

(3) Scope of consolidation and equity method

Consolidated subsidiaries: 58 Affiliates applicable of equity method: 4

(4) Change in accounting policies

(i) Scope of consolidation and equity method

Consolidation (New): 9 (Exclusion): 6 Equity method (New): 3

(ii) Accounting policies : none

(iii) Tax effect accounting is applied since fiscal 1998.

Note: Consolidated operating results of the three companies (from Apr.1, 1999 to Sep. 30, 1999)

Operating revenue	Yr/yr % change	Operating income	Yr/yr % change	Net income	Yr/yr % change
Million yen	%	million yen	%	million yen	%
199,318	(81.3)	74,630	(-)	73,114	(-)

Net income/ loss	Yr/yr % change	Earnings per share	Total assets	Stockholders' equity share
million yen	%	Yen	million yen	million yen
85,585	(-)	64.51	5,891,701	701,522

The operating results mentioned above are not those of Daiwa Securities Group Inc. (parent basis), but of the three consolidated companies.

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Management Policy

1. Principle Management Policy

Daiwa aims to become Japan's strongest Securities Company. This will be achieved through utilizing the holding company structure to pursue maximizing group corporate value by concentrating group management resources on securities related businesses where we are most competitive.

2. Principle Policy on the Distribution of Profits

Our principle policy on dividends has been to ensure retaining profits to strengthen the profitability base while providing shareholders with a stable flow of dividends.

Our dividend policy going forward is to further reflect performance while being conscious of maintaining a stable dividend flow.

3. Mid to Long Term Management Targets

We are in the second term of the three year mid term business plan ending March 2001. The three main targets under this plan are ① ROE 10% on a consolidated basis ② Obtain rating of A or above (securities company subsidiaries) ③ Double held retail assets (securities company subsidiaries)

4. Management Targets for this term and progress made as to date

To achieve the mid term targets mentioned above, we have set the following targets for this term ① Increase consolidated income ② Continue group reorganization and rationalization ③ Establish group corporate governance.

With the help of favorable market conditions, both Daiwa Securities Co. which engages in retail operations and Daiwa SBCM which engages in wholesale operations have contributed to ①. Additionally due to ongoing restructuring, our domestic and overseas businesses have recovered and have contributed to the increase in consolidated income.

With regard to ②, which is the reorganization and rationalization of group operations, we are continuing to make progress from the first half. We have been reorganizing domestic affiliates through operations such as continuing to squeeze assets of non-bank operations and retreating from development and selling of condominiums. On 7 October, we have announced our plans to sell our holding in Daiwa International Trust Bank.

Based on the plan to rationalize overseas operations which had been announced in the first half of this year, we have proceeded with the restructuring of our overseas offices through rationalization of our overseas offices, reduction of staff, and by cutting costs. As of 1 October, our subsidiaries in Europe and Asia have been integrated into Daiwa SB Capital Markets.

Regarding ③, establishing group corporate governance, we have the board of directors, auditors committee, management committee and advisory board to establish corporate governance. Starting this term, the advisory board which consists of three well established people in the management field will meet on a quarterly basis. They will provide us with comments and advice on a wide range of managerial skills through the advisory committee which we hope to utilize in managing our group.

As the holding company, we have increased our stakes in Daiwa Asset Management Co. Ltd., Daiwa Institute of Research Ltd. and Daiwa SB Investments Ltd. By doing so we aim to establish management control based on share ownership.

In moving to a holding company structure, we as well as our main group companies have installed an executive committee to firmly differentiate between the management decision making/administration and execution functions. This will enable efficient management and will activate discussions between the board of directors.

5. Issues Outstanding

With the total liberalization of equity commissions and the lifting of restrictions for bank securities subsidiaries to engage in equity related businesses, we expect the management environment for securities companies to continue drastically changing in the second half of the year. We will continue our efforts to achieve the mid term target (2001) mentioned above by implementing the management targets for this term and strengthening the group management structure.

