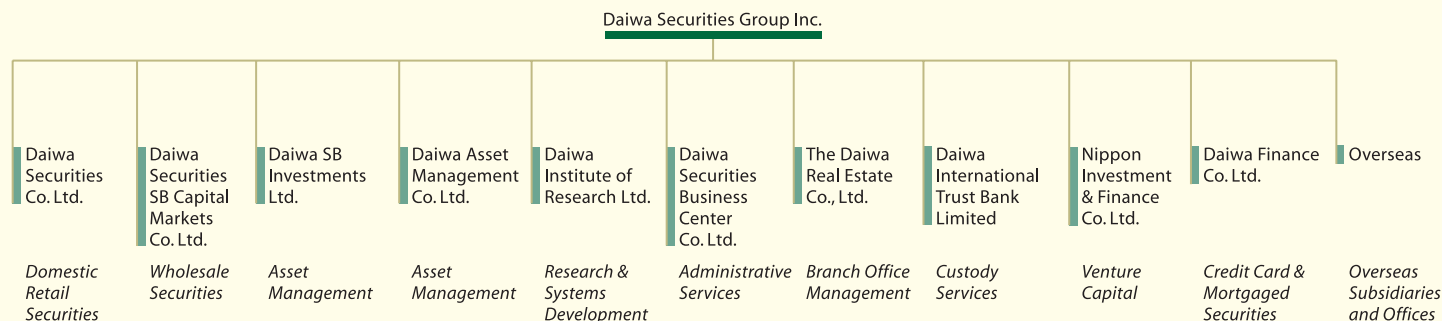


HOLDING

C o m p a n y

Daiwa Securities Group Inc.

Daiwa Securities Group Inc. was established on April 26, 1999. The main composition of the new group is as illustrated below:



Under the prevailing regulations, as a securities company, the former Daiwa Securities Co. Ltd. was restricted to owning 5% or less of the equity in affiliated companies in principle in Japan. As a holding company, these regulatory constraints no longer apply and we are able to increase our ownership of our major affiliates to 50% or more.

As of the financial year ending March 2000, the criteria for consolidation no longer hinges on equity ownership alone but also takes account of other variables determining the degree of effective

management control exerted by the parent over the subsidiary. These variables include, in addition to degree of equity ownership, loans outstanding, the existence of management contracts giving the parent effective control, and personnel allocation. In FY1998, 55 companies were consolidated. The final form of the group companies for FY1999 consolidation and application of the equity method is still under consideration. In addition, it is intended that the overseas subsidiaries will eventually become subsidiaries of the wholesale securities company.

Function of the Holding Company

The primary role of the Holding Company is to allocate both financial capital and human resources effectively to ensure that the group as a whole maximizes shareholder value. Initially the group will either consolidate or apply the equity method to the companies listed above. We plan, where necessary, to restructure these companies to ensure they provide an adequate contribution to consolidated earnings and to adjust our equity exposure to such companies based on our assessment of whether or not they are able to meet centrally defined operational and financial targets.

We have adopted ROE (Return on Equity) as our primary financial yardstick of corporate success. Our group business target is to raise ROE to close to 10% on a consolidated basis in FY2000.

Group Governance



FY1999 Management Policy

Our FY1999 management policy can be summarized as follows:

Expansion of Consolidated Income

Generate synergistic benefits between the two major operating subsidiaries and other group companies.

Reorganization of Group Businesses

Continue to review group businesses in pursuit of an efficient and effective group structure.

Establishment of Group Corporate Governance

Enhance the influence of the Holding Company through clear capital relationships.

Corporate Governance

Holding Company Core Committees

The role of the Holding Company is to set the group strategy to maximize the shareholder value of the Daiwa Securities Group. Among the main bodies entrusted with securing effective group governance are:

Board of Directors

As the main decision-making organ, the Board of Directors takes responsibility for the important management issues such as efficient utilization of group resources.

Board of Corporate Auditors

The Board of Corporate Auditors ensures substantial and adequate disclosure in financial statements to improve accountability to shareholders and creditors of the Holding Company.

Legal & Compliance Committee

Each group company bears responsibility for its own legal and compliance function. The Legal and Compliance Committee monitors the adequacy of compliance measures of group companies.

Executive Committee

The Executive Committee has responsibility for annual/mid-term business plans, budgets, personnel allocation, and other important management issues. Most of its agenda is taken up by the Board of Directors.

Advisory Board

The Advisory Board's members have a wide range of management expertise and will be called upon to give instructive opinions and suggestions on various issues concerning group management to the CEO.

Additionally, there are several other committees where the directors of the Holding Company can discuss retail/wholesale or other securities-

related businesses with the management of the group companies. In addition we have, for the first time, implemented an executive officer system. Each executive officer will assume responsibility for a specific business field under assignment to the holding, retail or wholesale companies and several affiliates.

