Financial Section

Management's Discussion & Analysis

Macroeconomic Conditions

Japan

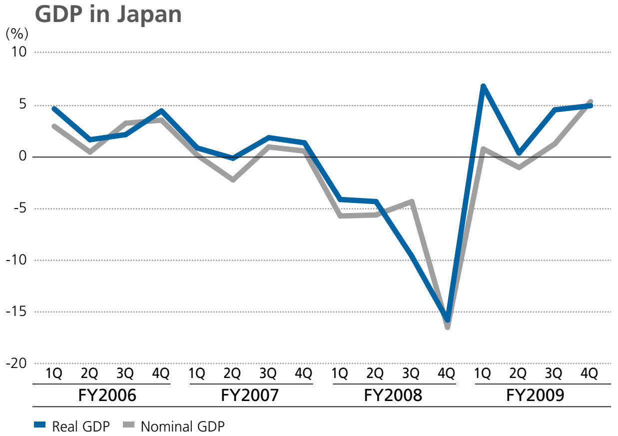
▶ **The economy heading toward recovery despite a persistent deflationary trend**

Japan's real economy continues to show signs of a recovery. This is largely attributable to the upswing in manufacturing industry production driven by increased export activity since March 2009. In April 2009, the government announced a large-scale ¥15.4 trillion economic stimulus package and took steps to alleviate anxiety throughout employment markets by implementing such policies as an employment adjustment subsidy. Measures aimed at stimulating increased use of fuel-efficient vehicles as well as environmentally friendly home electronic appliances have also given momentum to inventory adjustments and an upswing in production in the manufacturing sector while contributing to improved consumer sentiment and personal consumption. For the first time in two years a half years, the Bank of Japan's Tankan survey found an improvement in corporate-sector business conditions in June 2009.

Following an election for the House of Representatives at the end of August 2009, a coalition government comprising the Democratic Party of Japan, the Social Democratic Party, and the People's New Party was formed. Taking immediate steps to overhaul the economic measures announced by the previous administration in April 2009, the new government has placed greater emphasis on reducing public investment while providing benefits to the household economy. Against this backdrop, the value of the yen appreciated approximately 12% from the end of March 2009 to the end of November 2009. This gave rise to concerns over the downward pressure placed on exports. Combined with forecast cuts to public spending, fears began to emerge from the market concerning a double-dip recession. In response, the government newly announced additional national expenditures of up to ¥7.2 trillion in December 2009. Recognizing that the successive implementation of pump-priming measures coupled with substantially lower tax revenues would cause the budget deficit to swell, the new administration adopted several initiatives in drawing up its FY2010 budget. With the equally important goal of curtailing the issue of new government bonds, the government introduced a screening process undertaken by the Government Revitalization Unit to identify and eliminate waste in public spending and proposed the reversal of funds deposited in the special account for government loan and investment programs as well as surplus funds from the foreign exchange special account, which are in some circles referred to collectively as "Kasumigaseki's buried treasure." Moreover, in an effort to break free from an overdependence on fiscal measures and to clarify its policy direction, the government drew up its "New Growth Strategy (Basic Policies)" at the end of December 2009. This strategy aims to create new demand and employment opportunities. In addition to the policy initiatives implemented to date that focused on stimulating domestic consumption by supporting the household economy, steps are now being taken to cast a keen eye over external demand and to harness the benefits to accrue from growth in Asia. In the same month, the Bank of Japan also shared with the government its understanding and stance toward deflation and strengthened steps toward further easing monetary conditions as a part of its policy coordination endeavors. Soon after, the Bank of Japan introduced additional monetary steps in March 2010.

Looking at market sentiment over this period, the Bank of Japan's Tankan survey in September 2009 identified continued improvement in the business confidence index particularly among major manufacturers. The survey in December 2009 indicated that this positive

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

sentiment had spread to small and medium enterprises (SMEs), a trend that became more pronounced in the March 2010 survey. Buoyed by the implementation of both fiscal and monetary measures as well as the momentum provided by high rates of economic growth in emerging countries, the global economy has continued to improve. As a result, the Japanese economy has continued to experience a steady upswing despite confronting a variety of risks.

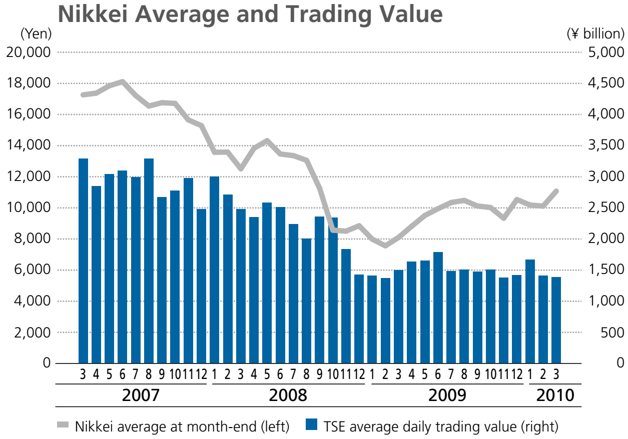
In the meantime, economic recovery remains stalled at an inadequate level, with the relaxation in supply and demand contributing to the persistent deflationary trend. Under these circumstances, and with the high rates of economic growth in emerging countries driving up commodity prices including crude oil, Japan's corporate sector is faced with the dilemma of deflationary conditions impacting its sales activities and inflation affecting its procurement activities. Taking these factors into account, there are concerns that future earnings may decline. After an extended period of contraction, the market is finally seeing signs of improved performance in the corporate sector and a positive upswing in capital expenditure and new employment. In this context, the question confronting the Japanese economy is its ability to realize a sustained recovery.

Overseas Markets

▶ The global economy entering a growth trajectory led by emerging countries

In September 2008, Lehman Brothers—at the time one of the largest investment banks in the US—declared bankruptcy, triggering sharp and rapid deterioration in the global economy. After reaching its lowest point during the January–March 2009 quarter, the economy has continued to improve. Under these circumstances and against the backdrop of a global recession, all countries were called to make a coordinated effort with respect to policy initiatives in response to the crisis. In addition to the reduction in interest rates implemented by the central banks of most countries and the provision of large-scale liquidity, the governments around the world took steps to support the banking system through guarantees and the injection of public funds. Thanks to these measures, the excessively tight credit conditions that placed downward pressure on the real economy—which included cutbacks in bank lending, the difficulties in procuring funds from the market that plagued leading industrialized countries, and the withdrawal of foreign capital from emerging nations—were gradually relieved. Furthermore, the results of stress tests in the US announced in May 2009 helped in part to offset some of the misgivings about the stability of the banking system. This in turn served to check further escalation of the financial crisis. From a real economy perspective, the unprecedented scale and speed at which various nations pushed forward fiscal measures designed to stimulate demand also served to ignite a recovery worldwide. In addition to the restocking of inventories in the manufacturing industry, benefits that continue to accrue within the private and other sectors include an increase in production volumes, a bottoming out in the drop in consumer sentiment and retail sales as well as positive corrections in residential market prices. In the October–December 2009 quarter, real GDP growth rates in the leading industrialized countries of the US, Japan, Germany, and France remained positive year on year. After an extended period of seven consecutive quarters, the real GDP growth rate in the UK returned to the black. For their part, emerging countries beginning with those in the Asia region continue to enjoy positive growth. In relative terms, emerging economies shoulder a lighter burden with respect to excessive debt in the household sector when compared with most industrialized countries. As a result, the benefits of economic stimulus packages manifest themselves more easily. This has

Nikkei Average and Trading Value



Source: Tokyo Stock Exchange, Daiwa Institute of Research contributed to a virtuous cycle where high rates of economic growth prompt capital inflows from leading developed countries which in turn underpin a robust recovery. In this manner, emerging countries are serving as the driving force that propels the global economy along its growth trajectory.

▶ **Concerns about the financial crisis in Euro zone countries, most notably in Greece**

Meanwhile, as the downside risks that have been associated with economic growth gradually dissipate, the collateral effects of continuing large-scale pump-priming measures have come under closer scrutiny. With the prolonged implementation of economic measures, the potential for inflation rises due to excess liquidity, and an increase in long-term interest rates reflecting deterioration in public finances. For these and other reasons, the Board of Governors of the Federal Reserve System in the US completed the purchase of Treasury securities in October 2009. In the same month, the Reserve Bank of Australia was the first central bank among G-20 countries to lift interest rates. This move to raise interest rates was followed in quick succession by Norway in December 2009 and India in March 2010. Entering 2010, even China took steps to ensure its economy did not overheat. In addition to increasing the reserve ratio (the proportion of deposits that banks must set aside as reserves) on consecutive occasions, efforts were made to contain the level of new lending and to substantially lower the pace of public investment increase contained in the national budget compared with the previous year. In this manner, the governments of various nations have begun to consider ways of withdrawing from those large-scale economic stimulus packages that emerging countries and resource-rich nations were quick to implement in response to the simultaneous slowdown in the world economy.

Amid all this, fiscal crises surfaced among certain of the smaller states within the Euro zone, most notably in Greece. Under a single currency and financial policy, the economies of less competitive countries are more susceptible to the downward pressures of fluctuations in foreign currency exchange rates as well as the burdens of excessive fiscal measures. These issues erupted following the global recession. While an agreement was reached to provide Greece with financial support at the European Union leaders' summit held in March 2010, concerns continue to mount over the impact on the global economy of a substantial depreciation in the value of the euro as well as the shift to austere fiscal measures throughout the Euro zone.

Analysis of Business and Financial Conditions

Overview

▶ **Return to profit in line with improvements in the operating environment**

Having emerged from a global-scale crisis, expectations of an economic recovery grew throughout FY2009. As share prices improved, the Nikkei 225 stock average surpassed the ¥10,000 benchmark in June 2009, after a hiatus of around eight months. Thereafter, promise of a recovery in corporate-sector performance and historic highs recorded in overseas stock markets provided the momentum for bullish share prices. In the latter half of the year, however, moves to tighten financial regulations and growing uncertainty surrounding the future of the US economy, which led to an appreciation in the value of the yen and a downturn in the value of the US dollar, saw shares prices fall back into a downward trend. Entering the New Year, improvements in key economic indicators in both the US and China again served to drive up share prices. Mounting anxiety toward the fiscal state of Greece, on the other hand, caused markets to fluctuate wildly. On a year-on-year basis, the Nikkei 225 stock average as of March 31, 2010 climbed 37% from ¥8,109 to close at ¥11,089. On the domestic front, the equity finance of established public companies increased substantially. Under the backdrop of this business environment, the Group's performance for the full fiscal year under review was robust. Net operating revenues totaled ¥458.1 billion, ordinary income improved to ¥102.9 billion, and the Group posted a net income of ¥43.4 billion. Total dividends for the year were increased to ¥13 per share (including an interim dividend of ¥5).

Analysis of Income Statements

Net Operating Revenues

▶ **Increase in overall revenue lines**

Net operating revenues surged 129.6% year on year in FY2009, to ¥458.1 billion. Of this total, revenues from commissions climbed 21.1%, to ¥252.8 billion. The Group experienced significant improvement in its investment banking activities due largely to the upswing in capital procurement demand and its role as co-lead manager in several large-scale underwriting deals. Revenues from the Group's asset management activities were also robust on the back of brisk sales of new distribution investment trusts. As financial markets returned to normal and the operating environment recovered, net gain on trading jumped 171.1% year on year, to ¥110.9 billion. Net gain (loss) on private equity and other investments returned to the black, mainly due to the capital gain from applications to a tender offer by Sanyo Electric Co., Ltd.

