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Consolidated Financial  
**STATEMENTS**



Information in this annual report may contain forward-looking statements regarding expectations of the Daiwa Securities Group Inc. These statements are based on currently available information and represent the beliefs of the management of Daiwa Securities Group Inc. These statements are subject to numerous risks and uncertainties that could cause actual results, performance and achievements to differ materially from those described or implied in the forward-looking statements. These potential risks and uncertainties include without limitation volatile and sudden movements in the international securities markets, foreign exchange and global economic situations affecting the Daiwa Securities Group.

## FIVE-YEAR FINANCIAL SUMMARY

Daiwa Securities Group Inc. & Consolidated Subsidiaries (years ended March 31, 1997 through 2001)

	Millions of yen					Thousands of U.S. dollars
	2001	2000	1999	1998	1997	2001
<b>Operating Results:</b>						
Revenues:						
Commissions .....	¥ 254,704	¥ 364,116	¥ 185,450	¥ 198,118	¥ 242,599	\$ 2,054,065
Net gain (loss) on trading .....	169,506	126,170	(20,708)	39,385	57,159	1,366,984
Interest and dividend income .....	223,992	103,882	190,219	286,393	282,965	1,806,388
Service fees and other sales .....	69,909	60,482	-	-	-	563,782
Total .....	718,111	654,650	354,961	523,896	582,723	5,791,219
Operating expenses .....	538,246	427,720	443,527	538,065	534,035	4,340,694
Income (loss) before income taxes and minority interests .....	166,615	135,173	(208,538)	(83,936)	(77,559)	1,343,670
Net income (loss) .....	64,549	105,376	(127,890)	(83,657)	(80,021)	520,557
<b>Financial Position:</b>						
Total assets .....	9,250,223	8,514,213	6,268,596	10,132,457	13,425,965	74,598,573
Shareholders' equity .....	716,816	666,072	639,859	774,699	873,191	5,780,774
<b>Per Share Amounts:</b>						
Net income (loss) .....	¥ 48.62	¥ 79.43	¥ (96.00)	¥ (62.35)	¥ (59.51)	\$ 0.39
Cash dividends applicable to the year .....	13.00	13.00	5.00	6.00	8.00	0.10
Shareholders' equity .....	539.72	502.05	480.47	580.08	649.42	4.35
<b>Financial Ratios:</b>						
Pretax profit margin .....	23.2 %	20.6 %	- %	- %	- %	- %
(Income before income taxes and minority interests to total revenues)						
Net profit margin .....	9.0	16.1	-	-	-	-
(Net income to total revenues)						
Return on average shareholders' equity .....	9.3	16.1	-	-	-	-
(Net income to average shareholders' equity)						
<b>Equity ratio</b>						
(Shareholders' equity to total assets) ** .....	9.3	10.0	12.9	9.3	8.1	
<b>Other data:</b>						
Number of employees *** .....	11,114	11,415	8,855	10,006	9,880	

Notes 1. Unless indicated otherwise, all dollar figures herein refer to US currency. Dollar amounts represent translations at the rate of ¥124 = US\$1, the rate prevailing on March 31, 2001

2. Net income and shareholders' equity per share are computed based on the average number of shares outstanding during the year

\* As of April 26, 1999 the former Daiwa Securities Co. Ltd. was reorganized and officially renamed Daiwa Securities Group Inc.

\*\* Securities in custody account has been deducted from total assets

\*\*\* Figures are the sum of the Holding Company and its consolidated subsidiaries



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company and its related companies comprising the Daiwa Securities Group consists of 52 consolidated subsidiaries and 4 equity-method affiliates and operates primarily in securities businesses including investment and financial services. The company operates mainly in Japan with offices also located in the main financial centers of the US, Europe and Asia/Oceania. The Group provides a wide range of global services to satisfy customer needs for investing or raising funds through the international securities markets and related services.

### Summary of operating results

Consolidated operating revenues amounted to ¥718,111 million (\$5,791,219 thousand), a 9.7% increase and consolidated operating expenses to ¥538,246 million (\$4,340,694 thousand), a 25.8% increase from March 31, 2000. Consequently, operating income decreased to ¥179,865 million (\$1,450,525 thousand), a 20.7% decrease from March 31, 2000.

Consolidated net income emerged at ¥64,549 million (\$520,557 thousand), down 38.7%.

### Commissions

#### Brokerage commission

Brokerage commission income decreased 43.8% to ¥82,881 million (\$668,396 thousand), due mainly to poor stock market conditions in the second half of the year, a resultant 8.8% year-on-year decrease in daily average trading value on the Tokyo Stock Exchange and a move towards net price trading by institutional investors.

#### *Daiwa Securities Co. Ltd.*

The retail securities company accounted for ¥65,764 million (\$530,355 thousand) in brokerage commissions with equities accounting for a large proportion of such commissions. Brokerage commission experienced a steep decline due to the poor performance of the equity market and subsequent fall in retail participation, which accounted for only 13.9% of overall turnover on the Tokyo Stock Exchange compared with 22.6% during the previous year.

#### *Daiwa Securities SMBC Co. Ltd*

The wholesale securities company mainly engages in transactions with institutional investors. Since the complete liberalization of stock brokerage commissions in October 1999 an increasing proportion of transactions have been conducted on a net basis. As a result, brokerage commissions amounted to ¥13,714 million (\$110,597 thousand), 59.3% below the previous year's total.

### Underwriting commission

The majority of underwriting commission is recorded at Daiwa Securities SMBC engaging in investment banking operations. Underwriting commission at Daiwa Securities SMBC was ¥37,296 million (\$300,774 thousand), a 9.8% increase, principally due to a firm contribution from IPO operations.

Consolidated underwriting commission was ¥38,859 million (\$313,379 thousand), an increase of 11.4% from March 31, 2000.

### **Distribution commission**

Distribution commission fell 55.1% to ¥39,609 million (\$319,427 thousand), due to a fall in sales of equity investment trusts.

#### ***Daiwa Securities Co. Ltd.***

As mentioned above, the sluggish stock market dampened retail investors' appetite for equity related products, resulting in a sharp decline in sales of equity investment trusts. Distribution commission was ¥52,312 million (\$421,871 thousand), a significant decline from last fiscal year. This figure includes commission earned on issues underwritten by Daiwa Securities SMBC, which have been eliminated when calculating the consolidated figures.

#### ***Daiwa Securities SMBC Co. Ltd.***

Sales of investment trusts also declined at Daiwa Securities SMBC causing distribution commission to fall 8.9% to ¥3,384 million (\$27,290 thousand).

### **Other commissions**

Trust fees arising from investment trusts were broadly unchanged, emerging at ¥70,421 million (\$567,912 thousand). Although the end-year balance of investment trust assets was sharply down from the previous year, a high balance was maintained in the earlier months of fiscal year 2000. In total other commission was ¥93,355 million (\$752,863), down 0.2% year-on-year.

#### ***Daiwa Securities Co. Ltd.***

Agency commissions on investment trusts, amounting to ¥29,939 million (\$241,444 thousand) were the primary source of other commissions totaling ¥39,841 million (\$321,298 thousand).

#### ***Daiwa Securities SMBC Co. Ltd.***

Other commissions came to ¥19,247 million (\$155,218 thousand), 8.6% below the previous year's figure. The main reason behind this decline is the fall in agency commissions on investment trusts to ¥9,232 million (\$74,452 thousand), 24.1% below the previous year's total. In particular, there was a decline in agency commission on the mainstay MMF (money management funds). On the other hand, commission generated from M&A, structured finance and consulting activities increased.

### **Net trading gains**

Total net gains on trading increased 34.3% to ¥169,506 million (\$1,366,984 thousand).

#### ***Daiwa Securities Co. Ltd.***

Daiwa Securities Co. Ltd. reported ¥17,021 million (\$137,266 thousand) in net trading gains for the period. Gains recorded on equities of ¥203 million (\$1,637 thousand) consisted primarily of foreign stocks and mini-stock. On the other hand, income arising from bonds including spread equivalents on retail transactions in bonds and foreign exchange gains or losses contingent to trading in foreign stocks and bonds on customers' accounts increased sharply to ¥16,818 million (\$135,629 thousand).

### ***Daiwa Securities SMBC Co. Ltd***

Net gains on equity trading increased 247.5% to ¥115,403 million (\$930,669 thousand), due to an expansion in order flow from corporate clients. Trading income arising from bonds and foreign exchange was ¥13,531 million (\$109,121 thousand) down 36.1% from the previous year. As a result, total net gains on trading accounts amounted to ¥128,934 million (\$1,039,790 thousand), a year-on-year increase of 82.4%.

