



FINANCIAL INFORMATION

For the Fiscal Year Ended March 31, 2003

Introduction
Sales & Trading
Investment Banking
Business Network
Global Network
Performance
Business and Financial Disclosure Document
Profile



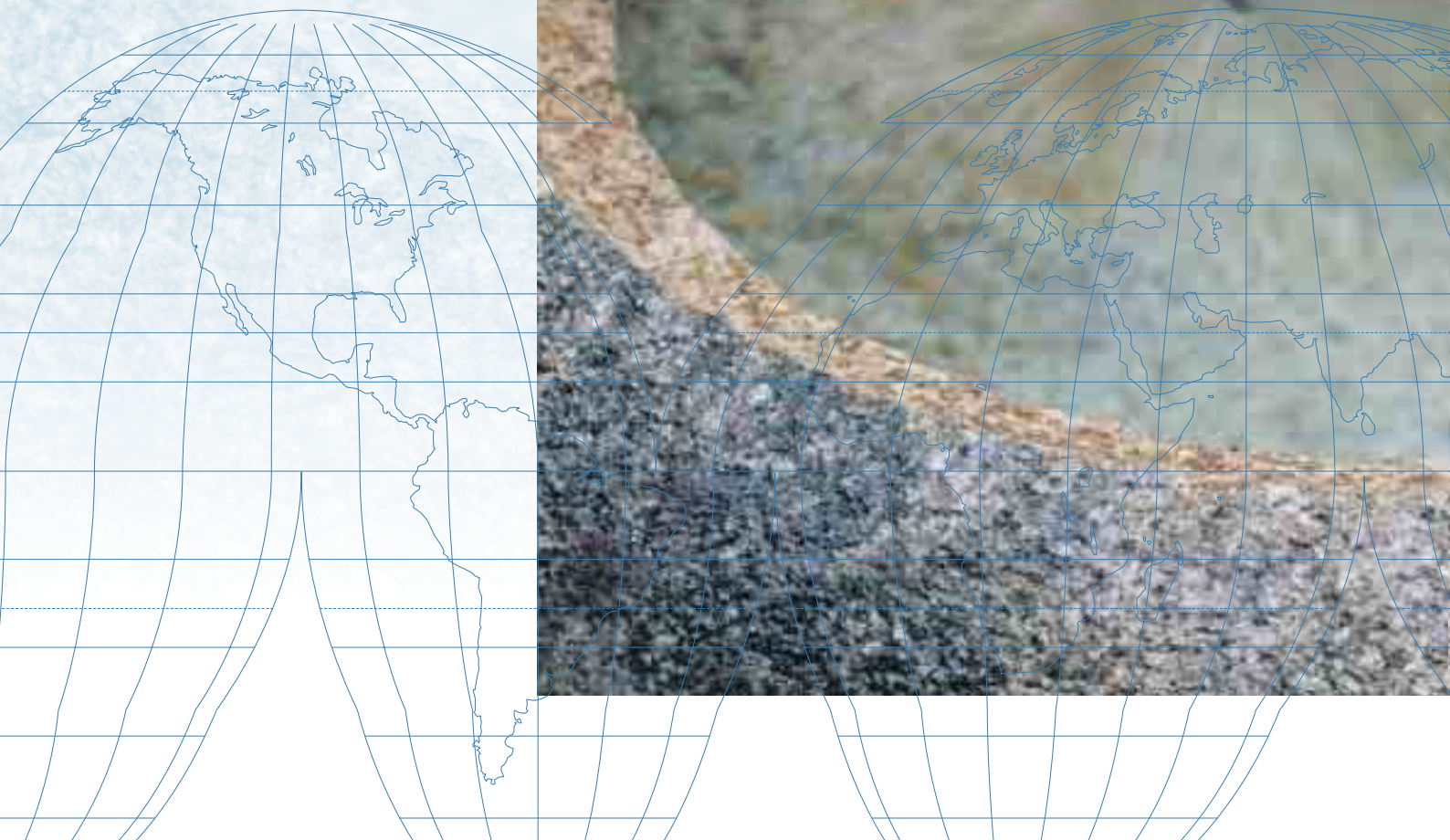
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FINANCIAL INFORMATION
Daiwa Securities SMBC

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Introduction



So that our clients consider us the best possible partner....

Facing turbulent conditions in the global economy, companies find their businesses become more complex and sophisticated day by day. Formed through a strategic joint venture between the Daiwa Securities Group Inc. and the Sumitomo Mitsui Financial Group, Inc., Daiwa Securities SMBC Co. Ltd. uses its expertise to assist companies in dealing with these challenges. In doing so, we have steadily built a solid performance record in a wide range of financial services, including the development and sale of a comprehensive range of equities, bonds, derivatives, and other financial products; initial public offerings (IPOs) and other finance; mergers and acquisitions (M&A) and other advisory services; structured finance; and principal finance.

Amid the growing expectation that direct finance is the key to rejuvenation of the Japanese economy, the scope of areas in which Daiwa Securities SMBC can be of assistance to clients as an investment bank has broadened, ranging from fund raising and management and balance sheet restructuring to business restructuring and revitalization. And we expect our scope to continue to expand and develop as our clients requirements change.

Our mission is to put our high degree of professionalism and leading-edge financial technologies to work for our clients by offering them high quality products and services that serve their needs, thereby further boosting the trust they place in Daiwa Securities SMBC.

In pursuing these goals, we look forward to the continued encouragement of our clients.



President
Akira Kiyota



Deputy President
Kenjiro Noda



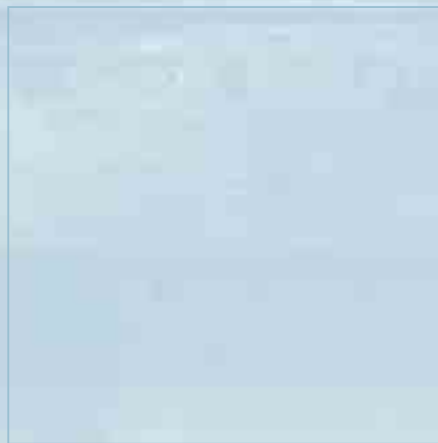
Senior Managing Director
Shigeharu Suzuki

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Sales & Trading



Providing clients with innovative products and services that meet their diversified investment needs

Through its sales and trading operations, Daiwa Securities SMBC has built a strong market presence in the equity, bond, and derivatives markets. However, we have no intention of resting on our laurels, and are focusing our efforts on developing and supplying clients with financial products and services that are always a step above the market standard. Moreover, we intend to remain strongly committed to responding to the needs of our clients, primarily domestic and foreign institutional investors. Cooperating with Daiwa Securities Co. Ltd. and the Sumitomo Mitsui Banking Corporation, we will leverage the comprehensive capabilities of the Group to position ourselves as the market leader in sales and trading.

Equity

In our equity business, we handle a wide-range of products on a global basis, including equities, futures, options, and OTC equity derivatives. In particular, we have established ourselves as a leading player in the equity trading market in Japan. Combining sophisticated and rapid execution with superior trading capabilities supported by strong risk management skills, our services are rated highly by clients. Moreover, to help our clients cope with the pace of change in the business environment, our sales teams provide clients with timely, high-value-added information finely tuned to their needs, backed by the research and analysis of the Daiwa Institute of Research Ltd.



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Fixed Income

We work in close partnership with institutional investors, public corporations, and business enterprises in our fixed income business. Based on these relationships, we handle a wide range of products and services, including Japanese and foreign public and corporate bonds, structured bonds, and short-term notes. We have also made an entrance into the high growth potential credit derivative market, and are developing new products and services. In designing and building strategic portfolios that reflect the changing times, our highly satisfied clients enjoy the support of a team of professionals with a thorough understanding of bond and derivative sales, trading, product development, and market analysis.



Derivatives

We also are a pioneer and major player in the Japanese derivatives market. Using interest-rate, currency, and equity derivatives, we develop and sell products custom-made for investors' needs. Launching innovative products one after the other using a variety of schemes and structures, including bonds and OTC derivatives, clients are highly satisfied with our services.

Research

Working with the Group's Daiwa Institute of Research Ltd., one of the largest investment research institutions in Japan, we can provide our clients with research and analysis of economies, markets, industries, and companies around the world. Our reputation for useful and timely and appropriate information has grown steadily in recent years.

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Investment Banking



Our investment banking services provide our clients with the best solutions for their many different needs

Offering a broad range of services, Daiwa Securities SMBC has constantly led the investment banking market. Our services cover underwriting, including IPOs; structured finance for asset securitization; M&A for business restructuring and strategic development; and principal finance. As the focal point for advice on business and finance strategies within the Daiwa Securities Group, Daiwa Securities SMBC is committed to offering its corporate clients the best solutions for their many different needs.

Corporate Finance

Based on our research and analysis, we offer domestic and foreign companies a variety of services, covering optimal proposals for financial and business strategies, advice on equity and bond issues, and underwriting and syndication services. In response to the diversification of the needs of our clients in recent years, we have expanded the scope of our services to encompass all aspects of corporate finance, including advisory services on business restructuring and other reorganizations.

Initial Public Offerings

By combining an expanding sales network, which includes that of Daiwa Securities' network, with our superior public offering guidance and underwriting execution capabilities, we can provide detailed support for our clients' IPOs throughout Japan, before and after issue. These capabilities have earned us a top class record in Japan's IPO market.



M&A

In our M&A business, we offer clients a wide range of advisory services, including M&A, business alliances, capital participation, joint ventures, and stock-for-stock transactions. Fielding one of Japan's top ranking M&A teams, our performance record in this market is growing quickly. Based on a business alliance with Lazard, a leading U.S. investment bank with vast experience and a strong performance record in the global M&A market, we also have achieved a strong performance record in cross border M&A.

Structured Finance

As one of the first to begin offering securitization services in Japan, mainly monetary credits and real estate, our structured finance business has constantly played the role of leader in Japan's market. And by steadily building on that foundation, we have established an unshakable position as a market leader. Based on the know-how our expert team has acquired as a pioneer in the market, we strive to provide our clients with the top class services they require.

Principal Finance

Through our wholly owned subsidiary Daiwa Securities SMBC Principal Investment Co. Ltd., we are responding to the balance sheet restructuring and various other business reorganization needs of companies by actively investing in alternative assets, such as monetary credits, including nonperforming debt; real estate; and private equity.

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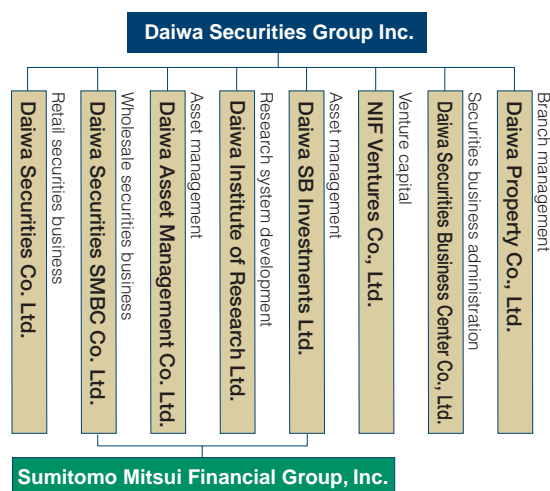
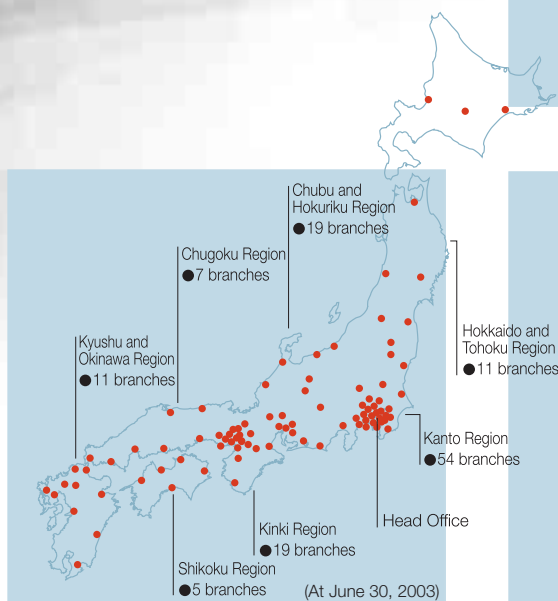
Business Network

Our powerful business network provides products and services that exceed client expectations

Based on the strategic business alliance between Daiwa Securities Group Inc. and the Sumitomo Mitsui Financial Group, Inc. Daiwa Securities SMBC possesses a powerful business network. Utilizing this network, we provide products and services that exceed client expectations, aiming to maximize client satisfaction.