Breakdown of Net Operating Revenues

Millions of yen

	FY2008	FY2009	Yoy	FY2009 1Q	2Q	3Q	4Q
Commissions	¥208,881	¥252,863	21.1%	¥ 70,514	¥58,008	¥ 67,256	¥57,083
Net gain on trading	40,921	110,955	171.1%	34,712	28,536	7,754	39,951
Net gain (loss) on private equity and other investments	(79,478)	75,584	–	(1,567)	(4,463)	86,532	(4,917)
Net financial income	16,629	7,070	–57.5%	1,307	2,451	1,362	1,948
Others	12,590	11,632	–7.6%	2,397	2,604	2,603	4,027
Net operating revenues	¥199,544	¥458,105	129.6%	¥107,364	¥87,137	¥165,509	¥98,094

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

Breakdown of Commissions by Product and Business Sector

▶ **An increase in the amount of equity financing underwriting generated positive contributions**

Breaking down revenues from commissions by sector, equity commissions were essentially unchanged from the previous fiscal year at ¥56.3 billion. Despite a contraction in the average daily trading value on the Tokyo Stock Exchange during FY2009 of 23.5%, to ¥1,553.5 billion, the Group successfully expanded its market share.

Asset management commissions were up 11.6% year on year, to ¥108.2 billion. In FY2009, management fee income from equity investment trusts declined in line with a drop in the average balance of net assets under management. This was more than offset, however, by the increase in total distribution commissions from launched investment trusts covering emerging countries.

The investment banking commissions surged 102.3% year on year, in FY2009, to ¥70.6 billion. In the fiscal year under review, the Company served as either co-lead or lead manager for a large number of underwriting deals. As a result, the amount of equity underwriting increased substantially. Buoyed also by robust activity with respect to the issuance of straight bonds, the Company experienced a dramatic rise in underwriting commissions.

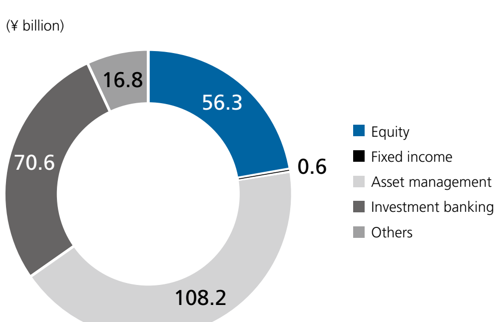
Breakdown of Commissions

Millions of yen

	FY2008	FY2009	Yoy	FY2009 1Q	2Q	3Q	4Q
Equity	¥56,402	¥ 56,388	–0.0%	¥15,647	¥14,524	¥12,713	¥13,681
Fixed income	991	698	–29.6%	160	167	186	183
Asset management	97,001	108,266	11.6%	24,120	27,123	29,462	27,558
Investment banking	34,915	70,648	102.3%	26,612	11,886	20,433	11,715
Others	19,572	16,863	–13.8%	4,153	4,306	4,459	3,943

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

Breakdown of Commissions



Net Gain (Loss) on Trading

▶ Substantial year-on-year recovery in both equity and bond trading

Net gain (loss) on 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, revenues jumped 92.9% year on year, to ¥40.5 billion, due largely to such factors as the increase in stock trading value on the back of improvements in the market environment.

In the bond trading division, results were fueled by substantial bond-trading activity in the wholesale credit field. This was complemented by the robust retail trade of foreign currency-denominated bonds. Taking the aforementioned into account, overall revenues from bond trading climbed 109.1% year on year to reach ¥80.5 billion in FY2009.

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

Billions of yen

				FY2009			
	FY2008	FY2009	Yoy	1Q	2Q	3Q	4Q
Equity	¥21.0	¥ 40.5	92.9%	¥16.5	¥ 6.0	¥10.0	¥ 8.0
Bond	38.5	80.5	109.1%	21.0	26.0	0.5	33.0
Total	¥59.5	¥121.0	103.4%	¥37.5	¥32.0	¥10.5	¥41.0

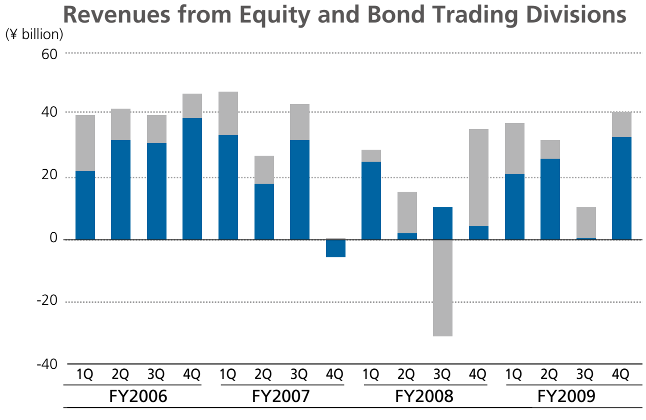
Note: Revenues from equity and bond trading divisions have not been audited by an independent auditor

Selling, General and Administrative (SG&A) Expenses

▶ Decrease in commission and other expenses against an increase in personnel expenses

Total SG&A expenses for FY2009 increased 5.7% year on year, to ¥362.8 billion. Commission and other expenses declined 6.4% year on year, to ¥61.7 billion, owing largely to cutbacks in advertising expenditure. Following a review of system work outsourced, data processing and office supplies contracted 14.8%, year on year, to ¥25.6 billion. Personnel expenses, on the other hand, rose 20.0% year on year, to ¥169.9 billion, reflecting an increase in the provision for earnings-linked bonus payments. Continued IT investments also generated a 9.9% year-on-year rise in depreciation, to ¥39.1 billion.

Revenues from Equity and Bond Trading Divisions



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

Ordinary Income and Net Income

▶ Year-on-year turnaround from a loss to a profit

The ordinary income account registered a profit of ¥102.9 billion in FY2009 compared with a loss in FY2008. In the fiscal year under review, extraordinary gains including gains on sales of investment securities totaling ¥0.8 billion were posted. After accounting for such extraordinary losses as write-down of investment securities amounting to ¥3.3 billion, impairment losses on fixed assets including employee dormitories of ¥1.4 billion, and losses on sale or disposal of fixed assets totaling ¥1.0 billion, the Company incurred a net extraordinary loss of ¥5.5 billion. Furthermore, in incorporating the impact of income taxes and minority interests, net income for FY2009 was ¥43.4 billion.

Ordinary Income and Net Income

Millions of yen

				FY2009			
	FY2008	FY2009	Yoy	1Q	2Q	3Q	4Q
Ordinary income (loss)	¥(141,150)	¥102,917	–	¥22,827	¥2,037	¥67,891	¥10,160
Net income (loss)	(85,039)	43,429	–	17,870	1,991	26,366	(2,798)

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

Earnings Trends at Major Group Companies

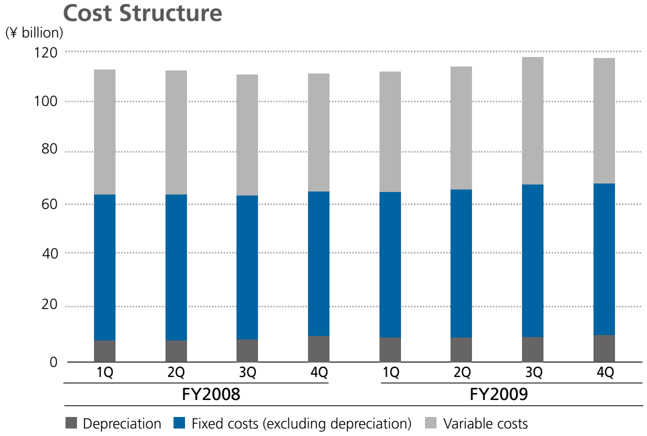
▶ Retail business was robust backed by strong stock subscriptions and sales of equity investment trusts

Daiwa Securities Co. Ltd., which operates the retail business, saw operating revenues climb 21.0% year on year, to ¥193.5 billion, and ordinary income jump 119.9%, to ¥40.4 billion. Equity brokerage commissions edged up 1.6% year on year, to ¥32.4 billion, while distribution commissions rose sharply from ¥1.8 billion in FY2008 to ¥18.4 billion in FY2009. This was mainly attributable to the upswing in equity finance. Investment trust distribution commissions increased 84.5% year on year, to ¥31.7 billion, largely reflecting strong sales of monthly-dividened-payment-type funds that invest in foreign currency-denominated bonds and of launched investment trusts that cover emerging countries. Within other commissions, commissions received from investment trusts, which primarily comprise agency commissions generated from investment trusts, contracted 10.9% year on year, to ¥31.6 billion, due to a decline in the average balance of assets under management in investment trusts compared with FY2008. Buoyed by higher trading activity, the number of Daiwa FX accounts (FX margin trading) stood at 39,000 as of March 31, 2010.

▶ Wholesale operations were bolstered by an increase in underwriting activities and the gain on sale of Sanyo Electric Co., Ltd. shares

On a consolidated basis, including the operations of overseas subsidiaries, Daiwa Securities Capital Markets Co., Ltd., which operates the wholesale business, experienced a massive jump of 515.8% in operating revenues, to ¥280.2 billion. From a profit perspective, the company

Cost Structure



returned to the black, posting ordinary income of ¥68.7 billion. In line with the increase in equity finance, underwriting and distribution results were robust. As a result, earnings improved dramatically with commissions rising 75.8% year on year, to ¥98.9 billion. Supported by financial markets that are returning to normal, which is in turn triggering a positive turnaround in the earnings environment, trading results were brought back into the black at ¥59.4 billion. Buoyed by the gain on sales of Sanyo Electric Co., Ltd. shares, following subscriptions to a public tender, net gain on private equity and other investments rose sharply year on year to ¥89.8 billion.

Earnings Trends at Major Group Companies

Millions of yen

	Daiwa Securities		Daiwa Securities Capital Markets (consolidated)		Daiwa Asset Management	
	FY2008	FY2009	FY2008	FY2009	FY2008	FY2009
Operating revenues	¥159,883	¥193,532	¥ 45,514	¥280,256	¥68,157	¥63,795
Ordinary income (loss)	18,396	40,454	(167,468)	68,754	11,613	9,929
Net income (loss)	9,882	23,229	(144,958)	51,060	6,513	5,920

Millions of yen

	Daiwa Institute of Research*1 (Total of 3 companies)		Daiwa SB Investments		Daiwa SMBC Capital*2	
	FY2008	FY2009	FY2008	FY2009	FY2008	FY2009
Ordinary income (loss)	¥9,140	¥7,901	¥2,984	¥3,189	¥(5,895)	¥(6,952)

Notes: Group company results have not been audited by an independent auditor.
*1 Figures reflect the sum of earnings from Daiwa Institute of Research Holdings, Daiwa Institute of Research, and Daiwa Institute of Research Business Innovation.
*2 Daiwa SMBC Capital changed company name to Daiwa Corporate Investment on July 1, 2010.

▶ Asset management activities impacted by a decline in the average balance of net assets under management

Daiwa Asset Management Co., Ltd., which operates the Group's asset management business, witnessed its ordinary income decline 14.5%, to ¥9.9 billion. This was primarily attributable to the impact of a year-on-year drop in the average balance of investment trust net assets under management on management fees, which contracted 6.5% compared with FY2008.

Combined ordinary income of the three companies that comprise the Daiwa Institute of Research Group decreased 13.6% year on year, to ¥7.9 billion. This was due mainly to the drop in systems commission earnings. Daiwa SMBC Capital Co., Ltd. incurred an ordinary loss of ¥6.9 billion owing largely to its posting provisions for investment losses with respect to private equity and other investments. In contrast, ordinary income at the Group's equity-method affiliate, Daiwa SB Investments Ltd., increased 6.9% year on year, to ¥3.1 billion.

Overseas Operations

▶ Earnings recovery in Europe, Asia, and Oceania against a slowdown across the Americas

In the Americas, the investment banking business was healthy. The bond business, on the other hand, slowed after robust activity in the previous fiscal year. Taking into account the drop in net financial income, ordinary income in the Americas declined 64.5% year on year, to ¥1.7 billion. Despite the increase in SG&A expenses, the ordinary income in Europe showed a profit of ¥1.9 billion in FY 2009 after incurring an ordinary loss in the previous fiscal year. This was mainly attributable to solid results in investment banking activities and the net gain on bond trading. The Asia and Oceania regions returned to the black recording a combined ordinary income of ¥60 million. SG&A expenses rose in the regions, but it was offset by an increase in equity brokerage commissions.