Consolidated operating results for the first half of fiscal 1999

Consolidated operating revenues amounted to ¥303,614 million (119.8% of first half of fiscal 1998) and consolidated operating expenses to ¥210,406 million (72.0% of first half of fiscal 1998). Resultantly, consolidated operating income amounts to ¥93,207 million and ordinary income after non-operating income and losses amounts to ¥90,109 million.

“Net income before adjusting income taxes and others” after extraordinary gains and losses amounts to ¥63,266 million. Daiwa Securities SB Capital Markets Co. Ltd. posted net loss as the company wrote-off goodwill. On balance, consolidated net income swelled to ¥80,301 million, mainly due to minority interest (income for Daiwa Securities Group companies) of ¥43,281 million.

1. Commissions

Commissions which amounted to ¥162,355 million (202.1% of first half of fiscal 1998) are the driving force behind an augmentation of revenues. They increased twice as sharply as those of the first half of fiscal 1998 due to increase in trading volume of Tokyo Stock Exchange, brokerage commissions on stocks because of expansion of our share of Tokyo Stock Exchange, and commission income derived from new consolidated subsidiaries.

2. Net gains/losses on trading

Total net gains on trading increased vigorously to ¥57,846 million, which jumped from ¥6,272 million of the first half of fiscal 1998, as the net trading gains and losses of stock, bond, foreign exchange and others were in a good shape due to improvement of trading volume and net trading gains of bonds in overseas consolidated subsidiaries jumped up.

3. Financial income

Net financial income posted ¥10,365 million (57.8% of the first half of fiscal 1998), with interest and dividend income of ¥60,849 million, and financial expense of ¥50,484 million. Both financial income and expense significantly decreased, compared with first half of fiscal 1998.

4. Selling, general & administrative expenses

Selling, general and administrative expenses almost stayed flat at ¥143,468 million (100.1% of first half of 1998), as our commitment to retrenchment offset an increase in swelling commissions and other expenses in line with trading volume increment and in expenses added by expansion of scope of consolidation.

5. Extraordinary gains/losses

Extraordinary gains posted to ¥15,317 million in total of gain on sale of investments in related companies of ¥3,723 million, gain on sale of investment securities of ¥8,002 million, reversal of unrealized loss for investment securities of ¥2,094 million. On the contrary, extraordinary losses amounted to ¥42,160 million in total of provision for allowance for doubtful accounts of 20,017 million, loss on disposal and sale of fixed assets of ¥4,622 million, write-off of good will of ¥8,000 million, non-deductible consumption taxes derived from goodwill of ¥4,359 million and expenses for foundation for subsidiaries of ¥3,134 million and others.

Change in scope of consolidation

One subsidiaries set up in this fiscal period and eight domestic related companies started to be consolidated to accompanying financial summary due to the adoption of “control basis” in accordance with amendment of the Regulations of Financial Statements. Equity method started to be applied to three companies due to the adoption of so-called “substantial influence basis”.

Interim consolidated balance sheets

(millions of yen)

