Consolidated Financial Statements

FIVE-YEAR FINANCIAL SUMMARY

Daiwa Securities Group Inc. & Consolidated Subsidiaries (years ended march 31, 1998 through 2002)*

	Millions of yen					Thousands of U.S. dollars
	2002	2001	2000	1999	1998	2002
Operating Results:						
Operating revenues:						
Commissions	¥ 171,869	¥ 254,704	¥ 364,116	¥ 185,450	¥ 198,118	$ 1,292,248
Net gain (loss) on trading	67,249	169,506	126,170	(20,708)	39,385	505,631
Interest and dividend income	195,934	220,790	100,530	188,410	284,393	1,473,188
Service fees and other sales	52,992	69,909	60,482	–	–	398,436
Total	488,044	714,909	651,298	353,152	521,896	3,669,503
Net operating revenues	284,932	464,057	512,276	180,710	267,430	2,142,345
Operating income (loss)	22,769	177,109	224,778	(90,375)	(16,169)	171,195
Income (loss) before income taxes and minority interests	(119,968)	166,615	135,173	(208,538)	(83,936)	(902,016)
Net income (loss)	(130,547)	64,549	105,376	(127,890)	(83,657)	(981,558)
Financial Position:						
Total assets	¥ 7,827,306	¥ 7,694,051	¥ 6,693,308	¥ 4,951,269	¥ 8,360,541	$ 58,851,924
Total shareholders' equity	570,839	716,816	666,072	639,859	774,699	4,292,023
Per Share Amounts:	Yen					U.S. dollars
Net income (loss)	¥ (98.27)	¥ 48.62	¥ 79.43	¥ (96.00)	¥ (62.35)	$ (0.74)
Cash dividends applicable to the year	6.00	13.00	13.00	5.00	6.00	0.05
Shareholders' equity	429.68	539.72	502.05	480.47	580.08	3.23
	Percent					
Financial Ratios:						
Pretax profit margin (Income before income taxes and minority interests to total revenues)	–%	23.2%	20.6%	–%	–%	
Net profit margin (Net income to total revenues)	–	9.0	16.1	–	–	
Return on average shareholders' equity (Net income to average shareholders' equity)**	–	9.3	16.1	–	–	
Equity ratio (Shareholders' equity to total assets)	7.3	9.3	10.0	12.9	9.3	
Other Data:						
Number of employees***	11,483	11,114	11,415	8,855	10,006	

Notes

1. Unless indicated otherwise, all dollar figures herein refer to US currency. Dollar amounts represent translations at the rate of ¥133 = US$1, the rate prevailing on March 31, 2002
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.

** ROE is computed based on the avarage Shareholders' equity at the beginning and end of the fiscal year

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

OPERATING RESULTS

Business Environment

Japan's economy has suffered a period of prolonged weakness that started in the early 1990s. Although Japan's real GDP increased by 1.7% for the year ended March 31, 2001, it contracted by 1.3% for the year ended March 31, 2002. Severe economic conditions have been compounded by persistent deflationary pressures as evidenced by a continuous decline in the consumer price index since 1999. Meanwhile, the country's unemployment rate has risen to over 5%, far above historical norms. The effect of a number of expansionary fiscal recovery programs and other measures taken by the government has not yet put the economy on the path to sustainable recovery.

Japanese corporate earnings showed a limited recovery in the year ended March 31, 2001. This was mainly due to strong conditions in global information technology markets which led to strong growth in the electronic and precision instruments sectors. Following the collapse of the global IT boom, however, earnings deteriorated rapidly in most manufacturing sectors with the exception of the auto sector. The Daiwa Institute of Research estimates that, on average, a representative sample of 310 major corporations listed on the first section of the Tokyo Stock Exchange saw current earnings decline by 65.2% for the year ended March 31, 2002 compared with the previous year.

On the foreign exchange market, the value of the Yen has steadily depreciated during these past 2 years. During the year ended March 31, 2001 the value of the dollar decreased from approximately 105 yen to 121 yen. During the year ended March 31, 2002, it depreciated further to approximately 131 yen.

Japanese stock markets reacted to the worsening macroeconomic climate by declining steadily for most of the year. By March 31, 2002, the TOPIX stock index had declined by 17.0% from the level of 1277.27 as of March 31, 2001 to stand at 1060.19.

Overseas, the U.S. economy showed the first signs of a slowdown during the summer following almost a decade of unbroken growth and took a significant downturn following the terrorist attacks of September 11, 2001. The Federal Reserve, reacting to signs of this slowdown reduced the discount rate to 1.25% in March 2002. By the end of the period indications were that this aggressive easing had produced the desired effect as evidenced by stabilizing industrial production. During the year ended March 31, 2002, the Dow Jones Industrial Average increased by 5.3% from 9878.78 as of March 31 2001 to 10403.94 one year later, although the information technology sector continued under pressure as evidenced by a flat performance from the technology-heavy NASDAQ index.

Unlike the U.S. economy, the major European economies, which had started to slow during the summer of 2000, continued to remain sluggish during the period under consideration. The Governing Council of the European Central Bank made a series of reductions in the minimum bid rate on the main refinancing operations. European equities markets were flat to down during the period.

Outside of Japan, the Asian economies showed varying degrees of recovery from the global economic slowdown. Although certain countries, such as Singapore, seemed by the end of the period to be sliding back into recession, others, particularly China, showed impressive growth.

Consolidated Operating Results for the Year Ended March 31, 2002

Consolidated operating revenues declined 31.7% to ¥488,044 million ($3,669,503 thousand), mainly due to a decrease in brokerage commission and trading gains. Consolidated net operating revenues amounted to ¥284,932 million ($2,142,345 thousand). Consequently, consolidated operating income decreased 87.1% to ¥22,769 million ($171,195 thousand). A consolidated net loss of ¥130,547 million ($981,558 thousand) was posted, mainly due to expenses for real estate business reorganization and write-off of securities as other expenses.

Commissions

(i) Brokerage commission

Brokerage commission declined 27.9% to ¥59,753 million ($449,271 thousand) with the average daily volume for the TSE also down 6.9% on the previous year, due to the continued depressed market conditions.

(ii) Underwriting commission

Underwriting commission fell 28.4% to ¥27,818 million ($209,158 thousand), as the future of the market became increasingly uncertain.

