Financial Section

Management's Discussion and Analysis

Macroeconomic Conditions

Japan

Hopes for recovery in the first half gave way to chaos in the second half

During FY 2008, the Japanese economy was severely affected by chaotic changes taking place in the global economy. By October 2007, the long economic expansion that had prevailed in recent years reached its climax. Rising raw materials prices, together with the impact that this had on purchasing power, began to drag economic growth lower. During the first half of FY 2008, however, there were few signs that the corporate sector's main "stock" items–inventory, labor and capital equipment–were particularly excessive, and it seemed that Japan's financial sector would escape most of the impact of the sub-prime loan crisis. The general view was that Japan's economic downturn would be brief and relatively shallow.

However, in the latter half of FY 2008 a series of severe shocks caused the global economy to deteriorate rapidly, and this had a serious impact on Japan's export-oriented economy. The sharp plunge in export volume, to both emerging economies and traditional markets alike, was swifter and more dramatic than at any time in recent memory. Corporations were caught off guard by the sudden drop in demand and management was slow to react by cutting production volume. Consequently, inventory levels swelled, and by the time they did react, export-oriented manufacturers in particular were forced to make major production cuts and start reducing their payrolls. Unemployment and concerns about job security spread swiftly.

As corporate Japan slammed on the brakes, real GDP in the October–December 2008 quarter fell at an annualized rate of 13.5% from the previous quarter, the sharpest rate of contraction of any major economy. The economic contraction continued in the January–March 2009 quarter, producing a real GDP growth rate for FY 2008 of –3.3%, the worst figure that Japan has ever recorded.

Government responses to the financial crisis

From a financial standpoint, the global credit crisis forced banks to adopt a more stringent policy on loaning money to corporations to fund their operations. At the same time, companies found it extremely difficult to raise money from the capital markets. Construction and real estate companies, in particular, began to slip into bankruptcy because they were unable to procure operating funds. The business environment for almost all companies deteriorated.

In response to this economic deterioration, Japan's government tried to work in concert with other countries to address the underlying problems. Among other steps, the Bank of Japan adopted unconventional monetary easing policies, which included lowering its official interest rate to 0.1% and buying corporate bonds and commercial paper to help companies obtain the funds needed to continue operating. In addition, the government passed an economic support package that included some ¥12 trillion in budgetary and tax measures to stimulate the economy.

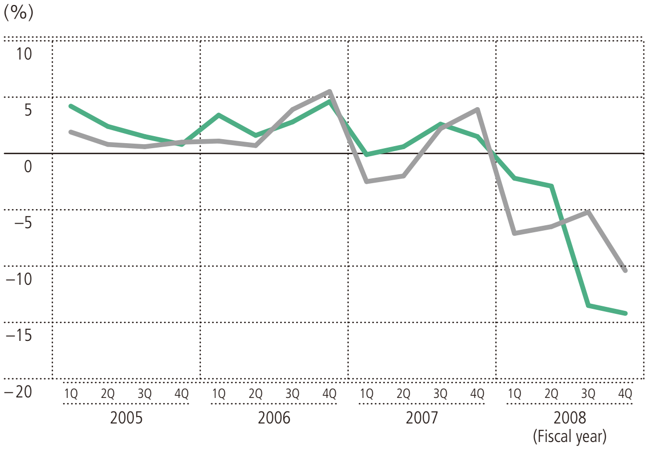
Though the Bank of Japan's *Tankan* survey of short-term business sentiment, in March 2009, found that most companies experienced further deterioration in business conditions, they expected an improvement in overseas demand and a gradual improvement in business conditions. Indicators of inventory, labor and capital stocks also were not deteriorating as rapidly and signs of stability began to emerge.

Overseas Markets

Chaotic financial markets and high raw materials prices battered the global economy

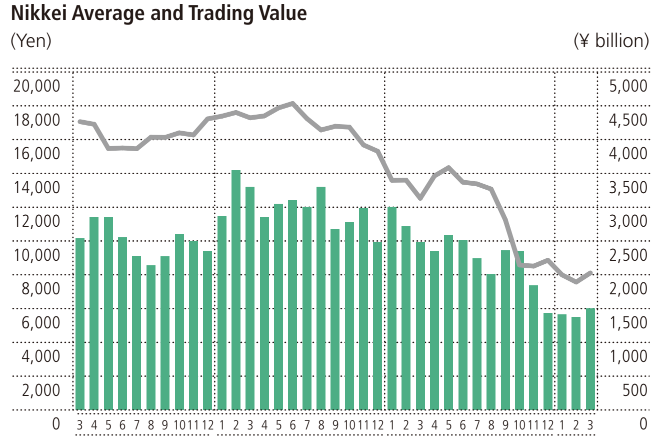
During FY 2008 the sub-prime loan crisis, which began in the previous fiscal year, gathered momentum, and it eventually triggered a worldwide recession. However, the economic collapse was brought on by a combination of factors; and it emerged suddenly, with September 2008 marking the main watershed. During the first half of the year, high raw materials prices limited economic growth, particularly in

GDP in Japan



Note: The above data comprises seasonally adjusted annual rates. Growth rates may not correspond to rates calculated based on total production.
Source: Cabinet Office, Government of Japan

Nikkei Average and Trading Value



Source: Tokyo Stock Exchange, Daiwa Institute of Research countries with few natural resources. However, in the second half the accelerating financial crisis began to take a toll on other industrial sectors, pushing the entire global economy into a recession.

Financial markets experienced high volatility throughout the year, but in mid-March 2008 an emergency financing package to rescue Bear Stearns seemed to have stabilized the situation. The roots of the sub-prime loan crisis ran deep, however, and as real estate prices continued to decline, financial institutions in the US and Europe were forced to rein in lending to both consumers and corporations. Prior to August 2008, the unemployment rate in the US, though rising, was still fairly mild, and it seemed that any downturn in the global economy would be gradual.

However, in the midst of a gathering recession, raw materials prices continued to rise. This began to affect emerging manufacturing economies like China, which had enjoyed steady economic growth up to that time. The world seemed to face the prospect of stagflation—an economic downturn amidst rising prices. As signs of an impending global recession began to coalesce, the price of crude oil reached its peak in mid-July 2008, and then oil and other materials prices plummeted.

Lehman Brothers' bankruptcy and a global credit crunch

In September 2008, Lehman Brothers—one of the largest investment banks in the US—declared bankruptcy. The shock of this announcement created severe distrust and uncertainty among financial institutions, and as they grew reluctant to lend to one another, the London interbank offered rate (LIBOR) soared, setting off chaos in financial markets around the world. The global financial crisis had begun. Banks began to sharply restrict credit, not only denying loans to consumers and corporations but even restricting trade credit and refinancing for investment funds. As a result, financial and capital markets ceased to function properly. This put sudden and severe strain on the real economy. International trade was particularly hard-hit, and since production facilities in emerging economies depend largely on external demand, these economies were badly damaged as well. To make matters worse, the developing economies were largely dependent on external capital for their development, and in a global credit contraction they also could not obtain the funds to drive domestic growth.

International cooperation and emergency measures forestall further deterioration

Faced with an expanding financial crisis, world leaders responded with cooperative efforts to prevent the crisis from intensifying. The G7 meeting in October 2008 was followed by a financial summit of 20 major countries, including the newly emerging economies, in November, where participants agreed to introduce joint policies to address the crisis. Each country announced measures aimed at addressing the crisis, including monetary easing policies and increased fiscal spending to stimulate their economies. In December 2008, the US Federal Reserve Board followed up with a cut in the official discount rate, to effectively zero, with a target range of 0–0.25%, and encouraged banks to offer relaxed credit and lower interest rates on housing loans. Other countries also implemented monetary easing policies. On the fiscal front, meanwhile, China pledged in November 2008 to spend 4 trillion RMB in a large-scale economic stimulus package, and in February 2009 the incoming Obama administration, in the US, introduced tax cuts and fiscal spending measures worth US$787.2 billion. By implementing these aggressive policies, the world's leading economic powers sought to calm the financial crisis.

Concerns about the international financial system still have not been dispelled entirely. However, the policy makers in governments and central banks around the world have acted to ease the uncertainty and restore some measure of calm to the markets. Although structural adjustments will dictate that the real economy remains sluggish for an extended period of time, there are already indications that the Chinese economy is rebounding and signs that economies in Europe and North America will stop contracting as 2009 proceeds.

Analysis of Income Statements

Overview

Adverse business conditions pushed earnings into the red for the full fiscal year

As financial turmoil and job uncertainty increased, later in the year, stock prices dropped sharply. By March 2009, the Nikkei 225 stock average had fallen to its lowest level since the economic bubble of the 1980s. Under these extremely adverse business conditions, earnings deteriorated. Net operating revenues totaled ¥199.5 billion, ordinary income showed a loss of ¥141.1 billion, and the Group posted a net loss of ¥85.0 billion. Total dividends for the year were reduced to ¥8 per share (including an interim dividend of ¥5).

Net Operating Revenues

Deteriorating market conditions affected all business segments

Net operating revenues fell 55.4% year on year in FY 2008, to ¥199.5 billion. Due to the declining market conditions, including the drop in the stock markets and the resultant decline in investor sentiment, the Group's fee-based revenue businesses—equities, asset management and investment banking—were badly affected, causing revenues from commissions to decline by 29.1% year on year, to ¥208.8 billion. As stock prices began to tumble, in October 2008, trading losses began to mount, with total trading revenues for the period falling 60.4% year on year to ¥40.9 billion. Meanwhile, declining prices of securities and real estate managed on the Group's own account, by Daiwa Securities SMBC Principal Investments and Daiwa SMBC Capital, forced the Group to make provisions for valuation losses. This produced a loss of ¥79.4 billion on private equity and other investments, mainly at Daiwa Securities SMBC Principal Investments.

Breakdown of Net Operating Revenues

				FY2008			(Millions of yen)
	FY2007	FY2008	Yoy	1Q	2Q	3Q	4Q
Commissions	¥294,425	¥208,881	–29.1%	¥61,792	¥ 54,045	¥ 49,383	¥ 43,658
Net gain (loss) on trading	103,361	40,921	–60.4%	21,300	10,864	(22,849)	31,606
Net gain (loss) on private equity and other investments	19,160	(79,478)	–	(1,007)	(15,206)	(37,478)	(25,785)
Net financial income	18,639	16,629	–10.8%	7,405	4,967	2,751	1,504
Others	11,906	12,590	5.8%	3,535	3,425	2,610	3,019
Net operating revenues	¥447,491	¥199,544	–55.4%	¥93,026	¥ 58,096	¥ (5,582)	¥ 54,003

Note: Quarterly figures have not been audited by an independent auditor.

Breakdown of Commissions by Product and Business Sector

Falling stock prices and a strengthening yen made individual investors reluctant to invest

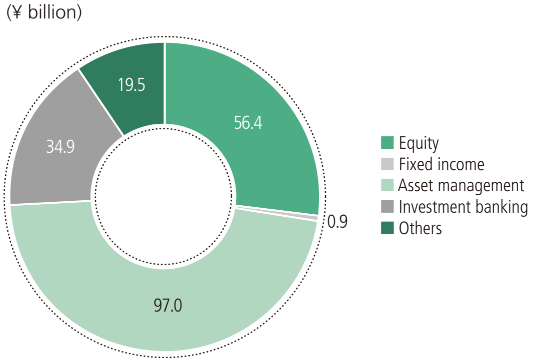
Breaking down revenues from commissions by sector, revenues in the equity business fell 33.3% year on year, to ¥56.4 billion. As the stock market slumped, average daily trading value on the Tokyo Stock Exchange during FY 2008 contracted by 30.9%, to ¥2,030.3 billion. Equity brokerage commissions in both the retail and wholesale businesses dropped off accordingly.

