

## 1. Dramatic change in profit structure of securities companies over the past decade

The past 10 years have brought major changes to the business environment surrounding the Japanese securities industry and to the profit structures of securities companies.

Following large-scale reforms implemented in the United States and the United Kingdom, from 1997 the government instituted a series of “Japanese Big Bang” reforms aimed at stimulating financial markets. The reforms led to a number of market deregulation measures.

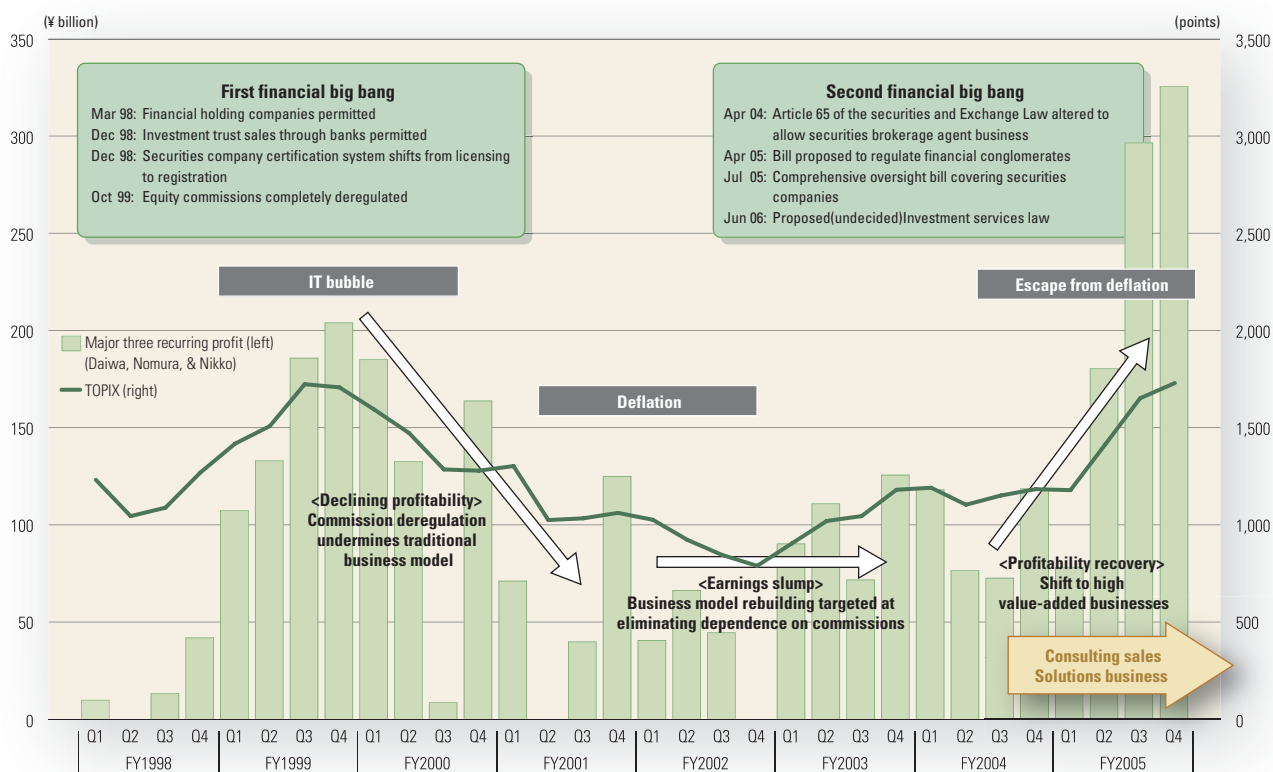
The full-scale deregulation of brokerage commissions in October 1999 had the most dramatic impact on the operations of securities companies. Prior to that, in December 1998 the industry shifted from a licensing system to a registration system, which led to a succession of new companies entering the market. Meanwhile, the widespread use of the Internet at homes sparked an increase in the market entry by online brokers, whose market share grew sharply due to considerable reductions in commissions charged. Amid the subsequent collapse of the so-called “IT bubble” in 2000 and a period of prolonged deflation, the stock market continued to languish, forcing many securities firms to create a new business model—one that breaks away from the traditional profit structure relying on brokerage commissions.

