Financial Section

Management's Discussion and Analysis

Macroeconomic Conditions in FY2010

〈Overseas Markets〉

In the January-March 2009 quarter, global economic conditions reached their weakest point in recent memory. Thereafter, conditions have improved. Although the pace of recovery began to weaken in mid-2010, during the October–December 2010 quarter the momentum returned, and the global economy improved steadily until the January–March 2011 quarter.

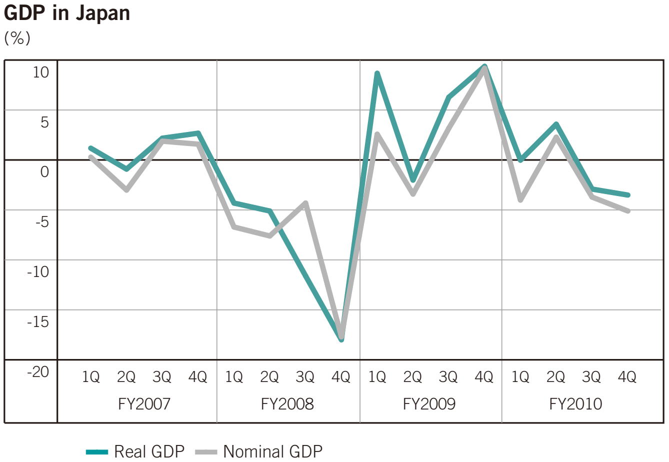
The U.S. began large-scale economic stimulus efforts in February 2009, spending an estimated $800 billion over the subsequent two years to revive growth. However, the impact of that spending started to fade in the April–June 2010 quarter. Consequently, despite pressure to correct monetary policy and abandon an excessive easing stance, the government took further quantitative easing steps including the purchase of roughly $600 billion in U.S. long-term treasury bonds in November 2010. In the same month, the Obama administration was weakened by Democratic Party losses in midterm elections to the U.S. Congress, and found it necessary to make compromises such as the continuation of Bush-era income tax cuts and additional fiscal spending measures in December. These measures provided some support to the real economy, with employment in private nonagricultural sectors recovering to post growth once again, stock prices advancing and recoveries taking hold in retail sales and other measures of consumer spending.

In China, meanwhile, the government responded to inflation and rising real estate prices by taking steps to restrain the overheating economy. Beginning in 2010, China acted quickly to tighten policy, raising the deposit reserve requirement ratio and tightening regulations on real estate investment and other types of speculation. Lending rates were increased by stages, in October and December 2010, and February 2011. This helped to cool off GDP growth rates, which stood at 11.9% year on year in the January-March 2010 quarter. However, the pace of expansion remained brisk, with a 9.7% year-on-year increase posted in the January-March 2011 quarter, due to rising exports associated with economic recovery in the U.S. Other newly emerging economies, particularly in Asia, also posted strong economic growth. Much of the liquidity that has been created in developed countries to address their domestic economic concerns is making its way into newly emerging countries, elevating stock prices and driving growth in the real economy of these regions, and also triggering inflation. Many emerging countries have already begun to tighten financial and monetary policies in response.

In Europe, 2010 saw fiscal deficits and rising levels of government debt raise concern about the financial stability of many countries in Southern Europe, including Greece, Italy, Spain and Portugal. This has also threatened the stability of banks that have large balances of loans outstanding to such countries or large holdings of their government bonds. It even raised concern about the potential impact on the international financial system. In May 2010, an EU Summit Meeting was held to establish policies to address the problem, including the creation of the European Stabilization Mechanism. Although industrial output and other measures of the real economy continued to show signs of weakness through the summer of 2010, the Euro weakened considerably and countries such as Germany started to see a rise in exports. Thereafter, economic recovery began to take hold. Nevertheless, concerns about fiscal health persist and interest rates in countries with large fiscal deficits are continuing to rise.

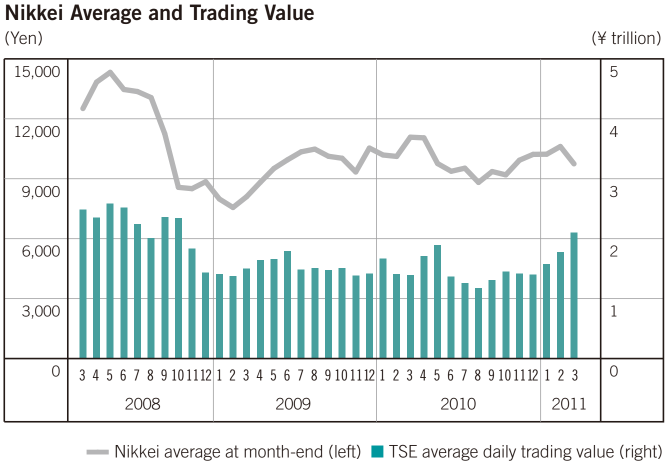
With global economic growth weakening, many countries have been unable to support economic growth through domestic demand alone, and are dependent on exports to drive the

GDP in Japan



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

Nikkei Average and Trading Value



Source: Tokyo Stock Exchange, Daiwa Institute of Research recovery. Consequently, they have come to view a weak currency as desirable. Furthermore, as a country with a trade surplus and little scope for interest rates to fall any further, the Japanese yen came to be viewed as a "safe haven currency." Strong demand for the yen caused it to appreciate dramatically. By the October–December 2010 quarter, however, global economic growth started to pick up, and interest rates in countries such as the U.S. began to rise. This eased demand for the yen, and by November 2010, the currency began to weaken temporarily.

Monetary easing measures in developed countries contributed to a rise in stock prices and this in turn provided some support for the economic recovery. However, it has also had some side effects, such as a surge in commodities prices, which are obstructing a full-scale economic rebound. The rise in commodities prices has affected not only oil and other minerals, but also foodstuffs, which could potentially make global conditions worse. Indeed, high food prices in the Middle East and North Africa have fuelled public discontent and contributed to demonstrations and popular revolts against the government in one country after another. This trend, which has begun to be referred to as a "Democratic Domino Effect," has swept through countries such as Tunisia, Egypt, Libya, Bahrain, Yemen and Syria. Since most of these countries are medium-scale oil producers, the domino effect is providing further impetus to the upward pressure on oil prices.

