesses now include venture capital and principal finance. These new business lines which engage in industrial revitalization and development and the promotion of new businesses tend to have revenue flows that are closely linked to various macroeconomic factors such as movements in the equity market and interest rates. For us to improve the quality of our core businesses and achieve sustainable growth under these circumstances, it is important that we accurately monitor and carefully lay out an effective contingency plan to manage not only the price volatility and credit risks but also any financial risks.

"Selectivity and Focus" Based on Our Management Strategy

In order to attain sustainable growth by enhancing the quality of customer service in our core businesses, we will continue to dispose of assets and repay external debt not closely related to our core businesses. This will not only enable us to reduce financial risks without sacrificing our core business, but will allow us to increase the capital available to further reinforce our core businesses.

Under the previous medium-term management plan (FY 2000-2002), we reduced our consolidated fixed assets from ¥828.4 billion to ¥638.9 billion. Included in this figure are tangible fixed

assets, which fell from ¥324.5 billion to ¥162.3 billion. Accompanying our decision to withdraw from the business of leasing property to non-Group entities, we marked down the book value of related real estate to the anticipated selling price based on the discount cash flow method. Also, excluding the "bank subordinated debt, etc." acquired from DAM's MMF portfolio after the regulatory reforms instituted by The Investment Trusts Association were announced in FY2001, investment securities declined to approximately ¥142 billion by the end of FY 2002. This was a reduction of ¥77 billion in three years.

Utilizing the funds freed from these investments enabled us to reduce external debt in our non-core businesses. Our external debt, which stood at ¥916 billion at the end of FY 1999, declined by ¥381 billion to ¥535 billion by the end of FY 2002. This represented an improvement of approximately ¥8.4 billion in financial expenses for the final year of our previous medium-term management plan (see Special Feature I for details).

Efficient Allocation of Management Resources Based on Our Business Plan

The holding company will allocate the funds and capital necessary for each company in our Group to realize sustainable business development and growth. These decisions will be based on business plans formulated for both our core businesses and support divisions with the ultimate goal of achieving sustainable growth. The exceptions are the securities subsidiaries and the listed subsidiary (NIF Ventures) which are responsible for procuring and managing their own liabilities. This policy stems from the fact that for a securities company, raising funds is part of its own business activities, and for a publicly traded subsidiary, liquidity management should be conducted independently from the parent company. The Group has adopted this policy subject to an adequate risk management system being maintained at the subsidiary level.

Future Financial Strategy

In the future, we also expect to see an expansion in businesses that require a large amount of capital, such as investments in start-up businesses and new opportunities related to industrial revitalization. Thus, we intend to further reduce our non-core assets and liabilities and investigate the possibility of raising equity. Going forward, our goal is to reduce fixed assets unrelated to our core business by ¥100 billion and slash our external debt by ¥120 billion.

Fiscal 2002 ended March 31, 2003
(millions of yen)

	Japan	America	Europe	Asia and Oceania
1. Net operating revenues and expenses				
Net operating revenues from external customers	237,464	6,976	21,130	
Intersegment revenues	2,254	699	2,300	
Net operating revenues	239,719	7,676	23,330	
S.G. & A. expenses	215,664	11,080	19,944	
Operating income (loss)	24,054	(3,403)	3,385	
2. Assets	7,270,670	1,817,690	636,448	63

Fiscal 2001 ended March 31, 2002
(millions of yen)

	Japan	America	Europe	Asia and Oceania
1. Net operating revenues and expenses				
Net operating revenues from external customers	240,541	16,434	21,022	4,933
Intersegment revenues	9,724	648	1,530	
Net operating revenues	250,265	17,082	22,552	4,933
S.G. & A. expenses	226,435	17,082	1,530	
Operating income (loss)	23,830	0	21,022	4,933
2. Assets	7,270,670	1,817,690	636,448	63

Timely, appropriate and fair disclosure is essential to win the confidence of our stakeholders and to establish the Daiwa Securities Group Brand. We aim to expand communication channels with each of our stakeholders and to establish a consistent disclosure policy.

Furthermore, we will improve communication with our shareholders to gain their trust. The trust of our shareholders is essential to achieve the Group's aim of management based on building the Group's corporate brand.

Utilizing Various Means of Communication

The Corporate Communications Department will endeavor to disclose management information, such as earnings figures, and its corporate strategy in a timely, appropriate and fair fashion by utilizing various means of communication.

A conference call for analysts, institutional investors and the press is held in the afternoon of the quarterly earnings announcement. This conference call is web cast live and can be accessed from the Group's investor relations website for the convenience of individual investors. In the evening of the same day, we host another conference call, this time in English for our overseas investors.

Furthermore, in order to promote understanding of the Group's strategies going forward, the CEO hosts a semi-annual Strategy Meeting for analysts, institutional investors and the press. The CEO and other members of the management also visit investors outside of Japan on a semi-annual basis.

The presentation material used at the conference calls and meetings is posted on the investor relations website (<http://www.ir.daiwa.co.jp/>) together with other press releases and earnings announcements both in English and Japanese.

We believe the Internet is an indispensable tool that allows us to reach out to both our domestic and overseas stakeholders. To this end, we will work to provide easy-to-understand information and improve the accessibility of our website.

Increasing Opportunities to Communicate with Shareholders

Gaining the trust of our shareholders is necessary to achieve our target of managing the Group based on establishing a brand. Thus we are making various efforts to increase communication channels with our shareholders.

We have taken various measures to initiate an active dialogue between management and the shareholders at our general meeting which is held every year towards the end of June. For example, we have accelerated the mailing date of the Notice of Convocation to shareholders, moved the date of the meeting forwards to avoid the day the majority of companies hold their meetings, introduced voting over the Internet, and also started live broadcasts of the meeting to Osaka and Nagoya via in-house satellite facilities. We will continue to introduce new measures to make the shareholders' meeting more accessible.

In FY 2001, we enlarged the semi-annual newsletter we send out to shareholders to allow for larger fonts and more graphics. We believe this made our newsletter easier to read.

We have also introduced a point system for shareholders utilizing Daiwa Securities' mileage program (points are awarded based on transaction value as well as assets under custody and can be redeemed for goods and services). By utilizing these points, shareholders can gain access to various services such as the waiver of their account management fees.



IR website
<http://www.ir.daiwa.co.jp/>

Education, Research and Contribution to Society

The Daiwa Securities Group believes strongly in the importance of social responsibilities. Based on the conviction that our activities as corporate citizens represent an investment in society, we are working actively to make various contributions.

Promoting education and research in the finance and securities field, supporting volunteer activities by employees, aiding regional and international societies through foundations and supporting the arts and cultural activities are just some of the ways we participate in the development of education and research and contribute to society. In the area of environmental protection, we are involved in recycling, energy conservation, and setting up ecofunds. The Group, our member companies and our employees would like to contribute further to the healthy development of society and the protection and improvement of our environment.

The Prosperity of the Daiwa Securities Group Is Dependent upon Society's Understanding of Capital Markets and Its Healthy Development.

We at the Daiwa Securities Group cannot attain our goal of sustainable growth simply by expanding our business. Corporate prosperity is dependent upon society's understanding of capital markets and its healthy development. We acknowledge that the larger a company grows, the greater are its responsibilities to society. The Daiwa Securities Group, our member companies, and the Group's employees will actively promote education and research, contributions to society, and the protection of the environment. In July 1999, the Daiwa Securities Group established the Corporate Community Affairs Department to oversee and promote social contributions and environmental protection.

Cooperation with Universities

The Daiwa Securities Group believes it has an important social obligation to contribute to the development of investor education. We feel it is extremely important to maintain a certain level of activity and investment in this area, regardless of changes in the business environment or in our financial performance.

The Daiwa Securities Group engages in comprehensive academic collaboration in the areas of finance and management

with one of Japan's premier business schools, the Graduate School of International Corporate Strategy, Hitotsubashi University. The Group has also tied up with Kyoto University's Graduate School of Economics in the area of financial engineering and has sponsored or co-sponsored lectures at both schools. Plans have also been made to have Daiwa Securities' marketing strategy included as a case study at the Keio University Business School. In preparation for this, we have provided the Business School with a variety of data and information, while our Group personnel and other speakers have offered lecture series. Additionally, managers at Daiwa Securities' branch offices across Japan are engaged in business-university investor education outreach programs in the form of lectures at local universities. Furthermore, a number of executives from Group companies are involved in giving lectures at graduate schools, universities and junior colleges, promoting knowledge about finance and capital markets.

Implementation of a Social Contribution Program during Training for New Employees

In FY 2000, we introduced a Social Contribution Program as part of our training program for newly recruited employees. In this program, new employees learn sign-language, clean up the neighborhood surrounding the Tama Training Center,



540 employees and their families participated in the cleaning activity of Kuju-kurihama Beach.

and provide support at senior citizens' facilities, among other activities. Furthermore, in FY 2001, we incorporated into our executive training program a course that involves hands-on experience at a welfare facility. The objective of this is to make our Group managers aware of their responsibilities to play a leading role in contributing to society. Through these training programs, an awareness of the importance of contributing to society has expanded to Daiwa Securities' branch offices and individual employees.

Support Activities through Daiwa Securities Group Foundations

Founded in 1972, the Daiwa Securities Health Foundation supports studies and researches into the prevention and treatment of common diseases and works to increase the awareness of health maintenance and improvement. The Daiwa Securities Social Welfare Foundation, established in 1994, supports a wide variety of volunteer activities in the areas of social welfare and medical treatment. The Daiwa Anglo-Japanese Foundation, which is based in London, was established in 1988 to promote mutual understanding and friendship between Japan and the U.K.

Supporting Cultural Activities

The Daiwa Securities Group is also a strong supporter of the arts such as opera, theater, painting exhibitions, and other cultural events. In May 2002, the Group sponsored "An Exhibition of Marc Chagall - Treasures of the Pompidou Center & the Chagall Family," inviting 210 guests, including some physically challenged individuals and families from single-mother support centers.

Recycling

The enormous quantity of food waste generated at our employee cafeteria is collected and converted into fertilizer for agricultural use. Furthermore, our Group companies are actively engaged in the recycling of garbage as well as personal computers and other hardware.

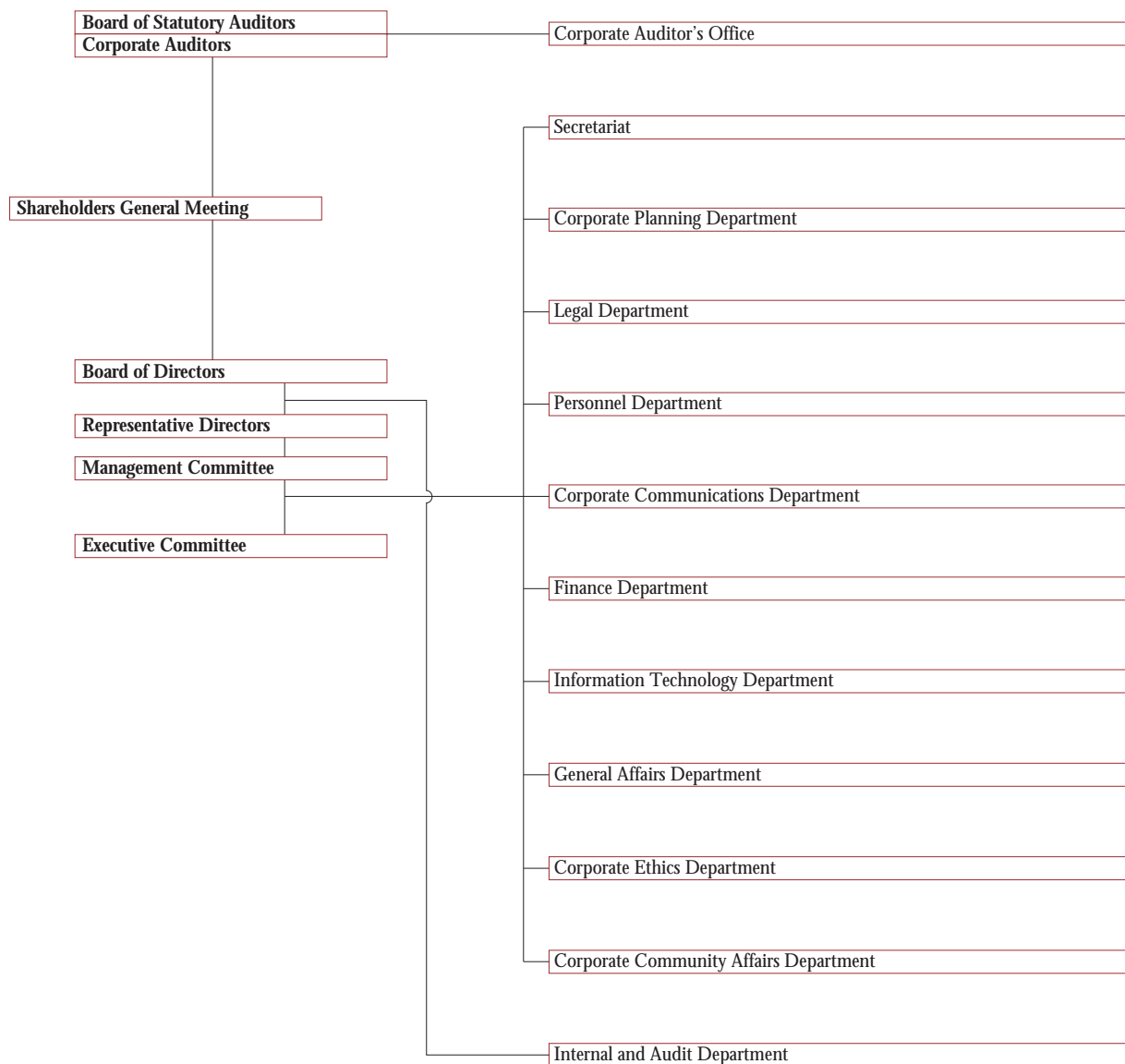
Energy Conservation

The companies of the Daiwa Securities Group and its branch offices are working actively to reduce electricity and energy consumption by consciously switching off electrical appliances and computers when they are not in use. At some of its facilities, the Daiwa Institute of Research has installed "eco-office equipment" which uses the waste heat generated by computer equipment to heat water and produce night time electricity. Moreover, by using an electronic data warehouse (EDW) to store data electronically, Daiwa Securities has achieved a 40% reduction in the amount of paper generated in its computer operations.

Socially Responsible Investing (SRI)

Daiwa SB Investments, one of the Group's asset management companies, manages the Global Eco-Growth Fund" (Mrs. Green). By investing in companies that are proactively protecting the environment, it indirectly contributes to increasing our societies' awareness of the importance of preserving the environment.

► **Daiwa Securities Group Inc. : Organization** (As of June 30, 2003)



Directors:

President and CEO

Yoshinari Hara

Senior Managing Director and Executive Officer

Tatsuei Saito

Managing Director and CFO

Junichiro Wakimizu

Managing Director and Executive Officer

Junji Takasaki

Director and Executive Officer

Kenji Hayashibe

Outside Director

Tetsuro Kawakami

(Counsel of Sumitomo Electric Industries, Ltd.)

Outside Director

Ryuji Yasuda

(Chaired Visiting Professor, Hitotsubashi University Graduate School.)

Group Executive Officer

Tetsuo Mae

(Deputy President, Daiwa Securities Co. Ltd.)

Group Executive Officer

Akira Hasegawa

(Senior Managing Director, Daiwa Securities Co. Ltd.)

Group Executive Officer

Toshiro Ishibashi

(Managing Director, Daiwa Securities Co. Ltd.)

Group Executive Officer

Kenjiro Noda

(Deputy President, Daiwa Securities SMBC Co. Ltd.)

Group Executive Officer

Shigeharu Suzuki

(Senior Managing Director, Daiwa Securities SMBC Co. Ltd.)

Group Executive Officer

Michihito Higuchi

(Senior Managing Director, Daiwa Securities SMBC Co. Ltd.)

Corporate Auditors:

Hiroyasu Kawaguchi

Mitsugi Kishimoto

Masahiro Yoshiike

(President, Taiyo Life Insurance Co.)

Isao Takemura

Advisory Board:

Kazuo Inamori

Founder and Chairman Emeritus, Kyocera Corporation

Jiro Ushio

Chairman and CEO, USHIO INC.

Glen S. Fukushima

Chairman, Cadence Design Systems, (Japan) B.V.

Hiroataka Takeuchi

Dean, Hitotsubashi University Graduate School
of International Corporate Strategy

Executive Officers:

Executive Officer

Ikuo Mori

Group Executive Officer

Akira Kiyota

(President, Daiwa Securities SMBC Co. Ltd.)

Group Executive Officer

Teruo Hatano

(President, Daiwa Asset Management Co. Ltd.)

Group Executive Officer

Tatsuhiko Kawakami

(President, Daiwa Institute of Research Ltd.)

Compensation Committee:

Ichiro Kawamoto

Attorney-at-Law, Senior Partner, Kawamoto & Miura

Yukio Yanagida

Attorney-at-Law, Senior Partner, Yanagida & Nomura

Ryuji Yasuda

Outside Director, Daiwa Securities Group Inc.

Yoshinari Hara

President and CEO, Daiwa Securities Group Inc.

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Daiwa Securities Co. Ltd.



Yoshinari Hara
President

Highlights of Results

	Millions of yen	
	FY 2002	FY 2001
Operating revenues	129,817	127,541
Net operating revenues	129,311	126,713
SG&A expenses	125,810	137,966
Operating income (loss)	3,500	(11,253)
Ordinary income (loss)	3,531	(11,028)
Net income (loss)	1,047	(3,641)
Group holdings	100%	100%

Daiwa Securities Co. Ltd. (Daiwa Securities), which engages in the retail securities business, has direct contact with the greatest number of the Group's customers, and is one of the core companies of the Daiwa Securities Group. With strong ties in every region, Daiwa Securities provides its customers with a diverse range of products and services that are carefully designed to meet their needs. In so doing, Daiwa Securities is constantly striving to increase its customers' satisfaction.

Although the business environment in FY 2002 presented tough challenges for Daiwa Securities, the company achieved increases in both revenues and profits by meeting investor needs in the area of foreign currency-denominated products. Nevertheless, we are fully aware that much work needs to be done to provide our customers with a still higher sense of satisfaction.

Starting in FY 2003, Daiwa Securities will reinforce its customer oriented focus by enhancing "post-sales follow up."* This marketing framework will assure high quality products and services and is intended to increase customer satisfaction by helping us to learn quickly and accurately what our customers' requirements are. Through these and other initiatives, Daiwa Securities will achieve sustainable growth.

* "Post-sales follow up" expresses Daiwa Securities' commitment to maximizing our customers' satisfaction by following up after the sale of a product.