(iii) Distribution commission

Distribution commission dropped 60.6% to ¥15,610 million ($117,368 thousand), as the depressed stock market reduced commission on sale of equity-related beneficiary certificates.

(iv) Other commission

In the asset management division, Other commission from investment trusts decreased 34.1% to ¥46,424 million ($349,053 thousand), due to a decline in trust fee rates and in the net asset value of equity-related beneficiary certificates. Other commission decreased 26.4% in total to ¥68,688 million ($516,451 thousand).

Net trading gains/losses

Total net trading gains plunged 60.3% to ¥67,249 million ($505,631 thousand), mainly due to lackluster trading by clients, increasing pressure on margins in basket trading, an activity in which the Company holds a competitive edge and some loss of market share in block trading, one of the most profitable activities. However, gains on bond and exchange trading increased.

Financial income

Net financial income amounted to ¥31,428 million ($236,301 thousand), with interest and dividend income of ¥195,934 million ($1,473,188 thousand) and interest expenses of ¥164,506 million ($1,236,887 thousand), primarily due to expanded repurchase agreement transactions in overseas subsidiaries.

Selling, general & administrative expenses

Commission and other expenses and bonuses included in Employees' compensation and benefits were curtailed in line with a decrease in revenues, while depreciation expenses on information technology-related investment increased. On balance, Selling, General & Administrative expenses decreased 8.6% to ¥262,163 million ($1,971,150 thousand).

Other income (expenses)

Net other expenses totaled ¥141,780 million ($1,066,015 thousand), including expenses for real estate business reorganization of ¥127,401 million ($957,902 thousand) and write-off of securities of ¥26,615 million ($200,113 thousand), and other income in reversal of multi-employer pension plan of ¥13,692 million ($102,946 thousand).

Cash flow

Net cash used in operating activities was ¥865,151 million ($6,504,893 thousand) during FY 2001, due to an increase in receivables on collateralized securities transactions, in spite of a decrease in trading assets. Loan assets from guaranteed stock transactions also increased. Net cash used in investing activities was ¥117,152 million ($880,843 thousand) for the year ended March 31, 2002, due to increase in intangible fixed assets related to information technology-related investment and acquisition of subordinated bonds to meet new rules applicable to MMF. Net cash provided by financing activities was ¥1,119,245 million ($8,415,376 thousand) for the year ended March 31, 2002, mainly due to an increase in short-term borrowings. Cash at end of year after the effect of exchange rate fluctuation increased by ¥140,495 million ($1,056,354 thousand) to ¥454,559 million ($3,417,737 thousand) for the year ended March 31, 2002.

CONSOLIDATED BALANCE SHEETS (march 31, 2002 and 2001)

Assets	Millions of yen 2002	Millions of yen 2001	Thousands of U.S. dollars (note 1) 2002
Cash and cash deposits:			
Cash and time deposits (note 9)	¥ 454,559	¥ 314,064	$ 3,417,737
Cash segregated as deposits related to securities transactions	108,610	94,475	816,617
	563,169	408,539	4,234,354
Receivables:			
Loan receivables from customers	23,686	30,602	178,090
Loan receivables from other than customers	80,354	379,668	604,165
Receivables related to margin transactions (note 3)	125,272	228,292	941,895
Other	141,649	85,575	1,065,030
Less allowance for doubtful accounts	(2,960)	(8,163)	(22,256)
	368,001	715,974	2,766,924
Collateralized short-term financing agreements (note 4)	3,493,652	2,729,721	26,268,060
Trading assets (notes 5 and 9)	2,426,317	2,829,023	18,242,985
Deferred income taxes (note 15)	89,563	92,200	673,406
Other assets:			
Property and equipment, at cost (note 9)	289,169	405,911	2,174,203
Less accumulated depreciation	(100,717)	(92,005)	(757,271)
	188,452	313,906	1,416,932
Lease deposits	31,519	32,488	236,985
Investment securities (notes 6 and 9)	394,650	374,364	2,967,293
Long-term loan receivables (note 10)	14,746	14,968	110,872
Other (note 9)	274,764	197,259	2,065,895
Less allowance for doubtful accounts	(17,527)	(14,391)	(131,782)
	886,604	918,594	6,666,195
	¥ 7,827,306	¥ 7,694,051	$ 58,851,924

see accompanying notes.

Liabilities and shareholders' equity	Millions of yen 2002	Millions of yen 2001	Thousands of U.S. dollars (note 1) 2002
Loans:			
Short-term borrowings (notes 9, 10 and 13)	¥ 1,742,389	¥ 600,028	$ 13,100,669
Commercial paper	442,100	516,300	3,324,060
Long-term debt (notes 9, 10 and 13)	682,844	598,839	5,134,165
	2,867,333	1,715,167	21,558,894
Payables:			
Payables to customers (note 12)	246,899	188,570	1,856,383
Time deposits received	15,064	13,573	113,263
Payables from brokers, dealers and customers	169,347	13,814	1,273,286
Payables related to margin transactions (note 3)	42,433	29,772	319,045
Other	21,074	20,178	158,451
	494,817	265,907	3,720,428
Collateralized short-term financing agreements (note 4)	2,467,714	3,251,220	18,554,241
Trading liabilities (note 5)	1,187,846	1,412,370	8,931,173
Accrued and other liabilities:			
Income taxes payable	2,786	30,344	20,947
Deferred income taxes (note 15)	10,494	15,071	78,902
Accrued bonuses	14,582	18,748	109,639
Multiemployers' pension plan (note 14)	–	28,443	–
Retirement benefits (note 14)	12,850	9,413	96,617
Provision for real estate business reorganization (notes 2 and 23)	10,076	–	75,759
Other	32,333	50,470	243,106
	83,121	152,489	624,970
Statutory reserves (note 16)	2,932	1,975	22,045
Minority interests	152,704	178,107	1,148,150
Contingent liabilities and commitments (note 17)			
Shareholders' equity (notes 18 and 19):			
Common stock, no par value;			
Authorized - 4,000,000 thousand shares			
Issued - 1,331,735 thousand shares	138,432	138,432	1,040,842
Additional paid-in capital	117,786	117,786	885,609
Retained earnings	311,719	459,994	2,343,752
Net unrealized gain on securities, net of tax effect	12,696	18,984	95,459
Translation adjustments	(7,511)	(15,807)	(56,474)
Treasury stock, at cost	(2,283)	(2,573)	(17,165)
Total shareholders' equity	570,839	716,816	4,292,023
	¥ 7,827,306	¥ 7,694,051	$ 58,851,924

