Announcement on Consolidated Financial Statements under US GAAP

December 12, 2001

Daiwa Securities Group Inc.

The Company is presently preparing to list its shares on the New York Stock Exchange (the "NYSE"), with the aim to ensure transparency of disclosure in conformity with internationally accepted accounting standards, to further strengthen the group governance framework, and to establish its status as a global entity.

We are pleased to announce that the consolidated financial statements under US Generally Accepted Accounting Principles ("US GAAP") for fiscal 2000 ended March 31, 2001 has been completed. Comparisons between US GAAP and Japanese GAAP based on Securities and Exchange Law are provided in the attached document.

Accompanying these consolidated financial statements and the notes to consolidated financial statements is a report of independent public accountants stating that such consolidated financial statements were prepared, in all material respects, in conformity with accounting principles generally accepted in the United States and were audited in accordance with auditing standards generally accepted in the United States.

The Company is currently in the process of preparing to have its shares registered under the United States Securities Exchange Act of 1934 and listed on the NYSE. In connection with this process, these financial statements and the accompanying notes will be reviewed by the United States Securities and Exchange Commission (the "SEC") and the NYSE. In preparation of such registration and based on such review, the Company may make changes or additions to the disclosures in these financial statements and the accompanying notes to comply with the applicable regulations of the SEC and the NYSE.

Comparison of Consolidated Financial Statements under US and Japanese GAAP

December 12, 2001
Daiwa Securities Group Inc.

<Summary of Comparison for Fiscal Year ended March 31, 2001>

Billion yen

	US GAAP: (A)	Japanese GAAP: (B)	Difference: (B) –(A)
Net Income	36.5	64.5	27.9
Total Assets	7,554.9	9,250.2	1,695.2
Shareholders' Equity	560.5	716.8	156.2

<Major Difference>

1. Statement of Earnings

(1) Valuation gains or losses on securities

Valuation gains or losses on securities are directly recorded to shareholders' equity without being reflected in the statement of earnings under Japanese GAAP, while valuation gains or losses on securities are recognized on the statement of earnings in accordance with US securities dealers' accounting customs under US GAAP. A decrease in valuation gains on securities reduced net income by 36.0 billion yen under US GAAP for fiscal year ended March 31, 2001. This difference does not effect shareholders' equity.

(2) Valuation on Property

Write-down of property is required under US GAAP when due to a decline in profitability, investment on property is not expected to be recovered. For this reason the Company reduced the beginning balance of fiscal year ended March 31, 2001 retained earnings by 164.1 billion yen due to a write-down of property under US GAAP.

While, under Japanese GAAP, consequent to making the decision to withdraw from domestic third party real estate leasing, the Company wrote off property by 127.5 billion yen for the first half of fiscal year ended September 30, 2001. If the timing difference of write-off is eliminated, property carrying value under US GAAP is approximately 26.5 billion yen smaller than that under Japanese GAAP as of September 30, 2001. The approximate 26.5 billion yen gap is primarily due to a difference in accounting standards for merger and acquisitions under US GAAP and Japanese GAAP.

2. Balance Sheet

(1) Securities in Custody

Under Japanese GAAP, securities in custody, which is the contra-account of securities borrowed, has been removed from the balance sheet account in accordance with the amended "Uniform Accounting Standards of Securities Companies" (set by the board of directors of the Japanese Securities Dealers' Association, September 2001). Before this amendment, however, securities in custody of 1,556.1 billion yen was recorded on the balance sheet under Japanese GAAP as of March 31, 2001. On the other hand, under US GAAP securities in custody is treated as an off-balance sheet item. Therefore, total assets under Japanese GAAP were larger than those under US GAAP as of March 31, 2001.

(2) Securities Pledged as Collateral

Securities pledged as collateral remains classified as trading securities or investment securities under Japanese GAAP. While, pledged trading securities or investment securities is reclassified as securities pledged as collateral if the secured party has the right to sell or repledge in accordance with Statement of Financial Accounting Standards No.140 under US GAAP. No effect to total asset amount arises due to this difference.

3. Shareholders' Equity

As of March 31, 2001 shareholders' equity under US GAAP was 156.2 billion yen smaller than that under Japanese GAAP, due the write-off of property required under US GAAP, but not under Japanese GAAP. Although the Company has not prepared financial statements under US GAAP for the first half of fiscal year ended September 30, 2001, there is no reason to believe that the transactions will require the material adjustment from financial statements under Japanese GAAP to those under US GAAP. The gap between shareholders' equity under US and that under Japanese GAAP has narrowed, due to the write-off of property for the first half of fiscal 2001 as we explained in "1. (2) Valuation of Property" above. It is expected that shareholders' equity under US GAAP will be approximately 30.0 billion yen smaller than that under Japanese GAAP as of September 30, 2001.

DAIWA SECURITIES GROUP INC.

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2001

DAIWA SECURITIES GROUP INC.
CONSOLIDATED BALANCE SHEET
March 31, 2001

	Millions of Yen		Millions of U. S. Dollars	
ASSETS	2001		2001	
Cash and cash equivalents	¥	310,382	$	2,505
Time deposits		10,674		86
Cash and securities segregated				
for regulatory purposes and deposits with clearing organizations		94,516		763
Trading assets:				
Equities and convertible bonds		319,386		2,578
Japanese government and agency bonds		530,370		4,281
Non-Japanese government and agency bonds		82,470		666
Corporate debt securities		340,168		2,745
Derivative contracts		315,811		2,549
Other		31,403		253
Total trading assets		1,619,608		13,072
Securities purchased under agreements to resell		1,845,731		14,897
Securities borrowed		1,023,054		8,257
Securities pledged as collateral		1,272,649		10,272
Receivables from:				
Broker-dealers and clearing organizations		364,755		2,944
Customers		158,600		1,280
Other, net of allowance for doubtful accounts				
of ¥8,070 million ($65 million)		80,456		649
Investments in and advances to affiliated companies		23,053		186
Investments		299,710		2,419
Property, equipment and leasehold improvements, net of accumulated				
depreciation and amortization of ¥107,546 million ($868 million)		253,552		2,046
Deferred income taxes		91,414		738
Other assets		106,813		862
Total Assets	¥	7,554,967	$	60,976

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2001	Millions of U. S. Dollars 2001
Liabilities		
Short-term borrowings	¥ 999,954	$ 8,071
Trading liabilities:		
Equities and convertible bonds	93,375	754
Japanese government and agency bonds	667,766	5,389
Non-Japanese government and agency bonds	333,553	2,692
Corporate debt securities	14,834	120
Derivative contracts	300,875	2,428
Total trading liabilities	1,410,403	11,383
Securities sold under agreements to repurchase	2,451,630	19,787
Securities loaned	867,748	7,004
Payables to:		
Broker-dealers and clearing organizations	32,725	264
Customers	155,445	1,255
Other	74,922	605
Income taxes payable and deferred income taxes	45,121	364
Accrued employee compensation and benefits	62,023	500
Long-term debt	674,608	5,445
Subordinated borrowings	41,030	331
Total Liabilities	6,815,609	55,009
Commitments and contingent liabilities		
Minority interest	178,821	1,443
Shareholders' Equity		
Preferred stock, 100 million shares authorized, no shares outstanding	—	—
Common stock, ¥50 par value, 4,000 million shares authorized, 1,331,735,258 shares issued and outstanding	138,432	1,117
Additional paid-in capital	115,569	933
Retained earnings	326,038	2,631
Accumulated other comprehensive loss, net of tax	(16,823)	(136)
Common stock held in treasury, at cost, 3,627,000 shares	(2,573)	(20)
Deferred stock compensation	(106)	(1)
Total Shareholders' Equity	560,537	4,524
Total Liabilities and Shareholders' Equity	¥ 7,554,967	$ 60,976

The accompanying notes are an integral part of these consolidated financial statements.

DAIWA SECURITIES GROUP INC.
CONSOLIDATED STATEMENT OF EARNINGS
Year ended March 31, 2001

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Net Revenues:		
Commissions and fees	¥ 207,632	$ 1,676
Principal transactions	171,807	1,387
Investment banking	41,010	331
Losses on investment securities, net	(60,310)	(487)
Interest revenue and dividends	225,254	1,818
Non-securities related income	77,606	626
Other income	5,140	42
Total Revenues	668,139	5,393
Less interest expenses	(201,999)	(1,630)
Less non-securities related expenses	(52,488)	(424)
Total Net Revenues	413,652	3,339
Non-interest expenses:		
Employee compensation and benefits	144,285	1,165
Floor brokerage, communication and other transaction related costs	37,499	303
Data processing and other services	16,128	130
Occupancy and equipment	37,775	305
Taxes other than income taxes	7,610	61
Depreciation and amortization	18,217	147
Other expenses	43,877	354
Total Non-Interest Expenses	305,391	2,465
Income Before Income Taxes	108,261	874
Provision for income taxes	43,394	350
Income Before Minority Interest and Equity in Income	64,867	524
Minority interest	(28,481)	(230)
Equity in net income of affiliates	209	1
Net Income	¥ 36,595	$ 295

	Yen	U.S. Dollars
Earnings Per Share		
Basic	¥ 27.57	$ 0.22
Diluted	26.43	0.21

The accompanying notes are an integral part of these consolidated financial statements.