Asset management commissions were down 28.9% year on year, to ¥97.0 billion. The worldwide drop in stock prices, from October 2008 onward, coupled with high volatility in exchange rates caused individual investors to retreat from the markets and sharply reduce their investment activities. As a result, sales of equity investment trusts fell off and total distribution commissions from investment trusts declined. Falling stock prices and a stronger yen also pushed down the net asset value of both equity investment trusts and investment trusts specializing in foreign currency-denominated bonds. Since management fee income from these investment trusts is based on the balance of assets under management, this income declined as well.

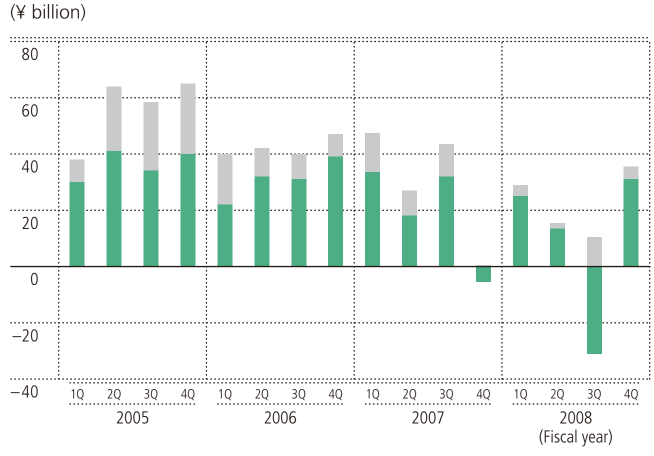
Though companies still needed to raise funds, equity financing dropped off

Total commissions in the investment banking business were down 26.6% year on year, in FY 2008, to ¥34.9 billion. Though companies still had a strong need for funding, most did so by issuing straight bonds. As a result, underwriting commissions from corporate bond issuance remained as strong as it had been in FY 2007. However, growing uncertainty about economic conditions depressed the stock market even in the early part of the year, causing equity financing activities such as IPOs and stock issuance to drop off. When the global financial crisis took hold, in the latter half of the fiscal year, there was a slight increase in demand for funds, as financial institutions tried to increase capital. However, total stock underwriting commissions for the fiscal year fell well below FY 2007 levels.

Breakdown of Commissions
(¥ billion)



Revenues From Equity and Bond Trading Divisions
(¥ billion)



Note: Net gain (loss) on trading + net financial income, on a managerial accounting basis

Breakdown of Commissions

(Millions of yen)

	FY2007	FY2008	Yoy	FY2008 1Q	2Q	3Q	4Q
Equity	¥ 84,593	¥ 56,402	–33.3%	¥17,321	¥13,424	¥14,508	¥11,147
Fixed income	2,133	991	–53.5%	398	340	148	104
Asset management	136,377	97,001	–28.9%	30,956	28,314	19,367	18,361
Investment banking	47,551	34,915	–26.6%	7,499	6,456	10,753	10,205
Others	23,771	19,572	–17.7%	5,616	5,508	4,605	3,840
Total commissions	¥294,425	¥208,881	–29.1%	¥61,792	¥54,045	¥49,383	¥43,658

Note: Quarterly figures have not been audited by an independent auditor.

Revenues from Equity and Bond Trading

The hedge cost for derivative positions increased

Net gains or losses on securities trading and net financial income from trading activity are recorded on a managerial accounting basis as revenues (losses) from equity and bond trading. In the equity trading division, the drop in stock prices during the second half reduced order volume, thus revenues were off 40.0% year on year, to ¥21.0 billion. In the bond trading division, meanwhile, sharp fluctuations in exchange rates and interest rates, particularly during the third quarter, increased the cost of hedging currency and interest rate derivatives positions. As a result, the Group recorded a loss on bond trading during the quarter. Market conditions returned to normal in the fourth quarter, and earnings recovered, but overall revenues from bond trading for FY 2008 dropped 50.6% year on year, to ¥38.5 billion.

Revenues From Equity and Bond Trading Divisions (Net Gain and Loss on Trading + Net Financial Income, on a Managerial Accounting Basis)

(Billions of yen)

	FY2007	FY2008	Yoy	FY2008 1Q	2Q	3Q	4Q
Equities	¥ 35.0	¥21.0	–40.0%	¥ 4.0	¥ 2.0	¥ 10.5	¥ 4.5
Bond	78.0	38.5	–50.6%	25.0	13.5	(31.0)	31.0
Total	¥113.0	¥59.5	–47.3%	¥29.0	¥15.5	¥(20.5)	¥35.5

Note: Revenues from equity and bond trading divisions have not been audited by an independent auditor.

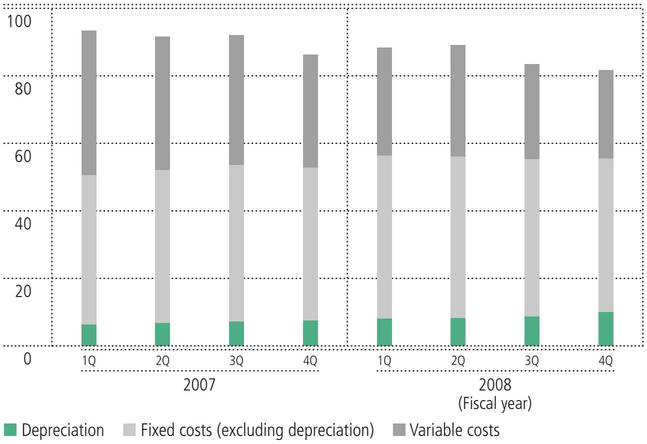
Selling, General and Administrative (SG&A) Expenses

Rising real estate costs and depreciation were offset by cuts in personnel expenses and fees and commissions paid

Total SG&A expenses for FY 2008 declined 5.7% year on year, to ¥343.2 billion. Real estate-related expenses increased by 12.8%, to ¥43.7 billion, largely due to the increase in rental costs following the relocation of the Group headquarters. In addition, past IT investments by Daiwa Securities and Daiwa Securities SMBC generated a 26.9% rise in depreciation, to ¥35.5 billion. However, agency commissions on investment trusts, paid by Daiwa Asset Management to sales agents outside the Group, declined due to a drop in the balance of assets under management. Securities intermediation fees paid by Daiwa Securities SMBC to Sumitomo Mitsui Banking Corporation were also lower. Total fees and commissions paid amounted to ¥66.0 billion, down 22.7% year on year. Furthermore, earnings-linked bonus payments were significantly lower in FY 2008, reducing overall personnel expenses by 9.6% year on year, to ¥141.6 billion.

Cost Structure

(¥ billion)



Ordinary Income and Net Income

Falling stock prices produced asset valuation losses

The ordinary income account showed a loss of ¥141.1 billion for the period. Furthermore, the drop in stock prices increased valuation losses on investment securities. As a result, the net loss for the period was ¥85.0 billion.

Ordinary Income and Net Income

(Millions of yen)

				FY2008			
	FY2007	FY2008	Yoy	1Q	2Q	3Q	4Q
Ordinary income (loss)	¥90,143	¥(141,150)	–	¥8,321	¥(31,525)	¥(90,022)	¥(27,923)
Net income (loss)	46,411	(85,039)	–	5,885	(20,522)	(53,039)	(17,363)

Note: Quarterly figures have not been audited by an independent auditor.

Earnings Trends at Major Group Companies

Daiwa Securities' retail business posted a profit despite the harsh business climate

Daiwa Securities Co. Ltd., which operates the retail arm of the Group's securities business, recorded a profit in FY 2008 despite the harsh business climate. Operating revenues declined 29.3% year on year, to ¥159.8 billion, ordinary income contracted 74.1%, to ¥18.3 billion, and net income was down 75.9% year on year, to ¥9.8 billion. In addition to a decline in stock trading activity by individuals, Daiwa Securities saw a decrease in underwriting activity as the number of primary and secondary equity offerings dropped off. As a result, fee income from equity brokerage commissions and distribution commissions fell sharply. There was an increase in the number of corporate bond offerings and subordinated bond issues from megabanks aimed at individual investors, which resulted in a large volume of domestic bond subscriptions. On the other hand, sales of equity investment trusts weakened and the balance of assets in investment trusts declined, producing a drop in distribution fees and agency commissions. As a result, total income from commissions was down 32.8% year on year, to ¥115.5 billion.

Sales of foreign currency-denominated bonds decreased, and net trading income fell 15.1% year on year, to ¥38.4 billion. On the other hand, many individuals apparently viewed the drop in stock prices as a buying opportunity, producing a surge in the number of new "Daiwa Direct" accounts created. The total number of accounts continued to rise steadily, to 1.1 million as of March 2009. The increased volatility of foreign exchange markets also stimulated trading activity in "Daiwa FX" accounts (margin trading in foreign currencies) as well as an increase in the number of accounts. As of the end of March 2009, there were 28,000 Daiwa FX accounts in operation.

Wholesale operations were hurt by trading losses, and losses on principal investments

On a consolidated basis, including the investment operations of overseas subsidiaries and earnings from domestic subsidiaries such as Daiwa Securities SMBC Principal Investments, earnings at Daiwa Securities SMBC, which oversees the Group's wholesale operations, were as follows. Net operating revenues declined by 81.2% year on year, to ¥45.5 billion, while the company posted a consolidated ordinary loss of ¥167.4 billion and a net loss of ¥144.9 billion. Trading activities were severely hurt by falling stock prices and volatile exchange rate markets in FY 2008, and generated a ¥4.7 billion net loss.

Daiwa Securities SMBC Principal Investments, which oversees the Group's investment on its own account, records net gains and losses on private equity and other investments as income from investment operations. This account showed a net ¥75.1 billion loss in FY 2008, mainly reflecting valuation losses on private equity securities, as well as increases to the provision for losses on real estate-related investments and real estate held as collateral for investments in monetary claims. After adjustment for the additions to provisions for valuation losses, the balance of investments stood at roughly ¥347.0 billion, a decline of ¥83.0 billion year on year. In addition, Daiwa SMBC Capital recorded an ordinary loss of ¥5.8 billion due to such factors as the stagnant IPO market.

Performance of Major Group Companies

(Millions of yen)

	Daiwa Securities		Daiwa Securities SMBC (consolidated)		Daiwa Asset Management	
	FY2007	FY2008	FY2007	FY2008	FY2007	FY2008
Operating revenues	¥226,273	¥159,883	¥242,269	¥ 45,514	¥83,079	¥68,157
Ordinary income (loss)	71,026	18,396	1,431	(167,468)	17,494	11,613
Net income (loss)	41,009	9,882	(5,836)	(144,958)	10,665	6,513

(Millions of yen)

	Daiwa Institute of Research (Total of 3 companies)*		Daiwa SB Investments		Daiwa SMBC Capital	
	FY2007	FY2008	FY2007	FY2008	FY2007	FY2008
Ordinary income (loss)	¥13,379	¥9,140	¥5,752	¥2,984	¥(5,321)	¥(5,895)

Note: Group company results have not been audited by an independent auditor.
* Figures reflect the sum of earnings from Daiwa Institute of Research Holdings, Daiwa Institute of Research, and Daiwa Institute of Research Business Innovation.