CONSOLIDATED STATEMENTS OF OPERATIONS (years ended march 31, 2002, 2001 and 2000)

	Millions of yen			Thousands of U.S. dollars (note 1)
	2002	2001	2000	2002
Operating revenues:				
Commissions (note 21)	¥ 171,869	¥ 254,704	¥ 364,116	$ 1,292,248
Net gain on trading	67,249	169,506	126,170	505,631
Interest and dividend income (note 10)	195,934	220,790	100,530	1,473,188
Service fees and other sales	52,992	69,909	60,482	398,436
	488,044	714,909	651,298	3,669,503
Interest expense (note 10)	164,506	195,522	89,324	1,236,887
Cost of service fees and other sales	38,606	55,330	49,698	290,271
Net operating revenues (note 20)	284,932	464,057	512,276	2,142,345
Selling, general and administrative expenses (notes 14 and 22)	262,163	286,948	287,498	1,971,150
Operating income (note 20)	22,769	177,109	224,778	171,195
Other income (expenses):				
Reversal of statutory reserves, net (note 16)	(957)	(994)	(197)	(7,196)
Other, net (note 23)	(141,780)	(9,500)	(89,408)	(1,066,015)
	(142,737)	(10,494)	(89,605)	(1,073,211)
Income (loss) before income taxes and minority interests	(119,968)	166,615	135,173	(902,016)
Income taxes (note 15):				
Current	2,613	48,019	77,643	19,647
Deferred	2,990	21,830	(15,273)	22,481
	5,603	69,849	62,370	42,128
Minority interests	(4,976)	(32,217)	32,573	(37,414)
Net income (loss)	¥ (130,547)	¥ 64,549	¥ 105,376	$ (981,558)

Per share amounts:	Yen			U.S. dollars (Note 1)
Net income (loss)	¥ (98.27)	¥ 48.62	¥ 79.43	$ (0.74)
Diluted net income	–	46.26	76.19	–
Cash dividends applicable to the year	6.00	13.00	13.00	0.05

see accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(years ended march 31, 2002, 2001 and 2000)

		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
Balance at March 31, 1999	1,331,722	¥ 138,425	¥ 117,779	¥ 383,672	¥ –	¥ –	¥ (17)
Net income				105,376			
Revisions in accounting for subsidiaries and affiliated companies (note 2)				(68,913)			
Cash dividends paid				(6,658)			
Bonuses to directors				(8)			
Shares issued upon conversion of bonds	11	6	6				
Change in treasury stock, net							(3,596)
Balance at March 31, 2000	1,331,733	138,431	117,785	413,469	–	–	(3,613)
Net income				64,549			
Change in stake in subsidiaries				(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)	
Change in treasury stock, net							1,040
Balance at March 31, 2001	1,331,735	138,432	117,786	459,994	18,984	(15,807)	(2,573)
Net loss				(130,547)			
Cash dividends paid				(17,266)			
Bonuses to directors				(462)			
Net unrealized gain on securities, net of tax effect					(6,288)		
Translation adjustments						8,296	
Change in treasury stock, net							290
Balance at March 31, 2002	1,331,735	¥ 138,432	¥ 117,786	¥ 311,719	¥ 12,696	¥ (7,511)	¥ (2,283)

	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
Balance at March 31, 2001	$ 1,040,842	$ 885,609	$ 3,458,602	$ 142,737	$ (118,850)	$ (19,346)
Net loss			(981,558)			
Cash dividends paid			(129,818)			
Bonuses to directors			(3,474)			
Net unrealized gain on securities, net of tax effect				(47,278)		
Translation adjustments					62,376	
Change in treasury stock, net						2,181
Balance at March 31, 2002	$ 1,040,842	$ 885,609	$ 2,343,752	$ 95,459	$ (56,474)	$ (17,165)

see accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS (years ended march 31, 2002, 2001 and 2000)

	Millions of yen			Thousands of U.S. dollars (note 1)
	2002	2001	2000	2002
Cash flows from operating activities:				
Net income (loss)	¥ (130,547)	¥ 64,549	¥ 105,376	$ (981,558)
Adjustments to reconcile net income (loss) to net cash used in operating activities:				
Depreciation	18,775	15,495	14,780	141,165
Provision for doubtful accounts, net	4,962	4,345	33,959	37,308
Provision for retirement benefits, net (note 14)	3,432	4,253	(2,584)	25,805
Reversal of statutory reserves, net (note 16)	957	994	197	7,196
Losses (gains) related to investment securities (note 23)	18,444	1,665	(10,992)	138,677
Losses related to fixed assets (note 23)	2,238	2,978	9,182	16,827
Expenses for reorganization of related companies (note 23)	–	–	10,552	–
Provision for (reversal of) multiemployers' pension plan (notes 14 and 23)	(13,692)	–	28,443	(102,946)
Payment for multiemployers' pension plan	(15,253)	–	–	(114,684)
Expenses for real estate business reorganization (note 23)	127,401	–	–	957,902
Write-off of goodwill (note 23)	5,000	–	8,000	37,594
Deferred income taxes	2,990	21,830	(15,273)	22,481
Minority interest in income	4,976	32,217	(32,573)	37,414
(Increase) decrease in receivables and increase (decrease) in payables	352,319	(152,635)	400,786	2,649,015
(Increase) decrease in trading assets and increase (decrease) in trading liabilities	338,229	177,783	(818,888)	2,543,075
(Increase) decrease in receivables and increase (decrease) in payables related to margin transactions	115,681	141,490	(263,189)	869,782
(Increase) decrease in collateralized short-term financing agreements	(1,549,168)	(510,205)	62,112	(11,647,880)
(Increase) decrease in other assets	(152,983)	(45,159)	21,216	(1,150,248)
Other, net	1,088	1,825	(5,175)	8,182
Total adjustments	(734,604)	(303,124)	(559,447)	(5,523,335)
Net cash used in operating activities	¥ (865,151)	¥ (238,575)	¥ (454,071)	$ (6,504,893)