Based on the aforementioned, overseas operations as a whole, the total ordinary income was ¥3.7 billion.

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

Millions of yen

	FY2008	FY2009
America	¥4,806	¥1,707
Europe	(4,898)	1,984
Asia & Oceania	(1,553)	60
Total	¥(1,645)	¥3,752

Analysis of Balance Sheets and Cash Flow

Assets

▶ The balance of trading products and securities-collateralized loans increased

Total assets as of March 31, 2010 for the Group stood at ¥17,155.3 billion, an increase of ¥2,972.7 billion year on year. Current assets rose ¥2,959.2 billion, to ¥16,636.2 billion. Of this total, "trading assets" accounted for ¥7,654.3 billion, a year-on-year increase of ¥1,450.5 billion. Collateralized short-term financing agreements amounted to ¥7,067.4 billion, up ¥1,653.8 billion. The balance of fixed assets edged up ¥13.4 billion year on year, to ¥519.0 billion.

Liabilities

▶ Short-term borrowings increased

Total liabilities climbed ¥2,907.5 billion year on year, to ¥16,137.8 billion as of March 31, 2010. The balance of current liabilities stood at ¥14,475.4 billion, up ¥2,777.7 billion compared with the end of the previous fiscal year. Main components were trading liabilities, which increased ¥116.1 billion to ¥4,925.2 billion, collateralized short-term financing agreements, which fell ¥1,007.0 billion to ¥3,886.2 billion, and short-term borrowings, which grew ¥3,399.3 billion to ¥4,335.4 billion. The balance of long-term liabilities stood at ¥1,658.4 billion as of March 31, 2010, up ¥130.3 billion year on year. Of this total, straight corporate bonds contracted ¥33.8 billion, to ¥1,226.7 billion, while long-term borrowings accounted for ¥378.3 billion, an increase of ¥140.4 billion.

Net Assets

▶ Equity increased as a result of the issuance of new shares while minority interests decreased due to the acquisition of equity securities of consolidated subsidiaries

Total net assets stood at ¥1,017.5 billion as of March 31, 2010, an increase of ¥65.1 billion compared with the previous fiscal year-end. Taking into account the issuance of new shares as well as the disposition of treasury stocks, common stock and capital surplus climbed ¥69.0 billion and ¥72.9 billion, respectively. As a result, the combined balance of common stock and capital surplus stood at ¥477.9 billion, an increase of ¥141.9 billion. Major movements in retained earnings included net income of ¥43.4 billion and the payment of ¥12.7 billion in dividends. On this basis, the balance of retained earnings as of the end of FY2009 stood at ¥452.4 billion, up ¥30.6 billion year on year. Treasury stock at cost was ¥0.6 billion. This was ¥60.8 billion lower than the end of FY2008 due to the disposition of treasury stock. Net unrealized gain on securities, net of tax effect fell ¥31.3 billion, to ¥20.3 billion. Minority interests decreased ¥142.5 billion year on year, to ¥87.1 billion, reflecting the additional acquisition of equity securities of consolidated subsidiaries.

Cash Flows

▶ Cash inflows from short-term borrowings offset cash outflows from movements in collateralized short-term financing agreements

Cash flows from operating activities showed a net outflow of ¥3,259.9 billion for FY2009. The major cash inflow from operating activities was income before income taxes and minority interests of ¥97.3 billion. This was more than offset by principal cash outflows including changes in trading assets and liabilities of ¥979.9 billion and changes in collateralized short-term financing agreements of ¥2,628.4 billion. Cash flows from investing activities showed a net outflow of ¥237.4 billion. The major component was payments for purchases of investment securities. Cash flows from financing activities showed a net inflow of ¥3,837.2 billion. In FY2009, the Company undertook an increase in short-term borrowings and commercial paper totaling ¥3,422.7 billion. After deducting the effect of foreign exchange rate changes on cash and cash equivalents, cash and cash equivalents at end of FY2009 stood at ¥753.9 billion, an increase of ¥338.3 billion year on year.

Cash Flows

Millions of yen

	FY2008	FY2009
Cash flows from operating activities	¥1,519,387	¥(3,259,900)
Cash flows from investing activities	9,437	(237,499)
Cash flows from financing activities	(1,459,438)	3,837,205
Cash and cash equivalents at end of fiscal year	¥ 415,600	¥ 753,982

Capital Investments

The Group has been making capital investments aimed at both providing greater convenience to clients and bolstering business competitive prowess. During FY 2009, the Group undertook IT-related investments totaling ¥36.4 billion. Among a host of initiatives, this expenditure was directed toward upgrading and expanding online trading products and services as well as introducing a next-generation stock trading system developed by the Tokyo Stock Exchange. In the fiscal year under review, Daiwa Securities Co., Ltd. also newly opened Fuchu, Tokorozawa-ekimae, and Sagamihara branch offices while consolidating the Mitaka and Kichijoji branch offices.

Capital Procurement Conditions

During FY2009, Daiwa Securities Group Inc., through a public offering on July 15, 2009 and a third-party allotment on August 11, 2009, issued 302,635,000 ordinary shares with a total value of ¥149.7 billion and 42,000,000 ordinary shares with a total value of ¥20.7 billion, respectively. The Company made a secondary distribution of 57,865,000 ordinary shares with a total value of ¥28.6 billion through a disposition of treasury stocks.

The Company issued Euro-Australian dollar-denominated bonds totaling AUD$236 million (with a payment date of January 27, 2010) and Euro-New Zealand dollar-denominated bonds of NZ$504 million (with a payment date of January 27, 2010).

Daiwa Securities Capital Markets Co., Ltd. issued its 1st series of yen-denominated unsecured straight bonds totaling ¥30 billion (with a payment date of July 24, 2009), Nikkei 225 linked yen-denominated callable bonds due February 22, 2013 (“Knock in 50”) totaling ¥13,473 million (with a payment date of February 22, 2010), and dual currency-denominated bonds (Yen / Australian dollar) with the provision to mature in yen and due on August 26, 2010 totaling ¥7,641 million (with a payment date of February 26, 2010).

Liquidity

Seeking to maintain both financial efficiency and stability

The Daiwa Securities Group’s basic policy for financing is to effectively secure enough liquidity for continuing business, as the Group maintains a very large balance of both financial assets and liabilities, mainly in relation to its securities trading and related businesses.

The Group’s methods of fund procurement include unsecured means, such as the issuance of straight corporate bonds, medium-term notes, loans from other financial institutions, commercial paper, and call money. They also include such secured means as gensaki trading (repurchase agreements) and repo operations. Through the optimal combination of these methods, the Group is engaging in the efficient and stable fund procurement.

In order to ensure financial stability and prevent fluctuations in the market from affecting the continuation of our business activities, the Group is constantly striving to secure the stability of fund procurement. From the latter half of FY2008, the Group has been accumulating liquidity through the market as well as loans from financial institutions, in preparation for unforeseen events such as those caused by financial crises or credit crunches. Additionally, as it can be anticipated that such crises may make it difficult to reacquire capital from new and existing sources, the repayment periods of procured capital are staggered.

Further, the Group has established policies to manage liquidity. In order to ensure the ability to procure short-term unsecured capital, the Group maintains a liquidity portfolio consisting of cash, deposits, government bonds, and other highly liquid instruments as well as a supplementary-liquidity portfolio consisting of relatively liquid instruments.

Details of unsecured short-term capital procured by the Group and its liquidity portfolio as of March 31, 2010 are presented briefly as follows.

Unsecured Capital Procurement Conditions and Liquidity Portfolio at the Group (As of March 31, 2010)

			(Billions of yen)
	Short-term borrowings from banks and other financial institutions		¥ 313
	Other short-term borrowings		455
	Commercial paper		351
	Current portion of bonds		118
Short-term unsecured capital procurement			1,239
		Cash and day-to-day call loans	699
		Government bonds, government-backed bonds, other	111
	Liquidity portfolio		810
		Other bonds	1,014
		Publicly listed shares, other	367
		Other	162
	Supplementary-liquidity portfolio		1,544
Liquidity portfolio and other total			¥2,355

At the end of FY2009, the value of the liquidity portfolio totaled ¥810.9 billion. The total of the liquidity portfolio and the supplementary-liquidity portfolio was ¥2,355.4 billion, which is equivalent to 190.1% of total short-term unsecured capital at the end of FY2009.

Group-wide Liquidity Management

Daiwa Securities Group Inc. collectively manages and monitors the liquidity of the entire Group under the basic policy of securing an appropriate level of Group liquidity. Taking into consideration the potential for a crisis to arise that would jeopardize the Group’s ability to procure new capital and to reschedule existing debt, the Company monitors whether the Group maintains a sufficient and adequate liquidity portfolio to cover its unsecured short-term capital procured. In this regard, the Company maintains a structure and system to flexibly supply and allocate capital to Group companies as and when required. Accordingly, an integrated structure and system is employed to ensure the efficient procurement and management of capital.

Nevertheless, each domestic and foreign subsidiary engaged in the securities business (Daiwa Securities Co., Ltd., Daiwa Securities Capital Markets Co., Ltd., Daiwa Corporate Investment Co., Ltd., and other Group companies) under the basic policy of the Group, procures capital in its own right in accordance with its own business characteristics and attributes and maintains a liquidity portfolio essential for continuing business. A structure and system is in place for the status of capital procured and liquidity portfolio maintained by each domestic and foreign subsidiary to be reported to the Company.

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, thereby making it difficult to obtain capital through short-term unsecured borrowing, steps are taken to ensure ample liquidity.

Daiwa Securities Capital Markets Co., Ltd. raises substantial amounts of capital for the purpose of holding liquid assets mainly as a part of its trading position activities. Accordingly, its contingency plan is the most important for the Group. In its efforts to address periods of crisis, and particularly when financial markets are in turmoil, Daiwa Securities Capital Markets Co., Ltd. revises every six months its contingency plan, which includes its foreign subsidiaries, consequently establishing conditions to be applied and action plans for each contingency and environment. In this context, measures are in place to procure capital with government bonds, corporate bonds and other securities as a collateral, and to sell highly negotiable securities as required.

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

To better prepare for emergency situations, the Group has also concluded commitment line agreements with several financial institutions. The unused balance under existing commitment line agreements stood at ¥109.3 billion as of March 31, 2010.

Credit Ratings by Major Credit Rating Agencies

Daiwa Securities Group Inc., Daiwa Securities Co. Ltd., and Daiwa Securities Capital Markets 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 the 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 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 have been assigned credit ratings by leading agencies. These Group companies include Daiwa Securities Group Inc., Daiwa Securities Co. Ltd., and Daiwa Securities Capital Markets Co. Ltd. As of June 10, 2010, the credit ratings assigned to these Group companies were as follows:

Daiwa Securities Group Inc.

Credit ratings agencies	Long-term	Short-term
Moody's Investors Service	Baa2	–
Standard & Poor's	BBB	A-2
Rating and Investment Information (R&I)	A	a-1
Japan Credit Rating Agency (JCR)	A+	–

Daiwa Securities

Credit ratings agencies	Long-term	Short-term
Moody's Investors Service	Baa1	P-2
Standard & Poor's	BBB+	A-2
Rating and Investment Information (R&I)	A	–
Japan Credit Rating Agency (JCR)	A+	–

Daiwa Securities Capital Markets

Credit ratings agencies	Long-term	Short-term
Moody's Investors Service	Baa1	P-2
Standard & Poor's	BBB+	A-2
Fitch Ratings	A-	F2
Rating and Investment Information (R&I)	A	a-1

Consolidated Balance Sheets DAIWA SECURITIES GROUP INC.