Asset management fee income declined due to falling asset values

Daiwa Asset Management, which operates the Group's asset management business, saw a drop in sales of equity investment trusts marketed through branches of Daiwa Securities and major banks. Meanwhile, falling stock prices and the strong yen pushed down the yen-denominated balance of investment fund assets under management. As of the end of March 2009, this balance stood at ¥4.6 trillion, a decline of ¥1.9 trillion from March 2008. This greatly reduced fee income from asset management activities. Ordinary income declined by 33.6% year on year, to ¥11.6 billion. Furthermore, ordinary income at the Group's equity method affiliate, Daiwa SB Investments, fell 48.1% year on year to ¥2.9 billion. This was also attributable to a decline in the balance of assets under management.

Overseas Operations

US business performed well as investors made a "flight to quality"

Daiwa Securities America Inc., which is responsible for operations in the Americas, is a primary dealer in the US market. Following the collapse of Lehman Brothers, the US market experienced a "flight to quality," as investors sought to minimize risk. As one of the few Japanese-affiliated primary dealers in the US, Daiwa Securities America saw an increase in new accounts, created by government-related financial institutions to trade in US treasury bonds, and an associated rise in trading activity. As a result, despite the continued turmoil in US markets, ordinary income from operations in the Americas rose sharply. On the other hand, the global decline in stock prices had an adverse impact on operations in Europe, Asia and Oceania, generating ordinary losses in these regions. As a result, overseas operations as a whole recorded a net ordinary loss of ¥1.6 billion.

Ordinary Income (Loss) From Overseas Operations, Broken Down by Region

(Millions of yen)

	FY2007	FY2008
America	¥ 1,948	¥ 4,806
Europe	(4,190)	(4,898)
Asia & Oceania	3,661	(1,553)
Total	¥ 1,419	¥(1,645)

Analysis of Balance Sheets and Cash Flow

Assets

The balance of trading products declined

As of March 31, 2009, total assets for the Group amounted to ¥14,182.5 billion, a decline of ¥3,124.5 billion, year on year. Current assets declined by ¥3,076.2 billion, to ¥13,677.0 billion, and the balance of fixed assets was ¥505.5 billion, down ¥48.2 billion year on year. The drop in current assets partly reflected a sharp reduction in the Group's positions in JGBs and corporate bonds, which caused a ¥1,653.3 billion year-on-year reduction in the "trading assets" account. In addition, there was a ¥792.8 billion reduction in the balance of collateralized short-term financing agreements related to collateralized securities loan operations. In the fixed asset account, valuation losses on the securities of companies in which the Group has invested directly, caused the balance of "investments and others" to decline by ¥54.0 billion, year on year.

Liabilities and Net Assets

Short-term borrowings and payables on collateralized securities loans both declined

Total liabilities declined by ¥2,993.9 billion year on year, to ¥13,230.2 billion as of March 31, 2009. The balance of current liabilities stood at ¥11,697.7 billion, down ¥3,223.1 billion from March 2008, and long-term liabilities increased by ¥232.8 billion, to ¥1,528.0 billion. A large portion of the decline in current liabilities stemmed from the company's securities loan operations. Collateralized short-term financing agreements in the bond borrowing and lending business declined by ¥1,345.4 billion year on year. The Group also reduced its balance of short-term borrowings by ¥1,426.6 billion. The increase in long-term liabilities, on the other hand, reflects the issuance of straight corporate bonds.

The balance of net assets declined by ¥130.5 billion year on year, to ¥952.3 billion. Owners' equity stood at ¥696.2 billion at the end of March 2009, down ¥105.5 billion from the previous year. Retained earnings decreased by ¥105.7 billion, to ¥421.8 billion, reflecting an ¥85.0 billion net loss and the payment of ¥20.1 billion in dividends.

Cash Flows

Cash inflows from the decline in trading assets offset cash outflows from short-term debt

Cash flow from operations showed a net inflow of ¥1,519.3 billion. Although there was an outflow of ¥163.7 billion due to a loss in income before income taxes and minority interests, reductions in the balance of trading assets brought an inflow of ¥1,871.8 billion. Cash flow from investment activities showed a net inflow of ¥9.4 billion. Cash received from the maturation of time deposits amounted to ¥117.0 billion, considerably more than the ¥42.2 billion outflow for new time deposits. Cash flow from financing activities showed a net outflow of ¥1.459.4 billion. This mainly reflected the repayment of short-term borrowings, which reduced cash by ¥1,559.8 billion. After adjustments for the impact of exchange rate conversion, the balance of cash and cash equivalents at the end of March 2009 stood at ¥415.6 billion, an increase of ¥55.7 billion year on year.

Cash Flows

(Millions of yen)

	FY2007	FY2008
Cash flow from operating activities	¥(782,533)	¥ 1,519,388
Cash flow from investing activities	(189,043)	9,437
Cash flow from financing activities	991,087	(1,459,438)
Cash and cash equivalents at end of year	¥ 359,851	¥ 415,600

Capital Investments

The Group has been making capital investments aimed at providing greater convenience to clients. During FY 2008, along with the introduction of digital stock certificates, the Group introduced a new data center and upgraded the functions of its online trading systems. Total investment in IT-related equipment amounted to ¥46.0 billion. The Group has also refurbished and upgraded facilities at its branch offices.

Capital Procurement Conditions

During FY 2008, Daiwa Securities Group Inc. floated two straight bond issues–unsecured corporate bond issue #8 (Payment: September 5, 2008), with a total value of ¥70.0 billion, and unsecured corporate bond issue #9 (Payment: December 22, 2008), worth ¥78.0 billion. Bond issue #8 was conducted in order to obtain capital for investment and loan activities, while bond issue #9 was used to obtain operating funds, and to provide funds for investment and loan activities.

Liquidity

Seeking to Maintain Both Financial Efficiency and Stability

The Daiwa Securities Group maintains a very large balance of both assets and liabilities, mainly in relation to its securities trading and related businesses. Most of the operating funds that the Group procures are obtained from straight corporate bonds, medium-term notes, loans from financial institutions, commercial paper, call money, *gensaki* trading (repurchase agreements), repo operations, and stock lending. The Group considers market conditions and tries to adopt the most appropriate mix of these funding methods in order to procure capital effectively.

On the other hand, the Group places great importance on the goal of maintaining a stable financial base. The Group seeks to ensure that, even during times of dramatic change in the operating environment, it will not face any potential disruption in its regular business activities. Therefore, it strives to ensure that it is always able to obtain a steady supply of funds. For example during FY 2008, particularly in the second half, the Group responded to turmoil in financial markets and uncertain business conditions by increasing liquidity on hand. The Group currently holds a portfolio of highly liquid assets–cash, deposits, Japanese government bonds and highly liquid securities–worth ¥875.6 billion as of March 31, 2009.

Group-Wide Capital Management

Daiwa Securities Group Inc. carefully monitors and controls liquidity conditions at all companies in the Group. The securities subsidiaries in Japan and overseas (Daiwa Securities, Daiwa Securities SMBC, Daiwa Securities SMBC Europe Limited, etc.) as well as Daiwa SMBC Capital, each conducts their own capital procurement activities and has their own internal system for maintaining liquidity. Nevertheless, the holding company constantly monitors these activities and provides additional oversight. Daiwa Securities Group Inc. directly controls the capital procurement activities of all other subsidiaries and manages conditions at each Group company to maintain an efficient distribution of capital.

For example during the second half of FY 2008, the Group responded to turmoil in the financial markets by making sure that securities-related subsidiaries, including overseas offices, increased liquidity on hand by obtaining capital from the markets or through loans from financial institutions. As of the end of March 2009, unsecured capital procurement conditions at companies in the Group were as follows:

Unsecured Capital Procurement Conditions at the Group (As of March 31, 2009)

(Billions of yen)

	Short-term borrowings from banks and other financial institutions	¥ 184
	Other short-term borrowings	481
	Commercial paper	320
	Current portion of bonds	11
(Short-term) unsecured capital procurement		997
	Long-term loans from banks and other financial institutions	237
	Bonds	1,260
(Long-term) unsecured capital procurement		1,498
Owners' equity		696
Total		¥3,192

Note: In addition to the items listed above, the Group uses the pooled collateral operations of the Bank of Japan to obtain funds.

Contingency Plan

The Daiwa Securities Group has prepared a contingency plan in order to ensure that it is fully prepared to address liquidity risk. Based on this plan, if market conditions should change suddenly and a credit crunch ensues, making it difficult to obtain funds through short-term unsecured borrowing, it would still be able to obtain ample liquidity to continue business operations for at least one year.

Daiwa Securities SMBC maintains ample liquidity based on its trading positions, and therefore it needs to be capable of obtaining a large supply of funds at any given time. Therefore, its activities play a central role in the Group's contingency plan. If it should become difficult to obtain unsecured funds in the short term, Daiwa Securities SMBC would reduce its trading positions to within the range of net worth, long-term unsecured loans, and as much short-term unsecured financing as is available at the time, and use the funds created to provide liquidity to the Group.

Daiwa Securities Group Inc. periodically checks and adjusts the contingency plans of all Group subsidiaries, and when necessary, points out conceivable crisis scenarios which should be addressed, requiring changes to the subsidiaries' funding and contingency plans. It also takes measures proactively to increase liquidity and reduce assets when conditions dictate, to be prepared for any eventuality.

Credit Ratings by Major Credit Rating Agencies

Daiwa Securities Group Inc., Daiwa Securities Co. Ltd. and Daiwa Securities SMBC Co. Ltd. have been assigned long-term and short-term credit ratings by major credit ratings agencies, both in Japan and overseas. These ratings take into account the impact of multiple factors on the Group's creditworthiness. The factors considered include current macroeconomic conditions, the business environment and condition of securities markets, management strategy, the management structure of the Group, the competitive position of Group companies in their respective markets, profitability and profit volatility, cost structure and cost elasticity, the risk management structure, liquidity conditions, capital policy and adequacy of capital, corporate governance, and other considerations.

The Group companies that issue securities, in order to obtain funds, all have been assigned credit ratings by leading agencies. These Group companies include Daiwa Securities Group Inc., Daiwa Securities Co. Ltd. and Daiwa Securities SMBC Co. Ltd. As of June 10, 2009, the credit ratings assigned to these Group companies were as follows:

The Daiwa Securities Group's Credit Ratings

	Daiwa Securities Group Inc.		Daiwa Securities		Daiwa Securities SMBC	
	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term
Moody's	Baa1	–	Baa1	P-2	A1	P-1
Standard & Poor's	BBB+	A-2	BBB+	A-2	A	A-1
Rating and Investment Information (R&I)	A	a-1	A	a-1	A+	a-1
Japan Credit Rating Agency (JCR)	A+	–	A+	–	–	–

Consolidated Balance Sheets

DAIWA SECURITIES GROUP INC.

