

FINANCIAL

S t a t e m e n t s

Consolidated Balance Sheets	34
Consolidated Statements of Operations	36
Consolidated Statements of Shareholders' Equity	37
Consolidated Statements of Cash Flows	38
Notes to Consolidated Financial Statements	39
Report of Independent Public Accountants	54
The Daiwa Group / Overseas Directory	55
Corporate Data	56

Consolidated Balance Sheets

DAIWA SECURITIES GROUP INC.

March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	1999	1998	1999
Cash and cash deposits :			
Cash and time deposits	¥ 566,455	¥ 597,541	\$ 4,681,446
Cash segregated as deposits related to securities transactions	14,753	26,171	121,926
	581,208	623,712	4,803,372
Receivables :			
Loans receivable from customers (Note 5)	141,604	164,170	1,170,281
Loans receivable from other than customers	161,878	155,394	1,337,835
Receivables from brokers, dealers and customers	345,475	84,724	2,855,165
Other	227,174	180,489	1,877,471
Less allowance for doubtful accounts	(11,617)	(11,978)	(96,008)
	864,514	572,799	7,144,744
Collateralized short-term financing agreements (Note 6)	1,178,114	2,475,626	9,736,479
Trading assets (Notes 7 and 11)	1,678,742	3,974,750	13,873,901
Securities in custody (Notes 10 and 11)	1,317,327	1,771,915	10,887,000
Deferred income taxes (Note 17)	83,553	1,900	690,521
Other assets :			
Property and equipment, at cost (Note 13)	107,978	128,690	892,380
Less accumulated depreciation (Note 13)	(40,589)	(41,736)	(335,446)
	67,389	86,954	556,934
Lease deposits (Note 12)	68,870	71,045	569,174
Investment securities (Notes 8 and 11)	318,050	423,644	2,628,512
Long-term loans receivable (Note 12)	22,065	29,936	182,355
Other	88,764	100,176	733,587
	565,138	711,755	4,670,562
	¥ 6,268,596	¥ 10,132,457	\$ 51,806,579

See accompanying notes.

Consolidated Balance Sheets

DAIWA SECURITIES GROUP INC.

March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	1998	1999
Liabilities and Shareholders' Equity			
Loans :			
Short-term bank borrowings (Notes 11 and 15)	¥ 431,427	¥ 633,243	\$ 3,565,512
Commercial paper	33,170	45,269	274,132
Loans from securities finance companies for margin transactions (Note 11)	18,098	19,302	149,570
Long-term debt (Note 15)	410,009	426,726	3,388,504
	892,704	1,124,540	7,377,718
Payables :			
Payables to customers (Note 14)	274,433	320,469	2,268,042
Time deposits received	114,775	337,033	948,554
Other	16,847	15,403	139,231
	406,055	672,905	3,355,827
Collateralized short-term financing agreements (Note 6)	2,033,137	4,152,280	16,802,785
Trading liabilities (Note 7)	808,982	1,446,511	6,685,802
Accrued and other liabilities :			
Retirement benefits (Notes 2 and 16)	1,663	20,820	13,744
Provision for assistance to related companies (Notes 12 and 25)	58,200	-	480,992
Other (Note 16)	108,127	121,222	893,612
	167,990	142,042	1,388,348
Securities borrowed and deposited by customers (Notes 10 and 11)	1,317,327	1,771,915	10,887,000
(Contra account of securities in custody)			
Statutory reserves (Note 18)	784	46,667	6,479
Minority interests	1,758	898	14,529
Contingent liabilities (Note 19)			
Shareholders' equity (Notes 15, 20 and 21):			
Common stock, par value ¥50 per share ;			
Authorized - 4,000,000 thousand shares (3,990,979 thousand shares in 1998)			
Issued - 1,331,722 thousand shares (1,335,554 thousand shares in 1998)	138,425	138,425	1,144,008
Preferred stock, no par value ;			
Authorized - 100,000 thousand shares			
Issued - 0 share	-	-	-
Additional paid-in capital	117,779	117,779	973,380
Retained earnings	383,672	518,528	3,170,843
Less treasury stock, at cost	(17)	(33)	(140)
Total shareholders' equity	639,859	774,699	5,288,091
	¥ 6,268,596	¥ 10,132,457	\$ 51,806,579

See accompanying notes.

Consolidated Statements of Operations

DAIWA SECURITIES GROUP INC.

Years ended March 31, 1999, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1999	1998	1997	1999
Revenues (Note 22):				
Commissions (Note 23)	¥ 185,450	¥ 198,118	¥ 242,599	\$ 1,532,645
Interest and dividend income	190,219	286,393	282,965	1,572,058
Net gain (loss) on trading	(20,708)	39,385	57,159	(171,141)
	354,961	523,896	582,723	2,933,562
Operating expenses (Note 22):				
Selling, general and administrative expenses (Notes 2, 12, 16 and 24)	271,085	283,599	283,064	2,240,372
Interest expense	172,442	254,466	250,971	1,425,140
	443,527	538,065	534,035	3,665,512
Operating income (loss) (Note 22)	(88,566)	(14,169)	48,688	(731,950)
Other income (expenses):				
Reversal of statutory reserves, net (Note 18)	45,883	58	668	379,198
Other, net (Notes 12 and 25)	(165,855)	(69,801)	(126,911)	(1,370,702)
	(119,972)	(69,743)	(126,243)	(991,504)
Loss before income taxes	(208,538)	(83,912)	(77,555)	(1,723,454)
Income taxes (Note 17):				
Current	(1,672)	1,251	2,417	(13,818)
Deferred	(78,952)	(1,508)	-	(652,496)
	(127,914)	(83,655)	(79,972)	(1,057,140)
Minority interests in subsidiaries	24	(2)	(49)	198
Net loss	¥ (127,890)	¥ (83,657)	¥ (80,021)	\$ (1,056,942)

	Yen			U.S. dollars (Note 1)
Per share amounts:				
Net loss	¥ (96.00)	¥ (62.35)	¥ (59.51)	\$ (0.79)
Cash dividends applicable to the year	5.00	6.00	8.00	0.04

See accompanying notes.

