Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.

CONSOLIDATED BALANCE SHEETS

Years ended March 31, 2003, 2002 and 2001

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Cash and cash deposits :			
Cash and time deposits (Note 9)	¥ 438,249	¥ 454,559	$ 3,652,075
Cash segregated as deposits related to securities transactions	105,641	108,610	880,342
	543,890	563,169	4,532,417
Receivables :			
Loans receivable from customers	15,287	23,686	127,392
Loans receivable from other than customers	65,872	80,354	548,933
Receivables related to margin transactions (Note 3)	106,874	125,272	890,617
Other	203,745	141,649	1,697,874
Less allowance for doubtful accounts	(648)	(2,960)	(5,400)
	391,130	368,001	3,259,416
Collateralized short-term financing agreements (Note 4)	3,264,812	3,493,652	27,206,767
Trading assets (Notes 5 and 9)	4,529,438	2,426,317	37,745,317
Deferred income taxes (Note 15)	76,733	89,563	639,442
Other assets :			
Property and equipment, at cost (Note 9)	261,565	289,169	2,179,708
Less accumulated depreciation	(99,225)	(100,717)	(826,875)
	162,340	188,452	1,352,833
Lease deposits	29,159	31,519	242,992
Investment securities (Notes 6 and 9)	289,679	394,650	2,413,992
Long-term loans receivable (Note 10)	13,605	14,746	113,375
Other (Note 9)	220,639	274,764	1,838,658
Less allowance for doubtful accounts	(18,599)	(17,527)	(154,992)
	696,823	886,604	5,806,858
	¥ 9,502,826	¥7,827,306	$ 79,190,217

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2003	Millions of Yen 2002	Thousands of U.S. Dollars (Note 1) 2003
Loans :			
Short-term borrowings (Notes 9, 10 and 13)	¥ 1,475,901	¥1,742,389	$ 12,299,175
Commercial paper	332,800	442,100	2,773,333
Long-term debt (Notes 9 and 13)	611,599	682,844	5,096,658
	2,420,300	2,867,333	20,169,166
Payables :			
Payables to customers (Note 12)	226,256	246,899	1,885,467
Time deposits received	14,117	15,064	117,642
Payables from brokers, dealers and customers	79,625	169,347	663,542
Payables related to margin transactions (Note 3)	53,158	42,433	442,983
Other	67,396	21,074	561,633
	440,552	494,817	3,671,267
Collateralized short-term financing agreements (Note 4)	4,355,308	2,467,714	36,294,233
Trading liabilities (Note 5)	1,520,776	1,187,846	12,673,133
Accrued and other liabilities :			
Income taxes payable	2,813	2,786	23,442
Deferred income taxes (Note 15)	2,615	10,494	21,792
Accrued bonuses	12,054	14,582	100,450
Retirement benefits (Note 14)	15,888	12,850	132,400
Provision for real estate business reorganization (Note 23)	—	10,076	—
Other	32,851	32,333	273,759
	66,221	83,121	551,843
Statutory reserves (Note 16)	3,892	2,932	32,433
Minority interests	154,058	152,704	1,283,817
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	1,153,600
Capital surplus	117,786	117,786	981,550
Retained earnings	297,404	311,719	2,478,367
Net unrealized gain on securities, net of tax effect	1,824	12,696	15,200
Translation adjustments	(11,321)	(7,511)	(94,342)
Treasury stock, at cost	(2,406)	(2,283)	(20,050)
Total shareholders' equity	541,719	570,839	4,514,325
	¥ 9,502,826	¥7,827,306	$ 79,190,217