March 31, 2010 and 2009

ASSETS	Millions of yen 2010	2009	Thousands of U.S. dollars (Note 1) 2010
Cash and cash deposits:			
Cash and cash equivalents (Note 7)	¥ 753,982	¥ 415,600	$ 8,107,333
Cash segregated as deposits for regulatory purposes	291,104	214,455	3,130,151
Time deposits	75,197	9,109	808,570
	1,120,283	639,164	12,046,054
Receivables:			
Loans receivable from customers	66,759	69,593	717,839
Loans receivable from other than customers	19,789	9,146	212,785
Receivables related to margin transactions (Note 3)	185,879	248,059	1,998,699
Other	190,533	352,530	2,048,742
Less: Allowance for doubtful accounts	433	233	4,656
	462,527	679,095	4,973,409
Collateralized short-term financing agreements (Note 4)	7,067,400	5,413,526	75,993,548
Trading and private equity investments			
Trading assets (Notes 6 and 9)	7,654,334	6,203,742	82,304,667
Private equity and other investments (Notes 7 and 9)	218,841	515,770	2,353,129
	7,873,175	6,719,512	84,657,796
Trade account receivables, net	–	143,309	–
Other assets:			
Property and equipment, at cost	256,157	254,962	2,754,376
Less: Accumulated depreciation	113,711	104,760	1,222,699
	142,446	150,202	1,531,677
Intangible fixed assets	121,579	110,829	1,307,302
Investment securities (Notes 7 and 9)	246,772	201,804	2,653,462
Deferred tax assets (Note 14)	36,151	20,113	388,720
Other	87,686	112,119	942,861
Less: Allowance for doubtful accounts	2,674	7,094	28,753
	631,960	587,973	6,795,269
	¥17,155,345	¥14,182,579	$184,466,076

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2010	2009	Thousands of U.S. dollars (Note 1) 2010
Debt:			
Short-term borrowings (Notes 9 and 12)	¥ 4,310,695	¥ 919,346	$ 46,351,559
Commercial paper	351,750	320,400	3,782,258
Long-term debt (Note 12)	1,748,349	1,526,878	18,799,452
	6,410,794	2,766,624	68,933,269
Payables:			
Payables to customers and counterparties (Note 11)	405,009	492,126	4,354,935
Payables related to margin transactions (Notes 3 and 9)	72,766	133,872	782,430
Other	47,713	17,348	513,044
	525,488	643,346	5,650,409
Collateralized short-term financing agreements (Note 4)	3,886,235	4,893,262	41,787,473
Trading liabilities (Note 6)	4,925,289	4,809,093	52,960,097
Trade account payables, net	228,042	–	2,452,065
Accrued and other liabilities:			
Income taxes payable	22,255	1,823	239,301
Deferred tax liabilities (Note 14)	539	18,621	5,796
Accrued bonuses	33,377	12,527	358,892
Retirement benefits (Note 13)	28,478	25,941	306,215
Other	73,412	54,596	789,377
	158,061	113,508	1,699,581
Statutory reserves (Note 15)	3,907	4,417	42,011
Total liabilities	16,137,816	13,230,250	173,524,905
Contingent liabilities (Note 16)			
Net assets:			
Owners' equity (Note 17)			
Common stock, no par value;			
Authorized - 4,000,000 thousand shares			
Issued - 1,749,359 thousand shares as of March 31, 2010	247,385	178,324	2,660,054
Capital surplus	230,594	157,679	2,479,505
Retained earnings	452,456	421,819	4,865,118
Treasury stock at cost	(690)	(61,526)	(7,419)
	929,745	696,296	9,997,258
Valuation and translation adjustments			
Net unrealized gain on securities, net of tax effect	20,366	51,752	218,989
Deferred gain on hedges, net of tax effect	316	499	3,398
Translation adjustments	(23,263)	(28,275)	(250,140)
	(2,581)	23,976	(27,753)
Stock subscription rights (Note 18)	3,242	2,369	34,860
Minority interests	87,123	229,688	936,806
Total net assets	1,017,529	952,329	10,941,171
	¥17,155,345	¥14,182,579	$184,466,076

See accompanying notes.

Consolidated Statements of Income DAIWA SECURITIES GROUP INC.

Years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	2010
Operating revenues:				
Commissions (Note 23)	¥252,863	¥208,881	¥294,425	$2,718,957
Net gain on trading (Note 24)	110,955	40,921	103,361	1,193,065
Net gain (loss) on private equity and other investments	75,584	(79,478)	19,160	812,731
Interest and dividend income	54,729	192,664	358,423	588,484
Service fees and other revenues	43,783	50,948	50,053	470,785
	537,914	413,936	825,422	5,784,022
Interest expense	47,659	176,034	339,784	512,462
Cost of service fees and other revenues	32,150	38,358	38,147	345,699
Net operating revenues (Note 20)	458,105	199,544	447,491	4,925,861
Selling, general and administrative expenses (Notes 13, 20 and 25)	362,844	343,270	363,859	3,901,548
Operating income (loss) (Note 20)	95,261	(143,726)	83,632	1,024,313
Other income (expenses):				
Provision for statutory reserves, net (Note 15)	510	3,600	(52)	5,484
Other, net (Note 26)	1,611	(23,668)	(1,629)	17,323
	2,121	(20,068)	(1,681)	22,807
Income (loss) before income taxes and minority interests	97,382	(163,794)	81,951	1,047,120
Income taxes (Note 14):				
Current	27,450	4,383	40,475	295,161
Deferred	22,413	(22,557)	299	241,000
	49,863	(18,174)	40,774	536,161
Minority interests	(4,090)	60,581	5,234	(43,978)
Net income (loss)	¥ 43,429	¥ (85,039)	¥ 46,411	$ 466,981

	Yen			U.S. dollars (Note 1)
Per share amounts:				
Net income (loss)	¥26.41	¥(63.16)	¥33.69	$0.28
Diluted net income	26.38	–	33.63	0.28
Cash dividends applicable to the year	13.00	8.00	22.00	0.14

See accompanying notes.

Consolidated Statements of Changes in Net Assets DAIWA SECURITIES GROUP INC.

Years ended March 31, 2010, 2009 and 2008

											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, 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 loss				(85,039)							
Change in treasury stock, net				(250)	175						
Decrease due to addition of a consolidated subsidiary				(276)							
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
Issuance of new stocks	344,694	69,061	72,915								
Cash dividends paid				(12,781)							
Net income				43,429							
Change in treasury stock, net				(11)	60,836						
Decrease due to addition of a consolidated subsidiary											
Net changes of items other than owners' equity							(31,386)	(183)	5,012	873	(142,565)
Balance at March 31, 2010	1,749,359	¥247,385	¥230,594	¥452,456	¥ (690)	¥ –	¥ 20,366	¥316	¥(23,263)	¥3,242	¥ 87,123

										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, 2009	$1,917,462	$1,695,473	$4,535,688	$(661,570)	$–	$556,473	$5,366	$(304,032)	$25,473	$ 2,469,763
Issuance of new stocks	742,592	784,032								
Cash dividends paid			(137,430)							
Net income			466,978							
Change in treasury stock, net			(118)	654,151						
Decrease due to addition of a consolidated subsidiary										
Net changes of items other than owners' equity						(337,484)	(1,968)	53,892	9,387	(1,532,957)
Balance at March 31, 2010	$2,660,054	$2,479,505	$4,865,118	$ (7,419)	$–	$218,989	$3,398	$(250,140)	$34,860	$ 936,806

See accompanying notes.

Consolidated Statements of Cash Flows DAIWA SECURITIES GROUP INC.

Years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	2010
Cash flows from operating activities:				
Net income (loss)	¥ 43,429	¥ (85,039)	¥ 46,411	$ 466,978
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	44,648	39,727	28,047	480,086
Allowance for doubtful accounts, net	226	5,559	3,445	2,430
Allowance for retirement benefits, net	2,540	1,925	836	27,312
Stock subscription rights	873	939	819	9,387
Statutory reserves, net	(510)	(3,600)	51	(5,484)
Losses related to investment securities	2,777	22,542	5,240	29,860
Losses related to fixed assets	1,021	1,430	1,952	10,978
Allowance for relocation costs of headquarters office	–	–	1,354	–
Deferred income taxes	22,413	(22,557)	299	241,000
Minority interests	4,090	(60,581)	(5,234)	43,978
Changes in operating assets and liabilities:				
Receivables and payables related to margin transactions	1,074	53,115	174,806	11,548
Other receivables and other payables	15,752	114,052	(147,279)	169,376
Collateralized short-term financing agreements	(2,628,410)	(569,791)	1,721,872	(28,262,473)
Trading assets and liabilities	(979,953)	1,871,841	(2,561,539)	(10,537,129)
Private equity and other investments	174,980	70,732	(76,273)	1,881,505
Other, net	35,150	79,094	22,660	377,957
Total adjustments	(3,303,329)	1,604,427	(828,944)	(35,519,669)
Net cash flows provided by (used in) operating activities	(3,259,900)	1,519,388	(782,533)	(35,052,691)
Cash flows from investing activities:				
Increase in time deposits	(282,055)	(42,212)	(120,181)	(3,032,849)
Decrease in time deposits	213,104	117,044	56,042	2,291,441
Payments for purchases of property and equipment	(9,104)	(14,900)	(34,295)	(97,892)
Proceeds from sales of property and equipment	628	361	240	6,753
Payments for purchases of intangible fixed aseets	(30,272)	(36,174)	(44,006)	(325,505)
Payments for purchases of investment securities	(265,976)	(32,155)	(86,731)	(2,859,957)
Proceeds from sales of investment securities	133,038	16,454	52,909	1,430,516
Purchase of subsidiary's stock due to change in scope of consolidation	(6,626)	–	–	(71,247)
Increase (decrease) in long-term loans receivable	6,599	(2,841)	(3,655)	70,957
Other, net	3,164	3,860	(9,366)	34,022
Net cash flows provided by (used in) investing activities	(237,500)	9,437	(189,043)	(2,553,761)

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	2010
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings and commercial paper	3,422,797	(1,559,873)	945,660	36,804,269
Proceeds from issuance of bonds and notes	164,289	296,344	442,593	1,766,548
Payments for redemption of bonds and notes	(90,109)	(218,239)	(294,317)	(968,914)
Proceeds from issuance of new stocks	175,166	–	–	1,883,505
Increase (decrease) in other long-term debt	148,447	42,625	(2,682)	1,596,204
Payments of cash dividends	(12,781)	(20,194)	(38,787)	(137,430)
Payments of cash dividends to minority shareholders	–	(71)	(10,894)	–
Other, net	29,397	(30)	(50,486)	316,097
Net cash flows provided by (used in) financing activities	3,837,206	(1,459,438)	991,087	41,260,279
Effect of exchange rate changes on cash and cash equivalents	(1,521)	(13,847)	(13,582)	(16,354)
Net increase in cash and cash equivalents	338,285	55,540	5,929	3,637,473
Cash and cash equivalents at beginning of year	415,600	359,851	352,779	4,468,817
Increase in cash and cash equivalents due to merger of a non-consolidated subsidiary	–	–	655	–
Increase in cash equivalents due to addition of a consolidated subsidiary	97	209	488	1,043
Cash and cash equivalents at end of year	¥ 753,982	¥ 415,600	¥ 359,851	$ 8,107,333

See accompanying notes.

Notes to Consolidated Financial Statements DAIWA SECURITIES GROUP INC.

Years ended March 31, 2010, 2009 and 2008

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 Capital Markets Co. Ltd. ("Daiwa Securities CM")
—Daiwa Asset Management Co. Ltd. ("DAM")
—Daiwa Institute of Research Holdings Ltd.
—Daiwa SMBC Capital Co., Ltd. ("DSC")

Daiwa Securities is the retail-securities arm of Daiwa. This company operates through a network of 119 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 CM is the wholesale-securities arm of Daiwa. 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 with the accounts of the overseas subsidiaries maintained on the basis described above and adjusting the difference in accounting policies from Japanese GAAP, if any.

(Changes in accounting policy)
The Company has adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Accounting Standards Board of Japan ("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 are tentatively not required to be uniform, even if the accounting policies locally applied to foreign subsidiaries in their domicile differ 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 prepared by the Company in accordance with Japanese GAAP and filed to 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, 2010, which was ¥93 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.