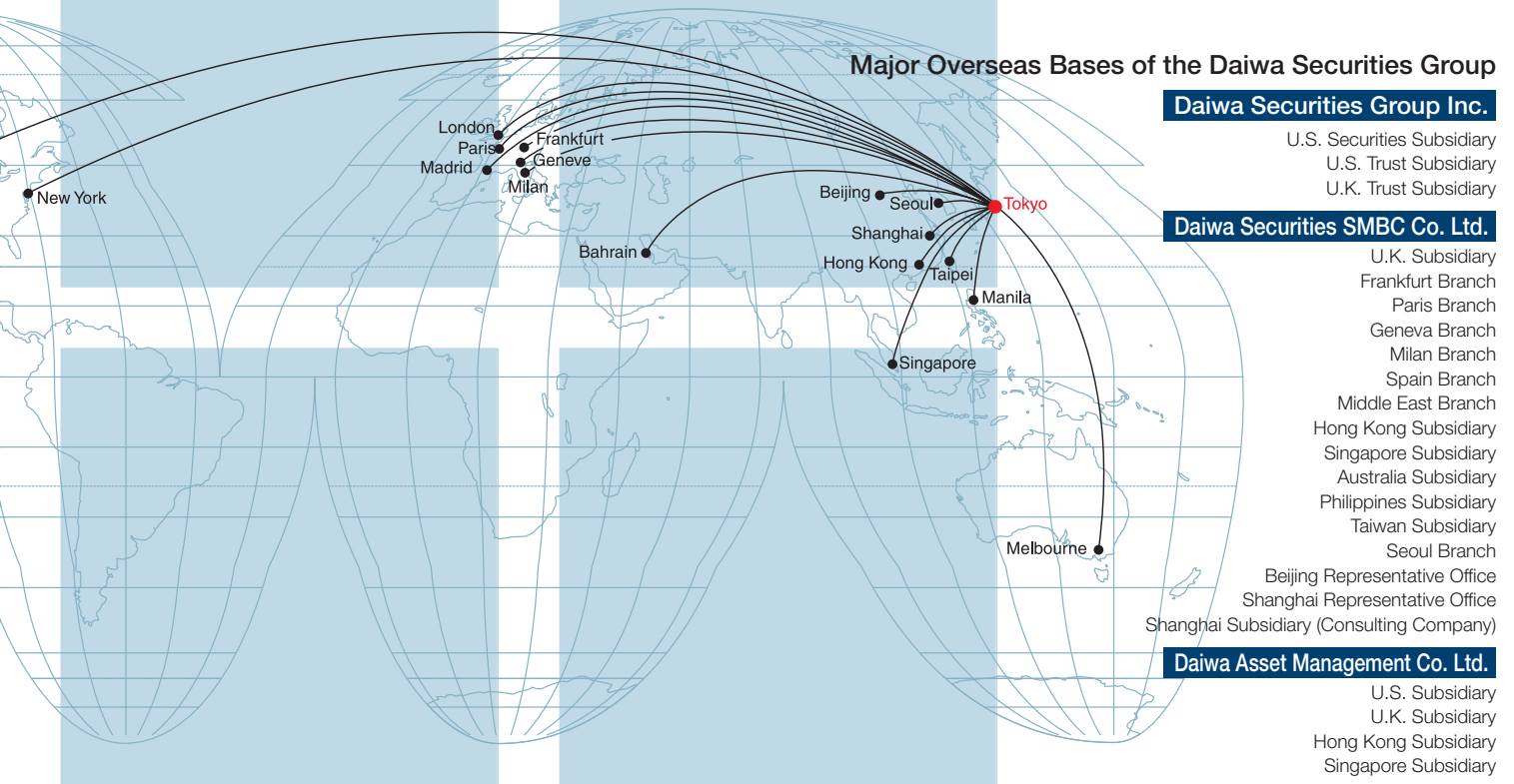
Within the Daiwa Securities Group, Daiwa Securities Co. Ltd. is responsible for retail securities sales in Japan. Through seamless integration of a nationwide branch network of over 120 branches (at June 2003), an online brokerage service boasting the most customer accounts in Japan, and a 200-person-strong call center for trading, Daiwa Securities offers retail customers two different transaction methods to enable customers to choose the sales channel as well as the products and services that meet their requirements.

To serve the needs of a wide variety of corporate and individual clients, Daiwa Securities also conducts highly specific regionally oriented sales activities.



Note: Group structure may change in future.

Global Network



We have established a global network that boasts a solid performance record.

Through its global network of subsidiaries and branches located in all the major financial markets around the world, Daiwa Securities SMBC is active in the provision of research and securities-related businesses. Moreover, based on its close cooperation with the global bases of Group companies, Daiwa Securities SMBC has established a global business network. By exploiting this network, among other transactions, we sell Japanese and foreign equities to overseas investors and foreign equities in our domestic market and underwrite Samurai bond issues. As a result, we have become a market leader.

Moreover, to strengthen our business base in Asia, especially China, we have formed joint ventures and taken other measures to actively develop business in this region.

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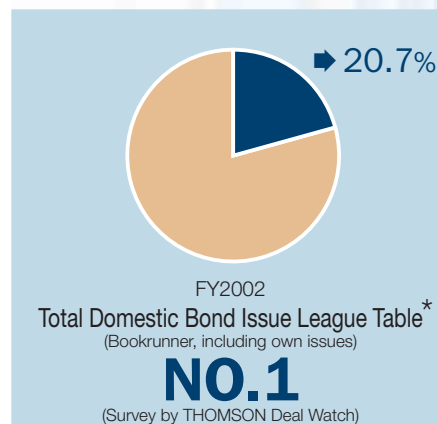
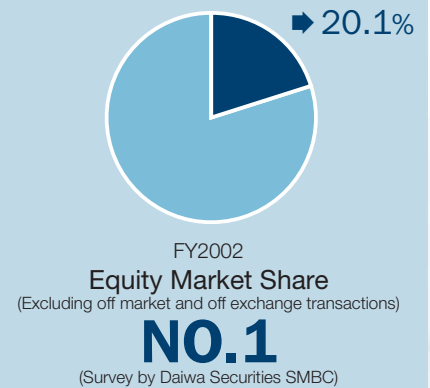
Performance

Investment Banking Daiwa Securities SMBC Ranked No.1 in Four League Table Categories

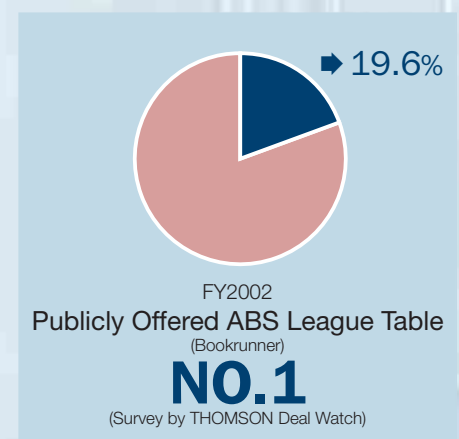
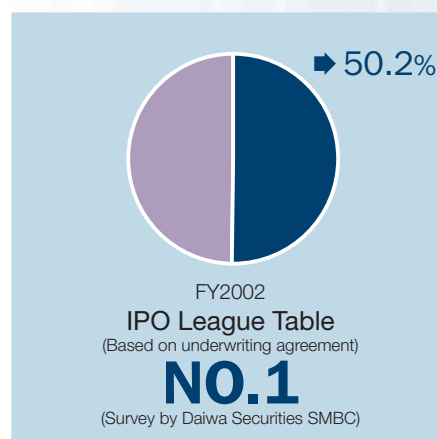
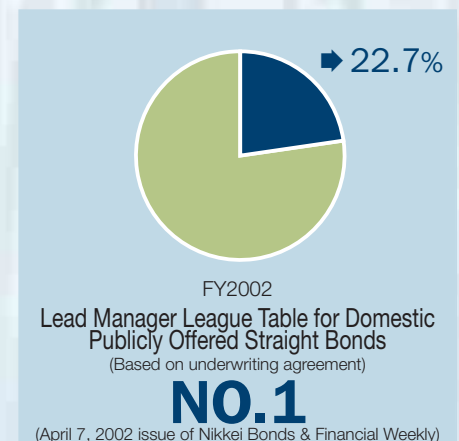
In FY2002 (ended March 2003), our investment banking business fully demonstrated the benefits of synergies achieved with the operations of the Sumitomo Mitsui Banking Corporation, capturing first place in the league tables for total domestic bond issues and public offerings of domestic straight bonds.

In IPOs as well, issues lead managed by Daiwa Securities SMBC took the top four spots for largest issues, ranking us No. 1 in this league table. Furthermore, in structured finance, we were awarded first place in the publicly offered asset-backed securities (ABS) league table, thanks to the winning of a mandate for a major issue and efforts to diversify our products based on development-oriented issue proposals.

Among other rankings, we took third place in the M&A league table* after expanding the number of major projects undertaken during the fiscal year. We also placed well in secondary markets with top class market shares, and captured first place for top share of the equity market.



*Note: Total domestic bonds includes straight, tax-linked, and samurai bonds and ABS and SB-type government guaranteed bonds.



*Advisory rankings of Japanese companies for publicly announced deals according to a THOMSON FINANCIAL survey covering the calendar year 2002.

2002

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Daiwa Securities SMBC Europe Limited was part of a consortium that won the advisory mandate for the privatization of Banca Comerciala Romana (Rumanian Commercial Bank), the country's largest nationally owned bank.

Japan's first integrated REIT, ORIX JREIT Inc., listed on the Tokyo Stock Exchange (Acted as lead manager and global coordinator).

7

Acted as joint lead manager for a global U.S. dollar bond issue for the African Development Bank.

Acted as sole lead manager for Nissan Motor Co., Ltd.'s 40th domestic straight bond issue (¥85 billion).

8

Established Shanghai Daiwa SMBC-SIG Investment Consulting Co. Ltd. jointly with Shanghai International Group, a financial conglomerate based in Shanghai, and Daiwa Institute of Research.

Announced capital and business tie-up between Taisho Pharmaceutical Co., Ltd., and Toyama Chemical Co., Ltd. (Acted as advisor to Taisho Pharmaceutical)

Acted a lead manager for IPO on the listing of NEC Fielding, Ltd.'s shares on the First Section of the Tokyo Stock Exchange.

9

Arranged an asset-backed securities issue (¥150 billion) based on fund claims (kikin) being raised by Nippon Life Insurance Company (Largest ever public ABS issue in Japan)

10

Acted a lead manager for IPO on the listing of NS Solutions Corporation and Sohgo Security Services Co. (SOK)'s shares on the First Section of the Tokyo Stock Exchange.

Acted as lead manager for a yen-denominated bond issue by Telstar Corporation Ltd., of Australia, aimed at individual investors.



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2003

1

Announced merger of the businesses of Konica Corporation and Minolta Co., Ltd. (Acted as advisor to Minolta)

Daiei, Inc. sold four Group hotels. (Acted as advisor to Daiei)

Daiwa Securities SMBC Principal Investment Co. Ltd. made a principal (private equity) investment of ¥4 billion in the Ogihara Group, global manufacturer of metal dyes.

2

Daiwa Securities SMBC and three other securities companies start receiving joint feed of market prices of public and corporate bonds from Bloomberg L.P.

Securitized eleven buildings owned by Mitsui Mutual Life Insurance, Co., including its head office.

3

Acted a lead manager for sale of shares of Yahoo Japan Corporation.

Raised funds for a Recruit Cosmos Co., Ltd. high-rise condominium property development project through securitization. This was Japan's first high-rise housing securitization.