	September 30, 1999	September 30, 1998	Increase/ decrease	March 31, 1999
Assets				
Current assets:	6,464,436	8,758,997	△ 2,294,560	5,686,007
Cash and time deposits	909,390	467,302	442,088	566,454
Cash segregated as deposits	7,269	45,177	△ 37,908	14,752
Notes Receivable and accounts receivable	17,675	—	17,675	—
Receivables	31,589	134,974	△ 103,385	65,551
Trade date accrual	—	338,029	△ 338,029	345,474
Advance payments on securities subscribed	560	398	161	199
Short-term loans	346,658	295,317	51,340	179,815
Securities	59,980	—	59,980	—
Operating investment securities	38,755	—	38,755	—
Less: Allowance for investment losses	△ 507	—	△ 507	—
Trading assets:	1,676,559	3,127,753	△ 1,451,194	1,678,742
Trading securities and other	1,501,528	2,820,154	△ 1,318,625	1,467,780
Options transactions	5,434	55,026	△ 49,591	19,967
Derivative valuation accounts	169,596	252,573	△ 82,977	190,994
Other inventories	28,321	—	28,321	—
Receivables related to margin transactions:	332,107	104,957	227,150	141,261
Loans receivable from customers from margin transactions	238,485	57,836	180,649	72,451
Cash deposits as collateral for securities borrowed from securities finance companies	93,622	47,120	46,501	68,810
Receivables related to gensaki transactions	82,997	263,074	△ 180,077	320,062
Cash deposits as collateral for securities borrowed	1,291,380	1,817,685	△ 526,305	858,051
Securities in custody	1,658,942	1,923,479	△ 264,537	1,317,327
Deferred income taxes assets-current	9,078	—	9,078	81,954
Other current assets	117,352	246,543	△ 129,190	119,558
Less: Allowance for doubtful accounts	△ 143,676	△ 5,697	△ 137,979	△ 3,201
Non-current assets:	936,911	600,421	336,489	571,801
Tangible fixed assets	351,345	96,371	254,974	67,388
Intangible fixed assets	29,455	1,199	28,255	1,156
Investments and others:	556,110	502,849	53,260	503,255
Investment securities	338,864	336,676	2,188	318,050
Long-term loans	50,856	65,779	△ 14,923	73,278
Long-term guarantee deposits	34,473	69,053	△ 34,579	68,869
Deferred income tax assets-non-current	89,199	—	89,199	1,598
Other investments	47,666	40,931	6,735	49,873
Less: Allowance for doubtful accounts	△ 4,949	△ 9,590	4,640	△ 8,415
Translation adjustments	22,692	—	22,692	10,788
Total assets	7,424,039	9,359,418	△ 1,935,378	6,268,596

(millions of yen)

	September 30, 1999	September 30, 1998	Increase/ decrease	March 31, 1999
<i>Liabilities</i>				
Current liabilities:	5,957,561	8,166,253	△ 2,208,691	5,240,815
Notes payable and accounts payable	4,578	—	4,578	—
Short-term borrowings	902,700	473,844	428,855	431,426
Commercial paper	97,305	33,761	63,543	33,170
Bonds due within one year	48,132	36,878	11,253	26,872
Mortgage backed securities sold	67,783	—	67,783	—
Deposit received	234,900	410,452	△ 175,552	250,540
Trade date accrual	33,496	—	33,496	—
Advance receipts on securities subscribed	13,150	7,816	5,334	2,741
Trading liabilities:	929,864	1,198,250	△ 268,386	808,981
Trading securities and others	768,727	932,577	△ 163,849	609,217
Option transactions	3,096	14,481	△ 11,384	6,590
Derivative valuation accounts	158,039	251,191	△ 93,152	193,172
Payables related to margin transactions:	60,738	60,708	29	64,440
Loans from securities finance companies for margin transactions	22,451	16,731	5,720	18,098
Proceeds of securities sold for margin transactions	38,286	43,977	△ 5,690	46,341
Payables to gensaki transactions	613,573	967,739	△ 354,165	593,315
Cash deposits as collateral for securities loaned	1,079,177	2,781,546	△ 1,702,369	1,439,821
Short-term securities borrowed	1,185,897	1,597,393	△ 411,495	907,038
Cash deposits received from customers	71,731	55,729	16,001	46,500
Securities deposits by customers as collateral	474,844	326,086	148,758	416,951
Accrued income taxes	25,991	2,114	23,877	1,378
Deferred income tax liabilities-current	—	—	—	393
Accrued bonuses	16,671	11,742	4,928	11,934
Provision for financial assistance to related companies	—	—	—	58,200
Other current liabilities	97,024	202,187	△ 105,163	147,107
Non-current liabilities:	691,330	441,847	249,482	385,380
Bonds	138,632	112,229	26,402	72,306
Convertible bonds	135,709	94,371	41,338	94,371
Long-term borrowings	384,012	213,591	170,420	216,458
Long-term securities borrowed	18,870	—	18,870	—
Accrued retirement benefits	6,788	20,945	△ 14,157	1,663
Other non-current liabilities	7,318	709	6,609	580
Statutory reserves	414	46,405	△ 45,991	783
Translation adjustments	—	6,113	△ 6,113	—
Total liabilities	6,649,306	8,660,619	△ 2,011,313	5,626,979
Minority interest	132,215	896	131,318	1,757
<i>Stockholders' equity</i>				
Common stock	138,424	138,424	—	138,424
Additional paid-in capital	117,779	117,779	—	117,779
Retained earnings	389,900	441,703	△ 51,803	383,671
Treasury stock	△ 3,586	△ 6	△ 3,579	△ 17
Total stockholders' equity	642,518	697,901	△ 55,383	639,858
Total liabilities, minority interest and stockholders' equity	7,424,039	9,359,418	△ 1,935,378	6,268,596