DAIWA SECURITIES GROUP INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended March 31, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2003	2002	2001	2003
Operating revenues :				
Commissions (Note 21)	¥ 144,283	¥ 171,869	¥ 254,704	$ 1,202,358
Net gain on trading	91,307	67,249	169,506	760,892
Interest and dividend income (Note 10)	114,707	195,934	220,790	955,892
Service fees and other sales	37,362	52,992	69,909	311,350
	387,659	488,044	714,909	3,230,492
Interest expense (Note 10)	90,594	164,506	195,522	754,950
Cost of service fees and other sales	26,255	38,606	55,330	218,792
Net operating revenues (Note 20)	270,810	284,932	464,057	2,256,750
Selling, general and administrative expenses (Notes 14, 20 and 22)	246,701	262,163	286,948	2,055,842
Operating income (Note 20)	24,109	22,769	177,109	200,908
Other income (expenses) :				
Reversal of statutory reserves, net (Note 16)	(960)	(957)	(994)	(8,000)
Other, net (Note 23)	(11,304)	(141,780)	(9,500)	(94,200)
	(12,264)	(142,737)	(10,494)	(102,200)
Income (loss) before income taxes and minority interests	11,845	(119,968)	166,615	98,708
Income taxes (Note 15) :				
Current	2,671	2,613	48,019	22,258
Deferred	12,686	2,990	21,830	105,717
	15,357	5,603	69,849	127,975
Minority interests	(2,811)	(4,976)	(32,217)	(23,425)
Net income (loss)	¥ (6,323)	¥ (130,547)	¥ 64,549	$ (52,692)
	Yen			U.S. Dollars (Note 1)
Per share amounts :				
Net income (loss)	¥ (4.75)	¥ (98.27)	¥ 48.62	$ (0.04)
Diluted net income	—	—	46.26	—
Cash dividends applicable to the year	6.00	6.00	13.00	0.05

See accompanying notes.

DAIWA SECURITIES GROUP INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended March 31, 2003, 2002 and 2001

		Millions of Yen					
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Net unrealized gain(loss) on securities, net of tax effect	Translation adjustments	Treasury stock, at cost
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 loss 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)
Net loss				(6,323)			
Cash dividends paid				(7,971)			
Bonuses to directors				(15)			
Net loss on disposal of treasury stock (Note 18)				(6)			
Net unrealized loss on securities, net of tax effect					(10,872)		
Translation adjustments						(3,810)	
Change in treasury stock, net							(123)
Balance at March 31, 2003	1,331,735	¥ 138,432	¥ 117,786	¥ 297,404	¥ 1,824	¥ (11,321)	¥ (2,406)

	Thousands of U.S. Dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized gain(loss) on securities, net of tax effect	Translation adjustments	Treasury stock, at cost
Balance at March 31, 2002	$1,153,600	$ 981,550	$2,597,658	$ 105,800	$ (62,592)	$ (19,025)
Net loss			(52,692)			
Cash dividends paid			(66,425)			
Bonuses to directors			(125)			
Net loss on disposal of treasury stock			(49)			
Net unrealized loss on securities, net of tax effect				(90,600)		
Translation adjustments					(31,750)	
Change in treasury stock, net						(1,025)
Balance at March 31, 2003	$1,153,600	$ 981,550	$ 2,478,367	$ 15,200	$ (94,342)	$ (20,050)

See accompanying notes.

DAIWA SECURITIES GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2003	2002	2001	2003
Cash flows from operating activities :				
Net income (loss)	¥ (6,323)	¥ (130,547)	¥ 64,549	$ (52,692)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities :				
Depreciation	21,067	18,775	15,495	175,558
Provision for doubtful accounts, net	4,278	4,962	4,345	35,650
Provision for retirement benefits, net (Note 14)	3,038	3,432	4,253	25,317
Reversal of statutory reserves, net (Note 16)	960	957	994	8,000
Losses related to investment securities (Note 23)	12,058	18,444	1,665	100,483
Losses related to fixed assets (Note 23)	217	2,238	2,978	1,808
Reversal of multiemployers' pension plan (Note 14, 23)	—	(13,692)	—	—
Payment for multiemployers' pension plan	—	(15,253)	—	—
(Reversal of provision for) expenses for real estate business reorganization (Note 23)	(812)	127,401	—	(6,767)
Write-off of goodwill (Note 23)	—	5,000	—	—
Deferred income taxes	12,686	2,990	21,830	105,717
Minority interest in income	2,811	4,976	32,217	23,425
(Increase) decrease in receivables and increase (decrease) in payables	(6,841)	352,319	(152,635)	(57,008)
(Increase) decrease in trading assets and increase (decrease) in trading liabilities	(1,861,067)	338,229	177,783	(15,508,892)
Decrease in receivables and increase in payables related to margin transactions	29,123	115,681	141,490	242,692
(Increase) decrease in collateralized short-term financing agreements	2,113,920	(1,549,168)	(510,205)	17,616,000
(Increase) decrease in other assets	43,686	(152,983)	(45,159)	364,050
Other, net	948	1,088	1,825	7,900
Total adjustments	376,072	(734,604)	(303,124)	3,133,933
Net cash provided by (used in) operating activities	369,749	(865,151)	(238,575)	3,081,241