4

Acted a lead manager for IPO on the listing of Taiyo Life Insurance Company's shares on the First Section of the Tokyo Stock Exchange after its demutualization.



Business and Financial

Disclosure Document

Fiscal year ended March 2003

Period from April 1, 2002 to March 31, 2003

Policies Regarding the Solicitation of Sales of Financial Products

1. As a securities wholesaler, our Company is committed to providing clients with the latest financial technologies and the best services to live up to their high expectations and trust.
2. Utilizing our global network, including overseas subsidiaries, we will endeavor to solicit sales during an appropriate time frame in accordance with the transactions needs of our clients.
3. In soliciting sales of financial products, we will take into consideration clients' knowledge of securities transactions and their investment experience, goals, and resources to propose sales of financial products that match clients' intentions and conditions.
4. To ensure that transactions can be conducted based on clients' own decisions and responsibility, we will endeavor to provide clients with adequate information for understanding the nature of the financial products and the risks.
5. Always giving top priority to maintaining clients' trust, we will observe all laws and regulations and will strengthen our internal controls system to ensure that sales solicitations are conducted properly.

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1. Corporate name

Daiwa Securities SMBC Co. Ltd.

2. Registration date

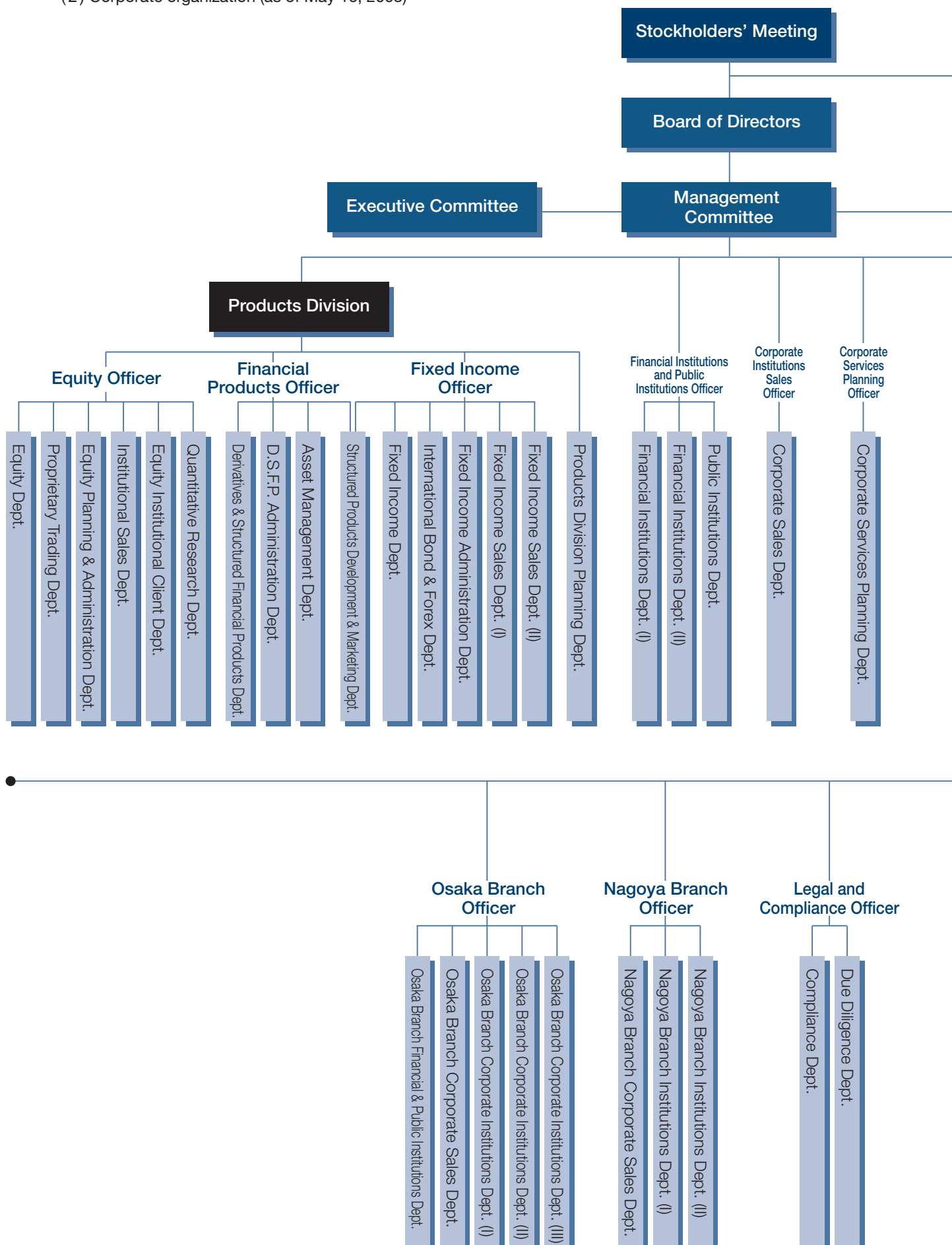
February 26, 1999 (Kanto Financial Bureau (Securities) No. 143)

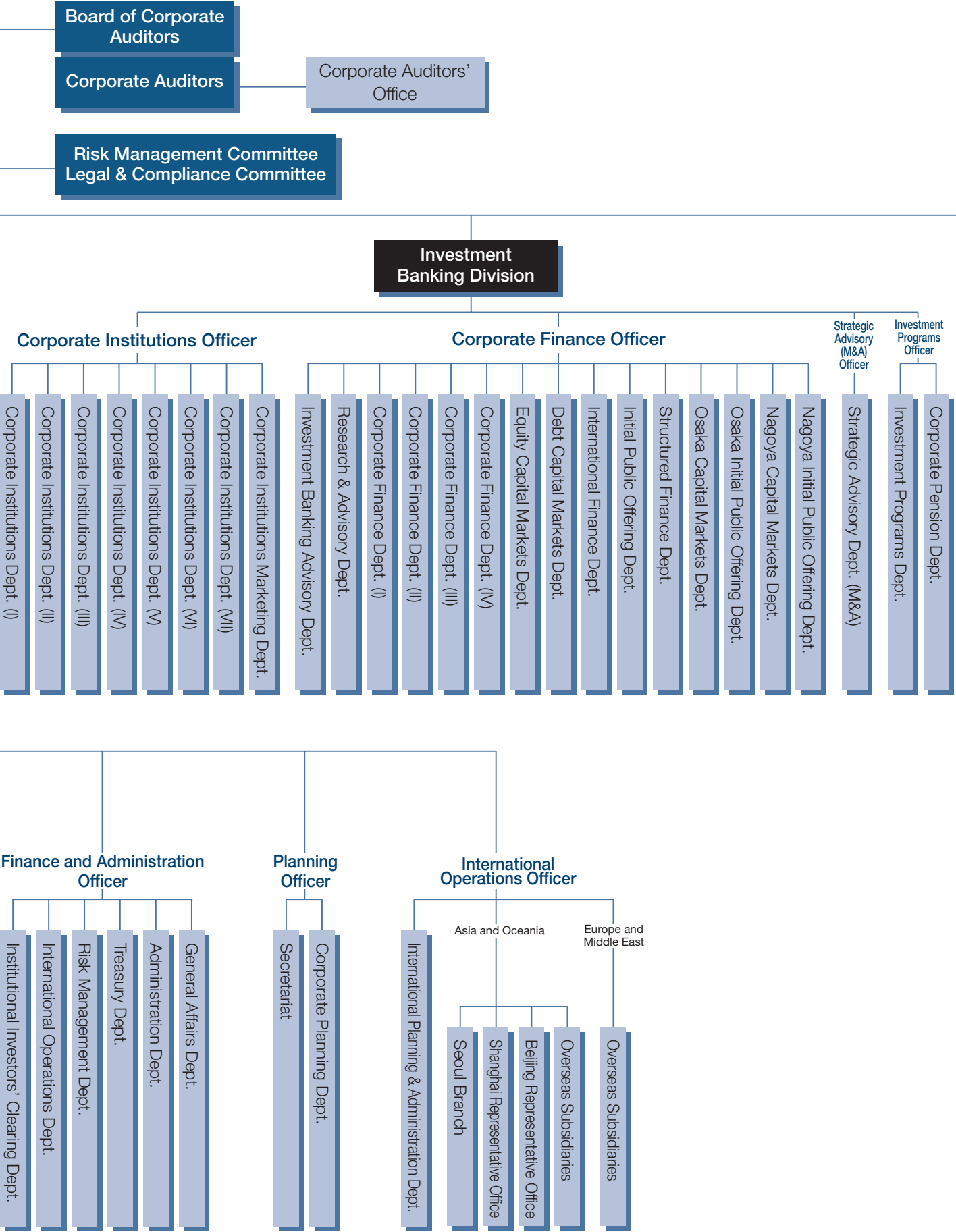
3. History and corporate organization

(1) History

Date	History
April 1999	Wholesale division of Daiwa Securities Co. Ltd. (Now Daiwa Securities Group Inc.), transferred to the Company as well as all operations of Sumitomo Capital Securities Co., Ltd. Operations begin under the name of Daiwa Securities SB Capital Markets Co. Ltd.
October 1999	Daiwa Securities Group Inc. transferred shares of overseas subsidiaries conducting securities-related business in Europe, the Middle East, and Asia and Oceania to the Company, with these companies becoming subsidiaries of the Company.
October 2000	Opened the Spain Branch of a U.K. subsidiary in Madrid.
November 2000	Opened the Milan Branch of a U.K. subsidiary in Italy.
April 2001	The Company took over the business of Sakura Securities Co., Ltd., absorbed part of the wholesale securities operations of Sakura Bank, Ltd., and changed its name to Daiwa Securities SMBC Co. Ltd.
October 2001	Daiwa Securities SMBC Principal Investment Co. Ltd., a wholly owned subsidiary that makes investments in monetary credits, including bad loans, real estate, private equity, and other related businesses, began operations.
August 2002	In collaboration with Daiwa Institute of Research Ltd. and the Shanghai International Group Corporation Limited, the Company formed Shanghai Daiwa SMBC-SIG Investment Consulting Co. Ltd. a joint venture.
March 31, 2003	The Company had four sales branches, including the head office, and four sales offices.

(2) Corporate organization (as of May 16, 2003)





4. Stockholders

Name	Shares	Shareholding
1 Daiwa Securities Group Inc.	1,920	60.0%
2 Sumitomo Mitsui Financial Group, Inc.	1,280	40.0%
Total	3,200	100.0%

5. Corporate Officers

(as of June 23, 2003)
Underlined directors are representative directors

Position	Name	Responsibility
<u>President</u>	Akira Kiyota	Group Executive Officer of Daiwa Securities Group Inc.
<u>Deputy President</u>	Kenjiro Noda	Chief Internal Administration Supervisor and Group Executive Officer of Daiwa Securities Group Inc.
<u>Senior Managing Director</u>	Shigeharu Suzuki	Head of Investment Banking Division, Corporate Services Planning Officer, and Group Executive Officer of Daiwa Securities Group Inc.
Senior Managing Director	Michihito Higuchi	Head of Products Division and Group Executive Officer of Daiwa Securities Group Inc.
<u>Senior Managing Director</u>	Masaki Hirabayashi	Osaka Branch Officer and Osaka Branch Manager
Senior Managing Director	Nobuaki Ohmura	Senior International Operations Officer, President of Daiwa Securities SMBC Asia Holding B.V., Chairman of Daiwa Securities SMBC Hong Kong Limited, Chairman of Daiwa Securities SMBC Singapore Limited, Chairman of Daiwa Securities SMBC-Cathay Co., Ltd.
Managing Director	Yoichiro Inoue	Corporate Institutions Senior Officer and Corporate Institutions Sales Officer
Managing Director	Masayasu Ohi	Corporate Finance Senior Officer and President of Daiwa Securities SMBC Principal Investments Co. Ltd.
Managing Director	Taro Sumitani	Corporate Finance Officer and Corporate Institutions Officer
Director	Sumio Fukushima	Finance and Administration Officer
Corporate auditor	Isao Takemura	
Corporate auditor	Ryuji Yamazaki	
Corporate auditor	Yoshiaki Senoo	
Corporate auditor	Fuminori Yoshitake	

Note : The four auditors, Isao Takemura, Ryuji Yamazaki, Yoshiaki Senoo, Fuminori Yoshitake, are outside auditors of the Company as stipulated in Article 18, Section 1 of the Law Regarding the Special Case of Auditors of Kabushiki Gaisha (joint stock companies) under the Commercial Code.