〈Japan〉

Beginning around March 2009, the Japanese economy entered a recovery, supported by improving global economic conditions. However, the pace of recovery faded by mid-2010 and growth leveled off. Most observers trying to assess Japan's economic prospects in the January-March 2011 quarter thought that it would move out of this stagnant phase slightly after the pickup in the global economy. But on March 11, 2011, the entire landscape was dramatically changed by the East Japan Earthquake and associated tsunami which swept away any hope of an imminent rebound.

In June 2010, Prime Minister Hatoyama stepped down after a brief eight months at the helm, and was replaced by the government of Naoto Kan. In the same month, the Japanese government unveiled its New Growth Strategy, and the Bank of Japan began taking steps to coordinate its policies with those of the government, to "supply funds to support a stronger foundation for growth." The expenditures associated with this strategy were included in a greatly increased budget, which would add to Japan's already large deficit and accumulated debt. Given the financial crisis in many countries of Southern Europe, markets began to take greater notice of Japan's financial position. Also in June, the government unveiled a Fiscal Management Strategy to explain how it intended to maintain fiscal continuity. This strategy placed much of the budget-balancing emphasis on tax increases and other new revenues. The issue of a consumption tax increase was a major focus of the Upper House elections that took place in July, with most candidates forced to declare allegiance to either "economic growth" or "fiscal soundness" in their election platforms.

Meanwhile, the global economy was stagnating and the yen appreciating rapidly, depressing exports and industrial output. In August 2010, the Bank of Japan expanded its fund provision operations to ease monetary policy further, apparently to coordinate its efforts with those of the government. The economic deceleration and the strengthening yen thus became major topics of discussion in the Democratic Party of Japan's leadership election in September. At about this time the government issued a plan proposing Three-Step Economic Measures for Realization of the New Growth Strategy. Shortly after the leadership election, the yen reached a high of ¥82/U.S.$, prompting the Bank of Japan to intervene in the markets by selling the yen for the first time in six-and-a-half years. However, due to the sheer size of the foreign exchange markets, Japan had insufficient capacity to make a real impact through unilateral intervention and most other countries were unwilling to conduct a coordinated intervention because they preferred to see their own currencies weaken. Without support from the U.S. and Europe, the intervention failed to alter the general trend of yen strength.

In October 2010, the Bank of Japan lowered its target for the uncollateralized overnight call rate to 0–0.1% as part of a Comprehensive Monetary Easing policy, and pledged to continue its zero interest rate policy until it could confirm that prices had stabilized. It also introduced a variety of new measures to purchase financial assets, such as ETFs and J-REITs. Meanwhile, as part of its New Growth Strategy, the government responded to pressure for reduced corporate income tax rates by committing to a framework of tax reforms, including a 5 percentage-point cut in the corporate income tax rate. This commitment was formalized in a Cabinet Decision for a Tax Reform Framework in December 2010.

As the government and the Bank of Japan increased their cooperation, the global economy was also showing signs of picking up steam. Exports and industrial output bottomed out and positive signs started to emerge for the Japanese economy. Economists began forecasting a further recovery that was expected to quickly follow the "transition phase." But the East Japan Earthquake on March 11 dashed all of these expectations and delivered a sudden reverse to the Japanese economy. In addition to the immediate destruction caused by the earthquake and tsunami, the country faced a serious nuclear accident which rose to the level of a national emergency. The electric power network was forced to conduct rolling blackouts to deal with the shortage of generating capacity, industrial production was hit by interruptions in the supply chain, and consumers responded with extremely defensive consumption behavior. Economic activity came to a halt, while the issue of the New Growth Strategy and Fiscal Management Strategy, which had been adopted in June 2010, remained unresolved, along with any plans for a corporate tax cut.

The markets were shaken by the earthquake as well. By March 15 the Nikkei 225 had fallen to 8,227.63, a drop of more than 20% from the closing level on the previous Thursday, prior to the earthquake. The yen surged to a postwar high of ¥76.25/U.S.$ on March 17, prompting the G7 members to agree to conduct coordinated yen-selling intervention on March 18. Industrial output for March plunged 15.3% month on month, and the future outlook for the economy was suddenly obscured from view.

Analysis of Business and Financial Conditions

<Overview>

During FY2010, a host of issues arose both inside and outside Japan, which created uncertainty and placed pressure on economic growth, from the fiscal crisis in many European countries to social unrest in the Middle East and the East Japan Earthquake. The uncertainties and adverse events were reflected in the Daiwa Securities Group's earnings performance for the full fiscal year, which showed net operating revenues of ¥318.5 billion, an ordinary loss of ¥32.6 billion and a net loss of ¥37.3 billion. The dividend for FY2010 was set at ¥6 per share (including an interim dividend of ¥3 per share).

Analysis of Income Statements

<Net Operating Revenues>

Net operating revenues declined by 30.5% year on year to ¥318.5 billion. Income from commissions was down 13.5% from the previous year, to ¥218.6 billion, as factors such as the European fiscal crisis and the East Japan Earthquake elevated market uncertainty. Net gain on trading declined 16.7% year on year, to ¥92.4 billion. In addition, the Group posted losses on private equity and other securities, due to the impact of the earthquake.

Breakdown of Net Operating Revenues

Millions of yen

				FY2010			
	FY2009	FY2010	YoY	1Q	2Q	3Q	4Q
Commissions	¥252,863	¥218,630	–13.5%	¥56,106	¥49,142	¥54,618	¥ 58,763
Net gain on trading	110,955	92,477	–16.7%	10,724	34,160	31,605	15,985
Net gain (loss) on private equity and other investments	75,584	(17,259)	—	(1,924)	(3,316)	8,136	(20,154)
Net financial income	7,070	13,854	96.0%	3,522	4,957	1,212	4,161
Others	11,632	10,862	–6.6%	3,184	3,490	945	3,242
Net operating revenues	¥458,105	¥318,565	–30.5%	¥71,613	¥88,434	¥96,517	¥ 61,998

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

<Breakdown of Commissions by Product and Business Sector>

The Group's Retail business, Daiwa Securities Co. Ltd. whose online business offers low commission rates for equity transactions, registered an increase in the online ratio of trading value. In July, the company also sharply lowered its transaction fees for margin transactions, and this too succeeded in boosting total trading volume. However, due to the low rates, commission income from equity trading declined by 10.9% year on year to ¥50.2 billion.