Investee entities which meet the conditions of "Guidance on determining a subsidiary and an affiliate" (ASBJ Guidance No.22, issued on May 13, 2008) are excluded from the consolidation even though the Company has control of them such as; when the investee entity is held for principal investment or venture capital investment business purposes where the objective for Daiwa to have control of the investee entity is merely to seek for capital gain opportunities and, Daiwa does not intend to operate its business with the entity as a part of the 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. The ability 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 of the voting rights coupled with certain facts and circumstances which indicate that the Company can exercise significant influence over the entity's operating and financial policies. As is with the policy and considerations for consolidation, investee entities which meet the conditions of the new accounting guidance 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.

(Changes in accounting policy)
The company has adopted "Guidance on determining a subsidiary and an affiliate" (ASBJ Guidance No.22, issued on May 13, 2008) from April 1, 2009. This guidance clarified the condition where investments held for part of the principal investment or venture capital investment business purpose are excluded from consolidation scope or equity method of accounting. However, this change has no effect on the consolidated financial statements as of March 31, 2010.

Goodwill and negative goodwill are amortized under the straight-line method within 20 years which is estimated based on the condition in each case. In case of no materiality, it is amortized in a lump sum when it accrues.

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 (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" and "Investment securities" 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 a common practice in Japan, non-marketable equity securities generally for the purpose of maintaining good relationships with the investee companies and promoting Daiwa's securities businesses.

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 of "Private equity and other investments," Daiwa reviews the financial conditions of the issuers and provides for allowance for possible investment losses, if necessary.

Derivatives used for non-trading purpose—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 a separate component within the net assets until the gains or losses on the underlying hedged instruments are realized. Plain vanilla hedging interest swap agreements satisfying the required conditions under Japanese GAAP, are not required to be marked-to-market. Interests received or paid on such exempt interest rate swap agreements for hedging purposes are 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 used 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 estimated useful lives.

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 of in-house use, which is the most significant intangible fixed asset, are 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 taken to be leasing periods and residual values taken to be nil.

(Changes in accounting policy)
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. The accounting treatment of finance lease transactions other than the ones that transfer ownership to the lessee has changed 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.

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 in the accounting treatment similar to that of ordinary rental transactions. Certain information regarding these non-capitalized finance lease transactions is contained in Note 10.

Impairment—Non-current assets, principally property and equipment, leased assets used under finance lease contracts, intangible fixed assets, and goodwill are reviewed for impairment whenever events or changes in circumstances indicate that a 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.

Share-based payment—Daiwa allocates the 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.

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 contribution is 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.

(Changes in accounting policy)
The new accounting standard, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No.19, issued on July 31, 2008) has been adopted from April 1, 2009.

However, this change has no effect on the consolidated financial statements as of March 31, 2010.

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 reference 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. Differences in yen amounts arising from the use of different rates are included in adjustments on foreign currency translation in Net assets.

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 stock subscription rights based on the number of shares of common stock that would have been issued provided that the outstanding dilutive 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.

Revenue and cost recognition—Concerning some consolidated domestic subsidiaries which engage in made-to-order software, when the outcome of individual contracts is deemed certain during the course of the activity, the domestic subsidiaries apply the percentage-of-completion method to work commencing during the year ended March 31, 2010, otherwise the completed-contract method is applied. The percentage/stage of completion at the end of the reporting period is measured by the proportion of the cost incurred to the estimated total cost.

(Changes in accounting policy)
Prior to April 1, 2009, some domestic subsidiaries recognized revenues and costs of made-to-order software using the completed-contract method. Some domestic subsidiaries have adopted the "Accounting Standard for Construction Contracts" (ASBJ Statement No.15, issued on December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No.18, issued on December 27, 2007) from April 1, 2009. Accordingly, when the outcome of individual contracts is deemed certain during the course of the activity, the domestic subsidiaries apply the percentage-of-completion method to work commencing during the year ended March 31, 2010, otherwise the completed-contract method is applied. The percentage/stage of completion at the end of the reporting period is measured by the proportion of the cost incurred to the estimated total cost.

However, this change has no material effect on the consolidated financial statements as of March 31, 2010.

3. Margin transactions

Margin transactions at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Assets:			
Customers' margin loans	¥119,475	¥ 79,094	$1,284,677
Cash deposits as collateral for securities borrowed	66,404	168,965	714,022
	¥185,879	¥248,059	$1,998,699
Liabilities:			
Payable to securities finance companies	¥ 5,605	¥ 3,852	$ 60,269
Proceeds of securities sold for customers' accounts	67,161	130,020	722,161
	¥72,766	¥133,872	$782,430

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, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Assets:			
Securities borrowed	¥7,067,400	¥5,413,526	$75,993,548
Liabilities:			
Securities sold under agreements to repurchase	¥ 544,340	¥ 664,743	$ 5,853,118
Securities loaned	3,341,895	4,228,519	35,934,355
	¥3,886,235	¥4,893,262	$41,787,473

5. Financial instruments

(Additional information)
Effective from the fiscal year ended March 31, 2010, the Company adopted the revised Accounting Standard, "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan ("ASBJ") Statement No. 10 revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19 revised on March 10, 2008). Information on financial instruments for the year ended March 31, 2010 required pursuant to the revised accounting standards is as follows.

Concerning the situation of financial instruments

(1) Policy for dealing with financial instruments

Daiwa, the primary businesses of which are investment and financial services businesses with a core focus on securities related business, is involved in trading and brokerage of securities and derivative products, underwriting and secondary offering of securities, treating of public offering for subscription and secondary offering of securities, treating of private offering for subscription of securities, and other businesses related to the securities and financial fields. The subsidiaries which engage in securities related business hold financial assets and liabilities as follows to trade with their customers and execute proprietary trades: "trading securities and others" which include equities and warrants, bonds and units of investment trust, "derivative" like futures contracts, options, forward contracts and swaps, "collateralized short-term financing agreements," and "receivables and payables related to margin transactions." In addition to those, Daiwa holds "private equity and other securities" as a result of principal investments business and venture capital business and "investment securities" as long-term holding for the business relationship.

In addition, Daiwa is raising capital by utilizing a variety of financial instruments such as corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call market, gensaki transactions, and repurchase agreements. Under Daiwa's basic financing policy which is that enough liquidity for continuing business should be effectively secured, Daiwa is maintaining an appropriate balance between assets and liabilities by diversifying financial measures and maturity dates, and realizing effective and stable finance when it decides to raise capital. Also, Daiwa uses interest rate swaps and foreign currency swaps, etc. for the purpose of hedging fluctuation of interest rates and foreign currencies in terms of financial assets and liabilities.

Daiwa entirely and efficiently manages the variety of risks incurred by its holding of such financial assets and liabilities and maintains sound finances.

(2) Contents and risk of financial instruments

The subsidiaries engaged in the securities business mainly conduct trading business in Daiwa. Categories of products in the trading business are as follows: (a) trading securities, collateralized short-term financing agreements, receivables and payables related to margin transactions, (b) derivatives, traded at exchanges, and (c) OTC derivatives.

Of the various risks, the major risks implied in cash and derivative transactions in the trading business are market risk and credit risk. Market risk means the risk of suffering losses from fluctuations in the value of holding financial assets and liabilities in accordance with changes in the market value of equities, interest rates (in case of bonds), currencies, commodities and derivatives of those and interest rates. Credit risk means the risk of suffering losses from defaults of counterparties or credit changing of issuers of financial instruments which Daiwa holds, etc.

In the trading business, Daiwa conducts derivative transactions solely and as a part of structured notes to meet customers' needs. These include transactions which are volatile because of the correlation with stock indices, foreign exchange rates and interest rates of reference assets or which tend to move in a complicated manner. Therefore, these carry higher risk than the reference assets. These derivative transactions are categorized as trading assets in the consolidated balance sheets and the realized and unrealized profit/loss by fluctuation of fair values are stated as the net gain on trading.

Other than the trading business, Daiwa holds financial instruments like private equity and other securities as a result of principal investments business and venture capital business and investment securities as long-term holding for the business relationship, etc. These financial instruments carry market risk and credit risk as well.

Daiwa raises capital by utilizing corporate bonds, medium-term notes, borrowing from financial institutions, etc. by holding Daiwa's financial instruments, and is exposed to liquidity risk. Liquidity risk indicates the risk of suffering losses such that cash management may be impossible or remarkably higher financing cost than usual may be requested as a result of an abrupt change of market environment or unexpected credit crunch, etc.

The subsidiaries engaged in the trading business enter derivative transactions as brokers and end-users. Derivative products are necessary to deal with a variety of customers' financial needs and the subsidiaries engaged in the trading business provide customers with financial instruments to meet their requests. For instance, the subsidiaries provide customers with forward exchange contracts to hedge the exchange rate risk of foreign currency of foreign bonds held by customers and interest rate swaps to hedge interest rates risk when customers issue corporate bonds, etc. As end-users, the subsidiaries use interest rate swaps to hedge interest rate risk regarding financial assets and liabilities of Daiwa and utilize many kinds of futures and options to hedge its trading positions.

(3) Risk management system concerning financial instruments

While the economy and social structure have been drastically changed due to globalization and IT advances, the finance business continues to be diversified and complicated and the importance of risk management is increasing in Daiwa as a financial institution. Daiwa recognizes that to properly understand the risk existing in Daiwa and to manage the risk entirely is a significant target for management and works to construct a risk management system for the Group.

For risk management of the entire Group, the Company has resolved the "Risk Management Rule" at the meeting of the Board of Directors which states the basic policy of risk management, type of risk that should be managed and responsible executive officers and department for each major risk. Each subsidiary conducts risk management suitable for each business profile and size in accordance with the basic policy of risk management. The Company unifies risk management of the entire

Group by monitoring the structure and process of its subsidiaries' risk management and giving necessary guidance. Also, the Internal Control Committee as a sub-committee of the Executive Committee of the Company receives reports about risk exposures obtained by monitoring its subsidiaries and themes concerning their risk management system and discusses those issues. The company's subsidiaries regularly hold risk management committee in order to strengthen its risk management system.

In addition, Daiwa works on an integrated risk management system aiming to secure sufficiently sound finances and properly understand return in consideration of risk. Daiwa grasps all the market and credit risk with the quantitative method as systematically as possible and controls the risk within the amount suitable for management strength of Daiwa. Also, the Company allocates risk capital to its subsidiary and the subsidiaries take risks effectively within each risk capital.

Daiwa has established the risk management system covering the entire Group with the framework of the above stated risk management.

(i) Management of credit risk

Concerning transactions in the trading businesses which generate credit risk, Daiwa has established the credit limit based on ratings of counterparties in advance and has monitored notional principals and credit amounts. Furthermore, in connection with the wholesale business that carries a relatively high credit risk, Daiwa has established a credit limit for each of the counterparties based on the credit analysis rating which was obtained by adding qualitative analysis to quantitative analysis utilizing the rating analysis model and has conducted daily monitoring in consideration of transaction conditions such as the term, collateral, etc. In addition, concerning the credit risk of financial instruments held in the trading business, Daiwa has established the upper limit of holding and the holding period in accordance with each issuer's category and credit rating in relation to the relevant financial instruments, and monitored the status of them.

In spite of the fact that the margin transactions generate credit to customers in Daiwa, customers are charged for deposits set as collateral. In connection with the securities loan transaction, Daiwa has tried to reduce credit risk by establishing credit limits for its counterparties, charging necessary collaterals, and daily mark to market.

(ii) Management of market risk

Most of the trading business of Daiwa is exposed to market risk. Therefore, it would be most important to quantify the effect of fluctuation of the market on the value of assets and liabilities held by the Group and to understand the risk as objectively as possible.

Considering the above, the Company grasps the market risk of the entire Group based on the position limit on each product, profit/loss and Value at Risk (VaR) which indicates the estimate of the maximum loss amount under a certain probability, etc. Concerning VaR, the Company verifies the effectiveness of the valuation model of market risk by regularly conducting back tests which compare VaR and the actual profit / loss. And concerning the impact of an abrupt change in the market, in order to cover the capacity limit of VaR that is the valuation method based on past data and statistical hypothesis, the Company evaluates the maximum loss amount of its portfolio utilizing a scenario based on past huge market fluctuation or a scenario in which a certain risk factor vastly changes, etc.

