

July 19, 1999

**Consolidated financial summary for the first quarter ended June 30, 1999**

Note: Page 28 of this "Consolidated financial summary" reflects the press release "A Revision of Consolidated financial summary for the first quarter ended June 30, 1999 and Interim consolidated financial summary (three companies) for the first half ended September 30, 1999." dated January 25, 2000.

(1) Operating Results (from April 1, 1999 ~ to June 30, 1999)

Note : All figures in the financial statements are rounded down to the nearest millionth.

"△" indicates a loss or negative figure.

	Operating revenues		Increase /decrease		Operating Income	Increase /decrease		Ordinary Income	Increase /decrease	
	million yen	%	million yen	%		Million yen	%			
First Quarter (99/6)	96,299	( 54.9)	37,949	(1,725.5)	36,385	(1,414.4)				
First Quarter (98/6)	62,186	(△21.9)	2,078	(△86.9)	2,402	(△84.3)				
Fiscal Year (99/3)	257,184	( 0.5 )	17,129	(179.9)	16,592	(224.8)				

	Net income /loss		Increase /decrease		Earnings per share	Fully diluted earnings per share
	million yen	%	million yen	%		
First Quarter (99/6)	64,839	( - )	46.68		47.97	
First Quarter (98/6)	-	( - )	-		-	
Fiscal Year (99/3)	116,972	( - )	△87.80		-	

● Notes to consolidated financial statements

1. Scope of Consolidation: DaiwaSecurites Group Inc., Daiwa Securities Co. Ltd., and Daiwa Securities SB Capital Markets Co. Ltd.

Daiwa Securites Group Inc. transferred its wholesale business divisions to Daiwa Securities SB Capital Markets Co. Ltd. and its retail business divisions to Daiwa Securities Preparation Co. Ltd. which changed its corporate name to (new) Daiwa Securities Co. Ltd. (Old) Daiwa Securities Co. Ltd. transformed into a holding company, changing its name to Daiwa Securities Group Inc. during the first quarter of fiscal 1999. The comparison between Daiwa Securites Group Inc. on a parent basis and (old) Daiwa Securities Co. Ltd., therefore, does not provide the appropriate comparative information. The consolidated financial statements of the three companies are prepared to ensure the possible comparability of the financial statements. It should be noted that the scope of consolidation for the first quarter fiscal 1999 is not in accordance with Article 5 of the Regulations concerning the Terminology, Forms and preparation Methods of the Consolidated Financial Statements.

2. The comparative figures are computed between the consolidation of the three companies for the first quarter of fiscal 1999 and (old) Daiwa Securities Co. Ltd. on a parent basis for the first quarter or full year of fiscal 1998.

(2) Financial Conditions

	Total assets	Stockholders' equity	Stockholders' equity ratio	Stockholders' equity /share
	million yen	million yen	%	yen
First Quarter (99/6)	5,325,436	680,769	17.4	511.19
First Quarter (98/6)	-	-	-	-
Fiscal year (99/3)	4,671,392	626,193	18.7	470.21

Stockholders' equity ratio = Total stockholders' equity / (Total liabilities<sup>(1)</sup> + Minority interest + Total stockholders' equity)

<sup>(1)</sup>Excluding Securities deposited by customers as collateral and short-term securities borrowed

## Consolidated operating results for the first quarter of fiscal 1999

On April 5, 1999, the Company transferred its wholesale business divisions to Daiwa Securities SB Capital Markets Co. Ltd., a 60% owned subsidiary, in accordance with the approval regarding the transfer in the extraordinary meeting of shareholders held on February 5, 1999 (Common stock-¥205,600 million, Additional paid-in-capital-¥202,410 million). On April 26, 1999, the Company transferred its retail business divisions to Daiwa Securities Preparation Co. Ltd., in accordance with the approval regarding the transfer in the extraordinary meeting mentioned above. The company changed its corporate name to (new) Daiwa Securities Co. Ltd. on the same date (Common Stock-¥100,000 million, Additional paid-in capital-¥50,010 million).

On April 26, 1999, the Company transformed into a holding company, changing its name to Daiwa Securities Group Inc., and governs the operating group companies such as Daiwa Securities SB Capital Markets Co. Ltd. and (new) Daiwa Securities Co. Ltd.

The parent company's profit and loss are comprised of those as a securities firm from 1 April to 25 April, 1999, and those as a holding company from 26 April to 30 June, 1999. The virtual business period for Daiwa Securities SB Capital Markets Co. Ltd. commenced on April 5, 1999, and that for Daiwa Securities Co. Ltd., on April 26, 1999.

Consolidated operating revenues amounted to ¥96,299 million (154.9% of first quarter of fiscal 1998), and consolidated ordinary income to ¥36,385 million, more than double of fiscal 1998. Daiwa Securities SB Capital Markets Co. Ltd. posted net loss as the company wrote-off goodwill of ¥208,000 million which was acquired when the wholesale business divisions were transferred. Resultantly, consolidated net income swelled to ¥64,839 million, mainly due to minority interest of ¥46,005 million.

### 1. Commissions

Commissions are the driving force behind an augmentation of revenues.

#### (1) Brokerage commissions

During the first quarter, Nikkei 225 rose around 10% to ¥17,529 with brisk trading volume. The daily average trading volume of Tokyo Stock Exchange jumped to around ¥663.6 billion (186% of first quarter of fiscal 1998). In addition to the market trading volume expansion, our share on Tokyo Stock Exchange improved from 7.0% to 8.9%. Brokerage commissions on stocks sharply increased to ¥31,876 million (273.2% of first quarter of fiscal 1998). Brokerage commissions on bonds climbed up to ¥2,267 million (165.8% of first quarter of fiscal 1998), as well, due to an increase in convertible bond trading volume.

#### (2) Underwriting and distribution commissions

Underwriting and distribution commissions on stocks grew to ¥1,793 million (107.0% of first quarter of fiscal 1998), and underwriting and distribution commissions on bonds, to ¥2,784 million (136.2% of first quarter of fiscal 1998).