In the Asset Management business, the Group succeeded in expanding the total balance of assets under management by offering a diverse assortment of products and services through sales channels both inside and outside the Group. This produced a steady inflow of funds to the Asset Management business and expanded the balance of investment trust assets under management. As a result, management fee income increased 7.8% year on year, to ¥116.7 billion.

Revenues in the Investment Banking business declined 45.2%, to ¥38.7 billion. Compared with FY2009, when the company attracted a large number of underwriting contracts including some major deals, there was a drop in both equity financing and debt financing activity over the course of the year.

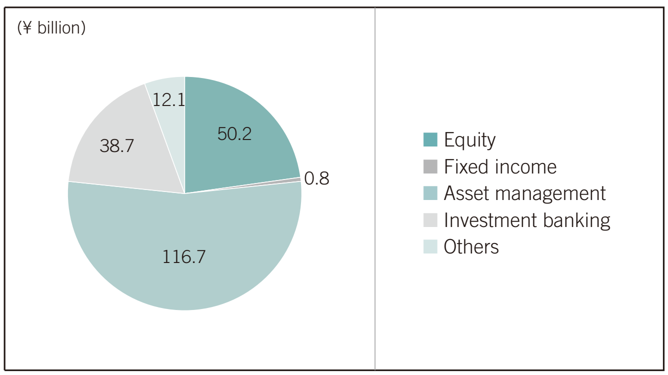
Breakdown of Commissions

Millions of yen

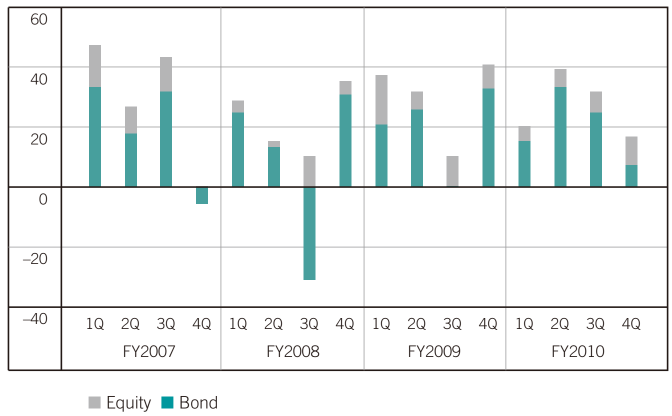
	FY2009	FY2010	YoY	FY2010 1Q	FY2010 2Q	FY2010 3Q	FY2010 4Q
Equity	¥ 56,388	¥ 50,254	–10.9%	¥13,487	¥ 9,593	¥12,280	¥14,893
Fixed income	698	827	18.5%	186	162	179	299
Asset management	108,266	116,734	7.8%	30,272	28,238	29,564	28,660
Investment banking	70,648	38,704	–45.2%	8,794	8,109	9,960	11,840
Others	16,863	12,108	–28.2%	3,366	3,038	2,634	3,069

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

Breakdown of Commissions



Revenues (Trading Gain/Loss) From Equity and Bond Divisions
(¥ billion)



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

<Net Gain (Loss) on Trading>

Trading gains and losses are booked on a managerial accounting basis and reflect the sum of net gains (losses) on trading and net financial income from trading activity. Due to the domestic stock market's negative performance during FY2010, trading gain in the Equity Division declined 32.1% year on year, to ¥27.5 billion.

In the Bond Division, on the other hand, the Group was able to profit by actively controlling and adjusting its positions amidst rapid fluctuations in both foreign exchange and credit markets. This, coupled with brisk sales of foreign currency-denominated bonds in the Retail Division, generated a 1.2% increase in bond trading revenues year on year to ¥81.5 billion.

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

Billions of yen

	FY2009	FY2010	YoY	FY2010 1Q	FY2010 2Q	FY2010 3Q	FY2010 4Q
Equity	¥ 40.5	¥ 27.5	–32.1%	¥ 5.0	¥ 6.0	¥ 7.0	¥ 9.5
Bond	80.5	81.5	1.2%	15.5	33.5	25.0	7.5
Total	¥121.0	¥109.0	–9.9%	¥20.5	¥39.5	¥32.0	¥17.0

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

<Selling, General and Administrative (SG&A) Expenses>

Total SG&A expenses remained almost unchanged from the previous fiscal year, at ¥363.9 billion. Daiwa Asset Management Co. Ltd. experienced an increase in commission paid to companies outside the Group due to growth in the balance of assets under management. This elevated commissions and other expenses by 13.9% year on year, to ¥70.3 billion. In addition, Daiwa Asset Management incurred higher contracted research expenses as part of its effort to increase the lineup of investment trust products with the launch of new trusts focusing on emerging market stocks and bonds. This increased data processing and office supplies expenses by 5.2%, to ¥27.0 billion. On the other hand, since the Group posted a consolidated net loss, employee bonuses were reduced and total personnel expenses declined 5.7% year on year, to ¥160.2 billion. Cutbacks in IT-related spending ensured that depreciation and amortization expenses remained at ¥39.1 billion—about the same level as in the previous year.

Cost Structure

(¥ billion)

<Ordinary Income and Net Income>

Despite the drop-off in net operating revenues, SG&A expenses remained essentially unchanged from FY2009, causing Daiwa Securities Group to post a ¥32.6 billion ordinary loss for FY2010. A ¥4.0 billion extraordinary gain was booked on the sale of investment securities, but ¥5.5 billion in valuation losses on investment securities and ¥2.0 billion in losses on the disposal of fixed assets were booked in the extraordinary losses account. This produced a net loss of ¥1.9 billion on extraordinary items. With the addition of income taxes and minority interests, the Group reported a net loss of ¥37.3 billion for the period.