6. Addresses of Head Office and Other Sales Branches

Name	Address
Head Office	3-5, Yaesu 1-chome, Chuo-ku, Tokyo 103-8289
Osaka Branch	13-20, Sonezakishinchi 1-chome, Kita-ku, Osaka 530-8231
Nagoya Branch	15-30, Nishiki 3-chome, Naka-ku, Nagoya, Aichi Prefecture 460-8691
Seoul Branch	6th Floor, DITC Building, #27-3, Youido-dong, Yongdungpo-gu, Seoul, Republic of Korea
Eitai Sales Office	14-5, Eitai 1-chome, Koto-ku, Tokyo 135-0034
Nittobo Building Sales Office	8-1, Yaesu 2-chome, Chuo-ku, Tokyo 104-0028
Nihombashi Sales Office	7-9, Nihombashi 2-chome, Chuo-ku, Tokyo 103-0027
Nihombashi Muromachi Sales Office	2-15, Nihombashi Muromachi 3-chome, Chuo-ku, Tokyo 103-0022
Beijing Representative Office	International Building 2103, Jianguo Menwai Dajie 19, Beijing, People's Republic of China
Shanghai Representative Office	38th floor, HSBC Tower, 101 Yin Cheng East Road, Pudong New Area, Shanghai, People's Republic of China

7. Operations

(1) Securities Business (Securities and Exchange Law, Article 2, Section 8)

Purchase and sales of securities, securities index futures, and securities options and foreign securities futures
 Intermediary, agency and broker activities for securities, securities index futures, and securities options and foreign securities futures
 Purchase and sales of securities, securities index futures, and securities options on domestic stock exchanges and purchase and sales of securities on foreign stock exchanges and intermediary, agency and broker activities for futures transactions on foreign exchanges
 Purchase and sales of and intermediary, agency and broker activities for over-the-counter derivatives
 Underwriting of securities
 Secondary sales of securities
 Handling of subscription or secondary offerings or private placements

(2) Securities Business-Related Operations (Securities and Exchange Law, Article 34, Section 1)

Business Category
Custody of securities certificates
Money transfers as an account management institution
Loaning securities
Loans for securities margin transactions
Securities collateral loans based on custody of certificates
Securities agency services for customers
Agency services for receipt of subscription and payment for principal and interest of public and corporate bonds
Stock administration agency services
Agency services for payment of income on and redemption and contract cancellations of beneficiary certificates for securities investment trusts
Agency services for allocation of cash and refunds or allocation of remaining assets for beneficiary certificates
Concluding cumulative investment contracts
Providing information on securities and advisory services
Agency services for other securities companies
Agency services for utility payments
Safety deposit box services
Standing proxy services for securities
Agency services for cumulative investment business
Solicitation regarding selection of management methods for defined contribution pension plans

(3) Other Operations (Securities and Exchange Law, Article 34, Sections 2 and 4)

Business Category
Financial futures transactions as defined in the Financial Futures Trading Law, Article 2, Section 9
Derivative transactions other than securities derivatives
Purchasing and selling of currencies and related brokerage operations
Of the loan operations defined under Article 2, Section 1 of the Law Regarding Regulations for Loan Operations, intermediary services for loans
Small-denomination loans under Article 2, Section 7 of the Law Regarding Regulations for Business Related to Special Credits, etc.
The trading or brokerage of deposit certificates for transferable deposits

(3) Other Operations (Securities and Exchange Law, Article 34, Sections 2 and 4) (continued from page 16)

Business Category
Business related to the concluding, arranging or acting as representative of partnership agreements as stipulated by the provisions of Article 667 of the Civil Code or of small business, etc., investment business limited liability partnership agreements as stipulated by the provisions of Article 3, Section 1 of the Law Regarding Small Business, etc., Investment Business Limited Liability Partnership Agreements or of anonymous partnership agreements as stipulated by the provisions of Article 535 of the Commercial Code.
Buying and selling or brokerage of debt instruments
Business regarding concluding, arranging or acting as representative in loan contracts
Business consulting services
Credit derivatives-related business
Investment or arranging investment in limited partnerships
Buying and selling or brokerage of beneficiary trust rights
Customer referral business

8. Participation in Investor Protection Funds

Japan Investor Protection Fund (participation approved on February 26, 1999)

9. Membership in Securities Association

Japan Securities Dealers Association (membership approved March 17, 1999)

10. Membership on Stock Exchanges

Tokyo Stock Exchange (membership approved April 5, 1999)

Osaka Securities Exchange (membership approved April 5, 1999)

Nagoya Stock Exchange (membership approved April 1, 1999)

1. Summary of Business in Fiscal Year Under Review (Year ended March 2003)

(1) Economic Environment

There were some encouraging signs in the Japanese economy during the fiscal year under review. Corporate performances were in an up trend thanks to the benefits of restructuring efforts. Moreover, there were signs of recovery in private sector capital investment in some sectors. Nevertheless, overall domestic demand, including personal consumption, remained at low ebb and labor conditions continued to be harsh, with the unemployment rate reaching its highest level ever.

Under the above conditions, against a background of heightened political risk due to the war with Iraq and the Democratic People's Republic of Korea (North Korea) issue, it became increasingly uncertain whether the global economy would break out of its current slow down.

The stock market in Japan rose on expectations of economic recovery until May 2002, rebounding to the 12,000 level. After that, the deterioration in corporate performances in the United States and the substantial fall in its stock market in the wake of the series of accounting scandals combined with the previously mentioned heightened political risk created a worldwide recessionary trend. In Japan, the stock market fell under the impact of the increase in corporate bankruptcies prompted by the government's acceleration of measures to deal with the bad debt problem in the financial sector, the unwinding of cross holdings of shares between financial services institutions and commercial companies, and the drop off in demand for securities due to a corporate trend toward returning the portion of national pension funds they managed to the government. In March 2003, the stock market sunk to its lowest level since the collapse of Japan's bubble economy. By the end of March, the Nikkei Stock Average had fallen 3,000 points from the start of the fiscal year, falling through the 8,000 floor level, to 7,972. The average daily turnover on the Tokyo Stock Exchange (TSE) amounted to ¥739.6 billion, down 10.0% from the prior fiscal year.

In money markets, the Bank of Japan further boosted its easy money policy, and the yield of 10-year Japanese government bonds fell below 0.7% in March 2003, rewriting the record low.

(2) Business Performance

Facing the previously mentioned difficult circumstances, the Company's ordinary income grew 25.2%, to ¥16,565 million, principally because of favorable bond and currency trading profits. Return on equity (ROE) rose slightly to 1.8%, compared with 1.5% in the previous fiscal year.

1) Commissions

Commissions totaled ¥52,073 million, down 4.8%. A breakdown of individual items follows.

① Brokerage commissions

Brokerage commissions totaled ¥8,367 million, declining 22.0% year on year. The decrease in brokerage commissions can mainly be attributed to the stock market slump, which caused the average daily turnover on the TSE to drop 10.0%, to ¥739,600 million, although the Company's share of transactions on the TSE was almost the same.

② Underwriting and distribution commissions

Equity underwriting and distribution commissions were ¥16,144 million, increasing 2.7% from a year earlier. The Company's commissions increased despite continued low issuance levels due to the stagnation in the stock market thanks to growth in underwriting and distribution commissions from already listed stock.

Bond underwriting and distribution commissions were ¥8,424 million, declining 6.1% from the previous fiscal year. Declines in underwriting of straight bonds and yen-denominated foreign bonds were primarily responsible for the decrease.

③ Subscription and distribution commissions

Subscription and distribution commissions were ¥1,159 million, declining 32.2% year on year. A drop in commissions from sales of investment trusts was the main factor in this fall.

④ Other commissions

Other commissions totaled ¥17,649 million, increasing 10.4% from a year earlier. Among other commissions, commissions from M&A, financial advisory, information supply, and consulting totaled ¥12,726 million, up 44.6% from the prior fiscal year. Asset management fees of Investment Trust slid 57.3%, to ¥1,809 million.

2) Net gain on trading securities

The total of bond and currency net gain on trading securities was ¥45,954 million, jumping 305.4% year on year. Equity trading loss amounted to ¥1,646 million, but total net trading gain amounted to ¥44,308 million, up 69.8% from a year earlier.

(2) Business Performance (continued from page 18)

3) Net interest and dividend income

Net interest and dividend income was ¥21,919 million. After deducting interest and dividend expense, the net income was ¥7,425 million, a decrease of 33.7% from the previous fiscal year. This drop can be attributed to the decline in interest and dividend income despite stable, low levels of interest and dividend expense because of the low interest rate climate.

4) Selling, general and administrative expenses

Overall SGA expenses increased 5.7%, to ¥95,401 million. Again this fiscal year, efforts to reduce expenses resulted in real estate expenses falling 8.8%, to ¥10,320 million and employment expenses dropping 4.0%, to ¥21,582 million. However, commission paid climbed 20.3%, to ¥37,571 million; depreciation expenses rose 12.6%, to ¥8,566 million, and administrative expenses edged up 1.1%, to ¥14,132 million.

(3) Income and losses

Consequently, operating revenues amounted to ¥118,300 million, rising 8.1% from a year earlier. Net operating revenues were ¥110,875 million, increasing 8.0% year on year. Despite the increase in SGA expenses, operating income advanced 25.0%, to ¥15,473 million, and ordinary income was ¥16,565 million, up 25.2% from the previous fiscal year.

Extraordinary losses totaled ¥2,401 million, including a ¥1,257 million loss on write-down of investment securities because of the slump in the equity market. Extraordinary gains for the fiscal year totaled ¥61 million. As a result, the Company recorded net income of ¥6,357 million, increasing 17.1% from a year earlier.

2. Capital Investment and Financing

- (1) The main portion of capital investment during the fiscal year under review was for system-related items. In line with the 3-year medium-term capital investment plan for system implemented in the fiscal year ended March 2001, these included the renewal of core systems; upgrading and increasing compatibility of the trading system; and responding to the increasingly diversified and sophisticated needs of client (mainly by expanding our electronic trading capabilities).

- (2) The Company made a ¥167.6 billion straight bond issue during the fiscal year to increase its working capital.

3. Key Business Indicators

(1) Overall Performance

(millions of yen)

	Year ended March 31, 2001	Year ended March 31, 2002	Year ended March 31, 2003
Paid in capital	205,600	205,600	205,600
Issued and outstanding shares	3,200 shares	3,200 shares	3,200 shares
Operating revenues	230,735	109,481	118,300
Commissions	73,643	54,724	52,073
Brokerage	13,714	10,727	8,367
Underwriting & distribution	37,296	26,306	24,896
Subscription & distribution	3,384	1,709	1,159
Other commissions	19,247	15,980	17,649
Net gain on trading securities	128,934	26,089	44,308
Equity trading gain (loss)	115,403	14,753	(1,646)
Bond trading gain	18,606	9,566	38,569
Other trading gain (loss)	(5,075)	1,768	7,385
Net operating revenues	—	102,670	110,875
Ordinary income	123,640	13,231	16,565
Net income	70,802	5,426	6,357

Note: In accordance with a revision in Concerning Uniformity in Accounting for Securities Companies, "net operating revenues" is being disclosed as operating revenues less interest and dividend expenses, beginning with the fiscal year ended March 2002.