### **Net financial income**

Net financial income increased to ¥28,024 million (\$226,001 thousand), up 109.8% year-on-year. Interest and dividend income was ¥223,992 million (\$1,806,388 thousand) with interest expenses of ¥195,968 million (\$1,580,387).

### **Selling, general & administrative expenses**

Selling, general & administrative expenses remained basically unchanged at ¥286,948 million (\$2,314,097 thousand). Increases in advertisement expense due to an aggressive advertisement campaign and increases in depreciation expenses following an expansion in IT investment were offset by a cut in real estate, data processing and office supply expenses.

### **Other expenses**

Other expenses were ¥13,250 million (\$106,855 thousand) due to write-off of securities of ¥4,750 million (\$38,306), provision for doubtful accounts of ¥2,942 million (\$23,726 thousand), losses on disposal and sale of fixed assets of ¥2,751 million (\$22,185 thousand) and losses on sale of loan receivables of ¥1,519 million (\$12,250 thousand).

### **Cash flow**

Net cash used in operating activities was negative ¥388,375 million (\$3,132,057 thousand), primarily because of an increase in securities trading positions including expanded repurchase agreement transactions in the US operations. Net cash provided by investing activities was ¥4,969 million (\$40,073 thousand), reflecting progress in sale of investment securities. Net cash provided by financing activities was ¥42,799 million (\$345,153 thousand), mainly due to bond issuance. In consequence, cash and cash equivalents after allowance for the effect of exchange rate changes decreased by ¥332,911 million (\$2,684,766 thousand) to ¥399,564 million (\$3,222,290 thousand).

## CONSOLIDATED BALANCE SHEETS (march 31, 2001 and 2000)

Assets	Millions of yen		Thousands of U.S. dollars (note 1)
	2001	2000	2001
<b>Cash and cash deposits:</b>			
Cash and time deposits (note 12) .....	¥ 399,564	¥ 732,475	\$ 3,222,290
Cash segregated as deposits related to securities transactions .....	8,975	8,060	72,379
	408,539	740,535	3,294,669
<b>Receivables:</b>			
Loans receivable from customers .....	30,602	29,122	246,790
Loans receivable from other than customers .....	379,668	114,707	3,061,839
Receivables related to margin transactions (note 5) .....	228,292	393,629	1,841,065
Other .....	85,575	125,946	690,121
Less allowance for doubtful accounts .....	(8,163)	(7,828)	(65,831)
	715,974	655,576	5,773,984
<b>Collateralized short-term financing agreements (note 6) .....</b>	<b>2,729,721</b>	<b>1,392,219</b>	<b>22,013,879</b>
<b>Trading assets (notes 7 and 12) .....</b>	<b>2,884,496</b>	<b>2,927,868</b>	<b>23,262,065</b>
<b>Securities in custody (notes 11 and 12) .....</b>	<b>1,556,172</b>	<b>1,820,905</b>	<b>12,549,774</b>
<b>Deferred income taxes (note 18) .....</b>	<b>92,200</b>	<b>113,538</b>	<b>743,548</b>
<b>Other assets:</b>			
Property and equipment, at cost (note 12) .....	405,911	408,529	3,273,476
Less accumulated depreciation .....	(92,005)	(83,968)	(741,976)
	313,906	324,561	2,531,500
Lease deposits .....	32,488	33,672	262,000
Investment securities (notes 8 and 12) .....	326,907	285,349	2,636,347
Long-term loans receivable (note 13) .....	14,968	24,789	120,710
Other (note 12) .....	189,243	385,794	1,526,153
Less allowance for doubtful accounts .....	(14,391)	(190,593)	(116,056)
	863,121	863,572	6,960,654
	¥ 9,250,223	¥ 8,514,213	\$ 74,598,573

see accompanying notes.

Liabilities and shareholders' equity	Millions of yen		Thousands of U.S. dollars (note 1)
	2001	2000	2001
<b>Loans:</b>			
Short-term borrowings (notes 12, 13 and 16) . . . . .	¥ 600,028	¥ 826,066	\$ 4,838,935
Commercial paper . . . . .	516,300	145,600	4,163,710
Long-term debt (notes 12, 13 and 16) . . . . .	598,839	688,333	4,829,347
	1,715,167	1,659,999	13,831,992
<b>Payables:</b>			
Payables to customers (note 15) . . . . .	188,570	184,416	1,520,726
Time deposits received . . . . .	13,573	20,184	109,460
Payables from brokers, dealers and customers . . . . .	13,814	57,537	111,403
Payables related to margin transactions (note 5) . . . . .	29,772	53,618	240,097
Other . . . . .	20,178	47,098	162,726
	265,907	362,853	2,144,412
<b>Collateralized short-term financing agreements (note 6) . . . . .</b>	<b>3,251,220</b>	<b>2,418,487</b>	<b>26,219,516</b>
<b>Trading liabilities (note 7) . . . . .</b>	<b>1,412,370</b>	<b>1,234,298</b>	<b>11,390,081</b>
<b>Accrued and other liabilities:</b>			
Income taxes payable . . . . .	30,344	74,430	244,710
Accrued bonuses . . . . .	18,748	19,491	151,194
Multiemployers' pension plan (note 17) . . . . .	28,443	28,443	229,379
Retirement benefits (note 17) . . . . .	9,413	6,329	75,911
Other (note 18) . . . . .	65,541	80,082	528,556
	152,489	208,775	1,229,750
<b>Securities borrowed and deposited by customers (notes 11 and 12) . . . . .</b>	<b>1,556,172</b>	<b>1,820,905</b>	<b>12,549,774</b>
(Contra account of securities in custody)			
<b>Statutory reserves (note 19) . . . . .</b>	<b>1,975</b>	<b>981</b>	<b>15,927</b>
<b>Minority interests . . . . .</b>	<b>178,107</b>	<b>141,843</b>	<b>1,436,347</b>
<b>Contingent liabilities (note 20)</b>			
<b>Shareholders' equity (notes 21 and 22):</b>			
Common stock, par value ¥50 per share;			
Authorized - 4,000,000 thousand shares			
Issued - 1,331,735 thousand shares ( <i>1,331,733 thousand shares in 2000</i> ) . . . . .	138,432	138,431	1,116,387
Preferred stock, no par value;			
Authorized - 100,000 thousand shares			
Issued - 0 share . . . . .	-	-	-
Additional paid-in capital . . . . .	117,786	117,785	949,887
Retained earnings . . . . .	459,994	413,469	3,709,629
Net unrealized gain on securities, net of tax effect . . . . .	18,984	-	153,097
Translation adjustments . . . . .	(15,807)	-	(127,476)
Treasury stock, at cost . . . . .	(2,573)	(3,613)	(20,750)
Total shareholders' equity . . . . .	716,816	666,072	5,780,774
	¥ 9,250,223	¥ 8,514,213	\$ 74,598,573

## CONSOLIDATED STATEMENTS OF OPERATIONS (years ended March 31, 2001, 2000 and 1999)

	Millions of yen			Thousands of U.S. dollars (note 1)
	2001	2000	1999	2001
<b>Revenues (note 23):</b>				
Commissions (note 24) . . . . .	¥ 254,704	¥ 364,116	¥ 185,450	\$ 2,054,065
Net gain (loss) on trading . . . . .	169,506	126,170	(20,708)	1,366,984
Interest and dividend income . . . . .	223,992	103,882	190,219	1,806,388
Service fees and other sales . . . . .	69,909	60,482	–	563,782
	718,111	654,650	354,961	5,791,219
<b>Operating expenses (note 23):</b>				
Selling, general and administrative expenses (notes 13, 17 and 25) . . . . .	286,948	287,498	271,085	2,314,097
Interest expense . . . . .	195,968	90,524	172,442	1,580,387
Cost of service fees and other sales . . . . .	55,330	49,698	–	446,210
	538,246	427,720	443,527	4,340,694
<b>Operating income (loss) (note 23) . . . . .</b>	<b>179,865</b>	<b>226,930</b>	<b>(88,566)</b>	<b>1,450,525</b>
<b>Other income (expenses):</b>				
Reversal of statutory reserves, net (note 19) . . . . .	(994)	(197)	45,883	(8,016)
Other, net (note 26) . . . . .	(12,256)	(91,560)	(165,855)	(98,839)
	(13,250)	(91,757)	(119,972)	(106,855)
<b>Income (loss) before income taxes and minority interests . . . . .</b>	<b>166,615</b>	<b>135,173</b>	<b>(208,538)</b>	<b>1,343,670</b>
<b>Income taxes (note 18):</b>				
Current . . . . .	48,019	77,643	(1,672)	387,250
Deferred . . . . .	21,830	(15,273)	(78,952)	176,048
	69,849	62,370	(80,624)	563,298
<b>Minority interests . . . . .</b>	<b>(32,217)</b>	<b>32,573</b>	<b>24</b>	<b>(259,815)</b>
<b>Net income (loss) . . . . .</b>	<b>¥ 64,549</b>	<b>¥ 105,376</b>	<b>¥ (127,890)</b>	<b>\$ 520,557</b>
<b>Per share amounts:</b>				
	Yen			U.S. dollars (note 1)
Net income (loss) . . . . .	¥ 48.62	¥ 79.43	¥ (96.00)	\$ 0.39
Diluted net income . . . . .	46.26	76.19	–	0.37
Cash dividends applicable to the year . . . . .	13.00	13.00	5.00	0.10

see accompanying notes.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(years ended march 31, 2001, 2000 and 1999)