March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2009	2008	2009
Cash and cash deposits:			
Cash and cash equivalents (Note 6)	¥ 415,600	¥ 359,851	$ 4,240,816
Cash segregated as deposits for regulatory purposes	214,455	233,545	2,188,316
Time deposits	9,109	85,125	92,949
	639,164	678,521	6,522,081
Receivables:			
Loans receivable from customers	69,593	75,422	710,133
Loans receivable from other than customers (Note 8)	9,146	117,894	93,327
Receivables related to margin transactions (Note 3)	248,059	369,312	2,531,214
Other	352,530	660,071	3,597,247
Less: Allowance for doubtful accounts	233	1,385	2,378
	679,095	1,221,314	6,929,543
Collateralized short-term financing agreements (Note 4)	5,413,526	6,206,327	55,240,061
Trading and private equity investments:			
Trading assets (Notes 5 and 8)	6,203,742	7,857,122	63,303,490
Private equity and other investments (Notes 6 and 8)	515,770	471,732	5,262,959
	6,719,512	8,328,854	68,566,449
Trade account receivables, net	143,309	219,314	1,462,337
Other assets:			
Property and equipment, at cost	254,962	260,104	2,601,480
Less: Accumulated depreciation	104,760	106,711	1,068,806
	150,202	153,393	1,532,674
Intangible fixed assets	110,829	101,880	1,130,908
Investment securities (Notes 6 and 8)	201,804	254,716	2,059,224
Deferred tax assets (Note 13)	20,113	31,348	205,235
Other (Note 8)	112,119	113,720	1,144,071
Less: Allowance for doubtful accounts	7,094	2,267	72,388
	587,973	652,790	5,999,724
	¥14,182,579	¥17,307,120	$144,720,195

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars (Note 1) 2009
Debt:			
Short-term borrowings (Notes 8 and 11)	¥ 919,346	¥ 2,312,699	$ 9,381,082
Commercial paper	320,400	488,300	3,269,388
Long-term debt (Notes 8 and 11)	1,526,878	1,406,400	15,580,388
	2,766,624	4,207,399	28,230,858
Payables:			
Payables to customers and counterparties (Note 10)	492,126	763,293	5,021,694
Payables related to margin transactions (Notes 3 and 8)	133,872	202,010	1,366,041
Other	17,348	27,176	177,020
	643,346	992,479	6,564,755
Collateralized short-term financing agreements (Note 4)	4,893,262	6,238,684	49,931,245
Trading liabilities (Note 5)	4,809,093	4,643,644	49,072,378
Accrued and other liabilities:			
Income taxes payable	1,823	21,538	18,602
Deferred tax liabilities (Note 13)	18,621	4,556	190,010
Accrued bonuses	12,527	17,326	127,827
Retirement benefits (Note 12)	25,941	24,016	264,704
Other	54,596	66,537	557,101
	113,508	133,973	1,158,244
Statutory reserves (Note 14)	4,417	8,017	45,071
Total liabilities	13,230,250	16,224,196	135,002,551
Contingent liabilities (Note 15)			
Net assets			
Owners' equity (Note 16)			
Common stock, no par value;			
Authorized—4,000,000 thousand shares			
Issued—1,404,665 thousand shares as of March 31, 2009	178,324	178,324	1,819,633
Capital surplus	157,679	157,679	1,608,969
Retained earnings	421,819	527,579	4,304,276
Treasury stock at cost	(61,526)	(61,701)	(627,816)
	696,296	801,881	7,105,062
Valuation and translation adjustments			
Net unrealized gain on securities, net of tax effect	51,752	24,470	528,082
Deferred gain on hedges, net of tax effect	499	801	5,092
Translation adjustments	(28,275)	(9,062)	(288,520)
	23,976	16,209	244,654
Stock subscription rights (Note 17)	2,369	1,430	24,173
Minority interests	229,688	263,404	2,343,755
Total net assets	952,329	1,082,924	9,717,644
	¥14,182,579	¥17,307,120	$144,720,195

Consolidated Statements of Income

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
Operating revenues:				
Commissions (Note 22)	¥ 208,881	¥294,425	¥306,736	$ 2,131,439
Net gain on trading (Note 23)	40,921	103,361	157,333	417,561
Net gain (loss) on private equity and other investments	(79,478)	19,160	32,818	(811,000)
Interest and dividend income	192,664	358,423	373,453	1,965,959
Service fees and other revenues	50,948	50,053	46,968	519,878
	413,936	825,422	917,308	4,223,837
Interest expense	176,034	339,784	354,245	1,796,265
Cost of service fees and other revenues	38,358	38,147	36,299	391,408
Net operating revenues (Note 19)	199,544	447,491	526,764	2,036,164
Selling, general and administrative expenses (Notes 12, 19 and 24)	343,270	363,859	340,373	3,502,755
Operating income (loss) (Note 19)	(143,726)	83,632	186,391	(1,466,591)
Other income (expenses):				
Provision for statutory reserves, net (Note 14)	3,600	(52)	(566)	36,735
Other, net (Note 25)	(23,668)	(1,629)	98	(241,510)
	(20,068)	(1,681)	(468)	(204,775)
Income (loss) before income taxes and minority interests	(163,794)	81,951	185,923	(1,671,366)
Income taxes (Note 13):				
Current	4,383	40,475	65,794	44,724
Deferred	(22,557)	299	3,657	(230,173)
	(18,174)	40,774	69,451	(185,449)
Minority interests	60,581	5,234	(23,747)	618,173
Net income (loss)	¥ (85,039)	¥ 46,411	¥ 92,725	$ (867,744)

	Yen			U.S. dollars (Note 1)
Per share amounts:				
Net income (loss)	¥(63.16)	¥33.69	¥67.90	$(0.63)
Diluted net income	–	33.63	66.07	–
Cash dividends applicable to the year	8.00	22.00	28.00	0.08

See accompanying notes.

Consolidated Statements of Changes in Net Assets

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2009, 2008 and 2007

Millions of yen

		Owners' equity					Valuation and translation adjustments				
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Paid-in money for treasury stock	Net unrealized gain (loss) on securities, net of tax effect	Deferred gain (loss) on hedges, net of tax effect	Translation adjustments	Stock subscription rights	Minority interests
Balance at March 31, 2006	1,332,460	¥138,828	¥118,339	¥476,216	¥(14,660)	¥ –	¥72,694	¥(199)	¥ 864	¥ –	¥236,719
Conversion of convertible bonds	72,205	39,496	39,496								
Cash dividends paid				(45,806)							
Bonuses to directors and executive officers				(1,828)							
Net income				92,725							
Change in treasury stock, net			(156)	(1,239)	3,032						
Increase in retained earnings due to merger of a non-consolidated subsidiary				406							
Other						5					
Net changes of items other than owners' equity							2,964	667	7,682	611	56,370
Balance at March 31, 2007	1,404,665	178,324	157,679	520,474	(11,628)	5	75,658	468	8,546	611	293,089
Cash dividends paid				(38,788)							
Net income				46,411							
Change in treasury stock, net				(346)	(50,073)						
Decrease due to addition of a consolidated subsidiary				(172)							
Other						(5)					
Net changes of items other than owners' equity							(51,188)	333	(17,608)	819	(29,685)
Balance at March 31, 2008	1,404,665	178,324	157,679	527,579	(61,701)	–	24,470	801	(9,062)	1,430	263,404
Cash dividends paid				(20,195)							
Net income (loss)				(85,039)							
Change in treasury stock, net				(250)	175						
Decrease due to addition of a consolidated subsidiary				(276)							
Other											
Net changes of items other than owners' equity							27,282	(302)	(19,213)	939	(33,716)
Balance at March 31, 2009	1,404,665	¥178,324	¥157,679	¥421,819	¥(61,526)	¥ –	¥51,752	¥ 499	¥(28,275)	¥2,369	¥229,688

Thousands of U.S. dollars (Note 1)

	Owners' equity					Valuation and translation adjustments				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Paid–in money for treasury stock	Net unrealized gain (loss) on securities, net of tax effect	Deferred gain (loss) on hedges, net of tax effect	Translation adjustments	Stock subscription rights	Minority interests
Balance at March 31, 2008	$1,819,633	$1,608,969	$5,383,459	$(629,602)	$ –	$249,694	$ 8,173	$ (92,469)	$14,592	$2,687,796
Cash dividends paid			(206,071)							
Net income (loss)			(867,744)							
Change in treasury stock, net			(2,551)	1,786						
Decrease due to addition of a consolidated subsidiary			(2,817)							
Other										
Net changes of items other than owners' equity						278,388	(3,081)	(196,051)	9,581	(344,041)
Balance at March 31, 2009	$1,819,633	$1,608,969	$4,304,276	$(627,816)	$ –	$528,082	$ 5,092	$(288,520)	$24,173	$2,343,755

See accompanying notes.

Consolidated Statements of Cash Flows

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
Cash flows from operating activities:				
Net income (loss)	¥ (85,039)	¥ 46,411	¥ 92,725	$ (867,744)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	39,727	28,047	23,117	405,378
Allowance for doubtful accounts, net	5,559	3,445	317	56,724
Allowance for retirement benefits, net	1,925	836	1,234	19,643
Stock subscription rights	939	819	611	9,582
Statutory reserves, net	(3,600)	51	567	(36,735)
Losses (gains) related to investment securities	22,542	5,240	(3,926)	230,020
Losses related to fixed assets	1,430	1,952	5,880	14,592
Allowance for relocation costs of headquarters office	–	1,354	4,681	–
Deferred income taxes	(22,557)	299	3,657	(230,173)
Minority interests	(60,581)	(5,234)	23,747	(618,173)
Changes in operating assets and liabilities:				
Receivables and payables related to margin transactions	53,115	174,806	27,247	541,990
Other receivables and other payables	114,052	(147,279)	(113,773)	1,163,796
Collateralized short-term financing agreements	(569,791)	1,721,872	(150,764)	(5,814,194)
Trading assets and liabilities	1,871,841	(2,561,539)	79,204	19,100,418
Private equity and other investments	70,732	(76,273)	(45,410)	721,755
Other, net	79,094	22,660	36,416	807,079
Total adjustments	1,604,427	(828,944)	(107,195)	16,371,702
Net cash flows provided by (used in) operating activities	1,519,388	(782,533)	(14,470)	15,503,958
Cash flows from investing activities:				
Increase in time deposits	(42,212)	(120,181)	(36,290)	(430,735)
Decrease in time deposits	117,044	56,042	30,995	1,194,327
Payments for purchases of property and equipment	(14,900)	(34,295)	(18,439)	(152,041)
Proceeds from sales of property and equipment	361	240	539	3,684
Payments for purchases of intangible fixed assets	(36,174)	(44,006)	(34,648)	(369,122)
Payments for purchases of investment securities	(32,155)	(86,731)	(47,527)	(328,112)
Proceeds from sales of investment securities	16,454	52,909	36,553	167,898
Purchase of subsidiary's stock due to change in scope of consolidation	–	–	1,357	–
Increase in long-term loans receivable	(2,841)	(3,655)	(876)	(28,990)
Other, net	3,860	(9,366)	(4,952)	39,388
Net cash flows provided by (used in) investing activities	9,437	(189,043)	(73,288)	96,297

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings and commercial paper	(1,559,873)	945,660	(97,430)	(15,917,071)
Proceeds from issuance of notes	296,344	442,593	509,087	3,023,918
Payments for redemption of bonds and notes	(218,239)	(294,317)	(362,305)	(2,226,929)
Increase (decrease) in other long-term debt	42,625	(2,682)	10,360	434,949
Proceeds from issuance of stocks to minority shareholders	–	–	40,080	–
Payments of cash dividends	(20,194)	(38,787)	(45,806)	(206,061)
Payments of cash dividends to minority shareholders	(71)	(10,894)	(12,039)	(724)
Other, net	(30)	(50,486)	1,216	(306)
Net cash flows provided by (used in) financing activities	(1,459,438)	991,087	43,163	(14,892,224)
Effect of exchange rate changes on cash and cash equivalents	(13,847)	(13,582)	4,788	(141,296)
Net increase (decrease) in cash and cash equivalents	55,540	5,929	(39,807)	566,735
Cash and cash equivalents at beginning of year	359,851	352,779	392,350	3,671,949
Increase in cash and cash equivalents due to merger of a non-consolidated subsidiary	–	655	236	–
Increase in cash equivalents due to addition of a consolidated subsidiary	209	488	–	2,132
Cash and cash equivalents at end of year	¥ 415,600	¥ 359,851	¥ 352,779	$ 4,240,816

See accompanying notes.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2009, 2008 and 2007

1. Basis of financial statements

The consolidated financial statements include the accounts of Daiwa Securities Group Inc. ("the Company"), a Japanese corporation, and its subsidiaries (collectively "Daiwa"). Daiwa's principal subsidiaries include:

—Daiwa Securities Co. Ltd. ("Daiwa Securities")

—Daiwa Securities SMBC Co. Ltd. ("Daiwa Securities SMBC")

—Daiwa Asset Management Co. Ltd. ("DAM")

—Daiwa Institute of Research Holdings Ltd.

