

October 22, 1998

**Interim consolidated financial summary for the six months ended September 30, 1998**

- Daiwa Securities Co. Ltd. (the Company) lists its stock on the Tokyo Stock Exchange, Osaka Securities Exchange, and Nagoya Stock Exchange in Japan.
- The board of directors has approved the interim consolidated financial result on October 22, 1998.
- The interim consolidated fiscal year starts on April 1 and ends on September 30 in each year.

(1) Operating results 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	%
Current interim year (98/9)	253,434	(△18.0)	△ 38,768	( - )	△ 37,241	( - )
Last interim year (97/9)	308,919		23,052		22,688	
Last fiscal year (98/3)	523,896		△ 14,169		△ 13,179	

	Net income /loss	Increase /decrease	Net income/loss per share	Return on stockholder' equity
	million yen	%	yen	%
Current interim year (98/9)	△ 66,839	( - )	△ 50.16	△ 9.1
Last interim year (97/9)	15,528		11.54	1.8
Last fiscal year (98/3)	△ 83,657		△ 62.35	△ 10.2

(2) Financial conditions

	Total assets	Stockholders' equity	Stockholders' equity ratio	Stockholders' equity /share
	million yen	million yen	%	yen
Current interim year (98/9)	9,359,418	697,901	9.4	524.06
Last interim year (97/9)	17,753,321	877,961	5.9	652.97
Last fiscal year (98/3)	10,132,456	774,698	9.3	580.08

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

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

<Referential information> Interim financial summary of the parent company

Operating revenue	Increase/decrease	Operating income	Increase/decrease	Ordinary income	Increase/decrease
million yen	%	million yen	%	million yen	%
109,955	( △ 26.2 )	△ 11,646	( - )	△ 11,515	( - )

Net income	Increase/decrease	Net income per share	Total assets	Stockholders' equity
million yen	%	yen	million yen	million yen
△ 44,684	( - )	△33.53	6,321,273	696,390

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## Interim Consolidated Balance Sheets

(millions of yen)

	Sept.30,1998	Sept.30,1997	Increase /decrease	Mar.31,1998
Current assets:				
Cash and time deposits	467,302	613,445	△ 146,143	597,540
Cash segregated as deposits related to securities transactions	45,177	73,313	△ 28,135	26,171
Receivables	134,974	23,043	111,930	31,237
Trade date accrual	338,029	489,809	△ 151,779	84,724
Advance payments on securities subscribed	398	1,498	△ 1,099	398
Short-term loans	295,317	321,438	△ 26,120	207,839
Trading assets:	3,127,753	5,455,946	△2,328,192	3,974,050
Trading securities and other	2,820,154	5,199,743	△2,379,589	3,751,785
Option transactions	55,026	16,020	39,005	3,708
Derivative valuation accounts	252,573	240,182	12,391	218,556
Commodities other than securities	—	4,896	△ 4,896	699
Receivables related to margin transactions:	104,957	166,951	△ 61,994	94,293
Loans receivable from customers for margin transactions	57,836	84,608	△ 26,772	65,612
Cash deposits as collateral for securities borrowed from securities finance companies	47,120	82,342	△ 35,221	28,680
Receivables related to Gensaki transactions	263,074	434,422	△ 171,347	339,322
Cash deposits as collateral for securities borrowed	1,817,685	6,131,488	△4,313,803	2,136,304
Securities in custody	1,923,479	2,986,255	△1,062,776	1,771,915
Other current assets	246,543	268,303	△ 21,759	176,851
Less: Allowance for doubtful accounts	△ 5,697	△ 3,474	△ 2,222	△ 2,562
Total current assets	8,758,997	16,967,337	△8,208,340	9,438,785
Non-current assets:				
Tangible fixed assets	96,371	76,424	19,946	86,953
Intangible fixed assets	1,199	1,243	△ 44	1,199
Investments and other:	502,849	688,864	△ 186,014	604,748
Investment securities	336,676	507,531	△ 170,855	423,644
Long-term loans	65,779	79,302	△ 13,522	76,046
Long-term guarantee deposits	69,053	70,544	△ 1,491	71,045
Other investments	40,931	32,055	8,875	43,428
Less: Allowance for doubtful accounts	△ 9,590	△ 569	△ 9,021	△ 9,415
Total non-current assets	600,421	766,533	△ 166,112	692,901
Translation adjustment	—	19,450	△ 19,450	770
<b>Total assets</b>	<b>9,359,418</b>	<b>17,753,321</b>	<b>△8,393,903</b>	<b>10,132,456</b>