DAIWA SECURITIES GROUP INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended March 31, 2001

	Millions of Yen		Millions of U. S. Dollars	
	2001		2001	
Net Income		¥ 36,595		$ 295
Other Comprehensive Income, Net of tax:				
Foreign currency translation adjustment		8,854		71
Minimum pension liability :				
Minimum pension liability	(838)		(7)	
Tax benefit and minority interest	361		3	
Minimum pension liability, net		(477)		(4)
Other Comprehensive Income, Net of tax		8,377		67
Comprehensive Income		¥ 44,972		$ 362

The accompanying notes are an integral part of these consolidated financial statements.

DAIWA SECURITIES GROUP INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
Year ended March 31, 2001

Millions of Yen

	Common Stock		Additional	Retained	Accumulated Other Comprehensive Loss, net of tax		Common Stock	Deferred	Total
	Number of Shares	Amount	Paid-in Capital	Earnings	Foreign Currency Translation Adjustment	Minimum Pension Liability, Net	Held in Treasury	Stock Compensation	Shareholders' Equity
Balance at April 1, 2000	1,331,733,430	¥ 138,431	¥ 115,419	¥ 306,689	¥ (25,200)	¥ –	¥ (3,613)	¥ –	¥ 531,726
Net income	–	–	–	36,595	–	–	–	–	36,595
Dividends on common stock 13 yen per share	–	–	–	(17,246)	–	–	–	–	(17,246)
Translation adjustments	–	–	–	–	8,854	–	–	–	8,854
Minimum pension liability, net	–	–	–	–	–	(477)	–	–	(477)
Conversion of convertible bonds	1,828	1	1	–	–	–	–	–	2
Purchase of treasury stock	–	–	–	–	–	–	(278)	–	(278)
Exercise of stock options	–	–	–	–	–	–	973	–	973
Resales of treasury stock	–	–	–	–	–	–	322	–	322
Resales of treasury stock accompanied by forfeit of stock options	–	–	–	–	–	–	23	–	23
Deferred stock compensation from incentive warrants granted to employees	–	–	149	–	–	–	–	(149)	–
Amortization of deferred stock compensation expense	–	–	–	–	–	–	–	43	43
Balance at March 31, 2001	1,331,735,258	¥ 138,432	¥ 115,569	¥ 326,038	¥ (16,346)	¥ (477)	¥ (2,573)	¥ (106)	¥ 560,537

Millions of U. S. Dollars

	Common Stock		Additional	Retained	Accumulated Other Comprehensive Loss, net of tax		Common Stock	Deferred	Total
	Number of Shares	Amount	Paid-in Capital	Earnings	Foreign Currency Translation Adjustment	Minimum Pension Liability, Net	Held in Treasury	Stock Compensation	Shareholders' Equity
Balance at April 1, 2000	1,331,733,430	$ 1,117	$ 932	$ 2,475	$ (203)	$ –	$ (29)	$ –	$ 4,292
Net income	–	–	–	295	–	–	–	–	295
Dividends on common stock 13 yen per share	–	–	–	(139)	–	–	–	–	(139)
Cumulative translation adjustments	–	–	–	–	71	–	–	–	71
Minimum pension liability, net	–	–	–	–	–	(4)	–	–	(4)
Conversion of convertible bonds	1,828	0	0	–	–	–	–	–	0
Purchase of treasury stock	–	–	–	–	–	–	(2)	–	(2)
Exercise of stock options	–	–	–	–	–	–	8	–	8
Resales of treasury stock	–	–	–	–	–	–	3	–	3
Resales of treasury stock accompanied by forfeit of stock options	–	–	–	–	–	–	0	–	0
Deferred stock compensation from incentive warrants granted to employees	–	–	1	–	–	–	–	(1)	–
Amortization of deferred stock compensation expense	–	–	–	–	–	–	–	0	–
Balance at March 31, 2001	1,331,735,258	$ 1,117	$ 933	$ 2,631	$ (132)	$ (4)	$ (20)	$ (1)	$ 4,524

The accompanying notes are an integral part of these consolidated financial statements.

DAIWA SECURITIES GROUP INC.
CONSOLIDATED STATEMENT OF CASHFLOWS
Year ended March 31, 2001

	Millions of Yen		Millions of U. S. Dollars	
	2001		2001	
Cash Flows from Operating Activities				
Net income	¥	36,595	$	295
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation and amortization		18,217		147
Provision for allowance for doubtful accounts		4,935		40
Deferred income taxes		(5,078)		(41)
Net realized gains on sales of investments		(8,768)		(71)
Net unrealized losses and write off of investments		69,079		558
Net realized gains on disposition of property, equipment and leasehold improvements, net		(182)		(1)
Minority interest		28,481		230
(Increase) decrease in operating assets:				
Cash and securities segregated for regulatory purposes		149,800		1,209
Trading assets, including those under pledge		215,536		1,740
Securities purchased under agreements to resell		(1,297,351)		(10,471)
Securities borrowed		97,131		784
Receivables from brokers and dealers		(278,502)		(2,248)
Receivables from customers		222,369		1,795
Increase (decrease) in operating liabilities:				
Trading liabilities		(76,655)		(619)
Securities sold under agreements to repurchase		740,153		5,974
Securities loaned		(57,661)		(465)
Payables from brokers and dealers		7,742		62
Payables from customers		(125,109)		(1,010)
Other, net		(12,571)		(102)
Cash used in Operating Activities		(271,839)		(2,194)
Cash Flows from Investing Activities				
Purchases of investments		(160,985)		(1,299)
Proceeds from sales and maturities of investments		184,708		1,491
Purchases of property, equipment and leasehold improvements		(32,292)		(261)
Proceeds from sales of property, equipment and leasehold improvements		6,642		54
Net change in time deposits		(2,223)		(18)
Other, net		6,221		50
Cash provided by Investing Activities		2,071		17
Cash Flows from Financing Activities				
Proceeds from short-term borrowings, net		91,193		736
Repayments for long-term debt		(216,882)		(1,750)
Proceeds from long-term debt		218,109		1,760
Issuance of subsidiary's stock		2,145		17
Dividends paid		(17,276)		(139)
Other, net		(119)		(1)
Cash provided by Financing Activities		77,170		623
Effect of exchange rate changes on cash and cash equivalents		7,990		64
Decrease in cash and cash equivalents		(184,608)		(1,490)
Cash and cash equivalents, beginning of year		494,990		3,995
Cash and cash equivalents, end of year	¥	310,382	$	2,505
Supplemental Information on Cash Flows				
Interest payments	¥	206,092	$	1,663
Income tax payments		91,012		735
Non-cash financing activity - conversion of convertible bonds into equity		2		0

The accompanying notes are an integral part of these consolidated financial statements.

DAIWA SECURITIES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2001

1. Basis of Financial Statements

The consolidated financial statements include the accounts of Daiwa Securities Group Inc. (the "Company"), a Japanese corporation, and its subsidiaries (collectively "Daiwa"). Daiwa's principal subsidiaries include:

- Daiwa Securities Co. Ltd. ("Daiwa Securities")
- Daiwa Securities SB Capital Markets Co. Ltd. ("Daiwa SBCM")
- Daiwa Asset Management Co. Ltd. ("Daiwa Asset Management")
- Daiwa Institute of Research Ltd. ("DIR")
- NIF Ventures Co., Ltd. ("NIF")

Daiwa Securities is the retail-securities arm of Daiwa. This company operates through a network of 124 branches as well as non-traditional routes, including the Internet. Daiwa Securities also operates a full-fledged call center to provide telephone-based securities-related services. Daiwa SBCM is the wholesale securities company of Daiwa. Daiwa SBCM was established on April 5, 1999 as a 60%-owned joint venture with Sumitomo Bank. Daiwa Asset Management is the asset management company of Daiwa. In addition, Daiwa has several other overseas subsidiaries, mainly engaged in the securities business.

Subsequent to year end, on April 1, 2001, Sumitomo Bank and Sakura Bank merged to form Sumitomo Mitsui Banking Corporation. Associated with this merger, Sakura Securities, a securities subsidiary of Sakura Bank, was integrated into Daiwa SBCM, which was subsequently renamed to Daiwa Securities SMBC Co. Ltd. The integration of Sakura Securities was accounted for as a purchase.

Daiwa is primarily engaged in the business of a securities broker-dealer, pursuant to which Daiwa provides services including brokerage, trading, underwriting, strategic advice, product development, and structured finance. In addition, Daiwa provides various support services, including research, asset and capital management and venture capital, through a network in major capital markets.