(2) Securities Underwriting & Sales

① Equity Sales (Excluding Futures and Options)

(millions of yen)

	As Principal	Commissioned	Basis Total
Year ended March 2001	31,387,302	28,744,556	60,131,859
Year ended March 2002	23,460,844	19,967,275	43,428,120
Year ended March 2003	19,446,777	16,406,050	35,852,828

② Securities Underwriting, Subscription Sales, and Private Placement

(millions of yen)

Equities		Underwriting	Distribution (primary offering)	Subscription (secondary offering)	Distribution	Private Placement
	Year ended March 2001	648,552	648,265	—	20,275	3,690
	Year ended March 2002	272,702	271,178	—	60	1,650
	Year ended March 2003	319,658	319,623	—	319	23,993

Bonds		Underwriting	Distribution (primary offering)	Subscription (secondary offering)	Distribution	Private Placement
Year ended March 2001	JGBs	824,509	—	815,999	—	—
	Municipal bonds	208,849	—	193,900	—	—
	Gov. agency bonds	198,811	—	374,166	125,550	—
	Corporate bonds	1,427,674	22,664	1,172,075	—	28,700
	Foreign bonds	437,310	377,233	19,210	—	—
	Total	3,097,155	399,897	2,575,350	125,550	28,700
Year ended March 2002	JGBs	980,531	—	972,857	—	—
	Municipal bonds	209,869	—	178,525	—	—
	Gov. agency bonds	448,214	—	587,426	54,090	—
	Corporate bonds	1,708,388	6,158	1,373,155	—	51,100
	Foreign bonds	258,950	169,953	—	—	—
	Total	3,605,953	176,111	3,111,963	54,090	51,100
Year ended March 2003	JGBs	2,011,894	—	2,004,594	—	—
	Municipal bonds	262,668	—	213,014	—	—
	Gov. agency bonds	969,654	—	1,028,146	21,400	—
	Corporate bonds	1,596,920	—	1,397,965	—	19,000
	Foreign bonds	118,506	110,482	—	—	—
	Total	4,959,642	110,482	4,643,719	21,400	19,000

Investment Trusts		Underwriting	Distribution (primary offering)	Subscription (secondary offering)	Private Placement
	Year ended March 2001	—	—	4,482,877	184,463
	Year ended March 2002	52,500	45,204	1,407,493	157,814
	Year ended March 2003	—	—	1,069,572	43,139

Others		Underwriting	Distribution (primary offering)	Subscription (secondary offering)	Distribution	Private Placement
	Year ended March 2001	1,822,300	—	—	—	1,822,300
	Year ended March 2002	1,600,110	—	—	—	1,584,110
	Year ended March 2003	1,466,260	—	—	—	1,406,460

(3) Other Operations

① Securities in Custody

	Category	Equities	Bonds	Investment Trusts	Others
Year ended March 2001	Domestic securities	thousand shares 8,465,473	million yen 1,775,557	million yen 3,327,090	New shares Commercial paper 28,255 million yen 273,800 million yen
	Foreign securities	thousand shares 512,359	million yen 4,539,979	million yen 12,690	New shares 304 million yen
Year ended March 2002	Domestic securities	thousand shares 250,655,295	million yen 1,848,952	million units 1,199,763	New shares Commercial paper 53 thousand securities 300,000 million yen
	Foreign securities	thousand shares 549,825	million yen 5,089,582	million units 751	New shares 22 thousand securities
Year ended March 2003	Domestic securities	thousand shares 13,763,747,703	million yen 2,779,142	million units 980,269	New shares Commercial paper 40 thousand securities 137,300 million yen
	Foreign securities	thousand shares 531,866	million yen 5,251,738	million units 2,415	New shares 1,415 thousand securities

Note : Effective April 2002, domestic marketable securities include securities that are not marketable. In addition, beneficiary certificates are shown as the number of units.

② Securities Lending Operations

	Equities	Bonds
Year ended March 2001	thousand shares 893,384	million yen 176,463,380
Year ended March 2002	thousand shares 639,478	million yen 250,623,066
Year ended March 2003	thousand shares 1,477,052	million yen 311,308,555

③ Financial Futures Transactions

(billions of yen)

	Interest Rate Futures		Currency Futures	
	Commissioned	As Principal	Commissioned	As Principal
Year ended March 2001	717	1,191,665	—	—
Year ended March 2002	—	183,466	—	—
Year ended March 2003	—	46,360	—	—

Note : For other operations of the Company other than the above, please see page 16 and 17.

(4) Capital Adequacy Ratio

(millions of yen)

			Year ended March 2001	Year ended March 2002	Year ended March 2003
Basic item	Total stockholders' equity	(A)	342,313	347,628	348,192
	Evaluation difference		412	—	—
	Special Purpose Law reserves		1,541	2,310	3,065
Supplementary item	Allowance for doubtful accounts		944	52	45
	Subordinated debt		100,000	100,000	100,000
	Total	(B)	102,897	102,362	103,111
Assets excluded from capital		(C)	137,876	144,253	140,270
Capital after exclusion	(A) + (B) - (C)	(D)	307,335	305,738	311,033
Risk equivalent	Market risk equivalent		49,056	27,250	47,442
	Counter party risk equivalent		16,399	13,364	15,887
	Fundamental risk equivalent		18,809	20,491	20,724
	Total	(E)	84,265	61,105	84,055
Capital adequacy ratio	(D) / (E) × 100 (%)		364.7%	500.3%	370.0%

(5) Number of Employees and Registered Sales Representatives

Category	Year ended March 2001	Year ended March 2002	Year ended March 2003
Employees	1,681 persons	1,770 persons	1,780 persons
Of this number, registered sales representatives	1,305 persons	1,359 persons	1,389 persons

4. Major Issues Facing the Company

Experiencing long-term stagnation, Japan's economy is undergoing fundamental restructuring. As the indirect finance system centered on banks has lost its tolerance for risk, and the financial system has become destabilized, expectations are rising for investment banks to become a new pipeline for risk money. As such, business opportunities related to corporate restructuring and to reorganizations under bankruptcy laws are expanding.

The fiscal year under review marks the start of the Daiwa Securities Group's new medium-term business plan, which focuses on improving products and services and productivity. In driving toward the goals of this new medium-term business plan, we will increase our development capabilities for products and services and target higher positioning in league tables and increased earnings through Group-based sales. Our ultimate goal is to become Japan's most powerful investment bank.

To attain these goals, the directors and employees of the Company have fully dedicated themselves to their work.

Medium-Term Business Plan

(1) Group Medium-Term Business Plan (Daiwa Securities SMBC section) (from April 2000 to March 2003)

【Management Target】

- ① ROE of 15%
- ② Obtain rating of "A" or better from main credit rating agencies

【Business Model】

"Independent wholesale securities company set up as a joint venture with a city bank"

- ① Increase business opportunities and establish its position as a market leader in equity and fixed income products by utilizing the broad client base and strong capital foundation to recognize client order flows. Take advantage of the capacity to trade and develop specialized products.
- ② The securities industry is reestablishing itself to facilitate the needs of the up and coming companies characterized by the information technology industry. To accommodate these changes, it is necessary to expand the capabilities to service companies preparing to go public by increasing the number of people engaging in the business and by strengthening ties among Group companies and Sumitomo Mitsui Banking Corporation.
- ③ Increasing proportion of revenue earned from structured finance, derivatives and M&A deals will be realized through Group cooperation and the alliance with Sumitomo Mitsui Banking Corporation.
- ④ Alliances with reputable foreign firms were established to increase business opportunities. Going forward, reconstruction of our global network will be through opening branches, increasing personnel and capital. Consideration will be given to capital tie ups with foreign institutions.
- ⑤ Reestablish human resources by educating and train specialists, recruiting, expanding scope of specialists and by providing incentive schemes and evaluation plans based on performance.

(2) New Group Medium-Term Business Plan (Daiwa Securities SMBC section)

The Daiwa Securities Group launched a new Group Medium-term Business Plan covering the 3-year period from April 2003 to March 2006. The following is an outline of the plan.

【The company three years from now】

The company will improve quality of its product and services, increase productivity and diversify revenue sources.

- ① The company will provide high quality solutions and establish a leading position on the league table.
- ② The company will strengthen its marketing and product development capabilities.
- ③ The company will further diversify its business line to minimize the effect of market movements.

【Basic strategy】

The company will expand its client base by cooperation with Sumitomo-Mitsui Banking Corporation, and strategically allocate its management resources corresponding to the changes in market environment.

- ① The investment banking business, will maintain its No 1 position in areas where it has already established a leading position and will work to improve its position in other areas. This will be accomplished by enhancing its capabilities to provide high quality proposals and by strengthening its origination activities.
- ② The institutional brokerage business, will promote cooperation between the Daiwa Securities and Sumitomo-Mitsui Banking Corporation and strengthen its marketing and product development capabilities.
- ③ Strategic allocation of resources will enable the principal finance and M&A businesses to take advantages of the business opportunities available under this deflationary environment and increase its presence in this field.
- ④ The company will offer global services that meet the needs of its clients in Japan.



Financial Position

1. Accounting

(1) Balance Sheets (at March 31, 2003)

(millions of yen)

ASSETS		ASSETS	
Category	(at March 31, 2003)	Category	(at March 31, 2002)
Current assets:	6,079,947	Current assets:	4,197,042
Cash and time deposits	105,018	Cash and time deposits	87,985
Cash segregated as deposits	20,008	Cash segregated as deposits	22,233
Trading assets:	4,216,614	Trading assets:	2,190,816
Trading securities and others	3,644,400	Trading securities and others	1,848,322
Derivative assets	572,213	Derivative assets	342,493
Receivables related to margin transactions:	68,944	Receivables related to margin transactions:	70,253
Loans receivable from customers for margin transactions	55	Loans receivable from customers for margin transactions	8
Cash deposits as collateral for securities borrowed from securities finance companies	68,889	Cash deposits as collateral for securities borrowed from securities finance companies	70,244
Receivable on collateralized securities transactions:	1,549,050	Receivable on collateralized securities transactions:	1,696,982
Cash deposits as collateral for securities borrowed	1,487,949	Cash deposits as collateral for securities borrowed	1,559,260
Receivables related to Gensaki transactions	61,100	Receivables related to Gensaki transactions	137,722
Receivables	285	Receivables	1,980
Short-term guarantee money deposited	9,407	Short-term guarantee money deposited	9,109
Short-term loans receivable	85,622	Short-term loans receivable	87,174
Accrued income	9,161	Accrued income	5,613
Deferred income tax assets	818	Other current assets	24,945
Other current assets	15,062	Less: Allowance for doubtful accounts - current	(52)
Less: Allowance for doubtful accounts - current	(45)		
Non-current assets:	142,065	Non-current assets:	147,039
Tangible fixed assets	4,120	Tangible fixed assets	4,376
Intangible fixed assets	29,725	Intangible fixed assets	26,660
Investments and others:	108,219	Investments and others:	116,002
Investment securities	42,941	Investment securities	43,919
Long-term loans receivable	1,033	Long-term loans receivable	1,042
Long-term guarantee deposits	6,403	Long-term guarantee deposits	7,427
Deferred income tax assets	48,278	Deferred income tax assets	58,927
Other investments	10,045	Other investments	4,928
Less: Allowance for doubtful accounts - non-current	(482)	Less: Allowance for doubtful accounts - non-current	(243)
Total assets	6,222,012	Total assets	4,344,082

(millions of yen)