Interim consolidated income statement

(millions of yen)

	First half (Apr.1- Sep.30,1999) (A)	First half (Apr.1- Sep.30,1998) (B)	Comparison ratio A/B (%)	Fiscal 1998
Operating revenues	303,614	253,434	119.8	354,960
Commissions	162,355	80,350	202.1	185,450
Net gain on trading securities	57,846	6,272	922.2	△ 20,725
Net gain on other commodities trading	217	9	2,174.8	16
Interest and dividend income	60,849	166,801	36.5	190,219
Other sales revenues	22,345	—	—	—
Operating expenses	210,406	292,203	72.0	443,527
Interest expenses	50,484	148,858	33.9	172,442
Cost of sales	16,453	—	—	—
Selling, general and administrative expenses	143,468	143,344	100.1	271,085
Operating gains/ losses	93,207	△ 38,768	—	△ 88,566
Non-operating income	4,197	1,973	212.7	2,840
Equity in earnings	—	0	—	1
Others	4,197	1,973	212.7	2,839
Non-operating expenses	7,295	446	1,632.7	2,234
Equity in earnings	219	—	—	—
others	7,075	446	1,583.5	2,234
Ordinary income	90,109	△ 37,241	—	△ 87,959
Extraordinary gains	15,317	7,343	208.6	54,694
Extraordinary losses	42,160	38,262	110.2	175,273
Income before adjusting income taxes and others	63,266	△ 68,160	—	△ 208,538
Income taxes	26,210	△ 1,306	—	1,157
Refunds of income taxes	—	—	—	2,829
Income taxes-deferred	35	—	—	△ 78,952
Minority interest	43,281	14	293,873.2	24
Net income	80,301	△ 66,839	—	△ 127,889

Interim Consolidated Statement of retained earnings

(millions of yen)

	First half 1999 〔 Apr.1,1999 〕 〔 Sep.30,1999 〕	First half 1998 〔 Apr.1,1998 〕 〔 Sep.30,1998 〕	Fiscal 1998 〔 Apr.1,1998 〕 〔 Mar.31,1999 〕
Beginning balance of retained earnings	383,671	518,527	521,545
Beginning balance of other retained earnings	—	474,794	474,794
Provision for retained earnings of previous year	—	43,732	43,732
Tax effect adjustments of prior year	—	—	3,017
Increase in retained earnings	7,328	—	—
Increase in retained earnings due to expanding scope of equity method	7,328	—	—
Decrease in retained earnings	81,401	9,983	9,983
Decrease in retained earnings due to expanding scope of consolidation	74,738	—	—
Dividends	6,658	8,012	8,012
Directors' bonuses	4	—	—
Retirement of treasury stocks	—	1,970	1,970
Net income	80,301	△ 66,839	△ 127,889
Ending balance of retained earnings	389,900	441,703	383,671

Notes to consolidated financial statements

The interim consolidated financial statements of the company is prepared based on the Regulations concerning the Terminology, Forms and Preparation Method of the Interim Consolidated Financial Statements (MOF Ordinance No.24, 1999) and its Articles 48 and 69, in accordance with the Ministerial Ordinance Concerning Securities Companies (Prime Minister's Office Ordinance and MOF Ordinance No.32, 1998) and the Uniform Accounting Standards of Securities Companies (set by the board of directors of the Japan Securities Dealers' Association, November 14, 1974). It should be noted that the presentation of the financial statements for the first half might be provisional and amended, as the Company has not reached the final agreement with the authorities concerned regarding the method of terminology and forms.