The accounts of the Company and its domestic subsidiaries are maintained in yen and in conformity with Japanese income tax laws and accounting practices. Daiwa's foreign subsidiaries primarily maintain their accounts in conformity with the accounting practices of the countries of their domicile. The functional currency of those foreign subsidiaries is mainly the currency of their domicile.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and reflect adjustments and reclassifications which are not included in the consolidated financial statements issued by the Company or by its subsidiaries in Japan in accordance with the applicable statutory requirements and accounting practices in the countries of their incorporation. The accompanying consolidated financial statements are stated in yen. The translations of yen amounts to U.S. dollars are included solely for the convenience of the reader, using the approximate exchange rate of ¥123.90 to US $1, which was prevailing at March 31, 2001 as quoted by the Bank of Tokyo-Mitsubishi. The convenience translations should not be construed to be representative of yen amounts that have been, could have been, or could in the future be converted to U.S. dollars.

Management of the Company has made a number of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities, to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

2. Significant Accounting Policies

The accompanying consolidated financial statements of the Company and its subsidiaries have been prepared in conformity with the following accounting policies:

Principles of Consolidation
The accompanying consolidated financial statements include the accounts of the Company and companies that are controlled by the Company through direct or indirect ownership of more than 50% of the voting rights. All inter-company balances and transactions have been eliminated in consolidation.

Investments in companies of which the Company directly or indirectly owns greater than 20% are accounted for using the equity method. Certain companies of which the Company has less than 20% but greater than 15% of the voting rights and has the ability to exercise significant influence on operating and financial policies of the investees are also accounted for using the equity method.

Cash and cash equivalents
For purposes of reporting cash flows, Daiwa defines cash and cash equivalents as cash on hand, readily-available deposits and highly liquid investments with original maturities not exceeding three months.

Trading assets and liabilities
Trading assets and liabilities are recorded on a trade date basis in the consolidated balance sheet at either market value or fair value. Trading liabilities include securities and other financial instruments sold but not owned, for which Daiwa will be obligated to purchase at a future date. Market values are principally based on quoted market prices. If quoted market prices are not readily available, fair values are determined based on other relevant factors, including broker or dealer price quotations, price quotations for similar instruments, or pricing models. Changes in the market values or fair values are reflected in principal transactions in the accompanying consolidated statement of earnings. Interest revenues and dividends or interest expenses arising from financial instruments used in trading activities are reflected in the consolidated statement of earnings as interest and dividend revenues or interest expenses.

Derivative financial instruments used for trading purposes are reported at market or fair values in the consolidated balance sheet as trading assets or trading liabilities, as appropriate. Margin on futures and options contracts is included in receivables and payables, as applicable. Gains and losses generated from derivatives held or issued for trading purposes are reported as principal transactions in the consolidated statement of earnings, which includes realized gains and losses as well as changes in the market values or fair values of such instruments.

Derivatives used for hedging purposes, including foreign exchange forwards, interest rate swaps and currency swaps, are principally accounted for on an accrual basis. Gains or losses from the forward contracts are recognized as adjustments to foreign exchange gains or losses of the underlying hedged items. Both interest from the swaps and the hedged items are accrued as interest revenues or expenses over the life of their contracts. Related accruals are recognized as receivables from or payables to others in the consolidated balance sheet.

Securities financing transactions
Securities purchased under agreements to resell or securities sold under agreements to repurchase, which is principally composed of commercial paper and government or government agency securities, are treated as collateralized financing transactions and are carried at their contractual amounts plus accrued interest. It is Daiwa's policy to take possession of securities purchased under agreements to resell. Daiwa monitors the market value of the underlying collateral regularly to ensure its sufficiency as compared with the related receivable. Additional collateral is obtained where appropriate, to protect against credit exposure, as specified in the respective agreements.

Securities borrowed and loaned are treated as collateralized financing transactions and are recorded on the accompanying consolidated balance sheet at the amount of cash collateral advanced or received. These transactions are generally collateralized by cash, securities or letters of credit. Daiwa monitors the market value of the securities borrowed or loaned on a daily basis and obtains additional cash or securities, as necessary, to ensure that such transactions are adequately collateralized.

In Japan, there is a market for securities borrowing/lending transactions where no collateral is required. Daiwa is engaged in securities borrowing as a participant of the market, but does not participate as a lender of securities.

On the consolidated balance sheet, all firm-owned securities pledged to counterparties, where the counterparties have the right, by contract or custom, to sell or repledge the securities, are classified as securities pledged as collateral as required by Statement of Financial Accounting Standards ("SFAS") No. 140.

Customer transactions
Customer securities transactions are recorded on a settlement date basis. Receivables from and payables to customers include amounts due on cash and margin transactions. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected on the consolidated balance sheet.

Commissions charged for executing customer transactions and related expenses are accrued on a trade date basis and are included in current period earnings.

Investment banking activity
Underwriting revenues and fees from mergers and acquisitions are accrued when services for transactions are substantially completed. Expenses related to securities offering in which Daiwa acts as an underwriter or agent are deferred to match the related revenue recognition.

Investments
Investments made by the Company and certain subsidiaries include equity securities, debt securities, venture capital investments, investment partnerships, and funds in trust and other. Marketable investments are recorded at market value, based on quoted market prices. Non-marketable investments, including venture capital investments and investment partnerships, are recorded at fair value, based on management's estimate of realizable value. Unrealized gains or losses of investments are recognized in the consolidated statement of earnings.

Equity securities and debt securities have been acquired mainly for Daiwa's non-brokerage investment purposes and consist of marketable and non-marketable securities. Venture capital investments and investment partnerships are owned principally by an investment subsidiary of the consolidated group for the purpose of obtaining capital gains to be realized primarily through sales at the time of, or following, an initial public offerings.

Property and equipment

Property, equipment and leasehold improvements are stated at cost, net of accumulated depreciation and amortization, except for land which is reported at historical cost. Depreciation of buildings is computed by straight-line or declining-balance method over their estimated useful lives. Equipment is depreciated on a declining-balance method and leasehold improvements are amortized on a straight-line method over the lesser of the remaining term of the lease or the economic useful lives of the assets. Certain internal use direct software development costs are capitalized and amortized on a straight-line basis over their expected useful lives. Maintenance and repairs are charged to expenses as incurred, while significant improvements are capitalized.

Impairment of long-lived assets

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," long-lived assets and certain identifiable intangibles to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Where undiscounted future expected cash flow is less than the carrying amount of the assets, an impairment loss is recognized based on the fair value of the assets. Assets to be disposed of are inherent reported at the lower of carrying amount or estimated fair value less cost to sell.

Allowance for doubtful accounts

The allowance for doubtful accounts is maintained at a level that, in the judgment of management, is adequate to provide for inherent losses on receivables whose uncollectibility may be reasonably anticipated. The allowance is increased by provisions charged to income and is decreased by charge-offs, net of recoveries. In evaluating the adequacy of the allowance, management considers various factors, including current economic conditions, credit concentrations or deterioration in pledged collateral and historical loss experience. Receivables are charged off when, in the opinion of management, the likelihood of full collection is believed to be minimal. Doubtful receivables are included in receivables from others, also net of allowance for doubtful accounts, in the consolidated balance sheet.

Under SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," impaired loans are measured according to the present value of expected future cash flows discounted at the loan's original effective interest rate. As a practical expedient, impairment is measured on the basis of the loan's observable market price or the fair value of the collateral, if the loan is collateral-dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance. As of March 31, 2001, impaired loans amounted to ¥61,752 million ($498 million) and the related valuation allowance was ¥35,474 million ($286 million). These loans are included in other assets in the consolidated balance sheet, net of valuation allowance. Interest revenue is recognized on an accrual basis in the consolidated statement of earnings.

Goodwill

The cost of acquired subsidiaries and affiliates in excess of fair value of the related net assets at acquisition is recorded as goodwill and is being amortized over 5 years on a straight line basis.

Stock-based compensation

Daiwa accounts for stock-based compensation plans in accordance with the intrinsic value method prescribed by Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," rather than the fair value method as described in SFAS No. 123, "Accounting for Stock-Based Compensation." In accordance with APB No. 25, compensation cost is recognized for such plans that have intrinsic value on the date of grant.

Translation of foreign currencies
Assets and liabilities are translated at the exchange rate in effect at fiscal year-end and income and expenses are translated at the average rate of exchange prevailing during the fiscal year. The effect of translating the financial statements of subsidiaries where the functional currency is not the Japanese yen is included in accumulated other comprehensive loss. Gains or losses resulting from foreign currency transactions are included in the consolidated statement of earnings.

Income taxes
In accordance with SFAS No. 109, "Accounting for Income Taxes," deferred tax assets and liabilities are recorded for the expected future tax consequences of temporary differences between the financial reporting and the tax bases of the assets and liabilities based upon enacted tax laws and rates. Daiwa recognizes deferred tax assets to the extent they are expected to be realized. Deferred tax assets and liabilities are reported as deferred income taxes in the accompanying consolidated balance sheet. Deferred tax expenses or benefits are recognized in the consolidated statement of earnings for the changes in deferred tax liabilities or assets between years.