	Millions of yen						
	Number of shares of common stock (thousands)	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain on securities, net of tax effect	Translation adjustments	Treasury stock, at cost
<b>Balance at March 31, 1998</b> .....	1,335,554	¥ 138,425	¥ 117,779	¥ 518,528	¥ —	¥ —	¥ (33)
Net loss .....				(127,890)			
Cumulative effect of adoption of tax effect accounting (note 18) .....				3,017			
Cash dividends paid .....				(8,013)			
Redemption of treasury stock (note 21) .....	(3,832)			(1,970)			
Net in treasury stock .....							16
<b>Balance at March 31, 1999</b> .....	1,331,722	138,425	117,779	383,672	—	—	(17)
Net income .....				105,376			
Revisions in accounting for subsidiaries and affiliated companies (note 3) .....				(68,913)			
Cash dividends paid .....				(6,658)			
Bonuses to directors .....				(8)			
Shares issued upon conversion of bonds .....	11	6	6				
Net in treasury stock .....							(3,596)
<b>Balance at March 31, 2000</b> .....	1,331,733	138,431	117,785	413,469	—	—	(3,613)
Net income .....				64,549			
Revisions in accounting for subsidiaries and affiliated companies (note 3) .....				(498)			
Cash dividends paid .....				(17,246)			
Bonuses to directors .....				(280)			
Shares issued upon conversion of bonds .....	2	1	1				
Net unrealized gain on securities, net of tax effect .....					18,984		
Translation adjustments .....						(15,807)	
Net in treasury stock .....							1,040
<b>Balance at March 31, 2001</b> .....	1,331,735	¥ 138,432	¥ 117,786	¥ 459,994	¥ 18,984	¥ (15,807)	¥ (2,573)

	Thousands of U.S. dollars (note 1)					
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain on securities, net of tax effect	Translation adjustments	Treasury stock, at cost
<b>Balance at March 31, 2000</b> .....	\$1,116,379	\$ 949,879	\$3,334,427	\$ —	\$ —	\$ (29,137)
Net income .....			520,557			
Revisions in accounting for subsidiaries and affiliated companies (note 3) .....			(4,016)			
Cash dividends paid .....			(139,081)			
Bonuses to directors .....			(2,258)			
Shares issued upon conversion of bonds .....	8	8				
Net unrealized gain on securities, net of tax effect .....				153,097		
Translation adjustments .....					(127,476)	
Net in treasury stock .....						8,387
<b>Balance at March 31, 2001</b> .....	\$1,116,387	\$ 949,887	\$3,709,629	\$ 153,097	\$ (127,476)	\$ (20,750)

CONSOLIDATED STATEMENTS OF CASH FLOWS (years ended march 31, 2001, 2000 and 1999)

	Millions of yen			Thousands of U.S. dollars (note 1)
	2001	2000	1999	2001
<b>Cash flows from operating activities:</b>				
Net income (loss) . . . . .	¥ 64,549	¥ 105,376	¥ (127,890)	\$ 520,557
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization . . . . .	15,495	14,780	8,531	124,960
Provision for doubtful accounts, net . . . . .	4,345	33,959	3,049	35,040
Provision for retirement benefits, net (note 17) . . . . .	4,253	(2,584)	17,237	34,298
Reversal of statutory reserves, net (note 19) . . . . .	994	197	(45,883)	8,016
Provision for financial assistance to related companies (note 13) . . . . .	—	—	58,200	—
Losses related to fixed assets (note 26) . . . . .	2,978	9,182	15,873	24,016
Losses (gains) related to investment securities (note 26) . . . . .	1,665	(10,992)	8,038	13,427
Deferred income taxes (note 18) . . . . .	21,830	(15,273)	(78,952)	176,048
Expenses for reorganization of related companies (note 26) . . . . .	—	10,552	—	—
Provision for multiemployers' pension plan (note 26) . . . . .	—	28,443	—	—
Write-off of goodwill (note 26) . . . . .	—	8,000	—	—
Non-deductible consumption taxes derived from goodwill (note 26) . . . . .	—	4,359	—	—
 (Increase) decrease in receivables . . . . .	(152,635)	400,786	(517,618)	(1,230,927)
(Increase) decrease in trading assets . . . . .	180,343	(823,810)	1,658,479	1,454,379
(Increase) decrease in receivables related to margin transactions . . . . .	141,490	(263,189)	(39,670)	1,141,048
(Increase) decrease in collateralized short-term financing agreements . . . . .	(510,205)	205,822	(821,631)	(4,114,556)
(Increase) decrease in other assets . . . . .	(162,742)	(11,357)	(21,728)	(1,312,436)
Other, net . . . . .	(735)	(4,612)	40	(5,927)
Total adjustments . . . . .	(452,924)	(415,737)	243,965	(3,652,614)
Net cash provided by (used in) operating activities . . . . .	(388,375)	(310,361)	116,075	(3,132,057)

see accompanying notes.

	Millions of yen			Thousands of U.S. dollars (note 1)
	2001	2000	1999	2001
<b>Cash flows from investing activities:</b>				
Payments for purchases of property and equipment . . . . .	(10,408)	(14,681)	(13,875)	(83,935)
Proceeds from sales of property and equipment . . . . .	6,297	9,755	1,336	50,782
Payments for purchases of investment securities . . . . .	(22,059)	(88,326)	(26,292)	(177,895)
Proceeds from sales of investment securities . . . . .	43,758	205,783	120,379	352,887
Decrease in long-term loans receivable . . . . .	7,391	28,945	7,871	59,605
Other, net . . . . .	(20,010)	(673)	2,175	(161,371)
Net cash provided by investing activities . . . . .	4,969	140,803	91,594	40,073
<b>Cash flows from financing activities:</b>				
Increase (decrease) in short-term loans . . . . .	59,441	121,138	(213,915)	479,363
Increase (decrease) in long-term debt . . . . .	(126,904)	(9,970)	95,797	(1,023,419)
Proceeds from issuance of notes by subsidiaries . . . . .	192,109	80,000	40,919	1,549,266
Payments for redemption of bonds and notes . . . . .	(67,707)	(39,409)	(140,967)	(546,024)
Proceeds from issuance of stocks to a minor shareholder . . .	2,145	162,000	–	17,298
Payments of cash dividends . . . . .	(17,246)	(6,658)	(8,013)	(139,081)
Payments of cash dividends to minor shareholders . . . . .	(29)	(233)	–	(234)
Other . . . . .	990	–	(1,970)	7,984
Net cash provided by (used in) financing activities . . . . .	42,799	306,868	(228,149)	345,153
<b>Effect of exchange rate changes on cash . . . . .</b>	<b>7,696</b>	<b>8,839</b>	<b>(10,606)</b>	<b>62,065</b>
<b>Net increase (decrease) in cash . . . . .</b>	<b>(332,911)</b>	<b>146,149</b>	<b>(31,086)</b>	<b>(2,684,766)</b>
<b>Cash at beginning of year . . . . .</b>	<b>732,475</b>	<b>566,455</b>	<b>597,541</b>	<b>5,907,056</b>
<b>Increase in cash due to change in scope of consolidation . . .</b>	<b>–</b>	<b>19,871</b>	<b>–</b>	<b>–</b>
<b>Cash at end of year . . . . .</b>	<b>¥ 399,564</b>	<b>¥ 732,475</b>	<b>¥ 566,455</b>	<b>\$ 3,222,290</b>
<b>Supplemental information on cash flows:</b>				
Cash paid during the year for:				
Interest . . . . .	¥ 205,945	¥ 93,939	¥ 204,887	\$ 1,660,847
Income taxes . . . . .	90,673	10,937	5,106	731,234
<b>Non-cash investing and financing activities:</b>				
Conversion of convertible bonds into common stock and additional paid-in capital . . . . .	2	12	–	17

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (three years ended March 31, 2001)**1. Basis of consolidated 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, after transferring its wholesale business divisions and retail business divisions as mentioned below.