Personnel System

All employees of the former Daiwa Securities Co. Ltd. resigned from their positions on April 25, 1999 and were rehired by one of the new corporate entities on April 26, 1999. As part of the transfer process, retirement allowances were paid to each employee in respect of the accumulated prior service obligation until that date.

In Japan, retirement benefits are generally paid in a combination of ways. In addition to a tax qualified pension plan, which pays benefits out of funds specifically reserved by the company over time, employees are entitled to receive lump-sum retirement allowances at the time of retirement. Such benefits are taxed at rates that are extremely advantageous for the employee but represented a substantial (and partially off-balance sheet) liability. By revamping this item, Daiwa has taken a step towards improving the quality of its balance sheet.

The New Personnel System

Japanese corporations are currently facing a number of challenges with respect to personnel management.

For the last fifty years, relations between major corporations and individual employees have been based on the twin principles of lifetime employment and seniority-based promotion. This system has served both corporations and their employees well. Implicit mutual guarantees and a high level of trust between the corporation and its employees have allowed both to benefit. There were, however, drawbacks to this system, principally in that it fostered a false sense of equality between high-performance employees and others whose performance fell short of expectations. During the rapid-growth phase of Japan's post war development, this false equality was tolerable. Now, however, Japan has become a mature economy facing a fundamental need to allocate resources more efficiently. It has become increasingly evident that the old models of lifetime employment and seniority-based promotion are no longer appropriate.

Directors

Chairman of the Board
Tomoaki Kusuda

President and CEO
Yoshinari Hara

Senior Managing Director and CFO
Shinichi Yamamura

Managing Director
Shuichi Komori

Managing Director
Shigeharu Suzuki

Director
Kenichi Fukuda

Director
Hiroyasu Kawaguchi

Executive Officers

Nagayoshi Miyata

Masayasu Ohi

Jyunichiro Wakimizu

Kiyoshi Matsuba

Corporate Auditors

Noboru Sugitani

Hideharu Takahashi

Tetsuro Kawakami

Advisory Board

Mr. Kazuo Inamori
Founder and Chairman Emeritus
Kyocera Corporation

Chairman
Kyoto Chamber of Commerce & Industry

Mr. Jiro Ushio
Chairman and CEO
Ushio Inc.

Mr. Glen S. Fukushima
President and Representative Director
Arthur D. Little (Japan), Inc.
President
The American Chamber of
Commerce in Japan

Affiliates and Subsidiaries

Each Japanese corporation will need to make choices about how to adapt to these new realities, in light of its specific circumstances. Concerning the domestic operations of Daiwa Securities Group, we have taken the view that our employees are our principal assets. It is through our employees that relationships with customers are maintained and institutional memory is propagated. Accordingly, although we have decided to reduce our domestic workforce by 1,500 from FY1997 levels by the end of FY2000, this reduction is slated to happen through natural attrition, application of an early retirement system and such measures as refraining from the annual mass-hiring of new graduates.

Our system of remuneration, however, will be significantly revamped to allow the company to direct the economic benefits of success to its most effective and valuable employees. The degree to which we differentiate between employees will be decided by the specific needs of the individual business units.

Specifically, we have undertaken or plan to undertake the following:

- We will refrain from the traditional mass-hiring of new graduates and increase year-round hiring of both new graduates and experienced personnel.
- We have introduced a stock option plan. Such stock options are being granted to senior employees as an element of long term compensation. Wider application of stock options and additional incentive plans is under consideration.
- In order to simplify reporting lines and to properly compensate high performers, we have reduced the number of grades for employees from nine to four. This will allow a talented employee to reach the top grade by his or her mid thirties rather than early forties as in the past.
- Increase the variation in terms and conditions of employment even among employees of the same rank. Where appropriate, we will employ staff on a contract basis with remuneration as well as other terms and conditions decided by individual negotiation.
- Implement measures such as accelerated promotion for high-flyers as well as demotions and pay cuts for underperformers.

The businesses of the main operating units, (New) Daiwa Securities Co. Ltd. and Daiwa Securities SB Capital Markets Co. Ltd., are covered in more detail in subsequent sections of this report.

Below, we would like to focus on our non-banking affiliates and two asset management companies since both are integral parts of our new group organization and should be described here.

Non-Banking Affiliates

The three major non-banking affiliates are Nippon Investment & Finance Co. Ltd. (NIF – venture capital), Daiwa Finance Co. Ltd. (DFC – credit card and mortgaged securities business), and Daiwa Sanko Co., Ltd. (Sanko – golf membership brokerage, insurance and others). Prior to the group reorganization, the (former) Daiwa Securities Co. Ltd. posted extraordinary losses in respect of provisions for these three companies in the amount of ¥24 billion, ¥82 billion and ¥9.8 billion respectively during the year ended in March 1999. Accordingly, we believe that bad loans have now been completely provided for.