(millions of yen)

	Sept.30,1998	Sept.30,1997	Increase /decrease	Mar.31,1998
<b>Current liabilities:</b>				
Short-term borrowings	473,844	988,278	△ 514,433	633,242
Commercial paper	33,761	72,878	△ 39,116	45,268
Foreign certificates of deposits	—	45,130	△ 45,130	30,583
Bonds due within one year	36,878	54,819	△ 17,940	63,239
Deposits received	410,452	596,849	△ 186,396	521,023
Advance receipts on securities subscribed	7,816	38,230	△ 30,413	2,469
<b>Trading liabilities:</b>	1,198,250	2,396,128	△ 1,197,878	1,446,511
Trading securities and other	932,577	2,140,845	△ 1,208,267	1,219,399
Option transactions	14,481	12,223	2,257	3,676
Derivative valuation accounts	251,191	243,060	8,131	223,435
<b>Payables related to margin transactions:</b>	60,708	54,722	5,986	57,141
Loans from securities finance companies for margin transactions	16,731	16,745	△ 13	19,301
Proceeds of securities sold for customers' accounts on margin	43,977	37,976	6,000	37,839
Payables related to Gensaki transactions	967,739	2,015,590	△ 1,047,851	1,064,270
Cash deposits as collateral for securities loaned	2,781,546	6,768,953	△ 3,987,407	3,088,009
Short-term securities borrowed	1,597,393	2,458,446	△ 861,053	1,433,569
Cash deposits received from customers	55,729	140,705	△ 84,976	45,156
Securities deposits by customers as collateral	326,086	527,808	△ 201,722	338,345
Accrued income taxes	2,114	3,140	△ 1,026	3,319
Other current liabilities	213,930	248,589	△ 34,659	152,455
<b>Total current liabilities</b>	<b>8,166,253</b>	<b>16,410,273</b>	<b>△ 8,244,019</b>	<b>8,924,608</b>
<b>Non-current liabilities:</b>				
Bonds	112,229	153,874	△ 41,644	127,833
Convertible bonds	94,371	116,486	△ 22,115	113,790
Long-term borrowings	213,591	123,017	90,574	121,863
Accrued retirement benefits	20,945	21,017	△ 71	20,819
Other non-current liabilities	709	1,327	△ 618	1,277
<b>Total non-current liabilities</b>	<b>441,847</b>	<b>415,721</b>	<b>26,125</b>	<b>385,584</b>
<b>Statutory reserves:</b>	46,405	48,318	△ 1,912	46,666
<b>Minority interest</b>	—	1,046	△ 1,046	898
<b>Translation adjustment</b>	6,113	—	6,113	—
<b>Total liabilities</b>	<b>8,660,619</b>	<b>16,875,360</b>	<b>△ 8,214,740</b>	<b>9,357,758</b>
<b>Minority interest</b>	896	—	896	—
<b>Stockholders' equity:</b>				
Common stock	138,424	138,424	—	138,424
Additional paid-in capital	117,779	117,779	—	117,779
Retained earnings	441,703	621,770	△ 180,067	518,527
Treasury stock	△ 6	△ 13	7	△ 33
<b>Total stockholders' equity</b>	<b>697,901</b>	<b>877,961</b>	<b>△ 180,059</b>	<b>774,698</b>
<b>Total liabilities, minority interest and stockholders' equity</b>	<b>9,359,418</b>	<b>17,753,321</b>	<b>△ 8,393,903</b>	<b>10,132,456</b>

Interim Consolidated Income Statements

(millions of yen)