Description of Business and Special Characteristics

Channels and Services to Meet Diverse Needs

Daiwa Securities, a wholly-owned subsidiary of the Daiwa Securities Group, is one of the leading retail securities brokerages in Japan. Daiwa Securities has three retail channels:

129 outlets throughout Japan
(as of end June 2003)

One of the largest call centers in Japan
The Internet

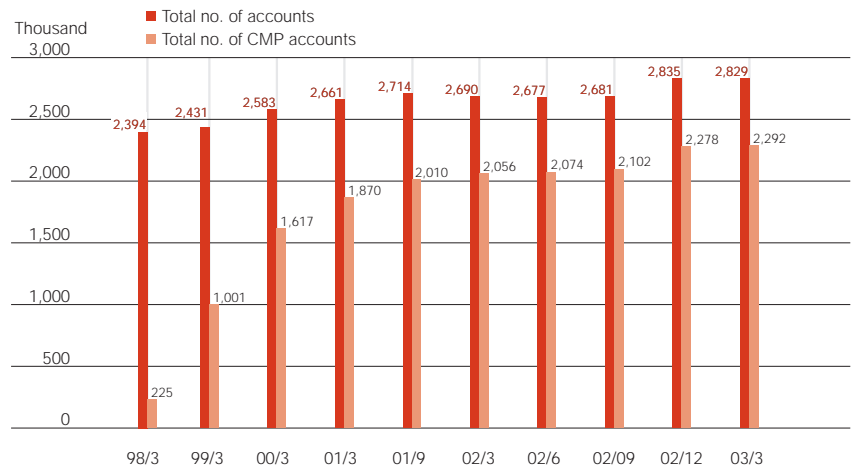
Daiwa's mix of high-quality products and the convenience of having a variety of retail channels sets Daiwa apart from the other securities firms and online brokerages. Daiwa Securities primarily supports the investment activities of individuals throughout Japan, as well as banks, businesses, corporate clients, and regional public corporations not covered by Daiwa Securities SMBC Co. Ltd. (Daiwa Securities SMBC). In addition to its main activities in the traditional securities brokerage business, Daiwa Securities provides its customers with high-quality financial consulting services that draw on the full range of resources available in the Daiwa Securities Group to respond to customer requirements and information needs regarding wealth management.

Summary of the FY 2002 Business Results

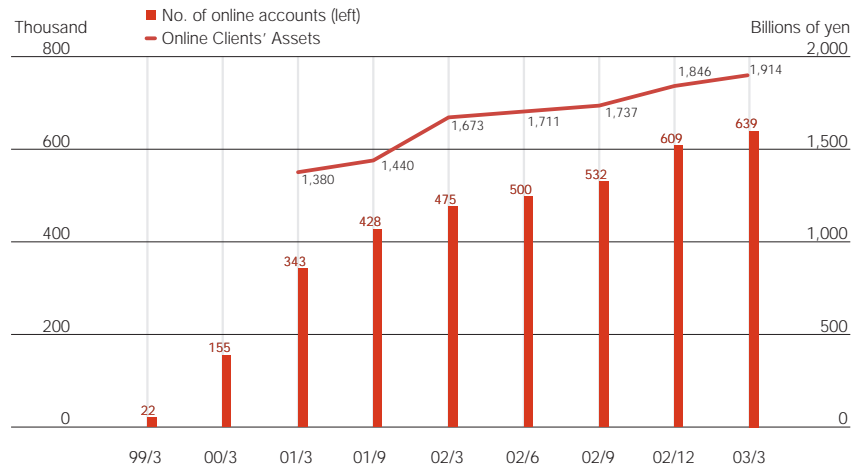
Improvement in Operating Revenues Due to a Better Understanding of Customer Needs and Stronger Intra-group Cooperation

Spurred by the introduction of a new securities tax law in Japan, we experienced an increase in cross-transactions by investors who needed to fix the book value of their stock holdings. This phenomenon helped push Daiwa Securities share on the Tokyo Stock Exchange from 1.3% in FY 2001 to 1.5% in FY 2002. However, the ongoing slump in the equi-

Total Number of Accounts and CMP (Cash Management Program) Accounts



Number of Online Accounts and Trends in Online Clients' Assets



Breakdown of Net Operating Revenues

	Millions of yen		%
	FY2002	YoY change	
Operating revenues	129,817	1.8%	
Commissions	93,204	-10.2%	
Brokerage (Stock and others)	34,177	-20.9%	
Brokerage (Bond and others)	0	-76.9%	
Distribution	31,980	22.5%	
Investment trust	13,207	-6.0%	
Other commission	26,808	-21.6%	
Investment trust	12,425	-43.8%	
Net gain on trading securities	34,990	59.8%	
Stock and others	274	326.9%	
Bond, forex and others	34,715	59.0%	
Interest and dividend income	1,623	-13.2%	

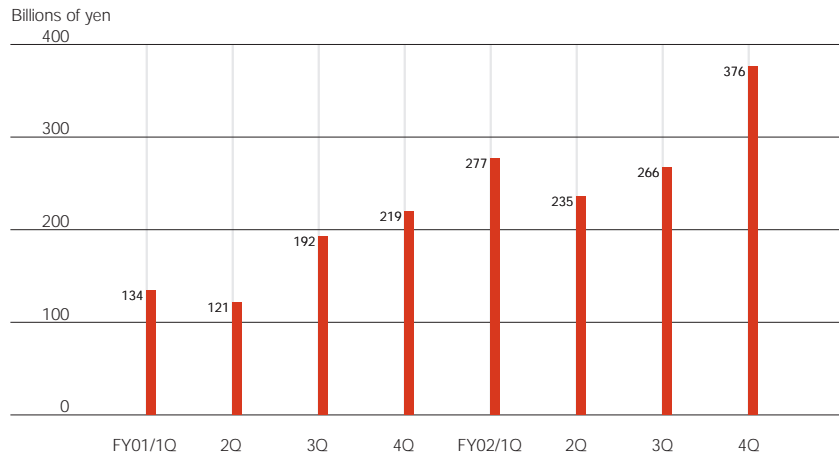
ties markets continues to be a major adverse factor for Daiwa Securities, and brokerage commissions have fallen significantly compared with last fiscal year (down 21%). Within the context of these challenging conditions, Daiwa Securities has concentrated on increasing its sales of value-added products such as foreign currency-denominated bonds, foreign bond investment trusts with monthly dividends income, and pension insurance, by getting a good grasp of ongoing changes in customers' investment needs and strengthening inter-company cooperation. These activities resulted in a 23% year-over-year increase in commissions from distribution and a net gain on trading securities, up

60% over FY 2001. These increases contributed to a 2% rise in net operating revenues over FY 2001 to ¥129.3 billion.

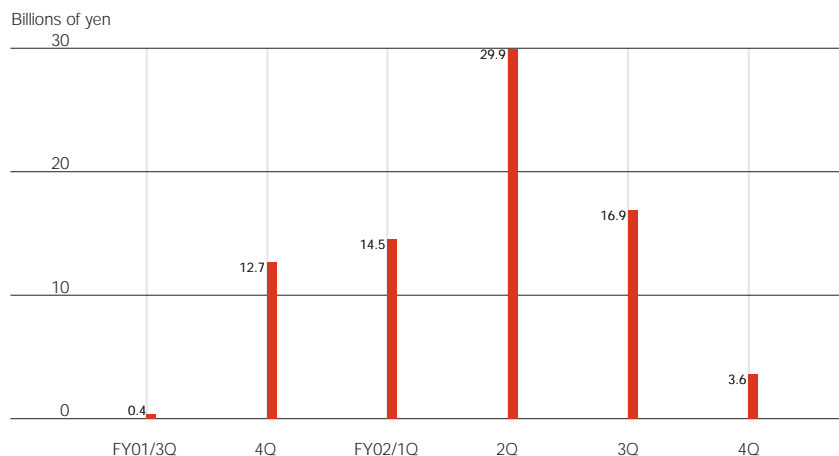
Effective Cost Controls Bring Daiwa Securities Back to Profitability

Daiwa Securities' ongoing investment in infrastructure to provide better service to our customers has resulted in a significant increase in depreciation costs (42% year over year). Nevertheless, SG&A expenses as a whole declined 9% compared with FY 2001 to ¥125.8 billion. This was a result of the shift from a fixed cost to a more variable cost structure. Thus, ordinary income (loss) recovered from a loss of ¥11 billion in FY 2001 to a positive ¥3.5 billion in FY 2002. Also, Daiwa Securities was able to post net income of ¥1 billion for the year (against the ¥3.6 billion loss registered in FY 2001).

Sales of Foreign Currency-Denominated Bonds



Sales of Pension Insurance



Outlook and Strategy for FY 2003 and Beyond

Growth Achieved by Providing Services that Meet Customers' Needs

The business environment is likely to remain challenging for the foreseeable future, and investors will continue to seek ways to avoid risks in a deflationary economy. On the other hand, due to prolonged ultra-low interest rates, both individual and corporate investors are increasingly interested in risk products. The following strategies outline how Daiwa Securities will assess and respond to the complex and diverse needs of investors by providing customer-oriented services. In doing so, Daiwa Securities aims to expand its customer base and achieve its goal of sustainable growth. (Please see Special Feature II for details about these strategies.)

1. Enhanced Area Marketing through the Satellite Branch System

Daiwa Securities inaugurated its Satellite Branch System in Tokyo and Osaka in July 2002 and in Nagoya from February 2003. The Satellite Branch System, or area strategy, is proving to be an effective way of taking into account the differences in client characteristics and requirements from region to region. Daiwa Securities aims to improve the area marketing system by carrying out more promptly our marketing strategies as well as business tactics which reflect the unique characteristics of each region. Moreover, the know-how and experience regarding strategic approaches and means of implementation acquired through the Satellite Branch System will be extended to our branches across Japan.

2. Consolidation of Sales Channels and Expansion of the Product Line

In May 2003, Daiwa Securities consolidated the three service packages which have formed the basis of Daiwa Securities' services into two courses: Daiwa Consulting and Daiwa Direct. This change reflects the continuing evolution of Daiwa's business model. In this new approach, products and services except for consultancy, which is offered only to Daiwa Consulting customers, will be shared between the two courses.

3. Start of the Daiwa Point Program

The Daiwa Comprehensive Account Service (Cash Management Program) Port One which we started in December 2002 offers our customers the convenience of centralizing their asset management needs. One of the characteristics of the Daiwa Point Program is that customers accumulate points according to the balance of their assets under custody and the

frequency and value of their transactions. Furthermore, customers are entitled to a variety of preferential services according to the number of points they have accumulated. In April 2003, we also introduced an exchange program that allows customers to redeem their points for a variety of privileges including merchandise and services.

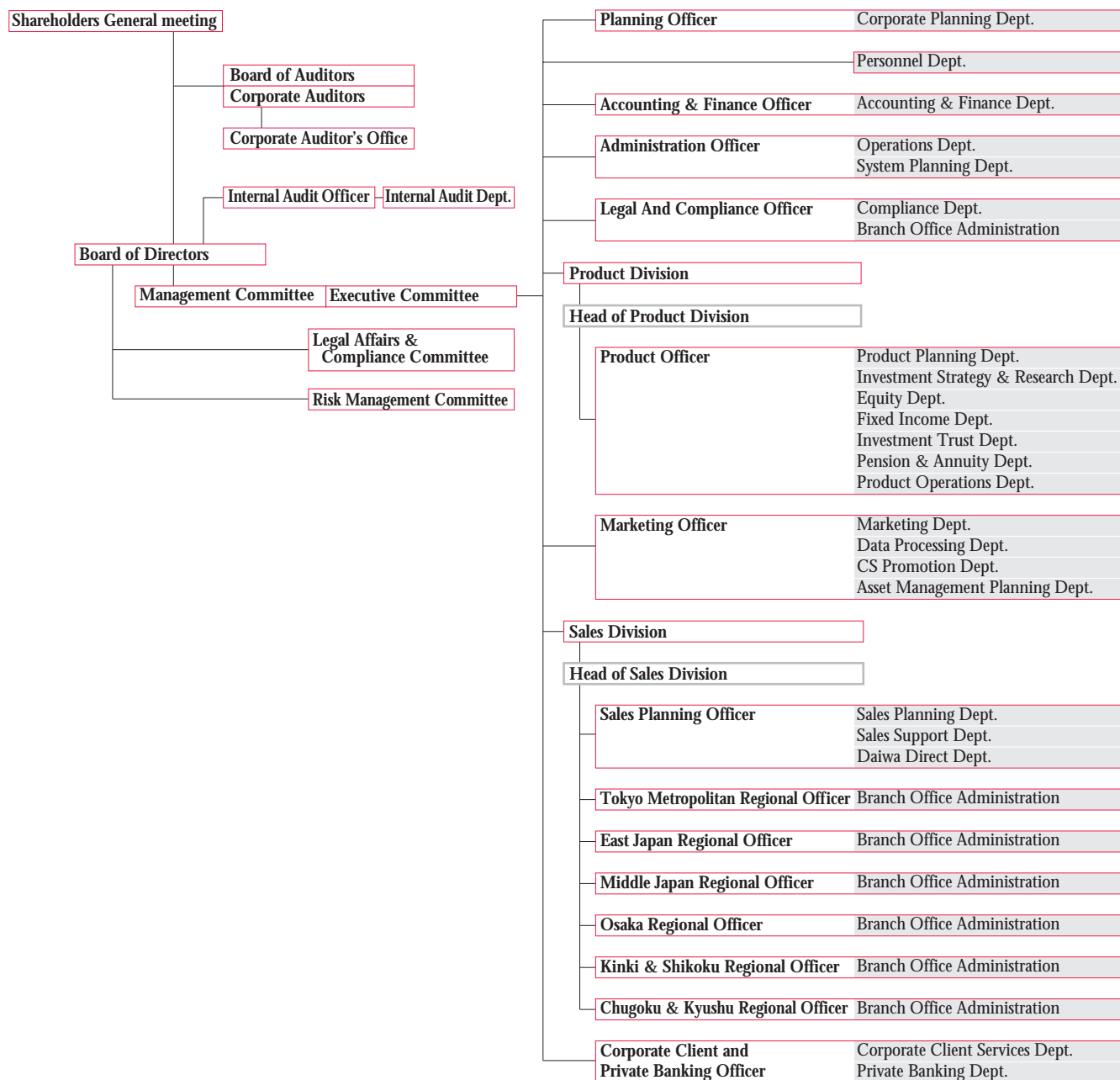
4. Introduction of an In-House Certification System

To meet our clients' complex and diverse needs and to develop more specialized consulting services, Daiwa Securities will implement an in-house certification system. Our goal is to become more deeply engaged in the effective management of our clients' assets by providing asset management advisory services that go beyond the traditional offerings of securities brokers.

5. Enhancement of Post-sales Follow up

One of the important corporate branding activities we conduct at Daiwa Securities is our periodic customer satisfaction (CS) surveys. We have used these surveys to help us analyze what our customers expect of us and to learn what we need to do to provide better service. Through these surveys, we have identified improvement of "post-sales follow up" as an important topic that must be addressed. In addition to expanding employee education programs, quality checks on services provided to customer will be conducted. By strengthening our post-sale follow up, we believe we can assure our customers a higher degree of satisfaction.

► **Daiwa Securities Co. Ltd. : Organization** (As of July 22, 2003)



Directors:

President

Yoshinari Hara

Deputy President

Tetsuo Mae

Senior Managing Director

Akira Hasegawa

Managing Director

Akira Sakiyama

Managing Director

Yasuo Nakamura

Managing Director

Toshiro Ishibashi

Managing Director

Yoshihide Shimamura

Corporate Auditors:

Isao Tada

Susumu Ueda

Mitsugi Kishimoto

Executive Officers:

Taro Tanaka

Kazuo Ariake

Yoshimi Murakami

Tokuzo Takaki

Takashi Fukai

Tomiki Koide

Daiwa Securities SMBC Co. Ltd.



Akira Kiyota
President

Highlights of Results

	Millions of yen	
	FY 2002	FY 2001
Operating revenues	118,300	109,481
Net operating revenues	110,875	102,670
SG&A expenses	95,401	90,288
Operating income	15,473	12,381
Ordinary income	16,565	13,231
Net income	6,357	5,426
Group holdings	60%	60%

Daiwa Securities SMBC Co. Ltd. (Daiwa Securities SMBC) serves an important function in the Japanese capital markets by linking issuers and investors. In addition to offering the full range of traditional corporate finance services, Daiwa Securities SMBC provides solutions for various challenges that its corporate clients are facing with, such as balance sheet improvement and business restructuring. Through these activities, Daiwa Securities SMBC aims to contribute to revitalizing the Japanese economy.

During FY 2002, Daiwa Securities SMBC experienced growth in revenues from trading gains from bonds and forex, as well as investment banking activities including mergers and acquisitions (M&A). As a result, Daiwa Securities SMBC recorded a 25% year-over-year increase in ordinary income. Ordinary income including subsidiary Daiwa Securities SMBC Principal Investments was ¥22.4 billion in FY 2002.

Starting in FY 2003, Daiwa Securities SMBC will further increase its contribution to raising the quality of the products and services offered by the Daiwa Securities Group by strengthening its coordination within the Daiwa Securities Group and its capabilities for developing value-added products and services. This in turn should result in an expansion in its trading-related revenues. Through stronger ties with Sumitomo Mitsui Banking Corporation (SMBC) and the full use of its own consulting capabilities, Daiwa Securities SMBC will actively seek business opportunities arising from corporate reorganization in the form of M&A, corporate restructuring, real estate investing, investments in non-performing loans, and other opportunities.

Description of Business and Special Characteristics

One of Japan's Largest Investment Banks

With 60% held by the Daiwa Securities Group and 40% held by the Sumitomo Mitsui Financial Group, Daiwa Securities SMBC is one of Japan's largest investment banks. The main lines of business for Daiwa Securities SMBC are:

- *Equities, bonds, derivative transactions, and product development;*
- *Investment banking, which covers underwriting including initial public offerings (IPOs), structured finance, and M&A; and*
- *Principal finance, through subsidiary, Daiwa Securities SMBC Principal Investments Ltd.*

In investment banking, Daiwa Securities SMBC is the leader in Japan in three areas: domestic straight corporate bonds, IPOs, and domestic asset-backed securities (ABS)(bookrunner). Daiwa Securities SMBC ranks second in equity offerings and Samurai bonds. (These rankings are based on FY 2002 lead manager league tables based on pricing dates.)

Summary of the FY 2002 Results

Increased Revenues under Adverse Conditions

In FY 2002, net operating revenues stood at ¥110.8 billion, for a year-over-year increase of 8%. In the context of the continuing slump in the economy and stock market, brokerage commissions (down 22% compared with FY 2001), underwriting commissions (down 5%), and distribution commissions (down 32%) all declined. On the other hand, other commissions were up 10%, and net gain on trading securities recorded a 70% increase, thus securing an overall increase in operating revenues.

Expansion of New Businesses

Although there was a significant year-over-year decline of 57% in agency commissions for investment trusts, in the category of "other commissions," Daiwa Securities SMBC was able to apply its experience in M&A, financial advisory, information and consulting services to the fullest, posting an overall increase of 10% year-over-year.