Daiwa has taken drastic action to downsize the operations of these affiliates and refocus operations on areas complementary to those of the main retail and wholesale operations. To this end, NIF and DFC will be merged in FY2000 and will focus on the following three areas of business:

Venture Capital

Venture capital is closely related to Daiwa's IPO business. Moreover, it is an indispensable element of the Daiwa group's efforts to provide products and services to a wide range of investors.

Daiwa VISA cards

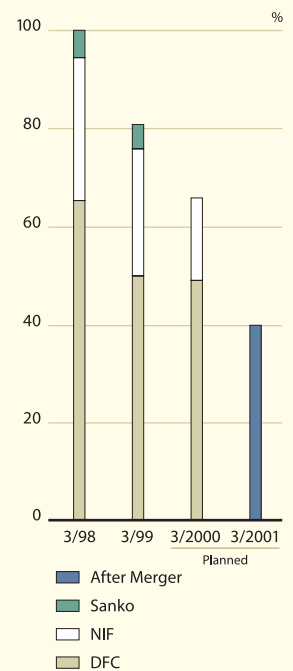
This is complementary to and reinforces the appeal of our Cash Management Program.

Mortgaged Securities Business

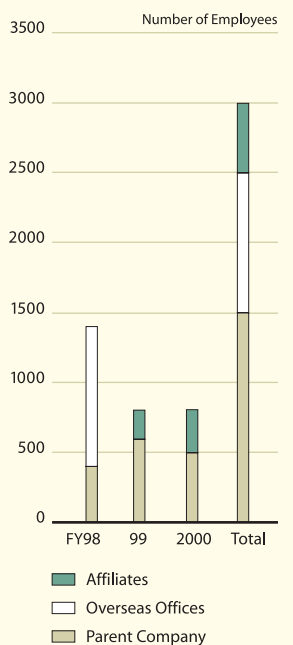
Daiwa distributes securities backed by performing mortgages to individual customers. This business will be continued to provide a continuing service meeting the needs of those customers.

Apart from the above, other non-banking operations will be scaled back to the greatest degree possible with certain exceptions.

Reorganization of Non-Banking Affiliates
(Total Assets)



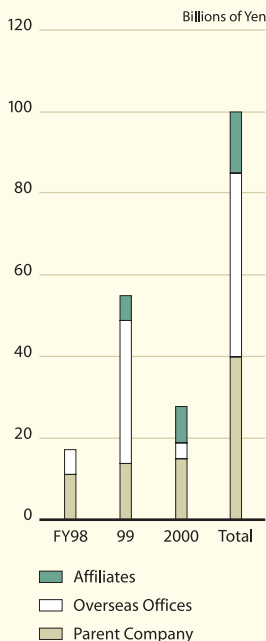
Employee Reduction Plan



Note: The Parent's figures after FY1999 represent the aggregate of the Holding Company, Retail and Wholesale subsidiaries.

Source: Daiwa Securities Group Inc.

Expense Reduction Plan



Note: The Parent's figures after FY1999 represent the aggregate of the Holding Company, Retail and Wholesale subsidiaries.

Source: Daiwa Securities Group Inc.

Asset Management

Daiwa Securities Group includes two distinct asset management companies.

Daiwa Asset Management Co. Ltd.

This company mainly manages investment trusts, which are mostly distributed through Daiwa's retail and wholesale operations. It boasts the number one position in terms of net assets under management among investment trust companies in Japan. Net assets under management amounted to ¥11.1 trillion as of March 1999. To a certain extent this situation reflects the superior performance, especially in bond funds, recorded by Daiwa Asset Management Co. Ltd. in recent years.

Daiwa SB Investments Ltd.

This company was formed as the result of the merger on April 1, 1999 among Daiwa International Capital Management Co., Ltd. (DICAM) – an affiliate of the (former) Daiwa Securities Co. Ltd., SB Investment Management Co., Ltd. and SBIM Investment Trust Management Co., Ltd. – affiliates of The Sumitomo Bank, Limited. T. Rowe Price Associates, Inc. has taken a 10% stake in the new firm. Daiwa and Sumitomo Bank each own 44% of the equity, while The Sumitomo Trust & Banking Co., Ltd. owns 2%. Previously, DICAM managed pension money for domestic institutions and funds entrusted by overseas public institutions. The new company will be active in the investment trust management and investment advisory businesses.

Outside of Japan, T. Rowe Price Associates, Inc. will establish another joint venture with Robert Fleming of the United Kingdom to manage non-Japanese securities portfolios of investment trust products for customers of the joint venture in Japan.

The outlook for the asset management operations is bright in light of various factors referred to later in this report. In addition to secular growth in this market, over time it is likely that increasing sophistication in investment behavior will lead to a greater proportion of assets being concentrated in higher return instruments such as equity investment trusts. These carry higher margins for our asset management companies than such instruments as MRF (Money Reserve Fund) and MMF (Money Management Fund), the current mainstays.