#### (3) Subscription and distribution and other commissions

Subscription and distribution commissions increased to ¥18,396 million (204.2% of first quarter of fiscal 1998), and other commissions, to ¥12,080 million (120.6% of first quarter of fiscal 1998). Those commissions stem from subscription and distribution of investment trust, and administration regarding payment of interests and distribution of investment trust and bond. The former turned around to ¥18,167 million (204.9% of first quarter of fiscal 1998). Other commissions grew to ¥9,377 million (111.7% of first quarter of fiscal 1998), as an outstanding of principal of investment trust increased to ¥11,654.2 billion (113.4% of fiscal end of 1998).

### 2. Net gains on trading

Total net gains on trading increased vigorously to ¥22,690 million (167.3% of first quarter of 1998), with net gains on stock and other of ¥5,989 million and those on bond, foreign exchange and other of ¥16,701 million. Stock and other is categorized as stock, convertible bond, and warrant, whilst bond, foreign exchange and other, as bond excluding convertible bond, swap and foreign exchange and other. Net trading gains on stock and other shot up by more than ten times of the first quarter of fiscal 1998, taking advantage of robust momentum of Tokyo Stock Exchange.

**3. Financial income**

Net financial income posted ¥3,146 million, with interest and dividend income of ¥4,405 million, and financial expense of ¥1,258 million. Both financial income and expense significantly decreased, compared with first quarter of fiscal 1998. Financial income and expenses incurred after 26 April, 1999 when (old) Daiwa Securities Co. Ltd. transformed into a holding company are recognized as non-operating items.

**4. Selling, general and administrative expenses**

Selling, general and administrative expenses increased to ¥57,090 million (104.6% of first quarter of 1998), mainly due to swelling commissions and other expenses in line with trading volume expansion.

**Operating results of overseas subsidiaries for the first quarter of fiscal 1999**

## ● Income before taxes by geographic area (million yen)

Americas	Europe	Asia & Oceania	Total
203	1,238	409	1,851

Consolidated financial statementsConsolidated Balance Sheets

(as of June 30, 1999)

(millions of yen)

<b>Asset</b>	June 30, 1999	March 31, 1999	Increase /decrease
<b>Current assets:</b>	<b>4,741,277</b>	<b>4,206,018</b>	<b>535,259</b>
Cash and time deposits	595,383	445,856	149,526
Cash segregated as deposits related to securities transactions	3,106	4,828	△1,722
Receivable	13,716	22,066	△8,350
Trade date accrual	237,760	246,473	△8,712
Advance payments on securities subscribed	1,691	199	1,491
Short-term loans	262,892	118,347	144,545
Securities	1,258	-	-
Trading assets:	1,148,733	932,612	216,121
Trading securities and other	1,023,914	792,927	230,986
Option transactions	6,094	11,387	△5,292
Derivative valuation accounts	118,724	128,296	△9,572
Receivable related to margin transactions	165,488	141,261	24,226
Loans receivable from customers for margin transactions	127,136	72,451	54,684
Cash deposits as collateral for securities borrowed from securities companies	38,352	68,810	△30,457
Receivable related to Gensaki transactions	202,089	320,062	△117,972
Cash deposits as collateral for securities borrowed	626,468	521,814	104,653
Securities in custody	1,427,004	1,323,990	103,013
Short-term guarantee money deposited	15,840	9,780	6,060
Deferred income taxes assets- current	12,669	81,810	△69,141
Other current assets	29,104	38,645	△9,541
Less: Allowance for doubtful accounts	△1,930	△1,732	△198
<b>Non-current assets:</b>	<b>584,158</b>	<b>465,374</b>	<b>118,784</b>
Tangible fixed assets	19,419	20,628	△1,208
Intangible fixed assets	8,649	1,088	7,561
Investments and other:	556,089	443,657	112,431
Investment securities	323,701	280,271	43,430
Long-term loans	60,216	59,632	584
Long-term guarantee deposits	76,209	75,155	1,053
Deferred income taxes assets	72,043	-	-
Other investments	26,086	30,765	△4,678
Less: Allowance for doubtful accounts	△2,168	△2,167	0
<b>Total assets</b>	<b>5,325,436</b>	<b>4,671,392</b>	<b>654,043</b>

(millions of yen)

<b>Liability</b>	June 30, 1999	March 31, 1999	Increase /decrease
<b>Current liabilities:</b>	<b>4,185,962</b>	<b>3,745,157</b>	<b>440,805</b>
Short-term borrowings	426,191	255,218	170,973
Commercial paper	25,000	30,200	△5,200
Bonds due within one year	19,419	19,419	-
Deposits received	111,196	92,154	19,041
Advance receipts on securities subscribed	2,601	2,741	△139
Accrued liability	45,309	41,679	3,629
Trading liabilities:	777,790	612,986	164,803
Trading securities and other	660,367	476,599	183,768
Option transactions	4,421	6,362	△1,941
Derivative valuation accounts	113,001	130,024	△17,023
Payables related to margin transactions:	37,706	72,791	△35,084
Loans from securities finance companies for margin transactions	13,059	18,098	△5,039
Proceeds of securities sold for customers' accounts on margin transactions	24,647	54,692	△30,045
Payables related to Gensaki transactions	882,445	593,315	289,130
Cash deposits as collateral for securities loaned	298,038	574,082	△276,044
Short-term securities borrowed	959,866	907,038	52,828
Cash deposits received from customers	54,890	51,396	3,494
Securities deposited by customers as collateral	467,137	416,951	50,185
Accrued income taxes	7,499	440	7,058
Accrued bonuses	4,932	8,800	△3,867
Provision for financial assistance to related company	58,200	58,200	-
Other current liabilities	7,739	7,741	△2
<b>Non-current liabilities:</b>	<b>341,333</b>	<b>299,258</b>	<b>42,074</b>
Convertible bonds	94,371	94,371	-
Long-term borrowings	243,000	203,000	40,000
Accrued retirement benefits	1,302	1,394	△91
Other non-current liabilities	2,659	492	2,166
Statutory reserves:	175	783	△607
<b>Total liabilities</b>	<b>4,527,471</b>	<b>4,045,199</b>	<b>482,272</b>
<b>Minority interest</b>	<b>117,195</b>	-	-
<b>Stockholders' equity:</b>	<b>680,769</b>	<b>626,193</b>	-
Common stock	138,424	138,424	-
Additional paid-in capital	117,779	117,779	-
Retained earnings	428,157	-	-
Legal reserve	-	45,335	-
Surplus	-	324,653	-
Treasury stock	△3,591	-	-
<b>Total stockholders' equity</b>	<b>680,769</b>	<b>626,193</b>	<b>54,576</b>
<b>Total liabilities and stockholders' equity</b>	<b>5,325,436</b>	<b>4,671,392</b>	<b>654,043</b>