Earnings per share
Earnings per share of common stock is computed in accordance with SFAS No. 128, "Earnings Per Share." Earnings per share is based on the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed based on the weighted average number of common shares and share equivalents outstanding for the year.

Non-securities related income and expenses
Non-securities related income consists of revenues which are derived from subsidiaries not engaged in the broker dealer business. Non-securities related expenses are the related costs of revenues derived from non-broker dealer subsidiaries.

3. New Accounting Pronouncements

Derivatives and hedge accounting
Daiwa will adopt SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. SFAS No. 133 establishes new accounting and reporting standards for derivative instruments and hedging activities as of April 1, 2001. It requires an entity to recognize all derivatives as either assets or liabilities on the consolidated balance sheet and measure those derivatives at fair value. The accounting for the gains and losses resulting from changes in fair value of those derivatives depends on the intended use of the derivative and whether it qualifies for hedge accounting.

Currently, the majority of Daiwa's derivative instruments are recognized at fair value as trading assets and liabilities, as these transactions are entered into for trading purposes. However, Daiwa also enters into derivative contracts to hedge its exposure relating to non-trading assets and liabilities, which are recorded on an accrual basis, as described above under Note 2 "Significant Accounting Policies." The new standard requires adjustments to be made to the carrying value of such derivatives upon initial adoption of SFAS No. 133. Daiwa estimates that it will record an after tax decrease to other comprehensive income of approximately ¥378 million ($3 million). Daiwa does not anticipate the impact on net income of non-trading derivatives will be material.

Accounting for transfers and servicing of financial assets and liabilities

In September 2000, the Financial Accounting Standards Board ("FASB") has issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125." This statement revises certain criteria promulgated in previous accounting literature for accounting for securitizations and other transfers of financial assets and collateral, and requires additional disclosures concerning these activities. The accounting requirements of SFAS No. 140 for securitizations and other transfers of financial assets are effective for these activities occurring on or after April 1, 2001. Applicable disclosure requirements and certain reclassification requirements on the financial statements for fiscal years ending after December 15, 2000, have been incorporated. The effect of adopting SFAS No. 140 provisions, which will become applicable to Daiwa after April 1, 2001, is not anticipated to have a material impact on Daiwa's consolidated financial statements.

4. Financial Instruments

Trading transactions

Revenues from Daiwa's trading transactions, including derivative transactions, for the year ended March 31, 2001, are as follows:

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Fixed income	¥ 38,481	$ 311
Equity	130,522	1,053
Foreign exchange and other derivatives	2,804	23
Total	¥171,807	$1,387

Financial instruments with off-balance-sheet risk

Daiwa enters into various transactions involving derivatives and other off-balance-sheet financial instruments. These financial instruments include futures, forward and foreign exchange contracts, exchange-traded and over-the-counter options, and interest rate and foreign currency swap agreements. These derivative financial instruments are used to meet the needs of customers, conduct trading activities, and manage market risks and are, therefore, subject to varying degrees of market and credit risk. Derivative transactions are entered into for trading purposes or to hedge other positions or transactions.

Futures and forward contracts provide for the delayed delivery of the underlying instruments. As a writer of options, Daiwa receives a premium in exchange for giving the counterparty the right to buy or sell the security at a future date at a contracted price. Interest rate swaps involve the exchange of payments based on fixed or floating rates applied to notional amounts. The notional or contractual amounts related to these financial instruments reflect the volume and activity and do not reflect the amounts at risk. Futures contracts are executed on an exchange, and cash settlement is made on a daily basis for market movements. Accordingly, futures contracts generally do not have credit risk. The credit risk for forward contracts, options, and swaps is limited to the unrealized market valuation gains recorded in the consolidated balance sheet. Market risk is substantially dependent upon the value of the underlying financial instruments and is affected by market forces such as volatility and changes in interest and foreign exchange rates.

In addition, Daiwa has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. Daiwa has recorded these obligations in the consolidated financial statements at March 31, 2001, at the market value of the related securities and will incur a loss if the market value of the securities increases subsequent to March 31, 2001.

In the normal course of business, Daiwa's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose Daiwa to off-balance-sheet risk in the event the customer or the other broker is unable to fulfill its contractual obligations and thus, Daiwa has to purchase or sell the financial instrument underlying the contract at a loss.

Daiwa's customer securities activities are transacted on either a cash or margin basis. In margin transactions, Daiwa extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these activities, Daiwa executes and clears customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose Daiwa to significant off-balance-sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, Daiwa may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations.

Daiwa seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. Daiwa monitors required margin levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions when necessary.

Daiwa's customer financing and securities settlement activities require Daiwa to pledge customer securities as collateral in support of various securities financing transactions. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, Daiwa may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations. Daiwa controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. Furthermore, Daiwa establishes credit limits for such activities and monitors compliance on a daily basis.

Derivative financial instruments used for trading purposes

As of March 31, 2001, the gross notional or contractual amounts of derivative financial instruments used for trading purposes are as follows:

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Interest rate:		
Swap agreements	¥26,409,188	$213,149
Futures and forward contracts	507,785	4,098
Options held	260,013	2,099
Options written	377,234	3,045
Foreign exchange:		
Swap agreements	380,099	3,068
Futures and forward contracts	660,501	5,331
Options held	4,156	34
Options written	3,656	29
Equity:		
Swap agreements	76,860	620
Futures and forward contracts	689,104	5,562
Options held	664,407	5,362
Options written	742,422	5,992
Other	8,811	71
Total	¥30,784,236	$248,460

The notional or contractual amount of derivatives reflects the level of activity in these instruments and do not represent the amount of market or credit risks. Daiwa's exposure to credit risk on derivative instruments is generally limited to the net replacement cost, which is measured by the fair value of the product in a gain position.

The remaining maturities of notional or contractual amounts outstanding for derivatives financial instruments are as follows:

	2001 (Millions of Yen)				
	Less than 1 year	1 to 3 years	3 to 5 years	Greater than 5 years	Total
Swap agreements	¥ 9,234,031	¥7,542,512	¥4,726,559	¥5,363,045	¥26,866,147
Futures and forward contracts	1,857,216	174	—	—	1,857,390
Options held	899,378	29,198	—	—	928,576
Options written	1,085,333	33,924	4,055	—	1,123,312
Other	1,408	2,703	4,700	—	8,811
Total	¥13,077,366	¥7,608,511	¥4,735,314	¥5,363,045	¥30,784,236
Percent of total	42.5	24.7	15.4	17.4	100.0

	2001 (Millions of U. S. Dollars)				
	Less than 1 year	1 to 3 years	3 to 5 years	Greater than 5 years	Total
Swap agreements	$ 74,528	$60,876	$38,148	$43,285	$216,837
Futures and forward contracts	14,990	1	—	—	14,991
Options held	7,259	236	—	—	7,495
Options written	8,760	273	33	—	9,066
Other	11	22	38	—	71
Total	$105,548	$61,408	$38,219	$43,285	$248,460

The fair value and the average monthly fair value of derivatives financial instruments held or issued for trading purposes as of March 31, 2001, are as follows:

	2001 (Millions of Yen)			
	Fair value at year-end		Average month-end fair value	
	Assets	Liabilities	Assets	Liabilities
Swap agreements	¥263,934	¥252,488	¥153,629	¥139,072
Futures and forward contracts	8,826	8,329	13,467	5,316
Options held	43,022	—	31,715	—
Options written	—	40,049	—	25,376
Other	29	9	28	40
Total	¥315,811	¥300,875	¥198,839	¥169,804

	2001 (Millions of U. S. Dollars)			
	Fair value at year-end		Average month-end fair value	
	Assets	Liabilities	Assets	Liabilities
Swap agreements	$2,130	$2,038	$1,240	$1,122
Futures and forward contracts	72	67	109	43
Options held	347	—	256	—
Options written	—	323	—	205
Other	0	0	0	0
Total	$2,549	$2,428	$1,605	$1,370

The following table summarizes the credit quality of Daiwa's derivatives by counterparty credit ratings and contract replacement costs (*1) of contracts in a gain position at March 31, 2001.

Rating (*2)	Millions of Yen 2001	Millions of U. S. Dollars 2001
AAA	¥ 24	$ 0
AA	29,564	239
A	41,765	337
BBB	17,731	143
BB	1,502	12
Other (*3)	97	1
Total	¥90,683	$732

(*1) Replacement costs, net of collateral, are reported on a net basis when Daiwa considers that a legal right of set-off exists.
(*2) Rating Agency Equivalent
(*3) "Other" indicates counterparties for which no rating was available. It does not necessarily indicate that the counterparty credit rating is below investment grade.

When entering into derivative transactions with counterparties, Daiwa may be subject to bilateral collateral agreements ("Collateral Agreements"). The Company monitors the fair value of its derivative transactions on a daily basis, with additional collateral obtained or refunded as necessary. If these Collateral Agreements allow the counterparty to repledge Daiwa's proprietary securities, such securities pledged are separately recorded on the consolidated balance sheet as securities pledged as collateral. Cash collateral is recorded as a receivable from or payable to the counterparty. Securities collateral received under these Collateral Agreements is not recorded on the consolidated balance sheet.