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. On April 1, 2001, Daiwa Securities SMBC Co. Ltd. ("Daiwa Securities SMBC") changed its name from Daiwa Securities SB Capital Markets Co. Ltd. and took over the business of Sakura Securities Co., Ltd., a wholly owned subsidiary of The Sakura Bank, Limited in connection with a merger of The Sumitomo Bank, Limited with The Sakura Bank, Limited to form Sumitomo Mitsui Banking Corporation on the same date.

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.

The Company is a Japanese corporation and maintains its records and prepares its consolidated 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 ("MOF") and stock exchanges in Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically, including the 2000 consolidated statements of cash flows prepared in accordance with the "Standards for Preparation of Consolidated Cash Flow Statements, etc." effective in 2000, in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows for 1999 has been prepared for the purpose of inclusion in the accompanying consolidated financial statements even though such a statement was not customarily prepared in Japan and not required to be filed with MOF at that time. Consolidated statements of shareholders' equity are also prepared, while they are not required to be filed with MOF.

Significant differences between the accounting policies followed by the Company and International Accounting Standards ("IAS") 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, 2001, which was ¥124 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 2000 and 1999 consolidated financial statements to conform to the presentation for 2001.

## 2. Change in accounting policies

In 1999, the Company and a consolidated subsidiary changed its accounting method to provide for directors' retirement benefits on an accrual basis from expensing it at the time of payment for better allocation of expenses. As a result of this accounting change, net loss before income taxes and minority interests for the year ended March 31, 1999 increased by ¥1,482 million, which consisted of accrual for 1999 of ¥449 million classified in selling, general and administrative expenses, and the cumulative effect of prior years from the change in accounting policy of ¥1,034 million classified in other expenses (See Note 26).

## 3. Significant accounting policies

**Consolidation** - The Company prepared the consolidated financial statements for the year ended March 31, 2001 and 2000 in accordance with the revised Accounting Principles for Consolidated Financial Statements (the "Revised Accounting Principles") effective for the year ended March 31, 2000. The consolidated financial statements for 2001 and 2000 include the accounts of the Company and significant companies which are controlled by the Company through substantial ownership of more than 50% of the voting rights or through ownership of high percentage of the voting rights and the existence of certain conditions evidencing control by the Company of the decision-making body of such companies.

Under the Revised Accounting Principles, certain companies of which the Company has at least 15% and less than 20% of the voting rights in the case where the Company has the ability to exercise significant influence over operating and financial policies of the investees are also accounted for using the equity method.

Previously, only majority-owned companies were consolidated and only investments in companies of which the Company owns 20% to 50% of the voting rights and has the ability to significantly influence financial, operational or business policies were accounted for using the equity method. Due to the revision, eight subsidiaries and three affiliates were newly consolidated or accounted for on the equity method in the accompanying consolidated financial statements for 2000. The prior years' consolidated financial statements have not been restated.

Significant intercompany balances, transactions and profits have been eliminated in consolidation.

**Consolidated statement of cash flows** - For purposes of reporting cash flows, cash includes "cash and time deposits" with maturities of not exceeding one year in the accompanying consolidated statements of cash flows, which is referred to the corresponding account balance in the accompanying consolidated balance sheets.

In preparing the consolidated statements of cash flows for the year ended March 31, 2001 and 2000 for MOF reporting purpose, cash is considered to be "cash and cash equivalents", which includes cash on hand, readily-available deposits and highly liquid investments with original maturities of not exceeding three months. "Cash and time deposits" are used instead of "cash and cash equivalents". Differences between "cash and time deposits" and "cash and cash equivalents" as of March 31, 2001 and 2000 are reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Cash and time deposits . . . . .	¥ 399,564	¥ 732,475	\$ 3,222,290
Deposits segregated for customers . . . . .	(85,500)	(235,300)	(689,516)
Time deposits more than three months . . . . .	(10,665)	(8,310)	(86,008)
Cash and cash equivalents . . . . .	¥ 303,399	¥ 488,865	\$ 2,446,766

**Trading assets and liabilities** - Trading assets and liabilities, including cash securities and financial derivatives for trading purpose held by the securities subsidiaries 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 consolidated statements of operations. Cash securities owned for non-trading purpose, shown in the accompanying consolidated balance sheets as "Investment securities", and operational investment securities are discussed below.

**Investment securities** - Effective April 1, 2000, the Company and consolidated subsidiaries adopted the new Japanese accounting standard on accounting for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" (the "Standard for Financial Instruments") issued by the Business Accounting Deliberation Council on January 22, 1999).

In accordance with the Standard for Financial Instruments, at April 1, 2000 the Company and consolidated subsidiaries examined the intent of holding each security and classified those securities as (a) securities held for trading purposes, (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities not classified in any of the above categories ("available-for-sale securities").

Trading assets and liabilities held by securities companies have been stated at fair market value as mentioned above. Effective April 1, 2000, the Company and domestic consolidated subsidiaries other than securities companies adopted the mark-to-market accounting for these securities. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies are stated at moving-average cost. Available-for-sale securities (including operational investment securities) with fair market value are stated at fair market value. Realized gains and losses on sale of such securities are computed using the moving-average cost. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of the shareholders' equity.

Debt securities with no fair market value are stated at the amortized cost, net of the amount considered not collectible.

Other securities with no fair value are stated at the moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by subsidiaries and affiliated companies and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by subsidiaries and affiliated companies is not readily available, such securities should be written down to net asset value in the event net asset value is significantly declines. Unrealized losses on these securities are reported in the consolidated statements of operations.

**Hedging transaction** - The Standard for Financial Instruments, effective from the year ended March 31, 2001, requires to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes. Valuation gains or losses on hedging instruments are mainly deferred as assets or liabilities until the gains or losses on underlying hedged instruments are realized. Interests received or paid on interest swap for hedging are accrued without marking-to-market, premium or discount on forward foreign exchange contract for hedging is allocated to each fiscal term without marking-to-market. There was no effect on the accompanying consolidated financial statements for 2001, except for disclosure in Note 9.

***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. 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. Buy 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.

***Provision for doubtful accounts*** - In accordance with the Standard for Financial Instruments, provision for doubtful accounts of domestic consolidated subsidiaries is provided on the estimated historical deterioration rate for normal loans, and the allowance specifically assessed for doubtful and failed loans. Overseas consolidated subsidiaries provide specifically assessed amounts.

***Effect of adoption of the Standard for Financial Instruments*** - As a result of the adoption of the Standard for Financial Instruments, in the year ended March 31, 2001, operating income decreased by ¥741 million (\$5,976 thousand) and income before income taxes and minority interests increased by ¥12,923 million (\$104,218 thousand) compared with what would have been recorded under the previous accounting standard.

***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.

***Bonuses*** - The Company and domestic consolidated subsidiaries follow the Japanese practice of paying bonuses to employees in June and December. Accrued employees' bonuses 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.

***Retirement benefits for employees*** - Effective April 1, 2000, the Company and most domestic consolidated subsidiaries adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits" (the "Standard for Employees' Severance and Pension Benefits"), issued by the Business Accounting Deliberation Council on June 16, 1998.

As a result of the adoption of the Standard for Employees' Severance and Pension Benefits, in the year ended March 31, 2001, severance and pension benefit expense increased by ¥213 million (\$1,718 thousand), operating income and income before income taxes and minority interests decreased by ¥213 million (\$1,718 thousand) compared with what would have been recorded under the previous accounting standard.

The Company and most domestic consolidated subsidiaries have established an unfunded pension plan that allows a retiring employee to select between receiving retirement benefits each year or at a lump sum upon retirement by employees under their retirement benefit rule. The amount of retirement benefits to be paid for each plan is calculated principally based on the annual basic portion which is a fixed amount depending on the rank of each employees, and the annual performance portion which can be derived from a table based on each employees' rank and evaluation at a fixed amount.