Main M&A transactions in FY 2002 were:

- *Yomiuri Newspaper acquisition of Printemps Ginza Department Store stock from The Daiei Inc.*
- *Advisory services in connection with the establishment of a holding company for Japan Energy Corporation.*
- *Advisory services for the merger of Minolta Co., Ltd. and Konica Corporation.*

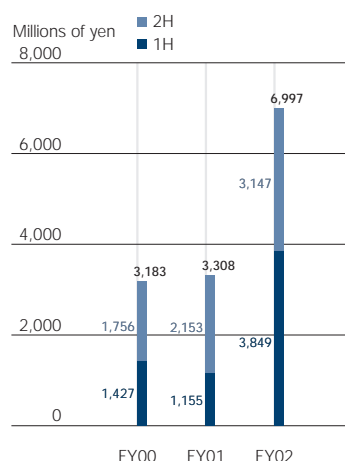
Structured Finance transactions included:

- *Asset-backed securities for Nippon Life Insurance Company kikin fund (Joint-lead-manager, total ¥150 billion).*
- *Securitization of housing loans for The Government Housing Loan Corporation. (Joint-lead-manager, total ¥250 billion).*

Breakdown of Net Operating Revenues

	Millions of yen	%
	FY2002	YoY change
Operating revenues	118,300	8.1%
Commissions	52,073	-4.8%
Brokerage (Stock and others)	8,228	-21.8%
Brokerage (Bond and others)	99	-48.0%
Underwriting commission (Stock and others)	16,144	2.7%
Underwriting commission (Bond and others)	8,424	-6.1%
Distribution	1,159	-32.2%
Other commission	17,649	10.4%
Net gain on trading securities	44,308	69.8%
Stock and others	-1,646	—
Bond, forex and others	45,954	305.4%
Interest and dividend income	21,919	-23.5%

M&A-related Revenues



Furthermore, principal finance continued to book revenues from investments in non-performing loans and has made private equity investments in companies such as Ogihara Group and the Meisei Electric Co., Ltd.

Increase in Net Gain on Trading Securities from Strong Sales of Foreign Currency-Denominated Bonds and Structured Bonds

We achieved a 70% year-over-year net gain on trading securities in FY 2002. Behind this success were the strong sales in foreign currency-denominated bonds and structured bonds at Daiwa Securities, the retail company. There are two main reasons for this success. One is that the prolonged ultra-low interest rate environment pushed investors to shift their funds into risk financial products that provide higher rates of return. The other is that the Daiwa Securities Group was able to respond quickly to investors' demand by providing products that meet their particular needs.

25% Increase in Ordinary Income

Increases in SG&A expenses were contained at 6% year-over-year. Despite a 20% increase in commissions and other expenses and a 13% rise in depreciation expenses, Daiwa Securities SMBC man-

aged to keep the increase in SG&A expenses below growth in net operating revenues by controlling costs, such as real estate expenses, which were down by 9%, and personnel costs, down by 4%. Thus, the company registered a rise of 25% in ordinary income to ¥16.5 billion and an increase of 17% in net income to ¥6.3 billion.

Outlook and Strategy for FY 2003 and Beyond

Enhanced Coordination within the Daiwa Securities Group is the Key to Improving Competitiveness

FY 2002 saw a significant growth in net gains on the trading of securities. However, the level of growth is still low, and Daiwa Securities SMBC believes there is room for further growth. Strong investors' demand for foreign currency-denominated bonds continues to contribute greatly to gains in trading securities. Daiwa Securities SMBC believes that further gains in its trading revenues can be achieved by providing higher value-added products and services that capitalize on an enhanced marketing system at Daiwa Securities and/or the further cooperation with the Sumitomo Mitsui Banking Corporation.

Fluctuations in interest rates, exchange rates and other market conditions strongly affect the demand for foreign currency-denominated and structured bonds. In this sense, the business risks associated with these bonds are similar to those for stocks. Nevertheless, Daiwa Securities SMBC believes that foreign currency-denominated and structured bonds are products that will strengthen our future competitiveness for the following reasons:

1. Only a limited number of financial institutions have the capability of controlling the entire process in-house

(i.e., within their own group), from underwriting to sales, and when necessary to buybacks.

2. *Daiwa Securities SMBC has the capabilities to develop products that meet the diverse needs of clients, such as structured products that guarantee face value.*

Therefore, Daiwa Securities SMBC will continue developing and providing high value-added products and services that draw on the vast competitive advantages possessed by the Daiwa Securities Group.

Opportunities in a Difficult Business Climate

The Japanese economy is faced with many difficult challenges, among them ongoing weak domestic demand caused by Japan's delay in structural reform and deregulation as well as a worsening budget deficit. There are at present no signs on the horizon that the economy is going to rebound in any fundamental way.

However, the opportunities for Daiwa Securities SMBC to contribute to the recovery of the Japanese economy are expanding.

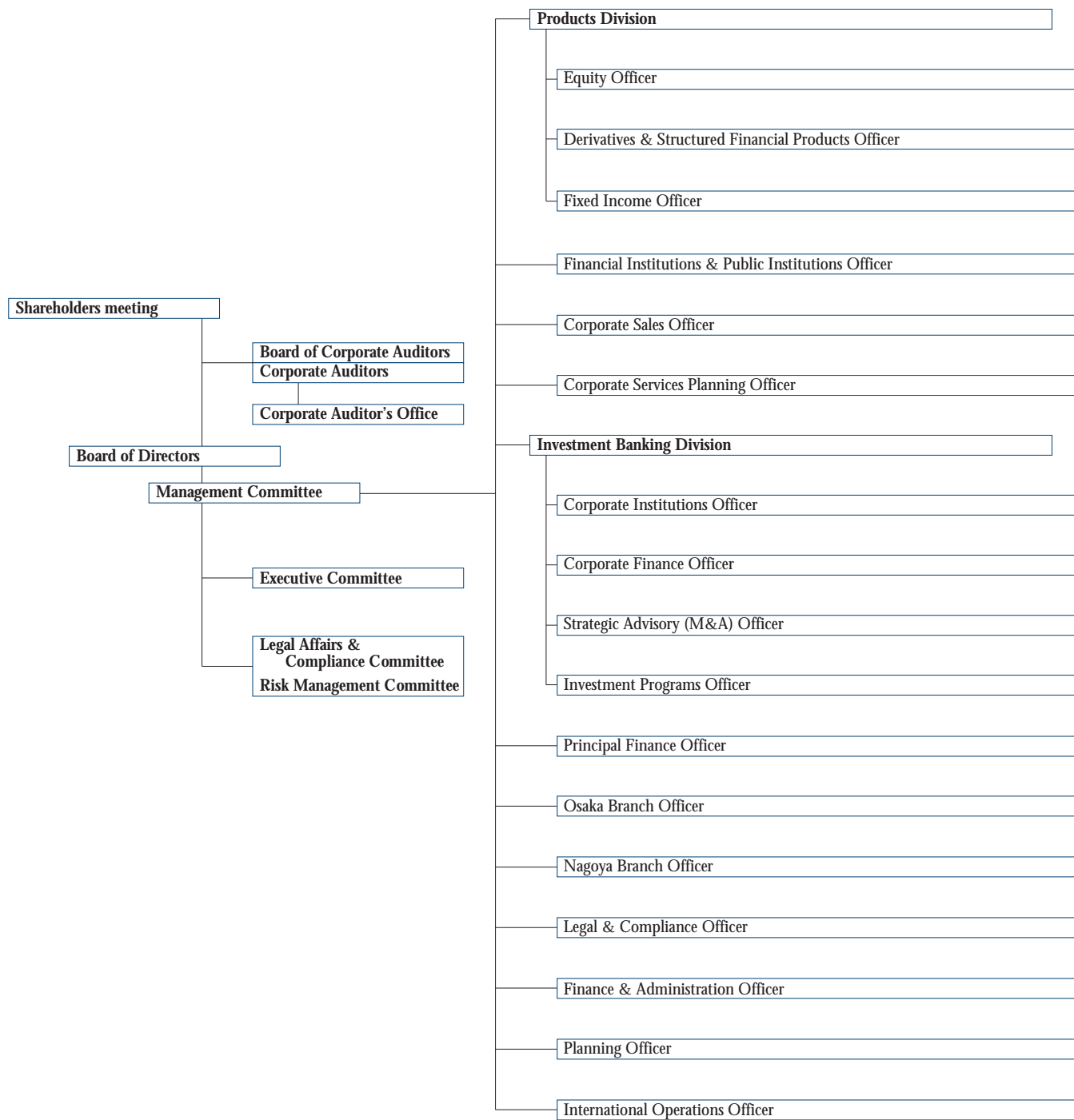
It is becoming increasingly urgent that corporations take measures to improve their balance sheets and restructure their businesses in order to regain their competitiveness. M&A and structured finance are two effective ways of achieving these objectives. Furthermore, Daiwa Securities SMBC has been investing, in non-performing loans, real estate and private equity through its subsidiary Daiwa Securities SMBC Principal Investments. Daiwa Securities SMBC is a known and highly regarded leader in these fields, thus we feel that in light of present circumstances there are still more business opportunities.

A Strategy for Growth Emphasizing Relationships and Products

Daiwa Securities SMBC will work to assess our customers' potential requirements in this difficult business environment. First, we are reinforcing our ties with Sumitomo Mitsui Banking Corporation in our investment banking business with the goal of further expanding our customer base. In addition to these relationships, Daiwa Securities SMBC is using the enormous research capabilities and information infrastructure of the Daiwa Securities Group to strengthen its ability to propose high-quality solutions for its customers and to offer a broad lineup of products.

Specifically, over the three-year period up to FY 2005, Daiwa Securities SMBC aims to devote resources to M&A and principal finance-related businesses. The company will also endeavor to boost its share in the league tables for straight bonds, Samurai bonds, IPOs, and ABS to assure its standing in all these areas.

►Daiwa Securities SMBC Co. Ltd. : Organization (As of July 19, 2003)



Directors:

President

Akira Kiyota

Deputy President

Kenjiro Noda

Senior Managing Director

Shigeharu Suzuki

Senior Managing Director

Michihito Higuchi

Senior Managing Director

Masaki Hirabayashi

Senior Managing Director

Nobuaki Ohmura

Managing Director

Yoichiro Inoue

Managing Director

Masayasu Ohi

Managing Director

Taro Sumitani

Director

Sumio Fukushima

Corporate Auditors:

Isao Takemura

Ryuji Yamazaki

Yoshiaki Senoo

Fuminori Yoshitake

Executive Officers:

Senior Executive Officer

Daisuke Saji

Senior Executive Officer

Hiroshi Ota

Senior Executive Officer

Hiroshi Fujioka

Senior Executive Officer

Kiyoshi Matsuba

Executive Officer

Yutaka Murakami

Executive Officer

Hideo Watanabe

Executive Officer

Akira Tanabe

Executive Officer

Shin Yoshidome

Executive Officer

Hiroshi Takeuchi

Executive Officer

Kazuhiko Akamatsu

Executive Officer

Takashi Hibino

Executive Officer

Kazuhiko Suruta

Executive Officer

Teruaki Ueda

Daiwa Asset Management Co. Ltd.



Teruo Hatano
President

Highlights of Results

	Millions of yen	
	FY 2002	FY 2001
Operating revenues	22,865	42,476
SG&A expenses	22,260	38,150
Operating income	604	4,326
Ordinary income	1,556	5,156
Net income (loss)	(138)	911
Group holdings	100%	100%

Daiwa Asset Management Co. Ltd. (DAM) has a pioneering spirit that generates many creative products. A leader in the investment trust field, it is the nucleus of the Daiwa Securities Group's asset management business.

Assets under management in both equity investment trusts and bond investment trusts declined due to the weak stock market and the ongoing ultra-low interest rates. As a result, ordinary income in FY 2002 was down 70% year-over-year.

Starting FY 2003, DAM will strengthen its capabilities in fund performance, product development, quality control, and sales support in an effort to improve operating efficiency and to achieve higher standards of quality.

Description of Business and Special Characteristics

A Leader in the Investment Trust Business

DAM is at the core of the Daiwa Securities Group's asset management business. It manages investment trusts that invest in a wide variety of instruments and offers a product line utilizing a full array of asset management methods. DAM has a medium- to long-term investment horizon and believes that value-added products and services can be creat-

ed by identifying value that is not yet reflected in market prices, using fundamental and quantitative analysis based on a comprehensive investment process and systematic risk management framework. In-house economists and analysts employ various tools such as macroeconomic, microeconomic, quantitative analysis, and credit surveys and analysis to enhance investment performance.

Results and Outlook

Policies under a Challenging Business Environment

Against a backdrop of depressed stock prices and continuing ultra-low interest rates, FY 2002 witnessed a year-over-year drop of 23% in assets under management and a 70% decline in ordinary income.

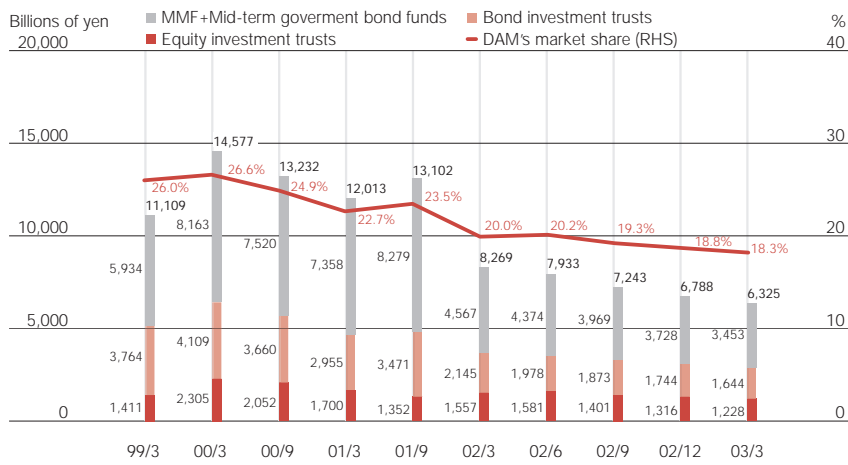
According to the new medium-term management plan, improvements are slated in five areas starting in FY 2003:

1. Fund performance,
2. Product strategy,
3. Quality control and accountability,
4. Sales support system, and
5. Management efficiency.

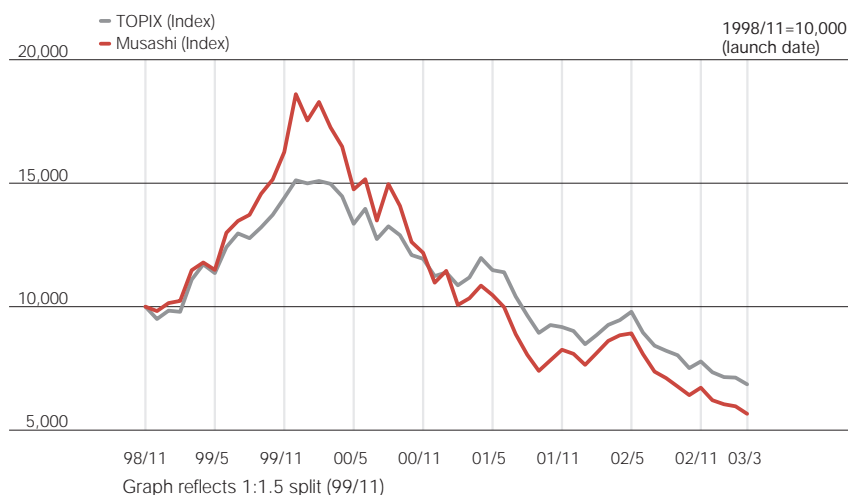
DAM will work to improve the performance of its funds through the establishment of a systematic investing system and the pursuit of professionalism by its fund management activities. By reducing the number of funds and enhancing its product development capabilities, DAM will be better able to build a product line that meets our customers' needs. DAM will also fulfill its responsibilities to inform investors and sales companies of the risks inherent in their investments by strengthening the support systems for each sales channel, improving fund quality control, and strengthening its internal control systems.

These policies will be implemented in order to make DAM the first choice of investors and sales companies. DAM will pursue profitability in the operation of its businesses while engaging in improving quality.

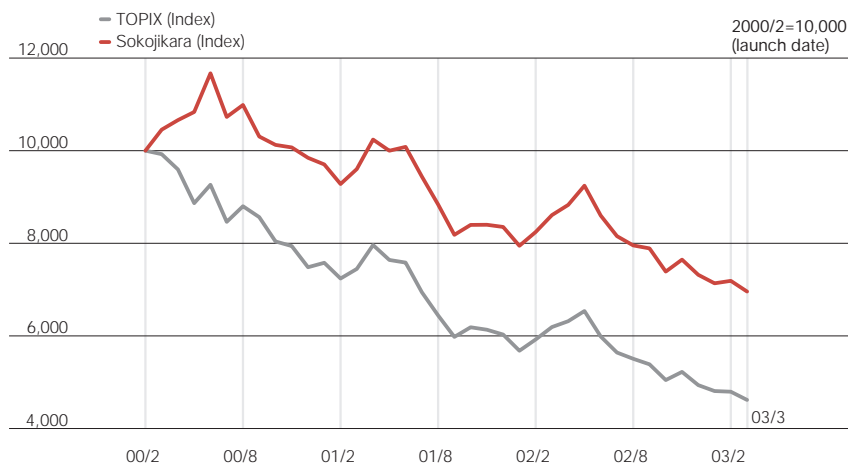
Assets under Management



Performance of "Musashi (Active Japan)" (price vs. TOPIX)



Performance of the "Sokojikara (Daiwa Value Stocks Open)" (price vs. TOPIX)



Daiwa SB Investments Ltd.



Shuichi Komori
President

Highlights of Results

	Millions of yen	
	FY 2002	FY 2001
Operating revenues	6,765	6,904
SG&A expenses	4,017	4,058
Operating income	542	610
Ordinary income	542	672
Net income (loss)	(49)	239
Group holdings	44%	44%

For two consecutive years, equity-method subsidiary Daiwa SB Investments Ltd. (Daiwa SB Investments) has been rated the overall number one investment management company in a survey of pension customers (announced in "Pension Information" (Nov. 18 2002 issue) published by R&I.

Building on this success to create a distinctive brand, Daiwa SB Investments is enhancing its marketing capabilities in the areas of pensions, postal savings and postal life insurance while strengthening its ability to develop new products and improving coordination with the other members of the Daiwa Securities Group. Daiwa SB Investments' goal is to achieve high profitability through the pursuit of efficiency.