Consolidated Income Statement

(Millions of Yen)	First quarter (Apr. 1, 99–Jun. 30, 99) (A)	First quarter (Apr. 1, 99–Jun. 30, 99) (B)	Comparison	
			Ratio (%) A) / B)	Fiscal 1998
<b>Operating Revenues</b>	<b>96,299</b>	<b>62,186</b>	<b>154.9</b>	<b>257,184</b>
Commissions	69,201	35,790	193.4	177,123
Net gain on trading securities	22,690	13,564	167.3	45,820
Net gain on commodities trading	1	5	32.7	16
Interest and dividend income	4,405	12,825	34.3	34,223
<b>Operating costs and expenses</b>	<b>58,349</b>	<b>60,107</b>	<b>97.1</b>	<b>240,055</b>
Selling, general and administrative expenses	57,090	54,582	104.6	218,634
Interest expenses	1,258	5,525	22.8	21,420
<b>Operating Income/loss</b>	<b>37,949</b>	<b>2,078</b>	<b>1,825.5</b>	<b>17,129</b>
Non-operating income	4,059	360	1,125.4	944
Non-operating expenses	5,632	36	15,207.1	1,480
<b>Ordinary income/loss</b>	<b>36,385</b>	<b>2,402</b>	<b>1,514.4</b>	<b>16,592</b>
Extraordinary gain	2,798	–	–	49,923
Extraordinary loss	16,062	–	–	262,895
<b>Income before income taxes</b>	<b>23,121</b>	<b>–</b>	<b>–</b>	<b>△196,378</b>
Income taxes	7,190	–	–	295
Income taxes – deferred	△2,901	–	–	△79,702
Minority interest	△46,005	–	–	0
<b>Net income</b>	<b>64,839</b>	<b>–</b>	<b>–</b>	<b>△116,972</b>

Consolidated Statements of Retained Earnings

(millions of yen)

	<b>First quarter (Apr. 1, 99-Jun. 30, 99)</b>
<b>Beginning balance of retained earnings</b>	<b>369,976</b>
<b>Decrease in retained earnings</b>	<b>6,658</b>
<b>Cash dividend</b>	<b>6,658</b>
<b>Net income/ loss</b>	<b>64,839</b>
<b>Ending balance of retained earnings</b>	<b>428,157</b>

## **Notes to consolidation of three companies**

The consolidated financial statements of Daiwa Securities Group Inc., Daiwa Securities Co. Ltd., and Daiwa Securities SB Capital Markets Co. Ltd. are prepared in accordance with the Ministerial Ordinance Concerning Companies (Prime Minister's Office Ordinance and MOF Ordinance No.32, 1998), and the Uniform Accounting standards (set by the board of directors of the Japan Securities Dealers' Association, Nov. 14, 1974) based on the Regulations concerning the Terminology, Forms and preparation Method of the Consolidated Financial Statements (MOF Ordinance No.28, 1976)("the Regulations") and its Articles 46 and 68.

It should be noted that the presentation of the financial statements for the first quarter might be provisional and amended for the interim and full year, as the Company has not reached the final agreement with the authorities concerned regarding the method of terminology and forms.

The comparison of financial figures are computed between the consolidated financial statements for the current first quarter, and (old) Daiwa Securities Co. Ltd. financial statements for the first quarter or fiscal 1998.

## **Basis of consolidated financial statements for the first quarter of fiscal 1999**

### 1. Scope of consolidation

The scope of consolidation for the current first quarter comprised of the solely three companies among all subsidiaries is not in accordance with Article 5 of the Regulations concerning the Terminology, Forms and preparation Methods of the Consolidated Financial Statements.

### 2. Accounting policies

#### (1) Discrepancies from accounting policies for the annual financial statements

(i) "Provision for accrued retirement benefits" included in "Operating costs and expenses" is determined as quarter of the annual estimated amounts.

(ii) Depreciation expenses is determined as quarter of the annual charge based on the assets held as of June 30, 1999.

#### (2) Valuation of specified transaction account

Securities, assets and derivative transactions in specified transaction account are recorded on a trade date basis at market value.

#### (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.

#### (4) Depreciation of tangible fixed assets

Depreciation is computed in accordance with the Corporate Tax Law.

#### (5) 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.

#### (6) Accounting for consumption taxes

Consumption taxes are separately recorded.

#### (7) 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. The reversal is due to the parent company transformation from securities house status into corporate status.

### 3. Elimination of investments and shareholders' equity

Elimination of investment of the Parent Company and shareholders' equity of subsidiaries is made based on a step-by-step method.

4. Elimination of unrealized profits  
Unrealized profits and losses resulting from sales of assets among the consolidated companies are eliminated..
5. Appropriation of earnings  
Consolidated statements of retained earnings are prepared based on the appropriation approved during the current consolidated accounting period.

**Notes to consolidated balance sheet**

1. Accumulated depreciation of tangible fixed assets:  
7,685 million yen
2. Long-term borrowings include the subordinated borrowings of ¥40,000 million 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, 1999)

(Millions of yen)