(Former Daiwa Institute of Research Ltd., a consolidated subsidiary of the Company was separated into 2 companies: Daiwa Institute of Research Ltd. and Daiwa Institute of Research Business Innovation Ltd. Both of these companies became 100% owned subsidiaries of Daiwa Institute of Research Holdings Ltd. as of October 1, 2008.)

—Daiwa SMBC Capital Co., Ltd. ("DSC")

(NIF SMBC Ventures Co., Ltd., a consolidated subsidiary of the Company, changed its name to Daiwa SMBC Capital Co., Ltd. on October 1, 2008.)

Daiwa Securities is the retail-securities arm of Daiwa. This company operates through a network of 117 branches as well as non-face-to-face channels, including the Internet and a full-fledged call center to provide online and telephone-based securities-related services. Daiwa Securities SMBC is the wholesale-securities company of Daiwa that holds a 60% capital stake, while the other 40% is controlled by the Sumitomo Mitsui Financial Group, Inc. DAM is the asset management company of Daiwa. In addition, Daiwa has several overseas consolidated subsidiaries, mainly engaged in the securities business.

Daiwa is primarily engaged in the business of a securities broker-dealer, pursuant to which Daiwa provides services including brokerage, trading, underwriting, strategic advice, product development, and structured finance. In addition, Daiwa provides asset and capital management, principal investment, venture capital, and research through a network in major capital markets and other services.

The Company and its domestic consolidated subsidiaries maintain their official accounting records in yen and in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with generally accepted accounting principles in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards ("IFRS"). The accounts of overseas consolidated subsidiaries are maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been prepared by incorporating the accounts of the domestic companies prepared under Japanese GAAP and the accounts of the overseas subsidiaries maintained on the basis described above by adjusting the difference in accounting policies from Japanese GAAP, if any.

(Accounting change)

The Company has adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force No. 18, "PITF") from April 1, 2008. Previously the accounting policies applied to a parent company and those of foreign subsidiaries were tentatively not required to be uniform, even if the accounting policies locally applied to foreign subsidiaries in their domicile differed from the accounting policies uniformly applied to the parent company and other subsidiaries.

Under PITF, the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should be unified for the preparation of the consolidated financial statements, in principle. Meanwhile, the financial statements prepared by foreign subsidiaries in accordance with IFRS or the generally accepted accounting principles in the United States (U.S. GAAP) tentatively can be used for the consolidation process with adjusting certain items such as amortization of goodwill.

However, this change has no effect on the consolidated financial statements as of March 31, 2009.

The accompanying consolidated financial statements have been restructured and translated into English (with some additional explanations described solely for the convenience of the readers outside of Japan) 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 Financial Instruments and Exchange Act. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not considered necessary for fair presentation, is not presented in the accompanying consolidated financial statements.

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, 2009, which was ¥98 to U.S.$1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could 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 the entities which are controlled by the Company, directly or indirectly. Control exists generally when the Company holds more than 50% of the voting rights of the entity. Also, control is regarded to exist when the Company holds 40% or more of the voting rights of an entity and there are certain facts and circumstances which indicate that the Company controls the decision making body of the entity. However, certain investee entities are excluded from the consolidation even though the Company has control of them, when the investee entity is held as part of the principal investment or for venture capital investment business purposes where the objective for Daiwa to have control of it is to merely look for capital gain opportunities, Daiwa does not intend to operate its business with the entity as a group.

The Company accounts for its investment by the equity method of accounting if the Company does not have control of an entity but can exercise significant influence over the entity's operating and financial policies. Being able to exercise such significant influence is generally regarded to exist when the Company holds 20% or more but 50% or less of the voting rights of the entity, or 15% or more voting rights, and there are certain facts and circumstances which indicate that the Company can exercise significant influence over the entity's operating and financial policies. As in the same policy and considerations for consolidation, certain investee entities are excluded from the scope of the equity method even though the Company holds significant influence, when the investee entity is held as part of the principal investment or for venture capital investment business purposes.

Under Japanese GAAP, goodwill must be amortized over its estimated useful life within the maximum of 20 years. However, Daiwa has no goodwill balance because any goodwill was immaterial and written off immediately.

Material inter-company balances, transactions and profits have been eliminated in consolidation.

Statements of cash flows—For purposes of the consolidated statements of cash flows, the Company defines cash equivalents as highly liquid investments with original maturities of three months or less.

Trading assets and trading liabilities—Trading assets and liabilities including securities and financial derivatives for trading purposes held by securities companies are recorded on a trade date basis at fair value in the consolidated balance sheets. Gains and losses including unrealized gains and losses related to transactions for trading purposes are reported as "Net gain on trading" in the accompanying consolidated statements of income. Fair value is determined based on market prices, quoted prices, internal pricing models (utilizing indicators of general market conditions or other economic measurements), or management's estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. Securities owned for non-trading purposes, shown in the accompanying consolidated balance sheets as "Cash and cash equivalents," "Private equity and other investments" and "Investment securities," are discussed below.

Securities other than trading assets and trading liabilities—Daiwa examines the intent of holding investments and classifies those investments as (a) securities intended to be held for trading purposes by non-securities companies which are carried at fair value with recognized unrealized gain or loss included in the consolidated statements of income, (b) debt securities intended to be held to maturity ("held-to-maturity debt securities") which are carried at amortized cost, and (c) all other securities not classified in any of the above categories ("available-for-sale securities"). Marketable available-for-sale securities are stated at their fair values based on quoted market closing prices with unrealized gain or loss reported in a separate component within the net assets on a net-of-tax basis, or other non-marketable investments and other (non-marketable "available-for-sale securities") are carried at cost. Investment business partnerships which are regarded as equivalent to securities by Article 2 (2) of the Financial Instruments and Exchange Act are reported as "Private equity and other investments" in the accompanying consolidated balance sheets. The share of net income of investment business partnerships has been reflected in the consolidated statements of income and the share of net unrealized gains and losses held by investment business partnerships is directly reported in a separate component within the net assets on a net-of-tax basis in proportion to the Company and its subsidiaries' share of the investment business partnership. The cost of those investments is determined by the moving average method.

Daiwa holds, as is common practice in Japan, non-marketable equity securities generally for the purpose of maintaining a good relationship and also aiming to promote Daiwa's securities businesses with the investee companies.

Impairment is assessed for investments (including private equity holding). For marketable securities, if the year-end market value declines 30% or more but less than 50% from the carrying value for individual securities, an impairment loss is recognized if there is no chance of recoverability in value. Recoverability is assessed whether the decline is temporary by considering the movements of the market price and the financial conditions of the issuer. If the year-end market value declines 50% or more from the carrying value, then an impairment loss is recognized immediately. For non-marketable equity investments, Daiwa generally compares the carrying amount and the net asset value of the issuing company attributable to Daiwa's holding share, and recognizes an impairment loss if the net asset value attributable to Daiwa's holding share is significantly lower from the carrying value and such decline is considered other than temporary. For non-marketable investments other than equities, Daiwa reviews the financial conditions of the issuers and provides for allowance for possible investment losses, if necessary.

Derivatives used for non-trading purposes—Daiwa records derivative financial instruments at fair value except for certain cases as described below, and recognizes changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes. Valuation gains or losses on hedging instruments are deferred in the separate component within the net assets until the gains or losses on the underlying hedged instruments are realized. For plain vanilla hedging interest swap agreements which satisfy the required conditions under Japanese GAAP, they are not required to be marked-to-market. Interest received or paid on such exempt interest rate swap agreements for hedging purposes is accrued without being marked-to-market under special treatment. Also, certain forward foreign exchange contracts are exempted from marked-to-market valuation. The premium or discount on such exempt forward foreign exchange contracts for hedging purposes is allocated to each fiscal term without being marked-to-market under special treatment.

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"), and securities borrowed or loaned. Repurchase transactions and resell transactions are carried at their contractual amounts. Securities borrowed or loaned are recorded at the amount of cash collateral advanced or received.

Allowance for doubtful accounts—Allowance for doubtful accounts is provided for probable losses on loans and receivables, based on the actual historical default rate for general loans, and based on individually assessed amounts for doubtful and default loans.

Property and equipment—Property and equipment are stated at the acquisition cost, net of accumulated depreciation. Daiwa computes depreciation principally by the straight-line method over the estimated useful lives.

(Accounting change)
In connection with the current Japanese corporate tax law reform, the Company and its domestic consolidated subsidiaries and affiliates have reviewed their policies and estimates related to depreciation, and determined to change the depreciation method reflecting the new corporate tax law for property and equipment purchased on or after April 1, 2007. The principal changes include that the estimated remaining values have been revised to ¥1 from the former general level of 5% of the original costs, and that useful lives of certain assets are shortened. For the assets that existed as of March 31, 2007, which are depreciated to the former depreciable limit, the remaining value is amortized over five years pro rata from the following fiscal year when the accumulated depreciation reached the former depreciation limit, until its book value is reduced finally to ¥1.

The effect on the consolidated financial statements as of March 31, 2008 was immaterial.

Intangible fixed assets—Intangible fixed assets are generally amortized by the straight-line method. Daiwa computes the amortization over estimated useful lives. The useful lives of software for in-house use, which is the most significant intangible fixed asset, is generally five years.

Leased assets—Leased assets in finance lease transactions other than the ones that transfer ownership to the lessee are amortized under the straight-line method over estimated useful lives for as long as the leasing period and they are amortized to zero residual value.

(Accounting change)
The Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13) and "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16) from April 1, 2008. Finance lease transactions other than the ones that transfer ownership to the lessee are changed to be applied from the manner similar to the accounting treatment for ordinary rental transactions to the manner similar to the accounting treatment for ordinary sale transactions and are capitalized as leased assets.

The effect on the consolidated financial statements as of March 31, 2009 was immaterial.

Concerning finance lease transactions other than the ones that transfer ownership to the lessee, which started before the fiscal year that "Accounting Standard for Lease Transactions" (ASBJ Statement No.13) were applied for the first time, were accounted for by the accounting treatment similar to that of ordinary rental transactions. Certain information regarding these non-capitalized finance lease transactions is stated in Note 9.

Impairment—Non-current assets, principally property and equipment, assets used under finance lease contracts, intangible fixed assets, and goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to future undiscounted net cash flows expected to be generated by the asset or certain asset group. If an asset is considered to be impaired, then an impairment loss is recognized for the difference between the carrying amount and the fair value of the asset or the related asset group.

Bonuses—Accrued bonuses for employees and directors represent liabilities estimated as of the balance sheet date.