	Millions of yen			Thousands of U.S. dollars (note 1)
	2002	2001	2000	2002
Cash flows from investing activities:				
Payments for purchases of property and equipment	¥ (11,754)	¥ (10,408)	¥ (14,681)	$ (88,376)
Proceeds from sales of property and equipment	8,857	6,297	9,755	66,594
Payments for purchases of investment securities	(124,061)	(22,059)	(88,326)	(932,790)
Proceeds from sales of investment securities	58,472	43,758	205,783	439,639
Decrease in long-term loan receivables	176	7,391	28,945	1,323
Other, net	(48,842)	(20,010)	(673)	(367,233)
Net cash provided by (used in) investing activities	(117,152)	4,969	140,803	(880,843)
Cash flows from financing activities:				
Increase in short-term loans	1,152,333	59,441	121,138	8,664,158
Decrease in long-term debt	(117,205)	(126,904)	(9,970)	(881,241)
Proceeds from issuance of notes by subsidiaries	161,904	192,109	80,000	1,217,323
Payments for redemption of bonds and notes	(46,835)	(67,707)	(39,409)	(352,143)
Proceeds from issuance of stocks to minor shareholders	6,580	2,145	162,000	49,474
Payments of cash dividends	(17,265)	(17,246)	(6,658)	(129,812)
Payments of cash dividends to minor shareholders	(20,579)	(29)	(233)	(154,729)
Other	312	990	–	2,346
Net cash provided by financing activities	1,119,245	42,799	306,868	8,415,376
Effect of exchange rate changes on cash	3,553	7,696	8,839	26,714
Net increase (decrease) in cash	140,495	(183,111)	2,439	1,056,354
Cash at beginning of year	314,064	497,175	474,865	2,361,383
Increase in cash due to change in scope of consolidation	–	–	19,871	–
Cash at end of year	¥ 454,559	¥ 314,064	¥ 497,175	$ 3,417,737
Supplemental information on cash flows:				
Cash paid during the year for:				
Interest	¥ 174,980	¥ 205,945	¥ 93,939	$ 1,315,639
Income taxes	31,397	90,673	10,937	236,068
Noncash investing and financing activities:				
Conversion of convertible bonds into common stock and additional paid-in capital	–	2	12	–

see accompanying notes.

OUR FIRST HUNDRED YEARS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (three years ended march 31, 2002)

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, 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. ("Daiwa Securities SBCM"), 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, The Sumitomo Bank and The Sakura Bank merged to form The Sumitomo Mitsui Banking Corporation. Associated with this merger, Sakura Securities Co., Ltd., a securities subsidiary of The Sakura Bank, was integrated into Daiwa Securities SBCM, which was subsequently renamed to Daiwa Securities SMBC Co. Ltd. ("Daiwa Securities SMBC").

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 and its consolidated domestic subsidiaries maintain their official accounting records in yen and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements but not required for fair presentation is not presented in the accompanying financial statements.

The consolidated financial statements of the Company for the year ended March 31, 2002 are prepared in accordance with the amended "Uniform Accounting Standards of Securities Companies" (set by the board of directors of the Japan Securities Dealers' Association, September 28, 2001). The balance sheet at March 31, 2001 and the operating results for the years ended March 31, 2001 and 2000 are reclassified to conform to the presentation for 2002.

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, 2002, which was ¥133 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.

2. Significant accounting policies

Consolidation - The Company prepared the consolidated financial statements 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 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, in addition to 20% to 50% owned companies, 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 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.

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

Statements 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. Cash and time deposits as of March 31, 2002, 2001, and 2000 included time deposits more than three months in the amount of ¥14,578 million ($109,609 thousand), ¥10,665 million, and ¥8,310, respectively.

Trading assets and liabilities - Trading assets and liabilities, including securities and financial derivatives for trading purposes held by the securities subsidiaries are recorded on a trade date basis in the consolidated balance sheets at either market value or fair value. Revenues and expenses related to trading securities transactions are recorded on a trade date basis. Changes in the market values or fair values are reflected in "net gain on trading" in the accompanying consolidated statements of operations. Gains and losses generated from derivatives held or issued for trading purposes are also reported as "net gain on trading" in the accompanying consolidated statements of operations, which includes realized gains and losses as well as changes in the market values or fair values of such instruments. Securities owned for non-trading purpose, shown in the accompanying consolidated balance sheets as "Investment securities", are discussed below.

Investment securities -The Company and its consolidated subsidiaries examined the intent of holding each security and classified those securities as (a) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies, and (c) for all other securities not classified in any of the above categories ("available-for-sale 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 with market value are stated at market value, based on quoted market prices. 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 that do not have market value are stated at the amortized cost, net of the amount considered not collectible.

Other securities that do not have 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 market value and the difference between market value and the carrying amount is recognized as loss in the period of the decline. If the 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 transactions - The Company and its consolidated subsidiaries 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 mark-to-market, and premium or discount on forward foreign exchange contact for hedging is allocated to each fiscal term without mark-to-market.

Collateralized short-term financing agreements - Collateralized short-term financing agreements consist of securities purchased under agreements to resell ("Resell transactions") 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. Resell and Repurchase transactions are traded in overseas subsidiaries and carried 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 "Uniform Accounting Standards of Securities Companies".

Provision for doubtful accounts - 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.

Property and equipment - Property and equipment are stated at cost. In the Company and its domestic consolidated subsidiaries, 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. In its overseas subsidiaries, depreciation is computed by the straight-line method.

Bonuses - The Company and its 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 of its 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, operating income and income before income taxes and minority interests decreased by ¥213 million compared with what would have been recorded under the previous accounting standard.

The Company and most of its domestic consolidated subsidiaries contributed an unfunded benefit pension plan to their employees in return for services rendered each year. The amount to be contributed to the individual employees' account is defined rather than the amount of pension benefits the employee is to receive. Under this unfunded benefit pension plans, pension benefits are accumulated on an annual basis by contribution of the Company and most of its domestic consolidated subsidiaries. The employees receive guaranteed hypothetical return at the rate of which the Company and most of its domestic consolidated subsidiaries predetermines each year. Certain consolidated subsidiaries provide allowance for employees' retirement benefits, based on estimated amounts of projected benefit obligations.

The Company and almost all of its domestic consolidated subsidiaries introduced defined contribution pension plan in December 2001. Some overseas consolidated subsidiaries adopt defined contribution pension plan.

Also the Company and its certain domestic subsidiaries were members of an industry-wide non-contributory welfare pension plan administered by Securities Companies' Welfare Pension Fund, in conjunction with the contributory governmental welfare pension plan. On September 29, 2001, the Company and its certain domestic subsidiaries withdrew from this non-contributory welfare pension plan (See Note 14).