Also the Company and most domestic subsidiaries are members of the plan which is an industry-wide multiemployer contributory welfare pension plan administered by Securities Companies' Welfare Pension Fund.

**Income taxes** - In 1999, the Company and certain consolidated subsidiaries have early adopted tax effect accounting in accordance with the new standards, which were mandatory for the year beginning after April 1, 1999 in Japan. Deferred taxes are recorded for the future tax consequences of events that have been recognized in the consolidated financial statements or tax returns, based upon enacted tax laws and rates, including an appropriate provision for taxes on undistributed earnings of subsidiaries and affiliates. The prior years' effect before 1999 of this new accounting has been recorded in retained earnings as of April 1, 1998, as explained in Note 18.

**Translation of foreign currencies** - Effective April 1, 2000, the Company and domestic consolidated subsidiaries adopted the new accounting standard, "Accounting Standards for Effects of Changes in Foreign Exchange Rates" amended by "Opinions on Revision of Accounting Standards for Effects of Changes in Foreign Exchange Rates" (the "Standards for Effect of Changes in Foreign Exchange Rates"), issued by the Business Accounting Deliberation Council on October 22, 1999.

In accordance with the Standards for Effect of Changes in Foreign Exchange Rates, the Company and domestic consolidated subsidiaries translate foreign currency assets and liabilities in foreign currencies into yen at year-end exchange rates. There was no material effect due to the amendment.

**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.

**Translation adjustment** - Due to the adoption of the Standards for Effect of Changes in Foreign Exchange Rates, translation adjustment is reported in the shareholders' equity. The prior year's amount, which was included in assets has not been reclassified to conform to the 2001 presentation.

**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.

Diluted net income per share is computed based on the average number of shares of common stock outstanding plus the number of shares of common stock that would have been issued had the outstanding convertible bonds been converted as of year-end.

#### **4. Significant differences between accounting policies followed by the Company and domestic subsidiaries and International Accounting Standards**

The accompanying consolidated financial statements are prepared in conformity with accounting principles generally accepted in Japan. Differences from IAS include the following.

**Securities in custody** - As described in Note 11, "Securities in custody" is presented as an asset in the consolidated balance sheets with a contra account entitled "Securities borrowed and deposited by customers" as a liability.

**Investment securities** - On 2001 Japanese accounting standards require that marketable equity and all debt securities held for investment should be classified, according to management's intent, into one of the following categories: securities held for trading purposes, held-to-maturity debt securities, equity securities issued by subsidiaries and affiliate companies, or available-for-sale securities. Available-for-sale securities should be marked-to-market, with the resulting unrealized gain or loss recorded directly to a separate component of equity until realized, at which time the gain or loss is recorded in income. Held-to-maturity debt securities should be carried at amortized cost.

**Impairment of assets** - Japanese accounting standards do not require revaluation of property and equipment, which is required by IAS 36.

**Statutory reserves** - As described in Note 19, 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.

## 5. Margin transactions

Margin transactions at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of
	2001	2000	U.S. dollars
<b>Assets:</b>			
Loans receivable from customers . . . . .	¥ 88,171	¥ 308,327	\$ 711,056
Cash deposits as collateral for securities borrowed from securities finance companies . . . . .	140,121	85,302	1,130,009
	¥ 228,292	¥ 393,629	\$ 1,841,065
<b>Liabilities:</b>			
Loans from securities finance companies . . . . .	¥ 14,453	¥ 24,916	\$ 116,556
Proceeds of securities sold for customers' accounts . . . . .	15,319	28,702	123,541
	¥ 29,772	¥ 53,618	\$ 240,097

Loans receivable from customers 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. Proceeds of securities sold for customers' accounts were stated at the sales prices of the relevant securities on the respective transaction dates.

## 6. Collateralized short-term financing agreements

Collateralized short-term financing agreements are accounted for in accordance with the "Uniform Accounting Standards of Securities Companies" (set by the board of directors of the Japan Securities Dealers' Association, November 14, 1974), based on Japanese Institute of Certified Public Accountants Auditing Committee Report No.17 "Auditing and Accounting Treatment regarding Application of Accounting Standards for Financial Instruments to Securities Companies" dated July 6, 2000, although the Standard for Financial Instruments is introduced this fiscal year.

Collateralized short-term financing agreements at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
<b>Assets:</b>			
Securities borrowed . . . . .	¥ 882,876	¥ 1,016,409	\$ 7,119,968
Securities purchased under agreements to resell . . . . .	1,629,394	351,710	13,140,274
Buy Gensaki . . . . .	217,451	24,100	1,753,637
	¥ 2,729,721	¥ 1,392,219	\$ 22,013,879
<b>Liabilities:</b>			
Securities loaned . . . . .	¥ 793,276	¥ 883,468	\$ 6,397,387
Securities sold under agreements to repurchase . . . . .	1,716,006	411,182	13,838,758
Sell Gensaki . . . . .	741,938	1,123,837	5,983,371
	¥ 3,251,220	¥ 2,418,487	\$ 26,219,516

## 7. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
<b>Trading assets:</b>			
Corporate shares . . . . .	¥ 347,285	¥ 249,537	\$ 2,800,686
Government, corporate and other bonds . . . . .	2,102,608	2,239,353	16,956,516
Beneficiary certificates . . . . .	2,231	9,764	17,992
Commercial paper, certificates of deposits and others . . . . .	60,956	238,215	491,581
Option transactions . . . . .	43,022	12,407	346,952
Futures transactions . . . . .	8,826	2,275	71,177
Swap agreements . . . . .	264,067	108,071	2,129,572
Other derivatives . . . . .	29	0	234
Operational investment securities . . . . .	47,456	44,173	382,710
Other inventories . . . . .	8,016	24,073	64,645
	¥ 2,884,496	¥ 2,927,868	\$ 23,262,065

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
<b>Trading liabilities:</b>			
Corporate shares . . . . .	¥ 93,339	¥ 84,662	\$ 752,734
Government, corporate and other bonds . . . . .	1,016,189	1,032,657	8,195,073
Commercial paper, certificates of deposits and others . . . . .	—	120	—
Option transactions . . . . .	40,049	10,592	322,976
Futures transactions . . . . .	8,329	8,795	67,169
Swap agreements . . . . .	254,455	97,412	2,052,056
Other derivatives . . . . .	9	60	73
	¥ 1,412,370	¥ 1,234,298	\$ 11,390,081

Operational investment securities represent shares and bonds including various investments in partnerships of small and medium-sized companies which are expected to go public in the future.

## 8. Investment securities

Cost/amortized cost and market value of held-to-maturity debt securities as of March 31, 2001 consisted of the following:

	Millions of yen		
	Cost/ Amortized cost	Market Value	Difference
Government bonds, local government bonds, etc. . . . .	¥ 2,020	¥ 2,031	¥ 11

	Thousands of U.S. dollars		
	Cost/ Amortized cost	Market Value	Difference
Government bonds, local government bonds, etc. . . . .	\$ 16,289	\$ 16,383	\$ 94

Cost and market value of available-for-sale securities as of March 31, 2001 consisted of the following:

	Millions of yen		
	Cost	Market value	Difference
Corporate shares . . . . .	¥ 112,645	¥ 147,064	¥ 34,419
Government, corporate and other bonds . . . . .	10	10	0
Other . . . . .	22,782	18,925	(3,857)
	¥ 135,437	¥ 165,999	¥ 30,562

	Thousands of U.S. dollars		
	Cost	Market value	Difference
Corporate shares . . . . .	\$ 908,427	\$ 1,186,000	\$ 277,573
Government, corporate and other bonds . . . . .	81	81	0
Other . . . . .	183,726	152,621	(31,105)
	\$ 1,092,234	\$ 1,338,702	\$ 246,468

Securities with no fair market value as of March 31, 2001 consisted of the following:

	Millions of yen	Thousands of U.S. Dollars
	Corporate shares . . . . .	¥ 24,213
Government, corporate and other bonds . . . . .	7,394	59,629
Other . . . . .	99,879	805,476
	¥ 131,486	\$ 1,060,371

In addition to the above, securities of non-consolidated and affiliated companies amounting to ¥27,402 million (\$220,985 thousand) were included in investment securities at March 31, 2001.