Description of Business and Special Characteristics

Strengths in Pensions and Value Investing

Daiwa SB Investments is one of Japan's leading investment advisory companies. It is a 44% owned subsidiary which is accounted for under the equity method. (Sumitomo Mitsui Financial Group also holds a 44% share). The company has a strategic partnership with T. Rowe Price, a U.S. leader in investment management. This partnership provides Daiwa SB Investments with global investment management capabilities which complement its investment expertise in Japanese value stocks. This combination has resulted in Daiwa SB Investments being among the very few Japanese investment advisory

companies chosen to be a trustee for overseas pension investment managers. As of March 2003, Daiwa SB Investments had ¥2.5 trillion in assets under management, of which approximately 70% were pension assets.

In both 2001 and 2002, Daiwa SB Investments was ranked as the number one investment management company in a survey of pension customers announced in "Pension Information" (Nov. 22 2002 issue) published by R&I.

Trends in Assets under Management

	Total Assets under Management	Billions of yen		
		Pension	Investment trusts	Others
FY1999	3,122	2,018	141	963
FY2000	3,312	2,241	223	847
FY2001	2,896	2,087	308	500
FY2002	2,504	2,048	304	152

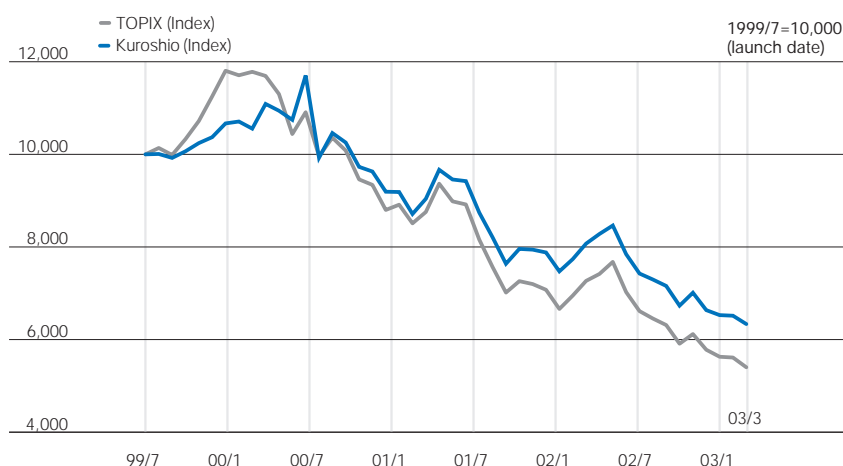
Results and Outlook

Building a Brand Distinguished for its Performance in Pension Management and Aiming to Be a Highly Efficient, Top Level Investment Management Firm

Under adverse market conditions in FY 2002, operating revenues fell 2% year-over-year to ¥6.7 billion, while ordinary income dropped 19% to ¥0.5 billion. Given the intense competition for pension trusteeship and the tougher environment for generating revenues, investment management firms cannot blindly pursue a strategy of increasing their assets. Daiwa SB Investments acknowledges that it must monitor profitability on an individual fund basis and shift from a strategy of expansion to one that concentrates on quality. Furthermore, in addition to improving its asset management capabilities, Daiwa SB Investments will work to polish its strategies related to product development, organizational restructuring, and marketing, taking into account both quality and productivity.

Capitalizing on its strong worldwide presence in pension investment management and the high investment ratings attained by products such as its “DC Kuroshio fund” adopted for defined contribution pension plans, Daiwa SB Investments continues to play a pioneering role in managing the investment of the huge pool of public pensions, such as

Performance of “Kuroshio (the Japan Value Stocks Fund)” (price vs. TOPIX)



postal savings and postal life insurance, as well as 401(k) plans. At the same time, the firm will expand its presence in the investment trust field based on the distinguished reputation it has built in the pension area. While deepening its ties with Daiwa Securities and Daiwa Securities SMBC, Daiwa SB Investments aims to be an efficiently managed leader in investment management.

Daiwa Institute of Research Ltd.

Highlights of Results

	Millions of yen	
	FY 2002	FY 2001
Operating revenues	61,675	71,809
SG&A expenses	9,130	11,391
Operating income	3,706	5,794
Ordinary income	3,444	5,542
Net income	1,043	3,352
Group holdings	96%	96%

Tatsuhiko Kawakami
President

Daiwa Institute of Research Ltd. (DIR) provides systems development, research, and consulting services to members of the Daiwa Securities Group and to outside clients. DIR is the think tank for the Daiwa Securities Group, offering powerful support which enhances the quality of the Group's services.

A major DIR initiative starting in FY 2003 will be to improve the quality and cost efficiency of the systems, research, and consulting services used to support the activities of the Daiwa Securities Group member companies. Toward this end, DIR is implementing a performance-based compensation scheme and strengthening the company's overall financial condition. Furthermore, its research division will aim to improve the quality of research and increase productivity utilizing various publicly issued rankings as a benchmark.

DIR aims to expand revenues generated through services it offers to clients outside of the Daiwa Securities Group. DIR intends to do this by focusing specifically on computer systems and consulting services. This should make the company more competitive by securing revenue sources that are less subject to fluctuations in economic conditions. In so doing, the corporate value of DIR will be enhanced, allowing the company to increase its contributions to the Daiwa Securities Group's bottom line. Measures that will be used to enhance DIR's corporate value will include:

1. The thorough implementation of performance-based compensation schemes; and
2. Cost reductions which will be achieved by increasing the ratio of job outsourced at DIR's systems development business (based on personnel numbers).

Daiwa Securities Business Center Co., Ltd.



Kenichi Fukuda
President

Highlights of Results

	Millions of yen	
	FY 2002	FY 2001
Operating revenues	8,472	9,635
SG&A expenses	7,853	8,176
Operating income	619	1,458
Ordinary income	627	1,490
Net income	350	1,235
Group holdings	100%	100%

Daiwa Securities Business Center Co., Ltd. (DSC), handles the securities administration and back office functions for the Daiwa Securities Group. The company contributes to enhancing the productivity of the Group's securities operations by increasing efficiency of back-office functions.

To improve the level of the services it provides, DSC has obtained an ISO 9001: 2000 certification and has also established a Quality Assurance Department. DSC aims to become a top-level specialist in its field with a focus on quality and safety.

Daiwa Property Co., Ltd.



Masahide Morimoto
President

Highlights of Results

	Millions of yen	
	FY 2002	FY 2001
Operating revenues	11,571	31,187
SG&A expenses	318	1,554
Operating income	4,254	7,602
Ordinary income	2,035	4,822
Net income (loss)	1,797	(126,036)
Group holdings	92%	92%

*figures for FY 2001 are for Daiwa Real Estate

Daiwa Property Co., Ltd. (Daiwa Property) owns, leases and manages retail branch offices, offices, company residence halls, and other facilities used by the Daiwa Securities Group.

Daiwa Property contributes to property-related cost reductions through the centralized and efficient use and management of real estate used by the Daiwa Securities Group.

NIF Ventures Co., Ltd.



Shinichi Yamamura
President

Highlights of Results

	Millions of yen	
	FY 2002	FY 2001
Operating revenues	1,340	8,845
SG&A expenses	3,868	4,222
Operating income (loss)	(3,457)	3,289
Ordinary income (loss)	(2,850)	3,336
Net income (loss)	(9,319)	3,257
Group holdings	79%	79%

NIF Ventures Co., Ltd. is one of Japan's leading venture capital firms. As a comprehensive private equity house, NIF provides venture capital to promising start-up companies planning future IPOs, as well as buyout capital to companies that need to reorganize or revitalize their businesses. NIF was listed on the JASDAQ market on March 12, 2002 to become the only listed entity within the Group except for the holding company.

Adverse business conditions resulted in a significant 30% decline in the number of IPOs in FY 2002 compared with the previous fiscal year. However, NIF Ventures has aggressively pursued investing activities by taking advantage of the low-cost investment opportunities available in this depressed stock market. FY 2002 saw a 23% increase in total investments executed to ¥20.0 billion.

Total Investments

	FY2002		FY2001	
	No. of companies	Amount (Millions of yen)	No. of companies	Amount (Millions of yen)
Stock	87	19,607	92	14,465
Listed	—	—	—	—
Non-Listed	87	19,607	92	14,465
Corporate bonds	9	448	17	1,799
Total	89	20,056	101	16,265

Other Information

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Five-Year Financial Summary

Daiwa Securities Group Inc. & Consolidated Subsidiaries (YEARS ENDED MARCH 31, 1999 THROUGH 2003)*

	Millions of Yen					Thousands of U.S. Dollars
	2003	2002	2001	2000	1999	2003
Operating Results:						
Operating revenues :						
Commissions	¥ 144,283	¥ 171,869	¥ 254,704	¥ 364,116	¥ 185,450	\$ 1,202,358
Net gain (loss) on trading	91,307	67,249	169,506	126,170	(20,708)	760,892
Interest and dividend income	114,707	195,934	220,790	100,530	188,410	955,892
Service fees and other sales	37,362	52,992	69,909	60,482	—	311,350
Total	387,659	488,044	714,909	651,298	353,152	3,230,492
Net operating revenues	270,810	284,932	464,057	512,276	180,710	2,256,750
Operating income (loss)	24,109	22,769	177,109	224,778	(90,375)	200,908
Income (loss) before income taxes and						
minority interests	11,845	(119,968)	166,615	135,173	(208,538)	98,708
Net income (loss)	(6,323)	(130,547)	64,549	105,376	(127,890)	(52,692)
Financial Position:						
Total assets	¥ 9,502,826	7,827,306	¥ 7,694,051	¥ 6,693,308	¥ 4,951,269	\$79,190,217
Total shareholders' equity	541,719	570,839	716,816	666,072	639,859	4,514,325
Per share amounts :						
	Yen					U.S. Dollars
Net income (loss)	¥ (4.75)	¥ (98.27)	¥ 48.62	¥ 79.43	¥ (96.00)	\$ (0.04)
Shareholders' equity	407.84	429.68	539.72	502.05	480.47	3.40
Cash dividends applicable to the year . . .	6.00	6.00	13.00	13.00	5.00	0.05
Financial Ratios:						
	Percent					
Pretax profit margin						
Income before income taxes and						
minority interests to total revenues	—%	—%	23.2%	20.6%	—%	
Net profit margin						
Net income to total revenues	—	—	9.0	16.1	—	
Return on average shareholders' equity						
Net income to						
average shareholders' equity**	—	—	9.3	16.1	—	
Equity ratio						
Shareholders' equity to total assets	5.7	7.3	9.3	10.0	12.9	
Other data:						
Number of employees***	11,559	11,483	11,114	11,415	8,855	

Notes 1. Unless indicated otherwise, all dollar figures herein refer to US currency. Dollar amounts represent translations at the rate of ¥120 = US\$1, the rate prevailing on March 31, 2003

2. Net income and shareholders' equity per share are computed based on the average number of shares outstanding during the year

* As of April 26, 1999 the former Daiwa Securities Co. Ltd. was reorganized and officially renamed Daiwa Securities Group Inc.

** ROE is computed based on the average Shareholders' equity at the beginning and end of the fiscal year

*** Figures are the sum of the Holding Company and its consolidated subsidiaries

Quarterly Financial Summary* (Consolidated)

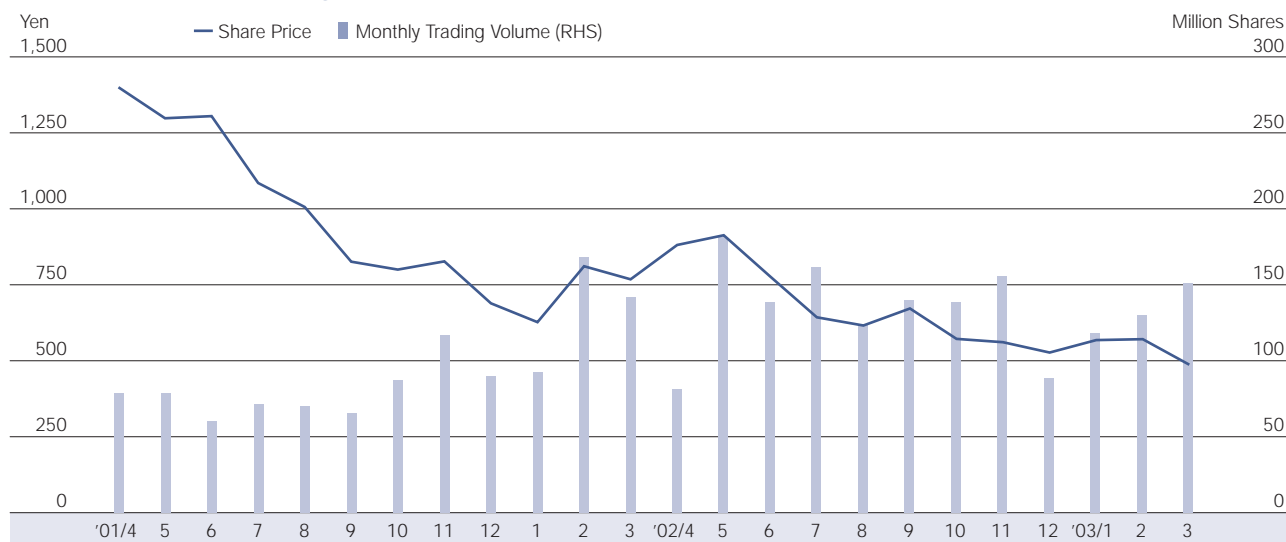
Daiwa Securities Group Inc. & Consolidated Subsidiaries

	Millions of Yen			
	2002/1Q	2002/2Q	2002/3Q	2002/4Q
Operating revenue	¥ 100,717	¥ 95,198	¥ 100,114	¥ 91,628
Commissions	38,990	37,507	34,480	33,305
Brokerage commission	15,562	10,753	12,328	8,197
<i>Stock and other</i>	15,202	10,399	11,922	7,878
<i>Bond and other</i>	278	258	340	285
Underwriting commission	5,988	6,893	7,077	7,986
<i>Stock and other</i>	3,609	4,585	5,014	4,883
<i>Bond and other</i>	2,379	2,194	2,002	2,945
Distribution commission	3,965	3,634	2,961	4,105
<i>Beneficiary certificates</i>	3,952	3,548	2,868	3,689
Other commission	13,472	16,226	12,113	13,015
<i>Beneficiary certificates</i>	8,215	7,288	5,876	5,155
Net gain on trading	24,355	18,686	25,099	25,790
<i>Stock and other</i>	6,276	2,128	3,334	(9,803)
<i>Bond and other</i>	12,062	9,657	17,384	28,088
<i>Forex and other</i>	6,016	6,900	4,379	7,504
Net gain on operational investment securities	1,001	(744)	(281)	(2,599)
Interest and dividend income	27,123	30,695	32,218	24,669
Other sales revenues	9,246	9,054	8,597	10,462
Interest expenses	21,720	24,716	25,701	18,455
Cost of sales	6,756	6,162	6,290	7,046
Net operating revenues	72,240	64,319	68,123	66,126
Selling, general and administrative expenses	¥ 62,502	¥ 62,465	¥ 61,238	¥ 60,494
Commission and other expenses	10,277	10,833	9,958	9,583
Employees' compensation and benefits	31,923	30,764	30,781	30,434
Real estate expenses	8,097	9,004	8,384	7,861
Data processing and office supplies	3,503	3,621	3,872	3,711
Depreciation expenses	5,143	5,190	5,219	5,513
Taxes other than income taxes	1,446	1,101	1,016	1,106
Others	2,110	1,949	2,006	2,283
Operating income	9,738	1,853	6,884	5,631
Non-operating income	2,854	2,746	1,186	1,370
Non-operating expenses	666	959	423	1,016
Ordinary income	11,926	3,640	7,647	5,985
Extraordinary gains	2,325	5,804	961	6,498
Extraordinary losses	2,195	3,664	6,527	20,557
Income before income taxes and others	12,056	5,780	2,081	(8,073)
Income taxes-current	1,447	2,471	261	(1,509)
Income taxes-deferred	2,976	1,015	2,774	5,918
Minority interest in income	-1,845	-859	-1,589	1,484
Net income	5,785	1,434	(2,544)	(10,998)

Note * Quarterly figures are based on unaudited financial statements included in the Group's Consolidated Financial Summary submitted to the Tokyo Stock Exchange.

Stock Information

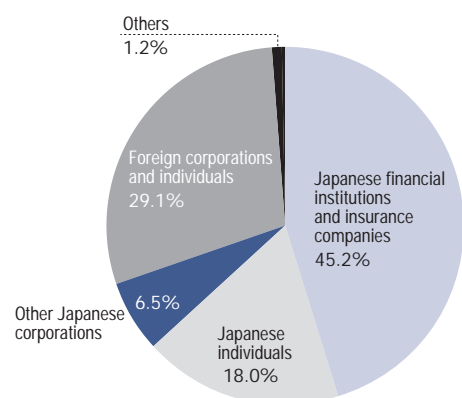
1. Stock Price and Trading Volume



2. Principal Stockholders (As of March 31, 2003)

Name	Number of shares held (Thousands)	% of total shares in issue
1 Japan Trustee Services Bank, Ltd. Trust Account	86,462	6.49
2 EuroClear Bank SA NV	53,735	4.04
3 The Master Trust Bank of Japan, Ltd. Trust Account	53,154	3.99
4 Sumitomo Mitsui Banking Corporation	43,827	3.29
5 Taiyo Life Insurance Company	43,229	3.25
6 Japan Trustee Services Bank, Ltd. The Sumitomo Trust & Banking Retirement Benefit Account	31,289	2.35
7 Boston Safe Deposit BSDT Treaty Clients Omnibus	30,809	2.31
8 The Chase Manhattan Bank NA London	26,608	2.00
9 Nippon Life Insurance Company	23,185	1.74
10 The Chase Manhattan Bank NA London SL Omnibus Account	21,065	1.58

3. Breakdown of Shareholders (As of March 31, 2003)



Overseas Networks (As of July 1, 2003)

► Daiwa Securities Group Inc.

Daiwa Securities America Inc.

Financial Square, 32 Old Slip, New York, NY10005, U.S.A.
Tel: (1)212-612-7000 Fax: (1)212-612-7100

Daiwa Securities Trust Company

One Evertrust Plaza, Jersey City, NJ 07302, U.S.A.
Tel: (1)201-333-7300 Fax: (1)201-333-7726

Daiwa Securities Trust and Banking (Europe) PLC

Head Office

5 King William Street, London EC4N 7JB, United Kingdom
Tel: (44)20-7320-8000 Fax: (44)20-7410-0129

Dublin Branch

Level 3, Block 5, Harcourt Centre,
Harcourt Road, Dublin 2, Ireland
Tel: (353)1-478-3700 Fax: (353)1-478-3469

► Daiwa Securities SMBC Co. Ltd.