Provision for real estate business reorganization - The Company decided to withdraw from real estate business engaged by its certain domestic consolidated subsidiaries. Book values of the related properties were written down to estimated net realizable value. On October 26, 2001, the Company's Board of Directors resolved to reorganize such real estate business and to initiate working on how to provide financial assistance to those subsidiaries including capital injection, aiming at improving the Group's financial condition. Provision for real estate reorganization is based on anticipated financial assistance as of March 31, 2002 (See Note 23).

Income taxes - Deferred tax assets and liabilities are recorded for the expected future tax consequences of temporary differences between the financial reporting and the tax bases of the assets and liabilities based upon enacted tax laws and rates. The Company recognizes deferred tax assets to the extent they are expected to be realized. Deferred tax assets and liabilities are reported as "deferred income taxes" in the accompanying consolidated balance sheets. Deferred tax expenses or benefits are recognized in the consolidated statements of operations for the changes in deferred tax assets or liabilities between years.

Translation of foreign currencies - The Company and its domestic consolidated subsidiaries translate assets and liabilities in foreign currencies into yen at year-end exchange rate.

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. Income and expenses are translated at the average rates for the years. The resulting differences are reported as translation adjustment in shareholders' equity.

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

Diluted net income per share is computed based on the average number of common shares outstanding for the year plus the number of shares of common stock that would have been issued had the outstanding convertible bonds and warrants been converted as of March 31, 2002.

3. Margin transactions

Margin transactions at March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Assets:			
Loan receivables from customers	¥ 49,227	¥ 88,171	$ 370,128
Cash deposits as collateral for securities borrowed from securities finance companies	76,045	140,121	571,767
	¥ 125,272	¥ 228,292	$ 941,895
Liabilities:			
Loans from securities finance companies	¥ 3,591	¥ 14,453	$ 27,000
Proceeds of securities sold for customers' accounts	38,842	15,319	292,045
	¥ 42,433	¥ 29,772	$ 319,045

Loan receivables 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 are stated at the sales prices of the relevant securities on the respective transaction dates.

4. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Assets:			
Securities purchased under agreements to resell	¥ 1,527,560	¥ 1,629,394	$ 11,485,413
Securities borrowed	1,828,370	882,876	13,747,143
Buy Gensaki	137,722	217,451	1,035,504
	¥ 3,493,652	¥ 2,729,721	$ 26,268,060
Liabilities:			
Securities sold under agreements to repurchase	¥ 1,869,469	¥ 1,716,006	$ 14,056,158
Securities loaned	520,148	793,276	3,910,887
Sell Gensaki	78,097	741,938	587,196
	¥ 2,467,714	¥ 3,251,220	$ 18,554,241

5. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Trading assets:			
Equity securities	¥ 202,109	¥ 347,285	$ 1,519,617
Government, corporate and other bonds	1,740,980	2,102,608	13,090,075
Beneficiary certificates	84,460	2,231	635,037
Commercial paper, certificates of deposits and others	53,683	60,956	403,632
Option transactions	22,566	43,022	169,669
Futures and forward transactions	12,262	8,826	92,195
Swap agreements	311,358	265,054	2,341,038
Other derivatives	116	29	872
Credit reserves	(1,217)	(988)	(9,150)
	¥ 2,426,317	¥ 2,829,023	$ 18,242,985
Trading liabilities:			
Equity securities	¥ 45,093	¥ 93,339	$ 339,045
Government, corporate and other bonds	823,270	1,016,189	6,190,000
Beneficiary certificates	12,605	_	94,774
Option transactions	29,642	40,049	222,872
Futures and forward transactions	4,067	8,329	30,579
Swap agreements	273,159	254,455	2,053,828
Other derivatives	10	9	75
	¥ 1,187,846	¥ 1,412,370	$ 8,931,173

6. Investment securities

Cost/amortized cost and market value of held-to-maturity debt securities as of March 31, 2002 and 2001 consisted of the following:

	Millions of yen		
	Cost/amortized cost	Market value	Difference
Government bonds, local government bonds, etc. at March 31, 2002	¥ 523	¥ 520	¥ (3)
Government bonds, local government bonds, etc. at March 31, 2001	¥ 2,020	¥ 2,031	¥ 11

	Thousands of U.S. dollars		
	Cost/amortized cost	Market value	Difference
Government bonds, local government bonds, etc. at March 31, 2002	$ 3,932	$ 3,910	$ (22)

Cost and market value of available-for-sale securities as of March 31, 2002 and 2001 consisted of the following:

	Millions of yen		
	Cost	Market value	Difference
March 31, 2002:			
Equity securities	¥ 91,861	¥ 116,202	¥ 24,341
Government, corporate and other bonds	143,692	141,242	(2,450)
Other	8,363	8,463	100
	¥ 243,916	¥ 265,907	¥ 21,991
March 31, 2001:			
Equity securities	¥ 134,821	¥ 173,333	¥ 38,512
Government, corporate and other bonds	366	378	12
Other	22,782	18,925	(3,857)
	¥ 157,969	¥ 192,636	¥ 34,667

	Thousands of U.S. dollars		
	Cost	Market value	Difference
March 31, 2002:			
Equity securities	$ 690,684	$ 873,701	$ 183,017
Government, corporate and other bonds	1,080,393	1,061,970	(18,423)
Other	62,875	63,630	755
	$ 1,833,952	$ 1,999,301	$ 165,349

Securities that do not have market value as of March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Equity securities	¥ 52,654	¥ 43,453	$ 395,895
Government, corporate and other bonds	10,580	8,974	79,549
Other	38,862	99,879	292,195
	¥ 102,096	¥ 152,306	$ 767,639

In addition to above, securities of non-consolidated and affiliated companies amounting to ¥26,124 million ($196,421 thousand) at March 31, 2002 and ¥27,402 million at March 31, 2001 are included in investment securities.