As of March 31, 2001, Daiwa has pledged ¥17,554 million ($142 million) and ¥7,967 million ($64 million) of cash and securities collateral, respectively, and has received ¥6,504 million ($52 million) and ¥4,600 million ($37 million) of cash and securities collateral, respectively, under these Collateral Agreements. These cash and securities may be resold or repledged.

Derivative financial instruments used for non-trading purposes

Daiwa enters into derivative contracts, such as foreign exchange forwards, interest rate swaps and currency swaps to mitigate risks associated with its long-term loans or debt by hedging interest rate or exchange rate exposure of such financial instruments for the purpose of asset and liability management.

Gains and losses on these non-trading derivatives are deferred and recognized over the life of the derivative contract. Additionally, gains and losses resulting from early termination of these derivatives are also deferred and recognized over the underlying asset or liability. If the underlying asset or liability is terminated prior to its maturity, gains and losses on the hedging derivative are immediately recognized in the consolidated statement of earnings.

As of March 31, 2001, the notional amounts of derivatives used for non-trading purposes are as follows:

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Foreign exchange forwards	¥ 42,159	$340
Interest rate swaps	68,956	557
Currency swaps	12,231	99
Total	¥123,346	$996

Fair value of financial instruments

Most of Daiwa's financial instruments are reported in the consolidated balance sheet at market or fair value. Except for long-term borrowings, long-term notes payable and convertible bonds, the carrying amounts of other financial instruments approximate its fair values because of the short term nature of these instruments and/or because variable interest rates are applied to these instruments. Fair value for long-term borrowings is estimated using discounted cash flows.

The fair value of Daiwa's long-term notes payable, subordinated borrowings and convertible bonds is based on current market prices, or based on a discounted cash flow model if market prices are not available. The fair value of Euro Medium Term Notes included in long-term notes payable, excludes the value of features that link the payments or redemption values to interest rates, foreign currency rates or the performance of a specific equity index (e.g., the Nikkei 225) – see Note 9. The fair value of Global Medium Term Notes, included in long-term notes payable, includes the value of features that convert these medium-term borrowings to achieve LIBOR based funding – see Note 9.

The following table shows the estimated fair values of these financial instruments at March 31, 2001.

	Millions of Yen		Millions of U. S. Dollars	
	2001		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
Long-term borrowings	¥235,086	¥237,273	$1,897	$1,915
Long-term notes payable	303,827	310,819	2,452	2,509
Convertible bonds	135,695	164,050	1,096	1,324
Total	¥674,608	¥712,142	$5,445	$5,748
Subordinated borrowings	¥ 41,030	¥ 43,977	$ 331	$ 355

Derivatives used for non-trading purposes are principally accounted for on an accrual basis. Fair value for non-trading derivatives is estimated using a discounted cash flow pricing model. The following table shows the estimated fair values of these financial instruments at March 31, 2001.

	Millions of Yen		Millions of U.S. Dollars	
	2001		2001	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange forwards	¥ 214	¥ 24	$ 2	$ 0
Interest rate swaps	1,966	1,208	16	10
Currency swaps	865	207	7	2

Concentrations of credit risk

Daiwa is engaged in various trading and brokerage activities in which counterparties primarily consist of broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, Daiwa may be exposed to credit risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the financial instrument. It is Daiwa's policy to review, as necessary, the credit standing of each counterparty.

Concentrations of credit risk from financial instruments, including contractual commitments, exist when groups of issuers or counterparties have similar business characteristics or are engaged in similar activities which would cause their ability to meet their contractual commitments, in a similar manner, by adverse changes in the economy or other market conditions. Daiwa's largest single concentration of credit risk is with securities issued by the Japanese government, of which Daiwa directly owns ¥796,239 million ($6,426 million) and has received as collateral ¥1,389,675 million ($11,216 million) at March 31, 2001.

Risk management

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

The principal risks inherent in trading in these markets are market risk and credit risk. Market risk represents the potential for loss from changes in the value of financial instruments due to price and interest rate fluctuations in the markets. To manage its market risk, the securities subsidiaries determine the risk amount and profitability of each instrument by the use of a value-at-risk model. Credit risk represents the potential loss arising from the failure of the counterparty to fulfill its contractual obligations. The securities subsidiaries assess the credit risk of their counterparties by applying internal credit rating and monitor their exposure in terms of notional amount and credit exposure.

Daiwa SBCM has established five risk management policies: active management participation, system of internal supervision, sound management by setting risk limits; risk management assuming emergency; and transparency in risk management process. By complying with these five policies, Daiwa SBCM expects that risks associated with trading activities will be adequately controlled within a range which management is willing to assume.

5. Securities Financing Transactions

Daiwa is engaged in secured borrowing and lending transactions to finance trading inventory, to obtain securities for settlement, and to fulfill its customers' needs. As of March 31, 2001, receivables and payables under agreements to resell or repurchase and securities borrowed or loaned are as follows:

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Securities purchased under agreements to resell	¥1,845,731	$14,897
Securities borrowed	1,023,054	8,257
Total	¥2,868,785	$23,154
Securities sold under agreements to repurchase	¥2,451,630	$19,787
Securities loaned	867,748	7,004
Total	¥3,319,378	$26,791

Under these securities financing transactions, Daiwa either receives or pledges securities. As of March 31, 2001, the market values of securities received and pledged under such securities financing transactions are as follows:

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Market value of securities received	¥5,659,563	$45,678
Market value of securities pledged	5,532,478	44,653

Market value of securities received in the table above includes those borrowed with no collateral, in the amount of ¥579,223 million ($4,675 million).

Daiwa receives collateral securities as part of its these securities financing transactions and of other transactions. Daiwa has the right to resell or repledge many of these collateralized securities, which were not recorded in the consolidated balance sheet in accordance with industry practice.

As of March 31, 2001, Daiwa has the right to sell or repledge ¥5,664,162 million ($45,716 million) of securities it has received under the securities financing transactions mentioned above or as a collateral under derivative transactions, in addition to those received as collateral under customer margin transactions. Most of these repledged securities are used to secure repurchase agreements, to enter into securities lending transactions or to deliver to counterparties to cover short positions. As of March 31, 2001, ¥4,381,168 million ($35,361 million) of securities was either sold or repledged.

Included in securities pledged, ¥1,272,649 million ($10,272 million) of securities are of proprietary positions. These securities are separately recorded on the consolidated balance sheet as securities pledged as collateral, as Daiwa's counterparties have the right by contract or custom to sell or repledge the securities pledged.

6. Pledged Assets and Collateral

Information regarding pledged assets at March 31, 2001, other than those disclosed in Notes 4 and 5, are as follows:

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Trading assets	¥435,869	$3,518
Investments	41,496	335
Property	53,393	431
Other assets	7,810	63
Total	¥538,568	$4,347

Trading assets and investments are pledged to clearing organizations for securing securities settlement. Property and other assets are pledged to secure bank loans.

7. Investments

Investments at March 31, 2001 consists of the following:

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Equity securities	¥109,502	$ 884
Debt securities	9,433	76
Venture capital investments and investment partnerships	61,398	496
Funds in trust and other	119,377	963
Total	¥299,710	$2,419

Net unrealized losses from these investments reported in the consolidated statement of earnings as of March 31, 2001, were ¥62,529 million ($505 million).

The proceeds and gross realized gains and losses from the sale of investments are as follows:

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Proceeds	¥42,745	$345
Gross realized gains	11,210	90
Gross realized losses	5,321	43

8. Property, Equipment and Leasehold improvements

Property and equipment, net of accumulated depreciation and amortization, at March 31, 2001 consisted of the following:

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Land	¥ 87,198	$ 704
Buildings	94,423	762
Equipment and leasehold improvements	30,015	242
Software	33,917	274
Other	7,999	64
Total	¥253,552	$2,046

In prior years, based on a comprehensive review of the long-lived assets, Daiwa recognized impairment loss of ¥164,195 million ($1,325 million) on certain land and buildings. Based on further review during the year ended March 31, 2001, no additional assets were deemed to be impaired.

Included in land and buildings is approximately ¥31 billion ($250 million) in real estate properties that Daiwa holds for domestic third party leasing purposes. On October 26, 2001, Daiwa decided to withdraw from its domestic third party real estate leasing business and sell most of such properties. Management anticipates that the liquidation proceeds will approximate current book value.

9. Short-term Borrowings, Long-term Debt and Subordinated Borrowings

Short-term borrowings

Daiwa maintains borrowing facilities with banks and other financial institutions together with the issuance of commercial paper to support general liquidity needs. Short-term borrowing at March 31, 2001 consisted of the following:

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Commercial paper	¥516,300	$4,167
Bank loans	369,539	2,983
Loans from other financial institutions	114,115	921
Total	¥999,954	$8,071

Daiwa's weighted average interest rates on its short-term borrowings, which include bank and other loans and commercial paper, was 0.72 % at March 31, 2001.