Ordinary Income and Net Income

Millions of yen

				FY2010			
	FY2009	FY2010	YoY	1Q	2Q	3Q	4Q
Ordinary income (loss)	¥102,917	**¥(32,602)**	—	**¥(8,187)**	**¥ (839)**	**¥7,017**	**¥(30,591)**
Net income (loss)	43,429	**(37,332)**	—	**(1,191)**	**(4,192)**	**1,182**	**(33,129)**

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

<Overview of Performance in Each Business Segment>

[Retail Division]

Weak conditions in the domestic stock markets depressed total brokerage commissions, but the Retail Division earnings were supported by trading profits on the sale of foreign currency-denominated bonds, particularly issues from emerging markets. Net operating revenues declined 7.7% year on year, to ¥178.9 billion. Successful efforts to reduce operating expenses allowed the Division to post a 3.4% year-on-year increase in ordinary income, to ¥41.8 billion.

[Global Markets Division]

The Group's total trading activity on stock markets in Hong Kong, India and some other emerging markets reached its highest level ever, as the Group continued to expand operations in Asia. However, the fiscal crisis in Europe produced severe volatility and markets in general were thrown into turmoil following the East Japan Earthquake. Consequently, net operating revenues in the Global Markets Division dropped by 25.7% year on year, to ¥61.4 billion. The Division posted an ordinary loss of ¥52.1 billion.

[Global Investment Banking Division]

The Group continued its efforts to expand business in Asian countries where both economic growth and equity market performance has been impressive. However, a drop in demand for equity financing in Japan markets sharply reduced underwriting commissions. Net operating revenues fell 45.4% year on year, to ¥30.6 billion, and the Global Investment Banking Division reported an ordinary loss of ¥14.7 billion.

[Asset Management Division]

Weak equity markets and adverse foreign exchange conditions created a strong demand for monthly dividend-payment-type investment trusts and products related to emerging economies. By promoting these products, the Asset Management Division registered a steady increase in the balance of assets under management. Net operating revenues increased 15.3% year on year, to ¥36.3 billion, and ordinary income rose 42.4%, to ¥15.9 billion.

[Investment Division]

Considering the potential impact of the East Japan Earthquake, the Investment Division made aggressive additions to loss reserves at the end of the fiscal year. This resulted in a negative figure for net operating revenues (a revenue outflow) of ¥15.2 billion, and an ordinary loss of ¥21.4 billion.

Segment Information

Millions of yen

	Net Operating Revenues			Ordinary Income		
	FY2009	**FY2010**	YoY	FY2009	**FY2010**	YoY
Retail	¥193,821	**¥178,971**	–7.7%	¥ 40,475	**¥ 41,867**	3.4%
Global Markets	82,749	**61,496**	–25.7%	(14,127)	**(52,174)**	—
Global Investment Banking	56,064	**30,635**	–45.4%	9,275	**(14,733)**	—
Asset Management	31,492	**36,324**	15.3%	11,197	**15,949**	42.4%
Investment	73,991	**(15,278)**	—	66,244	**(21,477)**	—
Others	33,901	**19,393**	–42.8%	(7,337)	**(8,140)**	—
Total before adjustment	472,018	**311,541**	–34.0%	105,727	**(38,708)**	—
Adjustment	(13,913)	**7,024**	—	(2,810)	**6,106**	—
Consolidated total	¥458,105	**¥318,565**	–30.5%	¥102,917	**¥(32,602)**	—

Note: Segment Information has not been audited by an independent auditor.

〈Overseas Activities〉

In the overseas business, Daiwa Securities Capital Markets Co. Ltd. announced on November 19, 2010 that it had acquired the Global Convertible Bond and Asian Equity Derivatives businesses of the KBC Group–a major Belgian banking group. Although this acquisition increased SG&A and other costs in the Americas and European operations, investment banking and bond trading activity dropped off during FY2010, causing commission income and trading profits to decline. As a result, the Group posted an ordinary loss of ¥1.4 billion in the Americas and an ¥8.9 billion ordinary loss in Europe. Daiwa Securities Group has placed top priority on strengthening its business in Asia, and has been adding personnel aggressively. As a result, even though operations in Asia and Oceania generated increased revenues, the rise in personnel and SG&A expenses contributed to an ordinary loss of ¥11.1 billion. The total contribution from Overseas Activities was an ordinary loss of ¥21.5 billion, after having posted positive results in FY2009.

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

Millions of yen

	FY2009	**FY2010**
America	¥1,707	**¥ (1,447)**
Europe	1,984	**(8,954)**
Asia & Oceania	60	**(11,133)**
Total	¥3,752	**¥(21,536)**

Analysis of Balance Sheets and Cash Flow Statements

〈Assets〉

At the end of FY2010, the balance sheet showed ¥16,842.4 billion in total assets, a decline of ¥312.9 billion year on year. Current assets contracted by ¥324.8 billion, to ¥16,311.4 billion, of which “trading assets” accounted for ¥6,770.4 billion (down ¥883.8 billion year on year) and ¥7,327.8 billion pertained to collateralized short-term financing agreements (a ¥260.4 billion increase over FY2009). Fixed assets increased by ¥11.9 billion year on year, to ¥530.9 billion.

〈Liabilities and Net Assets〉

Total liabilities decreased by ¥216.8 billion, year on year, leaving a balance of ¥15,921.0 billion. Current liabilities were reduced by ¥536.3 billion, to ¥13,939.1 billion, of which ¥4,816.8 billion was related to trading products (down ¥108.4 billion), ¥5,338.8 billion represented collateralized short-term financing agreements (up ¥1,452.6 billion) and ¥2,585.7 billion was from short-term borrowings (down ¥1,724.9 billion year on year). Long-term liabilities increased by ¥320.4 billion year on year, to ¥1,978.8 billion, of which straight corporate bonds accounted for ¥1,334.1 billion (up ¥107.4 billion) and long-term borrowings stood at ¥592.6 billion (up ¥214.3 billion year on year).