Consolidated Statements of Shareholders' Equity

DAIWA SECURITIES GROUP INC.
Years ended March 31, 1999, 1998 and 1997

	Number of shares of common stock (thousands)	Millions of yen		
		Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1996	1,344,390	¥ 138,298	¥ 117,651	¥ 708,946
Net loss				(80,021)
Cash dividends paid				(10,754)
Bonuses to directors				(220)
Shares issued upon conversion of bonds	185	127	128	
Adjustment of retained earnings related to consolidated subsidiaries				(952)
Balance at March 31, 1997	1,344,575	138,425	117,779	616,999
Net loss				(83,657)
Cash dividends paid				(10,757)
Redemption of treasury stock (<i>Note 20</i>)	(9,021)			(4,057)
Balance at March 31, 1998	1,335,554	138,425	117,779	518,528
Net loss				(127,890)
Cumulative effect of adoption of tax effect accounting (<i>Note 17</i>)				3,017
Cash dividends paid				(8,013)
Redemption of treasury stock (<i>Note 20</i>)	(3,832)			(1,970)
Balance at March 31, 1999	1,331,722	¥ 138,425	¥ 117,779	¥ 383,672

	Thousands of U.S. dollars (<i>Note 1</i>)		
	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1998	\$ 1,144,008	\$ 973,380	\$ 4,285,356
Net loss			(1,056,942)
Cumulative effect of adoption of tax effect accounting (<i>Note 17</i>)			24,933
Cash dividends paid			(66,223)
Redemption of treasury stock (<i>Note 20</i>)			(16,281)
Balance at March 31, 1999	\$ 1,144,008	\$ 973,380	\$ 3,170,843

See accompanying notes.

Consolidated Statements of Cash Flows

DAIWA SECURITIES GROUP INC.
Years ended March 31, 1999, 1998 and 1997

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	1999	1998	1997	1999
Cash flows from operating activities:				
Net loss	¥ (127,890)	¥ (83,657)	¥ (80,021)	\$ (1,056,942)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	8,531	6,646	6,340	70,504
Provision for doubtful accounts, net	3,049	9,098	(223)	25,198
Provision for retirement benefits (Note 16)	17,237	1,016	2,113	142,455
Reversal of statutory reserves, net (Note 18)	(45,883)	(58)	(668)	(379,198)
Provision for financial assistance to related companies (Note 12)	58,200	-	-	480,992
Valuation losses related to fixed assets (Note 25)	15,873	4,068	-	131,182
Losses related to investment securities (Note 25)	8,038	16,452	11,567	66,430
Deferred income taxes (Note 17)	(78,952)	(1,508)	-	(652,496)
(Increase) decrease in receivables	(289,234)	95,057	(1,568)	(2,390,364)
(Increase) decrease in collateralized short-term financing agreements	1,297,512	2,171,471	(2,485,360)	10,723,240
(Increase) decrease in trading assets	2,296,008	90,910	(1,257,200)	18,975,273
(Increase) decrease in other assets	27,239	78,553	(87,456)	225,116
Increase (decrease) in payables	(266,850)	(107,248)	108,436	(2,205,372)
Increase (decrease) in collateralized short-term financing agreements	(2,119,143)	(1,593,230)	2,274,231	(17,513,579)
Increase (decrease) in trading liabilities	(637,529)	(266,706)	723,724	(5,268,835)
Increase (decrease) in accrued and other liabilities	(48,967)	17,373	22,065	(404,686)
Other, net	40	(414)	(75)	331
Total adjustments	245,169	521,480	(684,074)	2,026,190
Net cash provided by (used in) operating activities	117,279	437,823	(764,095)	969,248
Cash flows from investing activities:				
(Increase) decrease in property and equipment	(12,539)	(18,345)	(13,702)	(103,628)
(Increase) decrease in investment securities	94,087	73,373	(11,720)	777,579
(Increase) decrease in long-term loans receivable	7,871	10,122	64,021	65,050
(Increase) decrease in lease deposits	2,175	(827)	282	17,975
Net cash provided by investing activities	91,594	64,323	38,881	756,975
Cash flows from financing activities:				
Increase (decrease) in short-term loans	(215,119)	(345,171)	325,593	(1,777,843)
Increase (decrease) in long-term debt	95,797	(4,116)	67,702	791,711
Proceeds from issuance of notes by subsidiaries	40,919	119,738	172,146	338,174
Payment for redemption of bonds and notes	(140,967)	(175,562)	(75,292)	(1,165,017)
Payment of cash dividends	(8,013)	(10,757)	(10,754)	(66,223)
Payment for redemption of treasury stock	(1,970)	(4,057)	-	(16,281)
Net cash provided by (used in) financing activities	(229,353)	(419,925)	479,395	(1,895,479)
Effect of exchange rate changes on cash	(10,606)	5,092	49,425	(87,653)
Net increase (decrease) in cash	(31,086)	87,313	(196,394)	(256,909)
Cash at beginning of year	597,541	510,228	706,622	4,938,355
Cash at end of year	¥ 566,455	¥ 597,541	¥ 510,228	\$ 4,681,446

Supplemental information on cash flows:

Cash paid during the year for:

Interest	¥ 204,887	¥ 220,669	¥ 275,888	\$ 1,693,281
Income taxes	5,106	5,491	10,646	42,198

Noncash investing and financing activities:

Conversion of convertible bonds into common stock and additional paid-in capital

-	-	255	-
---	---	-----	---

See accompanying notes.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.

Three years ended March 31, 1999

1. Basis of financial statements

Daiwa Securities Group Inc. (the “Company”) changed its name from Daiwa Securities Co. Ltd. and transformed into a holding company on April 26, 1999 as discussed in Note 26. The Company is a Japanese corporation and maintains its records and prepares its financial statements in yen. The accompanying consolidated financial statements are basically an English version of those prepared for Japanese domestic purposes in accordance with the provisions of the Securities and Exchange Law of Japan and filed with the Ministry of Finance and stock exchanges in Japan, except for the consolidated statements of shareholders’ equity and cashflows. Certain modifications, including presentation of the statements of shareholders’ equity and cash flows, have been made in the accompanying financial statements in order to present them in a form which is more familiar to readers outside Japan.