	Current interim (98/9) (A)	Last interim (97/9) (B)	(A)/(B) (%)	Last fiscal year (98/3)
Operating revenues	253,434	308,919	82.0	523,896
Commissions	80,350	116,375	69.0	198,118
Net gain on trading	6,272	32,549	19.3	39,331
Net gain on commodities trading	9	32	30.6	52
Interest and dividend income	166,801	159,960	104.3	286,392
Operating costs and expenses	292,203	285,866	102.2	538,065
Selling, general and administrative expenses	143,344	144,625	99.1	283,599
Interest expenses	148,858	141,240	105.4	254,466
Operating income	△ 38,768	23,052	—	△ 14,169
Other income	1,973	746	264.3	4,149
Equity in earnings of affiliated companies	0	—	—	—
Other	1,973	746	264.3	4,149
Other expense	446	1,111	40.2	3,160
Ordinary income	△ 37,241	22,688	—	△ 13,179
Extraordinary gain	7,343	6,258	117.3	5,527
Extraordinary loss	38,262	11,554	331.1	76,283
Income before income taxes	△ 68,160	17,392	—	△ 83,936
Income taxes	△ 1,306	1,867	—	401
Income taxes refunded	—	—	—	658
Minority interest in	14	△ 8	—	△ 1
Equity in earnings of affiliated companies	—	12	—	23
Net income/loss	△ 66,839	15,528	—	△ 83,657

Interim Consolidated Statements of Retained Earnings

(millions of yen)

	Current interim (98/9)	Last interim (97/9)	Last fiscal year (98/3)
Beginning balance of retained earnings	518,527	—	—
Unappropriated retained earnings	474,794	575,417	575,417
Earned-surplus reserve	43,732	—	—
Decrease in retained earnings	9,983	12,908	16,965
Transfer to earned-surplus reserve	—	2,152	2,152
Cash dividend	8,012	10,756	10,756
Redemption of treasury stock	1,970	—	4,057
Net income/loss	△ 66,839	15,528	△ 83,657
Ending balance of retained earnings	441,703	578,038	474,794

**Basis of interim consolidated financial statements**

## 1. Scope of consolidation

The Company has 51 subsidiaries and all of them are consolidated. Daiwa Securities Canada Limited was liquidated in the interim fiscal year and was excluded from the scope of consolidation.

## 2. Scope of equity method application

An affiliated company is defined as an entity 20 to 50 % of whose voting rights the parent company holds and over which the parent company has the ability to exercise significant influence. Among 3 affiliated companies, equity method is applied to P.T. Danareksa-Daiwa NIF Ventures. Investments in the other 2 affiliated companies are carried at cost on the consolidated balance sheet because they are not material to consolidated net income and retained earnings.

## 3. Fiscal years of consolidated subsidiaries

Year-end dates of consolidated subsidiaries are as follows:

March 31	42 companies
July 31	1 company
September 30	1 company
December 31	7 companies

9 subsidiaries have different fiscal year-end from the date of consolidation. Daiwa Europe (France) S.A., and other 3 companies, all of which close their books at December 31, are consolidated after adjusting significant inter-company transactions between their balance sheet dates and the consolidated balance sheet date. 5 other subsidiaries are consolidated using pro forma financial statements at the date of consolidation.

## 4. Accounting policies

## (1) Differences between annual and interim accounting policies

- (i) "Provision for retirement benefits" included in "Operating costs and expenses" is determined as 1/2 of the annual estimated amounts.
- (ii) Depreciation expense is determined as 1/2 of the annual charge based on the assets held at the interim consolidated balance sheet date.

## (2) Valuation of securities and others owned for trading purpose

Trading securities and derivatives held for trading purpose by the Company are recorded on the trade date basis at fair market value. Trading securities, including derivative transactions, of consolidated subsidiaries are mainly recorded on the trade basis at fair market value.

## (3) Valuation of securities and commodities owned for non-trading purpose

Listed securities are mainly valued at the lower of cost-or-market, cost being determined by the moving average method. Unlisted securities and commodities are valued at cost determined by the moving average method.

## (4) Depreciation of tangible fixed assets

Depreciation expenses are calculated mainly by the declining-balance method.

## (5) Accounting for lease transactions

A finance lease which does not transfer ownership to a lessee is accounted for in the same manner as operating leases. The finance lease falling within this category and an operating lease are not capitalized and related lease payment is expensed as incurred.

(6) Translation of foreign currencies

The parent company translates foreign-currency-denominated transactions in accordance with the Accounting Standards for Foreign Currency Transactions (the Corporate Accounting Deliberation Council Release, June 26,1979, as amended on May 26,1995). Consolidated subsidiaries principally translate foreign-currency-denominated transactions (except for those hedged with forward exchange contracts) using year-end exchange rates .