Daiwa Securities SMBC Europe Limited

Head Office

5 King William Street, London EC4N 7AX, United Kingdom
Tel: (44)20-7597-8000 Fax: (44)20-7597-8600

Frankfurt Branch

Trianon Bldg., Mainzer Landstrasse 16,
60325 Frankfurt am Main, Federal Republic of Germany
Tel: (49)69-717080 Fax: (49)69-723340

Paris Branch

112, Avenue Kléber, 75116 Paris, France
Tel: (33)1-56-26-22-00 Fax: (33)1-47-55-08-08

Geneva Branch

50, rue du Rhône, P.O.Box 3198, 1211 Geneva 3, Switzerland
Tel: (41)22-818-74-00 Fax: (41)22-818-74-41

Milan Branch

Via Senato 14/16, 20121 Milan, Italy
Tel: (39)02-763271 Fax: (39)02-76327250

Spain Branch

7th floor, Jose Ortega y Gasset 20, Madrid 28006, Spain
Tel: (34)91-529-9800 Fax: (34)91-577-5887

Middle East Branch

7th Floor, The Tower, Bahrain Commercial Complex,
P.O. Box 30069, Manama, Bahrain
Tel: (973)534452 Fax: (973)535113

Daiwa Securities SMBC Hong Kong Limited

Level26, One Pacific Place, 88 Queensway, Hong Kong
Tel: (852)2525-0121 Fax: (852)2845-1621

Daiwa Securities SMBC Singapore Limited

6 Shenton Way #26-08, DBS Building Tower Two,
Singapore 068809, Republic of Singapore
Tel: (65)6-220-3666 Fax: (65)6-223-6198

Daiwa Securities SMBC Australia Limited

Level 34, Rialto North Tower, 525 Collins Street,
Melbourne, Victoria 3000, Australia
Tel: (61)3-9916-1300 Fax: (61)3-9916-1330

DBP-Daiwa Securities SMBC Philippines, Inc.

18th Floor, Citibank Tower, 8741 Paseo de Roxas,
Salcedo Village, Makati City, Republic of the Philippines
Tel: (632)813-7344 Fax: (632)848-0105

Daiwa Securities SMBC-Cathay Co., Ltd.

14th Floor, 200 Keelung Road, Sec. 1, Taipei, Taiwan, R.O.C.
Tel: (886)2-2723-9698 Fax: (886)2-2345-3638

Shanghai Daiwa SMBC-SIG

Investment Consulting Company Limited*

15th Floor, China Insurance Building, No.166,
Lujiazui Dong Road, Pudong, Shanghai,
People's Republic of China
Tel: (86)21-6841-9066 Fax: (86)21-6841-9055

*Shanghai Daiwa SMBC-SIG Investment Consulting Company Limited
was founded on August 7, 2002.

Daiwa Securities SMBC Co. Ltd.

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6th Floor, DITC Building, #27-3, Youido-dong,
Yongdungpo-gu, Seoul, Republic of Korea
Tel: (82)2-787-9100 Fax: (82)2-787-9191

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International Building 2103, Jianguo Menwai Dajie 19,
Beijing, People's Republic of China
Tel: (86)10-6500-6688 Fax: (86)10-6500-3594

Shanghai Office

38th floor, HSBC Tower, 101 Yin Cheng East Road,
Pudong New Area, Shanghai, People's Republic of China
Tel: (86)21-6841-3333 Fax: (86)21-6841-2222

Main Group Companies

Daiwa Securities Co. Ltd.

6-4, Otemachi 2-chome, Chiyoda-ku,
Tokyo 100-8101, Japan
Tel: 81-3-3243-2111

Daiwa Securities SMBC Co. Ltd.

3-5, Yaesu 1-chome, Chuo-ku,
Tokyo 103-8289, Japan
Tel: 81-3-3243-2211

Daiwa Asset Management Co. Ltd.

10-5, Nihonbashi, Kayabacho 2-chome, Chuo-ku,
Tokyo 103-0025, Japan
Tel: 81-3-5695-2111

Daiwa Institute of Research Ltd.

Daiwa-Soken Building,
15-6 Fuyuki, Koto-ku,
Tokyo 135-8460, Japan
Tel: 81-3-5620-5100

Daiwa SB Investments Ltd.

7-9, Nihonbashi 2-chome, Chuo-ku,
Tokyo 103-0027, Japan
Tel: 81-3-3243-2915

Daiwa Securities Business Center Co., Ltd.

3-2, Toyo 2-chome, Koto-ku,
Tokyo 135-0016, Japan
Tel: 81-3-5633-6100

Daiwa Property Co., Ltd.

1-9, Nihonbashi, Kayabacho 1-chome, Chuo-ku,
Tokyo 103-8219, Japan
Tel: 81-3-3665-5501

NIF Ventures Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku,
Tokyo 104-0031, Japan
Tel: 81-3-5201-1515

Management's Discussion & Analysis

Analysis of FY 2002 Earnings

Management's Discussion & Analysis

– Analysis of FY 2002 Earnings

The Management's Discussion & Analysis is based on information from the Groups' Securities Report submitted to the Japanese authorities

Summary

Economic conditions remained difficult in Japan and overseas in FY 2002, contributing to lackluster results for the Daiwa Securities Group. However, investment banking businesses as well as sales of foreign currency-denominated bonds and pension insurance products grew strongly.

As a result of tighter cost controls, ordinary income rose 13% from FY 2001.

Due to extraordinary losses including the write-down of investment securities, the Group posted a consolidated net loss of ¥6.3 billion. However, this was substantially smaller than the ¥130.5 billion net loss posted in FY 2001 stemming from the cost of restructuring real estate operations.

The Group's financial strategy is bearing some fruit. During the term, non-current assets were reduced by ¥130.0 billion, mainly by trimming real estate and subordinated bank debt, while external debt was reduced by ¥55.0 billion.

Macroeconomic Conditions

1. Japan

Strong Deflationary Pressures Persist

Real GDP growth in Japan turned positive in FY 2002 (ended March 31, 2003), improving from -1.2% in FY 2001 to an annualized growth of 1.5%. However, despite continued monetary easing by the Bank of Japan, there has been no letup in deflationary pressures, and growth in nominal GDP, which is closely tied to business sentiment, failed to turn positive and declined 0.7% from the previous fiscal year. In summary, economic conditions during FY 2002 were still a long way from recovery.

Weak Domestic Demand

Domestic demand remained sluggish in FY 2002. With priority being given to fiscal recovery programs, public spending continued to decline, falling 6.2% from FY 2001. Two areas of private sector demand that were expected to replace public spending as a driver of growth, namely capital investments and consumer spending, posted only modest growth.

The slow pace of structural reform and deregulation is one reason why we are not seeing a domestic demand-led economic recovery.

Sole Driver of Growth Heads South

In the first half of FY 2002, industrial production continued to gain momentum, driven by export demand. Although exports to Asia remained strong, conditions changed in the second half of the year as economic growth in the United States slowed. As a result, industrial production in Japan turned to quarter-on-quarter declines from the third quarter.

Share Prices Continue to Decline Despite an Upturn in Corporate Earnings

On an all-industry basis, corporate recurring profits have been growing more than 20% over the previous year since the second quarter of FY 2002. This represents a marked recovery in business performance. The major factors behind this recovery,

however, are restructuring and cost cutting measures, and growth in sales remains modest. Reacting to the uncertain outlook, share prices have declined steadily from the second quarter of FY 2002 and the TOPIX average over the fiscal year dropped 18% from FY 2001.

Despite active cross-transactions in the October-December quarter of 2002 ahead of securities tax changes, the average daily trading value on the 1st section of the Tokyo Stock Exchange (TSE) fell 10% year over year.

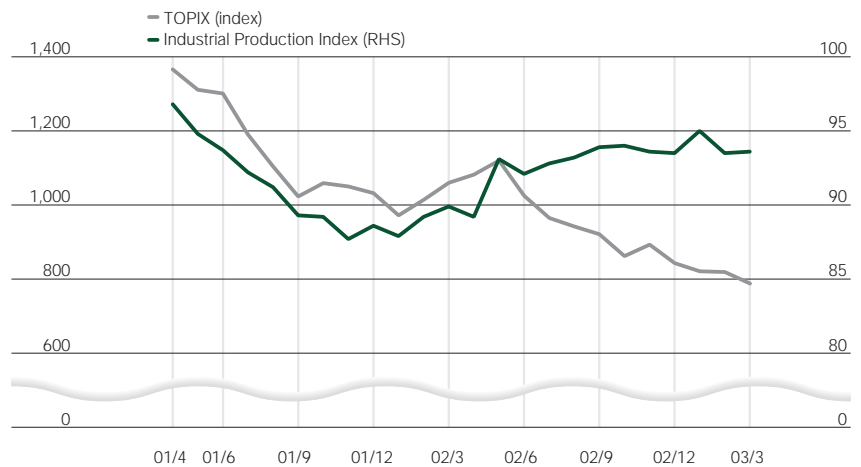
2. Overseas

United States: Uncertainty Lingers

While the U.S. economy showed annualized real GDP growth of 4% in the July-September quarter of 2002, this has slowed to the 1% level after the third quarter. Personal consumption was underpinned by the Fed's aggressive reduction of interest rates, but business sentiment in the manufacturing sector turned downward.

Geopolitical risk has eased somewhat with the conclusion of the war in Iraq, but there are still no signs of a recovery in business sentiment. If companies are forced to continue carrying out production cuts and restructuring over a long period, there is the danger that consumption, which accounts for a large portion of GDP, could fall and this could lead to even more precarious conditions for the economy. Amid this uncertain outlook, the Dow Jones Industrial Average fell 14% and the NASDAQ index dropped 26% compared with FY 2001.

Industrial Production and the TOPIX index



Europe: Clear Economic Downtrend

Europe saw a marked economic slowdown in FY 2002. With the strength of the euro causing exports to soften and employment continuing to deteriorate in the eurozone, growth in real GDP fell to zero from the October-December quarter of 2002. Germany's Ifo index of business sentiment has deteriorated sharply and real GDP growth turned negative in the October-December quarter of 2002. The United Kingdom's FTSE 100 index fell 22% from FY 2001, while Germany's DAX was down 35%.

Asia: Still Strong, but Dark Clouds Loom Ahead

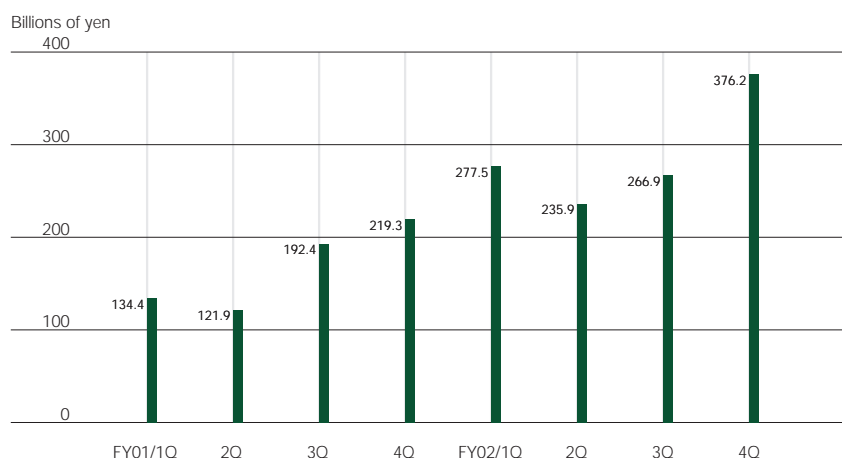
The economies of Asia continued to enjoy firm overall growth in FY 2002. However, because these countries are even more dependent on exports than Japan, the economic outlook there could worsen depending upon economic conditions in North America and Europe. In Korea, slowdown in personal consumption became evident in the second half of the year, leading to the government easing monetary policy in May 2003.

Consolidated Operating Results for the Year Ended March 31, 2003

Breakdown of Commission Income

	Millions of yen						
	FY2002	FY2001	% YoY	FY2002/1Q	2Q	3Q	4Q
Equity	47,242	60,667	-22%	15,808	10,906	12,394	8,134
Bond	4,585	4,671	-2%	871	1,092	867	1,755
Investment trust	40,870	61,403	-33%	12,249	10,932	8,810	8,879
Investment banking	39,638	36,313	9%	7,425	10,814	9,459	11,940
Others	11,948	8,815	36%	2,637	3,763	2,950	2,598
Total	144,283	171,869	-16%	38,990	37,507	34,480	33,306

Foreign Currency-denominated Bond Sales at Daiwa Securities



Commissions

The average daily trading value on the TSE decreased 10% from FY 2001 and the Daiwa Securities Group posted a 5% decline in consolidated net operating revenues. Looking at commissions by businesses, equities were down 22%, while investment trust was down 33%. Declines in these commissions were due to the impact of lower share prices and the protracted period of near-zero interest rates. Fixed income commissions fared better, registering just a 2% decline, while investment banking commissions grew 9%. Other commissions, including those on pension insurance product sales, soared 36%.

Significant Decline in Assets under Management and Strong Sales of Foreign Currency-denominated Bonds

The sharp declines in equity and investment trust commissions can be attributed largely to external factors, including the protracted slump in the stock market and an extended period of near-zero interest rates. In the asset management businesses, lower sales commission income was accompanied by a sharp decrease in investment trust fees, which resulted from declines in assets under management and lower management fee rates. At the end of FY 2002, assets under management at Daiwa Asset Management Co., Ltd. (DAM) were down 20% from the previous fiscal year. Amid this environment, the Daiwa Securities Group increased sales of foreign currency-denominated bonds for which high yields could be expected. As a result, Daiwa Securities Co., Ltd. (Daiwa Securities), the retail entity of the Group, saw a 73% increase in sales of foreign currency-denominated bonds.

M&A and Other New Investment Banking Businesses Grow

Growth in investment banking commission income was driven by M&A and other new businesses targeted under the

Daiwa Securities Group's strategy to diversify and expand its revenue stream. Of total investment banking commissions, other commissions, which came mainly from new businesses, surged 45% from the previous fiscal year. Of this, M&A-related commissions at Daiwa Securities SMBC Co., Ltd. (Daiwa Securities SMBC) jumped from ¥3.3 billion in FY 2001 to ¥6.9 billion in FY 2002. Although not as high as growth in other commissions, underwriting commissions related to equities and bonds increased nearly 5% from the previous fiscal year. Despite continued stagnation in the market for initial public offerings (IPOs) throughout the fiscal year, Daiwa Securities SMBC successfully raised its market share. In addition, Daiwa Securities SMBC's aggressive approach in the equity capital market, as well as an increase in bond underwriting, also contributed to the expansion of underwriting commissions.

Strong Growth in Pension Insurance Commissions

Other commissions increased 36% to ¥11.9 billion as sales of Pension insurance products, which were started in FY 2001, rose significantly.

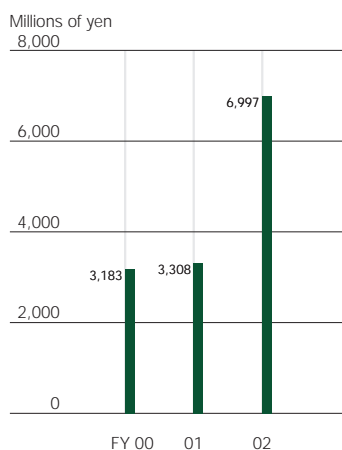
Improvement in Net Trading Gains/Losses

Total net trading gains rose 48% from FY 2001. On a quarterly basis, gains were consistently in the range of ¥18.0 billion to ¥25.0 billion each quarter. This was a dramatic improvement from FY 2001 in terms of stability. A loss of nearly ¥10.0 billion was made on stock trading in the fourth quarter, but gains on bond and forex

Breakdown of Investment Banking Commissions

	Millions of yen		
	FY2002	FY2001	% YoY
Underwriting commission (Equity)	18,093	17,112	6%
Underwriting commission (Bond)	9,523	9,070	5%
Distribution commission	608	876	-31%
Others (M&A commissions etc)	11,084	7,619	45%
Total	39,638	36,313	9%

M&A-related Revenues



Daiwa Securities SMBC's Performance in Lead Manager League Tables

	Corporate SB	IPOs	Primary and secondary equity offerings	Samurai bonds	Domestic Public ABS
1	Daiwa Securities SMBC 22.7%	Daiwa Securities SMBC 50.2%	Nomura 58.4%	NSSB 31.8%	Daiwa Securities SMBC 19.6%
2	Nomura 22.0%	Nomura 13.3%	Daiwa Securities SMBC 16.4%	Daiwa Securities SMBC 16.4%	Mizuho 19.4%
3	Mitsubishi 13.6%	NSSB 8.1%	NSSB 9.0%	Mitsubishi =Morgan Stanley 16.3%	Nomura 15.4%

NSSB is now Nikko Citigroup

Source : Daiwa Securities SMBC, THOMSON DealWatch for ABS table(bookrunner)

Nikkei Bonds & Financial Weekly (April 7, 2003) for corporate SB

Note : Issues with pricing dates between 4/02 and 3/03

trading amounted to more than ¥35.0 billion. The main reason for this situation was technical in nature. Due to swap and hedging transactions carried out in the creation of structured bonds, ¥8 billion "losses" were booked as equity trading losses and the same amount of "gains" were

booked as fixed income and forex trading gains. Even excluding this effect, however, bond and forex trading gains showed a significant growth thanks to strong sales of foreign currency-denominated bonds and structured bonds.

Proactive Cost Cutting

Selling, general and administrative (SG&A) expenses decreased ¥15.5 billion, or 6%, from the previous fiscal year. Of this ¥15.5 billion, ¥6.0 billion each can be attributed to declines in commission and other expenses and personnel costs.

The reduction in SG&A expenses stemmed from the following two factors: First, we cut expenses in response to the unfavorable operating conditions. Second, over the past few years we have made efforts to convert fixed costs into variable costs to increase sensitivity of our expenses to revenue. As a result, fixed costs fell from nearly ¥40.0 billion in the first quarter of FY 2001 to approximately ¥36.0 billion in the fourth quarter of FY 2002. Over the same period, variable costs decreased from approximately ¥24.0 billion to ¥19.0 billion.