Total net assets declined by ¥96.1 billion year on year, to ¥921.3 billion. The sum of common stock equity and capital surplus was nearly unchanged, increasing by just ¥100 million year on year to ¥478.0 billion. However, retained earnings declined by ¥56.7 billion, to ¥395.7 billion, due to the net loss posted in FY2010. Purchases of outstanding Daiwa Securities Group shares increased the balance of treasury stock (at cost) by ¥26.3 billion year on year, to ¥27.0 billion. The net unrealized gains on securities, net of tax effect, increased by ¥2.7 billion year on year, to ¥23.1 billion, and purchases of outstanding shares in Group subsidiaries reduced minority interests by ¥4.0 billion year on year, to ¥83.0 billion.

〈Analysis of Cash Flows〉

Cash flow from operating activities showed a net inflow of ¥1,676.8 billion (compared to a ¥3,259.9 billion outflow in FY2009), reflecting large inflows from collateralized short-term financing agreements. Cash flow from investing activities showed a net outflow of ¥79.4 billion (versus a ¥237.5 billion outflow in FY2009), including outflows for the purchase of business operations. Cash flow from financing activities showed a net outflow of ¥1,301.6 billion reflecting the repayment of short-term debt (there was a net inflow of ¥3,837.2 billion in FY2009). After adjustments for exchange rate fluctuations and other factors, the Company had a balance of ¥1,043.4 billion in cash and cash equivalents at the end of FY2010.

Cash Flows

Millions of yen

	FY2009	FY2010
Cash flows from operating activities	¥(3,259,900)	**¥ 1,676,883**
Cash flows from investing activities	(237,500)	**(79,466)**
Cash flows from financing activities	3,837,205	**(1,301,657)**
Cash and cash equivalents at end of fiscal year	¥ 753,982	**¥ 1,043,464**

Liquidity

<Seeking to Maintain both Financial Efficiency and Stability>
The Group's liquidity portfolio and a listing of all short-term unsecured debt, as of the end of FY2010, are outlined in the table below.

Unsecured Capital Procurement Conditions and Liquidity Portfolio at the Group (As of March 31, 2011)

	Billions of yen
Short-term borrowings from banks and other financial institutions	¥ 277
Other short-term borrowings	585
Commercial paper	395
Current portion of bonds	155
Short-term unsecured capital procurement	1,413
Cash	1,028
Government bonds, government-backed bonds, other	317
Liquidity portfolio	1,346
Other bonds	878
Publicly listed shares, other	738
Other	58
Supplementary liquidity portfolio	1,674
Liquidity portfolio and other total	¥3,021

As of the end of FY2010, the balance of the Group's liquidity portfolio stood at ¥1,346.5 billion. The Group also maintains a supplementary liquidity portfolio. The sum of these two liquidity portfolios stood at ¥3,021.3 billion as of March 2011, which is equivalent to 213.7% of total short-term unsecured fund procurement for the full fiscal year 2010.

Credit Ratings by Major Credit Ratings 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. These ratings take into account the impact of multiple factors on the Group's creditworthiness. Factors considered by the ratings agencies include current macroeconomic conditions, the business environment and condition of the securities markets, management strategy, Group management structure, the competitive position of Group companies in their respective markets, profitability, profit volatility, cost structure elasticity, risk management structure, liquidity conditions, capital policy, adequacy of capital, corporate governance, and other issues.

The securities issued by Daiwa Securities Group Inc., Daiwa Securities Co. Ltd., and Daiwa Securities Capital Markets Co. Ltd. in order to obtain funds have also been assigned credit ratings by leading agencies. As of June 22, 2011, the credit ratings assigned to Group companies were as follows:

Daiwa Securities Group Inc.

Credit ratings agencies	Long-term	Short-term
Moody's Japan	Baa2	—
Standard & Poor's Ratings Japan	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 Japan	Baa1	P-2
Standard & Poor's Ratings Japan	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 Japan	Baa1	P-2
Standard & Poor's Ratings Japan	BBB+	A-2
Fitch Ratings	A–	F2
Rating and Investment Information (R&I)	A	a-1
Japan Credit Rating Agency (JCR)	A+	—

Consolidated Balance Sheets

DAIWA SECURITIES GROUP INC.
March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2011	2010	2011
Cash and cash deposits:			
Cash and cash equivalents (Notes 5 and 7)	**¥ 1,043,464**	¥ 753,982	**$ 12,571,855**
Cash segregated as deposits for regulatory purposes (Note 5)	**241,697**	291,104	**2,912,012**
Time deposits (Note 5)	**39,776**	75,197	**479,229**
	1,324,937	1,120,283	**15,963,096**
Receivables:			
Loans receivable from customers	**72,090**	66,759	**868,554**
Loans receivable from other than customers	**15,582**	25,809	**187,735**
Receivables related to margin transactions (Notes 3 and 5)	**147,848**	185,879	**1,781,301**
Other	**262,653**	190,533	**3,164,494**
Less: Allowance for doubtful accounts	**(300)**	(433)	**(3,614)**
	497,873	468,547	**5,998,470**
Collateralized short-term financing agreements (Notes 4 and 5)	**7,327,846**	7,067,400	**88,287,301**
Trading and private equity investments			
Trading assets (Notes 5, 6 and 8)	**6,770,479**	7,654,334	**81,572,036**
Private equity and other investments (Notes 5, 7)	**219,524**	252,470	**2,644,867**
Less: Allowance for investment losses (Note 5)	**(41,963)**	(33,629)	**(505,578)**
	6,948,040	7,873,175	**83,711,325**
Trade account receivables, net (Note 5)	**102,011**	–	**1,229,048**
Other assets:			
Property and equipment, at cost	**255,154**	256,157	**3,074,145**
Less: Accumulated depreciation	**(121,927)**	(113,711)	**(1,469,000)**
	133,227	142,446	**1,605,145**
Goodwill	**26,660**	10,878	**321,205**
Other intangible fixed assets	**109,021**	110,701	**1,313,506**
Investment securities (Notes 5, 7 and 8)	**215,292**	246,772	**2,593,880**
Deferred tax assets (Note 13)	**33,808**	36,151	**407,325**
Other	**124,608**	81,666	**1,501,302**
Less: Allowance for doubtful accounts	**(911)**	(2,674)	**(10,976)**
	641,705	625,940	**7,731,387**
	¥16,842,412	¥17,155,345	**$202,920,627**