**Notes to consolidated statements of income**

	First quarter (Jun. 30, 1999)	Fiscal 1998 (Mar. 30, 1999)
1.Selling general and administrative expenses		
Commissions and other expenses	10,196	34,369
Employee's compensation and benefit	21,867	86,593
Real estate expenses	11,027	43,069
Data processing and office supplies	10,031	34,737
Depreciation	1,526	5,116
Taxes other than income taxes	1,209	7,561
Provision for doubtful accounts	198	1,376
Other	1,033	5,809
2.Details of extraordinary gains/losses		
	First quarter (Jun. 30, 1999)	Fiscal 1998 (Mar. 30, 1999)
<i>Extraordinary gains</i>		
Gain from sale of investment securities	927	3,797
Reversal of unrealized loss for investment securities	1,087	—
Reversal of reserve for stock trading losses	—	34,603
Reversal of reserve for bond trading losses	—	11,522
Reversal of receive for securities transaction liabilities	779	—
Reversal for financial futures transaction liabilities	4	1
<i>Extraordinary losses</i>		
Loss on financial assistance to related companies	—	115,800
Provision for prior-periods retirement benefits of directo	—	973
Loss on liquidation of employee's retirement plans	—	12,785
Write-off of trading securities	—	463
Write-off of investments in subsidiaries	—	115,137
Expenses for rationalization of overseas business	—	2,709
Expenses for rationalization of equipment	—	2,018
Expenses for the holding company structure	—	2,561
Loss on sales of investment securities	—	2,383
Trading loss on sales of investment securities	424	—
Write-off of investment securities	—	7,819
Write-off of goodwill	8,000	—
Consumption tax and others	4,359	—
Write-off of deferred assets	3,103	—
Provision for reserve for securities transaction liabilities	175	243
Provision for reserve for financial futures transaction liabilities	0	—

**Consolidated**  
**Supplemental information for first quarter June 30, 1999**

## 1. Breakdown of commission income

## (1) By activity

(millions of yen)

	First quarter, 1999 (A)	First quarter, 1998 (B)	(A)/(B) (%)	Fiscal year 1998
Brokerage commission	34,147	13,042	261.8	72,802
(Stock)	(31,876)	(11,669)	(273.2)	(66,337)
(Bond)	(2,267)	(1,367)	(165.8)	(6,452)
Underwriting & distribution	4,577	3,720	123.0	21,972
(Stock)	(1,793)	(1,675)	(107.0)	(13,970)
(Bond)	(2,784)	(2,044)	(136.2)	(8,001)
Subscription & distribution	18,396	9,008	204.2	37,760
Other commission	12,080	10,019	120.6	44,587
Total	69,201	35,790	193.4	177,123

## (2) By asset class

(millions of yen)

	First quarter, 1999 (A)	First quarter, 1998 (B)	(A)/(B) (%)	Fiscal year 1998
Stock	34,498	14,181	243.3	83,274
Bond	6,134	4,315	142.2	19,890
Beneficiary certificate	27,548	16,835	163.6	70,515
Other	1,020	458	222.6	3,440
Total	69,201	35,790	193.4	177,121

## 2. Breakdown of trading gains &amp; losses

(millions of yen)

	First quarter, 1999 (A)	First quarter, 1998 (B)	(A)/(B) (%)	Fiscal year 1998
Stock	5,989	525	1,140.2	9,732
Bond & forex	16,701	13,039	128.1	36,087
(Bond)	(16,783)	(14,681)	(114.3)	(26,824)
(Forex)	(△82)	(△1,642)	(-)	(9,263)
Total	22,690	13,564	167.3	45,820

## 3. Trading volume of stocks (excluding futures transaction)

(millions of yen, millions of share)

	First quarter, 1999		First quarter, 1998		(A)/(B) (%)		Fiscal year 1998	
	(A)		(B)		# of shrs	yen amount	# of shrs	yen amount
	# of shrs	yen amount	# of shrs	yen amount				
Total	15,314	11,174,693	4,888	3,692,349	313.3%	302.6%	38,404	29,883,606
(Dealing) (a)	(3,314)	(4,008,104)	(1,146)	(1,095,787)	(289.1%)	(365.8%)	(12,847)	(11,259,320)
(Brokerage)(b)	(11,999)	(7,166,589)	(3,741)	(2,596,561)	(320.7%)	(276.0%)	(25,557)	(18,624,285)
b/(a + b)	78.4%	64.1%	76.5%	70.3%			66.5%	62.3%
TSE share	9.1%	8.9%	7.3%	7.0%			9.0%	9.1%
Brokerage commission/share	¥2.63		¥2.95				¥2.49	

## 4. Underwriting activities

(millions of yen, millions of share)

	First quarter, 1999	First quarter, 1998	(A)/(B) (%)	Fiscal year 1998
	(A)	(B)		
<u>Underwriting:</u>				
Stock (# of shares)	17	6	259.3	93
(yen amount)	64,379	47,173	136.5	516,792
Bond (face value)	1,023,612	594,904	172.1	2,225,080
CP & other (face value)	203,900	266,500	76.5	953,400
<u>Subscription &amp; distribution(*)</u>				
Stock (# of shares)	17	6	284.4	94
(yen amount)	64,379	47,183	136.4	525,369
Bond (face value)	1,194,875	698,982	170.9	2,776,649
Beneficiary certificate (face value)	5,199,162	3,989,385	130.3	14,258,642
CP & other (face value)	205,900	227,500	90.5	952,400

(\*) Including secondary offering and private placement

## 5. Number of directors &amp; employees (as of June 30, 1999)

	Total	Daiwa securities Group Inc.	Daiwa Securities Co. Ltd.	Daiwa Securities SB Capital Markets Co. Ltd.	(Old) Daiwa Securities Co. Ltd.	
					Mar. 31, 1999	Jun. 30, 1998
Director	24	7	7	10	33	33
Auditing officer	10	3	3	4	4	5
Executive officer	21	4	7	10	-	-
Employee	8,048	370	6,085	1,593	7,571	7,979
Total	8,103	384	6,102	1,617	7,608	8,017

**Daiwa Securities Group Inc.**  
**Balance Sheet**  
**(as of June 30, 1999)**

(millions of yen)