7. Derivatives for non-trading purposes

Net unrealized gains (losses) of derivatives for non-trading purposes at March 31, 2002 and 2001 (excluding hedging transactions) consisted of the following:

	Millions of yen		
	Contract amount	Market value	Unrealized gains (losses)
March 31, 2002:			
Interest rate swap	¥ 4,204	¥ (16)	¥ (15)
Currency swap	279	(0)	(0)
March 31, 2001:			
Interest rate swap	¥ 86	¥ (1)	¥ (1)
Currency swap	342	0	0

	Thousands of U.S. dollars		
	Contract amount	Market value	Unrealized gains (losses)
March 31, 2002:			
Interest rate swap	$ 31,609	$ (120)	$ (113)
Currency swap	2,098	(0)	(0)

8. 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 their 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, Daiwa Securities SMBC determines 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 counterparty in a transaction to fulfill its terms and conditions. Securities subsidiaries assess the credit risk of their counterparties 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.

9. Pledged assets

At March 31, 2002, short-term borrowings amounting to ¥1,191,850 million ($8,961,278 thousand), securities borrowed amounting to ¥3,591 million ($26,998 thousand) and long-term borrowings amounting to ¥9,110 million ($68,496 thousand) were secured by the following assets:

	Millions of yen	Thousands of U.S. dollars
Cash and time deposits	¥ 16,200	$ 121,805
Trading assets	860,250	6,468,047
Property and equipment	22,414	168,526
Investment Securities	5,004	37,627
Other	4,875	36,654
	¥ 908,743	$ 6,832,659

In addition to above, securities borrowed amounting to ¥911,237 million ($6,851,406 thousand) were deposited as guarantee at March 31, 2002.

Total fair value of the securities deposited as collateral at March 31, 2002 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Securities loaned	¥ 6,420,612	$ 48,275,278
Sell Gensaki transaction	78,094	587,173
Other	309,999	2,330,820
	¥ 6,808,705	$ 51,193,271

Total fair value of the securities received as collateral at March 31, 2002 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Securities borrowed	¥ 8,219,309	$ 61,799,316
Buy Gensaki transaction	138,149	1,038,714
Other	97,228	731,038
	¥ 8,454,686	$ 63,569,068

10. The Company's transactions with related parties

A statutory auditor of the Company is the president of the Taiyo Mutual Life Insurance Co. The significant account balances with the Taiyo Mutual Life Insurance Co. at March 31, 2002 were long-term loan receivables amounting to ¥5,000 million ($37,594 thousand), short-term borrowings amounting to ¥5,000 million ($37,594 thousand), and long-term borrowings amounting to ¥20,000 million ($150,376 thousand). The Company paid ¥490 million ($3,684 thousand) as interest expenses and received ¥177 million ($1,331 thousand) as interest income. Interest payables and interest receivables at March 31, 2002 were ¥118 million ($887 thousand) and ¥53 million ($398 thousand), respectively. In addition, the Company purchased 10,000 shares of Daiwa Institute of Research Ltd., a domestic consolidated subsidiary of the Company, at ¥85 million ($639 thousand) from this company.

11. 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 information at March 31, 2002 and 2001 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Total assets under non-capitalized finance leases	¥ 18,451	¥ 21,906	$ 138,729
Accumulated depreciation	10,873	12,886	81,752
Future lease payments of non-capitalized leases	7,713	9,335	57,992
Due within one year	3,420	4,011	25,714
Future lease payments of operating leases	15,839	14,941	119,090
Due within one year	2,065	2,018	15,526

12. Payables to customers

Payables to customers at March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Cash received for customers’ accounts on trading	¥ 83,039	¥ 88,721	$ 624,353
Cash deposits received from customers mainly for margin and futures transactions	43,899	89,283	330,068
Other	119,961	10,566	901,962
	¥ 246,899	¥ 188,570	$ 1,856,383

13. 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, 2002 and 2001, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Bond payable in yen: 1.4% due 2005	¥ 100,000	¥ 100,000	$ 751,880
Convertible bond payable in yen, convertible into common stock at ¥3,035.90 per share 1.5% due 2002	19,440	19,440	146,165
Convertible bond payable in yen, convertible into common stock at ¥2,367.00 per share 1.4% due 2003	36,269	36,269	272,699
Convertible bond payable in yen, convertible into common stock at ¥1,094.00 per share 0.5% due 2006	79,986	79,986	601,398
Bond with warrants: 1.37% due 2004	8,400	8,400	63,158
Notes payable in yen issued by subsidiaries:			
Series of notes with various rates and maturities due 2002	_	2,978	_
5.0% subordinated due 2005	1,005	993	7,556
2.0% Euro-yen bond due 2002	80,000	80,000	601,504
Medium-term notes in yen issued by subsidiaries with various rates and maturities through 2022	205,404	77,600	1,544,391
Euro medium-term notes (authorized $5,000 million) issued by subsidiaries with various rates and maturities through 2008	24,322	34,574	182,872
Yen subordinated loan due 2004	40,000	40,000	300,752
Borrowings from financial institutions	87,862	118,300	660,617
Other	156	299	1,173
	¥ 682,844	¥ 598,839	$ 5,134,165

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

At March 31, 2002, the number of shares of common stock issuable upon full conversion of outstanding convertible bonds and exercise of warrants were 101,055 thousand shares in aggregate.

The aggregate annual maturities of long-term debt as of March 31, 2002 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2003	¥ 117,458	$ 883,143
2004	108,998	819,534
2005	54,944	413,113
2006	112,314	844,466
2007	85,994	646,571
2008 and thereafter	203,136	1,527,338
	¥ 682,844	$ 5,134,165

The Company and its consolidated subsidiaries have unused commited bank facilities amounting to ¥190,055 million ($1,428,985 thousand) under agreements with several banks at March 31, 2002.

14. Retirement benefits

On March 31, 2000, certain domestic consolidated subsidiaries canceled all their employees' retirement benefit plans, both unfunded and funded, and liquidated their plan assets in order to pay retirement benefit to entitled employees in the amount which would be required if they involuntarily terminated their employment as of the dates when the plan assets had been liquidated. Those subsidiaries recorded liquidation losses of employees' pension plans of ¥3,171 million for the year then ended (Note 23).