Significant differences between the accounting policies followed by the Company and International Accounting Standards are described in Note 4.

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 1999, which was ¥121 to U.S. \$1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Certain reclassifications have been made in the 1998 and 1997 financial statements to conform to the presentation for 1999. Legal reserve has been reclassified and included into retained earnings in the accompanying financial statements.

2. Change in accounting policies

In 1999, the Company and a consolidated subsidiary have changed its accounting method to provide for directors’ retirement benefits on an accrual basis from expensing it at the time of payment for better matching of revenues with expenses. As a result of this accounting change, net loss before income taxes for the year ended March 31, 1999 increased by ¥1,482 million (\$12,248 thousand), which consisted of current year’s accrual of ¥449 million (\$3,711 thousand) classified in selling, general and administrative expenses, and the cumulative effect of prior years from the change in accounting policy of ¥1,034 million (\$8,545 thousand) classified in other expenses (See Note 25).

3. Significant accounting policies

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Investments in 20% to 50% owned companies are carried at cost adjusted for equity in undistributed earnings or losses since acquisition.

Statement of cash flows

For purposes of reporting cash flows, cash includes cash and time deposits.

Trading assets and trading liabilities

Trading assets and trading liabilities, including cash securities and financial derivatives for trading purpose held by the Company are recorded on a trade date basis at market value or fair value. Revenues and expenses related to trading securities transactions are recorded on a trade date basis. Unrealized gains or losses from financial derivatives such as futures, options and swaps transactions are reflected as net gain on trading in the accompanying statements of operations. Cash securities owned for non-trading purpose, shown in the accompanying balance sheets as “Investment securities”, are discussed below. In major foreign subsidiaries, trading assets and trading liabilities are also recorded on a trade date basis at market value or fair value.

Gensaki transactions

Buy Gensaki or Sell Gensaki represents a form of securities purchased under resale agreements or securities sold under repurchase agreements originated in Japan. Gensaki transactions have been accounted for in the same manner as financing transactions in accordance with the amendment of the Securities and Exchange Law of Japan and have been reflected as collateralized short-term financing agreements in the accompanying balance sheets.

Collateralized short-term financing agreements

Collateralized short-term financing agreements consist of securities purchased under agreements to resell or securities sold under agreements to repurchase (Repurchase transactions), securities borrowed or loaned and Buy or Sell Gensaki which have been accounted for as financing transactions beginning in 1998. Repurchase transactions are traded in overseas subsidiaries and recorded at their contractual amounts. Securities borrowed or loaned are recorded at the amount of cash collateral advanced or received.

Investment securities

Investment securities listed on stock exchanges are recorded on a settlement date basis at the lower of cost or market. Unlisted investment securities are recorded on a settlement date basis at cost, except where management determines there is permanent diminution in value. Valuation loss or write-off of investment securities are reported as other expenses in the statements of operations. Unrealized gains or losses of certain investment securities which have a quoted market price, including listed investment securities are disclosed in Note 8.

Property and equipment

Property and equipment are stated at cost. Depreciation is computed principally by the declining balance method over estimated useful lives as stipulated by corporate tax regulations. Depreciation for buildings purchased in Japan after April 1, 1998 is computed by the straight-line method due to the amendment of Japanese corporate tax regulations. There was no material effect due to the amendment.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.
Three years ended March 31, 1999

Bonuses

The Company follows the Japanese practice of paying bonuses to employees in June and December. Accrued employees' bonuses included in other liabilities represent liabilities estimated as of the balance sheet date. Bonuses to directors, which are subject to approval at the shareholders' meeting, are accounted for as an appropriation of retained earnings.

Income Taxes

Through 1998, the Company did not recognize tax effects of temporary differences, which accounting was not required by accounting principles generally accepted in Japan.

In 1999, the Company and certain consolidated subsidiaries have early adopted tax effect accounting in accordance with the new standards, which will be mandatory for the years beginning after April 1, 1999 in Japan. Deferred taxes are recorded for the future tax consequences of events that have been recognized in the financial statements or tax returns, based upon enacted tax laws and rates, including an appropriate provision for taxes on undistributed income of subsidiaries and affiliates. The prior years effect of this new accounting has been recorded in retained earnings as of April 1, 1998.

Translation of foreign currencies

Foreign currencies and current receivables and payables denominated in foreign currencies are translated into yen at year-end exchange rates. Investment securities and non-current receivables and payables in foreign currencies are translated at historical exchange rates by the Company and at year-end exchange rates by the foreign subsidiaries.

Foreign currency items with forward exchange contracts are translated at the contracted rates.

Translation of foreign currency financial statements

Financial statements of foreign subsidiaries are translated into yen on the basis of the year-end rates for assets and liabilities except that retained earnings are translated at historical rates. The average rates for the years are used for translation of income and expenses.

Net income (loss) per share

Net income (loss) per share of common stock is based on the average number of shares of common stock outstanding during the period.

4. Significant differences between accounting policies followed by the Company and International Accounting Standards

The accompanying consolidated financial statements are prepared in conformity with accounting principles generally accepted in Japan. The accounting policies set out in Note 3 are generally in accordance with International Accounting Standards ("IAS"). Differences from IAS include the following.

Consolidation

Japanese accounting standards on consolidation do not require that consolidated financial statements be prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies followed by certain foreign subsidiaries are different from those of the Company. Such differences, as described in Notes 3 and 17, mainly consist of (1) recognition of tax effects of temporary differences in the 1998 and 1997 financial statements and (2) translation of foreign currencies.

It is not practicable to disclose proportions of the items in the consolidated financial statements to which the different accounting policies have been applied as required by IAS 27.

Translation of foreign currency items

As described in Note 3, foreign currency monetary items of the Company due after one year are recorded at historical rates, while items due within one year are recorded at the closing rate. In this respect, the accounting policy is not in accordance with IAS 21 which requires foreign currency monetary items be reported at the closing rate.

Investment securities

Under accounting principles generally accepted in Japan, the Company has not disclosed the market value of all its marketable investments on a consolidated basis. This practice is not in accordance with IAS 25 which requires such disclosure.

Securities in custody

As described in Note 10, "Securities in custody" is presented as an asset in the balance sheets with a contra account entitled "Securities borrowed and deposited by customers" as a liability.