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2003	2002	2001	2003
Cash flows from investing activities :				
Payments for purchases of property and equipment	¥ (6,107)	¥ (11,754)	¥ (10,408)	$ (50,892)
Proceeds from sales of property and equipment	21,115	8,857	6,297	175,958
Payments for purchases of investment securities	(51,946)	(124,061)	(22,059)	(432,883)
Proceeds from sales of investment securities	129,716	58,472	43,758	1,080,967
Decrease in long-term loans receivable	1,065	176	7,391	8,875
Other, net	(25,876)	(48,842)	(20,010)	(215,633)
Net cash provided by (used in) investing activities	67,967	(117,152)	4,969	566,392
Cash flows from financing activities :				
Increase (decrease) in short-term borrowings	(416,057)	1,152,333	59,441	(3,467,142)
Decrease in long-term debt	(8,697)	(117,205)	(126,904)	(72,475)
Proceeds from issuance of notes by subsidiaries	167,690	161,904	192,109	1,397,417
Payments for redemption of bonds and notes	(182,138)	(46,835)	(67,707)	(1,517,817)
Proceeds from issuance of stocks to minor shareholders	—	6,580	2,145	—
Payments of cash dividends	(7,971)	(17,265)	(17,246)	(66,425)
Payments of cash dividends to minor shareholders	(89)	(20,579)	(29)	(742)
Other, net	(130)	312	990	(1,083)
Net cash provided (used in) by financing activities	(447,392)	1,119,245	42,799	(3,728,267)
Effect of exchange rate changes on cash	(6,634)	3,553	7,696	(55,283)
Net increase (decrease) in cash	(16,310)	140,495	(183,111)	(135,917)
Cash at beginning of year	454,559	314,064	497,175	3,787,992
Cash at end of year	¥ 438,249	¥ 454,559	¥ 314,064	$3,652,075
Supplemental information on cash flows :				
Cash paid (refunded) during the year for :				
Interest	¥ 92,311	¥ 174,980	¥ 205,945	$ 769,258
Income taxes	(13,002)	31,397	90,673	(108,350)
Noncash investing and financing activities :				
Conversion of convertible bonds into common stock and additional paid-in capital	—	—	2	—

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three years ended March 31, 2003

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 and retail business divisions into separate subsidiaries, as described 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 of the Company. The Sumitomo Bank was the minority interest holder with a 40% share. 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, and 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., a wholly owned subsidiary of the Company. 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 the accounting principles and practices generally accepted in Japan (“Japanese GAAP”). The accounts of overseas subsidiaries are 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 with respect to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are knowledgeable about Japanese accounting principles and practices.

The accompanying financial statements have been translated into English and restructured (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 years ended March 31, 2003 and 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 statement of operations for the year ended March 31, 2001 is reclassified to conform to the presentation for 2003 and 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, 2003, which was ¥120 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 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.

In addition to investments in companies in excess of 20%, certain companies for which the Company has at least 15% and less than 20% of the voting rights and in cases 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.

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 not exceeding one year. Cash and time deposits as of March 31, 2003 and 2002 include time deposits more than three months in the amount of ¥15,564 million ($129,700 thousand) and ¥14,578 million, 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 or fair value. Revenues and expenses related to trading securities transactions are recorded on a trade date basis. Changes in the market 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 examines the intent of holding each security and classifies 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 are written down to net book value in the event net book value significantly declines. Unrealized losses on these securities are reported in statements of operations.

Hedging transactions – The Company and its consolidated subsidiaries state derivative financial instruments at fair value and 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. Interest received or paid on interest swaps 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. 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 – Provisions for doubtful accounts of domestic consolidated subsidiaries are provided on the estimated historical deterioration rate for normal loans, and based on specifically assessed amounts for doubtful and failed loans. Overseas consolidated subsidiaries provide specifically assessed amounts for doubtful accounts.