In response, the top Japanese securities companies searched for new ways to do business, notably through “consulting-focused sales” and “solutions-based services.”

In the retail market, Japanese individuals, whose combined financial assets are estimated at around ¥1,500 trillion, are seeking more effective investment vehicles for their assets amid prolonged low interest rates and uncertainty about the future of the national pension system. For this reason, they are shifting their emphasis toward foreign bonds and investment trusts, a trend also underscored by the government’s support for “savings to investment”. In response, securities companies are deploying their experience and expertise in high-risk, high-return financial products to promote consulting-focused sales tailored to the needs of individual customers, covering everything from proposal of investment plan to provision of financial products and management of assets.

In the wholesale market, there has been a growing trend for companies to choose the financial institutions as their partner, which can address the fund-raising, asset management, and other diverse financial needs by offering comprehensive solutions. Securities companies are responding by strengthening their information supply and product development capabilities.

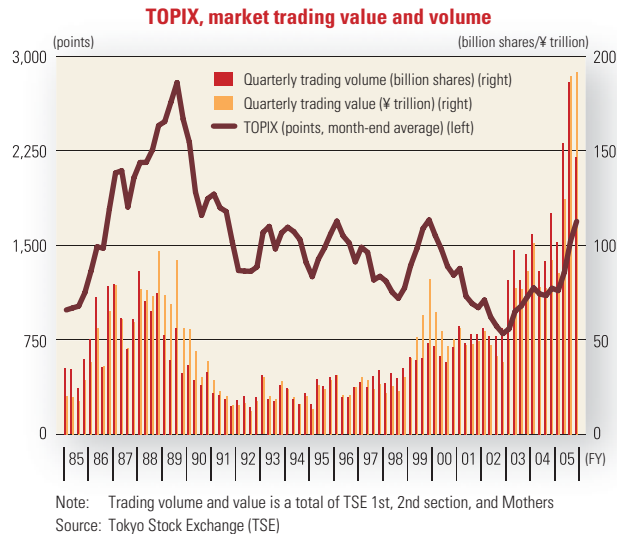
Facing such a changing business environment, the Daiwa Securities Group acted early to discard its traditional business structure and address the structural transformation of the securities industry. In this annual report, we provide a detailed explanation of the track of our evolutionary change and our future business advancement plans.



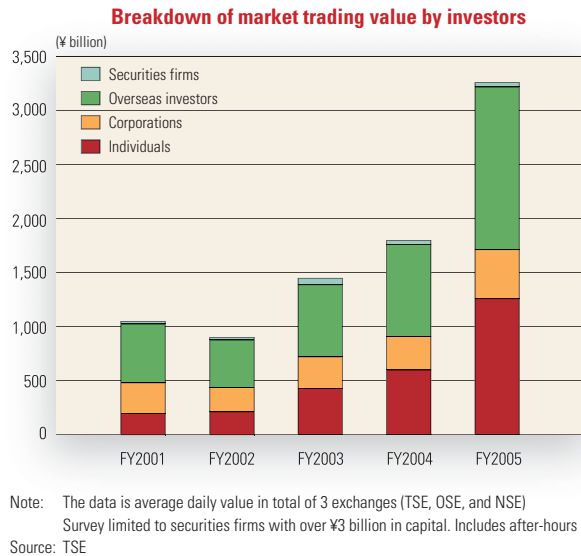
Note: Recurring profit from Q1 FY01 is on a consolidated basis (segment pretax income only for Nomura), while that prior to 4Q FY00 is on a parent basis or total of parent and main securities subsidiaries.  
 Source: Company materials; compiled by DIR.