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars (Note 1) 2011
Debt:			
Short-term borrowings (Notes 5, 8 and 11)	¥ 2,585,792	¥ 4,310,695	$ 31,154,120
Commercial paper (Note 5)	395,196	351,750	4,761,398
Long-term debt (Notes 5 and 11)	2,156,673	1,748,349	25,984,012
	5,137,661	6,410,794	61,899,530
Payables:			
Payables to customers and counterparties (Notes 5 and 10)	402,965	405,009	4,855,000
Payables related to margin transactions (Notes 3, 5 and 8)	61,397	72,766	739,723
Other (Note 5)	23,042	47,713	277,614
	487,404	525,488	5,872,337
Collateralized short-term financing agreements (Notes 4 and 5)	5,338,882	3,886,235	64,323,880
Trading liabilities (Notes 5 and 6)	4,816,855	4,925,289	58,034,398
Trade account payables, net (Note 5)	–	228,042	–
Accrued and other liabilities:			
Income taxes payable	2,241	22,255	27,000
Deferred tax liabilities (Note 13)	1,644	539	19,807
Accrued bonuses	23,152	33,377	278,940
Retirement benefits (Note 12)	30,385	28,478	366,084
Negative goodwill	17,122	21,687	206,289
Other	62,644	51,725	754,747
	137,188	158,061	1,652,867
Statutory reserves (Note 14)	3,023	3,907	36,422
Total liabilities	15,921,013	16,137,816	191,819,434
Contingent liabilities (Note 15)			
Net assets			
Owners' equity (Note 16)			
Common stock, no par value;			
Authorized—4,000,000 thousand shares			
Issued—1,749,379 thousand shares as of March 31, 2011	247,397	247,385	2,980,687
Capital surplus	230,632	230,594	2,778,699
Retained earnings	395,751	452,456	4,768,084
Treasury stock at cost	(27,055)	(690)	(325,964)
	846,725	929,745	10,201,506
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	23,135	20,366	278,735
Deferred gains or losses on hedges	85	316	1,024
Translation adjustment	(36,012)	(23,263)	(433,879)
	(12,792)	(2,581)	(154,120)
Stock subscription rights (Note 17)	4,386	3,242	52,843
Minority interests	83,080	87,123	1,000,964
Total net assets	921,399	1,017,529	11,101,193
	¥16,842,412	¥17,155,345	$202,920,627

See accompanying notes.

Consolidated Statements of Operations

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2011, 2010 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	**2011**
Operating revenues:				
Commissions	**¥218,630**	¥252,863	¥208,881	**$2,634,096**
Net gain on trading (Note 22)	**92,477**	110,955	40,921	**1,114,181**
Net gain (loss) on private equity and other investments	**(17,259)**	75,584	(79,478)	**(207,940)**
Interest and dividend income	**71,916**	54,729	192,664	**866,458**
Service fees and other revenues	**37,278**	43,783	50,948	**449,133**
	403,042	537,914	413,936	**4,855,928**
Interest expense	**58,062**	47,659	176,034	**699,542**
Cost of service fees and other revenues	**26,415**	32,150	38,358	**318,253**
Net operating revenues (Note 19)	**318,565**	458,105	199,544	**3,838,133**
Selling, general and administrative expenses (Notes 12 and 23)	**363,920**	362,844	343,270	**4,384,579**
Operating income (loss)	**(45,355)**	95,261	(143,726)	**(546,446)**
Other income (expenses):				
Provision for statutory reserves, net (Note 14)	**885**	510	3,600	**10,663**
Other, net (Note 24)	**9,945**	1,611	(23,668)	**119,819**
	10,830	2,121	(20,068)	**130,482**
Income (loss) before income taxes and minority interests	**(34,525)**	97,382	(163,794)	**(415,964)**
Income taxes (Note 13)**:**				
Current	**6,907**	27,450	4,383	**83,217**
Deferred	**2,807**	22,413	(22,557)	**33,819**
	9,714	49,863	(18,174)	**117,036**
Income (loss) before minority interests	**(44,239)**	47,519	(145,620)	**(533,000)**
Minority interests	**6,907**	(4,090)	60,581	**83,217**
Net income (loss)	**¥ (37,332)**	¥ 43,429	¥ (85,039)	**$ (449,783)**

	Yen			U.S. dollars (Note 1)
Per share amounts:				
Net income (loss)	**¥(21.90)**	¥26.41	¥(63.16)	**$(0.26)**
Diluted net income	**–**	26.38	–	**–**
Cash dividends applicable to the year	**6.00**	13.00	8.00	**0.07**

See accompanying notes.

Consolidated Statements of Comprehensive Income

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Income (loss) before minority interests	**¥(44,239)**	¥ 47,519	**$(533,000)**
Other comprehensive income:			
Valuation difference on available-for-sale securities	**12,269**	(59,413)	**147,819**
Deferred gains or losses on hedges	**(231)**	(183)	**(2,783)**
Translation adjustment	**(12,383)**	1,643	**(149,193)**
Share of other comprehensive income of associates accounted for using equity method	**(465)**	90	**(5,602)**
Total other comprehensive income	**(810)**	(57,863)	**(9,759)**
Comprehensive income	**¥(45,049)**	¥(10,344)	**$(542,759)**

	Millions of yen		Thousands of U.S. dollars (Note 1)
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	**¥(47,543)**	¥ 16,872	**$(572,807)**
Comprehensive income attributable to minority interests	**2,494**	(27,216)	**30,048**

See accompanying notes.