Strategically, it is our goal to extend the widest possible range of choices to investors. Consequently, it is not our intention to concentrate any present or future line of business, for example the defined contribution pension business, within either of the above companies. While Daiwa SB Investments Ltd. starts life with a relatively greater concentration on the investment advisory business and Daiwa Asset Management Co. Ltd. with a relatively greater concentration in the mass-markets, it is envisaged that over time some of these distinctions will be erased leading, in certain situations, the two companies to become direct competitors. At present, we have no plans to merge these two companies.

Overseas

Losses in Europe and the U.S.

In common with most other financial institutions active in the Russian debt markets, Daiwa Europe Limited was forced to take extensive write-downs on its Russian related trading positions. Our losses in the U.S. were made in the once profitable business area of securitized loans over commercial real estate and can be attributed to the significant disruption occurring in credit markets during the year due to the contagion effect which affected the financial markets of emerging countries and the short-lived domestic crisis of confidence in the U.S. following the near collapse of hedge funds.

Mainly because of the above we recorded losses at the ordinary income stage of ¥57.9 billion in Europe and ¥41.9 billion in the United States in FY1998.

We also took various restructuring costs associated with branch closures, redundancies and particularly a decision not to move into a new headquarters site in London. In total, the parent company recorded an extraordinary loss of ¥115.1 billion related to write down of the value of equity in the overseas subsidiaries.

Daiwa's Overseas Strategy

We have decided to concentrate to the greatest degree possible on Japanese securities-related businesses and to reduce the use of our balance sheet in overseas markets. Our overseas trading books were reduced in size by over ¥2 trillion during FY1998 while the number of overseas branches was reduced from 34 to 24, of which a further 8 are currently in the process of being liquidated. Overseas headcount fell from 2,070 to 1,279 employees. North American operations are now centered entirely on the New York office, other branches having been closed. In Europe, offices outside of the major financial centers, particularly in Eastern Europe, have been closed or will be closed during FY1999. By the end of the current financial year we aim to reduce our number of overseas branches to 17 and total overseas headcount to 1,030 persons.

Structurally, it is our intention that each of the overseas operations will eventually be transferred to Daiwa Securities SB Capital Markets Co. Ltd.

For the next few years the overseas operations in Daiwa will concentrate on the core Japanese securities business including equity and fixed income brokerage and trading, derivatives and investment banking. We have also taken steps to make more transparent the accountability of the senior management of the overseas operations for the performance of the businesses for which they are responsible.

The mission of Daiwa's overseas operations will be to provide the best possible services to the local client base across our entire product range in the Japanese securities markets. We anticipate an upturn in overseas interest in Japanese instruments over the next several years driven by the increased opportunities presented by the deregulation of our domestic securities markets. In addition to renewed interest in the cash markets for equities and fixed income products, we anticipate a ready reception to newer innovations such as securitized assets where the virgin nature of the Japanese markets may yield opportunities that overseas investors find attractive. Other opportunities arising within our investment banking operations, for example in the field of mergers and acquisitions, may well have an international dimension.

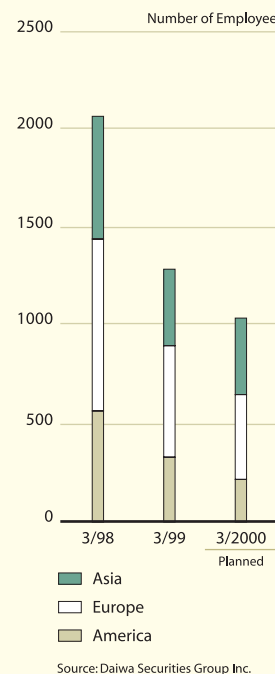
In summary, the overseas operations of the restructured Daiwa group are now concentrated on areas in which they boast a natural competitive

advantage and where growth can be confidently expected. The cost base has been reduced to appropriate levels to support the new mission. Moreover, experience gleaned in overseas markets in areas such as asset securitization and derivatives can now be applied to the Japanese domestic market yielding a competitive advantage for the group as a whole. After we strengthen our domestic market base, our plan is to reformulate a strategy for the overseas operations in 2001.

Investor Relations

As part of our efforts to promote efficient utilization of capital and enhanced awareness of shareholder value, we intend to redouble our efforts to keep investors abreast of the latest developments within the group. We feel that proper disclosure is particularly important, as it is only through the Holding Company that investors will be able to view the performance of the subsidiaries. Our pro-active IR approach to both domestic and overseas investors will keep them well-informed of Daiwa group activities. Our aim is to make investor relations an integral part of a system of effective corporate governance.

Overseas Restructuring – Employees



Overseas Restructuring – Offices