<b>Assets</b>	<b>Amount</b>	<b>Liability</b>	<b>Amount</b>
<b>Current assets:</b>	<b>609,766</b>	<b>Current liabilities:</b>	<b>455,395</b>
Cash and time deposits	297,815	Short-term borrowings	217,591
Receivable	2,477	Bond due within one year	19,419
Short-term loans	282,755	Deposit received	93,804
Securities	1,258	Accrued liability	60,471
Other current assets	27,616	Accrued income taxes	242
Less: Allowance for doubtful accounts	△2,156	Accrued bonuses	1,192
		Provision for financial assist. to related companies	58,200
		Other current liabilities	4,474
<b>Non-current assets:</b>	<b>936,000</b>	<b>Non-current liabilities:</b>	<b>345,345</b>
Tangible fixed assets	12,365	Convertible bonds	94,371
Intangible fixed assets	1,069	Long-term borrowing	203,000
Investments and other	922,565	Long-term Guarantee deposit from client	47,003
Investment securities	718,421	Accrued retirement benefit	574
Long-term loans	115,171	Other non-current liabilities	396
Long-term guarantee deposits	68,938		
Other investments	22,472	<b>Total liabilities</b>	<b>800,740</b>
Less: Allowance for doubtful accounts	△2,438	<b>Stockholders' equity:</b>	<b>745,026</b>
		Common stock	138,424
		Legal reserve	163,114
		Additional paid-in capital	117,779
		Earned surplus reserve	45,335
		Retained earnings	443,486
		General-purpose reserve	317,000
		Unappropriated retained earnings	126,486
		(Current term net profit)	(125,491)
		<b>Total of stockholder's equity</b>	<b>745,026</b>
<b>Total assets</b>	<b>1,545,767</b>	<b>Total liabilities and stockholders' equity</b>	<b>1,545,767</b>

**Daiwa Securities Group Inc.**  
**Income Statement**

(Millions of Yen)	First Quarter (Apr. 1, 1999–Jun. 30, 99)
<b>Operating Revenues</b>	<b>21,051</b>
Commissions	17,132
Net gain on trading securities	1,454
interest and dividend income	2,463
<b>Operating costs and expenses</b>	<b>14,301</b>
Selling, general and administrative expenses	14,140
Interest expenses	160
<b>Operating Income/loss</b>	<b>6,750</b>
Non-operating income	4,111
Non-operating expenses	5,914
<b>Ordinary income/loss</b>	<b>4,947</b>
Extraordinary gain	202,798
Extraordinary loss	424
<b>Income before income taxes</b>	<b>207,322</b>
Income taxes	20
Income taxes - deferred	81,810
<b>Net income</b>	<b>125,491</b>
Unappropriated retained earnings	995
<b>Unappropriated retained earnings/deficit</b>	<b>126,486</b>

**Basis of financial statements for the first quarter of fiscal 1999**

1. The Company was running as a securities house until 25 April 1999, and transformed into a holding company, transferring retail business divisions to Daiwa Securities Preparation Co. Ltd. The financial statements of the Company for the period from 1 April to 25 April, 1999 are prepared in accordance with the Ministerial Ordinance Concerning Securities Companies (the Prime Minister's Office Ordinance and Ministry of Finance ("MOF") Ordinance No.32, 1998) and the Uniform Accounting Standards (set by the Board of Directors of the Japan Securities Dealers' Association, Nov. 14, 1974) based on the Regulation concerning the Terminology, Forms and Preparation Methods of the Financial Statements (MOF Ordinance No. 59, 1963 ("the Regulations")) and its Article 2. The financial statements of the Company for the period from 26 April to 30 June, 1999 are prepared in accordance with the Regulations. It should be noted that the presentation of the financial statements for the first quarter might be provisional and amended for the interim and full year, as the Company has not reached the final agreement with the authorities concerned regarding the method of terminology and forms.
2. Discrepancies from accounting policies for the annual financial statements
  - (1) "Provision for accrued retirement benefits" included in "Operating costs and expenses" is determined as quarter of the annual estimated amounts.
  - (2) Depreciation expense is determined as quarter of the annual charge based on the assets held by the Company as of June 30, 1999.
3. Valuation of securities and investment 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 are valued on a settlement date basis at cost determined by the moving average method.
4. Depreciation of tangible fixed assets  
Depreciation is computed in accordance with the Corporate Tax Law.
5. 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.
6. Accounting for consumption taxes  
Consumption taxes are separately recorded when booking a respective transaction and the net amount of temporary advances and receipts is included in other current assets liabilities.

**Notes to balance sheet**

1. Accumulated depreciation deducted from tangible fixed assets:  
6,945 million yen
2. Treasury stock included in other current assets:  
66,948 shares, 48 million yen
3. Treasury stock included in other investments:  
5,033,000 shares, 3,543 million yen  
(Treasury stock negotiable to directors and employees under Article 210-2 of Commercial Law)

**Notes to statements of income**

## 1. Selling, general and administrative expenses

	(millions of yen)
Commissions and other expenses	2,107
Employees' compensation and benefits	5,472
Real estate expenses	2,795
Data processing and office supplies	1,855
Depreciation expenses	299
Taxes other than income taxes	388
Provision for doubtful accounts	695
Other	526

## 2. Extraordinary gains and losses

	(millions of yen)
Extraordinary gains	
Gains on transferring goodwill	200,000
Gains on sale of investment securities	927
Reversal of revaluation loss on investment securities	1,087
Reversal of reserve for securities transaction liabilities	779
Reversal for financial futures transaction liabilities	4
Extraordinary losses	
Losses on sale of investment securities	424

**Daiwa Securities Co. Ltd**  
**Balance Sheet**  
**(June 30, 1999)**

(millions of yen)