Property and equipment – Property and equipment are stated at cost. The Company and its domestic consolidated subsidiaries compute depreciation 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 provide an unfunded benefit pension plan to their employees based on years of service. The amount to be provided for the individual employees' account each year is defined, rather than the amount of pension benefits the employee is to receive. Under these unfunded benefit pension plans, pension benefits are accumulated on an annual basis by provisions 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 also maintain a defined contribution pension plan.

The Company and its certain domestic subsidiaries had been 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 – In 2002, the Company decided to withdraw from real estate business engaged by 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 approved a resolution to reorganize such real estate business and to initiate a financial assistance plan to those subsidiaries, including capital injection. The provision for real estate reorganization is based on anticipated financial assistance as of March 31, 2002. In the year ended March 31, 2003, such real estate reorganization was completed, and the residual portion of the provision was reversed (See Note 23).

Income taxes – Income taxes consist of corporation, enterprise and inhabitants taxes. The provision for income taxes is computed based on the pretax income of each of the Company and its consolidated subsidiaries with certain adjustments required for tax purposes.

Deferred taxes 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 expense or benefits are recognized in the consolidated statements of operations for the changes in deferred tax assets or liabilities between years.

Some consolidated subsidiaries apply the consolidated tax return regime from the year ended March 31, 2003.

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 adjustments in shareholders' equity.

Treasury stock and statutory reserves – Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002). The effect on net income of adopting the new accounting standard was immaterial.

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

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, “Accounting Standard for Earnings Per Share” and Financial Standards Implementation Guidance No. 4, “Implementation Guidance for Accounting Standard for Earnings Per Share”, issued by the Accounting Standards Board for Japan on September 25, 2002). The effect on earnings per share of adopting the new accounting standard was immaterial.

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, 2001. Diluted net income for the years ended March 31, 2003 and 2002 is not presented, since a net loss is reported in the consolidated statements of operations.

3. Margin transactions

Margin transactions at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Assets:			
Loans receivable from customers	¥ 34,419	¥ 49,227	$ 286,825
Cash deposits as collateral for securities borrowed from securities finance companies	72,455	76,045	603,792
	¥ 106,874	¥ 125,272	$ 890,617
Liabilities:			
Loans from securities finance companies	¥ 2,915	¥ 3,591	$ 24,291
Proceeds of securities sold for customers' accounts	50,243	38,842	418,692
	¥ 53,158	¥ 42,433	$ 442,983

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 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, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Assets:			
Securities purchased under agreements to resell	¥ 1,644,820	¥ 1,527,560	$ 13,706,834
Securities borrowed	1,619,992	1,828,370	13,499,933
Buy Gensaki	—	137,722	—
	¥ 3,264,812	¥ 3,493,652	$ 27,206,767
Liabilities:			
Securities sold under agreements to repurchase	¥ 1,810,010	¥ 1,869,469	$ 15,083,417
Securities loaned	1,908,019	520,148	15,900,158
Sell Gensaki	637,279	78,097	5,310,658
	¥ 4,355,308	¥ 2,467,714	$ 36,294,233

5. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Trading assets:			
Equity securities	¥ 83,342	¥ 202,109	$ 694,517
Government, corporate and other bonds	3,646,400	1,740,980	30,386,667
Beneficiary certificates	119,077	84,460	992,308
Commercial paper, certificates of deposits and others	104,076	53,683	867,300
Option transactions	24,046	22,566	200,383
Futures and forward transactions	15,456	12,262	128,800
Swap agreements	537,186	311,358	4,476,550
Other derivatives	1,338	116	11,150
Credit reserves	(1,483)	(1,217)	(12,358)
	¥ 4,529,438	¥ 2,426,317	$ 37,745,317
Trading liabilities:			
Equity securities	¥ 38,235	¥ 45,093	$ 318,625
Government, corporate and other bonds	958,099	823,270	7,984,158
Beneficiary certificates	358	12,605	2,983
Option transactions	24,827	29,642	206,892
Futures and forward transactions	18,298	4,067	152,483
Swap agreements	480,844	273,159	4,007,033
Other derivatives	115	10	959
	¥ 1,520,776	¥ 1,187,846	$ 12,673,133