LIABILITIES		LIABILITIES	
Category	(at March 31, 2003)	Category	(at March 31, 2002)
Current liabilities:	5,469,446	Current liabilities:	3,690,236
Trading liabilities:	1,372,131	Trading liabilities:	1,072,774
Trading securities and others	850,362	Trading securities and others	767,688
Derivative liabilities	521,768	Derivative liabilities	305,085
Trade date accrual	58,765	Trade date accrual	178,643
Payables related to margin transactions:	42,790	Payables related to margin transactions:	25,267
Proceeds of securities sold for margin transactions	42,790	Proceeds of securities sold for margin transactions	25,267
Payables on collateralized securities transactions:	2,542,096	Payables on collateralized securities transactions:	578,574
Cash deposits as collateral for securities loaned	1,902,792	Cash deposits as collateral for securities loaned	500,477
Payables related to Gensaki transactions	639,304	Payables related to Gensaki transactions	78,096
Deposits received	59,382	Deposits received	10,537
Cash deposits received from customers	17,800	Cash deposits received from customers	23,273
Short-term borrowings	1,068,817	Short-term borrowings	1,413,104
Commercial paper	289,800	Commercial paper	366,100
Bonds due within one year	5,766	Bonds due within one year	4,604
Accrued expenses	7,203	Accrued expenses	4,884
Other current liabilities	4,891	Accrued income taxes	50
		Deferred income tax liabilities	460
		Other current liabilities	11,961
Non-current liabilities:	395,708	Non-current liabilities:	303,906
Bonds	291,950	Bonds	200,800
Long-term borrowings	100,000	Long-term borrowings	100,000
Accrued retirement benefits	3,041	Accrued retirement benefits	2,530
Other non-current liabilities	716	Other non-current liabilities	576
Statutory reserves:	3,065	Statutory reserves:	2,310
Reserve for securities transaction liabilities	3,065	Reserve for securities transaction liabilities	2,310
Reserve for financial futures transaction liabilities	0	Reserve for financial futures transaction liabilities	0
Total liabilities	5,868,220	Total liabilities	3,996,453
STOCKHOLDERS' EQUITY		STOCKHOLDERS' EQUITY	
Common stock	205,600	Common stock	205,600
Capital surplus	117,321	Legal reserve	122,462
Additional paid-in capital	117,321	Additional paid-in capital	117,321
Earned surplus	31,176	Earned surplus reserve	5,141
Earned surplus reserve	5,141	Retained earnings	19,678
Special reserve for depreciation	301	Special reserve for depreciation	359
Unappropriated retained earnings	25,734	Unappropriated retained earnings	19,319
Including net income 6,357 million yen for 2002		Including net income 5,426 million yen for 2001	
Revaluation reserve for investment securities, net of tax effect	(305)	Revaluation reserve for investment securities, net of tax effect	(112)
Total stockholders' equity	353,792	Total stockholders' equity	347,628
Total liabilities and stockholders' equity	6,222,012	Total liabilities and stockholders' equity	4,344,082

(2) Income Statement

(millions of yen)

Category	Year ended (March 31, 2003)	Category	Year ended (March 31, 2002)
Operating revenues:	118,300	Operating revenues:	109,481
Commissions	52,073	Commissions	54,724
Net gain on trading securities	44,308	Net gain on trading securities	26,089
Interest and dividend income	21,919	Interest and dividend income	28,667
Interest expenses	7,425	Interest expenses	6,810
Net operating revenues	110,875	Net operating revenues	102,670
Selling, general and administrative expenses:	95,401	Selling, general and administrative expenses:	90,288
Commission and other expenses	37,571	Commission and other expenses	31,222
Employees' compensation and benefits	21,582	Employees' compensation and benefits	22,491
Real estate expenses	10,320	Real estate expenses	11,316
Data processing and office supplies	14,132	Data processing and office supplies	13,985
Depreciation expenses	8,566	Depreciation expenses	7,607
Taxes other than income taxes	1,737	Taxes other than income taxes	1,967
Others	1,490	Others	1,697
Operating income	15,473	Operating income	12,381
Non-operating income	1,953	Non-operating income	1,069
Non-operating expenses	861	Non-operating expenses	220
Ordinary income	16,565	Ordinary income	13,231
Extraordinary gains:	61	Extraordinary gains:	3,604
Gain on sale of investment securities	49	Gain on sale of investment securities	233
Reversal of allowance for doubtful accounts	12	Reversal of the provision for multiemployer pension plan	2,599
Extraordinary losses:	2,401	Reversal of allowance for doubtful accounts	771
Write-down of investment securities	1,257	Extraordinary losses:	6,650
Valuation loss of fixed assets	259	Write-down of investment securities	480
Loss on sale of investment securities	129	Valuation loss of fixed assets	272
Provision for securities transaction liabilities	754	Loss on sale of investment securities	33
		Amortization of goodwill	5,000
		Non-deductible consumption tax relating to goodwill	93
		Provision for securities transaction liabilities	769
Income before income taxes and others	14,226	Income before income taxes and others	10,184
Income taxes - current	(1,576)	Income taxes - current	87
Refund of income taxes	52	Refund of income taxes	190
Income taxes – deferred	9,497	Reversal of accrued income taxes	33
		Income taxes – deferred	4,894
Net income	6,357	Net income	5,426
Unappropriated retained earnings - carryforward	19,376	Unappropriated retained earnings - carryforward	13,892
Unappropriated retained earnings	25,734	Unappropriated retained earnings	19,319

[Notes to Financial Statements]

The financial statements of the Company for fiscal 2002 ended March 31, 2003 are prepared in accordance with the “Enforcement Regulations of Commercial Code” (Ministry of Justice Ordinance No. 22, 2002), the “Cabinet Office Ordinance Concerning Securities Companies” (Prime Minister’s Office Ordinance and Ministry of Finance Ordinance No. 32, 1998), and “Uniform Accounting Standards of Securities Companies” (set by the board of directors of the Japan Securities Dealers Association, September 28, 2001).

[Basis of Financial Statements]

(1) Valuation of financial instruments

1) Valuation of trading account

Securities and derivatives transactions in trading account are recorded at fair value.

2) Valuation of non-trading securities

①Subsidiary and related company stocks are valued at moving average cost method.

②Other securities in the non-trading account are valued at fair value on the closing date with posting net unrealized gain on securities net of tax effect directly in stockholders’ equity, if their fair value is available. Those securities cost is based on the moving average method. Other securities are valued at moving average cost method, if their fair value is not available.

(2) Depreciation of depreciable assets

1) Tangible fixed assets

Declining-balance method is applied, and straight-line method is applied to the buildings (excluding appendices) acquired after April 1, 1998. Useful life for depreciation is based on the Corporation Tax Law.

2) Intangible fixed assets, and investments and others

Straight-line method is applied and Useful life for depreciation is based on the Corporation Tax Law. Software for in-house use is depreciated under the straight-line method based on internal estimated useful life (5 years).

(3) Deferred assets

Expenses for issue of bond are amortized in a lump sum when incurred.

(4) Accounting policies for various provisions

1) Allowance for doubtful accounts

The Company provides the allowance based on the historical deterioration rate as for normal loans, and the allowance specifically assessed as for doubtful and failed loans.

2) Accrued bonuses

Estimated amount of employees’ bonuses is accrued based on the Company’s bylaws.

3) Accrued retirement benefits

The Company provides accrued retirement benefits for employees in conformity with the bylaws to meet obligations as of March 31, 2003, as the rise in salaries in the future does not cause fluctuation in the benefit obligation and therefore the service costs are vested fiscal year by fiscal year.

(5) Accounting for certain lease transactions

Finance lease in which ownership is not transferred to a lessee are accounted for in the same manner as operating leases.

(6) Hedge transactions

A premium or discount on forward foreign exchange contracts to hedge foreign currency denominated deposits is allocated to each fiscal term without marking-to-market.

(7) Other material items

Consumption Taxes

Consumption taxes are separately recorded.

Consolidated Tax System

Consolidated tax system is applied from this fiscal year.

Change in Presentation of Stockholders' Equity

Stockholders' equity as of March 31, 2003 is presented in accordance with the "Enforcement Regulation of Commercial Code."

[Notes to Balance Sheet]

(1) Accumulated depreciation of tangible fixed assets

As of Mar. 31, 2003	As of Mar. 31, 2002	(millions of yen)
7,295	5,827	

(2) Guarantees

As of Mar. 31, 2003	As of Mar. 31, 2002	(millions of yen)
428	410	

(3) Long-term borrowings are the subordinated borrowings stipulated by Article 2 of the "Cabinet Office Ordinance on the Capital Adequacy Rule for Securities Companies" (Cabinet office Ordinance No. 23, 2001).

[Notes to Income Statement]

The main components of extraordinary gains and losses are as follows.

- 1) The reversal of the provision multiemployer pension plan is the amount after the deduction of expenses actually paid to Securities Companies' Welfare Pension Fund upon withdrawal.
- 2) Amortization of goodwill is incurred as a result of the acquisition of goodwill from former Sakura Securities Company Ltd. in April 2001.

2. Statement of Appropriation of Retained Earnings

(millions of yen)

Category	Year ended March 2002	Year ended March 2003
Unappropriated retained earnings	19,319	25,734
Reversal of reserve for special depreciation	57	50
Total	19,376	25,785
Appropriations of retained earnings	—	5,600
Cash dividends	—	5,600
Unappropriated retained earnings carried forward	19,376	20,185

Note : Cash dividends for the fiscal year ended March 2003 were ¥1.75 million per share.

3. Major Providers of Loans and Amounts

	Loan Provider	Type of Loan	Balance
Year ended March 2002	Bank of Japan	Short-term loans (Note 2)	1,190,200 million yen
	Sumitomo Mitsui Banking Corporation	Short-term loans	100,000 million yen
		Long-term loans (Note 1)	40,000 million yen
	Daiwa Securities Group Inc.	Long-term loans (Note 1)	60,000 million yen
	The Sumitomo Trust & Banking Co., Ltd.	Short-term loans	50,000 million yen
Year ended March 2003	Bank of Japan	Short-term loans (Note 2)	825,300 million yen
	JSF Trust and Banking Co., Ltd.	Short-term loans	150,000 million yen
	Daiwa Securities Group Inc.	Long-term loans (Note 1)	60,000 million yen
	Sumitomo Mitsui Financial Group, Inc.	Long-term loans (Notes 1 and 3)	40,000 million yen

Notes : 1. Subordinated liabilities (subordinated loans) according to Section 2 of the "Cabinet Ordinance Concerning Capital Adequacy Rule of Securities Companies" (Cabinet Ordinance No. 23, 2001).

2. Based on the purchase of promissory notes.

3. The loans from the Sumitomo Mitsui Banking Corporation has been transferred to the holding company, Sumitomo Mitsui Financial Group, Inc.

4. Securities in Custody

Market value of securities held other than trading securities (millions of yen)

Category	Year ended March 2002			Year ended March 2003		
	Book value	Market Value	Gain or Loss	Book value	Market Value	Gain or Loss
Included under fixed assets						
Equity	3,668	3,417	250	2,872	2,358	513
Bonds	—	—	—	—	—	—
Others	—	—	—	—	—	—
Total	3,668	3,417	250	2,872	2,358	513

Notes : 1. Method of determining market value

Listed securities.....closing price on major stock exchange

Over-the-counter securities.....quotations announced by the Japan Securities Dealers Association

2. Book value on the balance sheet of securities not within the scope of required disclosure.

Securities included under non-current assets

Equity (non-listed shares including non-current assets)	Year ended March 2002	Year ended March 2003
	40,502	40,583

5. Futures and Options Transactions

During the fiscal year in review, other than futures and options transactions in its trading operations, the Company used forward currency contracts to hedge currency risk in its foreign currency denominated deposits. Hedge accounting, which defers gains or losses until they are actually incurred, was used and hedges were booked according to fair market value.

(millions of yen)

	Contract value	Market value	Gain
At March 31, 2003	3,507	3,636	129

6. Securities Derivatives

During the fiscal year in review, the Company did not engage in derivative transactions other than in its trading operations.

7. Auditing by Independent Public Accounting Company

Under the provisions of Article 2 of the Regulations, the documentation stipulated in Article 281, Section 1 of the Commercial Code (limited to the accounting related portions of the documents and attached notes defined under Item 3 of Section 1) for the fiscal year ended March 31, 2003 have been audited by an independent public accounting company (Asahi & Co.).

8. Summary of the Fundamental Policies and Internal Regulations for the Allotment of Securities

(1) Fundamental Policies for the Allotment of Securities

The Company recognizes its business mission as, through its underwriting activities, responding to the funding needs of companies and the asset management needs of investors while promoting the circulation of securities, thereby contributing to the expansion and development of securities markets. The Company business activities revolve around this mission.

When making or handling subscriptions and secondary offerings, the Company, in principle, carefully considers a balance in the allotment of securities that will avoid excessive concentration on specific clients.