<b>Assets</b>	<b>Amount</b>	<b>Liability</b>	<b>Amount</b>
<b>Current assets:</b>	<b>655,551</b>	<b>Current liabilities:</b>	<b>552,416</b>
Cash and time deposits	149,106	Short-term borrowings	81,000
Cash segregated as deposits related to securities transactions	2,309	Deposits received	78,419
Receivable	10,278	Advance receipts on securities subscribed	619
Trade date accrual	244	Accrued liability	2,495
Advance payments on securities subscribed	393	Trading liabilities:	64
Short-term loans	5,355	Trading securities and other	47
Accrued receivable	19	Derivative valuation accounts	17
Accrued income	9,813	Payables related to margin transactions	35,211
Trading assets:	10,771	Loan from securities Finance for margin	13,001
Trading securities and other	10,736	Proceed sec. Sold custom.margin transacts.	22,210
Derivative valuation accounts	35	Short-term securities borrowed	40,166
Receivable related to margin	131,589	Cash deposits received from customers	37,730
Loans receivable from customers for margin	126,178	Securities deposited by customers as collat.	262,099
Cash deposits as collateral for sec. Borrowed from sec. finance companies	5,411	Accrued income taxes	7,252
Cash deposits as collateral for securities borrowed	24,538	Other current liabilities	7,357
Securities in custody	302,266	<b>Non-current liabilities:</b>	<b>416</b>
Short-term guarantee money	6,329	Accrued retirement benefits	416
Deferred income taxes assets- current	1,149	Other non-current liabilities	0
Other current assets	1,386	Statutory reserves:	42
Less: Allowance for doubtful accounts	△0	Securities exchange reserve	42
<b>Non-current assets:</b>	<b>55,146</b>	<b>Total liabilities</b>	<b>552,875</b>
Tangible fixed assets	2,874	<b>Stockholders' equity:</b>	<b>157,821</b>
Intangible fixed assets	0	Common stock	100,000
Investments and other:	52,271	Legal reserve	50,010
Long-term loans	5,000	Additional paid-in capital	50,010
Long-term guarantee deposits	45,002	Retained earnings	7,811
Deferred income taxes assets	178	Unappropriated retained earnings	7,811
Other investments	2,091	(Current term net profit)	(7,819)
<b>Total assets</b>	<b>710,697</b>	<b>Total stockholders' equity</b>	<b>157,821</b>
		<b>Total liabilities and stockholders' equity</b>	<b>710,697</b>

**Daiwa Securities Co. Ltd**  
**Income Statement**

(Millions of Yen)	First Quarter (Apr. 1, 99–Jun. 30, 99)
<b>Operating Revenues</b>	<b>40,694</b>
Commissions	36,252
Net gain on trading securities	3,986
Net gain on commodities trading	1
Interest and dividend income	454
<b>Operating costs and expenses</b>	<b>25,920</b>
Selling, general and administrative expenses	25,806
Interest expenses	114
<b>Operating Income/loss</b>	<b>14,773</b>
Non-operating income	9
Non-operating expenses	5
<b>Ordinary income/loss</b>	<b>14,777</b>
Extraordinary gain	–
Extraordinary loss	1,120
Write-off of deferred assets	1,078
Provision of statutory reserve	42
<b>Income before income taxes</b>	<b>13,657</b>
Income taxes	7,165
Income taxes – deferred	△1,327
<b>Net income</b>	<b>7,819</b>
Unappropriated retained earnings	7
<b>Unappropriated retained earnings/deficit</b>	<b>7,811</b>

**Basis of financial statements for the first quarter of fiscal 1999**

1. Discrepancies from accounting policies for the annual financial statements
  - (1) "Provision for accrued retirement benefits" included in "Operating costs and expenses" is determined as quarter of the annual estimated amounts.
  - (2) Depreciation expense is determined as quarter of the annual charge based on the assets held by the Company as of June 30, 1999.
2. Valuation of specified transaction account  
Securities, assets and derivative transactions in specified transaction account are recorded on a trade date basis at market value.
3. Depreciation of fixed assets  
Depreciation is computed in accordance with the Corporate Tax Law.
4. 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.
5. Accounting for consumption taxes  
Consumption taxes are separately recorded when booking a respective transaction and the net amount of temporary advances and receipts is included in accrued liabilities.
6. Provision (statutory reserves)  
In terms of reserve for securities transaction liabilities, the same accounting policies applied as those for the annual financial statements.

**Notes to balance sheet**

1. Accumulated depreciation of tangible fixed assets:  
312 million yen

**Notes to statements of income**

1. Selling, general and administrative expenses	(millions of yen)
Commissions and other expenses	3,224
Employees' compensation and benefits	11,731
Real estate expenses	5,780
Data processing and office supplies	4,151
Depreciation expenses	394
Taxes other than income taxes	160
Other	363

**Daiwa Securities Co. Ltd.**  
**Supplemental information for first quarter June 30, 1999**

## 1. Breakdown of commission income

## (1) By activity

(millions of yen)

	First quarter, 1999
Brokerage commission	16,105
(Stock)	( 15,283)
(Bond)	(821)
Underwriting & distribution	-
(Stock)	(-)
(Bond)	(-)
Subscription & distribution	13,249
Other commission	6,897
<b>Total</b>	<b>36,252</b>

## (2) By asset class

(millions of yen)

	First quarter, 1999
Stock	16,428
Bond	2,734
Beneficiary certificate	16,867
Other	222
<b>Total</b>	<b>36,252</b>

## 2. Breakdown of trading gains &amp; losses

(millions of yen)

	First quarter, 1999
Stock	756
Bond & forex	3,230
(Bond)	(2,190)
(Forex)	(1,039)
<b>Total</b>	<b>3,986</b>

## 3. Trading volume of stocks (excluding futures transaction)

(millions of yen, millions of share)

	First quarter, 1999	
	# of shrs	yen amount
Total	2,084	2,030,916
(Dealing) (a)	(47)	(101,247)
(Brokerage)(b)	(2,036)	(1,929,668)
b/(a + b)	97.7%	95.0%
TSE share	3.0%	2.5%
Brokerage commission/share	¥7.50	

## 4. Underwriting activities

(millions of yen, millions of share)

	First quarter, 1999
<u>Underwriting:</u>	
Stock (# of shares)	-
(yen amount)	-
Bond (face value)	-
CP & other (face value)	-
<u>Subscription &amp; distribution<sup>(*)</sup></u>	
Stock (# of shares)	3
(yen amount)	8,314
Bond (face value)	139,709
Beneficiary certificate (face value)	2,358,935
CP & other (face value)	-

(\*) Including secondary offering and private placement

## 5. Capital adequacy ratio

		(millions of yen)
		as of June 30, 1999
Basic item	Total stockholders' equity (A)	157,821
Supplementary item	Statutory reserve	42
	Allowance for doubtful accounts	0
Total (B)		42
Assets excluded from capital (C)		58,827
Capital after exclusion (A)+(B)-(C) (D)		99,036
Risk equivalent	Market risk equivalent	1,619
	Counterparty risk equivalent	4,589
	Fundamental risk equivalent	32,676
Total (E)		38,885
Capital adequacy ratio (D)/(E) × 100%		254.6%

## 6. Number of directors &amp; employees

	as of June 30, 1999
Director	10
Employee	6,092

## Daiwa Securities SB Capital Markets Co. Ltd.

**Balance Sheet**  
(as of June 30, 1999)

(millions of yen)