Investment securities at March 31, 2000 consisted of the following:

	Millions of yen
Corporate shares . . . . .	¥ 191,238
Government, corporate and other bonds . . . . .	21,950
Other . . . . .	72,161
	¥ 285,349

At March 31, 2000, net unrealized gains of investment securities which have a quoted market price on a settlement date basis were as follows:

	Millions of yen		
	Book value	Market value	Unrealized Gain
Corporate shares .....	¥ 119,492	¥ 190,052	¥ 70,560
Other .....	29,687	30,243	556
	¥ 149,179	¥ 220,295	¥ 71,116

### 9. Derivatives for non-trading purposes

Net unrealized gains/(losses) of derivatives for non-trading purposes at March 31, 2001 (excluding hedging transactions) consisted of the following:

	Millions of yen		
	Contract amount	Market value	Unrealized Gains/(Losses)
<b>March 31, 2001:</b>			
Interest rate swap .....	¥ 86	¥ (1)	¥ (1)
Currency swap .....	342	0	0

	Thousands of U.S. dollars		
	Contract amount	Market value	Unrealized Gains/(Losses)
<b>March 31, 2001:</b>			
Interest rate swap .....	\$ 694	\$ (8)	\$ (8)
Currency swap .....	2,758	0	0

Net unrealized gains of derivatives for non-trading purposes derived from hedging transactions at March 31, 2000 were included in figures below, due that hedge accounting had not been effective in 2000.

	Millions of yen		
	Contract amount	Market value	Unrealized Gains
<b>March 31, 2000:</b>			
Interest rate swap .....	¥ 94,067	¥ 2,457	¥ 2,329
Currency swap .....	8,107	1,399	1,329

## 10. Risk management information

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

The principal risks inherent in trading in these markets are market risk and credit risk. Market risk represents the potential for loss from changes in the value of financial instruments due to price and interest rate fluctuations in the markets. As to market risk, Securities subsidiaries determine the balance of risk and profit or loss on each instrument and use a value-at-risk method to manage this risk. Credit risk represents the potential for loss arising from the failure of the counter-party in a transaction to fulfill its terms and conditions. Securities subsidiaries assess the credit risk of their counter-parties applying internal credit rating and monitor their exposure by measuring notional principal and credit exposure.

Daiwa Securities SMBC has established five risk management principles: Active management participation, system of internal supervision, sound management by risk limit setting, risk management assuming emergency and transparency in risk management process. By ensuring these five principles, Daiwa Securities SMBC expects that risks associated with trading activities are well controlled within a range that the management is willing to assume.

## 11. Securities in custody

Securities in custody at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Securities borrowed for less than one year . . . . .	¥ 1,219,711	¥ 1,335,084	\$ 9,836,379
Securities deposited by customers as collateral mainly for margin and futures transactions . . . . .	336,461	485,821	2,713,395
	¥ 1,556,172	¥ 1,820,905	\$ 12,549,774

Securities in custody account is presented as an asset in the consolidated 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.

## 12. Pledged assets

At March 31, 2001, short-term borrowings amounting to ¥40,590 million (\$327,338 thousand), securities borrowed amounting to ¥226 million (\$1,825 thousand) and long-term debt amounting to ¥36,048 million (\$290,713 thousand) were secured by the following assets:

	Millions of Yen	Thousands of U.S. dollars
Trading assets . . . . .	¥ 23,933	\$ 193,010
Securities in custody . . . . .	6,361	51,298
Property and equipment . . . . .	140,194	1,130,599
Investment Securities . . . . .	4,485	36,168
Other . . . . .	4,875	39,315
	¥ 179,848	\$ 1,450,390

The following securities were deposited with stock exchanges as guarantee for stock index and bond future contracts, etc. as of March 31, 2001:

	Millions of Yen	Thousands of U.S. dollars
Trading assets . . . . .	¥ 57,858	\$ 466,601
Investment securities . . . . .	41,497	334,652
	¥ 99,355	\$ 801,253

The following securities were deposited as guarantee for swap transactions and other derivatives as of March 31, 2001:

	Millions of Yen	Thousands of U.S. dollars
Cash and time deposits . . . . .	¥ 17,554	\$ 141,566
Securities in custody . . . . .	7,000	56,452
	¥ 24,554	\$ 198,018

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

## 13. 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 whose financial statements were not consolidated into the accompanying consolidated financial statements for 1999. In the normal course of its operations, the Company leases most of its office space from The Daiwa Real Estate Co., Ltd. ("DRE") 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 1999, the Company recorded ¥115,800 million in the aggregate to Daiwa Finance Co. Ltd. ("DFC") which issues mortgage securities, 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 26). The Company paid ¥57,600 million in 1999 and ¥58,200 million in 2000 in the aggregate to these companies. On April 1, 2000, DFC merged NIF and changed its name to NIF Ventures Co., Ltd.

Significant transactions with these companies for ended March 31, 1999 were as follows:

	Millions of yen	
Selling, general and administrative expenses :		
Rental expenses paid to DRE . . . . .	¥	21,044
Research and data processing fees paid to DIR . . . . .		23,011
Financial assistance expense to :		
DFC . . . . .		82,000
NIF . . . . .		24,000
Sanko . . . . .		9,800

As described in Note 3, all of these related companies have been consolidated and significant account balances and transactions with these companies at and for the years ended March 31, 2001 and 2000 have been eliminated.

In addition, a statutory auditor of the Company is also the president of the Taiyo Mutual Life Insurance Co. The significant account balances with the Taiyo Mutual Life Insurance Co. at March 31, 2001 were long-term loans receiveable amounting to ¥5,000 million (\$40,323 thousand), short-term borrowings amounting to ¥5,000 million (\$40,323 thousand), and long-term debt amounting to ¥20,000 million (\$161,290 thousand).

**14. Lease transactions**

Financial leases that do not transfer ownership to lessees ("non-capitalized finance leases") are not capitalized and are accounted for in the same manner as operating leases. Certain related information at March 31, 2001 and 2000 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Total assets under non-capitalized finance leases . . . . .	¥ 21,906	¥ 29,425	\$ 176,661
Accumulated depreciation . . . . .	12,886	16,775	103,919
Future lease payments of non-capitalized leases . . . . .	9,335	13,506	75,282
Due within one year . . . . .	4,011	4,882	32,347
Future lease payments of operating leases . . . . .	14,941	15,174	120,492
Due within one year . . . . .	2,018	1,582	16,274

**15. Payables to customers**

Payables to customers at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Cash received for customers' accounts on trading . . . . .	¥ 88,721	¥ 98,323	\$ 715,492
Cash deposits received from customers mainly for margin and futures transactions . . . . .	89,283	84,266	720,024
Other . . . . .	10,566	1,827	85,210
	¥ 188,570	¥ 184,416	\$ 1,520,726

## 16. 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, 2001 and 2000, consisted of the following:

	Millions of yen		Thousands of
	2001	2000	U.S. dollars
Bond payable in yen: 1.4% due 2005 . . . . .	¥ 100,000	¥ –	\$ 806,452
Convertible bonds payable in yen, convertible into common stock at ¥3,035.90 per share:			
1.5% due 2002 . . . . .	19,440	19,440	156,774
Convertible bonds payable in yen, convertible into common stock at ¥2,367.00 per share:			
1.4% due 2003 . . . . .	36,269	36,269	292,492
1.4% due 2000 . . . . .	–	38,662	–
Convertible bond payable in yen, convertible into common stock at ¥1,094.00 per share:			
0.5% due 2006 . . . . .	79,986	79,988	645,048
Bond with warrants: 1.37% due 2004 . . . . .	8,400	–	67,742
Notes payable in yen issued by a subsidiaries:			
Series of notes with various rates and maturities from 1999 through 2002 . . . . .	2,978	3,098	24,016
5.0% subordinated due 2005 . . . . .	993	1,033	8,008
2.0% Euro-yen bond due 2002 . . . . .	80,000	80,000	645,161
Medium-term notes in yen issued by subsidiaries, with various rates and maturities through 2011 . . . . .	77,600	–	625,806
Euro medium-term notes (authorized \$5,000 million) issued by subsidiaries, with various rates and maturities through 2008 . . . . .	34,574	56,466	278,823
Yen subordinated loan due 2004 . . . . .	40,000	40,000	322,581
Borrowings from financial institutions . . . . .	118,300	331,760	954,032
Other . . . . .	299	1,617	2,412
	¥ 598,839	¥ 688,333	\$ 4,829,347

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

At March 31, 2001, the number of shares of common stock issuable upon full conversion of outstanding convertible bonds and warrants was 101,055 thousand shares in aggregate.