Net Trading Gains/Losses

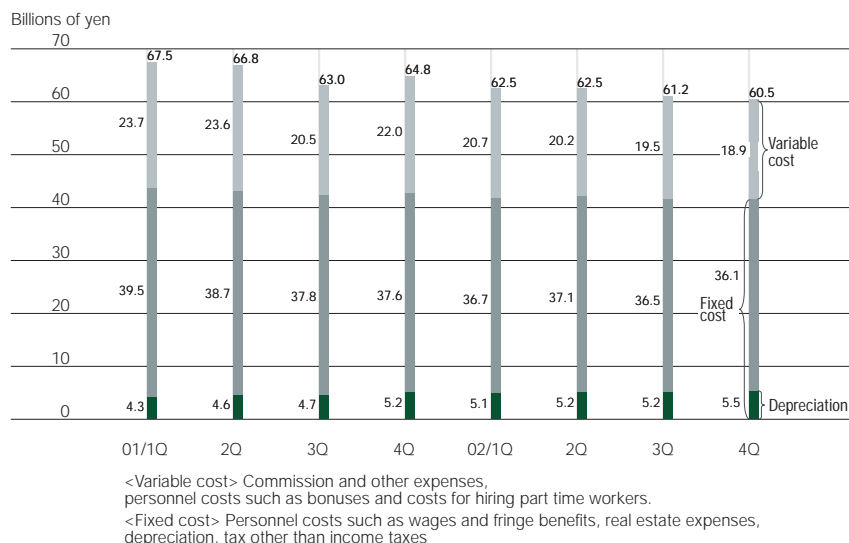


Ordinary Income Up 13%, but the Group Posted a Net Loss on Falling Stock Prices and Restructuring Costs

In FY 2002, operating income rose 6% to ¥24.1 billion and ordinary income increased 13% to ¥29.2 billion. At the bottom line, however, the Daiwa Securities Group posted another net loss totaling ¥6.3 billion. Continuing disposals of leased real estate and the unwinding of cross-shareholdings led to extraordinary gains of ¥15.5 billion. On the other hand, extraordinary losses of ¥32.9 billion were recorded owing chiefly to the following three factors: First, we wrote down ¥19.7 billion of securities. Of this amount, ¥12.0 billion came from banking sector stocks. Second, ¥4.5 billion in losses were recorded from the sale or disposal of fixed assets. Third, we provisioned ¥4.1 billion for doubtful accounts.

The FY 2002 results also included the ¥3.2 billion negative impact from factors including ¥2.2 billion from an increase in adjustments to corporate taxes in connection with the introduction of Pro Forma Standard Taxation and ¥1.0 billion from a rise in SG&A expenses resulting from changes in the social insurance system.

SG&A Expenses by Fixed and Variable Costs



Overseas Performance Deteriorated Significantly

By region, operating income in Japan rose slightly while Asia and Oceania turned from a ¥0.5 billion loss in FY 2001 to a slight profit. In the U.S., however, operating income turned from a gain of ¥1.9 billion last year to a ¥3.4 billion loss in FY 2002, while operating income in Europe fell from ¥5.0 billion last year to ¥3.3 billion. The net result was a significant deterioration in the overall performance of our

overseas operations. As mentioned in the discussion of macroeconomic conditions above, the decline in operating income in Europe was chiefly attributable to the decline in net interest income and a worsening business sentiment. In the U.S., the declines are mainly technical in that the principal finance operations were transferred from the U.S. to Japan with the establishment of Daiwa Securities SMBC Principal Investments in October 2001.

Geographical Segment Information (FY 2001 and FY 2002)

	Millions of yen					
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
FY 2001						
Net operating revenues	250,266	17,082	24,553	5,696	-12,665	284,932
Operating income (loss)	23,831	1,973	5,051	(571)	-7,515	22,769
FY 2002						
Net operating revenues	239,719	7,677	23,331	5,862	-5,779	270,810
Operating income (loss)	24,054	(3,404)	3,386	67	6	24,109

Balance Sheet and Cash Flow Analysis

Balance Sheet

Total assets rose ¥1.67 trillion from FY 2001 to ¥9.50 trillion. Current assets increased ¥1.80 trillion from the previous year while non-current assets decreased by ¥129.7 billion, or 17%. Most of the increase in current assets stemmed from growth in trading assets, while the decrease in fixed assets was mainly attributable to declines in tangible fixed assets and investment securities. In connection with the decision to withdraw from real estate leasing for non-group companies made in FY 2001, the Group continued to sell real estate properties related to this business. The cumulative amount of real estate disposed by the end of FY 2002 was approximately ¥32.0 billion. Thus

approximately 90% of intended disposals has been completed. Investment securities decreased ¥95.8 billion due mainly to disposals of subordinated bank debt totaling ¥70.0 billion (face value), disposal of cross-shareholding positions securities, and the write-down of investment securities.

On the liability side, external debt decreased ¥55.0 billion while payables on collateralized financing transactions increased ¥1.89 trillion. Total stockholders' equity decreased ¥29.1 billion to ¥541.7 billion, partly as a result of the net loss for the year. The stockholders' equity ratio fell to 5.7% from 7.3% in FY 2001.

Cash Flow

Cash flow from operating activities turned to an inflow of ¥369.7 billion from an outflow of ¥865.1 billion in FY 2001. The Group posted a net loss of ¥6.3 billion, but the reasons for the loss included items for which there was no physical cash outflow, such as write-down of investment securities, and a net increase in trading assets. Factors on the liabilities side include the increase in payables on collateralized financing transactions. Cash

flows from investing activities turned to an inflow of ¥67.9 billion from an outflow of ¥117.1 billion in FY 2001. This was largely due to decreases in tangible fixed assets in connection with the restructuring of real estate operations and the sale of investment securities. As a result of the above, free cash flow totaled ¥437.7 billion. There was a net outflow of cash from financing activities of ¥447.3 billion as a result of reducing external debt.

Risk Management

Market conditions in FY 2002 were marked by weakness in the stock market and a continuing of low interest rates. As a result, there were few opportunities to take aggressive risk, and even for Daiwa

Securities SMBC, which due to its operations bears the bulk of the risks inherent in the Group, value at risk (VaR) remained at a low level as shown below.

Value at Risk for Daiwa Securities SMBC

< Range and assumption of VaR >

Confidence level: 99% Holding period: 1 day Adjusted for price correlation between products

(month end)	Billions of yen								
	2001/3	2001/6	2001/9	2001/12	2002/3	2002/6	2002/9	2002/12	2003/3
Equity	2.68	1.08	2.01	1.13	1.06	1.23	0.74	0.42	0.63
Interest	0.88	0.49	0.65	0.61	0.19	0.46	0.36	0.30	0.58
Currency	0.02	0.04	0.02	0.04	0.02	0.04	0.03	0.02	0.02
Total	3.58	1.61	2.68	1.77	1.27	1.73	1.13	0.74	1.23
Diversification benefit	-0.57	-0.40	-0.53	-0.38	-0.19	-0.36	-0.29	-0.19	-0.46
VaR	3.01	1.21	2.15	1.39	1.08	1.37	0.84	0.55	0.77

• FY 2001 high: ¥3.38 billion, low: ¥0.59 billion, average: ¥1.49 billion.

• FY 2002 high: ¥1.70 billion, low: ¥0.51 billion, average: ¥0.96 billion

Consolidated Financial Statements

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CONSOLIDATED BALANCE SHEETS

Years ended March 31, 2003, 2002 and 2001

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Cash and cash deposits :			
Cash and time deposits (Note 9)	¥ 438,249	¥ 454,559	\$ 3,652,075
Cash segregated as deposits related to securities transactions	105,641	108,610	880,342
	543,890	563,169	4,532,417
Receivables :			
Loans receivable from customers	15,287	23,686	127,392
Loans receivable from other than customers	65,872	80,354	548,933
Receivables related to margin transactions (Note 3)	106,874	125,272	890,617
Other	203,745	141,649	1,697,874
Less allowance for doubtful accounts	(648)	(2,960)	(5,400)
	391,130	368,001	3,259,416
Collateralized short-term financing agreements (Note 4)	3,264,812	3,493,652	27,206,767
Trading assets (Notes 5 and 9)	4,529,438	2,426,317	37,745,317
Deferred income taxes (Note 15)	76,733	89,563	639,442
Other assets :			
Property and equipment, at cost (Note 9)	261,565	289,169	2,179,708
Less accumulated depreciation	(99,225)	(100,717)	(826,875)
	162,340	188,452	1,352,833
Lease deposits	29,159	31,519	242,992
Investment securities (Notes 6 and 9)	289,679	394,650	2,413,992
Long-term loans receivable (Note 10)	13,605	14,746	113,375
Other (Note 9)	220,639	274,764	1,838,658
Less allowance for doubtful accounts	(18,599)	(17,527)	(154,992)
	696,823	886,604	5,806,858
See accompanying notes.	¥ 9,502,826	¥7,827,306	\$ 79,190,217

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Loans :			
Short-term borrowings (Notes 9, 10 and 13)	¥ 1,475,901	¥1,742,389	\$ 12,299,175
Commercial paper	332,800	442,100	2,773,333
Long-term debt (Notes 9 and 13)	611,599	682,844	5,096,658
	2,420,300	2,867,333	20,169,166
Payables :			
Payables to customers (Note 12)	226,256	246,899	1,885,467
Time deposits received	14,117	15,064	117,642
Payables from brokers, dealers and customers	79,625	169,347	663,542
Payables related to margin transactions (Note 3)	53,158	42,433	442,983
Other	67,396	21,074	561,633
	440,552	494,817	3,671,267
Collateralized short-term financing agreements (Note 4)	4,355,308	2,467,714	36,294,233
Trading liabilities (Note 5)	1,520,776	1,187,846	12,673,133
Accrued and other liabilities :			
Income taxes payable	2,813	2,786	23,442
Deferred income taxes (Note 15)	2,615	10,494	21,792
Accrued bonuses	12,054	14,582	100,450
Retirement benefits (Note 14)	15,888	12,850	132,400
Provision for real estate business reorganization (Note 23)	—	10,076	—
Other	32,851	32,333	273,759
	66,221	83,121	551,843
Statutory reserves (Note 16)	3,892	2,932	32,433
Minority interests	154,058	152,704	1,283,817
Contingent liabilities and commitments (Note 17)			
Shareholders' equity (Notes 18 and 19) :			
Common stock, no par value ;			
Authorized - 4,000,000 thousand shares			
Issued - 1,331,735 thousand shares	138,432	138,432	1,153,600
Capital surplus	117,786	117,786	981,550
Retained earnings	297,404	311,719	2,478,367
Net unrealized gain on securities, net of tax effect	1,824	12,696	15,200
Translation adjustments	(11,321)	(7,511)	(94,342)
Treasury stock, at cost	(2,406)	(2,283)	(20,050)
Total shareholders' equity	541,719	570,839	4,514,325
	¥ 9,502,826	¥7,827,306	\$ 79,190,217

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended March 31, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2003	2002	2001	2003
Operating revenues :				
Commissions (Note 21)	¥ 144,283	¥ 171,869	¥ 254,704	\$ 1,202,358
Net gain on trading	91,307	67,249	169,506	760,892
Interest and dividend income (Note 10)	114,707	195,934	220,790	955,892
Service fees and other sales	37,362	52,992	69,909	311,350
	387,659	488,044	714,909	3,230,492
Interest expense (Note 10)	90,594	164,506	195,522	754,950
Cost of service fees and other sales	26,255	38,606	55,330	218,792
Net operating revenues (Note 20)	270,810	284,932	464,057	2,256,750
 Selling, general and administrative expenses (Notes 14, 20 and 22) ..	246,701	262,163	286,948	2,055,842
Operating income (Note 20)	24,109	22,769	177,109	200,908
 Other income (expenses) :				
Reversal of statutory reserves, net (Note 16)	(960)	(957)	(994)	(8,000)
Other, net (Note 23)	(11,304)	(141,780)	(9,500)	(94,200)
	(12,264)	(142,737)	(10,494)	(102,200)
Income (loss) before income taxes and minority interests	11,845	(119,968)	166,615	98,708
 Income taxes (Note 15) :				
Current	2,671	2,613	48,019	22,258
Deferred	12,686	2,990	21,830	105,717
	15,357	5,603	69,849	127,975
 Minority interests	(2,811)	(4,976)	(32,217)	(23,425)
Net income (loss)	¥ (6,323)	¥ (130,547)	¥ 64,549	\$ (52,692)
	Yen			U.S. Dollars (Note 1)
Per share amounts :				
Net income (loss)	¥ (4.75)	¥ (98.27)	¥ 48.62	\$ (0.04)
Diluted net income	—	—	46.26	—
Cash dividends applicable to the year	6.00	6.00	13.00	0.05

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended March 31, 2003, 2002 and 2001

	Number of shares of common stock (thousands)	Millions of Yen					
		Common stock	Capital surplus	Retained earnings	Net unrealized gain(loss) on securities, net of tax effect	Translation adjustments	Treasury stock, at cost
Balance at March 31, 2000	1,331,733	¥ 138,431	¥ 117,785	¥ 413,469	¥ —	¥ —	¥ (3,613)
Net income				64,549			
Change in stake in subsidiaries				(498)			
Cash dividends paid				(17,246)			
Bonuses to directors				(280)			
Shares issued upon conversion of bonds ..	2	1	1				
Net unrealized gain on securities, net of tax effect					18,984		
Translation adjustments						(15,807)	
Change in treasury stock, net							1,040
Balance at March 31, 2001	1,331,735	138,432	117,786	459,994	18,984	(15,807)	(2,573)
Net loss				(130,547)			
Cash dividends paid				(17,266)			
Bonuses to directors				(462)			
Net unrealized loss on securities, net of tax effect					(6,288)		
Translation adjustments						8,296	
Change in treasury stock, net							290
Balance at March 31, 2002	1,331,735	138,432	117,786	311,719	12,696	(7,511)	(2,283)
Net loss				(6,323)			
Cash dividends paid				(7,971)			
Bonuses to directors				(15)			
Net loss on disposal of treasury stock (Note 18)				(6)			
Net unrealized loss on securities, net of tax effect					(10,872)		
Translation adjustments						(3,810)	
Change in treasury stock, net							(123)
Balance at March 31, 2003	1,331,735	¥ 138,432	¥ 117,786	¥ 297,404	¥ 1,824	¥ (11,321)	¥ (2,406)

	Thousands of U.S. Dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized gain(loss) on securities, net of tax effect	Translation adjustments	Treasury stock, at cost
Balance at March 31, 2002	\$1,153,600	\$ 981,550	\$ 2,597,658	\$ 105,800	\$ (62,592)	\$ (19,025)
Net loss			(52,692)			
Cash dividends paid			(66,425)			
Bonuses to directors			(125)			
Net loss on disposal of treasury stock			(49)			
Net unrealized loss on securities, net of tax effect				(90,600)		
Translation adjustments					(31,750)	
Change in treasury stock, net						(1,025)
Balance at March 31, 2003	\$1,153,600	\$ 981,550	\$ 2,478,367	\$ 15,200	\$ (94,342)	\$ (20,050)

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2003	2002	2001	2003
Cash flows from operating activities :				
Net income (loss)	¥ (6,323)	¥ (130,547)	¥ 64,549	\$ (52,692)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities :				
Depreciation	21,067	18,775	15,495	175,558
Provision for doubtful accounts, net	4,278	4,962	4,345	35,650
Provision for retirement benefits, net (Note 14)	3,038	3,432	4,253	25,317
Reversal of statutory reserves, net (Note 16)	960	957	994	8,000
Losses related to investment securities (Note 23)	12,058	18,444	1,665	100,483
Losses related to fixed assets (Note 23)	217	2,238	2,978	1,808
Reversal of multiemployers' pension plan (Note 14, 23)	—	(13,692)	—	—
Payment for multiemployers' pension plan	—	(15,253)	—	—
(Reversal of provision for) expenses for real estate business reorganization (Note 23)	(812)	127,401	—	(6,767)
Write-off of goodwill (Note 23)	—	5,000	—	—
Deferred income taxes	12,686	2,990	21,830	105,717
Minority interest in income	2,811	4,976	32,217	23,425
(Increase) decrease in receivables and increase (decrease) in payables	(6,841)	352,319	(152,635)	(57,008)
(Increase) decrease in trading assets and increase (decrease) in trading liabilities	(1,861,067)	338,229	177,783	(15,508,892)
Decrease in receivables and increase in payables related to margin transactions	29,123	115,681	141,490	242,692
(Increase) decrease in collateralized short-term financing agreements	2,113,920	(1,549,168)	(510,205)	17,616,000
(Increase) decrease in other assets	43,686	(152,983)	(45,159)	364,050
Other, net	948	1,088	1,825	7,900
Total adjustments	376,072	(734,604)	(303,124)	3,133,933
Net cash provided by (used in) operating activities	369,749	(865,151)	(238,575)	3,081,241

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2003	2002	2001	2003
Cash flows from investing activities :				
Payments for purchases of property and equipment	¥ (6,107)	¥ (11,754)	¥ (10,408)	\$ (50,892)
Proceeds from sales of property and equipment	21,115	8,857	6,297	175,958
Payments for purchases of investment securities	(51,946)	(124,061)	(22,059)	(432,883)
Proceeds from sales of investment securities	129,716	58,472	43,758	1,080,967
Decrease in long-term loans receivable	1,065	176	7,391	8,875
Other, net	(25,876)	(48,842)	(20,010)	(215,633)
Net cash provided by (used in) investing activities	67,967	(117,152)	4,969	566,392
Cash flows from financing activities :				
Increase (decrease) in short-term borrowings	(416,057)	1,152,333	59,441	(3,467,142)
Decrease in long-term debt	(8,697)	(117,205)	(126,904)	(72,475)
Proceeds from issuance of notes by subsidiaries	167,690	161,904	192,109	1,397,417
Payments for redemption of bonds and notes	(182,138)	(46,835)	(67,707)	(1,517,817)
Proceeds from issuance of stocks to minor shareholders	—	6,580	2,145	—
Payments of cash dividends	(7,971)	(17,265)	(17,246)	(66,425)
Payments of cash dividends to minor shareholders	(89)	(20,579)	(29)	(742)
Other, net	(130)	312	990	(1,083)
Net cash provided (used in) by financing activities	(447,392)	1,119,245	42,799	(3,728,267)
Effect of exchange rate changes on cash	(6,634)	3,553	7,696	(55,283)
Net increase (decrease) in cash	(16,310)	140,495	(183,111)	(135,917)
Cash at beginning of year	454,559	314,064	497,175	3,787,992
Cash at end of year	¥ 438,249	¥ 454,559	¥ 314,064	\$3,652,075
Supplemental information on cash flows :				
Cash paid (refunded) during the year for :				
Interest	¥ 92,311	¥ 174,980	¥ 205,945	\$ 769,258
Income taxes	(13,002)	31,397	90,673	(108,350)
Noncash investing and financing activities :				
Conversion of convertible bonds into common stock and additional paid-in capital	—	—	2	—

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three years ended March 31, 2003

1. Basis of financial statements

Daiwa Securities Group Inc. (the "Company") changed its name from Daiwa Securities Co. Ltd. and transformed into a holding company on April 26, 1999, after transferring its wholesale and retail business divisions into separate subsidiaries, as described below.

On April 5, 1999, the Company transferred its wholesale business divisions to Daiwa Securities SB Capital Markets Co. Ltd. ("Daiwa Securities SBCM"), a 60% owned subsidiary of the Company. The Sumitomo Bank was the minority interest holder with a 40% share. On April 1, 2001, The Sumitomo Bank and The Sakura Bank merged to form The Sumitomo Mitsui Banking Corporation. Associated with this merger, Sakura Securities Co., Ltd., a securities subsidiary of The Sakura Bank, was integrated into Daiwa Securities SBCM, and was subsequently renamed to Daiwa Securities SMBC Co. Ltd. ("Daiwa Securities SMBC").