<b>Assets</b>	<b>Amount</b>	<b>Liability</b>	<b>Amount</b>
<b>Current assets:</b>	<b>3,795,124</b>	<b>Current liabilities:</b>	<b>3,497,533</b>
Cash and time deposits	148,460	Short-term borrowings	172,600
Cash segregated as deposits related to securities transactions	797	Commercial paper	25,000
Receivable	963	Deposits received	31,885
Trade date accrual	237,516	Advance receipts on securities subscribed	1,982
Advance payments on sec. subscribed	1,297	Accrued liability	703
Short-term loans	19,782	Trading liabilities:	777,725
Accrued receivable	6,142	Trading securities and other	660,320
Accrued income	4,634	Option transactions	4,421
Trading assets:	1,137,962	Derivative valuation accounts	112,983
Trading securities and other	1,013,178	Payables related to margin transactions	2,495
Option transactions	6,094	Loan from securities Finance for margin	58
Derivative valuation accounts	118,689	Proceed sec. Sold custom.margin transactions	2,437
Receivable related to margin transactions	33,898	Payables related to Gensaki transactions	882,445
Loans receivable from customers for margin transactions	957	Cash deposits as collateral for securities loaned	298,038
Cash deposits as collateral for sec. Borrowed from sec. finance companies	32,941	Short-term securities borrowed	1,075,724
Receivable related to Gensaki transactions	202,089	Cash deposits from customers	17,160
Cash deposits as collateral for securities borrowed	694,844	Securities deposited by customers as collateral	205,037
Securities in custody	1,280,761	Accrued income taxes	5
Short-term guarantee money deposited	9,510	Other current liabilities	6,730
Deferred income taxes assets- current	11,520	<b>Non-current liabilities:</b>	<b>100,358</b>
Other current assets	4,981	Long-term borrowings	100,000
Less: Allowance for doubtful accounts	△40	Accrued retirement benefits	312
<b>Non-current assets:</b>	<b>95,888</b>	Other non-current liabilities	46
Tangible fixed assets	4,179	Statutory reserves:	133
Building and structures	14	Securities transactions reserve	133
Equipment	4,165	Financial futures reserve	0
Intangible fixed assets	7,579		
Investments and other	84,129	<b>Total liabilities</b>	<b>3,598,025</b>
Investment securities	96	<b>Stockholders' equity:</b>	<b>292,987</b>
Long-term loans	45	Common stock	205,600
Long-term guarantee deposits	7,055	Legal reserve	202,410
Deferred income taxes assets	71,865	Additional paid-in capital	202,410
Long-term prepaid expenses	295	Retained loss	115,022
Other investments	4,770	Unappropriated retained earnings (Current term net loss)	115,022 (115,014)
<b>Total assets</b>	<b>3,891,013</b>	<b>Total stockholders' equity</b>	<b>292,987</b>
		<b>Total liabilities and stockholders' equity</b>	<b>3,891,013</b>

**Daiwa Securities SB Capital Markets Co. Ltd**  
**Income Statement**

(Millions of Yen)	First Quarter (Apr. 1, 99–Jun. 30, 99)
<b>Operating Revenues</b>	<b>37,934</b>
Commissions	19,157
Net gain on commodities trading	17,249
Interest and dividend income	1,527
<b>Operating costs and expenses</b>	<b>22,082</b>
Selling, general and administrative expenses	21,020
Interest expenses	1,061
<b>Operating Income/loss</b>	<b>15,852</b>
Non-operating income	309
Non-operating expenses	37
<b>Ordinary income/loss</b>	<b>16,124</b>
Extraordinary gain	–
Extraordinary loss	214,518
Write-off of goodwill	208,000
Non-deductible consumption tax and others regarding goodwill and others	4,359
Write-off of deferred assets	2,025
Provision for reserve for securities transaction liabilities	133
Provision for financial futures transaction liability	0
<b>Income before income taxes</b>	<b>△198,394</b>
Income taxes	5
Income taxes - deferred	△83,385
<b>Net income</b>	<b>△115,014</b>
Unappropriated retained loss	8
<b>Unappropriated retained earnings/deficit</b>	<b>△115,022</b>

**Basis of financial statements for the first quarter of fiscal 1999**

1. Discrepancies from accounting policies for the annual financial statements
  - (1) "Provision for accrued retirement benefits" included in "Operating costs and expenses" is determined as quarter of the annual estimated amounts.
  - (2) Depreciation expense is determined as quarter of the annual charge based on the assets held by the Company as of June 30, 1999.
2. Valuation of specified transaction account  
Securities, assets and derivative transactions in specified transaction account are recorded on a trade date basis at market value.
3. Valuation of non-trading securities and commodities other than securities  
Unlisted securities and commodities other than securities are valued on a settlement date basis at cost determined by the moving average method.
4. Depreciation of tangible fixed assets  
Depreciation is computed in accordance with the Corporate Tax Law.
5. 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.
6. Accounting for consumption taxes  
Consumption taxes are separately recorded when booking a respective transaction and the net amount of temporary advances and receipts is included in accrued receivable.
7. 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.

**Notes to balance sheet**

1. Accumulated depreciation of tangible fixed assets:  
427 million yen
2. Long-term borrowings are the subordinated borrowings stipulated under Article 2 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, 1999)

**Notes to statements of income**

1. Selling, general and administrative expenses

	(millions of yen)
Commissions and other expenses	8,133
Employees' compensation and benefits	4,662
Real estate expenses	2,448
Data processing and office supplies	4,095
Depreciation expenses	833
Taxes other than income taxes	160
Other	186

2. Write-off of goodwill

The goodwill acquired on commencing operations was written-off in a lump sum. The incurred loss is included in extraordinary item.