(a) Management of equity risk

Equity risk indicates the risk that Daiwa suffers losses from changes in the price of equity related positions caused by fluctuation of the price of equity. The equity risk to which Daiwa is mainly exposed is the one relating to equity related products and derivatives, etc. in the trading business. The subsidiaries engaged in securities business manage the risk by establishing the limit for VaR, position and sensibility (delta, gamma and vega, etc.) etc. considering their financial situations such as the amount of capital, the business plans and budget of each division. The risk management department of the Company adequacy the equity risk of the entire Group based on the reports on the situations of the VaR and positions from the subsidiaries engaged in securities business, and reports it to the management of the Company on a daily basis.

(b) Management of interest rate risk

Interest rate risk means the risk that Daiwa suffers losses from changes in the price of interest rate related position by fluctuation of interest rate. The interest rate risk to which the Group is mainly exposed is the one relating to interest rate related products and derivatives, etc. in the trading business. The subsidiaries engaged in securities business manage the risk by establishing the limit for VaR, position and sensibility (BPV, gamma and vega, etc.) etc. considering their financial standings such as the amount of capital, business plans and budget of each division. The risk management department of the Company adequacy the interest rate risk of the entire Group based on the reports on the situations of the VaR and positions from the subsidiaries engaged in securities business, and reports it to the management of the Company on a daily basis.

(c) Management of foreign exchange rate risk

Foreign exchange rate risk indicates the risk that Daiwa suffers losses from changes in the price of foreign currency position by fluctuation of foreign exchange rate. Foreign exchange rate risk is managed by the index such as position limit of each currency (delta, gamma and vega) and VaR etc. The risk management department of the Company adequacy the foreign exchange rate risk of the entire Group based on the reports on the situations of the VaR and positions from the subsidiaries engaged in securities business, and reports it to the management of the Company on a daily basis.

(iii) Management of risk of financial instruments other than for trading purpose

Other than for its trading business, Daiwa holds of private equity and other securities for principal investments business and venture capital business and investment securities as long-term holding for maintaining the business relationships with the investees. These financial instruments carry market risk and credit risk as well. Since those financial instruments have a characteristic risk profile for each product, the Company has conducted limit management by establishing and regularly monitoring indicators that suit each risk profile (holding amount, amount for each credit rating, VaR, etc.).

The investment committees in the subsidiaries which engage in the principal investments business, perform investigation of investments under the approved investment limit and make judgments about investments. After the executions of investments, the subsidiaries establish strategies for restructuring governance of invested companies and exit. Also, the subsidiaries construct a system which enables them to directly monitor the invested companies, if necessary, by sending personnel to the invested companies.

The subsidiaries which engage in the venture capital business, narrow investment candidates down to the ones that have innovative technology or business models and perform due diligence to the investment candidates. The Board of Directors or the investment committees make the investment decisions considering the deliberations from the examination division. After the executions of investments, the subsidiaries hold a risk management committee every quarter and monitor the situations exit strategies and financial influence on the business of invested companies, etc.

In connection with investment securities as long-term holding for maintaining business relationships with the investees, etc, the Group decides to acquire or sell the securities under defined by its rules. The results of monitoring such as portfolio prospects and risk/return profile are to be reported quarterly to the Internal Control Committee.

(iv) Management of liquidity risk concerning capital raising

The basic policy of financing of Daiwa is to effectively secure enough liquidity in order to continue its business because Daiwa mainly focuses its business on the security related business by utilizing large volume of assets and liabilities.

Financing methods of Daiwa include corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call market, gensaki transactions and repurchase agreements, etc. By the appropriate combinations of the methods, the Group secures effective and stable financing.

In terms of financial stability, to manage huge change in market environment the Group strives in ordinary times to secure appropriate liquidity necessary to prevent the business from suffering trouble. Especially after the latter half of FY2007, Daiwa has increased liquidity with capital raising from the market and borrowing from financial institutions to prepare for the worldwide financial crisis and credit crunch.

Also, Daiwa tries to diversify the maturity of raising capital to prepare for the event that it is difficult for Daiwa to execute new capital raising and refinance the existing debt financing due to a financial crisis occurring. The Group manages liquidity risk by covering short-term debt financing without collateral by the liquidity portfolio consisting of cash or government bonds and the supporting liquidity portfolio that is relatively easy to be changed to cash.

The Company collectively manages and monitors the liquidity of the entire Group under the basic policy to secure the appropriate liquidity of Daiwa. The Company always monitors whether the liquidity portfolio is secured enough against short-term debt financing without collateral preparing for the case that it is difficult for Daiwa to execute new financing and to refinance the existing financing positions due to a financial crisis. Also, Daiwa has established a system that enables the Company to flexibly supply the capital to its subsidiaries if necessary.

However, concerning domestic and foreign subsidiaries engaged in securities business etc. (Daiwa Securities, Daiwa Securities CM, Daiwa SMBC Capital Co. Ltd., and Daiwa Capital Markets Europe Limited, etc.), under the basic policy of Daiwa, each subsidiary raises its capital by the means suitable for its own business characteristics and secures its liquidity portfolio necessary to continue its business, and those situations are to be reported to the Company.

The Group has established the contingency plan as one of the measures of dealing with liquidity risk. The Company considers that it could secure enough liquidity in the case that it is difficult for Daiwa to raise short term capital without collateral as a result of an abrupt change of market environment or unexpected credit crunch.

The financing of Daiwa Securities CM is large because of holding liquid assets mainly comprised of trading positions. Therefore, its contingency plan is the most important for Daiwa. The subsidiary revises its contingency plan that includes its foreign subsidiaries every 6 months and has established conditions to be applied and action plans for each market environment. The action plan sets that the subsidiaries needs to secure liquidity by taking actions such as financing secured by governments bonds and corporate bonds and selling securities that have high liquidity in the case of emergency.

The Company periodically monitors the maintenance of its subsidiaries' contingency plans. The Company revises, if necessary, the financing plans and contingency plans taking into account critical events to be considered and tries to preliminarily execute both increasing the liquidity and reducing assets at the same time.

(4) Supplementary explanation for the fair values of financial instruments

The fair value of financial instruments includes the value based on market prices and the theoretical prices reasonably calculated if no market price is available. Certain assumptions and conditions are used for such calculations. Therefore the results of such calculations may vary with different assumptions and conditions.

Fair values of financial instruments

The amounts stated on the consolidated balance sheet as of March 31, 2010, fair values and the differences between them are as below. Financial instruments whose fair values are extremely difficult to determine are excluded from the below (see Note 2).

	Millions of yen		
	Amounts on consolidated balance sheet	Fair value	Difference
Assets			
(1)Cash and cash equivalents and time deposits	¥ 829,179	¥ 829,179	¥ –
(2)Cash segregated as deposits for regulatory purposes	291,104	291,104	–
(3)Trading assets	7,654,334	7,654,334	–
(4)Receivables related to margin transactions	185,879	185,879	–
(5)Collateralized short-term financing agreements	7,067,400	7,067,400	–
(6)Private equity and other investments and Investment securities			
(a)Securities intended to be held for trading purposes	3,599	3,599	–
(b)Held-to-maturity debt securities	1,400	1,398	(2)
(c)Subsidiaries companies' stocks and related companies' stocks	10,141	10,362	221
(d)Available-for-sale securities	315,389		
Allowance for possible investment losses	(2,337)		
	313,052	313,052	–
Total assets	¥16,356,088	¥16,356,307	¥ 219
Liabilities			
(7)Trading liabilities	¥ 4,925,289	¥ 4,925,289	¥ –
(8)Trade account payables, net	228,042	228,042	–
(9)Payables related to margin transactions	72,766	72,766	–
(10)Collateralized short-term financing agreements	3,886,235	3,886,235	–
(11)Payables to customers and counterparties	405,009	405,009	–
(12)Payables other	47,713	47,713	–
(13)Short-term borrowings	4,310,695	4,310,695	–
(14)Commercial paper	351,750	351,750	–
(15)Long-term debt	1,748,349	1,761,322	12,973
Total liabilities	¥15,975,848	¥15,988,821	¥12,973
Derivative transactions other than trading*			
Transactions which hedge accounting are not applied	¥ 20	¥ 20	¥ –
Transactions which hedge accounting are applied	–	326	326
Total derivative transactions other than trading	¥ 20	¥ 346	¥ 326

* Assets and liabilities which are generated from derivative transactions other than trading are stated on a net basis.

(Note1) Method of fair value measurement of financial instruments

(1) Cash and cash equivalents and time deposits

Cash and deposits are stated as their book values since the terms of the settlement period are short and the fair values approximate the book values.

(2) Cash segregated as deposits for regulatory purposes

Cash segregated as deposits for regulatory purposes which consist of cash segregated as deposits for customers and investments in securities like government bonds are calculated based on reasonably calculated prices utilizing yield spread with index interest rates for each term which are defined by immediately previous traded prices including the ones of similar bonds.

(3),(7) Trading assets and liabilities

(a) Trading securities and others

Equities and others	closing prices or closing prices quoted at the main stock exchange
Bonds	reasonably calculated price based on immediately previous traded price including similar bonds (OTC and broker screen etc.) or market value information (trading price statistics etc.) by utilizing spread with index interest rates
Units of investment trust	closed price or closed quotation of exchange, or net asset value

(b) Derivative transactions

Derivatives traded at exchange	mainly liquidation prices at the exchange or basic prices for calculation margin
Interest rate swaps	prices calculated by price valuation models generally acknowledged in the market or extended models of them, based on expected cash flows calculated from yield curve, prices and coupon rates of underlying bond, interest rates, discount rates, volatility, correlation, etc.
OTC equity derivatives	prices calculated by price valuation models generally acknowledged in the market or extended models of those, based on prices of equities or equities indices, interest rates, dividends, volatility, discount rates, correlation, etc.
Credit derivatives	prices calculated by price valuation models that are generally acknowledged in the market or extended models of them, based on all the cash flows defined with discount rates that are calculated from interest rates and credit spread of the reference

Concerning OTC derivatives, both credit risk attributable to the counterparty and liquidity risk are included into the measurement of the fair value if necessary.

(4),(9) Receivables related to margin transactions, Payables related to margin transactions

Receivables related to margin transactions consist of lending money to customers generated from margin transactions and collaterals to securities finance companies. Those are deemed to be settled in the short term and stated as their book value because the former is settled by reversing trades by customers' decisions and the latter is collaterals marked to market on lending and borrowing transactions.

Payables related to margin transactions consist of customers' borrowing money from securities finance companies and sold proceeds of securities sold for customers' accounts generated from margin transactions. Those are deemed to be settled in the short term and stated as their book value because the former is marked to market and the latter is settled by reversing trades based on customers' decision.

(5),(10) Collateralized short-term financing agreements

These are stated as their book value since the terms of the settlement period are short and the fair values approximate the book values.

(6) Private equity and other investments and Investment securities

Equities and others	closing prices or closing quoted prices at the main stock exchange
Bonds	reasonably calculated prices based on the latest traded prices including those of similar bonds (OTC and broker screen etc.) or market value information (trading price statistics etc.) by utilizing spreads with index interest rates, or reasonably calculated prices based on the value of collateralized assets
Units of investment trust	closing prices or closing quoted prices at the exchange, or net asset value
Investment in partnership	for investment in partnership, for which allowance for possible investment losses is calculated based on the estimated recoverable values from related real estates, the amount which is calculated by deducting the allowance from the balance sheet amount as of the fiscal year end and approximates its fair value. Therefore, the amount is deemed to be its fair value

(8) Trading payables, net

Trading payables, net are stated as their book value since the terms of the settlement period are short and the fair values approximate the book values.

(11),(12) Payables to customers and counterparties and payables other

These are mainly composed of "Deposits received" and "Cash deposits received as guarantee".

Deposits received are mainly deposits received from customers and payment amount (book value) when settled at the end of this fiscal year is considered as fair value. Other deposits are stated as their book values since the terms of the settlement period are short and the fair values approximate the book values.