On April 26, 1999, the Company transferred its retail business divisions to Daiwa Securities Preparation Co. Ltd., a wholly owned subsidiary of the Company. This company changed its corporate name to (new) Daiwa Securities Co. Ltd. on the same date.

The Company and its consolidated domestic subsidiaries maintain their official accounting records in yen and in accordance with the provisions set forth in the Japanese Commercial Code and the accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas subsidiaries are maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries with respect to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are knowledgeable about Japanese accounting principles and practices.

The accompanying financial statements have been translated into English and restructured (with some expanded descriptions and the inclusion of statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements but not required for fair presentation is not presented in the accompanying financial statements.

The consolidated financial statements of the Company for the years ended March 31, 2003 and 2002 are prepared in accordance with the amended "Uniform Accounting Standards of Securities Companies" (set by the board of directors of the Japan Securities Dealers' Association, September 28, 2001). The statement of operations for the year ended March 31, 2001 is reclassified to conform to the presentation for 2003 and 2002.

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2003, which was ¥120 to U.S. \$1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

Consolidation – The consolidated financial statements include the accounts of the Company and significant companies which are controlled by the Company through substantial ownership of more than 50% of the voting rights or through ownership of high percentage of the voting rights and the existence of certain conditions evidencing control by the Company of the decision-making body of such companies.

In addition to investments in companies in excess of 20%, certain companies for which the Company has at least 15% and less than 20% of the voting rights and in cases where the Company has the ability to exercise significant influence over operating and financial policies of the investees are accounted for using the equity method.

Significant intercompany balances, transactions and profits have been eliminated in consolidation.

Statements of cash flows – For purposes of reporting cash flows, cash includes "cash and time deposits" with maturities not exceeding one year. Cash and time deposits as of March 31, 2003 and 2002 include time deposits more than three months in the amount of ¥15,564 million (\$129,700 thousand) and ¥14,578 million, respectively.

Trading assets and liabilities – Trading assets and liabilities, including securities and financial derivatives for trading purposes held by the securities subsidiaries are recorded on a trade date basis in the consolidated balance sheets at either market or fair value. Revenues and expenses related to trading securities transactions are recorded on a trade date basis. Changes in the market or fair values are reflected in "net gain on trading" in the accompanying consolidated statements of operations. Gains and losses generated from derivatives held or issued for trading purposes are also reported as "net gain on trading" in the accompanying consolidated statements of operations, which includes realized gains and losses as well as changes in the market values or fair values of such instruments. Securities owned for non-trading purpose, shown in the accompanying consolidated balance sheets as "Investment securities", are discussed below.

Investment securities – The Company and its consolidated subsidiaries examines the intent of holding each security and classifies those securities as (a) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies, and (c) for all other securities not classified in any of the above categories ("available-for-sale securities").

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies are stated at moving-average cost. Available-for-sale securities with market value are stated at market value, based on quoted market prices. Realized gains and losses on sale of such securities are computed using the moving-average cost. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of the shareholders' equity.

Debt securities that do not have market value are stated at the amortized cost, net of the amount considered not collectible. Other securities that do not have fair value are stated at the moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by subsidiaries and affiliated companies, and available-for-sale securities declines significantly, such securities are stated at market value and the difference between market value and the carrying amount is recognized as loss in the period of the decline. If the market value of equity securities issued by subsidiaries and affiliated companies is not readily available, such securities are written down to net book value in the event net book value significantly declines. Unrealized losses on these securities are reported in statements of operations.

Hedging transactions – The Company and its consolidated subsidiaries state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes. Valuation gains or losses on hedging instruments are mainly deferred as assets or liabilities until the gains or losses on underlying hedged instruments are realized. Interest received or paid on interest swaps for hedging are accrued without mark-to-market, and premium or discount on forward foreign exchange contract for hedging is allocated to each fiscal term without mark-to-market.

Collateralized short-term financing agreements – Collateralized short-term financing agreements consist of securities purchased under agreements to resell ("resell transactions") or securities sold under agreements to repurchase ("repurchase transactions"), securities borrowed or loaned, and buy or sell Gensaki which have been accounted for as financing transactions. Repurchase transactions are traded in overseas subsidiaries and carried at their contractual amounts. Securities borrowed or loaned are recorded at the amount of cash collateral advanced or received. Buy or Sell Gensaki represents a form of securities purchased under resale agreements or securities sold under repurchase agreements originated in Japan. Gensaki transactions have been accounted for in the same manner as financing transactions in accordance with the amendment of the "Uniform Accounting Standards of Securities Companies".

Provision for doubtful accounts – Provisions for doubtful accounts of domestic consolidated subsidiaries are provided on the estimated historical deterioration rate for normal loans, and based on specifically assessed amounts for doubtful and failed loans. Overseas consolidated subsidiaries provide specifically assessed amounts for doubtful accounts.

Property and equipment – Property and equipment are stated at cost. The Company and its domestic consolidated subsidiaries compute depreciation principally by the declining-balance method over estimated useful lives as stipulated by corporate tax regulations. Depreciation for buildings purchased in Japan after April 1, 1998 is computed by the straight-line method. In its overseas subsidiaries, depreciation is computed by the straight-line method.

Bonuses – The Company and its domestic consolidated subsidiaries follow the Japanese practice of paying bonuses to employees in June and December. Accrued employees' bonuses represent liabilities estimated as of the balance sheet date. Bonuses to directors, which are subject to approval at the shareholders' meeting, are accounted for as an appropriation of retained earnings.

Retirement benefits for employees – Effective April 1, 2000, the Company and most of its domestic consolidated subsidiaries adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits" (the "Standard for Employees' Severance and Pension Benefits"), issued by the Business Accounting Deliberation Council on June 16, 1998. As a result of the adoption of the Standard for Employees' Severance and Pension Benefits, in the year ended March 31, 2001, severance and pension benefit expense increased by ¥213 million, operating income and income before income taxes and minority interests decreased by ¥213 million compared with what would have been recorded under the previous accounting standard.

The Company and most of its domestic consolidated subsidiaries provide an unfunded benefit pension plan to their employees based on years of service. The amount to be provided for the individual employees' account each year is defined, rather than the amount of pension benefits the employee is to receive. Under these unfunded benefit pension plans, pension benefits are accumulated on an annual basis by provisions of the Company and most of its domestic consolidated subsidiaries. The employees receive guaranteed hypothetical return at the rate of which the Company and most of its domestic consolidated subsidiaries predetermines each year. Certain consolidated subsidiaries provide allowance for employees' retirement benefits, based on estimated amounts of projected benefit obligations.

The Company and almost all of its domestic consolidated subsidiaries introduced defined contribution pension plan in December 2001. Some overseas consolidated subsidiaries also maintain a defined contribution pension plan.

The Company and its certain domestic subsidiaries had been members of an industry-wide non-contributory welfare pension plan administered by Securities Companies' Welfare Pension Fund, in conjunction with the contributory governmental welfare pension plan. On September 29, 2001, the Company and its certain domestic subsidiaries withdrew from this non-contributory welfare pension plan (See Note 14).

Provision for real estate business reorganization – In 2002, the Company decided to withdraw from real estate business engaged by certain domestic consolidated subsidiaries. Book values of the related properties were written down to estimated net realizable value. On October 26, 2001, the Company's Board of Directors approved a resolution to reorganize such real estate business and to initiate a financial assistance plan to those subsidiaries, including capital injection. The provision for real estate reorganization is based on anticipated financial assistance as of March 31, 2002. In the year ended March 31, 2003, such real estate reorganization was completed, and the residual portion of the provision was reversed (See Note 23).

Income taxes – Income taxes consist of corporation, enterprise and inhabitants taxes. The provision for income taxes is computed based on the pretax income of each of the Company and its consolidated subsidiaries with certain adjustments required for tax purposes.

Deferred taxes assets and liabilities are recorded for the expected future tax consequences of temporary differences between the financial reporting and the tax bases of the assets and liabilities based upon enacted tax laws and rates. The Company recognizes deferred tax assets to the extent they are expected to be realized. Deferred tax assets and liabilities are reported as "deferred

income taxes" in the accompanying consolidated balance sheets. Deferred tax expense or benefits are recognized in the consolidated statements of operations for the changes in deferred tax assets or liabilities between years.

Some consolidated subsidiaries apply the consolidated tax return regime from the year ended March 31, 2003.

Translation of foreign currencies – The Company and its domestic consolidated subsidiaries translate assets and liabilities in foreign currencies into yen at year-end exchange rate.

Translation of foreign currency financial statements - Financial statements of foreign subsidiaries are translated into yen on the basis of the year-end rates for assets and liabilities except that retained earnings are translated at historical rates. Income and expenses are translated at the average rates for the years. The resulting differences are reported as translation adjustments in shareholders' equity.

Treasury stock and statutory reserves – Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002). The effect on net income of adopting the new accounting standard was immaterial.

Net income (loss) per share – Net income (loss) per share of common stock is based on the average number of common shares outstanding.

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board for Japan on September 25, 2002). The effect on earnings per share of adopting the new accounting standard was immaterial.

Diluted net income per share is computed based on the average number of common shares outstanding for the year plus the number of shares of common stock that would have been issued had the outstanding convertible bonds and warrants been converted as of March 31, 2001. Diluted net income for the years ended March 31, 2003 and 2002 is not presented, since a net loss is reported in the consolidated statements of operations.

3. Margin transactions

Margin transactions at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Assets:			
Loans receivable from customers	¥ 34,419	¥ 49,227	\$ 286,825
Cash deposits as collateral for securities borrowed from securities finance companies	72,455	76,045	603,792
	¥ 106,874	¥ 125,272	\$ 890,617
Liabilities:			
Loans from securities finance companies	¥ 2,915	¥ 3,591	\$ 24,291
Proceeds of securities sold for customers' accounts	50,243	38,842	418,692
	¥ 53,158	¥ 42,433	\$ 442,983

Loans receivable from customers are stated at amounts equal to the purchase prices of the relevant securities and are collateralized by customers' securities and customers' deposits of cash or securities. Proceeds of securities sold for customers' accounts are stated at the sales prices of the relevant securities on the respective transaction dates.

4. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Assets:			
Securities purchased under agreements to resell	¥ 1,644,820	¥ 1,527,560	\$ 13,706,834
Securities borrowed	1,619,992	1,828,370	13,499,933
Buy Gensaki	—	137,722	—
	¥ 3,264,812	¥ 3,493,652	\$ 27,206,767
Liabilities:			
Securities sold under agreements to repurchase	¥ 1,810,010	¥ 1,869,469	\$ 15,083,417
Securities loaned	1,908,019	520,148	15,900,158
Sell Gensaki	637,279	78,097	5,310,658
	¥ 4,355,308	¥ 2,467,714	\$ 36,294,233

5. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Trading assets:			
Equity securities	¥ 83,342	¥ 202,109	\$ 694,517
Government, corporate and other bonds	3,646,400	1,740,980	30,386,667
Beneficiary certificates	119,077	84,460	992,308
Commercial paper, certificates of deposits and others	104,076	53,683	867,300
Option transactions	24,046	22,566	200,383
Futures and forward transactions	15,456	12,262	128,800
Swap agreements	537,186	311,358	4,476,550
Other derivatives	1,338	116	11,150
Credit reserves	(1,483)	(1,217)	(12,358)
	¥ 4,529,438	¥ 2,426,317	\$ 37,745,317
Trading liabilities:			
Equity securities	¥ 38,235	¥ 45,093	\$ 318,625
Government, corporate and other bonds	958,099	823,270	7,984,158
Beneficiary certificates	358	12,605	2,983
Option transactions	24,827	29,642	206,892
Futures and forward transactions	18,298	4,067	152,483
Swap agreements	480,844	273,159	4,007,033
Other derivatives	115	10	959
	¥ 1,520,776	¥ 1,187,846	\$ 12,673,133

6. Investment securities

Cost/amortized cost and market value of held-to-maturity debt securities as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		
	Cost/amortized cost	Market value	Difference
Government bonds, local government bonds, etc. at March 31, 2003	¥ 0	¥ 0	¥ 0
Government bonds, local government bonds, etc. at March 31, 2002	¥ 523	¥ 520	¥ (3)
	Thousands of U.S. Dollars		
	Cost/amortized cost	Market value	Difference
Government bonds, local government bonds, etc. at March 31, 2003	\$ 2	\$ 2	\$ 0

Cost and market value of available-for-sale securities as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		
	Cost	Market value	Difference
March 31, 2003:			
Equity securities	¥ 69,307	¥ 75,501	¥ 6,194
Government, corporate and other bonds	74,277	72,745	(1,532)
Other	8,683	7,899	(784)
	¥ 152,267	¥ 156,145	¥ 3,878
March 31, 2002:			
Equity securities	¥ 91,861	¥ 116,202	¥ 24,341
Government, corporate and other bonds	143,692	141,242	(2,450)
Other	8,363	8,463	100
	¥ 243,916	¥ 265,907	¥ 21,991
	Thousands of U.S. Dollars		
	Cost	Market value	Difference
March 31, 2003:			
Equity securities	\$ 577,558	\$ 629,175	\$ 51,617
Government, corporate and other bonds	618,975	606,208	(12,767)
Other	72,359	65,825	(6,534)
	\$ 1,268,892	\$ 1,301,208	\$ 32,316

Other securities that do not have market value as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Equity securities	¥ 59,747	¥ 52,654	\$ 497,892
Government, corporate and other bonds	12,165	10,580	101,375
Other	35,101	38,862	292,508
	¥ 107,013	¥ 102,096	\$ 891,775

In addition to above, securities of non-consolidated and affiliated companies amounting to ¥26,521 million (\$221,008 thousand) at March 31, 2003 and ¥26,124 million at March 31, 2002 are included in investment securities.

7. Derivatives for non-trading purposes

Net unrealized gains/(losses) of derivatives for non-trading purposes at March 31, 2003 and 2002 (excluding hedging transactions) consisted of the following:

	Millions of Yen		
	Contract amount	Market value	Unrealized gains / (losses)
March 31, 2003:			
Interest rate swap	¥ 3,837	¥ 10	¥ 10
Currency swap	137	(0)	(0)
March 31, 2002:			
Interest rate swap	¥ 4,204	¥ (16)	¥ (15)
Currency swap	279	(0)	(0)
	Thousands of U.S. Dollars		
	Contract amount	Market value	Unrealized gains / (losses)
March 31, 2003:			
Interest rate swap	\$ 31,975	\$ 83	\$ 83
Currency swap	1,142	(5)	(5)

8. Risk management information

The two domestic securities subsidiaries, Daiwa Securities Co. Ltd. and Daiwa Securities SMBC ("Securities subsidiaries"), enter into transactions involving trading assets and liabilities to meet customer needs, and for their proprietary trading activities, as a broker and an end-user. These trading assets and liabilities include (1) cash securities such as stocks and bonds, (2) financial derivatives traded on exchanges such as futures and options based on stock price indices, bonds and interest rates, and (3) financial derivatives traded over the counter such as currency and interest rate swaps, foreign exchange forward contracts, bonds with options, currency options, forward rate agreements and OTC equity derivatives.

The principal risks inherent in trading in these markets are market risk and credit risk. Market risk represents the potential for loss from changes in the value of financial instruments due to price and interest rate fluctuations in the markets. As to market risk, Daiwa Securities SMBC determines the balance of risk and profit or loss on each instrument and uses a value-at-risk method to manage this risk. Credit risk represents the potential for loss arising from the failure of the counter-party in a transaction to fulfill its terms and conditions. Securities subsidiaries assess the credit risk of their counter-parties applying internal credit rating and monitor their exposure by measuring notional principal and credit exposure.

Daiwa Securities SMBC has established five risk management principles: Active management participation, system of internal supervision, sound management by risk limit setting, risk management assuming emergency, and transparency in risk management process. By ensuring these five principles, Daiwa Securities SMBC expects that risks associated with trading activities are well controlled within a range that the management is willing to assume.

9. Pledged assets

At March 31, 2003, short-term borrowings amounting to ¥862,025 million (\$7,183,542 thousand), securities borrowed amounting to ¥2,915 million (\$24,292 thousand) and long-term debt amounting to ¥400 million (\$3,333 thousand) were secured by the following assets:

	Millions of Yen	Thousands of U.S. Dollars
Cash and time deposits	¥ 15,923	\$ 132,692
Trading assets	818,243	6,818,692
Property and equipment	755	6,292
Investment Securities	35,167	293,058
	¥ 870,088	\$ 7,250,734

In addition to above, securities borrowed amounting to ¥405,304 million (\$3,377,533 thousand) were deposited as guarantee at March 31, 2003.

Total fair value of the securities deposited as collateral at March 31, 2003 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Securities loaned	¥ 8,314,163	\$ 69,284,692
Sell Gensaki transaction	637,849	5,315,408
Other	378,286	3,152,383
	¥ 9,330,298	\$ 77,752,483

Total fair value of the securities received as collateral at March 31, 2003 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Securities borrowed	¥ 8,324,486	\$ 69,370,717
Other	108,387	903,225
	¥ 8,432,873	\$ 70,273,942

10. The Company's transactions with related parties

A statutory auditor of the Company is the president of the Taiyo Mutual Life Insurance Co. The significant account balances with the Taiyo Mutual Life Insurance Co. at March 31, 2003 were long-term loans receivable amounting to ¥5,000 million (\$41,667 thousand) and short-term borrowings amounting to ¥25,000 million (\$208,333 thousand). The Company paid ¥467 million (\$3,892 thousand) in interest expenses and received ¥178 million (\$1,483 thousand) in interest income. Interest payables and interest receivables at March 31, 2003 were ¥94 million (\$783 thousand) and ¥54 million (\$450 thousand), respectively. In addition, the Company purchased 35,000 shares of The Taiyo Mutual Life Insurance Company at ¥2,625 million (\$21,875 thousand) from this company.

11. Lease transactions

Financial leases that do not transfer ownership to lessees ("non-capitalized finance leases") are not capitalized and are accounted for in the same manner as operating leases. Certain information at March 31, 2003 and 2002 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Total assets under non-capitalized finance leases	¥ 17,322	¥ 18,451	\$ 144,350
Accumulated depreciation	9,985	10,873	83,208
Future lease payments of non-capitalized leases	7,455	7,713	62,125
Due within one year	3,288	3,420	27,400
Future lease payments of operating leases	14,189	15,839	118,242
Due within one year	2,042	2,065	17,017

12. Payables to customers

Payables to customers at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Cash received for customers' accounts on trading	¥ 65,492	¥ 83,039	\$ 545,767
Cash deposits received from customers mainly for margin and futures transactions	40,172	43,899	334,767
Other	120,592	119,961	1,004,933
	¥ 226,256	¥ 246,899	\$ 1,885,467

13. Bank borrowings and long-term debt

As is customary in Japan, in the case of unsecured bank borrowings, security must be given under certain conditions if requested by a lending bank, and such bank has the right to offset cash deposited with it against any debt or obligation that becomes due and, in the case of default and certain other specified events, against all debts payable to the bank. No such request has been made and no such right has been exercised.