6. Investment securities

Cost/amortized cost and market value of held-to-maturity debt securities as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		
	Cost/amortized cost	Market value	Difference
Government bonds, local government bonds, etc. at March 31, 2003	¥ 0	¥ 0	¥ 0
Government bonds, local government bonds, etc. at March 31, 2002	¥ 523	¥ 520	¥ (3)

	Thousands of U.S. Dollars		
	Cost/amortized cost	Market value	Difference
Government bonds, local government bonds, etc. at March 31, 2003	$ 2	$ 2	$ 0

Cost and market value of available-for-sale securities as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		
	Cost	Market value	Difference
March 31, 2003:			
Equity securities	¥ 69,307	¥ 75,501	¥ 6,194
Government, corporate and other bonds	74,277	72,745	(1,532)
Other	8,683	7,899	(784)
	¥ 152,267	¥ 156,145	¥ 3,878
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

	Thousands of U.S. Dollars		
	Cost	Market value	Difference
March 31, 2003:			
Equity securities	$ 577,558	$ 629,175	$ 51,617
Government, corporate and other bonds	618,975	606,208	(12,767)
Other	72,359	65,825	(6,534)
	$ 1,268,892	$ 1,301,208	$ 32,316

Other securities that do not have market value as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Equity securities	¥ 59,747	¥ 52,654	$ 497,892
Government, corporate and other bonds	12,165	10,580	101,375
Other	35,101	38,862	292,508
	¥ 107,013	¥ 102,096	$ 891,775

In addition to above, securities of non-consolidated and affiliated companies amounting to ¥26,521 million ($221,008 thousand) at March 31, 2003 and ¥26,124 million at March 31, 2002 are included in investment securities.

7. Derivatives for non-trading purposes

Net unrealized gains/(losses) of derivatives for non-trading purposes at March 31, 2003 and 2002 (excluding hedging transactions) consisted of the following:

	Millions of Yen		
	Contract amount	Market value	Unrealized gains /(losses)
March 31, 2003:			
Interest rate swap	¥ 3,837	¥ 10	¥ 10
Currency swap	137	(0)	(0)
March 31, 2002:			
Interest rate swap	¥ 4,204	¥ (16)	¥ (15)
Currency swap	279	(0)	(0)

	Thousands of U.S. Dollars		
	Contract amount	Market value	Unrealized gains /(losses)
March 31, 2003:			
Interest rate swap	$ 31,975	$ 83	$ 83
Currency swap	1,142	(5)	(5)

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 uses 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.

9. Pledged assets

At March 31, 2003, short-term borrowings amounting to ¥862,025 million ($7,183,542 thousand), securities borrowed amounting to ¥2,915 million ($24,292 thousand) and long-term debt amounting to ¥400 million ($3,333 thousand) were secured by the following assets:

	Millions of Yen	Thousands of U.S. Dollars
Cash and time deposits	¥ 15,923	$ 132,692
Trading assets	818,243	6,818,692
Property and equipment	755	6,292
Investment Securities	35,167	293,058
	¥ 870,088	$ 7,250,734

In addition to above, securities borrowed amounting to ¥405,304 million ($3,377,533 thousand) were deposited as guarantee at March 31, 2003.

Total fair value of the securities deposited as collateral at March 31, 2003 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Securities loaned	¥ 8,314,163	$ 69,284,692
Sell Gensaki transaction	637,849	5,315,408
Other	378,286	3,152,383
	¥ 9,330,298	$ 77,752,483

Total fair value of the securities received as collateral at March 31, 2003 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Securities borrowed	¥ 8,324,486	$ 69,370,717
Other	108,387	903,225
	¥ 8,432,873	$ 70,273,942

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, 2003 were long-term loans receivable amounting to ¥5,000 million ($41,667 thousand) and short-term borrowings amounting to ¥25,000 million ($208,333 thousand). The Company paid ¥467 million ($3,892 thousand) in interest expenses and received ¥178 million ($1,483 thousand) in interest income. Interest payables and interest receivables at March 31, 2003 were ¥94 million ($783 thousand) and ¥54 million ($450 thousand), respectively. In addition, the Company purchased 35,000 shares of The Taiyo Mutual Life Insurance Company at ¥2,625 million ($21,875 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, 2003 and 2002 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Total assets under non-capitalized finance leases	¥ 17,322	¥ 18,451	$ 144,350
Accumulated depreciation	9,985	10,873	83,208
Future lease payments of non-capitalized leases	7,455	7,713	62,125
Due within one year	3,288	3,420	27,400
Future lease payments of operating leases	14,189	15,839	118,242
Due within one year	2,042	2,065	17,017