Basis of interim consolidated financial statements

1.Scope of consolidation

(1) Consolidated subsidiaries: 58

Major companies:

Daiwa Securities Co. Ltd.

Daiwa Securities SB Capital Markets Co. Ltd.

Daiwa Asset Management Co. Ltd.

Daiwa International Trust Bank Limited

Daiwa America Corporation

Daiwa Europe Limited (Daiwa Securities SB Capital Markets Europe Limited since October 1, 1999)

Daiwa Europe Bank plc

Daiwa Europe Property plc

Daiwa Securities America Inc.

Daiwa Securities Asia Holding B.V. (Daiwa Securities SB Capital Markets Asia Holding B.V. since October 1, 1999)

Daiwa Securities (H.K.) Limited (Daiwa Securities SB Capital Markets H.K. Limited since Oct. 1, 1999)

Daiwa Singapore Limited (Daiwa Securities SB Capital Markets Singapore Limited since Oct. 1, 1999)

One subsidiary set up in this interim period and eight subsidiaries applicable to control basis started to be consolidated to accompanying financial statements from this interim period, and six subsidiaries were excluded from the scope of consolidation due to liquidations as follows.

(New)

Daiwa Asset Management Co. Ltd.

Nippon Investment & Finance Co. Ltd.

Daiwa Finance Co. Ltd

Daiwa Institute of Research Ltd

The Daiwa Real Estate Co., Ltd

Daiwa Building Management Co., Ltd.

Daiwa Residential Properties, Ltd.

Daiwa Sanko Co., Ltd.

Daiwa SBCM (Cayman)

(Exclusion)

Daiwa Europe (Spain) Socieda de V.S.A

Daiwa Europe (Polska) Sp.z.o.o Others: 4

(2) Non-consolidated subsidiaries

Major companies:

Daiwa Software Research Co., Ltd.

Each amount of assets, operating revenues (or sales), net gains/losses and retained earnings of non-consolidated subsidiaries has little influence on this consolidated financial statement and has little materiality as a whole.

2. Application of equity method

- (1) Non-consolidated subsidiaries applicable of equity method: none
- (2) Affiliates applicable of equity method: 4

Major companies:

Daiwa SB Investments Ltd.
The Tokyo Tanshi Co., Ltd

Equity method is applied to three affiliates applicable to significant influence basis from this interim period.

(New)

Daiwa SB Investments Ltd.
The Tokyo Tanshi Co., Ltd.
Osaka Securities Credit Co., Ltd.

- (3) Non-consolidated subsidiaries and affiliates inapplicable of equity method

Major companies (non-consolidated subsidiaries inapplicable of equity method):

Daiwa Software Research Co., Ltd.

Major companies (affiliates inapplicable of equity method):

Daiko Denishi Tsushin, Ltd.

Each amount of net gains/losses and retained earnings of both non-consolidated subsidiaries and affiliates inapplicable of equity method has little influence on this consolidated financial statement and has little materiality as a whole.

3. Fiscal year of consolidated subsidiaries

- (1) The interim closing date of consolidated subsidiaries is as follows.

At the end of September: 56
At the end of June: 2

- (2) Out of two subsidiaries which date of closing account is the end of June, DBP-Daiwa Securities (Philippines), Inc. (Date of closing account: June 30) is consolidated to accompanying financial statements based on the interim closing account at the end of June, 1999 and the other at the date of interim closing account.

4. Accounting policies

- (1) Discrepancies from accounting policies and procedures for the annual financial statements
 - (i) With regard to domestic consolidated companies, half of the annual estimated amounts of allowance for accrued retirement benefits, which included in "operating costs and expenses," is provided, as the actual amount for this fiscal year is determined at the end of fiscal year.
 - (ii) With regard to domestic consolidated companies, depreciation expense is determined as half of the annual charge based on the non-current assets held as of September 30, 1999.
- (2) Valuation of specified transaction account

In terms of domestic consolidated subsidiaries, securities, assets and derivative transactions in specified transaction account are recorded on a trade date basis at market value, and in terms of overseas subsidiaries, those policies are mainly applied.
- (3) Valuation of non-trading securities and commodities other than securities

Listed securities are valued on a settlement date basis at the lower of cost-or-market, cost being determined by the moving average method. Unlisted securities and commodities other than securities

are valued on a settlement date basis at cost determined by the moving average method. In terms of

lower of cost-or- market method, reversal method is applied instead of separation method in accordance with 1998 amendment of the Tax Law.