When selling securities to clients, the Company recognizes that its first premise in these activities is the sale of financial products that fit the needs of clients. In principle, the bookbuilding method is used to obtain an accurate grasp of customer demand and allotments are made in full consideration of the client's affiliations.

Specifically, the Company takes the amount requested by the client, demonstrated interest in the issue during the bookbuilding process, assets, risk understanding, investment experience and knowledge, and investment strategies, and business relationship with the Company into consideration before allotting securities based on the principle of appropriateness. This process is particularly closely observed when there is an extremely high overall demand for the issue.

However, when the previously mentioned principles are not applicable, for example, when the amount being underwritten is small, the product is difficult to distribute widely due to its nature or various laws and regulations apply to the issue, the Company may limited the clients to which it allots the security or set ceilings and floors on the monetary figure used as the quota per client.

(2) Summary of Internal Regulations for the Allotment of Securities

Through its internal regulations, the Company observes the Laws of Japan as well as the regulations of the Japan Securities Dealers Association and stock exchanges and makes its best efforts to ensure fair allotment of securities.

The Company has established as a fundamental principle that the process of application for allotment shall be fair and has created internal regulations to maintain transparency in the allotment application process and to establish an adequate control and inspection structure. The following is a summary of those regulations.

1) Fundamental principle of allotments

In making or dealing with subscriptions or secondary offerings (hereafter termed "subscriptions, etc."), it is the Company's principle to distribute the security widely to avoid excessive allotments to specific clients.

Sales are made on the premise that the product fits the asset management needs of the client. In principle, the bookbuilding method is used and the client's affiliations are taken fully into consideration in determining the allotment based on the principle of appropriateness.

2) Allotments to which the fundamental principle does not apply

When the underwriting amount of lost-right public offerings, etc is small, when various laws and regulations apply to the sale of the issue, or when it is determined that specific limitations should be placed on investors not specified by the issuer under the Japan Securities Dealers Association's regulations prohibiting allotments or on the issue due to its nature, the Company may not apply its fundamental principle in making its allotments.

3) Restrictions on allotments

Allotments cannot be made to the following persons or entities: persons specified by the issuer (excluding investors to which this restriction does not apply under the Japan Securities Dealers Association's New Issue Ban Regulation), gangster groups or people related to such groups (in other words, Sokaiya and others who act against the public's best interests), persons or entities for which it might appear that special preference had been given by the Company causing society to view these actions as unfair, companies that have personal relationships with the company going public, companies with capital ties to the issuing company, and people with special interests in the issuer.

4) Legal compliance

The Company complies with legal regulations disallowing the allotment of securities to clients or third parties for the purpose of reimbursing clients for their losses or increasing their profits.

5) Procedures for deciding allotments

Allotment based on the bookbuilding method

Considering the overall demand, the syndicate head determines allotments for the sales sections or in the case that sales are being commissioned, for the commissioned securities companies.

Allotment not based on the bookbuilding method

In consideration of past performance of issues, the syndicate head determines allotments for the sales sections or in the case that sales are being commissioned, for the commissioned securities companies.

Allotment to clients

Following the fundamental principle for allotment, in principle, the person responsible for the sales sections will decide the allotment to clients.

6) Control and inspection structure

The person responsible for the sales sections will control the allotments to clients. Moreover, the Compliance Dept. will make periodic inspections of the appropriateness of those allotments of securities, etc., and provide appropriate guidance.

When it is suspected that a violation of the laws and regulations regarding subscriptions, etc. has occurred, the person responsible for the sales sections will meet face-to-face with the client to determine the validity of the claim.

When it is suspected that, reflecting the affiliations of a client, a violation of the laws and regulations regarding the allotment to a client or subscriptions, etc, the Compliance Dept. may request that the person responsible for the sales sections submit a report of the meeting with the client affected.

The sales sections will keep records allotments and the Compliance Dept. will keep records of inspection of those allotments for five years.

1. Overview of Internal Control Structure

The following is an outline of the Company's internal control structure. The Legal & Compliance Committee, as a subcommittee of Management Committee, determines companywide policies for compliance guidance and internal investigations, discussing, deciding and approving specific measures. At departments and branches, sales managers, internal administration supervisors, and internal administration officers oversee legal and other compliance in daily operations and carry out internal investigations to ensure that this supervision is effective. With a view to preventing legal violations, the Compliance Dept. conducts discussions of compliance issues in advance and provides guidance and monitoring as well as carrying out internal investigations. Among the Company's specific compliance measures are the creation of a compliance program as an annual action plan, and using the plan to implement thorough compliance and strengthen internal administration. In the current fiscal year, as a method of reinforcing compliance training programs, the Company is planning to add specialized programs that focus on specific issues and employees by introducing separate programs by issue, business unit, and position. These programs are in addition to currently offered compliance programs.

The following is an outline of the Company's internal control organization.

① Legal & Compliance Committee

The President calls a meeting of this subcommittee of the Management Committee, in principle, every other month. The committee considers issues related to compliance with Company regulations, establishing corporate ethics, and internal administration, discussing, deciding and approving overall Company policy, concrete measures, and which issues should be passed on to the Board of Directors.

② Chief Internal Administration Supervisor and Assistant Internal Administration Supervisor

According to the regulations of the Japan Securities Dealers Association, the Chief Internal Administration Supervisor is a representative director of the Company. The Chief Internal Administration Supervisor provides guidance and supervision to the process of establishing an internal administration structure and the activities of Internal Administration Supervisors to ensure thorough compliance with regulations. The Assistant Internal Administration Supervisor backs up the Chief Internal Administration Supervisor.

③ Compliance Dept.

As the compliance headquarters, the Compliance Dept. has the following functions:

- Compliance Section..... The section makes pricing checks, monitors unfair business practices, manages information on insider trading and other violations, and provides external reporting. Assigning a compliance officer in each sales office and branch, the section provides consulting on various laws and regulations, and appropriate advice on legal issues.
- Overseas Compliance Section..... Responsible for keeping abreast of conditions in the legal compliance organizations of overseas offices and providing guidance in improving the system to achieve early detection of legal violations, prevent reoccurrences, and avoid risks. In addition, the office plans and implements investigations.
- 1st & 2nd Investigations Sections..... Responsible for investigations at all sections of the Company in Japan and abroad. Through investigations for appropriateness and efficiency and through early detection of violations and accidents, the sections provide guidance on reforms for the internal administration organization based on the results of their investigations.
- Planning Section..... Proposes measures to prevent violations and accidents from a companywide point of view. The office also takes steps to deal with and prevent anti-social forces within the Company.

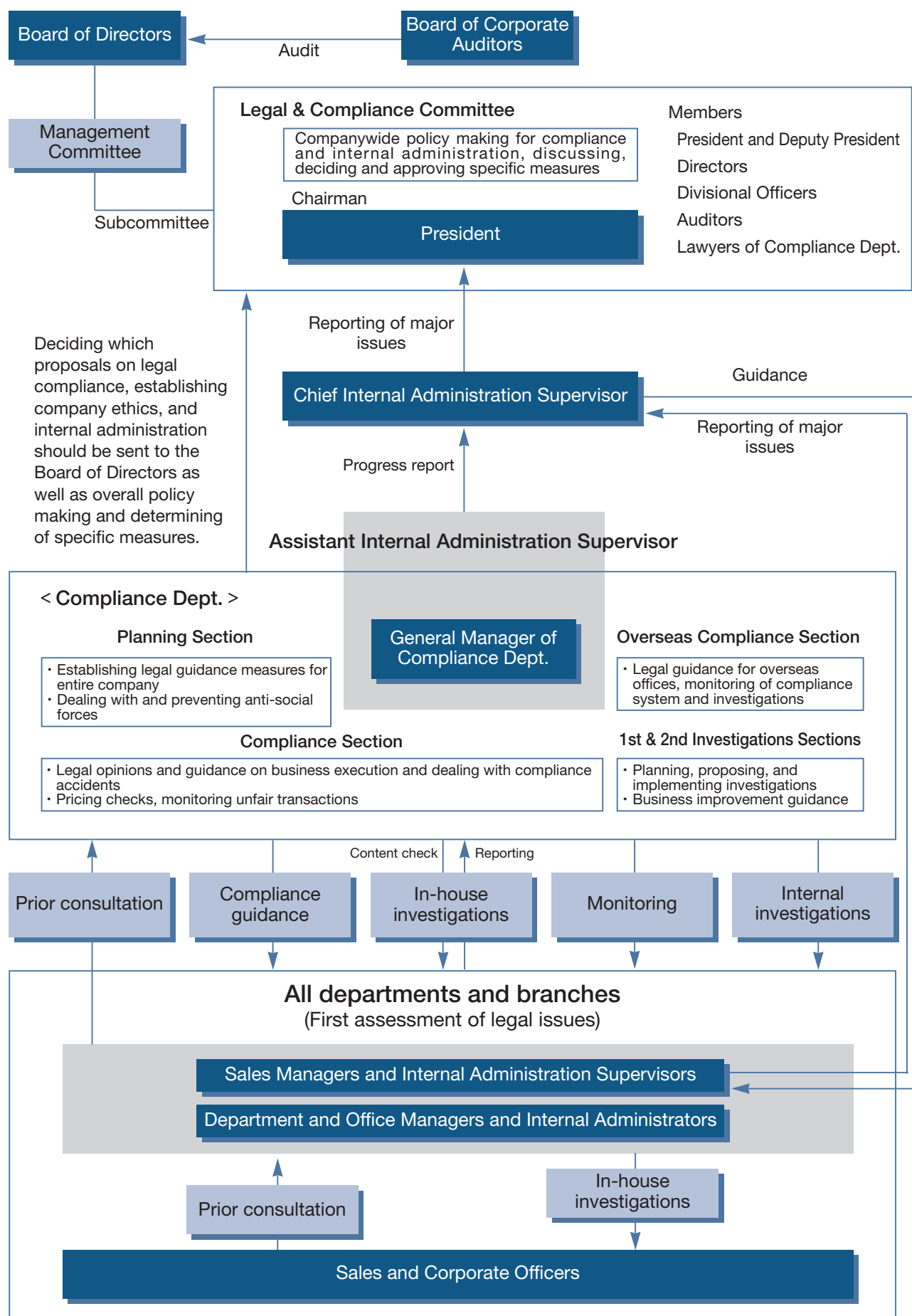
④ Sales Managers, Internal Administration Supervisors and Internal Administrators

According to the regulations of the Japan Securities Dealers Association, Sales Managers and Internal Administration Supervisors are placed in each sales office and branch. Sales Managers and Internal Administration Supervisors continually monitor whether daily business activities, such as sales activities and client management methods, are appropriate in regard to regulations. At non-sales departments and branches, an Internal Administrator is positioned to monitor whether there are any activities that represent violations of general regulations.

2. Corporate Ethics Hot Line (a system of internal reporting)

The Company has established Corporate Ethics Hot Line (a system of internal reporting) to enable early discovery and correct violations of laws and regulations. The Company has set up procedures for reporting compliance violations that clearly indicates methods for reporting, the protection of the person reporting the violation, and methods for correcting the problem. Through this system, the Company is working to strengthen its compliance structure.

Outline of Internal Administration Structure



2. Segregated Client Money and Securities

(1) Segregated Client Money (Year ended March 31, 2003)

(millions of yen)

Item	Amount
Required segregation of customers' cash in preparation for immediate adjustment on base calculation date	8,760
Income trusts segregated by customer	20,000
Required segregation of cash deposits at the end of the fiscal year	58,750

Note : Income trusts segregated by customer are segregated based on the required amounts as of the most recent valuation date (March 20, 2003).

(2) Segregation of Securities (Year ended March 2003)

①Custody of Securities

Security Type	Domestic	Foreign
Equities	13,763,747,703 thousand shares	531,866 thousand shares
Bonds	2,779,142 million yen	5,251,738 million yen
Beneficiary certificates	980,269 million units	2,415 million units
Subscription warrants	40 thousand warrants	1,415 thousand warrants
Foreign certificates	—	—
Commercial paper	137,300 million yen	—

Note : Domestic equities included non-marketable equities.