## 2. Market environment—“Savings to Investment” move by individuals and firm corporate earnings

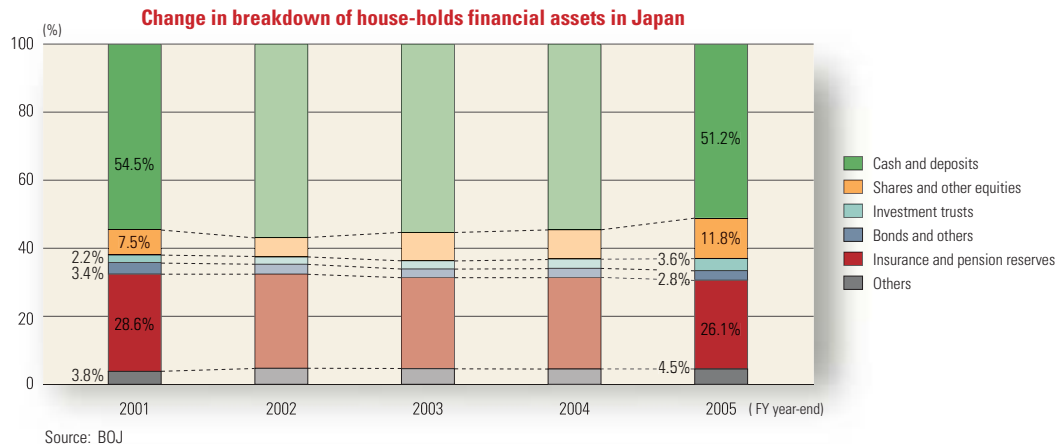
Market trading value has hit record high for three consecutive quarters while TOPIX soared.



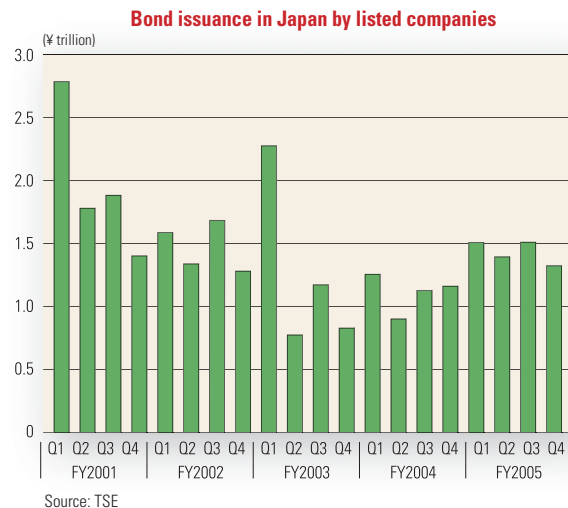
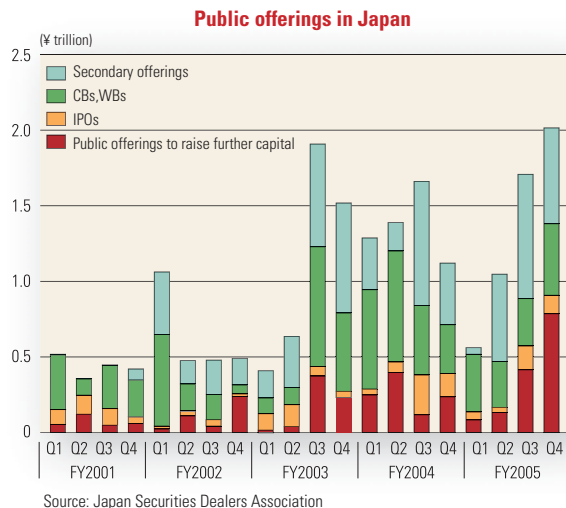
Market trading value for FY2005 was the highest in 16 years. Overseas and individual investors' active trading led the move.



“Savings to Investment” move is continuing as individual investors' interests in equity products such as stocks and investment trusts have risen.