(4) Valuation of other inventories

Cost method determined by the specific identification method is mainly applied.

(5) Depreciation of tangible fixed assets

Depreciation is mainly computed under declining-balance method.

(6) Accounting policies for various provisions

(i) Provision for doubtful accounts

In terms of domestic consolidated companies, the ceiling of allowance at the historical deterioration rate stipulated by the Corporate Tax Law and the respective estimated amount is mainly provided in case of loss on bad debts. Estimated amounts of allowance for doubtful accounts are provided with the collection possibility of each receivable mainly being into consideration as to overseas consolidated subsidiaries.

(ii) Accrued employees' bonuses

Estimated amount of employees' bonuses for this interim period are accrued in case of the payment of bonuses to employees.

(iii) Accrued retirement bonuses

Estimated amount of retirement bonuses and directors' bonuses for this interim period are mainly accrued, based on the regulations of each company in case of payment of retirement bonuses to employees and directors.

(7) Translation of foreign currency denominated assets and liabilities

In terms of domestic consolidated companies, foreign currency denominated assets and liabilities are translated in accordance with the "Accounting for Foreign Currency Transactions" (The Corporate Accounting Deliberation Council Release, June 26, 1979, as amended on May 26, 1995). For overseas consolidated subsidiaries, foreign exchange rates at closing date are mainly applied apart from forward exchange contract.

(8) Accounting for certain lease transactions

Finance leases which do not transfer ownership to a lessee are accounted for in the same manner as operating leases.

(9) Accounting for consumption taxes

Consumption taxes are computed separately. Non-deductible consumption taxes are accrued in the fiscal period when incurred.

(10) Provision (statutory reserves)

In terms of reserve for securities transaction liabilities and reserve for financial futures transaction liabilities, the same accounting policies applied as those for the annual financial statements. These reserves are reversed, as the parent company transformed into a holding company from securities house.

(11) Period allocation of income taxes

As the "Regulation on wording, format, and preparation of consolidated financial statements" (Ministry of Finance, Ministerial Order number 28, October 30, 1976) was amended (Ministry of Finance, Ministerial Order number 173, December 21, 1998), tax effect accounting is applied since fiscal 1998 in accordance with the annexed Article 3 of the Regulation.

5. Bond issue costs

Bond issue costs of the parent company is amortized in a lump sum when incurred.

Notes to interim consolidated balance sheet

1. Guarantee:

As of September 30, 1999:	2,119 million yen
As of September 30, 1998:	80,503 million yen
As of March 31, 1999:	141,840 million yen

Substantial guarantees noted as similar guarantees since fiscal 1998 on "Notes to balance sheet" in

2. Intangible fixed assets

Software included in Other investments until the previous year is reclassified as Intangible fixed assets in accordance with amendment (Ministry of Finance, Ministerial Order number 135, 1998) of "Regulation on wording, format, and preparation of financial statements" (Ministry of Finance, Ministerial Order number 59, 1963).

3. Subordinated borrowings

Long-term borrowings include the subordinated borrowings stipulated by the Ministerial Ordinance on the Capital Adequacy Rule for Securities Companies (the Prime Minister's Office Ordinance and Ministry of Finance ("MOF") Ordinance No. 28, Article 2, 1999)

As of September 30, 1999:	40,000 million yen
As of September 30, 1998:	195,000 million yen
As of March 31, 1999:	195,000 million yen

Notes to interim consolidated income statement

(millions of yen)