Tax effect accounting

Through 1998 the Company did not recognize tax effects of temporary differences as described in Note 3. Therefore, the Company's policy differed from IAS 12 which requires that the tax expense for a period be determined on the basis of tax effect accounting. In 1999 the Company has adopted tax effect accounting in accordance with the new accounting standards in Japan. Accordingly, no material differences between the Company's policy and IAS 12 are noted as for accounting for income taxes in the 1999 financial statements.

Statutory reserves

As described in Note 18, the Securities and Exchange Law of Japan requires a securities company to maintain certain special purpose reserves which are not liabilities or contingent losses as described in IAS 10.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.
Three years ended March 31, 1999

5. Loans receivable from customers

Loans receivable from customers at March 31, 1999 and 1998 consisted of the following :

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
For margin transactions	¥ 72,452	¥ 65,613	\$ 598,777
Other	69,152	98,557	571,504
	<u>¥ 141,604</u>	<u>¥ 164,170</u>	<u>\$ 1,170,281</u>

Loans receivable from customers for margin transactions are stated at amounts equal to the purchase prices of the relevant securities and are collateralized by customers' securities and customers' deposits of cash or securities.

6. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 1999 and 1998 consisted of the following :

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Assets:			
Securities borrowed	¥ 644,779	¥ 1,607,708	\$ 5,328,752
Securities purchased under agreements to resell	213,273	528,596	1,762,587
Buy Gensaki	320,062	339,322	2,645,140
	<u>¥ 1,178,114</u>	<u>¥ 2,475,626</u>	<u>\$ 9,736,479</u>
Liabilities:			
Securities loaned	¥ 685,297	¥ 1,710,586	\$ 5,663,612
Securities sold under agreements to repurchase	754,524	1,377,424	6,235,735
Sell Gensaki	593,316	1,064,270	4,903,438
	<u>¥ 2,033,137</u>	<u>¥ 4,152,280</u>	<u>\$ 16,802,785</u>

7. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 1999 and 1998 consisted of the following :

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Trading assets :			
Corporate shares	¥ 101,322	¥ 166,108	\$ 837,372
Government, corporate and other bonds	1,053,633	2,960,297	8,707,710
Beneficiary certificates	76,803	55,908	634,736
Commercial paper, certificates of deposits and others	236,021	570,171	1,950,587
Option transactions	19,968	3,709	165,025
Futures transactions	4,440	1,045	36,694
Swap agreements	175,835	202,969	1,453,182
Other derivatives	10,720	14,543	88,595
	<u>¥ 1,678,742</u>	<u>¥ 3,974,750</u>	<u>\$ 13,873,901</u>
Trading liabilities :			
Corporate shares	¥ 54,000	¥ 185,089	\$ 446,281
Government, corporate and other bonds	555,218	1,028,523	4,588,579
Commercial paper, certificates of deposits and others	0	5,788	0
Option transactions	6,591	3,676	54,471
Futures transactions	6,526	1,468	53,934
Swap agreements	174,922	204,476	1,445,636
Other derivatives	11,725	17,491	96,901
	<u>¥ 808,982</u>	<u>¥ 1,446,511</u>	<u>\$ 6,685,802</u>

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.

Three years ended March 31, 1999

8. Investment securities

Investment securities at March 31, 1999 and 1998 consisted of the following :

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Corporate shares	¥ 167,878	¥ 208,980	\$ 1,387,421
Government, corporate and other bonds	112,431	155,299	929,182
Other	37,741	59,365	311,909
	¥ 318,050	¥ 423,644	\$ 2,628,512

At March 31, 1999 and 1998, unrealized gains or losses of investment securities of the Company which have a quoted market price on a settlement date basis were as follows :

	Millions of yen		
	Book value	Market value	Unrealized gains
March 31, 1999 :			
Corporate shares	¥ 131,694	¥ 182,524	¥ 50,830
Other	12	60	48
	¥ 131,706	¥ 182,584	¥ 50,878

March 31, 1998 :			
Corporate shares	¥ 157,052	¥ 208,680	¥ 51,628
Other	12	59	47
	¥ 157,064	¥ 208,739	¥ 51,675

	Thousands of U.S. dollars		
	Book value	Market value	Unrealized gains
March 31, 1999 :			
Corporate shares	\$ 1,088,380	\$ 1,508,463	\$ 420,083
Other	99	496	397
	\$ 1,088,479	\$ 1,508,959	\$ 420,480

9. Risk management information of the Company

The Company enters into transactions involving trading assets and trading liabilities to meet customer needs, and for its proprietary trading activities, as a broker and an end-user. These trading assets and trading liabilities include (1) cash securities such as stocks and bonds, (2) financial derivatives traded on exchanges such as futures and options based on stock price indices, bonds and interest rates, and (3) financial derivatives traded over the counter such as currency and interest rate swaps, foreign exchange forward contracts, bonds with options, currency options and forward rate agreements.

The principal risks inherent in trading in these markets are market risk and credit risk. Market risk represents the potential for loss from changes in the value of financial instru-

ments due to price and interest rate fluctuations in the markets. As to market risk, the Company determines the balance of and profit or loss on each instrument and uses a value-at-risk method to manage this risk. Credit risk represents the potential for loss arising from the failure of the counterparty in a transaction to fulfill its terms and conditions. The Company quantifies credit risk through such measures as notional principal, credit exposure and credit risk exposure amount.

The Company manages these risks by active management involvement in decision making, by establishing strong internal control system, and by monitoring risk measured collectively including risks incurred in overseas subsidiaries.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.
Three years ended March 31, 1999

10. Securities in custody

Securities in custody at March 31, 1999 and 1998 consisted of the following :

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Securities borrowed for less than one year	¥ 900,375	¥ 1,443,569	\$ 7,441,116
Securities deposited by customers as collateral mainly for margin and futures transactions	416,952	338,346	3,445,884
	<u>¥ 1,317,327</u>	<u>¥ 1,771,915</u>	<u>\$ 10,887,000</u>

Securities in custody account is presented as an asset in the balance sheets. A contra account entitled “Securities borrowed and deposited by customers” is presented as a liability. Securities in custody are stated at market value on the respective dates when such borrowings or deposits were made.