Long-term debt

Long-term debt consists of borrowings from financial institutions and Japanese yen denominated bonds and notes with both floating and fixed interest rates. Long-term debt may have risk exposures, including both interest rate and currency. From the viewpoint of asset and liability management, Daiwa uses non-trading derivatives to reduce this risk exposures.

Included in long-term debt, in the accompanying consolidated balance sheet, Daiwa issues medium-term notes under two programs referred to as the Euro Medium Term Note Program and Global Medium Term Note Program. Under both programs medium term notes are offered to investors in a customized form to meet the requirements of customers.

Notes issued under the Euro Medium Term Note Program, authorized at ¥200 billion ($1.6 billion), include features whereby payments and redemption values are linked to interest rates, foreign currency exchange rates or the performance of specific equity indices (e.g., the Nikkei 225). Such notes may also contain provisions where Daiwa or the holder has the option to redeem the notes at specified dates prior to maturity. Such options may be exercised depending on the market level of interest rates, foreign currency exchange rates, specify equity indices, etc. For risk management purposes these derivative features are separately accounted for and are included as part of Daiwa's trading positions. The market risk inherent in these derivative positions is managed as part of Daiwa's overall trading position.

Notes issued under the Global Medium Term Note Program, authorized at $5,000 million, include features whereby most of the relevant interest rate exposures are hedged by separate derivative instruments to achieve LIBOR based funding. Currency risk is also hedged by separate derivative instruments. These derivative positions are accounted for on an accrual basis to match the related interest expense of the underlying note.

Increase of MTN Program Facility

Pursuant to the resolution of the Board of Directors' meeting on November 5, 2001, the facility to issue Euro Medium Term Note Program was increased. On November 16, 2001, Daiwa SMBC increased its MTN Program facility from ¥200 billion, as mentioned above, to ¥400 billion. Outstanding notes under this program increased to ¥186,306 million ($1,504 million) as of November 30, 2001.

Long-term debt at March 31, 2001 consisted of the following:

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Convertible bond payable in yen, convertible into common stock at ¥3,035.90 per share : 1.5% due 2002	¥ 19,440	$ 157
Convertible bond payable in yen, convertible into common stock at ¥2,367.00 per share : 1.4% due 2003	36,269	293
Convertible bond payable in yen, convertible into common stock at ¥1,094.00 per share : 0.5% due 2006	79,986	646
Bond payable in yen, 1.4% due 2005	100,000	807
Warrant bond payable in yen, 1.37% due 2004 *	8,400	68
Notes payable in yen issued by subsidiaries :		
4.8% Euro-yen bond due 2002	2,978	24
2.0% Euro-yen bond due 2002	80,000	646
Euro medium-term notes issued by a subsidiary, Maturities through 2013	77,600	626
Global medium-term notes issued by foreign subsidiaries, Maturities through 2008	34,574	279
Borrowings from financial institutions at interest rates ranging From 0.3% to 4.3%, maturities through 2008	235,086	1,897
Others	275	2
Total	¥674,608	$5,445

* This detachable warrant bond was issued for the purpose providing an incentive warrant plan - see Note 11.

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Fixed rate obligations*	¥459,379	$3,708
Floating rate obligations**	103,055	832
Medium-term notes	112,174	905
Total	¥674,608	$5,445

* Fixed-rate obligations denominated in Japanese yen will mature between 2001 to 2008 and bear interest at rates ranging from 0.5% to 4.3%.

** Floating interest rates are generally based on inter-bank offered rates or long-term prime interest rates.

The effective weighted average interest rates for long-term debt, after taking into account the impact of interest rate and currency swaps was 1.47% as of March 31, 2001.

The aggregate annual maturities of long-term debt are as below:

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
2002	¥134,149	$1,083
2003	137,304	1,108
2004	114,414	923
2005	15,062	122
2006	112,270	906
2007 and thereafter	161,409	1,303
Total	¥674,608	$5,445

Subordinated borrowings

Subordinated borrowings are available for computing net worth under the net capital adequacy requirements of the Financial Services Agency in Japan. As of March 31, 2001, the interest rate on subordinated borrowings in the amount of ¥40 billion ($323 million), due 2004, was 2.5%. The interest rate exposure for the remaining balance of ¥1 billion ($8 million), due 2005, is hedged by derivative financial instruments to achieve LIBOR based funding.

Credit facilities

Daiwa has a committed, senior unsecured revolving credit facilities totaling ¥190 billion ($1,533 million) under agreements with several banks. These agreements contain covenants requiring Daiwa to keep specified levels of net worth or credit ratings, as defined in the agreements. There was no utilization under this facility during the year ended March 31, 2001.

Daiwa monitors the credit quality of the banks and renews annually or semi-annually the amounts and terms of these credit facilities.

10. Retirement Benefits

Retirement benefits for employees
Daiwa has various retirement benefit plans for eligible employees as follows:

a. Unfunded plan
Prior to the year ended March 31, 2001, in connection with the Company's reorganization to the holding company structure, the Company and certain domestic consolidated subsidiaries canceled all their employees' retirement benefit plans, both unfunded and funded, and liquidated their plan assets in order to pay retirement benefits to entitled employees in the amount which would be required if they involuntarily terminated their employment as of the dates when the plan assets had been liquidated. Subsequent to the Company's reorganization to the holding company structure, Daiwa provides an unfunded plan to its employees in return for services rendered each year, where the amount to be contributed to the individual employee's account is defined rather than the amount of pension benefits the employee is to receive. Under this unfunded plan, pension benefits are accumulated on an annual basis by contribution of Daiwa and earns a guaranteed hypothetical return at a rate of which Daiwa predetermines each year. Contributions to this unfunded plan are included in accrued employee compensation and benefits in the consolidated balance sheet. The amount of benefit expense recognized for this unfunded plan was ¥5,099 million ($41 million) for the year ended March 31, 2001. The balance of the unfunded plan included in accrued employee compensation and benefits in the consolidated balance sheet as of March 31, 2001 was ¥7,309 million ($59 million).

b. Closed funded plan
In connection with the reorganization, the funded plan has been changed to a closed funded plan since April 1, 1999 primarily for existing vested retired employees.

Retirement benefits as of March 31, 2001 consisted of the following:

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Change in accumulated benefit obligations:		
Benefit obligation at beginning of year	¥ 9,827	$79
Interest cost	289	2
Benefits paid	(791)	(6)
Benefit obligation at the end of year	9,325	75
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	9,827	79
Actual return on plan assets	(762)	(6)
Benefits paid	(791)	(6)
Fair value of plan assets at the end of year	8,274	67
Funded status	(1,051)	(8)
Unrecognized net actuarial loss	838	7
Net accrued pension liabilities	(213)	(1)
Minimum pension liability adjustment	(838)	(7)
Accrued benefit cost	¥(1,051)	$ (8)

Due to the nature of this closed funded plan, future compensation levels are not required to be taken into account for the purpose of calculating the projected benefit obligation. Thus, the accumulated benefit obligation equals the projected benefit obligation.

The provisions of SFAS No. 87 requires the recognition of an additional minimum liability for which the accumulated benefit obligation exceeds the plan assets. This liability has been recorded is accrued employee compensation and benefits in the consolidated balance sheet. The total amount of additional minimum liability has been recorded as a component of accumulated other comprehensive loss, net of tax, at March 31, 2001.

The following expense relate to the closed funded plan is included in the consolidated statement of earnings for the year ended March 31, 2001.

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Interest cost on accumulated benefit obligations	¥ 289	$ 2
Expected return on plan assets	(286)	(2)
Amortization of net actuarial loss	210	2
Net periodic pension cost	¥ 213	$ 2

The actuarial assumptions used in calculating the projected benefit obligations at March 31, 2001 are as follows:

	2001
Discount rate	3.0%
Expected return on plan assets	3.0%

c. Multiemployers' pension plan

The Company and its certain domestic consolidated subsidiaries are members of a industry-wide non-contributory welfare pension plan administered by the Securities Companies' Welfare Pension Fund, in conjunction with the contributory governmental welfare pension plan. The plan asset for the non-contributory welfare pension plan and the contributory governmental welfare pension plan is not controlled or administered by Daiwa. Amounts contributed to the plan and charged to pension expense were approximately ¥2,080 million ($17 million) for the year ended March 31, 2001.

For the past several years, the plan's fund has experienced a low rate of performance due to adverse conditions in Japan's fund management environment, including low interest rates and declining stock prices in the Japanese market. Management estimated, based on analysis of currently available information, Daiwa's portion of the difference between the projected future benefit obligation and the fair value of the plan assets has become material. As such, Daiwa had established a reserve for this potential unfunded obligation of ¥28,442 million ($230 million) as of March 31, 2001.

On September 29, 2001, the Company and its certain domestic consolidated subsidiaries withdrew from this non-contributory welfare pension plan. Please refer to Note 18 "Subsequent Event."