As explained in Note 2, effective April 1, 2000, the Company and most of its 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, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Projected benefit obligation	¥ 19,696	¥ 16,635	$ 148,091
Less: pension assets	(6,945)	(8,273)	(52,218)
Less: unrecognized actuarial differences	(1,494)	(838)	(11,233)
Retirement benefits	¥ 11,257	¥ 7,524	$ 84,640

Included in the consolidated statements of operations for the years ended March 31, 2002 and 2001 are severance and pension benefit expense comprising of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Service costs	¥ 4,018	¥ 5,099	$ 30,211
Contribution to multiemployers' pension plan	_	2,080	_
Interest cost on projected benefit obligation	264	289	1,985
Expected return on plan assets	(122)	(285)	(917)
Amortization of actuarial differences	425	209	3,195
Other	1,827	_	13,737
Net expenses for severance and pension benefits	¥ 6,412	¥ 7,392	$ 48,211

The discount rate and the rate of expected return on plan assets used by the Company for the year ended March 31, 2002 are 1.5-1.75% and 1.5-1.75%, respectively, and for the year ended March 31, 2001 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 straight-line method over 5 years from the current year.

Directors - Directors' retirement benefits of ¥1,593 million ($11,977 thousand) and ¥1,889 million are included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2002 and 2001, respectively.

Multiemployers' pension plan - The Company and its certain domestic consolidated subsidiaries were members of an industry-wide non-contributory welfare pension plan administered by the Securities Companies' Welfare Pension Fund, in conjunction with the contributory governmental welfare pension plan. The plan's fund had experienced a low rate of performance due to adverse conditions in Japan's fund management environment, including low interest rates and declining stock prices in the Japanese market. Management estimated, based on analysis of currently available information, the Company and its consolidated subsidiaries' portion of the difference between the projected future benefit obligation and the fair value of the plan assets had become material. Provision for the multiemployers' pension plan was charged to income for the year ended March 31, 2000.

On September 29, 2001, the Company and its certain domestic consolidated subsidiaries withdrew from this non-contributory welfare pension plan. The reversal of the multiemployers' pension plan, which is a deduction of actual obligation on withdrawal from the Securities Companies' Welfare Pension Fund from the provision for the multiemployers' pension plan, was reported in the consolidated statement of operations for the year ended March 31, 2002 (Note 23).

15. Income taxes

The normal effective statutory income tax rate in Japan arising out of the aggregation of corporate, enterprise and inhabitants taxes was approximately 42% for 2002, 2001 and 2000. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

Details of deferred tax assets and liabilities at March 31, 2002 and 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Deferred tax assets:			
Net operating losses carry-forward	¥ 128,942	¥ 71,909	$ 969,489
Expenses for real estate business reorganization	40,831	–	307,000
Write-off of goodwill	36,775	52,585	276,504
Provision for the multiemployers' pension plan	–	12,127	–
Other	43,671	36,228	328,353
Gross deferred tax assets	250,219	172,849	1,881,346
Less: Valuation allowance	(158,698)	(78,840)	(1,193,218)
Total deferred tax assets	91,521	94,009	688,128
Deferred tax liabilities	12,452	16,880	93,624
Net deferred tax assets	¥ 79,069	¥ 77,129	$ 594,504

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

Reconciliation of the difference between the normal effective statutory income tax rate and the effective income tax rate for the year ended March 31, 2002 is not presented, since the net loss is reported in the consolidated statement of operations.

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

A reconciliation of the difference between the normal effective statutory tax rate and the effective income tax rate reflected in the accompanying consolidated statement 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%

16. Statutory reserves

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.

Statutory reserves mainly represented a reserve for securities and financial futures transaction liabilities amounting to ¥2,932 million ($22,045 thousand) and ¥1,975 million at March 31, 2002 and 2001 respectively.

17. Contingent liabilities and commitments

At March 31, 2002, the Company and its consolidated subsidiaries were contingently liable as guarantors of loans and lease deposits amounting to ¥4,914 million ($36,947 thousand).

Undrawn amount of contractual commitments to extend credits made by the Company's subsidiary is ¥760 million ($5,714 thousand) at March 31, 2002.

Additionally, the Company's subsidiary engaged in the business of credit card loan has commitments to extend credit for consumer loans in the amount of ¥9,768 million ($73,444 thousand) at March 31, 2002. Commitments to extend credit arise from agreements to extend to customers' unused lines of credit on certain credit cards.

18. Shareholders' equity

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 was 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.

On June 26, 2002, the shareholders' meeting of the Company approved a change in the articles of incorporation to issue 4,000,000 thousand shares of common stock.

On the same day, the shareholders of the Company approved to repurchase its common stocks up to 50,000 thousand shares or ¥40,000 million ($300,752 thousand) in order to implement flexible capital strategies according to business environment.

19. Capital adequacy requirements

In Japan, a 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 328.0% (unaudited) and 251.3% (unaudited) for 2002 and 2001, respectively, and those of Daiwa Securities SMBC were 500.3% (unaudited) and 364.7% (unaudited) for 2002 and 2001, respectively.

20. 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, 2002 and a summary of total assets by geographic area at March 31, 2002 and 2001 were as follows:

	Millions of yen					
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended March 31, 2002:						
Net operating revenues:						
Outside customer	¥ 240,542	¥ 16,434	¥ 23,023	¥ 4,933	¥ –	¥ 284,932
Inter-area	9,724	648	1,530	763	(12,665)	–
Total	250,266	17,082	24,553	5,696	(12,665)	284,932
Selling, general and administrative expenses	226,435	15,109	19,502	6,267	(5,150)	262,163
Operating income (loss)	¥ 23,831	¥ 1,973	¥ 5,051	¥ (571)	¥ (7,515)	¥ 22,769
At March 31, 2002:						
Total assets by geographic area	¥ 5,560,406	¥ 1,757,738	¥ 661,297	¥ 72,098	¥ (224,233)	¥ 7,827,306
Year ended March 31, 2001:						
Net operating revenues:						
Outside customer	¥ 409,546	¥ 26,653	¥ 21,054	¥ 6,804	¥ –	¥ 464,057
Inter-area	15,411	(1,756)	(89)	(69)	(13,497)	–
Total	424,957	24,897	20,965	6,735	(13,497)	464,057
Selling, general and administrative expenses	254,172	13,741	16,173	5,670	(2,808)	286,948
Operating income	¥ 170,785	¥ 11,156	¥ 4,792	¥ 1,065	¥ (10,689)	¥ 177,109
At March 31, 2001:						
Total assets by geographic area	¥ 5,542,775	¥ 1,817,112	¥ 572,244	¥ 76,507	¥ (314,587)	¥ 7,694,051
Year ended March 31, 2000:						
Net operating revenues:						
Outside customer	¥ 455,409	¥ 20,534	¥ 28,682	¥ 7,651	¥ –	¥ 512,276
Inter-area	17,668	(2,198)	(2,162)	(656)	(12,652)	–
Total	473,077	18,336	26,520	6,995	(12,652)	512,276
Selling, general and administrative expenses	254,876	15,798	20,389	5,444	(9,009)	287,498
Operating income	¥ 218,201	¥ 2,538	¥ 6,131	¥ 1,551	¥ (3,643)	¥ 224,778