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Bond payable in yen: 1.4% due 2005	¥ 100,000	¥ 100,000	\$ 833,333
Convertible bonds payable in yen, convertible into common stock at ¥3,035.90 per share: 1.5% due 2002	—	19,440	—
Convertible bonds payable in yen, convertible into common stock at ¥2,367.00 per share: 1.4% due 2003	36,269	36,269	302,242
Convertible bond payable in yen, convertible into common stock at ¥1,094.00 per share: 0.5% due 2006	79,986	79,986	666,550
Bond with warrants: 1.37% due 2004	8,400	8,400	70,000
Notes payable in yen issued by subsidiaries:			
5.0% subordinated due 2005	1,011	1,005	8,425
2.0% Euro-yen bond due 2002	—	80,000	—
Medium-term notes in yen issued by subsidiaries with various rates and maturities through 2033	297,717	205,404	2,480,975
Euro medium-term notes (authorized \$5,000 million) issued by subsidiaries with various rates and maturities through 2008	17,062	24,322	142,183
Yen subordinated loan due 2005	40,000	40,000	333,333
Borrowings from financial institutions	31,070	87,862	258,917
Other	84	156	700
	¥ 611,599	¥ 682,844	\$ 5,096,658

The conversion prices shown above are subject to adjustment in certain circumstances.

The aggregate annual maturities of long-term debt as of March 31, 2003 are as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2004	¥ 46,010	\$ 383,417
2005	20,780	173,167
2006	177,557	1,479,642
2007	85,561	713,008
2008	8,279	68,992
2009 and thereafter	273,412	2,278,432
	¥ 611,599	\$ 5,096,658

The Company and its consolidated subsidiaries have unused committed bank facilities amounting to ¥270,440 million (\$2,253,667 thousand) under agreements with several banks at March 31, 2003.

14. Retirement benefits

Employees - Effective April 1, 2000, the Company and most of its domestic consolidated subsidiaries adopted the Standard for Employees' Severance and Pension Benefits, under which allowance and expenses for severance and pension benefits are determined based on the amounts obtained by actuarial calculations.

Retirement benefits as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Projected benefit obligation	¥ 20,589	¥ 19,696	\$ 171,575
Less: pension assets	(4,336)	(6,945)	(36,133)
Less: unrecognized actuarial differences	(2,082)	(1,494)	(17,350)
Retirement benefits	¥ 14,171	¥ 11,257	\$ 118,092

Included in the consolidated statements of operations for the years ended March 31, 2003, 2002 and 2001 are severance and pension benefit expense comprising of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	2003
Service costs	¥ 2,915	¥ 4,018	¥ 5,099	\$ 24,292
Contribution to multiemployers' pension plan	—	—	2,080	—
Interest cost on projected benefit obligation	137	264	289	1,142
Expected return on plan assets	(41)	(122)	(285)	(342)
Amortization of actuarial differences	730	425	209	6,083
Other	2,600	1,827	—	21,667
Net expenses for severance and pension benefits	¥ 6,341	¥ 6,412	¥ 7,392	\$ 52,842

The discount rate and the rate of expected return on plan assets used by the Company for the year ended March 31, 2003 are mainly 0.5-0.7% and 0.5-1.0%, respectively, for the year ended March 31, 2002 are 1.5-1.75% and 1.5-1.75%, respectively, and for the year ended March 31, 2001 are 1.5-3.0% and 1.5-3.0%, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial differences are recognized as expenses using the straight-line method mainly over 5 years from the current year.

Directors – Directors' retirement benefits of ¥1,717 million (\$14,308 thousand) and ¥1,593 million are included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2003 and 2002, respectively.

Multiemployers' pension plan – The Company and its certain domestic consolidated subsidiaries were members of an industry-wide non-contributory welfare pension plan administered by the Securities Companies' Welfare Pension Fund, in conjunction with the contributory governmental welfare pension plan. The plan's fund had experienced a low rate of performance due to adverse conditions in Japan's fund management environment, including low interest rates and

declining stock prices in the Japanese market. Management estimated, based on analysis of currently available information, the Company and its consolidated subsidiaries' portion of the difference between the projected future benefit obligation and the fair value of the plan assets had become material. Provision for the multiemployers' pension plan was charged to income for the year ended March 31, 2000.

On September 29, 2001, the Company and its certain domestic consolidated subsidiaries withdrew from this non-contributory welfare pension plan. The withdrawal from the multiemployers' pension plan, which resulted in a deduction of actual obligation on withdrawal from the Securities Companies' Welfare Pension Fund from the provision for multiemployers' pension plan, was reported in the consolidated statement of operations for the year ended March 31, 2002 (Note 23).

15. Income taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes levied on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 42% for the years ended March 31, 2003, 2002 and 2001.

The effective tax rate used for calculation of deferred tax assets and liabilities was approximately 42% for the years ended March 31, 2002 and 2001. Effective for the year commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred tax assets and liabilities, the Company and its domestic consolidated subsidiaries used the effective tax rates of approximately 42% and 40.5% for current items and non-current items, respectively, at March 31, 2003.

As the result of the change in the effective tax rates, deferred tax assets decreased by ¥2,208 million (\$18,400 thousand) and income tax-deferred and net unrealized gain on securities, net of tax, increased by ¥2,271 million (\$18,925 thousand) and ¥63 million (\$525 thousand), respectively, compared with what would have been recorded under the previous local tax law.

Foreign subsidiaries are subject to income taxes of the countries in which they operate.

Details of deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred tax assets:			
Net operating losses carry-forward	¥ 133,702	¥ 128,942	\$ 1,114,183
Write-down of investment securities	18,398	—	153,317
Write-off of goodwill	18,366	36,775	153,050
Expenses for real estate business reorganization	12,055	40,831	100,458
Other	33,667	43,671	280,559
Gross deferred tax assets	216,188	250,219	1,801,567
Less: Valuation allowance	(139,455)	(158,698)	(1,162,125)
Total deferred tax assets	76,733	91,521	639,442
Deferred tax liabilities	2,615	12,452	21,792
Net deferred tax assets	¥ 74,118	¥ 79,069	\$ 617,650

The Company and certain subsidiaries recorded a valuation allowance to reflect the estimated amount of deferred tax assets that will not be realized.

Reconciliation of the difference between the normal effective statutory income tax rate and the effective income tax rate for the years ended March 31, 2003 and 2002 is not presented, since the net loss is reported in the consolidated statements of operations. For the year ended March 31, 2001, there was no significant difference between the normal effective statutory tax rate and the effective income tax rate reflected in the accompanying statement of operations.

16. Statutory reserves

The Securities and Exchange Law of Japan requires a securities company to set aside a reserve in proportion to its securities transactions and other related trading to cover possible customer losses incurred by default of the securities company on securities transactions. Statutory reserves mainly represented a reserve for securities and financial futures transaction liabilities amounting to ¥3,892 million (\$32,433 thousand) and ¥2,932 million at March 31, 2003 and 2002 respectively.

17. Contingent liabilities and commitments

At March 31, 2003, the Company and its consolidated subsidiaries were contingently liable as guarantors of loans and lease deposits amounting to ¥6,069 million (\$50,575 thousand).

Undrawn amount of contractual commitments to extend credits made by the Company's subsidiary is ¥4,679 million (\$38,992 thousand) at March 31, 2003.

Additionally, the Company's subsidiary engaged in the business of credit card loan has commitments to extend credit for consumer loans in the amount of ¥17,458 million (\$145,483 thousand) at March 31, 2003. Commitments to extend credit arise from agreements to extend to customers' unused lines of credit on certain credit cards.

18. Shareholders' equity

Under the Commercial Code of Japan (the "Code"), the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Code.

The shareholders of the Company approved a stock incentive plan on June 25, 1998. The plan provides for the issuance of up to 6,000 thousand shares in the form of options to directors and key employees. On March 30, 1999, options were awarded to those who were with Daiwa Securities Co. Ltd. listed as the grantees at the time of the shareholders' meeting, and at the time of grants were either (1) Directors or (2) General Managers, Deputy General Managers or Assistant General Managers under the plan. The options may be exercised during the period from July 1, 2000 until June 20, 2003, and the exercise price is ¥667 (\$5).

On June 26, 2002, the shareholders' meeting of the Company approved a change in the articles of incorporation to issue 4,000,000 thousand shares of common stock. On June 26, 2003, the shareholders of the Company approved to repurchase its common stocks up to 60,000 thousand shares or ¥ 25,000 million (\$208,333 thousand) in order to implement flexible capital strategies according to business environment.

19. Capital adequacy requirements

In Japan, securities companies are subject to risk-based capital adequacy rules established and administered by the Financial Services Agency. Securities subsidiaries report their capital adequacy ratio as defined pursuant to these rules. The authorities will take certain administrative measures if such ratio declines below 140%. Capital adequacy ratios of Daiwa Securities Co. Ltd. were 379.5% (unaudited) and 328.0% (unaudited) for 2003 and 2002, respectively, and those of Daiwa Securities SMBC were 370.0% (unaudited) and 500.3% (unaudited) for 2003 and 2002, respectively.

20. Segment information

The Company and its consolidated subsidiaries operate predominantly in a single industry segment. The Company and its consolidated subsidiaries' primary business activities include (1) trading in securities and derivatives, (2) brokerage of securities and derivatives, (3) underwriting and distribution of securities, (4) other business related to securities transactions and (5) private offering of securities.

A summary of revenues by geographic area for the three years ended March 31, 2003 and a summary of total assets by geographic area at March 31, 2003 and 2002 were as follows:

	Millions of Yen					
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended March 31, 2003:						
Net operating revenues:						
Outside customer	¥ 237,465	¥ 6,977	¥ 21,130	¥ 5,238	¥ —	¥ 270,810
Inter-area	2,254	700	2,201	624	(5,779)	—
Total	239,719	7,677	23,331	5,862	(5,779)	270,810
Selling, general and administrative expenses	215,665	11,081	19,945	5,795	(5,785)	246,701
Operating income (loss)	¥ 24,054	¥ (3,404)	¥ 3,386	¥ 67	¥ 6	¥ 24,109
At March 31, 2003:						
Total assets by geographic area	¥ 7,270,670	¥ 1,817,691	¥ 656,448	¥ 63,721	¥ (305,704)	¥ 9,502,826
Year ended March 31, 2002:						
Net operating revenues:						
Outside customer	¥ 240,542	¥ 16,434	¥ 23,023	¥ 4,933	¥ —	¥ 284,932
Inter-area	9,724	648	1,530	763	(12,665)	—
Total	250,266	17,082	24,553	5,696	(12,665)	284,932
Selling, general and administrative expenses	226,435	15,109	19,502	6,267	(5,150)	262,163
Operating income (loss)	¥ 23,831	¥ 1,973	¥ 5,051	¥ (571)	¥ (7,515)	¥ 22,769
At March 31, 2002:						
Total assets by geographic area	¥ 5,560,406	¥ 1,757,738	¥ 661,297	¥ 72,098	¥ (224,233)	¥ 7,827,306
Year ended March 31, 2001:						
Net operating revenues:						
Outside customer	¥ 409,546	¥ 26,653	¥ 21,054	¥ 6,804	¥ —	¥ 464,057
Inter-area	15,411	(1,756)	(89)	(69)	(13,497)	—
Total	424,957	24,897	20,965	6,735	(13,497)	464,057
Selling, general and administrative expenses	¥ 254,172	13,741	16,173	5,670	(2,808)	286,948
Operating income	¥ 170,785	¥ 11,156	¥ 4,792	¥ 1,065	¥ (10,689)	¥ 177,109

	Thousands of U.S. Dollars					
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended March 31, 2003:						
Net operating revenues:						
Outside customer	\$ 1,978,875	\$ 58,142	\$ 176,083	\$ 43,650	\$ —	\$ 2,256,750
Inter-area	18,783	5,833	18,342	5,200	(48,158)	—
Total	1,997,658	63,975	194,425	48,850	(48,158)	2,256,750
Selling, general and administrative expenses	1,797,208	92,342	166,208	48,292	(48,208)	2,055,842
Operating income (loss)	200,450	\$ (28,367)	\$ 28,217	\$ 558	\$ 50	\$ 200,908

At March 31, 2003:

Total assets by geographic area	\$ 60,588,917	\$ 15,147,425	\$ 5,470,400	\$ 531,008	\$ (2,547,533)	\$ 79,190,217
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Geographic overseas revenues for the three years ended March 31, 2003 were as follows:

	Millions of Yen			
	America	Europe	Asia & Oceania	Total
Year ended March 31, 2003:				
Overseas revenue	¥ 8,144	¥ 21,589	¥ 6,951	¥ 36,684
Total revenue				270,810
% of total revenue	3.0%	8.0%	2.5%	13.5%
Year ended March 31, 2002:				
Overseas revenue	¥ 20,389	¥ 21,195	¥ 7,358	¥ 48,942
Total revenue				284,932
% of total revenue	7.2%	7.4%	2.6%	17.2%
Year ended March 31, 2001:				
Overseas revenue	¥ 17,087	¥ 19,456	¥ 6,785	¥ 43,328
Total revenue				464,057
% of total revenue	3.7%	4.2%	1.4%	9.3%
	Thousands of U.S. Dollars			
	America	Europe	Asia & Oceania	Total
Year ended March 31, 2003:				
Overseas revenue	\$ 67,867	\$ 179,908	\$ 57,925	\$ 305,700
Total revenue				2,256,750
% of total revenue	3.0%	8.0%	2.5%	13.5%

21. Commissions

Commissions derived from each department for the three years ended March 31, 2003 were as follows:

	Millions of Yen					
	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Year ended March 31, 2003:						
Brokerage	¥ 45,403	¥ 1,163	¥ 276	¥ —	¥ —	¥ 46,842
Underwriting	—	—	—	27,946	—	27,946
Distribution	—	—	14,059	608	—	14,667
Other	1,839	3,422	26,535	11,084	11,948	54,828
	¥ 47,242	¥ 4,585	¥ 40,870	¥ 39,638	¥ 11,948	¥ 144,283
Year ended March 31, 2002:						
Brokerage	¥ 58,280	¥ 1,229	¥ 244	¥ —	¥ —	¥ 59,753
Underwriting	—	—	—	27,818	—	27,818
Distribution	—	—	14,734	876	—	15,610
Other	2,387	3,442	46,425	7,619	8,815	68,688
	¥ 60,667	¥ 4,671	¥ 61,403	¥ 36,313	¥ 8,815	¥ 171,869
Year ended March 31, 2001:						
Brokerage	¥ 82,231	¥ 642	¥ 8	¥ —	¥ —	¥ 82,881
Underwriting	—	—	—	38,859	—	38,859
Distribution	—	—	37,510	2,099	—	39,609
Other	2,620	3,084	70,421	7,137	10,093	93,355
	¥ 84,851	¥ 3,726	¥ 107,939	¥ 48,095	¥ 10,093	¥ 254,704
	Thousands of U.S. Dollars					
	Equity	Fixed Income (Bond)	Investment trust	Investment banking	Others	Total
Year ended March 31, 2003:						
Brokerage	\$ 378,358	\$ 9,692	\$ 2,300	\$ —	\$ —	\$ 390,350
Underwriting	—	—	—	232,883	—	232,883
Distribution	—	—	117,158	5,067	—	122,225
Other	15,325	28,517	221,125	92,367	99,566	456,900
	\$ 393,683	\$ 38,209	\$ 340,583	\$ 330,317	\$ 99,566	\$ 1,202,358

22. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the three years ended March 31, 2003 were summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	2003
Employees' compensation and benefits	¥ 123,904	¥ 129,972	¥ 140,426	\$1,032,533
Commissions and brokerage	14,867	16,176	20,785	123,892
Communications	17,317	18,518	12,926	144,308
Occupancy and rental	33,348	35,090	38,663	277,900
Data processing and office supplies	14,708	16,474	17,367	122,567
Taxes other than income taxes	4,671	5,328	7,554	38,925
Depreciation	21,067	18,775	15,495	175,558
Other	16,819	21,830	33,732	140,159
	¥ 246,701	¥ 262,163	¥ 286,948	\$2,055,842

23. Other income (expenses)

Details of "Other, net" in the statements of operations for the three years ended March 31, 2003 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	2003
Gains on sales of investment securities	¥ 8,241	¥ 4,103	¥ 2,004	\$ 68,675
Write-down of securities	(20,298)	(26,615)	(4,750)	(169,150)
Gains on change in investment in subsidiary	—	4,068	—	—
Valuation losses related to fixed assets	(272)	(247)	(227)	(2,267)
Losses on disposal and sales of fixed assets	55	(1,991)	(2,751)	458
Losses on sales of loans receivable	—	(128)	(1,519)	—
Reversal of multiemployers' pension plans (Note 14)	—	13,692	—	—
Provision for doubtful accounts	(4,152)	(4,517)	(2,942)	(34,600)
Reversal of provision for (expenses for) real estate business reorganization	812	(127,401)	—	6,767
Early retirement benefits	—	(731)	—	—
Write-off of goodwill	—	(5,000)	—	—
Equity in earnings of affiliated companies	265	963	761	2,208
Other	4,045	2,024	(76)	33,709
	¥ (11,304)	¥ (141,780)	¥ (9,500)	\$ (94,200)

Valuation losses related to fixed assets for 2003, 2002 and 2001 were derived from appraisal of the golf club membership certificates.

24. Subsequent events

Appropriation of retained earnings - Under the Commercial Code of Japan, a plan for appropriation of retained earnings proposed by the Board of Directors must be approved at a shareholders' meeting to be held within three months after the end of the fiscal year. Cash dividends (¥6 (\$0.05) per share) amounting to ¥7,970 million (\$66,417 thousand) were approved by the shareholders' meeting held on June 26, 2003, as the appropriation of retained earnings for the year ended March 31, 2003.

Independent Auditors' Report

To the Shareholders and the Board of Directors of Daiwa Securities Group Inc.:

We have audited the accompanying consolidated balance sheets of Daiwa Securities Group Inc. and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2003, expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daiwa Securities Group Inc. and subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.



Tokyo, Japan
June 27, 2003

Corporate Data

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Chiyoda-ku, Tokyo 100-8101 Japan
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Telex: J22411

Internet Home Page Address

<http://www.ir.daiwa.co.jp/>

Commencement of Operations

May 1, 1902

Date of Founding

December 27, 1943

Shares of Common Stock

Authorized
4,000,000 thousand shares
Issued and Outstanding
1,331,735 thousand shares
(as of March 31, 2003)

Number of Shareholders

102,006 (as of March 31, 2003)

Independent Public Accountants

Asahi & Co.

Stock Exchange Listings

Tokyo, Osaka, Nagoya, London, Paris,
Frankfurt, Brussels

Transfer Agent and Registrar

The Sumitomo Trust and Banking
Company, Limited
Stock Transfer Agency Department
4-4, Marunouchi 1-chome
Chiyoda-ku, Tokyo
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