(Accounting change)
The Company adopted "Accounting Standard for Directors' Bonus" (ASBJ Statement No. 4) from the fiscal year ended March 31, 2007. According to ASBJ Statement No. 4, Directors' bonus is expensed when it is incurred, instead of the appropriation of its retained earnings upon approval of each consolidated subsidiary's annual shareholders' meeting. "Operating income" and "Income before income taxes and minority interests" decreased by ¥1,553 million, respectively, in the consolidated statements of income in the year ended March 31, 2007, due to this accounting change.

Share-based payment—Daiwa allocates share-based compensation costs, which are measured at fair value of the options at grant date, over the period in which the related requisite service is rendered.

(Accounting change)
The Company adopted "Accounting Standard for Share-based Payment" (ASBJ Statement No. 8) and "Implementation Guidance on Accounting Standard for Share-based Payment" (ASBJ Guidance No. 11) from the fiscal year ended March 31, 2007. Formerly, share-based payments were recorded in the capital account to the extent the related payments by employees were made when stock options were exercised; thus no expense was recognized. "Operating income" and "Income before income taxes and minority interests" decreased by ¥611 million, respectively, in the consolidated statements of income in the year ended March 31, 2007, due to this accounting change.

Retirement benefits—The Company and most domestic subsidiaries have unfunded retirement benefit plans for eligible employees, under which the benefit amount is determined annually based on the performance during the year in which the related service is rendered, plus interest earned to date. Accordingly, this liability does not change subsequently due to the changes in compensation level in the subsequent years. The annually earned benefits and the related interest to the accumulated benefits are expensed annually.

The Company and most domestic consolidated subsidiaries also have defined contribution plans for which annual contributions are charged to expense.

The Company and its domestic consolidated subsidiaries closed their defined benefit plan as of April 1, 1999 and accordingly, no new employees have been added to the plan and no service cost has been charged for the plan; however, the amounts that then existed are still on the balance sheets until the time the payment is made to related employees when they retire.

Retirement benefits for directors and corporate auditors are recognized based on the amount as calculated in accordance with the internal rule.

Allowance for relocation costs of headquarters—An allowance for relocation costs of the headquarters of the Company and some consolidated subsidiaries was booked based on a reasonable estimation. No balance was on the accompanying consolidated balance sheet as of March 31, 2009 because the Company and some consolidated subsidiaries used the allowance for relocation costs of the headquarters for this purpose.

Allowance for litigation losses—In the normal course of business Daiwa is subject to claims and litigations resulting from securities and other transactions. The estimation for loss related to such contingency events requires inherently significant judgment. The allowance for litigation loss is provided for based on the likelihood and estimated amounts for such losses for the existing claims, based on the current status, historical experiences and management judgment.

Income taxes—Income taxes consist of corporation, enterprise and inhabitants' taxes. The provision for current income taxes is computed based on the pre-tax income of the Company and each of its consolidated subsidiaries with certain adjustments, as appropriate. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards, if any. A valuation allowance is recognized for any portion of the deferred tax assets if it is considered not realizable based on its tax planning, other studies, and referring to certain set requirements under Japanese GAAP.

Translation of foreign currencies—The Company and its domestic consolidated subsidiaries translate assets and liabilities in foreign currencies into yen at the year-end exchange rate, and translate income and expenses in foreign currencies into yen using generally the applicable exchange rate on the day when the related transaction occurred. Any gains and losses resulting from such translation are included in current income or expense. The financial statements of overseas consolidated subsidiaries and affiliates are translated into yen using the year-end exchange rates. Income and expenses are translated at the average exchange rates of the applicable year.

Net income (loss) per share—Net income (loss) per share of common stock is based on the average number of common shares outstanding. Diluted net income per share is computed based on the average number of common shares outstanding for the year with an adjustment for dilutive convertible bonds and stock subscription rights based on the number of shares of common stock that would have been issued provided that the outstanding dilutive convertible bonds and stock subscription rights were converted at the beginning of the year. The diluted net income per share amount for the year ended March 31, 2009 is not presented, since a net loss is reported in the consolidated statements of income.

Reclassifications—Certain reclassifications have been made in the 2008 and 2007 consolidated financial statements to conform to the presentation for 2009.

3. Margin transactions

Margin transactions at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Assets:			
Customers' margin loans	¥ 79,094	¥192,001	$ 807,082
Cash deposits as collateral for securities borrowed	168,965	177,311	1,724,132
	¥248,059	¥369,312	$2,531,214
Liabilities:			
Payable to securities finance companies	¥ 3,852	¥ 8,617	$ 39,306
Proceeds of securities sold for customers' accounts	130,020	193,393	1,326,735
	¥133,872	¥202,010	$1,366,041

Customers' margin loans are stated at amounts equal to the purchase amounts of the relevant securities, which are collateralized by customers' securities and customers' deposits. Proceeds of securities sold for customers' accounts are stated at the sales amounts.

4. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Assets:			
Securities purchased under agreements to resell	¥ –	¥ 202	$ –
Securities borrowed	5,413,526	6,206,125	55,240,061
	¥5,413,526	¥6,206,327	$55,240,061
Liabilities:			
Securities sold under agreements to repurchase	¥ 664,743	¥ 703,578	$ 6,783,092
Securities loaned	4,228,519	5,535,106	43,148,153
	¥4,893,262	¥6,238,684	$49,931,245

5. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Trading assets:			
Equities	¥ 164,194	¥ 133,153	$ 1,675,449
Government, corporate and other bonds	3,178,908	5,801,937	32,437,838
Investment trusts	127,851	90,184	1,304,602
Commercial paper, certificates of deposits and others	93,048	245,979	949,469
Option transactions	267,359	208,844	2,728,153
Futures and forward transactions	105,903	133,858	1,080,643
Swap agreements	2,182,276	1,225,291	22,268,122
Other derivatives	92,199	19,499	940,806
Risk reserves	(7,996)	(1,623)	(81,592)
	¥6,203,742	¥7,857,122	$63,303,490

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Trading liabilities:			
Equities	¥ 90,385	¥ 110,997	$ 922,296
Government, corporate and other bonds	2,554,291	3,332,362	26,064,194
Investment trusts	44	16	449
Option transactions	269,816	182,575	2,753,224
Futures and forward transactions	289,226	121,178	2,951,286
Swap agreements	1,523,596	875,700	15,546,898
Other derivatives	81,735	20,816	834,031
	¥4,809,093	¥4,643,644	$49,072,378

Government, corporate and other bonds include convertible bonds.

6. Securities other than trading assets and trading liabilities

Securities other than trading assets and trading liabilities are composed of "Cash and cash equivalents," "Private equity and other investments" and "Investment securities" in the accompanying consolidated balance sheets.

Cost and fair value of securities intended to be held for trading purposes by non-securities companies as of March 31, 2009 and 2008 consisted of the following:

			Millions of yen
	Cost	Fair value	Difference
March 31, 2009	¥4,445	¥3,493	¥(952)
March 31, 2008	¥4,662	¥4,011	¥(651)

			Thousands of U.S. dollars
	Cost	Fair value	Difference
March 31, 2009	$45,357	$35,643	$(9,714)

Amortized cost and fair value of held-to-maturity debt securities as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Corporate bonds	¥1,300	¥1,300	$13,265

Cost and fair value of marketable available-for-sale securities as of March 31, 2009 and 2008 consisted of the following:

			Millions of yen
	Cost	Fair value	Difference
March 31, 2009:			
Equities	¥232,048	¥376,961	¥144,913
Government, corporate and other bonds	1,486	1,486	0
Other	14,955	12,066	(2,889)
	¥248,489	¥390,513	¥142,024
March 31, 2008:			
Equities	¥121,618	¥155,707	¥34,089
Government, corporate and other bonds	13,720	11,937	(1,783)
Other	17,550	17,058	(492)
	¥152,888	¥184,702	¥31,814

			Thousands of U.S. dollars
	Cost	Fair value	Difference
March 31, 2009:			
Equities	$2,367,837	$3,846,541	$1,478,704
Government, corporate and other bonds	15,163	15,163	0
Other	152,602	123,122	(29,480)
	$2,535,602	$3,984,826	$1,449,224

Non-marketable available-for-sale securities as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Equities	¥ 73,889	¥240,309	$ 753,969
Government, corporate and other bonds	36,129	3,268	368,663
Investments in business partnerships	141,388	199,997	1,442,735
Other	38,571	56,408	393,582
	¥289,977	¥499,982	$2,958,949

In addition to the above, equity securities of non-consolidated subsidiaries and affiliated companies amounting to ¥32,291 million ($329,500 thousand) at March 31, 2009 and ¥36,453 million at March 31, 2008, respectively, were included in "Investment securities" in the accompanying consolidated balance sheets.

7. Derivatives used for non-trading purposes

Net unrealized gains of derivatives used for non-trading purposes at March 31, 2009 and 2008 (excluding hedging transactions) consisted of the following:

	Millions of yen		
	Contract amount	Fair value	Unrealized gains
March 31, 2009:			
Forward exchange contracts	¥ 127	¥ 1	¥ 1
Interest rate swap agreements	40,000	(51)	(51)
Currency swap agreements	7,988	33	33
March 31, 2008:			
Forward exchange contracts	¥ 4,810	¥ 83	¥ 83
Currency swap agreements	14,181	31	31

	Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gains
March 31, 2009:			
Forward exchange contracts	$ 1,296	$ 10	$ 10
Interest rate swap agreements	408,163	(520)	(520)
Currency swap agreements	81,510	337	337

8. Pledged assets

Secured obligations at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Short-term borrowings	¥270,423	¥1,144,917	$2,759,418
Long-term debt	20	20	204
Payables related to margin transactions	3,852	8,618	39,306
	¥274,295	¥1,153,555	$2,798,928

Daiwa also has secured obligations for borrowings of non-consolidated subsidiaries amounting to ¥3,213 million ($32,786 thousand) at March 31, 2009.

All above obligations at March 31, 2009 and 2008 are secured by the following assets:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Loans receivable from other than customers	¥ –	¥ 34,721	$ –
Trading assets	423,145	1,165,097	4,317,806
Private equity and other investments	14	314	143
Investment securities	61,961	62,247	632,255
Other assets—Other	–	10,522	–
	¥485,120	¥1,272,901	$4,950,204

In addition to the above, securities borrowed amounting to ¥165,159 million ($1,685,296 thousand) and ¥609,273 million were pledged as guarantees at March 31, 2009 and 2008, respectively.

Total fair value of the securities pledged as collateral at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Securities loaned	¥4,448,294	¥6,782,109	$45,390,755
Other	1,263,998	1,287,930	12,897,939
	¥5,712,292	¥8,070,039	$58,288,694

Total fair value of the securities received as collateral at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Securities borrowed	¥5,761,635	¥7,542,741	$58,792,194
Other	388,890	466,116	3,968,265
	¥6,150,525	¥8,008,857	$62,760,459

9. Lease transactions

Assets used under finance leases other than the ones that transfer ownership to the lessee at the end of the lease term, which started before March 31, 2008, are accounted for in the same manner as ordinary rental transactions. Certain information concerning such non-capitalized finance leases and operating leases at March 31, 2009 and 2008 are summarized as follows:

Lessee:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Non-capitalized finance leases:			
Total assets under non-capitalized finance leases	¥ 2,106	¥ 4,052	$ 21,490
Accumulated depreciation	1,482	2,723	15,122
Future lease payments in respect of non-capitalized leases	636	1,371	6,490
Due within one year	230	651	2,347
Operating leases:			
Future lease payments in respect of operating leases	71,709	80,492	731,724
Due within one year	11,668	11,201	119,061

Lessor:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Operating leases:			
Future lease receipts in respect of operating leases	¥1,585	¥632	$16,173
Due within one year	444	237	4,531

10. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Cash received for customers' accounts	¥125,505	¥112,127	$1,280,663
Cash deposits received from customers	339,891	152,859	3,468,276
Other	26,730	498,307	272,755
	¥492,126	¥763,293	$5,021,694

11. 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. The bank has the right to offset cash deposited by the borrower 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. Such request has never been made and such right has never been exercised.