The aggregate annual maturities of long-term debt as of March 31, 2001 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2002 .....	¥ 18,170	\$ 146,533
2003 .....	136,498	1,100,791
2004 .....	114,414	922,695
2005 .....	56,054	452,051
2006 .....	112,270	905,401
2007 and thereafter .....	161,433	1,301,876

### 17. Retirement benefits

**Employees**- The Company and domestic subsidiaries have unfunded lump-sum benefit plans for 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. The amount of retirement benefits to be paid is reduced by the benefits payable under the pension plan.

On March 31, 1999, the Company and a domestic consolidated subsidiary canceled all their 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. The Company and the subsidiary recorded liquidation losses of employees' pension plans of ¥12,806 million in earnings for the year then ended (See Note 26).

On March 31, 2000, certain domestic consolidated subsidiaries also canceled all their employees' retirement benefit plans, both unfunded and funded, in a similar manner as the Company did in prior year. Those subsidiaries included payables of the retirement benefits to entitled employees in other current liabilities in the consolidated balance sheet as of March 31, 2000, and recorded liquidation losses of employees' pension plans of ¥3,171 million in earnings for the year then ended. (See Note 26).

As explained in Note 3, effective April 1, 2000, the Company and most of domestic consolidated subsidiaries adopted the Standard for Employees' Severance and Pension Benefits, under which allowance and expenses for severance and pension benefits are determined based on the amounts obtained by actuarial calculations.

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

	Millions of Yen	Thousands of U.S. dollars
Projected benefit obligation .....	¥ 16,635	\$ 134,153
Less : pension assets .....	(8,273)	(66,718)
Less : unrecognized actuarial differences .....	(838)	(6,758)
Retirement benefits .....	¥ 7,524	\$ 60,677

Included in the consolidated statement of income for the year ended March 31, 2001 is severance and pension benefit expense comprising of the following:

	Millions of Yen	Thousands of U.S. dollars
Service costs . . . . .	¥ 5,099	\$ 41,121
Contribution to multiemployer's pension plan . . . . .	2,080	16,774
Interest cost on projected benefit obligation . . . . .	289	2,331
Expected return on plan assets . . . . .	(285)	(2,298)
Amortization of actuarial differences . . . . .	209	1,685
Allowance for severance and pension benefits . . . . .	¥ 7,392	\$ 59,613

The discount rate and the rate of expected return on plan assets used by the Company are 1.5-3.0% and 1.5-3.0%, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial differences are recognized as expenses using the declining-balance method over 5 years from 2001.

**Directors** - In 1999, the Company and a domestic consolidated subsidiary changed their accounting method to provide for directors' retirement benefits on an accrual basis from expensing at the time of payment as described in Note 2.

Directors' retirement benefits of ¥1,889 million (\$15,234 thousand) and ¥1,536 million were included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2001 and 2000, respectively.

**Multiemployers' pension plan** - The Company and certain of domestic consolidated subsidiaries are members of a multiemployers' pension plan that is an industry-wide multiemployer contributory welfare pension plan administered by the Securities Companies' Welfare Pension Fund. The funded pension plan has faced the problems arising from the decreasing members and continuing low interest rates. The Company and consolidated subsidiaries' liability is calculated, based on the difference between its projected benefit obligation and its fair value of the plan assets as of March 31, 2000. Provision for the multiemployers' pension plan was charged to income (Note 26) and reported in the consolidated balance sheets as "Multiemployers' pension plan" as of March 31, 2001 and 2000.

### 18. Income taxes

In 1999 the Company and certain domestic consolidated subsidiaries early adopted tax effect accounting in accordance with the new standards 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 and retained earnings as at March 31, 1999 increased by ¥3,017 million as presented in the accompanying consolidated 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 42%, 42% and 48% for 2001, 2000 and 1999, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

Details of deferred tax assets and liabilities at March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of
	2001	2000	U.S. dollars
<b>Deferred tax assets:</b>			
Net operating losses . . . . .	¥ 71,909	¥ 62,337	\$ 579,911
Write-off of goodwill . . . . .	52,585	69,973	424,073
Provision for the multiemployers' pension plan . . . . .	12,127	11,194	97,798
Other . . . . .	36,228	34,584	292,161
Gross deferred tax assets . . . . .	172,849	178,088	1,393,943
Less-Valuation allowance . . . . .	(78,840)	62,595)	(635,806)
Total deferred tax assets . . . . .	94,009	115,493	758,138
<b>Deferred tax liabilities . . . . .</b>	16,880	1,955	136,130
<b>Net deferred tax assets . . . . .</b>	¥ 77,129	¥ 113,538	\$ 622,008

The Company and certain subsidiaries recorded a valuation allowance to reflect the estimated amount of deferred tax assets that will not be realized.

The deferred tax assets and liabilities at March 31, 2001 and 2000 may be attributed to current amount and non-current amount as follows:

	Millions of yen		Thousands of
	2001	2000	U.S. dollars
<b>Deferred tax assets :</b>			2001
Current .....	¥ 8,833	¥ 15,463	\$ 71,234
Non-current .....	83,367	98,075	672,314
Total deferred tax assets .....	¥ 92,200	¥ 113,538	\$ 743,548
<b>Deferred tax liabilities :</b>			
Current .....	¥ 1,836	¥ -	\$ 14,806
Non-current .....	13,235	-	106,734
Total deferred tax liabilities .....	¥ 15,071	¥ -	\$ 121,540

A reconciliation of the difference between the normal effective statutory tax rate and the effective income tax rate reflected in the accompanying consolidated statements of operations for the year ended March 31, 2000 was as follows:

	2000
Normal effective statutory tax rate .....	42.0%
Valuation allowance for deferred income tax assets .....	11.5
Lower tax rate applicable to income of foreign subsidiaries .....	(2.0)
Other, net .....	(5.4)
Effective income tax rate .....	46.1%

There was no significant difference between the normal effective statutory tax rate and the effective income tax rate reflected in the accompanying consolidated statements of operations for the year ended March 31, 2001.

## 19. Statutory reserves

Statutory reserves at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of
	2001	2000	U.S. dollars
Reserve for securities and financial futures transaction liabilities .....	¥ 1,975	¥ 981	\$ 15,927

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.

## 20. Contingent liabilities

At March 31, 2001, the Company and its consolidated subsidiaries were contingently liable as guarantors of loans and lease deposits amounting to ¥6,773 million (\$54,665 thousand).

## 21. 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. In 1999, the Company purchased and retired shares having a market value of ¥1,970 million. As a result of such share acquisitions, retained earnings as of March 31, 1999 decreased by ¥1,970 million, and the number of issued and outstanding shares decreased by 3,832 thousand shares.

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 (\$5).

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 pre-emptive 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.

## 22. Capital adequacy requirements

In Japan, the securities company is subject to risk-based capital adequacy rules established and administered by the Financial Services Agency. Securities subsidiaries report their capital adequacy ratio as defined pursuant to these rules. The authorities will take certain administrative measures if such ratio declines below 140%. Capital adequacy ratios of Daiwa Securities Co. Ltd. were 251.3% (unaudited) and 262.7% (unaudited) for 2001 and 2000, respectively, and of Daiwa Securities SMBC were 364.7% (unaudited) and 507.4% (unaudited) for 2001 and 2000, respectively.

## 23. Segment information

The Company and consolidated subsidiaries operate predominantly in a single industry segment. The Company and 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, 2001 and a summary of total assets by geographic area for the two years ended March 31, 2001 were as follows:

Millions of yen

	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
<b>Year ended March 31, 2001:</b>						
Revenues:						
Outside customer . . . . .	¥ 488,512	¥ 198,304	¥ 23,644	¥ 7,651	¥ -	¥ 718,111
Inter-area . . . . .	15,529	(370)	138	117	(15,414)	-
Total . . . . .	504,041	197,934	23,782	7,768	(15,414)	718,111
Operating expenses . . . . .	330,498	186,780	18,990	6,703	(4,725)	538,246
Operating income . . . . .	¥ 173,543	¥ 11,154	¥ 4,792	¥ 1,065	¥ (10,689)	¥ 179,865
<b>At March 31, 2001:</b>						
Total assets by Geographic area . . . . .	¥ 7,104,229	¥ 1,817,111	¥ 572,243	¥ 76,507	¥ (319,867)	¥ 9,250,223
<b>Year ended March 31, 2000:</b>						
Revenues:						
Outside customer . . . . .	¥ 528,090	¥ 85,359	¥ 31,969	¥ 9,232	¥ -	¥ 654,650
Inter-area . . . . .	17,703	(516)	(1,960)	(454)	(14,773)	-
Total . . . . .	545,793	84,843	30,009	8,778	(14,773)	654,650
Operating expenses . . . . .	325,440	82,305	23,878	7,227	(11,130)	427,720
Operating income . . . . .	¥ 220,353	¥ 2,538	¥ 6,131	¥ 1,551	¥ (3,643)	¥ 226,930
<b>At March 31, 2000:</b>						
Total assets by Geographic area . . . . .	¥ 7,807,069	¥ 709,836	¥ 339,697	¥ 57,810	¥ (400,199)	¥ 8,514,213
<b>Year ended March 31, 1999:</b>						
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)