	First half (Sep. 30, 1999)	First half (Sep. 30, 1998)	Fiscal 1998 (Mar. 31, 1999)
1.Details of selling, general and administrative expenses			
Commissions and other expenses	24,344	18,876	37,147
Employee's compensation and benefit	67,783	67,450	126,890
Real estate expenses	20,304	25,507	49,909
Data processing and office supplies	13,069	16,083	30,614
Depreciation	6,363	4,533	8,534
Taxes other than income taxes	3,688	4,863	9,210
Provision for doubtful accounts	1,094	1,767	1,144
Others	6,820	4,263	7,633
2.Provision for reserve for trading losses			
Reserve for trading losses has been abolished due to the amendment of the Securities and Exchange Act, enforced on December 1, 1998. Resultantly, it is reversed in a lump sum at the end of the previous year.			
3.Details of extraordinary gains/losses			
	First half (Sep. 30, 1999)	First half (Sep. 30, 1998)	Fiscal 1998 (Mar. 31, 1999)
Extraordinary gains			
Adjustment gain for expenses of transferring overseas subsidiaries	-	4,621	4,263
Gain on sale of fixed assets	713	-	-
Gain on sale of investments in related companies	3,723	-	-
Gain on sale of investment securities	8,002	2,460	4,304
Reversal of unrealized loss for investment securities	2,094	-	-
Reversal of reserve for stock trading losses	-	-	34,603
Reversal of reserve for bond trading losses	-	-	11,522
Reversal of reserve for securities transaction liabilities	779	259	-
Reversal of reserve for financial futures transaction liabilities	4	1	1
Extraordinary losses			
Write-off of securities	-	137	1,199
Provision for prior-periods retirement benefits of directors	-	-	1,033
Loss on financial assistance to related companies	-	-	115,800
Loss on liquidation of employee's retirement plans	-	-	12,805
Provision for doubtful accounts	20,017	1,904	1,904
Expenses for rationalization of overseas business	-	-	6,176
Expenses for the holding company structure	-	-	2,561
Expenses for rationalization of equipment	-	-	2,268
Expenses for transferring a domestic subsidiary	295	-	-
Loss on disposal and sale of fixed assets	4,622	-	-
Valuation loss on fixed assets	-	-	20,137
Exchange loss on liquidation of subsidiaries	484	569	-
Loss on transferring of investment securities	-	-	2,383
Loss on sale of investment securities	833	-	-
Write-off of investment securities	-	35,649	8,759
Write-off of goodwill	8,000	-	-
Non-deductible consumption taxes derived from goodwill	4,359	-	-
Expenses for foundation for related companies	3,134	-	-
Provision for reserve for securities transaction liabilities	414	-	243
Provision for reserve for financial futures transaction liabilities	0	-	-

The status quo of coping with Y2K problem

I. Status quo of the issue

This section mentions “Policy of coping with Y2K problem”, “Internal organization structure to cope with the issue”, and “Progress in measures to be taken”.

1. Policy of coping with Y2K problem

Y2K problem will not merely have tremendous effect on daily operations at each financial institution directly or indirectly, but also it will damage our overall economic activities through securities business, depending on how properly we cope with the problem. We regard the Y2K problem as the most important task we have to cope with in our management and have tackled with it since 1996.

2. Internal organization structure to cope with the issue

In order to take company-wide flawless measures, we set up the project team (so-called Y2K Project) to cope with Y2K problem. Y2K Project, once a month in general, reports on the progress, connecting test results with outside facilities, and a review of our contingency plan relating to Y2K to the management at the Management Meeting, etc. In addition, we have established a structure in which our management and executive officers in charge directly supervise Y2K Project to penetrate it into company's organization and to further develop.

After the transformation into the holding company structure in this April, Y2K Project has been set up at Daiwa Securities Group Inc., Daiwa Securities Co. Ltd., and Daiwa Securities SB Capital Markets Co. Ltd. respectively and we have kept in close contact with each other.

With regard to other domestic subsidiaries and affiliates, we have been not only stimulating them to further efforts through questionnaires as well as in the Executive Committee for corporate planning, but also making visits and interviews with their executive officers directly. In addition, as to overseas offices, we have been closely connected with them, receiving reports on the progress from each overseas office, auditing and supervising them in the Y2K Project.