**Daiwa Securities SB Capital Market Co. Ltd..**  
**Supplemental information for first quarter June 30, 1999**

## 1. Breakdown of commission income

## (1) By activity

(millions of yen)

	First quarter, 1999
Brokerage commission	10,018
(Stock)	( 9,217)
(Bond)	(798)
Underwriting & distribution	4,235
(Stock)	( 1,792)
(Bond)	(2,442)
Subscription & distribution	649
Other commission	4,254
Total	19,157

## (2) By asset class

(millions of yen)

	First quarter, 1999
Stock	11,100
Bond	3,952
Beneficiary certificate	3,271
Other	832
Total	19,157

## 2. Breakdown of trading gains &amp; losses

(millions of yen)

	First quarter, 1999
Stock	4,459
Bond & forex	12,789
(Bond)	(13,990)
(Forex)	(△1,200)
Total	17,249

## 3. Trading volume of stocks (excluding futures transaction)

(millions of yen, millions of share)

	First quarter, 1999	
	# of shrs	yen amount
Total	6,601	7,753,011
(Dealing) (a)	(3,036)	(3,594,387)
(Brokerage)(b)	(3,564)	(4,158,623)
b/(a + b)	54.0%	53.6%
TSE share	5.8%	6.2%
Brokerage commission/share	¥2.52	

## 4. Underwriting activities

(millions of yen, millions of share)

	First quarter, 1999
<u>Underwriting:</u>	
Stock (# of shares)	17
(yen amount)	64,379
Bond (face value)	913,401
CP & other (face value)	202,900
<u>Subscription &amp; distribution (*)</u>	
Stock (# of shares)	17
(yen amount)	64,379
Bond (face value)	923,139
Beneficiary certificate (face value)	1,339,010
CP & other (face value)	202,900

(\*) Including secondary offering and private placement

## 5. Capital adequacy ratio

(millions of yen)

		June 30, 1999
Basic item	Total stockholders' equity (A)	292,987
Supplementary item	Statutory reserve	133
	Allowance for doubtful accounts	40
	Subordinated borrowings	100,000
Total (B)		100,173
Assets excluded from capital (C)		99,343
Capital after exclusion (A)+(B)-(C) (D)		293,817
Risk equivalent	Market risk equivalent	17,028
	Counterparty risk equivalent	7,790
	Fundamental risk equivalent	16,386
	Total (E)	41,206
Capital adequacy ratio	(D)/(E) × 100%	713.0%

## 6. Number of directors &amp; employees

	as of June 30, 1999
Director	14
Employee	1,610

## **Year 2000 Compliance Project**

### **I. Daiwa's measures**

#### **1. Management policy on Year2000 project**

To fulfill our obligation to our customer and business partners, Daiwa recognizes that Year 2000 compliance is a key factor to maintain our worldwide creditability. Daiwa has initiated a range of actions since 1996.

#### **2. The Project and its Organization**

In order to run the project throughout the company, we have established Year 2000 Compliance Project Committee ("Y2K Committee") which is directly supervised by the Board of Directors. The Committee meets every month to review overall remedial status and action plans, and progress done by each Department.

The progress report from the Y2K Committee will be reviewed by the Board of Directors and other Board members' meeting once a month, usually.

After the company structure transformation was completed, Daiwa Securities Group Inc., a holding company, has led the Y2K project in closer cooperation with Daiwa Securities Co. Ltd. and Daiwa Securities SB Capital Markets Co. Ltd., where Y2K Committee was respectively established as well, strengthening the commitment to Year 2000 Compliance as a group.

Additionally, the Y2K Committee makes sure the compliance in domestic group companies and overseas subsidiaries through an inspection visit or requirement of report submission.

#### **3. Current status of the Project**

##### **(1) Systems**

In addition to promoting end-to-end data processing test with our customers, counterparties, and Daiwa overseas offices, starting December 1998, Daiwa has been also actively involved in end-to-end data processing test with financial industry organizations. We recognize no problems on our systems for Y2K compliance, having completed the end-to-end data processing test by the end of June 1999 as scheduled, except for the part of tests in an adjusted schedule.

Internal testing for critical systems for our core business was completed by the end of December 1998. We recognize no problems on critical systems for our core business, having completed all-round test by the end of May 1999 and end-to-end data processing test by the end of June 1999. However, due to undergoing partial renovation on equity trading systems which has been designed for Y2K compliance, we would have re-assurance test for the said systems after the implementation.

Although we have been contacting and collecting vendor's compliance letter for every hardware and software, some letters have not been received yet or vendor's upgrade for the products still has not been done. We will continue monitoring vendor's compliance status for those outstanding inventories and revised retro-status change like "Y2K ready" to "not ready but in progress". Internal assurance test for these products would also be conducted.

(2) Facilities

For communication network equipment such as telephones, facsimiles, PBX/PBAX, office facilities including vaults, anticriminal/fire pre-action systems, elevator/lift, air-conditioning systems, basically we have been requesting vendor's compliance letter. We received vendor's compliance statements by the end June, 1999. We will cautiously continue monitoring producer's compliance status and collecting information.

(3) Impacts from outside

We have been aware the potential risk scenarios that our customer's/their counterparty's Y2K incompleteness would affect Daiwa's normal operation directly or indirectly. One of our remedial approaches to minimize the potential risk is interactive disclosure by sending/responding questionnaires to our customers and counterparties and active participation of end-to-end testing with these firms.

## **II. Cost**

The three group companies transformed from "old" Daiwa estimate that total cost for the project would be approximately 4 billion yen (3 billion for upgrading hardware/software and 1 billion expenses for programming and external testing and so on), and approximately 1.7 billion yen has been disbursed. All the cost will be self-funded, and it will be unlikely to adversely affect financial conditions of each company.

## **III. Contingency Plans**

We have been engaged to establish Y2K contingency plans, taking into full consideration a credit risk, a legal risk, reputation risk, a liquidity risk, and administrative risk.

Y2K Committee has established the Contingency Plans, "Risk Mitigation Plans toward the millennium weekend", "Command Center Planning", and "Invoke the Plan", taking into full consideration of the potential problems with multiple, simultaneous, and chain-reaction stemming levels.

Daiwa Securities Group Inc., Daiwa Securities Co. Ltd., and Daiwa Securities SB Capital Markets Co. Ltd. have coordinated and integrated and each Contingency Plan formulated at each business-unit-level as a cell for maintaining normal service ability how each of them works together effectively to protect Daiwa's day-to-day business in order to establish the Contingency Plans.

We are prepared to tune our Y2K contingency plans in cooperation with Bank of Japan, Stock Exchanges, and other institutions concerned, if necessary.