	Thousands of U.S. dollars					
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
<b>Year ended March 31, 2001:</b>						
Revenues:						
Outside Customer .....	\$ 3,939,614	\$ 1,599,226	\$ 190,677	\$ 61,702	\$ -	\$ 5,791,219
Inter-area .....	125,234	(2,983)	1,113	944	(124,308)	-
Total .....	4,064,848	1,596,243	191,790	62,646	(124,308)	5,791,219
Operating Expenses .....	2,665,308	1,506,291	153,145	54,056	(38,106)	4,340,694
Operating Income .....	\$ 1,399,540	\$ 89,952	\$ 38,645	\$ 8,590	\$ (86,202)	\$ 1,450,525
<b>At March 31, 2001:</b>						
Total assets by Geographic area .....	\$ 57,292,170	\$ 14,654,121	\$ 4,614,863	\$ 616,992	\$ (2,579,573)	\$ 74,598,573

Geographic overseas revenues for the three years ended March 31, 2001 were as follows:

	Millions of yen			
	America	Europe	Asia & Oceania	Total
<b>Year ended March 31, 2001:</b>				
Overseas revenue .....	¥ 188,739	¥ 22,045	¥ 7,631	¥ 218,415
Total revenue .....				718,111
% of total revenue .....	26.2%	3.1%	1.1%	30.4%
<b>Year ended March 31, 2000:</b>				
Overseas revenue .....	¥ 79,516	¥ 23,668	¥ 10,529	¥ 113,713
Total revenue .....				654,650
% of total revenue .....	12.2%	3.6%	1.6%	17.4%
<b>Year ended March 31, 1999:</b>				
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%

	Thousands of U.S. dollars			
	America	Europe	Asia & Oceania	Total
<b>Year ended March 31, 2001:</b>				
Overseas revenue .....	\$ 1,522,089	\$ 177,782	\$ 61,540	\$ 1,761,411
Total revenue .....				5,791,219
% of total revenue .....	26.2%	3.1%	1.1%	30.4%

## 24. Commissions

Commissions derived from each department for the year ended March 31, 2001 and 2000 were as follow:

	Millions of yen					
	Equity	Fixed Income (Bond)	Asset Management	Investment Banking	Others	Total
<b>Year ended March 31, 2001:</b>						
Brokerage .....	¥ 82,231	¥ 642	¥ 8	¥ -	¥ -	¥ 82,881
Underwriting .....	-	-	-	38,859	-	38,859
Distribution .....	-	-	37,510	2,099	-	39,609
Other .....	2,620	3,084	70,421	7,137	10,093	93,355
	¥ 84,851	¥ 3,726	¥ 107,939	¥ 48,095	¥ 10,093	¥ 254,704

	Millions of yen					
	Equity	Fixed Income (Bond)	Asset Management	Investment Banking	Others	Total
<b>Year ended March 31, 2000:</b>						
Brokerage .....	¥ 145,968	¥ 1,488	¥ 7	¥ -	¥ 13	¥ 147,476
Underwriting .....	-	-	-	34,887	-	34,887
Distribution .....	-	-	86,764	1,439	-	88,203
Other .....	2,876	3,395	70,431	7,218	9,630	93,550
	¥ 148,844	¥ 4,883	¥ 157,202	¥ 43,544	¥ 9,643	¥ 364,116

	Thousands of U.S. dollars					
	Equity	Fixed Income (Bond)	Asset Management	Investment Banking	Others	Total
<b>Year ended March 31, 2001:</b>						
Brokerage .....	\$ 663,154	\$ 5,177	\$ 65	\$ -	\$ -	\$ 668,396
Underwriting .....	-	-	-	313,379	-	313,379
Distribution .....	-	-	302,500	16,927	-	319,427
Other .....	21,129	24,871	567,912	57,556	81,395	752,863
	\$ 684,283	\$ 30,048	\$ 870,477	\$ 387,862	\$ 81,395	\$ 2,054,065

Commissions earned for the year ended March 31, 1999 consisted of the following:

	Millions of yen
Brokerage .....	¥ 68,986
Underwriting .....	24,917
Distribution .....	37,330
Other .....	54,217
	¥ 185,450

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

Major elements of selling, general and administrative expenses for the three years ended March 31, 2001, 2000 and 1999 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	2001
Employees' compensation and benefits . . . . .	¥ 140,426	¥ 140,648	¥ 126,890	\$ 1,132,469
Commissions and floor brokerage . . . . .	20,785	9,816	12,950	167,621
Communications . . . . .	12,926	15,896	17,118	104,242
Occupancy and rental . . . . .	38,663	40,787	49,910	311,798
Data processing and office supplies . . . . .	17,367	20,874	30,614	140,056
Taxes other than income taxes . . . . .	7,554	7,312	9,211	60,919
Depreciation . . . . .	15,495	14,780	8,535	124,960
Other . . . . .	33,732	37,385	15,857	272,032
	¥ 286,948	¥ 287,498	¥ 271,085	\$ 2,314,097

## 26. Other income (expenses)

Details of "Other, net" in the consolidated statements of operations for the three years ended March 31, 2001 were as follows:

	Millions of yen			Thousands of
	2001	2000	1999	U.S. dollars
Gains on sales of investment securities . . . . .	¥ 2,004	¥ 16,755	¥ 1,921	\$ 16,161
Write-off of securities . . . . .	(4,750)	(4,104)	(1,200)	(38,306)
Valuation losses of investment securities . . . . .	-	(1,659)	(8,760)	-
Financial assistance to related companies (note 13) . . . . .	-	-	(115,800)	-
Valuation losses related to fixed assets . . . . .	(227)	(2,489)	(15,873)	(1,831)
Losses on disposal and sale of fixed assets . . . . .	(2,751)	(6,693)	-	(22,185)
Losses on sale of loan receivables . . . . .	(1,519)	-	-	(12,250)
Expenses for liquidation of related companies . . . . .	-	(12,418)	-	-
Losses related to foundation of domestic subsidiaries . . . . .	-	(15,493)	-	-
Cumulative effect of an accounting change (notes 2 and 17) . . . . .	-	-	(1,034)	-
Liquidation losses of employees' retirement plans (note 17) . . . . .	-	(3,171)	(12,806)	-
Provision for multiemployers' pension plans (note 17) . . . . .	-	(28,443)	-	-
Restructuring of overseas business . . . . .	-	-	(6,176)	-
Expenses for the holding company structure . . . . .	-	-	(2,562)	-
Losses on restructuring of property and equipment . . . . .	-	-	(2,268)	-
Provision for doubtful accounts . . . . .	(2,942)	(30,603)	(1,904)	(23,726)
Equity in earnings (losses) of affiliated companies . . . . .	761	(551)	1	6,137
Other . . . . .	(2,832)	(2,691)	606	(22,839)
	¥ (12,256)	¥ (91,560)	¥ (165,855)	\$ (98,839)

Valuation losses related to fixed assets for 1999 were 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 Securities SMBC Europe Limited ("DEL"), a 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 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 for the same period.

Valuation losses related to fixed assets for 2001 and 2000 were derived from appraisal of the golf club membership.

Losses related to foundation of domestic subsidiaries for 2000 consisted of write-off of goodwill of ¥8,000 million, non-deductible consumption taxes derived from goodwill of ¥4,359 million and expenses for starting costs of ¥3,134 million.

**27. Subsequent events**

**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, 2001 was approved by the shareholders' meeting held on June 27, 2001 as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥13 (\$0.1) per share) . . . . .	¥ 17,265	\$ 139,234
Bonuses to directors. . . . .	135	1,089

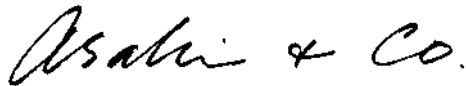
## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

### 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, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2001, expressed in yen. Our audits were made in accordance with generally accepted auditing standards in Japan 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, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2001, in conformity with accounting principles generally accepted in Japan which 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.



Tokyo, Japan

June 27, 2001

#### 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.