3. Progress in measures to be taken

(1) Computer system

Besides connecting tests with our customers, counter parties and our overseas offices, we have joined connecting tests with associations in the securities industry since December 1998. As for important systems including the front system which was in process of construction at the end of June, we have successfully completed all tests which had been

scheduled at the end of September.

We will continue to perform internal and external examinations of systems which were proved to have no problem as necessary in order to avoid unexpected troubles. In addition, as a general rule, any newly developed system release will be prohibited from the beginning of this October through February 2000 to avoid any risk derived from new system.

In regard to other purchased products such as hardware, software, communication and facility equipment, we have already received confirmation letters and documents relating to Y2K compliance from our suppliers. However, we found some products that had claimed to be completely Y2K compliance changed to be incompliant afterwards. Therefore, carefully watching out circumstances surrounding Y2K problem, we will ask suppliers to resubmit confirmation letters and other related documents depending on a situation.

(2) Other problems derived from external organizations

We are well aware of the possibility that we might get affected directly or indirectly by our customers and counterparties, depending on how they cope with Y2K problem. In order to minimize the potential risk, we have made efforts to cope with the problem by collecting information in a form of questionnaire from our customers and connecting tests with counterparties who do not prohibit themselves from exchanging data, such as magnetic tape and firm banking.

II. Estimated budget for Y2K problem

This section mentions "Expenses in directly relation to Y2K problem and the way of fundraising them".

Total estimated budget for three Daiwa Securities group companies is 4 billion yen; approximately 3 billion yen for equipment and software-related asset, approximately 1 billion yen for other expenses. As of the end of September, approximately 2.2 billion yen was already spent on Y2K Project. The remaining of budget will be allocated for a part of payments to be billed by our suppliers, special personnel expenses (including assistance from our vendors) for the year-end, New year's day (December 30,1999 - around January 4, 2000) and a leap day (February 29, 2000), the purchase of goods, and the operating costs of "Risk Management Center" mentioned on the section below. Revision of the budget for the second half of the year is not scheduled. These costs will be managed by funds on hand and we expect that it will not affect on financial status and cash flow of three group companies.

III. Contingency Plan/Risk Management

This section mentions "Analysis of rationally expected worst case scenario and details on contingency plan".

Besides the risk relating to a computer system, we are well aware of potential risks involved in Y2K problem in terms of such as reputation, legal, credit, liquidity, and administration as a precondition to prepare for the contingency plan.

After having examined thoroughly anticipated emergent accidents and the possibility of accidents which will occur at the same time in many places and a chain reaction of accidents, we drew up “Measures to be taken beforehand”, “Internal organization structure to cope with the trigger dates”, and “Measures to be taken at an accident” as our risk management plan.

Besides a strengthen of early detection system for operational and date errors, we will continue to further improve our contingency plan based on the result of a rehearsal and a manual operation test until just before the year-end and a leap day while we take consistency of risk management plan with other organization such as The Bank of Japan and the stock exchanges into consideration.

IV. Others

Special back up system for the year-end and New Year’s day

As we mentioned in the Sections above, three Daiwa Securities Group companies have made our best efforts to avoid system problem. In order to prepare for an emergency, after our final business day of 1999 (December 30), we will take and keep all customers records such as amount of outstanding securities/cash and transaction histories by physically printing them out, in addition to usual data back up through magnetic tapes.

In order to launch our usual operation from January 4, 2000, three Daiwa Securities Group companies will set up “Risk Management Center” respectively based on Y2K Project mentioned in Section I.2 to monitor and supervise any accident and to disclose a situation internally and externally from December 30 to January 4. A total of 1700 staff from 4 companies including Daiwa Institute of Research, which is entrusted to system development and data processing for group companies, will come to work during the period. On January 1, staff from all departments, branches, and overseas offices will confirm whether their computer systems, communication tools and facility equipment will work properly and confirm their internal data to launch our usual operation.

In addition, we will conduct connecting tests for the final confirmation with the stock exchanges and The Bank of Japan on January 2.

“Risk Management Center” mentioned above will be also organized between the period of February 28 (Mon.) – March 1 (Wed.) to take same measures as the time of the year-end and New Year’s day.