②Substitute Securities Received

Security Type	Amount
Equities	89,253 () thousand shares
Bonds	2,500 () million yen
Beneficiary certificates	()
Subscription warrants	()

Note : The numbers in parentheses represent the amounts of substitute securities received equivalent to additional collateral to be submitted to a third party that is subject to segregation of customers' assets, with the amount equivalent to market value required by law to be segregated and held in trust. The Company does not submit the required additional collateral that is subject to segregation of customers' assets to the third party.

③Custody Method

Securities received from clients are held in custody according to the custody agreement, the foreign securities transaction agreement, and according to Article 47 of the Securities and Exchange Law and the Cabinet Ordinance Regarding the Segregation of Asset Held in Custody at Securities Companies, as follows.

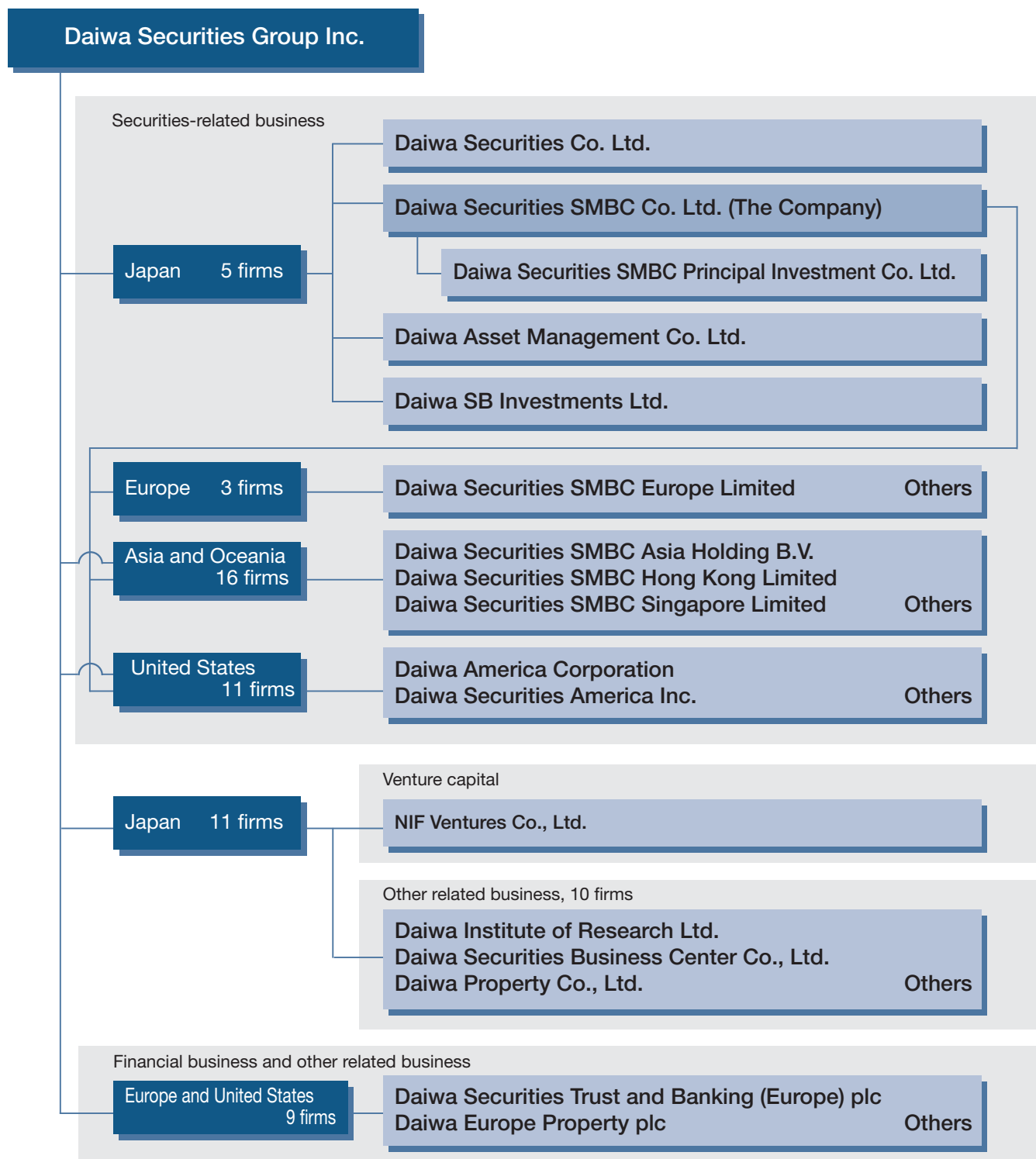
Security Type	Custody Method
Domestic equities	Unless special application has been made, the Japan Securities Depository Center, Inc. (hereafter termed "Depository") shall hold the equities in bulk. If application is made, the securities may be held in custody by the Company segregated by client.
Domestic bonds	Bonds that are held in custody under the custody system of the Depository shall be held under the same terms as equities. Bonds other than the above can be held in custody by the Company segregated only by type unless application is made otherwise. For Japanese government bonds (JGBs) being held under the JGB clearing system, the Company acts as the account management institution, and manages clients' settlement accounts based on a transfer account book.
Domestic investment trust beneficiary certificates	Unless otherwise indicated, the Company or the trust company can hold the beneficiary certificates in custody segregated only by type.
Other domestic securities	Securities certificates being held under the custody system of the Depository shall be held under the same terms as equities. Other securities certificates can, unless otherwise indicated, be held in custody by the Company segregated only by type.
Foreign securities	Foreign securities being trading on Japanese markets are held in custody by the Japan Securities Clearing Corporation. Foreign securities being traded on overseas markets are held in custody at overseas trust institutions in bulk.

1. Corporate Organization

The Company is a subsidiary of Daiwa Securities Group Inc. The parent company predominately operates in the investing and financial segment, focusing on securities businesses, such as trading and brokerage of securities and derivatives, underwriting and distribution of securities, subscription and distribution of securities, private offerings of securities, and other business in the securities and financial fields. Daiwa Securities SMBC and its associated companies provide a wide range of services, satisfying its worldwide customers' needs for raising and investing of funds through their global network linking major financial markets in Japan, the United States, Europe, and Asia and Oceania.

Investing and Financial Services

(51 consolidated subsidiaries and 4 equity method affiliates of the parent company)



2. Subsidiaries and Affiliates

(as of March 31, 2003)

	Location	Paid-in Capital	Principal Business	Voting Shares Held	Equity Ownership
Daiwa Securities SMBC Europe Limited	London, U.K.	109 million Sterling pounds	Securities	109,121 thousand shares	100%
Daiwa Europe (Deutsche) GmbH	Frankfurt, Germany	20 million Euro	Financial Services	40 thousand shares	100% (see Note 1)
Empire Nominees Limited.	London, U.K.	100 Sterling pounds	Nominee Company	100 shares	100% (see Note 1)
Daiwa Securities SMBC Asia Holding B.V.	Amsterdam, Netherlands	129 million Euro	Holding Company	284,939 thousand shares	100%
Daiwa Securities SMBC Hong Kong Limited	Hong Kong	100 million HK dollars	Securities	10,000 thousand shares	100% (see Note 2)
Daiwa Securities SMBC (Asia) Limited	Hong Kong	6 million HK dollars	Securities	600 thousand shares	100% (see Note 4)
Daiwa Securities SMBC Futures (Asia) Limited	Hong Kong	25 million HK dollars	Financial Futures	2,500 thousand shares	100% (see Note 4)
Daiwa Securities SMBC Singapore Limited	Singapore, Singapore	42 million Singapore dollars	Securities and Financial Services	42,000 thousand shares	100% (see Note 2)
Daiwa Securities SMBC Investment Service Pte Ltd.	Singapore, Singapore	33 million Singapore dollars	Securities	33,600 thousand shares	100% (see Note 3)
Daiwa Securities SMBC Futures Pte Ltd.	Singapore, Singapore	3million Singapore dollars	Financial Futures	3,000 thousand shares	100% (see Note 2)
Daiwa Securities SMBC Australia Limited	Melbourne, Australia	15 million Australian dollars	Securities	30,000 thousand shares	100% (see Note 2)
Daiwa Securities SMBC Stockbroking Limited	Melbourne, Australia	5 million Australian dollars	Securities	5,000 thousand shares	100% (see Note 5)
Daiwa Securities SMBC Nominees Limited	Melbourne, Australia	5 Australian dollars	Nominee Company	5 shares	100% (see Note 6)
Daiwa Securities SMBC Fast Nominees Limited	Melbourne, Australia	5 Australian dollars	Nominee Company	5 shares	100% (see Note 6)
Daiwa Securities SMBC-Cathy Co., Ltd.	Taipei, Taiwan	2,000 million Taiwan dollars	Securities	150,000 thousand shares	90% (see Note 7)
DBP-Daiwa Securities SMBC Philippines, Inc.	Manila, Philippines	255 million Philippine pesos	Securities	102,000 thousand shares	60% (see Note 8)
Daiwa Securities SMBC Principal Investment Co. Ltd.	Chuo-ku, Tokyo	500 million yen	Investment Advisory	10 thousand shares	100%
Daiwa SMBC Financial Products (Cayman) Ltd.	Cayman Islands	10 million yen	Financial Services	200 shares	100%
Yensai.com Co., Ltd.	Minato-ku, Tokyo	1,100 million yen	Securities	4 thousand shares	18%
Japan Equity Capital Co., Ltd,	Chiyoda-ku, Tokyo	200 million yen	Investment Advisory	1 thousand shares	25%
JEC (NETHERLANDS) B.V.	Amsterdam, Netherlands	100 thousand Euro	Asset Management	25 thousand shares	25%
JEC (CAYMAN) LLC	Cayman Islands	30 thousand US dollars	Asset Management	7,500 shares	25%
Shanghai Daiwa SMBC-SIG Investment Consulting Co. Ltd.	Shanghai, People's Republic of China	5 million US dollars	Consulting	—	40% (see Note 9)
Seven other companies	—	—	—	—	—

Notes: 1. Indirect holding, Daiwa Securities SMBC Europe Limited holds 100% of the shares.

2. Indirect holding, Daiwa Securities SMBC Asia Holding B.V. holds 100% of the shares.

3. Indirect holding, Daiwa Securities SMBC Asia Holding B.V. holds 51% of the shares and Daiwa Securities SMBC Singapore Limited holds 49% of the shares.

4. Indirect holding, Daiwa Securities SMBC Hong Kong Limited holds 100% of the shares.

5. Indirect holding, Daiwa Securities SMBC Australia Limited holds 100% of the shares.

6. Indirect holding, Daiwa Securities SMBC Stockbroking Limited holds 100% of the shares.

7. Indirect holding, Daiwa Securities SMBC Asia Holding B.V. holds 90% of the shares.

8. Indirect holding, Daiwa Securities SMBC Asia Holding B.V. holds 60% of the shares.

9. Indirect holding, Daiwa Securities SMBC Asia Holding B.V. holds 40% of the shares.

Profile

Name: Daiwa Securities SMBC Co. Ltd.
Head Office: 3-5, Yaesu 1-chome, Chuo-ku, Tokyo 103-8289
Tel: 03-3243-2211 (reception)
President: Akira Kiyota
Paid-in Capital: ¥205.6 billion
Major Stockholders: Daiwa Securities Group Inc. (60%),
Sumitomo Mitsui Financial Group, Inc. (40%)
Business: Trading, agency and brokerage, underwriting and distribution
of securities, and related businesses
Sales Offices: Head Office, Osaka Branch, Nagoya Branch, Eitai Sales Office, and others
Overseas Offices: U.K. Subsidiary (London)/Frankfurt Branch/Paris Branch/Geneva Branch
/Milan Branch/Spain Branch/Middle East Branch
/Hong Kong (Subsidiary)/Singapore (Subsidiary)/Australia (Subsidiary)
/The Philippines (Subsidiary)/Taiwan (Subsidiary)/Seoul Branch
/Beijing Representative Office/Shanghai Representative Office



Daiwa Securities SMBC
Head Office



Eitai Sales Office



Daiwa Securities SMBC Europe