Consolidated Statements of Changes in Net Assets

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2011, 2010 and 2009

Millions of yen

		Owners' equity				Accumulated other comprehensive income				
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustment	Stock subscription rights	Minority interests
Balance at March 31, 2008	1,404,665	¥ 178,324	¥157,679	¥ 527,579	¥ (61,701)	¥ 24,470	¥ 801	¥ (9,062)	¥ 1,430	¥263,404
Cash dividends paid				(20,195)						
Net income (loss)				(85,039)						
Change in treasury stock, net				(250)	175					
Decrease due to addition of a consolidated subsidiary				276						
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 (loss)				43,429						
Change in treasury stock, net				(11)	60,836					
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
Issuance of new stocks	**20**	**12**	**12**							
Cash dividends paid				**(19,233)**						
Net income (loss)				**(37,332)**						
Change in treasury stock, net			**26**		**(26,365)**					
Decrease due to exclusion of a consolidated subsidiary				**95**						
Change of scope of equity method				**(45)**						
Net changes of items other than owners' equity						**2,769**	**(231)**	**(12,749)**	**1,144**	**(4,043)**
Balance at March 31, 2011	**1,749,379**	**¥247,397**	**¥230,632**	**¥395,751**	**¥(27,055)**	**¥23,135**	**¥ 85**	**¥(36,012)**	**¥4,386**	**¥ 83,080**

Thousands of U.S. dollars (Note 1)

	Owners' equity				Accumulated other comprehensive income				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustment	Stock subscription rights	Minority interests
Balance at March 31, 2010	$ 2,980,542	$ 2,778,241	$ 5,451,277	$ (8,313)	$ 245,373	$ 3,807	$ (280,277)	$ 39,060	$ 1,049,675
Issuance of new stocks	**145**	**145**							
Cash dividends paid			**(231,723)**						
Net income (loss)			**(449,783)**						
Change in treasury stock, net		**313**		**(317,651)**					
Decrease due to exclusion of a consolidated subsidiary			**1,145**						
Change of scope of equity method			**(542)**						
Net changes of items other than owners' equity					**33,362**	**(2,783)**	**(153,602)**	**13,783**	**(48,711)**
Balance at March 31, 2011	**$2,980,687**	**$2,778,699**	**$4,768,084**	**$(325,964)**	**$278,735**	**$ 1,024**	**$(433,879)**	**$52,843**	**$1,000,964**

See accompanying notes.

Consolidated Statements of Cash Flows

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2011, 2010 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	2011
Cash flows from operating activities:				
Net income (loss)	¥ (37,332)	¥ 43,429	¥ (85,039)	$ (449,783)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	40,487	44,648	39,727	487,795
Allowance for doubtful accounts, net	(705)	226	5,559	(8,494)
Allowance for retirement benefits, net	1,916	2,540	1,925	23,084
Stock subscription rights	1,144	873	939	13,783
Statutory reserves, net	(885)	(510)	(3,600)	(10,663)
Losses (gains) related to investment securities	(62)	2,777	22,542	(747)
Losses on sales and retirement of noncurrent assets	416	1,021	1,430	5,012
Deferred income taxes	2,807	22,413	(22,557)	33,819
Minority interests	(6,907)	4,090	(60,581)	(83,217)
Changes in operating assets and liabilities:				
Receivables and payables related to margin transactions	26,662	1,074	53,115	321,229
Other receivables and other payables	(99,532)	15,752	114,052	(1,199,181)
Collateralized short-term financing agreements	1,244,882	(2,628,410)	(569,791)	14,998,578
Trading assets and liabilities	482,141	(979,953)	1,871,841	5,808,928
Private equity and other investments	56,772	174,980	70,732	684,000
Other, net	(34,921)	35,150	79,094	(420,735)
Total adjustments	1,714,215	(3,303,329)	1,604,427	20,653,191
Net cash flows provided by (used in) operating activities	1,676,883	(3,259,900)	1,519,388	20,203,408
Cash flows from investing activities:				
Increase in time deposits	(115,796)	(282,055)	(42,212)	(1,395,133)
Decrease in time deposits	152,934	213,104	117,044	1,842,578
Payments for purchases of property and equipment	(6,969)	(9,104)	(14,900)	(83,964)
Proceeds from sales of property and equipment	5,689	628	361	68,542
Payments for purchases of intangible fixed assets	(31,299)	(30,272)	(36,174)	(377,096)
Payments for purchases of investment securities	(89,638)	(265,976)	(32,155)	(1,079,976)
Proceeds from sales of investment securities	100,130	133,038	16,454	1,206,386
Payments for acquisition of business	(95,627)	–	–	(1,152,133)
Purchase of subsidiary's stock resulting in change in scope of consolidation	(511)	(6,626)	–	(6,157)
Payments of loans receivable	(2,869)	(1,445)	(8,147)	(34,566)
Collection of loans receivable	3,461	8,044	5,306	41,699
Other, net	1,029	3,164	3,860	12,398
Net cash flows provided by (used in) investing activities	(79,466)	(237,500)	9,437	(957,422)

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	2011
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings and commercial paper	(1,670,115)	3,422,797	(1,559,873)	(20,121,867)
Increase in long-term debt	674,882	353,788	356,944	8,131,108
Decrease in long-term debt	(260,814)	(131,162)	(236,214)	(3,142,337)
Proceeds from issuance of new stocks	–	175,166	–	–
Payments of cash dividends	(19,233)	(12,781)	(20,194)	(231,723)
Other, net	(26,377)	29,397	(101)	(317,795)
Net cash flows provided by (used in) financing activities	(1,301,657)	3,837,205	(1,459,438)	(15,682,614)
Effect of exchange rate changes on cash and cash equivalents	(5,740)	(1,521)	(13,847)	(69,157)
Net increase in cash and cash equivalents	290,020	338,285	55,540	3,494,216
Cash and cash equivalents at beginning of year	753,982	415,600	359,851	9,084,120
Increase in cash and cash equivalents due to addition of consolidated subsidiaries	–	97	209	–
Decrease in cash and cash equivalents resulting from exclusion of a subsidiary from consolidation	845	–	–	10,180
Increase in cash and cash equivalents resulting from merger with an unconsolidated subsidiary	307	–	–	3,699
Cash and cash equivalents at end of year	¥ 1,043,464	¥ 753,982	¥ 415,600	$ 12,571,855

See accompanying notes.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2011, 2010 and 2009

1. Basis of financial statements

The consolidated financial statements include the accounts of Daiwa Securities Group Inc. ("the Company"), established in Japan, 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 Corporate Investment Co., Ltd.