12. Payables to customers

Payables to customers at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Cash received for customers' accounts on trading	¥ 65,492	¥ 83,039	$ 545,767
Cash deposits received from customers mainly for margin and futures transactions	40,172	43,899	334,767
Other	120,592	119,961	1,004,933
	¥ 226,256	¥ 246,899	$ 1,885,467

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, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Bond payable in yen: 1.4% due 2005	¥ 100,000	¥ 100,000	$ 833,333
Convertible bonds payable in yen, convertible into common stock at ¥3,035.90 per share: 1.5% due 2002	—	19,440	—
Convertible bonds payable in yen, convertible into common stock at ¥2,367.00 per share: 1.4% due 2003	36,269	36,269	302,242
Convertible bond payable in yen, convertible into common stock at ¥1,094.00 per share: 0.5% due 2006	79,986	79,986	666,550
Bond with warrants: 1.37% due 2004	8,400	8,400	70,000
Notes payable in yen issued by subsidiaries:			
5.0% subordinated due 2005	1,011	1,005	8,425
2.0% Euro-yen bond due 2002	—	80,000	—
Medium-term notes in yen issued by subsidiaries with various rates and maturities through 2033	297,717	205,404	2,480,975
Euro medium-term notes (authorized $5,000 million) issued by subsidiaries with various rates and maturities through 2008	17,062	24,322	142,183
Yen subordinated loan due 2005	40,000	40,000	333,333
Borrowings from financial institutions	31,070	87,862	258,917
Other	84	156	700
	¥ 611,599	¥ 682,844	$ 5,096,658

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

The aggregate annual maturities of long-term debt as of March 31, 2003 are as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2004	¥ 46,010	$ 383,417
2005	20,780	173,167
2006	177,557	1,479,642
2007	85,561	713,008
2008	8,279	68,992
2009 and thereafter	273,412	2,278,432
	¥ 611,599	$ 5,096,658

The Company and its consolidated subsidiaries have unused committed bank facilities amounting to ¥270,440 million ($2,253,667 thousand) under agreements with several banks at March 31, 2003.

14. Retirement benefits

Employees - 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, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Projected benefit obligation	¥ 20,589	¥ 19,696	$ 171,575
Less: pension assets	(4,336)	(6,945)	(36,133)
Less: unrecognized actuarial differences	(2,082)	(1,494)	(17,350)
Retirement benefits	¥ 14,171	¥ 11,257	$ 118,092

Included in the consolidated statements of operations for the years ended March 31, 2003, 2002 and 2001 are severance and pension benefit expense comprising of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	2003
Service costs	¥ 2,915	¥ 4,018	¥ 5,099	$ 24,292
Contribution to multiemployers' pension plan	—	—	2,080	—
Interest cost on projected benefit obligation	137	264	289	1,142
Expected return on plan assets	(41)	(122)	(285)	(342)
Amortization of actuarial differences	730	425	209	6,083
Other	2,600	1,827	—	21,667
Net expenses for severance and pension benefits	¥ 6,341	¥ 6,412	¥ 7,392	$ 52,842

The discount rate and the rate of expected return on plan assets used by the Company for the year ended March 31, 2003 are mainly 0.5-0.7% and 0.5-1.0%, respectively, 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 mainly over 5 years from the current year.

Directors – Directors' retirement benefits of ¥1,717 million ($14,308 thousand) and ¥1,593 million are included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2003 and 2002, 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 withdrawal from the multiemployers' pension plan, which resulted in a deduction of actual obligation on withdrawal from the Securities Companies' Welfare Pension Fund from the provision for multiemployers' pension plan, was reported in the consolidated statement of operations for the year ended March 31, 2002 (Note 23).

15. Income taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes levied on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 42% for the years ended March 31, 2003, 2002 and 2001.

The effective tax rate used for calculation of deferred tax assets and liabilities was approximately 42% for the years ended March 31, 2002 and 2001. Effective for the year commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred tax assets and liabilities, the Company and its domestic consolidated subsidiaries used the effective tax rates of approximately 42% and 40.5% for current items and non-current items, respectively, at March 31, 2003.