11. Pledged assets of the Company

At March 31, 1999, short-term bank borrowings amounting to ¥40,000 million (\$330,579 thousand), loans from securities finance companies for margin transactions amounting to ¥18,099 million (\$149,579 thousand) and securities borrowed amounting to ¥46,813 million (\$386,884 thousand) were secured by the following assets :

	Millions of yen		Thousands of U.S. dollars
Trading assets	¥ 43,698		\$ 361,140
Investment securities	38,407		317,413
Securities in custody	24,035		198,636
	<u>¥ 106,140</u>		<u>\$ 877,189</u>

At March 31, 1999, the Company pledged cash and time deposits amounting to ¥28,000 million (\$231,405 thousand) to secure a related company's bank borrowings.

In addition, the following the Company securities were deposited with stock exchanges as guarantee for stock index and bond future contracts, etc. as of March 31, 1999 :

	Millions of yen		Thousands of U.S. dollars
Investment securities	¥ 74,666		\$ 617,074
Securities in custody	154		1,273
	<u>¥ 74,820</u>		<u>\$ 618,347</u>

These amounts were stated at book value at the balance sheet date.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.

Three years ended March 31, 1999

12. The Company's transactions with related parties

The Company has several related companies as explained below, which were less than 5% directly owned companies and their financial statements were not consolidated into the accompanying financial statements. In the normal course of its operations, the Company leases most of its office space from Daiwa Building Co., Ltd. (DBC) which merged with Daiwa Real Estate Co., Ltd. (DRE) on July 1, 1998, and receives research and data processing services from Daiwa Institute of Research Ltd. (DIR).

In these reporting periods, the Company provided financial assistance to the related companies. In 1997, the Company recorded ¥120,000 million (\$991,736 thousand) to Daiwa Finance Co. Ltd. (DFC) which issues mortgage securities, for

the purpose of supporting DFC's charging-off of non-performing loans. In 1998, the Company recorded ¥39,900 million (\$329,752 thousand) to DRE which sells real estate for the purpose of supporting DRE's charging-off of inactive real estate. In 1999, the Company also recorded ¥115,800 million (\$957,025 thousand) in the aggregate to DFC, Nippon Investment & Finance Co. Ltd. (NIF) which invests in venture capital and Daiwa Sanko Co., Ltd. (Sanko) which engages in trading with office equipment and electric parts (See Note 25). The Company paid ¥57,600 million (\$476,033 thousand) in the aggregate to these companies and the remaining financial assistance of ¥58,200 million (\$480,992 thousand) was accrued and presented in the consolidated balance sheets at March 31, 1999.

Significant account balances and transactions with these companies at March 31, 1999 and 1998 and for the three years ended March 31, 1999 were as follows :

	Millions of yen		Thousands of U.S. dollars	
	1999	1998	1999	
At March 31:				
Lease deposits to DRE/DBC	¥ 57,390	¥ 57,838	\$ 474,298	
Loans to :				
DRE/DBC	20,000	20,000	165,289	
DIR	—	6,300	—	
	Millions of yen		Thousands of U.S. dollars	
	1999	1998	1997	1999
For the year ended March 31:				
Selling, general and administrative expenses :				
Rental expenses paid to DRE/DBC	¥ 21,044	¥ 21,017	¥ 21,076	\$ 173,917
Research and data processing fees paid to DIR	23,011	22,623	22,521	190,174
Financial assistance expense to :				
DFC	82,000	—	120,000	677,686
DRE	—	39,900	—	—
NIF	24,000	—	—	198,347
Sanko	9,800	—	—	80,992

In addition, the Company pledged certain assets and made guarantees of borrowings for related companies as explained in Notes 11 and 19.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.
Three years ended March 31, 1999

13. Lease transactions

Financial leases which do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases ("Non-capitalized finance leases"). Certain related information are summarized as follows :

(1) Total assets under non-capitalized finance leases at March 31, 1999 amounted to ¥25,639 million (\$211,893 thousand) and accumulated depreciation amounted to ¥22,279 million (\$184,124 thousand).

(2) Future lease payments of non-capitalized finance lease at March 31, 1999 were ¥3,459 million (\$28,587 thousand) including ¥2,668 million (\$22,050 thousand) due within one year.

(3) Future lease payments of operating leases at March 31, 1999 were ¥18,485 million (\$152,769 thousand) including ¥2,455 million (\$20,289 thousand) due within one year.

14. Payables to customers

Payables to customers at March 31, 1999 and 1998 consisted of the following :

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Cash received for customers' accounts on trading	¥ 122,226	¥ 138,275	\$ 1,010,132
Proceeds of securities sold for customers' accounts on margin transactions	53,005	37,840	438,058
Cash deposits received from customers mainly for margin and futures transactions	46,500	45,157	384,298
Other	52,702	99,197	435,554
	¥ 274,433	¥ 320,469	\$ 2,268,042

The proceeds of securities sold for customers' accounts on margin transactions account were stated at the sales prices of the relevant securities on the respective transaction dates.

15. Bank borrowings and long-term debt

As is customary in Japan, in the case of unsecured bank borrowings, security must be given under certain conditions if requested by a lending bank, and such bank has the right to offset cash deposited with it against any debt or obligation that

becomes due and, in the case of default and certain other specified events, against all debts payable to the bank. No such request has been made and no such right has been exercised.

Long-term debt at March 31, 1999 and 1998, consisted of the following :

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Convertible bonds payable in yen, convertible into common stock at ¥1,391.30 per share :			
1.9% due 1998	¥ —	¥ 665	\$ —
Convertible bonds payable in yen, convertible into common stock at ¥3,035.90 per share :			
1.5% due 2002	19,440	19,440	160,661
1.5% due 1999	19,419	19,419	160,488
Convertible bonds payable in yen, convertible into common stock at ¥2,367.00 per share :			
1.4% due 2003	36,269	36,269	299,744
1.4% due 2000	38,662	38,662	319,521
1.4% due 1998	—	29,687	—
Notes payable in yen issued by a subsidiary :			
Series of notes with various rates and maturities from 1999 through 2002	7,109	8,767	58,752
5.0% subordinated due 2005	1,016	991	8,397
Euro medium-term notes (authorized \$5,000 million) payable issued by subsidiaries, with various rates and maturities from 1998 through 2008	71,636	150,963	592,033
Yen subordinated loans due 2002 and 2003	195,000	100,000	1,611,569
Other	21,458	21,863	177,339
	¥ 410,009	¥ 426,726	\$ 3,388,504

The conversion prices shown above are subject to adjustment in certain circumstances.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.