Cash deposits received as guarantee are mainly deposits as guarantee relating to derivative transactions and stated as their book values as the terms of the settlement period are deemed to be short with those characteristics which are marked to market for each transaction. Concerning the other cash deposits received as guarantee from customers, the payment amount (book value) when settled at the end of this fiscal year is considered as fair values.

(13),(14) Short-term borrowings, commercial papers.
These are stated as their book values since the terms of the settlement period are short and the fair values approximate the book values.

(15) Long-term debt
Concerning fair values of bonds and notes due within one year, these are stated as their book value since the terms of the settlement period are short and the fair values approximate the book values.

Concerning fair values of bonds whose maturities are longer than one year, in the case that market prices (trading price statistics, etc.) are available in the market, fair values are calculated from the market prices. If the market prices are not available, fair values are calculated from book values which are adjusted with consideration of interest rate fluctuations from the issuances and changes of credit spread of the Company. The credit spread of the Company is referred to interest rate of the latest issuance or market prices of similar bonds issued by the Company, etc.

Concerning fair value of long-term debts, these are calculated from book values which are adjusted with consideration of interest rate fluctuations from the issuances and changes of credit spread of the Company. The credit spread of the Company is referred to interest rates of the latest issuance or market prices of similar bonds issued by the Company, etc.

(16) Derivative transactions other than trading
The accounting method is the same as "(3),(7) Trading assets and liabilities (b) Derivative transactions."

(Note 2) Financial instruments whose fair value are extremely difficult to determine are as below and are not included in the Assets (6) "(c) Subsidiaries companies' stocks and related companies' stocks",and "(d) Available-for-sale securities" of fair value information of financial instruments.

	Millions of yen
	Amounts on consolidated balance sheets
Subsidiaries companies' stocks and related companies' stocks	
Unlisted equities	¥28,328
Other securities	
Unlisted equities	94,856
Investments in limited partnership and other similar partnerships	38,800
Others	6,725

The above are deemed to be extremely difficult to determine fair values because there are no market prices and it is extremely difficult to estimate future cash flows from the investments. Therefore, their fair values are not disclosed.

(Note 3) Scheduled redemption amount of financial receivables and securities with a maturity date after March 31, 2010

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents and time deposits	¥ 829,179	¥ –	¥ –	¥–
Cash segregated as deposits for regulatory purposes	291,104	–	–	–
Receivables related to margin transactions	185,879	–	–	–
Collateralized short-term financing agreements	7,067,400	–	–	–
Private equity and other investments and Investment securities				
Held-to-maturity securities (Corporate bonds)	–	1,400	–	–
Other securities with a maturity date	24,568	5,533	3,500	–
Bonds	4,568	5,533	–	–
Government bonds, municipal bonds, etc.	–	–	–	–
Corporate bonds	978	5,533	–	–
Other bonds	3,590	–	3,500	–
Other securities	20,000	–	–	–
Total	¥ 8,398,130	¥ 6,933	¥ 3,500	¥–

* Cash segregated as deposits are included in "within 1 year" because they are comprised of trust for holding customer assets.
* Receivables related to margin transactions are considered that it is settled in short term, and included "within 1 year".

(Note 4) Scheduled redemption amount of corporate bonds, long-term borrowings and other interest-bearing liabilities after March 31, 2010

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Payable to securities finance companies	¥ 5,605	¥ –	¥ –	¥ –
Commercial paper	351,750	–	–	–
Long-term debts	143,226	811,631	141,913	651,579
Total	¥500,581	¥ 811,631	¥ 141,913	¥ 651,579

* Payable to securities finance companies considered that it is settled in short term, and included "within 1 year".

6. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Trading assets:			
Trading securities:			
Equities	¥ 345,370	¥ 164,194	$ 3,713,656
Government, corporate and other bonds	5,229,929	3,178,908	56,235,796
Investment trusts	102,754	127,851	1,104,882
Commercial paper, certificates of deposits and others	28,955	93,048	311,344
Derivatives:			
Option transactions	277,908	267,359	2,988,258
Futures and forward transactions	57,250	105,903	615,591
Swap agreements	1,583,669	2,182,276	17,028,699
Other derivatives	39,604	92,199	425,850
Risk reserves	(11,105)	(7,996)	(119,409)
	¥7,654,334	¥6,203,742	$82,304,667

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Trading liabilities:			
Trading securities:			
Equities	¥ 163,548	¥ 90,385	$ 1,758,581
Government, corporate and other bonds	3,304,824	2,554,291	35,535,742
Investment trusts	253	44	2,720
Derivatives:			
Option transactions	238,818	269,816	2,567,935
Futures and forward transactions	116,350	289,226	1,251,075
Swap agreements	1,062,518	1,523,596	11,424,925
Other derivatives	38,978	81,735	419,119
	¥4,925,289	¥4,809,093	$52,960,097

Government, corporate and other bonds include convertible bonds.

7. Securities other than trading assets and trading liabilities

Securities other than trading assets and trading liabilities are included in "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, 2010 and 2009 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2010	¥4,438	¥3,599	¥(839)
March 31, 2009	¥4,445	¥3,493	¥(952)

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2010	$47,720	$38,699	$(9,021)

Amortized cost of held-to-maturity debt securities as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Corporate bonds	¥1,400	¥1,300	$15,054

Cost and fair value of marketable available-for-sale securities as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2010:			
Equities	¥111,044	¥143,537	¥32,493
Government, corporate and other bonds	13,600	13,602	2
Other	288,339	288,251	(88)
	¥412,983	¥445,390	¥32,407
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

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2010:			
Equities	$1,194,022	$1,543,409	$349,387
Government, corporate and other bonds	146,237	146,258	21
Other	3,100,419	3,099,473	(946)
	$4,440,678	$4,789,140	$348,462

Non-marketable available-for-sale securities as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Equities	¥ 64,544	¥ 73,889	$ 694,022
Government, corporate and other bonds	1,839	36,129	19,774
Investments business partnerships	37,926	141,388	407,806
Other	4,782	38,571	51,419
	¥109,091	¥289,977	$1,173,021

8. Derivatives used for non-trading purposes

Net unrealized gains of derivatives used for non-trading purposes at March 31, 2010 and 2009 (excluding hedging transactions) consisted of the following:

			Millions of yen
	Contract amount	Fair value	Unrealized gains
March 31, 2010:			
Forward exchange contracts	¥ 484	¥ (0)	¥ (0)
Currency swap agreements	¥6,937	¥20	¥20

			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

			Thousands of U.S. dollars
	Contract amount	Fair value	Unrealized gains
March 31, 2010:			
Forward exchange contracts	$ 5,204	$ (0)	$ (0)
Currency swap agreements	$74,591	$215	$215

9. Pledged assets

Secured obligations at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Short-term borrowings	¥3,726,600	¥270,443	$40,070,968
Payables related to margin transactions	5,605	3,852	60,269
	¥3,732,205	¥274,295	$40,131,237

All above obligations at March 31, 2010 and 2009 are secured by the following assets:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Trading assets	¥2,723,331	¥423,145	$29,283,129
Private equity and other investments	–	14	–
Investment securities	26,012	61,961	279,699
	¥2,749,343	¥485,120	$29,562,828

In addition to the above, securities borrowed amounting to ¥1,273,547 million ($13,694,054 thousand) and ¥165,159 million were pledged as guarantees at March 31, 2010 and 2009, respectively.

Total fair value of the securities pledged as collateral at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Securities loaned	¥3,799,164	¥4,448,294	$40,851,226
Other	1,067,998	1,263,998	11,483,849
	¥4,867,162	¥5,712,292	$52,335,075

Total fair value of the securities received as collateral at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Securities borrowed	¥7,686,295	¥5,761,635	$82,648,333
Other	357,910	388,890	3,848,495
	¥8,044,205	¥6,150,525	$86,496,828

10. 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, 2010 and 2009 are summarized as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Non-capitalized finance leases:			
Total assets under non-capitalized finance leases	¥ 899	¥ 2,106	$ 9,667
Accumulated depreciation	503	1,482	5,409
Future lease payments in respect of non-capitalized leases	406	636	4,366
Due within one year	153	230	1,645
Operating leases:			
Future lease payments in respect of operating leases	67,211	71,709	722,699
Due within one year	¥12,646	¥11,668	$135,978

Lessor:	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Operating leases:			
Future lease receipts in respect of operating leases	¥5,278	¥1,585	$56,753
Due within one year	¥ 711	¥ 444	$ 7,645

11. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash received for customers' accounts	¥134,456	¥125,505	$1,445,763
Cash deposits received from customers	246,603	339,891	2,651,645
Other	23,950	26,730	257,527
	¥405,009	¥492,126	$4,354,935

12. 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, 2010 and 2009 was 0.63% and 0.60%, respectively.

Long-term debt at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Bond payable in yen: 1.30% due CY2011	¥ 70,000	¥ 70,000	$ 752,688
Bond payable in yen: 1.80% due CY2011	50,000	50,000	537,634
Bond payable in yen: 1.65% due CY2011	78,000	78,000	838,710
Bond payable in yen: 1.50% due CY2012	50,000	50,000	537,634
Bond payable in yen: 1.43% due CY2013	60,000	60,000	645,161
Bond payable in yen: 1.66% due CY2013	70,000	70,000	752,688
Bond payable in yen: 2.08% due CY2016	30,000	30,000	322,581
Bond payable in yen: 1.40% due CY2014	30,000	–	322,581
Euro medium-term notes issued by the Company and a domestic consolidated subsidiary, maturing through CY2040	886,421	864,159	9,531,409
Subordinated bond payable in yen: maturing through CY2019	20,700	–	222,581
Subordinated borrowings from banks in yen, maturing through CY2014	121,000	105,000	1,301,075
Long-term borrowings principally from banks in yen, maturing through CY2038	282,117	149,670	3,033,516
Lease obligation	111	49	1,194
	¥1,748,349	¥1,526,878	$18,799,452

The amount for euro medium-term notes issued by the Company and a domestic consolidated subsidiary as of March 31, 2010 includes $81,450 thousand of foreign currency notes.

Interest rates of euro medium-term notes range from 0.09% to 5.70% at March 31, 2010 and from 0.45% to 4.24% at March 31, 2009. The weighted average interest rate on total outstanding yen subordinated borrowings and borrowings principally from banks at March 31, 2010 and 2009 was 1.39% and 1.70%, respectively. The weighted average interest rate on total outstanding lease obligations at March 31, 2010 was 3.43%.

The aggregate annual maturities of long-term debt as of March 31, 2010 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2011	¥ 143,226	$ 1,540,065
2012	218,998	2,354,817
2013	284,249	3,056,441
2014	180,052	1,936,043
2015	128,332	1,379,914
2016 and thereafter	793,492	8,532,172
	¥1,748,349	$18,799,452

Daiwa had an unused commitment line amounting to ¥109,304 million ($1,175,312 thousand) under agreements with several banks at March 31, 2010.

13. 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, 2010 and 2009, in the amount of ¥25,768 million ($277,075 thousand) and ¥23,569 million, respectively. Benefit expenses recorded in the consolidated statements of income for the years ended March 31, 2010, 2009 and 2008 were ¥3,463 million ($37,237 thousand), ¥3,399 million and ¥3,157 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 ¥531 million ($5,710 thousand) and ¥466 million are included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2010 and 2009, respectively. Benefit expenses recorded in the consolidated statements of income for the years ended March 31, 2010, 2009 and 2008 were ¥217 million ($2,333 thousand), ¥193 million and ¥205 million, respectively.