	Thousands of U.S. dollars					
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended March 31, 2002:						
Net operating revenues:						
Outside customer	$ 1,808,586	$ 123,564	$ 173,105	$ 37,090	$ –	$ 2,142,345
Inter-area	73,113	4,872	11,504	5,737	(95,226)	–
Total	1,881,699	128,436	184,609	42,827	(95,226)	2,142,345
Selling, general and administrative expenses	1,702,519	113,601	146,632	47,120	(38,722)	1,971,150
Operating income (loss)	$ 179,180	$ 14,835	$ 37,977	$ (4,293)	$ (56,504)	$ 171,195
At March 31, 2002:						
Total assets by geographic area	$ 41,807,563	$ 13,216,075	$ 4,972,158	$ 542,090	$ (1,685,962)	$ 58,851,924

Geographic overseas revenues for the three years ended March 31, 2002 were as follows:

	Millions of yen			
	America	Europe	Asia & Oceania	Total
Year ended March 31, 2002:				
Overseas revenue	¥ 20,389	¥ 21,195	¥ 7,358	¥ 48,942
Total revenue				284,932
% of total revenue	7.2%	7.4%	2.6%	17.2%
Year ended March 31, 2001:				
Overseas revenue	¥ 17,087	¥ 19,456	¥ 6,785	¥ 43,328
Total revenue				464,057
% of total revenue	3.7%	4.2%	1.4%	9.3%
Year ended March 31, 2000:				
Overseas revenue	¥ 14,691	¥ 20,382	¥ 8,948	¥ 44,021
Total revenue				512,276
% of total revenue	2.9%	4.0%	1.7%	8.6%

	Thousands of U.S. dollars			
	America	Europe	Asia & Oceania	Total
Year ended March 31, 2002:				
Overseas revenue	$ 153,304	$ 159,360	$ 55,325	$ 367,989
Total revenue				2,142,345
% of total revenue	7.2%	7.4%	2.6%	17.2%

21. Commissions

Commissions derived from each department for the three years ended March 31, 2002 were as follows:

	Millions of yen					
	Equity	Fixed Income (Bond)	Asset Management	Investment Banking	Others	Total
Year ended March 31, 2002:						
Brokerage	¥ 58,280	¥ 1,229	¥ 244	¥ –	¥ –	¥ 59,753
Underwriting	–	–	–	27,818	–	27,818
Distribution	–	–	14,734	876	–	15,610
Other	2,387	3,442	46,425	7,619	8,815	68,688
	¥ 60,667	¥ 4,671	¥ 61,403	¥ 36,313	¥ 8,815	¥ 171,869
Year ended March 31, 2001:						
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
Year ended March 31, 2000:						
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
Year ended March 31, 2002:						
Brokerage	$ 438,195	$ 9,241	$ 1,835	$ –	$ –	$ 449,271
Underwriting	–	–	–	209,158	–	209,158
Distribution	–	–	110,782	6,586	–	117,368
Other	17,947	25,880	349,060	57,286	66,278	516,451
	$ 456,142	$ 35,121	$ 461,677	$ 273,030	$ 66,278	$ 1,292,248

22. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the three years ended March 31, 2002 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2002	2001	2000	2002
Employees' compensation and benefits	¥ 129,972	¥ 140,426	¥ 140,648	$ 977,233
Commissions and brokerage	16,176	20,785	9,816	121,624
Communications	18,518	12,926	15,896	139,233
Occupancy and rental	35,090	38,663	40,787	263,835
Data processing and office supplies	16,474	17,367	20,874	123,865
Taxes other than income taxes	5,328	7,554	7,312	40,060
Depreciation	18,775	15,495	14,780	141,165
Other	21,830	33,732	37,385	164,135
	¥ 262,163	¥ 286,948	¥ 287,498	$ 1,971,150

23. Other income (expenses)

Details of "Other, net" in the consolidated statements of operations for the three years ended March 31, 2002 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2002	2001	2000	2002
Gains on sales of investment securities	¥ 4,103	¥ 2,004	¥ 16,755	$ 30,850
Write-off of securities	(26,615)	(4,750)	(4,104)	(200,113)
Valuation losses of investment securities	–	–	(1,659)	–
Gains on change in stake in subsidiary	4,068	–	–	30,586
Valuation losses related to fixed assets	(247)	(227)	(2,489)	(1,857)
Losses on disposal and sale of fixed assets	(1,991)	(2,751)	(6,693)	(14,970)
Losses on sale of loan receivables	(128)	(1,519)	–	(962)
Expenses for liquidation of related companies	–	–	(12,418)	–
Losses related to foundation of domestic subsidiaries	–	–	(15,493)	–
Liquidation losses of employees' retirement plans (note 14)	–	–	(3,171)	–
Reversal of (provision for) multiemployers' pension plans (note 14)	13,692	–	(28,443)	102,946
Provision for doubtful accounts	(4,517)	(2,942)	(30,603)	(33,962)
Expenses for real estate business reorganization	(127,401)	–	–	(957,902)
Early retirement benefits	(731)	–	–	(5,496)
Write-off of goodwill	(5,000)	–	–	(37,594)
Equity in earnings (losses) of affiliated companies	963	761	(551)	7,241
Other	2,024	(76)	(539)	15,218
	¥ (141,780)	¥ (9,500)	¥ (89,408)	$ (1,066,015)

Valuation losses related to fixed assets for 2002, 2001 and 2000 were derived from appraisal of the golf club membership certificates.

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.

24. 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. Cash dividends (¥6 ($0.05) per share) amounting to ¥7,971 million ($59,933 thousand) were approved by the shareholders' meeting held on June 26, 2002, as the appropriation of retained earnings for the year ended March 31, 2002.

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, 2002 and 2001, and the related consolidated statements of operations, shareholders’ equity and cash flows for each of the three years in the period ended March 31, 2002, 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, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2002 in conformity with accounting principles generally accepted in Japan (Note1) applied on a consistent basis during the periods.

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.

Asahi & Co.

Tokyo, Japan

June 27, 2002