As the result of the change in the effective tax rates, deferred tax assets decreased by ¥2,208 million ($18,400 thousand) and income tax-deferred and net unrealized gain on securities, net of tax, increased by ¥2,271 million ($18,925 thousand) and ¥63 million ($525 thousand), respectively, compared with what would have been recorded under the previous local tax law.

Foreign subsidiaries are subject to income taxes of the countries in which they operate.

Details of deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred tax assets:			
Net operating losses carry-forward	¥ 133,702	¥ 128,942	$ 1,114,183
Write-down of investment securities	18,398	—	153,317
Write-off of goodwill	18,366	36,775	153,050
Expenses for real estate business reorganization	12,055	40,831	100,458
Other	33,667	43,671	280,559
Gross deferred tax assets	216,188	250,219	1,801,567
Less: Valuation allowance	(139,455)	(158,698)	(1,162,125)
Total deferred tax assets	76,733	91,521	639,442
Deferred tax liabilities	2,615	12,452	21,792
Net deferred tax assets	¥ 74,118	¥ 79,069	$ 617,650

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 years ended March 31, 2003 and 2002 is not presented, since the net loss is reported in the consolidated statements 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 statement of operations.

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 ¥3,892 million ($32,433 thousand) and ¥2,932 million at March 31, 2003 and 2002 respectively.

17. Contingent liabilities and commitments

At March 31, 2003, the Company and its consolidated subsidiaries were contingently liable as guarantors of loans and lease deposits amounting to ¥6,069 million ($50,575 thousand).

Undrawn amount of contractual commitments to extend credits made by the Company's subsidiary is ¥4,679 million ($38,992 thousand) at March 31, 2003.

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 ¥17,458 million ($145,483 thousand) at March 31, 2003. Commitments to extend credit arise from agreements to extend to customers' unused lines of credit on certain credit cards.

18. Shareholders' equity

Under the Commercial Code of Japan (the "Code"), the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Code.

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).

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 June 26, 2003, the shareholders of the Company approved to repurchase its common stocks up to 60,000 thousand shares or ¥ 25,000 million ($208,333 thousand) in order to implement flexible capital strategies according to business environment.

19. Capital adequacy requirements

In Japan, securities companies are 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 379.5% (unaudited) and 328.0% (unaudited) for 2003 and 2002, respectively, and those of Daiwa Securities SMBC were 370.0% (unaudited) and 500.3% (unaudited) for 2003 and 2002, 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 and derivatives, (2) brokerage of securities and derivatives, (3) underwriting and distribution of securities, (4) other business related to securities transactions and (5) private offering of securities.

A summary of revenues by geographic area for the three years ended March 31, 2003 and a summary of total assets by geographic area at March 31, 2003 and 2002 were as follows:

	Millions of Yen					
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended March 31, 2003:						
Net operating revenues:						
Outside customer	¥ 237,465	¥ 6,977	¥ 21,130	¥ 5,238	¥ —	¥ 270,810
Inter-area	2,254	700	2,201	624	(5,779)	—
Total	239,719	7,677	23,331	5,862	(5,779)	270,810
Selling, general and administrative expenses	215,665	11,081	19,945	5,795	(5,785)	246,701
Operating income (loss)	¥ 24,054	¥ (3,404)	¥ 3,386	¥ 67	¥ 6	¥ 24,109
At March 31, 2003:						
Total assets by geographic area	¥ 7,270,670	¥ 1,817,691	¥ 656,448	¥ 63,721	¥ (305,704)	¥ 9,502,826
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

	Thousands of U.S. Dollars					
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended March 31, 2003:						
Net operating revenues:						
Outside customer	$ 1,978,875	$ 58,142	$ 176,083	$ 43,650	$ —	$ 2,256,750
Inter-area	18,783	5,833	18,342	5,200	(48,158)	—
Total	1,997,658	63,975	194,425	48,850	(48,158)	2,256,750
Selling, general and administrative expenses	1,797,208	92,342	166,208	48,292	(48,208)	2,055,842
Operating income (loss)	200,450	$ (28,367)	$ 28,217	$ 558	$ 50	$ 200,908
At March 31, 2003:						
Total assets by geographic area	$ 60,588,917	$ 15,147,425	$ 5,470,400	$ 531,008	$ (2,547,533)	$ 79,190,217