Retirement benefits for directors

Daiwa recognizes retirement benefits for directors on an accrual basis. Directors' retirement benefits of ¥1,889 million ($15 million) are included in accrued employee compensation and benefits of the accompanying consolidated balance sheet as of March 31, 2001.

11. Employee Incentive Plans

The Company accounts for its stock option plan using the intrinsic value method prescribed by APB No. 25, as permitted by SFAS No. 123. Under the provisions of APB No. 25, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of grant over the amount an employee must pay to acquire the stock.

Stock option plan

On June 25, 1998, the shareholders of the Company approved a stock option plan granted to Daiwa's directors and key employees to purchase treasury shares of the Company. The Company had been authorized to purchase up to 6 million shares in connection with this stock option plan. Options were granted on March 30, 1999, and are exercisable during the period from July 1, 2000 to June 20, 2003, at the exercise price of ¥667 ($5.3).

Pursuant to APB No. 25, no compensation expense was recognized under this plan.

The activity of this stock options plan for the year ended March 31, 2001 is set forth below:

	Number of shares	Weighted Average Exercise Price Yen	Weighted Average Remaining Life Years
Outstanding at beginning of year	5,004,000	¥667	3.22
Granted	—	—	—
Exercised	1,382,000	667	—
Forfeited or Expired	33,000	—	—
Outstanding at end of year	3,589,000	¥667	2.22

Incentive warrant plan

The Company also provides an incentive warrant plan to Daiwa's eligible employees and directors. Under this plan, the Company granted warrants to purchase 6,216,000 shares by repurchasing warrants attached to a warrant bond issued on August 24, 2000. These warrants will be exercisable during the period from September 2, 2002 to August 23, 2004, at an exercise price of ¥1,345 ($10.9) per share.

Pursuant to APB No. 25, the Company recognized compensation expense of ¥44 million ($355 thousand) related to this plan.

The fair value of warrants granted during the year ended March 31, 2001 was ¥322 ($2.6) per share. Fair value was estimated as of the grant date based on a Black-Scholes option pricing model using the following assumptions:

	2001
Risk-free interest rate	1.06%
Expected life	4 years
Expected volatility	30.0%
Dividend yield	0.95%

The activity of this plan for the year ended March 31, 2001 is set forth below:

	Number of shares	Weighted Average Exercise Price	Weighted Average Remaining Life
		Yen	Years
Outstanding at beginning of year	-	-	-
Granted	6,216,000	¥1,345	3.40
Exercised	-	-	-
Forfeited or Expired	-	-	-
Outstanding at end of year	6,216,000	¥1,345	3.40

Pro forma effect of SFAS No. 123

Had the Company elected to apply the fair value method prescribed by SFAS No. 123 for the stock option plan and the incentive warrant plan, the net income and earnings per share as of March 31, 2001 would be as follows:

	Millions of Yen	Millions of U. S. Dollars
Net income		
As reported	¥36,595	$295
Pro forma	34,593	279
	Yen	U. S. Dollars
Basic earnings per share		
As reported	¥27.57	$0.22
Pro forma	26.06	0.21
Diluted earnings per share		
As reported	26.43	0.21
Pro forma	25.00	0.20

12. Income Taxes

The components of the provision for income taxes reflected on the consolidated statement of earnings are as follows:

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Current:		
Domestic	¥48,074	$388
Foreign	800	6
Total	48,874	394
Deferred:		
Domestic	(5,429)	(44)
Foreign	(51)	(0)
Total	(5,480)	(44)
Total provision for income taxes	¥43,394	$350

A reconciliation of statutory income tax rate in Japan to Daiwa's effective income tax rate is as follows:

	2001
Statutory income tax rate	42.1 %
Impact of:	
Valuation allowance	6.4
Lower tax rate applicable to income of foreign subsidiaries	(5.1)
Other, net	(3.3)
Effective income tax rate	40.1 %

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities. These temporary differences result in taxable or deductible amounts in future years and are measured using the tax rates and laws that will be in effect when such differences are expected to reverse. Details of deferred tax assets and liabilities as of March 31, 2001 are as follows:

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Deferred tax assets:		
Net operating losses carry forward	¥ 71,910	$ 580
Inter-company profit	52,585	424
Impairment loss	35,272	285
Employee Compensation and benefit plans	19,809	160
Other	31,354	253
Gross deferred tax assets	210,930	1,702
Less: valuation allowance*	(114,113)	(921)
Total deferred tax assets	96,817	781
Deferred tax liabilities		
Unrealized gain on investment securities	15,121	122
Other	4,806	38
Total deferred tax liabilities	19,927	160
Net deferred tax assets	¥ 76,890	$ 621

* The valuation allowance mainly relates to deferred tax assets of net operating losses carried forward for tax purposes that are not expected to be realized.

Net deferred tax assets and liabilities at March 31, 2001 are reflected in the accompanying consolidated balance sheet under the following captions:

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Deferred income taxes	¥91,414	$738
Income taxes payable and deferred income taxes	14,524	117
Net deferred tax assets	¥76,890	$621

Net operating losses carried forward are available to reduce future income taxes. Certain subsidiaries have recognized deferred tax assets from net operating losses carried forward totaling ¥71,910 million ($580 million) as of March 31, 2001. Daiwa's operating losses expire in various years after 2002.

Cumulative undistributed earnings of foreign subsidiaries were approximately ¥17,830 million ($144 million) as of March 31, 2001. No deferred tax liabilities have been provided for these undistributed earnings. Except to the extent such earnings can be repatriated tax-efficiently, they are permanently invested abroad.

13. Other Commitments and Contingent Liabilities

Litigation

In the normal course of its business, Daiwa is subject to ongoing legal risk including lawsuits and other legal proceeding. The management of Daiwa believes that the ultimate resolution of such litigation will not, in the aggregate, have a material adverse effect on Daiwa's consolidated financial statements.

Commitments and guarantees

As provided in the following table, as of March 31, 2001, Daiwa enters into contractual commitments to extend credit and has guarantees principally to banks for housing loans of its employees.

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Commitments	¥1,771	$14
Guarantees	6,774	55
Total	¥8,545	$69

Additionally, a subsidiary of Daiwa engaged in the business of credit card loan has commitments to extend credit for consumer loans in the amount of ¥10,828 million ($87 million). Commitments to extend credit arise from agreements to extend to customers unused lines of credit on certain credit cards.

Leases

Daiwa has obligations under capital and operating lease agreements, principally for office space and equipment. Presented below is a schedule of minimum future rentals under operating leases with initial or remaining terms exceeding one year:

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
2002	¥13,534	$109
2003	11,340	92
2004	8,855	72
2005	8,304	67
2006	7,728	62
2007 and thereafter	30,485	246
Total	¥80,246	$648

Certain lease agreements contain renewal options and escalation clauses resulting from increased assessments for real estate taxes and other charges. Rent expense during the year ended March 31, 2001 was ¥24,477 million ($198 million).

14. Shareholders' Equity

Under the Commercial Code of Japan, certain issuance of common shares, including conversions of debt issued and exercise of warrants, are required to be credited to the common stock account for at least the greater of par value or 50% of the proceeds. The Commercial Code of Japan permits, upon approval of the Board of Directors, transfer of amounts from additional paid-in capital to the common stock account. Also under the Commercial Code of Japan, a plan for appropriation of retained earnings proposed by the Company's Board of Directors must be approved at a shareholders' meeting which is held within three months from the end of each fiscal year, as prescribed by the Articles of Incorporation of the Company.

Changes in retained earnings for the fiscal year reflected in the accompanying consolidated statement of changes in shareholders' equity represent the results of such appropriations approved by the shareholders.

In addition, under the Commercial Code of Japan, the Company has transferred 50% of the conversion proceeds of convertible debt to common stock and the remainders to the additional paid-in capital.

15. Earnings Per Share

Earnings per share is calculated as follows:

	2001
Weighted average common shares outstanding	1,327,472,109
Effect of dilutive securities:	
Stock options	–
Stock incentive warrant	–
Convertible bonds	73,114,031
Diluted shares	1,400,586,140

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Net income applicable to common stock	¥36,595	$295
Effect of dilutive securities	419	3
Adjusted for diluted computation	¥37,014	$298

	Yen	U. S. Dollars
	2001	2001
Net income per share		
Basic	¥27.57	$0.22
Diluted	26.43	0.21

16. Regulatory Requirements and Dividends Limitation

Daiwa Securities and Daiwa SBCM, registered broker-dealers, are subject to capital adequacy requirements under the government ordinance, prescribed by the Financial Services Agency. Pursuant to this rule, the minimum required net worth, which includes subordinated liabilities and other adjustments for illiquid assets, is expected to exceed 140% of the aggregate amount of risk-based assets, which are determined based on various categories of risk weights assigned to different types of assets and off-balance sheet exposures, as defined. As of March 31, 2001, the capital adequacy ratios of Daiwa Securities and of Daiwa SBCM are 251.3% and 364.7%, respectively.