Three years ended March 31, 1999

15. Bank borrowings and long-term debt (con'd)

At March 31, 1999, the number of shares of common stock issuable upon full conversion of outstanding convertible bonds was 44,456 thousand shares in aggregate.

The aggregate annual maturities of long-term debt as of March 31, 1999 are as follows :

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2000	¥ 31,868	\$ 263,372
2001	56,378	465,934
2002	118,646	980,545
2003	28,749	237,595
2004	134,690	1,113,141
2005 and thereafter	39,678	327,917

16. Retirement benefits

Employees

The Company has an unfunded lump-sum benefit plan and a funded pension plan, generally covering all employees.

Under the terms of the lump-sum benefit plan, eligible employees are entitled, under most circumstances upon reaching mandatory retirement age or earlier voluntary termination, to a lump-sum benefit payment based on compensation at the time of severance and years of service. The amount of retirement benefits to be paid by the Company is reduced by the benefits payable under the pension plan. Up to the year ended March 31, 1998, the accrued retirement benefits were stated at an amount which would be required, reduced by the assets of the pension fund, if all employees covered by the retirement benefit plan voluntarily terminated their employment as of the balance sheet date. Unamortized prior service costs, which were being amortized over five years, were reflected in the accrued retirement benefits.

On March 31, 1999, the Company and a consolidated subsidiary canceled all its employees' retirement benefit plans, both unfunded and funded, and liquidated their plan assets in order to pay an amount to entitled employees which would be required if they involuntarily terminated their employment in the course of shifting to the holding company structure as explained in Note 26.

The Company and a consolidated subsidiary included payables of the retirement benefits to entitled employees in other current liabilities in the balance sheets as of March 31, 1999, and recorded liquidation losses of employees' pension plans of ¥12,806 million (\$105,835 thousand) in current earnings (See Note 25).

Directors

In 1999, the Company and a consolidated subsidiary changed its accounting method to provide for directors' retirement benefits on an accrual basis from expensing at the time of payment for better matching of income with expenses, as described in Note 2.

Charges to income for directors' and employees' retirement benefits and the pension plan for the years ended March 31, 1999, 1998 and 1997 were ¥23,273 million (\$192,339 thousand) including liquidation losses of employees' pension plans mentioned above, ¥5,252 million and ¥5,511 million, respectively.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.
Three years ended March 31, 1999

17. Income taxes

In 1999, the Company and certain consolidated subsidiaries have early adopted tax effect accounting in accordance with the new standards, which will be mandatory for the years beginning after April 1, 1999 in Japan as described in Note 3. With regard to the cumulative effect on prior years of adopting tax effect accounting, net loss for the year ended March 31, 1999 decreased by ¥78,952 million (\$652,496 thousand) and retained earnings as of March 31, 1999 increased by ¥3,017 million (\$24,933 thousand) as present-

ed in the accompanying statements of shareholders' equity.

The normal effective statutory income tax rate in Japan arising out of the aggregation of corporate, enterprise and inhabitants taxes was approximately 48%, 51% and 51% for 1999, 1998 and 1997, respectively. Effective April 1, 1999, the effective statutory tax rate is to be changed to approximately 41%. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

Details of deferred tax assets and liabilities at March 31, 1999 are as follows :

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Net operating losses	¥ 90,896	\$ 751,207
Provision for financial assistance to related companies	23,804	196,727
Accrued employees' compensation	11,280	93,223
Other	4,602	38,033
Gross deferred tax assets	130,582	1,079,190
Less-Valuation allowance	(47,029)	(388,669)
Total deferred tax assets	83,553	690,521
Deferred tax liabilities	394	3,256
Net deferred tax assets	¥ 83,159	\$ 687,265

The Company and its consolidated subsidiaries recorded a valuation allowance to reflect the estimated amount of deferred tax assets which will not be realized. The deferred tax assets and liabilities at March 31, 1998 were recorded by certain foreign subsidiaries, which recognize deferred income taxes in accordance with local accounting principles.

The deferred tax assets and liabilities at March 31, 1999 may be attributed to current amount and non-current amount as follows :

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets :		
Current	¥ 81,955	\$ 677,314
Non-current	1,598	13,207
Total deferred tax assets	¥ 83,553	\$ 690,521
Deferred tax liabilities : Current	¥ 394	\$ 3,256

18. Statutory reserves

Statutory reserves at March 31, 1999 and 1998 consisted of the following :

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Reserve for securities and financial futures transaction liabilities	¥ 784	¥ 542	\$ 6,479
Reserve for possible trading losses from stock, bond and warrant transactions ..	—	46,125	—
	¥ 784	¥ 46,667	\$ 6,479

The Securities and Exchange Law of Japan requires a securities company to set aside a reserve in proportion to its securities transactions and other related trading to cover possible customer losses incurred by default of the securities company on securities transactions.

The statutory reserve for possible trading losses from stock, bond and warrant was abolished as the Securities and Exchange

Law was amended on December 1, 1998, which had required a securities company to maintain reserves for possible losses from stock, bond and warrant transactions for its own account at fixed percentages of net trading gains. The remaining balance of the reserve was reversed and credited to income for the fiscal year ended March 31, 1999.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.

Three years ended March 31, 1999

19. Contingent liabilities

At March 31, 1999, the Company and its consolidated subsidiaries were contingently liable as guarantors of loans and lease deposits amounting to ¥141,840 million (\$1,172,231 thousand) including ¥80,000 million (\$661,157 thousand) to secure Eurobonds issued by DRE and ¥57,500 million (\$475,207 thousand) to secure bank borrowings of Daiwa Building Management Co., Ltd., a related company fully owned by DRE.