The weighted average interest rate on total outstanding short-term borrowings principally from banks at March 31, 2009 and 2008 was 0.60% and 0.78%, respectively.

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Bond payable in yen: 0.95% due CY2008	¥ –	¥ 120,000	$ –
Bond payable in yen: 1.30% due CY2011	70,000	70,000	714,286
Bond payable in yen: 1.80% due CY2011	50,000	50,000	510,204
Bond payable in yen: 1.65% due CY2011	78,000	–	795,918
Bond payable in yen: 1.50% due CY2012	50,000	50,000	510,204
Bond payable in yen: 1.43% due CY2013	60,000	60,000	612,245
Bond payable in yen: 1.66% due CY2013	70,000	–	714,286
Bond payable in yen: 2.08% due CY2016	30,000	30,000	306,122
Euro medium-term notes issued by the Company and a domestic consolidated subsidiary, maturing through CY2038	864,159	814,355	8,817,949
Subordinated borrowings from banks in yen, maturing through CY2014	105,000	70,000	1,071,429
Long-term borrowings principally from banks in yen, maturing through CY2038	149,670	142,045	1,527,245
Lease obligation	49	–	500
	¥1,526,878	¥1,406,400	$15,580,388

The amount for euro medium-term notes issued by the Company and a domestic consolidated subsidiary as of March 31, 2009 includes $97,350 thousand of foreign currency notes.

Interest rates of euro medium-term notes range from 0.45% to 4.24% at March 31, 2009 and from 0.50% to 5.07% at March 31, 2008. The weighted average interest rate on total outstanding yen subordinated borrowings and borrowings principally from banks at March 31, 2009 and 2008 was 1.70% and 1.49%, respectively. The weighted average interest rate on total outstanding lease obligations at March 31, 2009 was 5.05%.

The aggregate annual maturities of long-term debt as of March 31, 2009 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥ 28,441	$ 290,214
2011	116,562	1,189,408
2012	217,072	2,215,020
2013	178,646	1,822,918
2014	152,162	1,552,673
2015 and thereafter	833,995	8,510,155
	¥1,526,878	$15,580,388

Daiwa had an unused commitment line amounting to ¥99,794 million ($1,018,306 thousand) under agreements with several banks at March 31, 2009.

12. Retirement benefits

Retirement benefits for employees

Unfunded plan

Accumulated contribution plus interest to this unfunded plan are included in "Retirement benefits" in the consolidated balance sheets as of March 31, 2009 and 2008, in the amount of ¥23,569 million ($240,500 thousand) and ¥21,351 million, respectively. Benefit expenses recorded in the consolidated statements of income for the years ended March 31, 2009, 2008 and 2007 were ¥3,399 million ($34,684 thousand), ¥3,157 million and ¥3,305 million, respectively.

Closed funded plan

The effect on the consolidated financial statements was immaterial.

Retirement benefits for directors

Directors' retirement benefits in consolidated subsidiaries of ¥466 million ($4,755 thousand) and ¥439 million are included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2009 and 2008, respectively. Benefit expenses recorded in the consolidated statements of income for the years ended March 31, 2009, 2008 and 2007 were ¥193 million ($1,969 thousand), ¥205 million and ¥199 million, respectively.

13. Income taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes levied on income. The effective statutory tax rate in Japan was approximately 40.7% for the years ended March 31, 2009, 2008 and 2007. Overseas consolidated subsidiaries are subject to income taxes of the countries in which they operate.

A reconciliation of the difference between the Japanese statutory income tax rate and the effective income tax rate reflected in the consolidated statements of income for the years ended March 31, 2008 and 2007 are as follows:

	2008	2007
Japanese statutory income tax rate	40.7%	40.7%
Valuation allowance	12.4	(9.0)
Permanent difference (Non-deductible)	2.2	0.9
Permanent difference (Non-taxable)	(1.3)	(0.3)
Lower tax rate applicable to income of overseas consolidated subsidiaries	(0.5)	(1.0)
Adjustment of unrealized inter-company profit	(0.2)	5.2
Other, net	(3.6)	0.9
Effective income tax rate	49.7%	37.4%

Reconciliation of the difference between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2009 is not presented, since net loss is reported in the consolidated statements of income.

Details of deferred tax assets and liabilities at March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets:			
Net operating losses carry-forward	¥ 87,011	¥ 42,688	$ 887,868
Write-down of investment securities	17,022	13,738	173,695
Retirement benefits	10,420	8,990	106,327
Compensation and bonuses	2,888	4,938	29,469
Allowance for doubtful accounts	4,574	2,473	46,673
Impairment losses on fixed assets	6,980	7,582	71,224
Elimination of unrealized gain	6,517	7,333	66,500
Loss on private equity and other investments	40,671	8,975	415,010
Loss on trading	5,474	–	55,857
Other	12,928	16,357	131,918
Gross deferred tax assets	194,485	113,074	1,984,541
Less: Valuation allowance	130,725	72,281	1,333,929
Total deferred tax assets	63,760	40,793	650,612
Deferred tax liabilities	62,268	14,001	635,388
Net deferred tax assets	¥ 1,492	¥ 26,792	$ 15,224

The Company and certain consolidated subsidiaries provided valuation allowance to reflect the estimated unrealized amount of gross deferred tax assets. The valuation allowance was provided mainly against deferred tax assets recorded at the Company and Daiwa's domestic subsidiaries with tax loss carry-forwards. In assessing the realizability of deferred tax assets, management considers, as part of its scheduling exercise, factors such as expected taxable income, reversal of temporary differences and utilization of tax loss carry-forwards, and determines whether it is more likely than not that the assets are not realizable in which case the valuation allowance is provided.

14. Statutory reserves

The Financial Instruments and Exchange Act of Japan requires a securities company to set aside a reserve in proportion to its securities transactions and other related trading to cover future eventual operational losses caused by the securities company for customer transactions.

15. Contingent liabilities

Daiwa had contingent liabilities amounting to ¥3,038 million ($31,000 thousand) and ¥1,691 million at March 31, 2009 and 2008, respectively, mainly arising as guarantors of employees' borrowings.

16. Owners' equity

In principle, the Companies Act of Japan ("the Act") requires a company to credit the entire amount of issued shares to common stock (and preferred stock, if any); however, a company may classify an amount not exceeding one-half of the entire issued amount of shares as additional paid-in capital, which is included in capital surplus, with a resolution of the Board of Directors.

According to the Act, a company should set aside 10% of cash dividends and other cash appropriations as "Additional paid-in capital" or "Earned surplus" until the total becomes one quarter of the common stock (and preferred stock, if any). "Additional paid-in capital" and "Earned surplus" are allowed to be utilized to eliminate or reduce a deficit with a resolution of the shareholders' meeting or may be transferred to common stock with a resolution of the Board of Directors, and also may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. "Additional paid-in capital" and "Earned surplus" are included in "Capital surplus" and "Retained earnings" in the accompanying consolidated balance sheets.

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 Act. The total amount of retained earnings available for dividends in the Company's statutory book of accounts as of March 31, 2009 amounted to ¥214,598 million ($2,189,776 thousand).

Under Article 459-1 of the Act, the articles of incorporation of the Company stipulate that the Board of Directors is to determine dividends. Cash dividends of ¥5 ($0.05) per share amounting to ¥6,731 million ($68,684 thousand) and ¥3 ($0.03) per share amounting to ¥4,039 million ($41,214 thousand) were approved by the Board of Directors on May 19, 2009 and October 31, 2008, respectively.

17. Share-based payment

Daiwa has various stock option plans.

The shareholders of the Company approved granting stock options to directors and certain key employees on June 23, 2004. The plan provides for the issuance of up to 4,500 thousand shares in the form of options to directors and executive officers, and the amount paid in upon exercise of such subscription rights is ¥756 per share. The options may be exercised during the period from July 1, 2006 until August 31, 2011. On the same day, the shareholders' meeting of the Company approved a change in the articles of incorporation so that the Company may be entitled to repurchase its shares by the resolution of its Board of Directors.

The shareholders of the Company on June 24, 2005, June 24, 2006, June 23, 2007, June 21, 2008 and June 20, 2009 approved granting stock options. These options are categorized into two types depending on the scope of the individual persons covered by the plans and exercise conditions. The first is the stock subscription rights that were issued free to directors and executive officers of the Company, its subsidiaries and its affiliated companies, and the amount paid in upon exercise of such subscription rights is ¥1 per share. The second is the stock subscription rights that shall be issued to directors, executive officers and certain employees of the Company, its subsidiaries and its affiliated companies, excluding the persons to whom the first stock subscription rights were issued. The amount paid in upon exercise of such subscription rights shall be determined based on the market price of the Company's common stock at the time of the issuance of such subscription rights.

The date of approval at the shareholders' meeting, the balance of the exercisable options, exercise price and exercise period for the stock options of the Company at March 31, 2009 are as follows:

Date of approval at the shareholders' meeting	Balance of the exercisable options (The number of shares)	Exercise price (Yen/share (U.S. dollars/share))		Exercise period
June 23, 2004	1,535,000	¥ 756	($ 7.71)	from July 1, 2006 to August 31, 2011
June 24, 2005	499,000	¥ 1	($ 0.01)	from July 1, 2005 to June 30, 2025
	1,889,000	¥ 781	($ 7.97)	from July 1, 2007 to August 31, 2012
June 24, 2006	293,000	¥ 1	($ 0.01)	from July 1, 2006 to June 30, 2026
	–	¥1,515	($15.46)	from July 1, 2011 to June 23, 2016
June 23, 2007	306,000	¥ 1	($ 0.01)	from July 1, 2007 to June 30, 2027
	–	¥1,224	($12.49)	from July 1, 2012 to June 22, 2017
June 21, 2008	350,000	¥ 1	($ 0.01)	from July 1, 2008 to June 30, 2028
	–	¥ 917	($ 9.36)	from July 1, 2013 to June 20, 2018

DSC also has stock option plans. The date of approval at the shareholders' meeting, the balance of the exercisable options, exercise price and exercise period for such plans at March 31, 2009 are as follows:

Date of approval at the shareholders' meeting	Balance of the exercisable options (The number of shares)	Exercise price (Yen/share (U.S. dollars/share))		Exercise period
June 24, 2004	28,100	¥2,018	($20.59)	from July 1, 2006 to August 31, 2011
June 28, 2005	24,600	¥ 1	($ 0.01)	from December 1, 2005 to November 30, 2025
	26,700	¥4,263	($43.50)	from July 1, 2007 to August 31, 2012
June 27, 2006	3,100	¥ 1	($ 0.01)	from September 8, 2006 to September 7, 2026
	4,700	¥ 1	($ 0.01)	from September 8, 2006 to September 7, 2026
	–	¥4,303	($43.91)	from July 1, 2011 to June 26, 2016
June 26, 2007	6,700	¥ 1	($ 0.01)	from September 14, 2007 to June 26, 2027
	12,000	¥ 1	($ 0.01)	from September 14, 2007 to June 26, 2027
	–	¥1,713	($17.48)	from July 1, 2012 to June 25, 2017
June 24, 2008	14,400	¥ 1	($ 0.01)	from September 12, 2008 to September 11, 2028
	21,200	¥ 1	($ 0.01)	from September 12, 2008 to September 11, 2028
	–	¥ 992	($10.12)	from July 1, 2013 to June 23, 2018

DSC implemented a stock split on January 4, 2009. The above figures for the balance of the exercisable options and exercise price are reflected with an adjustment for the stock split.