Geographic overseas revenues for the three years ended March 31, 2003 were as follows:

	Millions of Yen			
	America	Europe	Asia & Oceania	Total
Year ended March 31, 2003:				
Overseas revenue	¥ 8,144	¥ 21,589	¥ 6,951	¥ 36,684
Total revenue				270,810
% of total revenue	3.0%	8.0%	2.5%	13.5%
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%

	Thousands of U.S. Dollars			
	America	Europe	Asia & Oceania	Total
Year ended March 31, 2003:				
Overseas revenue	$ 67,867	$ 179,908	$ 57,925	$ 305,700
Total revenue				2,256,750
% of total revenue	3.0%	8.0%	2.5%	13.5%

21. Commissions

Commissions derived from each department for the three years ended March 31, 2003 were as follows:

	Millions of Yen					
	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Year ended March 31, 2003:						
Brokerage	¥ 45,403	¥ 1,163	¥ 276	¥ —	¥ —	¥ 46,842
Underwriting	—	—	—	27,946	—	27,946
Distribution	—	—	14,059	608	—	14,667
Other	1,839	3,422	26,535	11,084	11,948	54,828
	¥ 47,242	¥ 4,585	¥ 40,870	¥ 39,638	¥ 11,948	¥ 144,283
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

	Thousands of U.S. Dollars					
	Equity	Fixed Income (Bond)	Investment trust	Investment banking	Others	Total
Year ended March 31, 2003:						
Brokerage	$ 378,358	$ 9,692	$ 2,300	$ —	$ —	$ 390,350
Underwriting	—	—	—	232,883	—	232,883
Distribution	—	—	117,158	5,067	—	122,225
Other	15,325	28,517	221,125	92,367	99,566	456,900
	$ 393,683	$ 38,209	$ 340,583	$ 330,317	$ 99,566	$ 1,202,358

22. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the three years ended March 31, 2003 were summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	2003
Employees' compensation and benefits	¥ 123,904	¥ 129,972	¥ 140,426	$1,032,533
Commissions and brokerage	14,867	16,176	20,785	123,892
Communications	17,317	18,518	12,926	144,308
Occupancy and rental	33,348	35,090	38,663	277,900
Data processing and office supplies	14,708	16,474	17,367	122,567
Taxes other than income taxes	4,671	5,328	7,554	38,925
Depreciation	21,067	18,775	15,495	175,558
Other	16,819	21,830	33,732	140,159
	¥ 246,701	¥ 262,163	¥ 286,948	$2,055,842

23. Other income (expenses)

Details of "Other, net" in the statements of operations for the three years ended March 31, 2003 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	2003
Gains on sales of investment securities	¥ 8,241	¥ 4,103	¥ 2,004	$ 68,675
Write-down of securities	(20,298)	(26,615)	(4,750)	(169,150)
Gains on change in investment in subsidiary	—	4,068	—	—
Valuation losses related to fixed assets	(272)	(247)	(227)	(2,267)
Losses on disposal and sales of fixed assets	55	(1,991)	(2,751)	458
Losses on sales of loans receivable	—	(128)	(1,519)	—
Reversal of multiemployers' pension plans (Note 14)	—	13,692	—	—
Provision for doubtful accounts	(4,152)	(4,517)	(2,942)	(34,600)
Reversal of provision for (expenses for) real estate business reorganization	812	(127,401)	—	6,767
Early retirement benefits	—	(731)	—	—
Write-off of goodwill	—	(5,000)	—	—
Equity in earnings of affiliated companies	265	963	761	2,208
Other	4,045	2,024	(76)	33,709
	¥ (11,304)	¥ (141,780)	¥ (9,500)	$ (94,200)

Valuation losses related to fixed assets for 2003, 2002 and 2001 were derived from appraisal of the golf club membership certificates.

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 ¥7,970 million ($66,417 thousand) were approved by the shareholders' meeting held on June 26, 2003, as the appropriation of retained earnings for the year ended March 31, 2003.

Independent Auditors' Report

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. and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2003, expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daiwa Securities Group Inc. and subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Asahi & Co.

Tokyo, Japan
June 27, 2003