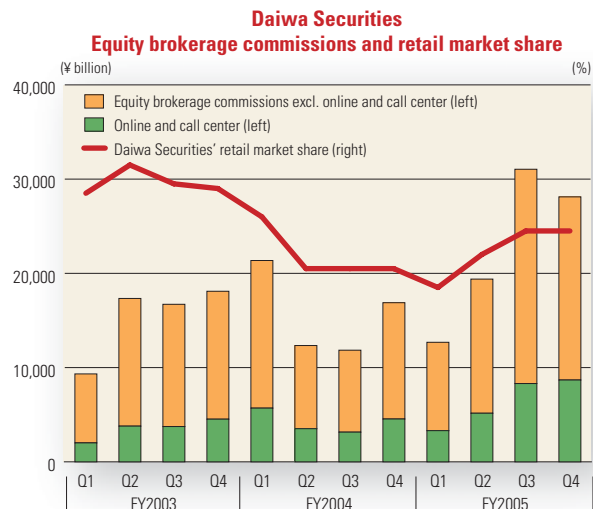


Firm corporate earnings have inspired more capital investments and fund-raisings utilizing public offerings and bond issuance.

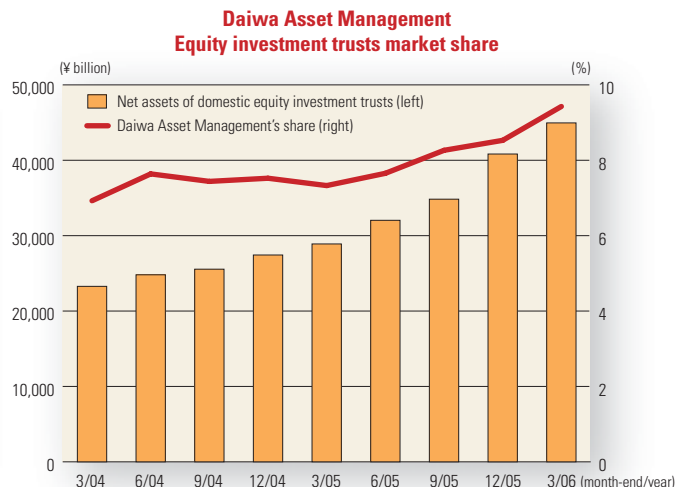


### 3. Market position of the Daiwa Securities Group

Daiwa Securities' retail equity market share had declined due to the expansion of online trading, but it has recovered by renewal of its online channel platform and commission rate cut.



Equity investment trust assets in Japan have dramatically increased with expanding distribution channels such as banks and post offices, meanwhile market share of Daiwa Asset Management has risen by the expansion of its core products including Daiwa Global Bond Fund.

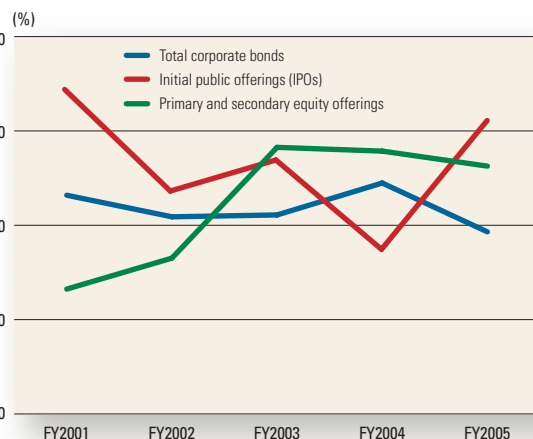


Daiwa Securities SMBC has maintained its top position in domestic investment banking business. Its share at initial public offerings (IPOs) dramatically rose in FY2005.

**Daiwa Securities SMBC**  
**Lead manager league table & Trends in market share**

	FY2001	FY2002	FY2003	FY2004	FY2005
Total corporate bonds*	1st	2nd	1st	1st	1st
Initial public offerings (IPOs)	2nd	2nd	2nd	2nd	1st
Primary and secondary equity offerings	4th	2nd	2nd	1st	2nd

\*Corporate bonds + Agency bonds



### 4. The Daiwa Securities Group's earnings structure

Earnings sources have been diversified and dependence on equity commissions has declined. Still Japan-related business is core but more focus on Asia and Oceania business

**The Daiwa Securities Group**  
**Breakdown of net operating revenues**