14. 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, 2010, 2009 and 2008. 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, 2010 and 2008 are as follows:

	2010	2008
Japanese statutory income tax rate	40.7%	40.7%
Valuation allowance	9.6	12.4
Permanent difference (Non-deductible)	2.0	2.2
Permanent difference (Non-taxable)	(1.2)	(1.3)
Lower tax rate applicable to income of overseas consolidated subsidiaries	(0.2)	(0.5)
Adjustment of unrealized inter-company profit	8.3	(0.2)
Investment in subsidiary company	(9.6)	–
Other, net	1.6	(3.6)
Effective income tax rate	51.2%	49.7%

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, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Net operating losses carry-forward	¥ 77,265	¥ 87,011	$ 830,806
Investment in subsidiary company	15,012	–	161,419
Write-down of investment securities	12,524	17,022	134,667
Retirement benefits	11,467	10,420	123,301
Compensation and bonuses	9,490	2,888	102,043
Allowance for doubtful accounts	3,453	4,574	37,129
Impairment losses on fixed assets	7,545	6,980	81,129
Elimination of unrealized gain	5,164	6,517	55,527
Loss on private equity and other investments	9,510	40,671	102,258
Loss on trading	6,853	5,474	73,688
Other	16,851	12,928	181,194
Gross deferred tax assets	175,134	194,485	1,883,161
Less: Valuation allowance	(129,510)	(130,725)	(1,392,580)
Total deferred tax assets	45,624	63,760	490,581
Deferred tax liabilities	10,012	62,268	107,655
Net deferred tax assets	¥ 35,612	¥ 1,492	$ 382,926

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.

15. 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.

16. Contingent liabilities

Daiwa had contingent liabilities amounting to ¥2,502 million ($26,903 thousand) and ¥3,038 million at March 31, 2010 and 2009, respectively, mainly arising as guarantors of employees' borrowings.

17. 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, 2010 amounted to ¥286,255 million ($3,078,011 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 ¥8,742 million ($94,000 thousand) and ¥8 ($0.09) per share amounting to ¥13,988 million ($150,409 thousand) were approved by the Board of Directors on May 19, 2010 and October 30, 2009, respectively.

18. 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, June 20, 2009, and June 26, 2010 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, 2010 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	1,509,000	¥ 727	($ 7.82)	from July 1, 2006 to August 31, 2011
June 24, 2005	469,000	¥ 1	($ 0.01)	from July 1, 2005 to June 30, 2025
	1,854,000	¥ 750	($ 8.06)	from July 1, 2007 to August 31, 2012
June 24, 2006	280,000	¥ 1	($ 0.01)	from July 1, 2006 to June 30, 2026
	–	¥1,455	($15.65)	from July 1, 2011 to June 23, 2016
June 23, 2007	296,000	¥ 1	($ 0.01)	from July 1, 2007 to June 30, 2027
	–	¥1,176	($12.65)	from July 1, 2012 to June 22, 2017
June 21, 2008	344,000	¥ 1	($ 0.01)	from July 1, 2008 to June 30, 2028
	–	¥ 881	($ 9.47)	from July 1, 2013 to June 20, 2018
June 20, 2009	664,000	¥ 1	($ 0.01)	from July 1, 2009 to June 30, 2029
	–	¥ 496	($ 5.33)	from July 1, 2014 to June 19, 2019

19. Capital adequacy requirements

In Japan, a securities company is subject to risk-based capital adequacy rules established and administered by the Financial Services Agency. Securities subsidiaries report their capital adequacy ratio as defined pursuant to these rules. The authorities will take certain administrative measures if such ratio declines below 140%. The capital adequacy ratios of Daiwa Securities were 393.3% (unaudited) and 390.7% (unaudited) for March 31, 2010 and 2009, respectively, and those of Daiwa Securities CM were 378.3% (unaudited) and 343.9% (unaudited) for March 31, 2010 and 2009, respectively.

20. 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, 2010, 2009 and 2008 and a summary of total assets by geographic area at March 31, 2010 and 2009 are as follows:

						Millions of yen
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended March 31, 2010:						
Net operating revenues:						
Outside customer	¥ 407,441	¥ 10,826	¥ 28,174	¥ 11,664	¥ –	¥ 458,105
Inter-segment	4,774	3,930	10,254	4,605	(23,563)	–
Total	412,215	14,756	38,428	16,269	(23,563)	458,105
Selling, general and administrative expenses	320,460	12,299	36,452	17,135	(23,502)	362,844
Operating income (loss)	¥ 91,755	¥ 2,457	¥ 1,976	¥ (866)	¥ (61)	¥ 95,261
At March 31, 2010:						
Total assets by geographic area	¥14,020,482	¥2,389,811	¥1,483,866	¥102,135	¥(840,949)	¥17,155,345
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

	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
						Thousands of U.S. dollars
Year ended March 31, 2010:						
Net operating revenues:						
Outside customer	$ 4,381,086	$ 116,409	$ 302,946	$ 125,420	$ –	$ 4,925,861
Inter-segment	51,333	42,258	110,258	49,516	(253,365)	–
Total	4,432,419	158,667	413,204	174,936	(253,365)	4,925,861
Selling, general and administrative expenses	3,445,806	132,248	391,957	184,247	(252,710)	3,901,548
Operating income (loss)	$ 986,613	$ 26,419	$ 21,247	$ (9,311)	$ (655)	$ 1,024,313
At March 31, 2010:						
Total assets by geographic area	$150,757,882	$25,696,903	$15,955,548	$1,098,226	$(9,042,484)	$184,466,075

Geographic overseas revenues for the years ended March 31, 2010, 2009 and 2008 are as follows:

	America	Europe	Asia & Oceania	Total
				Millions of yen
Year ended March 31, 2010:				
Overseas revenues	¥16,512	¥22,069	¥5,799	¥44,380
Net operating revenues				458,105
Percentage of net operating revenues	3.6%	4.8%	1.3%	9.7%
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%

	America	Europe	Asia & Oceania	Total
				Thousands of U.S. dollars
Year ended March 31, 2010:				
Overseas revenues	$177,548	$237,301	$62,355	$477,204
Net operating revenues				4,925,861
Percentage of net operating revenues	3.6%	4.8%	1.3%	9.7%

21. Transactions with related parties

The information on subsidiary's material transactions with related parties and individuals for the years ended March 31, 2010 and 2009, and the resulting account balances with such related party at the balance sheet dates are as follows:

Name of related company	Paid-in Capital Millions of yen	Percentage of voting rights for the related company	Description of transactions		Accounts balances	
					Millions of yen	
					2010	
Tokyo Tanshi Co., Ltd.	¥10,000	(Totan Holdings Co., Ltd. subsidiary)		Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements (assets)	¥173,858
			Interest dividend income	¥13	Receivables-Other	4
			Interest expense	8	Accrued and other liabilities-Other	2
					Millions of yen	
					2009	
				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	
					2010	
				Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements (assets)	$1,869,441
			Interest dividend income	$140	Receivables-Other	43
			Interest expense	86	Accrued and other liabilities-Other	22

Daiwa has 17.43% of direct voting rights for Totan Holdings Co., Ltd. which is the parent company of Tokyo Tanshi Co., Ltd.
There was no material transaction with related parties and individuals for the year ended March 31, 2008.

22. Special purpose entities subject to disclosure

Daiwa utilized 6 special purpose entities for the year ended March 31, 2010 (5 for year ended March 31, 2009) 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, 2010 and 2009 are ¥166,032 million ($1,785,290 thousand) and ¥191,410 million, respectively.

23. Commissions

Commissions derived from each department for the years ended March 31, 2010, 2009 and 2008 are as follows:

	Millions of yen					
	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Year ended March 31, 2010:						
Brokerage	¥55,010	¥302	¥ 408	¥ –	¥ 121	¥ 55,841
Underwriting	–	–	–	54,339	–	54,339
Distribution	–	–	32,907	544	–	33,451
Other	1,378	396	74,951	15,765	16,742	109,232
	¥56,388	¥698	¥108,266	¥70,648	¥16,863	¥252,863
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
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

	Thousands of U.S. dollars					
	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Year ended March 31, 2010:						
Brokerage	$591,505	$3,247	$ 4,387	$ –	$ 1,302	$ 600,441
Underwriting	–	–	–	584,290	–	584,290
Distribution	–	–	353,839	5,849	–	359,688
Other	14,818	4,258	805,925	169,516	180,021	1,174,538
	$606,323	$7,505	$1,164,151	$759,655	$181,323	$2,718,957

24. Net gain on trading

Net gain on trading for the years ended March 31, 2010, 2009 and 2008 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	2010
Equity and other	¥ 24,481	¥(25,737)	¥ 11,020	$ 263,237
Bond, forex and other	86,474	66,658	92,341	929,828
	¥110,955	¥ 40,921	¥103,361	$1,193,065

25. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2010, 2009 and 2008 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	2010
Employees' compensation and benefits	¥169,951	¥141,600	¥156,662	$1,827,430
Commissions and brokerage	31,038	33,696	45,671	333,742
Communications	20,806	21,045	22,166	223,720
Occupancy and rental	44,038	43,704	38,759	473,527
Data processing and office supplies	25,693	30,157	29,878	276,269
Taxes other than income taxes	7,726	6,554	7,330	83,075
Depreciation and amortization	39,101	35,590	28,047	420,441
Other	24,491	30,924	35,346	263,344
	¥362,844	¥343,270	¥363,859	$3,901,548

26. Other income (expenses)

Details of "Other, net" in the accompanying consolidated statements of income for the years ended March 31, 2010, 2009 and 2008 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	2010
Gains on sales of investment securities	¥ 871	¥ 2,330	¥ 3,228	$ 9,366
Losses on sales of investment securities	(302)	(60)	(205)	(3,247)
Write-down of investment securities	(3,346)	(24,812)	(8,263)	(35,978)
Gains or losses on sale or disposal of fixed assets	(1,085)	(1,430)	(1,415)	(11,667)
Equity in earnings of affiliates	608	(1,106)	1,738	6,538
Impairment losses on fixed assets	(1,464)	(452)	(537)	(15,742)
Relocation costs of headquarters office	–	–	(1,354)	–
Other	6,329	1,862	5,179	68,053
	¥ 1,611	¥(23,668)	¥(1,629)	$ 17,323

27. Subsequent events

Granting stock options—The shareholders of the Company approved the issuance of the stock subscription rights as stock options on June 26, 2010. 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.

(Dissolution of Venture Capital Joint Venture)—The Company, Sumitomo Mitsui Financial Group, Inc. ("SMFG" and, together with its subsidiaries and affiliates "SMFG Group") and Sumitomo Mitsui Banking Corporation ("SMBC") have reached an agreement on May 19, 2010 to terminate the joint venture contract dated May 13, 2005 regarding DSC. This dissolution is scheduled to be executed on July 1, 2010, and consequently DSC is planning to change its corporate name to "Daiwa Corporate Investment Co., Ltd".

1. Business subject to combination, legal form of business combination, name of company after business combination, and outline and purpose of the transaction

(1) Business subject to combination

Name of combined business: Private equity investment business (partially)

Description of business: Venture capital and buyout investment principally in unlisted companies

(2) Legal form of business combination

(i) Demerger of a part of DSC's business to NS Capital Co., Ltd. ("NSCAP", a wholly owned subsidiary of DSC)

(ii) Acquisition of DSC shares after the demerger and transfer of NS Capital shares

(3) Name of Combined company, and outline and purpose of the transaction

Daiwa is planning to partially transfer the rights and obligations of the DSC's business to NSCAP (hereinafter "The Demerger") . Following The Demerger, the shares of DSC is supposed to be wholly transferred to Daiwa, and those of NSCAP to SMFG Group and third party investors.

2. Accounting method

The above transactions are to be accounted for as transactions under common control and a transaction with minority shareholders based on the "Accounting Standard for Business Combinations" (the Business Accounting Council, December 26, 2008) and the "Implementation Guidance on the Accounting Standard for Business Combinations and the Accounting Standard for Divestitures" (ASBJ Corporate Accounting Standard Implementation Guidance No.10, amended on December 26, 2008).

KPMG

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Daiwa Securities Group Inc. and consolidated subsidiaries as of March 31, 2010 and 2009, 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, 2010, 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, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 27 to the consolidated financial statements, the Company, Sumitomo Mitsui Financial Group, Inc. and Sumitomo Mitsui Banking Corporation have reached an agreement on May 19, 2010 to terminate the joint venture contract regarding Daiwa SMBC Capital Co., Ltd.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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 30, 2010