20. Shareholders' equity

The Commercial Code of Japan allows a company to retire a portion of its outstanding shares upon approval of the shareholders at the annual general shareholders' meeting. On December 8, 1997, the directors' meeting passed a resolution to enable the Company to purchase and retire outstanding shares up to a maximum aggregate acquisition cost of ¥25,000 million (\$206,612 thousand). In 1999 and 1998, the Company purchased and retired shares having a market value of ¥1,970 million (\$16,281 thousand) and ¥4,057 million, respectively. As a result of such share acquisitions, retained earnings as of March 31, 1999 and 1998 decreased by ¥1,970 million (\$16,281 thousand) and ¥4,057 million, respectively, and the number of issued and outstanding shares decreased by 3,832 thousand and 9,021 thousand shares respectively.

The shareholders of the Company approved a stock incentive plan on June 25, 1998. The plan provides for the issuance of up to 6,000 thousand shares in the form of options to directors and key employees. On March 30, 1999, options were awarded to those who were with Daiwa Securities Co. Ltd. listed as the grantees at the time of the shareholders' meeting, and at the time of grants were either (1) Directors or

(2) General Managers, Deputy General Managers or Assistant General Managers under the plan. The options may be exercised during the period from July 1, 2000 until June 20, 2003, and the exercise price is ¥667 (\$6). From April 1, 1999 through April 17, 1999, 5,038 shares were purchased with the total amount of ¥3,547 million (\$29,314 thousand) at stock exchange to key persons mentioned above.

The Company is authorized to issue 4,000,000 thousand shares of common stock and 100,000 thousand shares of preferred stock on approval of the shareholders' meeting held on June 25, 1998. Contents of preferred shareholders' right are (1) preferred shareholder shall not have any voting rights at a shareholders' meeting, (2) no share consolidation nor share split shall be made with respect to preferred shareholders, (3) the Company shall not grant to the preferred shareholders preemptive rights to subscribe for new shares or rights to subscribe for convertible bonds or bonds with warrants to subscribe for new shares. At present the Company has not yet issued any preferred stock.

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, legal reserve is included in retained earnings for 1999. Previously it was presented as a separate component of the shareholders equity. The accompanying consolidated financial statements for the years ended March 31, 1998 and 1997 have been reclassified to conform to the 1999 presentation.

21. Capital adequacy requirements

In Japan, the Company is subject to risk-based capital adequacy rules established and administered by the Ministry of Finance and the Financial Supervisory Agency. The Company reports its capital adequacy ratio as defined pursuant to these rules.

The authorities will take certain administrative measures if such ratio declines below 140%. The Company's capital adequacy ratio was 312.3% (unaudited) as of March 31, 1999.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.
Three years ended March 31, 1999

22. Segment information

The Company and its consolidated subsidiaries operate predominantly in a single industry segment. The Company and its consolidated subsidiaries' primary business activities include

(1) trading in securities, (2) brokerage of securities, (3) underwriting and distribution of securities and (4) other business related to securities transactions.

A summary of revenues by geographic area for the three years ended March 31, 1999 and a summary of total assets by geographic area at March 31, 1999 and 1998 were as follows :

	Millions of yen					
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended						
March 31, 1999 :						
Revenues :						
Outside customer...	¥ 247,423	¥ 103,781	¥ (3,705)	¥ 7,462	¥ -	¥ 354,961
Inter-area	16,295	418	(181)	151	(16,683)	-
Total	263,718	104,199	(3,886)	7,613	(16,683)	354,961
Operating expenses	245,957	146,191	54,097	10,603	(13,321)	443,527
Operating income (loss)	¥ 17,761	¥ (41,992)	¥ (57,983)	¥ (2,990)	¥ (3,362)	¥ (88,566)
At March 31, 1999 :						
Total assets by geographic area	¥ 4,861,237	¥ 1,094,083	¥ 615,713	¥ 63,421	¥ (365,858)	¥ 6,268,596
Year ended						
March 31, 1998 :						
Revenues :						
Outside customer...	¥ 246,998	¥ 204,861	¥ 63,861	¥ 8,176	¥ -	¥ 523,896
Inter-area	17,962	(534)	(1,830)	411	(16,009)	-
Total	264,960	204,327	62,031	8,587	(16,009)	523,896
Operating expenses	259,803	203,156	67,225	19,157	(11,276)	538,065
Operating income (loss)	¥ 5,157	¥ 1,171	¥ (5,194)	¥ (10,570)	¥ (4,733)	¥ (14,169)
At March 31, 1998 :						
Total assets by geographic area	¥ 6,360,719	¥ 2,530,169	¥ 1,839,882	¥ 87,519	¥ (685,832)	¥10,132,457

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.

Three years ended March 31, 1999

22. Segment information (con'd)

Millions of yen					
	Japan	Other areas	Elimination or unallocated		Consolidated
Year ended March 31, 1997 :					
Revenues :					
Outside customer	¥ 292,707	¥ 290,016	¥ –	¥	582,723
Inter-area	11,529	1,453	(12,982)		–
Total	304,236	291,469	(12,982)		582,723
Operating expenses	259,947	287,362	(13,274)		534,035
Operating income	¥ 44,289	¥ 4,107	¥ 292	¥	48,688

Thousands of U.S. dollars						
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended						
March 31, 1999 :						
Revenues :						
Outside customer ...	\$ 2,044,819	\$ 857,694	\$ (30,620)	\$ 61,669	\$ –	\$ 2,933,562
Inter-area	134,669	3,455	(1,496)	1,248	(137,876)	–
Total	2,179,488	861,149	(32,116)	62,917	(137,876)	2,933,562
Operating expenses	2,032,702	1,208,190	447,083	87,628	(110,091)	3,665,512
Operating income (loss)	\$ 146,786	\$ (347,041)	\$ (479,199)	\$ (24,711)	\$ (27,785)	\$ (731,950)

At March 31, 1999 :

Total assets by geographic area	\$40,175,512	\$ 9,042,008	\$ 5,088,537	\$ 524,141	\$(3,023,619)	\$51,806,579
---------------------------------------	--------------	--------------	--------------	------------	---------------	--------------

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.
Three years ended March 31, 1999