(7) 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 or liabilities.

(8) Statutory reserves

Provision and reversal of the statutory reserves are made on the same basis as in the annual financial statements. Of these reserves, the reserve for securities trading loss will be abolished in this coming December; therefore, the appropriation is not made in this interim. The securities trading loss reserve is reversed by the amount smaller of actual trading loss incurred during the interim fiscal year or the balance of the reserve appropriated at the end of the last fiscal year.

(9) Income taxes

Income taxes are computed assuming that the Company would file a tax return for this interim period on the same basis as the annual tax return.

5. Elimination of investments and shareholders' equity

Elimination of investments of the parent company and shareholders' equity of subsidiaries is conducted based on the step-by-step method that treats respective purchase of a subsidiaries stock as a separate acquisition. A valuation differential resulting from elimination is expensed as incurred.

6. Elimination of unrealized profits

Unrealized profits and losses resulting from sales of assets among companies in the scope of consolidation and among companies accounted for under equity method are eliminated.

7. Translation of financial statements of foreign subsidiaries

Financial statements of foreign subsidiaries and a company to which equity method is applied are translated into yen in accordance with the Accounting Standards for Foreign Currency Transaction (the Corporate Accounting Deliberation Council Release, June 26,1979, as amended on May 26,1995).

8. Appropriation of earnings

Consolidated statements of retained earnings are prepared based on the payment of dividends and directors' bonus approved during the consolidated accounting period.

9. Inter-period allocation of income taxes

The Company generally does not recognize tax effect of timing differences. Certain foreign subsidiaries recognize deferred income taxes in compliance with local accounting principles, which are not adjusted in the consolidated financial statements.

**Change in financial statement presentation**

The following presentational changes in the consolidated financial statement have been made due to an amendment to the "MOF Ordinance of the Form and Presentation of Consolidated Financial Statement".

1. "Minority interest" constitutes an independent section in the consolidated balance sheet, which was previously included in the liabilities.
2. Earned-surplus reserve is treated as a part of consolidated retained earnings, which was formerly considered an independent item in the stockholders' equity.
3. "Equity in earnings of affiliated companies" becomes an element of other income/expenses.
4. Business tax is transferred to corporate income taxes from the selling, general and administrative expenses .
5. The consolidated statement of retained earnings is amended such that it represents the change in consolidated retained earnings which include both the statutory reserve and unappropriated retained earnings. Previously, consolidated retained earning statement represents the increase/decrease in unappropriated retained earnings.

**Notes to consolidated balance sheets**

- |   |                 |
|---|-----------------|
|   | (Sept. 30,1998) |
| 1 . Financial guarantees (¥ million) :  | 80,503          |
| 2 . Long-term borrowings include the following subordinated borrowings which are deemed as a supplementary item of the capital under the Ministerial Ordinance on the Capital Adequacy Rule for Securities Companies (MOF Ordinance No.67. 1992). |                 |

<u>Sept. 30, 1998</u>	<u>Sept. 30, 1997</u>	<u>Mar. 31, 1998</u>
195,000	100,000	100,000

(millions of yen)

**Notes to consolidated income statements**

(millions of yen)

	Current interim (98/9)	Last interim (97/9)	Last fiscal year (98/3)
1. Selling, general and administrative			
Commissions and other expenses	18,876	21,432	41,224
Employees' compensation and benefits	67,450	62,712	127,303
Real estate expenses	25,507	24,526	49,021
Data processing and office supplies	16,083	15,004	30,545
Depreciation	4,533	3,113	6,644
Taxes other than income taxes	4,863	12,190	18,094
Other	6,030	5,645	10,764
2. Extraordinary gains and losses			
Extraordinary gains			
Gain on sale of investment securities	2,460	6,011	5,468
Prior year adjustment related to relocation of an overseas subsidiary	4,621	—	—
Reversal of statutory reserve	260	247	58
Extraordinary losses			
Loss on financial assistance to a related company	—	—	39,900
Provision for doubtful accounts	1,904	—	8,386
Write-off of trading securities	137	—	976
Relocation of overseas subsidiaries	—	—	4,068
Exchange loss on liquidation of subsidiaries	569	—	2,008
Revaluation loss for investment securities	35,649	9,714	20,943
Provision for statutory reserve	—	1,840	—