18. 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%. The capital adequacy ratios of Daiwa Securities were 390.7% (unaudited) and 319.7% (unaudited) for March 31, 2009 and 2008, respectively, and those of Daiwa Securities SMBC were 343.9% (unaudited) and 307.6% (unaudited) for March 31, 2009 and 2008, respectively.

19. Segment information

Daiwa operates predominantly in a single industry segment. Daiwa's 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 years ended March 31, 2009, 2008 and 2007 and a summary of total assets by geographic area at March 31, 2009 and 2008 are as follows:

Millions of yen

	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended March 31, 2009:						
Net operating revenues:						
Outside customer	¥ 156,645	¥19,673	¥13,601	¥ 9,625	¥ –	¥ 199,544
Inter-segment	650	1,232	6,009	2,191	(10,082)	–
Total	157,295	20,905	19,610	11,816	(10,082)	199,544
Selling, general and administrative expenses	301,255	13,741	24,714	13,700	(10,140)	343,270
Operating income (loss)	¥(143,960)	¥ 7,164	¥ (5,104)	¥ (1,884)	¥ 58	¥(143,726)
At March 31, 2009:						
Total assets by geographic area	¥11,452,445	¥2,293,672	¥832,624	¥72,782	¥(468,944)	¥14,182,579
Year ended March 31, 2008:						
Net operating revenues:						
Outside customer	¥406,520	¥10,195	¥13,448	¥17,328	¥ –	¥447,491
Inter-segment	(5,997)	4,398	8,464	986	(7,851)	–
Total	400,523	14,593	21,912	18,314	(7,851)	447,491
Selling, general and administrative expenses	316,998	13,043	26,947	14,717	(7,846)	363,859
Operating income (loss)	¥ 83,525	¥ 1,550	¥ (5,035)	¥ 3,597	¥ (5)	¥ 83,632
At March 31, 2008:						
Total assets by geographic area	¥14,307,375	¥2,990,598	¥1,260,014	¥80,659	¥(1,331,527)	¥17,307,119
Year ended March 31, 2007:						
Net operating revenues:						
Outside customer	¥483,875	¥ 9,588	¥19,870	¥13,431	¥ –	¥526,764
Inter-segment	(8,701)	5,096	16,034	1,298	(13,727)	–
Total	475,174	14,684	35,904	14,729	(13,727)	526,764
Selling, general and administrative expenses	302,606	13,079	27,563	10,851	(13,726)	340,373
Operating income (loss)	¥172,568	¥ 1,605	¥ 8,341	¥ 3,878	¥ (1)	¥186,391

	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
						Thousands of U.S. dollars
Year ended March 31, 2009:						
Net operating revenues:						
Outside customer	$ 1,598,419	$200,745	$138,786	$ 98,214	$ –	$ 2,036,164
Inter-segment	6,633	12,571	61,316	22,357	(102,877)	–
Total	1,605,052	213,316	200,102	120,571	(102,877)	2,036,164
Selling, general and administrative expenses	3,074,031	140,214	252,184	139,795	(103,469)	3,502,755
Operating income (loss)	$(1,468,979)	$ 73,102	$ (52,082)	$ (19,224)	$ 592	$(1,466,591)
At March 31, 2009:						
Total assets by geographic area	$116,861,685	$23,404,817	$8,496,163	$742,673	$(4,785,143)	$144,720,195

Geographic overseas revenues for the years ended March 31, 2009, 2008 and 2007 are as follows:

	America	Europe	Asia & Oceania	Total
				Millions of yen
Year ended March 31, 2009:				
Overseas revenues	¥26,092	¥14,005	¥10,163	¥ 50,260
Net operating revenues				199,544
Percentage of net operating revenues	13.1%	7.0%	5.1%	25.2%
Year ended March 31, 2008:				
Overseas revenues	¥19,169	¥10,048	¥15,281	¥ 44,498
Net operating revenues				447,491
Percentage of net operating revenues	4.3%	2.2%	3.4%	9.9%
Year ended March 31, 2007:				
Overseas revenues	¥19,325	¥13,101	¥11,902	¥ 44,328
Net operating revenues				526,764
Percentage of net operating revenues	3.7%	2.5%	2.3%	8.4%

	America	Europe	Asia & Oceania	Total
				Thousands of U.S. dollars
Year ended March 31, 2009:				
Overseas revenues	$266,245	$142,908	$103,704	$ 512,857
Net operating revenues				2,036,164
Percentage of net operating revenues	13.1%	7.0%	5.1%	25.2%

20. Transactions with related parties

The information on a subsidiary's material transactions with related parties and individuals for the year ended March 31, 2009 and the resulting account balances with such related party at the balance sheet date are as follows:

Name of related company	Paid-in Capital Millions of yen	Voting rights for the related company	Description of transactions		Accounts balances	
						Millions of yen
						2009
Tokyo Tanshi Co., Ltd.	¥10,000	(Totan Holdings Co., Ltd. subsidiary)	Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	¥157,058
			Interest dividend income	¥ 4	Receivables—other	2
			Interest expense	16	Accrued and other liabilities—other	4
						Thousands of U.S. dollars
						2009
			Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	$1,602,633
			Interest dividend income	$ 41	Receivables—other	20
			Interest expense	163	Accrued and other liabilities—other	41

The Company has 17.43% of direct voting rights for Totan Holdings Co., Ltd., which is the parent company of Tokyo Tanshi Co., Ltd.

21. Special purpose entities subject to disclosure

Daiwa utilized 5 special purpose entities for the year ended March 31, 2009 (9 for year ended March 31, 2008) principally for the securitization of structured notes in order to support securitization of monetary assets of customers. Daiwa acquires and transfers bonds to those special purpose entities (incorporated in the Cayman Islands) and issues structured notes collateralized by those bonds. Daiwa does not own any shares with voting rights in any of these special purpose entities and has not dispatched any director or employee to them. Notes issued by those special purpose entities subject to disclosure as of the fiscal year ended March 31, 2009 and 2008 are ¥191,410 million ($1,953,163 thousand) and ¥237,302 million, respectively.

22. Commissions

Commissions derived from each department for the years ended March 31, 2009, 2008 and 2007 are as follows:

						Millions of yen
	Equity	Fixed income (Bond)	Asset management	Investment banking	Others	Total
Year ended March 31, 2009:						
Brokerage	¥54,809	¥364	¥ 555	¥ –	¥ –	¥ 55,728
Underwriting	–	–	–	20,965	–	20,965
Distribution	–	–	17,968	725	–	18,693
Other	1,593	627	78,478	13,225	19,572	113,495
	¥56,402	¥991	¥97,001	¥34,915	¥19,572	¥208,881

	Equity	Fixed income (Bond)	Asset management	Investment banking	Others	Total
						Millions of yen
Year ended March 31, 2008:						
Brokerage	¥82,487	¥ 925	¥ 464	¥ –	¥ –	¥ 83,876
Underwriting	–	–	–	25,470	–	25,470
Distribution	–	–	39,342	3,230	–	42,572
Other	2,106	1,208	96,571	18,851	23,771	142,507
	¥84,593	¥2,133	¥136,377	¥47,551	¥23,771	¥294,425
Year ended March 31, 2007:						
Brokerage	¥97,062	¥ 694	¥ 317	¥ –	¥ –	¥ 98,073
Underwriting	–	–	–	54,069	–	54,069
Distribution	–	–	37,210	1,310	–	38,520
Other	1,925	1,973	69,379	19,607	23,190	116,074
	¥98,987	¥2,667	¥106,906	¥74,986	¥23,190	¥306,736

	Equity	Fixed income (Bond)	Asset management	Investment banking	Others	Total
						Thousands of U.S. dollars
Year ended March 31, 2009:						
Brokerage	$559,276	$ 3,714	$ 5,663	$ –	$ –	$ 568,653
Underwriting	–	–	–	213,929	–	213,929
Distribution	–	–	183,347	7,398	–	190,745
Other	16,255	6,398	800,796	134,949	199,714	1,158,112
	$575,531	$10,112	$989,806	$356,276	$199,714	$2,131,439

23. Net gain on trading

Net gain on trading for the years ended March 31, 2009, 2008 and 2007 is as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Stock and other	¥(25,737)	¥ 11,020	¥ 31,288	$(262,622)
Bond, forex and other	66,658	92,341	126,045	680,183
	¥ 40,921	¥103,361	¥157,333	$ 417,561

24. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2009, 2008 and 2007 are summarized as follows:

			Millions of yen	Thousands of U.S. dollars
	2009	2008	2007	2009
Employees' compensation and benefits	¥141,600	¥156,662	¥163,379	$1,444,898
Commissions and brokerage	33,696	45,671	37,672	343,837
Communications	21,045	22,166	19,749	214,745
Occupancy and rental	43,704	38,759	38,846	445,959
Data processing and office supplies	30,157	29,878	23,021	307,724
Taxes other than income taxes	6,554	7,330	8,265	66,878
Depreciation and amortization	35,590	28,047	23,117	363,163
Other	30,924	35,346	26,324	315,551
	¥343,270	¥363,859	¥340,373	$3,502,755

25. Other income (expenses)

Details of "Other, net" in the accompanying consolidated statements of income for the years ended March 31, 2009, 2008 and 2007 are as follows:

			Millions of yen	Thousands of U.S. dollars
	2009	2008	2007	2009
Gains on sales of investment securities	¥ 2,330	¥ 3,228	¥ 3,602	$ 23,776
Losses on sales of investment securities	(60)	(205)	(363)	(612)
Write-down of investment securities	(24,812)	(8,263)	(736)	(253,184)
Gains or losses on sale or disposal of fixed assets	(1,430)	(1,415)	(1,395)	(14,592)
Equity in earnings of affiliates	(1,106)	1,738	1,424	(11,286)
Impairment losses on fixed assets	(452)	(537)	(2,975)	(4,612)
Relocation costs of headquarters	–	(1,354)	(4,681)	–
Other	1,862	5,179	5,222	19,000
	¥(23,668)	¥(1,629)	¥ 98	$(241,510)

The breakdown of impairment losses recognized in the years ended March 31, 2009, 2008 and 2007 are as follows:

			Millions of yen	Thousands of U.S. dollars
	2009	2008	2007	2009
Fixed assets to be held and used	¥452	¥537	¥2,975	$4,612

The book values of fixed assets to be held and used were reduced to their estimated recoverable amounts based on mainly the present values of expected cash flows using the discount rate of 2%.

26. Subsequent events

Granting stock options—The shareholders of the Company approved the issuance of stock subscription rights as stock options on June 20, 2009. In accordance with Articles 236, 238 and 239 of the Companies Act of Japan, the stock subscription rights were issued free to directors, executive officers and employees of the Company and its affiliated companies, and the amount paid in upon exercise of such subscription rights is ¥1 ($0.01) per share.

KPMG

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Daiwa Securities Group Inc. and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2009, expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2009, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 22, 2009