A subsidiary located in the United States of America (“DSA”) is subject to the Securities Exchange Commission (“SEC”) Uniform Net Capital Rule 15c3-1 (the “Rule”), which requires the maintenance of minimum net capital. DSA has elected to use the alternative method, permitted by the Rule, which requires that DSA maintain minimum net capital, as defined, equal to the greatest of $250,000 or 2% of aggregate debit balances arising from customer transactions, as defined, or 4% of the funds required to be segregated pursuant to the Commodities Exchange Act, and the regulations thereunder. At March 31, 2001, DSA had net capital of $190 million, which is $186 million in excess of the minimum net capital required under the Rule.

A subsidiary in the United Kingdom (“DSEL”), a registered broker-dealer, is subject to the capital requirements of the Securities and Futures Authority (“SFA”) of the United Kingdom. Other subsidiaries are also subject to various regulatory requirements that may limit cash dividends and advances to Daiwa and that establish minimum capital requirements. At March 31, 2001, these subsidiaries were in compliance with all applicable regulatory capital adequacy requirements.

The amount of retained earnings available for dividends under the Commercial Code of Japan is based on the amount recorded in the Company’s statutory books of account, which are maintained in accordance with generally accepted accounting principles in Japan. The adjustments incorporated in the consolidated financial statements but not recorded in the statutory books of account have no effect on the determination of retained earnings available for dividends under the Commercial Code of Japan. The balance of the total amount of retained earnings available for dividends in the Company’s statutory book of account as of March 31, 2001 amounted to ¥432,041 million ($3,487 million).

Additionally the Securities and Exchange Law of Japan requires all securities companies to maintain a special purpose reserve at a prescribed level. The reserves Daiwa Securities and Daiwa SBCM have provided in its statutory books are ¥1,975 million ($16 million) in total, which is reversed and included in the retained earnings of the accompanying consolidated balance sheet.

The Commercial Code of Japan provides that an amount equivalent to at least 10% of cash dividends paid and other cash outlays resulting from appropriation of retained earnings be appropriated to a legal reserve until such reserve equals 25% of the issued capital. The reserve the Company has provided in its statutory books is ¥45,335 million ($366 million) as of March 31, 2001, which is included in the retained earnings of the accompanying consolidated balance sheet. There are no dividend limitations due to the requirement of the provision, because the Company has provided the reserve at more than the maximum level required. The Commercial Code of Japan also provides that both additional paid-in capital and the legal reserve are not available for cash dividends but may be used to reduce a capital deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

17. Segment and Geographic Information

Segment information

Daiwa organizes its operating segments based on a combination of products, customer types and geographic factors. Daiwa organizes its operating segments based on products and services or by type of customer in Japan. Daiwa's domestic operations are segmented according to four primary lines of businesses: retail securities business, wholesale securities businesses, asset management and other. The retail securities and wholesale securities businesses are conducted by Daiwa Securities and Daiwa SBCM, respectively. Daiwa Asset Management carries out the asset management business. Daiwa's overseas subsidiaries are considered separate operating units and the businesses within the region are delegated to carry out diversified business activities. Daiwa's primary overseas operations include business conducted by Daiwa Securities SBCM Europe Limited, headquartered in London, Daiwa Securities SBCM Hong Kong Limited in Hong Kong and Daiwa Securities America Inc. in New York.

The business segment information, presented below, is based on Japanese GAAP and represents the financial information presented to and used by executive management in deciding the allocation of resources and in assessing performance. Since the following segment information is not consistent with the accompanying consolidated financial as prepared on a basis of US GAAP, a reconciliation is provided for the segments' total ordinary income and income before income tax. This reconciliation includes elimination of inter-segment allocation of net operating revenues and ordinary income which are reflected in the Eliminations column.

"Net operating revenues" below, a term defined by the "Uniform Accounting Standards of Securities Companies" (set by the board of directors of the Japan Securities Dealers' Association, September 28, 2001), includes "Commissions," "Net gains on trading," "Net gains on operational investment securities," "Interest and dividend income," "Other sales revenues," "Interest expenses" and "Cost of sales" under Japanese GAAP. "Ordinary income" includes "Net operating revenues," "Selling, general & administrative expenses," "Non-operating income" and "Non-operating expenses" measured under Japanese GAAP.

	2001 (Millions of Yen)								
	Domestic Operations				Overseas Operations				
	Retail Securities Business	Wholesale Securities Business	Asset Management Business	Others	America	Europe	Asia & Oceania	Eliminations	Total
Net operating revenues	¥177,633	¥ 218,478	¥ 66,981	¥ 75,893	¥ 24,897	¥ 20,965	¥ 5,644	¥ (123,677)	¥ 466,814
Selling, general & administrative expenses	153,639	94,993	57,910	39,903	13,742	16,173	4,827	(94,239)	286,948
Ordinary income	24,356	123,640	10,315	27,785	11,254	5,233	811	(25,598)	177,796
Year-end total assets	¥586,654	¥5,626,580	¥108,115	¥1,971,504	¥1,817,123	¥591,305	¥96,287	¥(1,547,344)	¥9,250,224

	2001 (Millions of U. S. Dollars)								
	Domestic Operations				Overseas Operations				
	Retail Securities Business	Wholesale Securities Business	Asset Management Business	Others	America	Europe	Asia & Oceania	Eliminations	Total
Net operating revenues	$1,434	$ 1,763	$541	$ 612	$ 201	$ 169	$ 46	$ (998)	$ 3,768
Selling, general & administrative expenses	1,240	767	467	322	111	131	39	(761)	2,316
Ordinary income	197	998	83	224	90	42	7	(206)	1,435
Year-end total assets	$ 4,735	$45,412	$873	$15,912	$14,666	$4,773	$777	$(12,489)	$74,659

The reconciliation of ordinary income and total assets for reportable segments to the consolidated operating income and identifiable assets are described below:

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Ordinary income for reportable segments	¥177,796	$1,435
Impact of:		
Valuation & sales loss on investment securities	(64,164)	(518)
Losses on sales of loans receivable	(2,942)	(24)
Provision for allowance for bad debt	(1,600)	(13)
Amortization of goodwill	(1,519)	(12)
Compensated absences	(462)	(4)
Valuation & sales profits on property	1,807	15
Others	(655)	(5)
Income before income taxes for the consolidated statements of earnings	¥108,261	$ 874

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Total assets for reportable segments	¥9,250,224	$74,659
Impact of:		
Securities received	(1,556,172)	(12,560)
Impairment loss in long-lived assets	(158,440)	(1,279)
Scope of consolidation	9,963	80
Leasing assets	9,015	73
Others	377	3
Total assets for the consolidated balance sheet	¥7,554,967	$60,976

The difference of net revenue between segment amounts and consolidated amounts primarily consist of valuation loss recognized on investment securities.

Geographic information

The Company's net revenue and long-lived assets are generally allocated based on the country of domicile of the legal entity providing service as follows:

	Millions of Yen	Millions of U. S. Dollars
	2001	2001
Net revenue:		
Japan	¥357,054	$2,882
U.S.	14,629	118
Others	41,969	339
Total	¥413,652	$3,339
Long-lived assets:		
Japan	¥229,318	$1,851
U.S.	1,943	16
Others	28,755	232
Total	¥260,016	$2,099

Japan and the United States of America are the countries whose revenues from external customers are material. Almost all the revenues of Japan and the United States of America are derived from customers of the segment's domicile. The basis for attributing revenues from external customers to individual countries is principally the location of the foreign subsidiaries.

SFAS No. 131 requires disclosure of revenues from external customers for each product and service as an enterprise-wide information. The consolidated statements of earnings in which the revenues are categorized based on the nature of business, include the required information. No single customer accounted for 10% or more of the total net revenues for the year ended March 31, 2001.

18. Subsequent Event

Withdrawal from the non-contributory welfare pension plan

On September 29, 2001, the Company and most of its domestic consolidated subsidiaries withdrew from the non-contributory welfare pension plan. After taking into consideration the payment made to the Securities Companies' Welfare Pension Fund upon withdrawal, Daiwa recorded a gain amounting to ¥13,691 million ($111 million) for the reversal of the voluntary reserve, as described in Note 10. The difference between Daiwa's estimation and actual amount charged by the Securities Companies' Welfare Pension Fund to Daiwa upon withdrawal was principally due to the difference in discounted rates used in the calculation of the projected future obligation.

ANDERSEN

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheet of Daiwa Securities Group Inc.(a Japanese corporation) and subsidiaries as of March 31, 2001, and the related consolidated statements of earnings, comprehensive income, shareholders' equity and cash flows for the year ended March 31, 2001, expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Daiwa Securities Group Inc. and subsidiaries as of March 31, 2001, the results of its operations and its cash flows for the year ended March 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the U.S. dollars amounts in the accompanying consolidated financial statements have been translated from yen on the basis set forth in Note.1.

Arthur Andersen

Tokyo, Japan

November 30, 2001