22. Segment information (con'd)

Geographic overseas revenues for the year ended March 31, 1999 and 1998 were as follows :

	Millions of yen			
	America	Europe	Asia & Oceania	Total
Year ended March 31, 1999 :				
Overseas revenue	¥ 136,128	¥ 16,148	¥ 8,592	¥ 160,868
Total revenue				354,961
% of total revenue	38.4%	4.5%	2.4%	45.3%

	Millions of yen			
	America	Europe	Asia & Oceania	Total
Year ended March 31, 1998 :				
Overseas revenue	¥ 217,953	¥ 24,323	¥ 4,743	¥ 247,019
Total revenue				523,896
% of total revenue	41.7%	4.6%	0.9%	47.2%

	Thousands of U.S. dollars			
	America	Europe	Asia & Oceania	Total
Year ended March 31, 1999 :				
Overseas revenue	\$ 1,125,025	\$ 133,455	\$ 71,008	\$ 1,329,488
Total revenue				2,933,562

Overseas operating revenues for the years ended March 31, 1997 was ¥313,463 million and accounted for 53.8% of consolidated operating revenues.

23. Commissions

Commissions earned for 1999, 1998 and 1997 consisted of the following :

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	1999
Brokerage	¥ 68,986	¥ 81,573	¥ 97,316	\$ 570,133
Underwriting and distribution	62,247	69,285	101,260	514,438
Other	54,217	47,260	44,023	448,074
	¥ 185,450	¥ 198,118	¥ 242,599	\$ 1,532,645

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.
Three years ended March 31, 1999

24. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for 1999, 1998 and 1997 are summarized as follows :

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	1999
Employees' compensation and benefits	¥ 126,890	¥ 127,303	¥ 125,336	\$ 1,048,678
Commissions and floor brokerage	12,950	16,129	20,807	107,025
Communications	17,118	18,421	16,425	141,471
Occupancy and rental	49,910	49,021	50,356	412,479
Data processing and office supplies	30,614	30,546	29,318	253,008
Taxes other than income taxes	9,211	18,095	17,268	76,124
Other	24,392	24,084	23,554	201,587
	¥ 271,085	¥ 283,599	¥ 283,064	\$ 2,240,372

25. Other income (expenses)

Details of "Other, net" in the statements of operations for the three years ended March 31, 1999 are as follows :

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	1999
Gains on sales of investment securities	¥ 1,921	¥ 5,469	¥ 10,921	\$ 15,877
Write-off of securities	(1,200)	(977)	(2,019)	(9,917)
Valuation losses of investment securities	(8,760)	(20,944)	(17,052)	(72,397)
Financial assistance to related companies (Note 12)	(115,800)	(39,900)	(120,000)	(957,025)
Valuation losses related to fixed assets	(15,873)	(4,068)	—	(131,182)
Cumulative effect of an accounting change (Notes 2 and 16)	(1,034)	—	—	(8,545)
Liquidation losses of employees' retirement plans (Note 16)	(12,806)	—	—	(105,835)
Restructuring of overseas business	(6,176)	(2,008)	—	(51,041)
Losses on restructuring of property and equipment	(2,268)	—	—	(18,744)
Expenses for the holding company structure	(2,562)	—	—	(21,174)
Provision for doubtful accounts	(1,904)	(8,386)	—	(15,736)
Other	607	1,013	1,239	5,017
	¥ (165,855)	¥ (69,801)	¥ (126,911)	\$ (1,370,702)

Valuation losses related to fixed assets was derived from updated development appraisal of the investment property called Daiwa Europe House (DEH) held by Daiwa Europe Property plc. (DEP), a consolidated subsidiary. DEP has been in the course of completing the constructing of DEH, the original intention having been that Daiwa Europe Limited (DEL), the consolidated subsidiary would occupy the property once the work was completed. A decision was taken by DEL in 1999 not to move into DEH, and DEP changed the purpose of holding

of the building to commercial usage. Due to the change of the purpose of holding the property, DEP had the land and building appraised according to the local accounting standard and recorded a valuation loss in the amount of ¥20,137 million (\$166,422 thousand) for the year ended March 31, 1999. In this connection, DEL also reversed the reserve for relocation to DEH in the amount of ¥4,264 million (\$35,240 thousand) for the same period.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.

Three years ended March 31, 1999

26. Subsequent events

Holding company structure

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 agreement with The Sumitomo Bank, Limited dated on December 18, 1998 and the approval regarding the transfer in the extraordinary meeting of shareholders held on February 5, 1999. (Common stock-¥205,600 million(\$1,699,174 thousand), Additional paid-in capital -¥202,410 million(\$1,672,810 thousand)).

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. This company

changed its corporate name to (new) Daiwa Securities Co. Ltd. on the same date. (Common stock-¥100,000 million (\$826,446 thousand), Additional paid-in capital -¥50,010 million (\$413,306 thousand)). 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.

Appropriation of retained earnings

Under the Commercial Code of Japan, a plan for appropriation of retained earnings proposed by the Board of Directors must be approved at a shareholders' meeting to be held within three months after the end of the fiscal year.

The appropriation of retained earnings for the year ended March 31, 1999 was approved by the shareholders' meeting held on June 25, 1999 as follows :

	Millions of yen		Thousands of U.S. dollars	
Cash dividends (¥5 per share)	¥	6,658	\$	55,025

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheets of Daiwa Securities Group Inc. (formerly "Daiwa Securities Co. Ltd.", a Japanese corporation) and subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1999, expressed in yen.

Our audits were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Daiwa Securities Group Inc. and subsidiaries as of March 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 1999, in conformity with accounting principles generally accepted in Japan which, except for the change in the method of accounting for directors' retirement benefits effective April 1, 1998 referred to in Note 2, were applied on a consistent basis.

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

As described in Note 26, the former Daiwa Securities Co. Ltd. transferred its wholesale business division to Daiwa Securities SB Markets Co. Ltd. on April 5, 1999 and its retail business division to (new) Daiwa Securities Co. Ltd. on April 26, 1999. On April 26, 1999 former Daiwa Securities Co. Ltd. transformed into a holding company and changed its name to Daiwa Securities Group Inc.



Tokyo, Japan
June 25, 1999

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan.

Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.