Daiwa Securities is a retail broker-dealer. Daiwa Securities operates through a network of 120 offices 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 operates our wholesale business, encompassing global capital markets business and global investment banking business. DAM is the asset management company of Daiwa.

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 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. The accounts of other 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 adjusting the difference in accounting policies from Japanese GAAP, if any.

(Additional information)
The Company has adopted "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, June 30, 2010) from the fiscal year ended March 31, 2011. As a result of the adoption of this standard, the Company has presented the consolidated statements of comprehensive income for the years ended March 31, 2011 and 2010.

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, 2011, which was ¥83 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 Daiwa holds more than 50% of the voting rights of the entity. Also, control is regarded to exist when Daiwa holds 40% or more of the voting rights of an entity and there are certain facts and circumstances which indicate that Daiwa 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 Daiwa 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 capital gain opportunities and, Daiwa does not intend to operate its business with the entity as a part of the group.

Daiwa accounts for its investment by the equity method of accounting if Daiwa 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 Daiwa 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 Daiwa can exercise significant influence over the entity's operating and financial policies. As with the policy and considerations for consolidation, investee entities are excluded from the scope of the equity method even though Daiwa 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 "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16, March 10, 2008) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (PITF No. 24, March 10, 2008) from the fiscal year ended March 31, 2011.

Also the Company has adopted "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, December 26, 2008), "Partial amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No. 23, December 26, 2008), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, December 26, 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16, December 26, 2008) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, December 26, 2008) from the fiscal year ended March 31, 2011.

These changes have no effect on the consolidated financial statements as of March 31, 2011.

And the Company has adopted "Guidance on Determining a Subsidiary and an Affiliate" (ASBJ Guidance No. 22, issued on May 13, 2008) from the fiscal year ended March 31, 2010. 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. 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—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 stated 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 holdings). 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 by determining 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 in "Private equity and other investments" in the accompanying consolidated financial statements, 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 stated 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. The accounting for 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.

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) was 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 9.

Asset Retirement Obligations

(Changes in accounting policy)

The Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, March 31, 2008) from the fiscal year ended March 31, 2011. "Operating loss" increased by 26 million yen ($313 thousand) and "Loss before income taxes and minority interests" increased by 629 million yen ($7,578 thousand) in the consolidated statement of income in the year ended March 31, 2011, due to this accounting change.

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 Company and its domestic consolidated subsidiaries have adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19, issued on July 31, 2008) from the fiscal year ended March 31, 2010.

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

Accounting method for Employee Stock Ownership Plan Trust utilizing Employee Shareholding Association—The Company introduced an employee incentive plan called "ESOP Trust utilizing Employee Shareholding Association" ("ESOP Trust") for the purpose of boosting the Company's corporate value in the medium to long term by enhancing employee's mind over the Company's performance and promoting employees' motivation. In addition, the plan aims to contribute to the enhancing driving the Company's stock value. Under this plan, the ESOP Trust account was set up and Daiwa's employees who participated in the Daiwa's employee shareholding association ("The Shareholding Association") and who meet certain criteria become beneficiaries of the ESOP Trust. The ESOP Trust purchases the Company's stocks which the Shareholding Association would purchase within five years after the beginning of trust period, and sells them off to the Shareholding Association on a certain day every month. Gain on selling the Company's stock, which is attributed to employees, was stated as a liability on the consolidated financial statements because the remaining funds of the ESOP Trust account will be distributed according to employee's contribution ratios. The Company compensates the losses in the ESOP Trust account, resulting from the purchase and selling of the Company's stock and all other liabilities of the ESOP Trust, therefore accounts for the transactions involving the ESOP Trust are account for as its own. Accordingly, the Company's stock in the ESOP Trust account, other assets, liabilities, revenue and expense other than the remaining funds were stated in the Company's consolidated financial statements.

As of March 31, 2011, the number and amount of the Company's stocks held by the ESOP Trust account were 34,789,000 shares and 13,612 million yen ($164,000 thousand).

Revenue recognition for dividend income—
(Changes in accounting policy)
Formerly, dividend income earned from listed equities had been recognized as revenue during the period in which Daiwa actually received the payment. From the fiscal year ended March 31, 2011, Daiwa has started recognizing as revenue unrealized dividend income based on the declared estimated amount as of the ex-dividend date. This change is to ensure consistency with the revenue recognition between dividend income and fair value measurement of related equities, and to present financial results more appropriately under the current environment in which the number of corporations which increase or resume dividend has been increasing due to their improved performances. "Operating loss" decreased by 1,968 million yen ($23,711 thousand) and "Loss before income taxes and minority interests" decreased by 2,753 million yen ($33,169 thousand) respectively in the consolidated statement of income for the year ended March 31, 2011, due to this accounting change.

Accounting standard for revenue and cost recognition of long term construction contracts—
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 the fiscal year ended March 31, 2010. 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.

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" in the accompanying consolidated balance sheets.

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 amounts for the years ended March 31, 2011 and 2009 are not presented, since net loss is reported in the consolidated statements of income.

3. Margin transactions

Margin transactions at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Assets:			
Customers' margin loans	**¥114,480**	¥119,475	**$1,379,277**
Cash deposits as collateral for securities borrowed	**33,368**	66,404	**402,024**
	¥147,848	¥185,879	**$1,781,301**
Liabilities:			
Payable to securities finance companies	**¥ 4,774**	¥ 5,605	**$ 57,518**
Proceeds of securities sold for customers' accounts	**56,623**	67,161	**682,205**
	¥ 61,397	¥ 72,766	**$ 739,723**

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, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Assets:			
Securities purchased under agreements to resell	**¥ 1,054**	¥ –	**$ 12,699**
Securities borrowed	**7,326,792**	7,067,400	**88,274,602**
	¥7,327,846	¥7,067,400	**$88,287,301**
Liabilities:			
Securities sold under agreements to repurchase	**¥ 125,584**	¥ 544,340	**$ 1,513,060**
Securities loaned	**5,213,298**	3,341,895	**62,810,820**
	¥5,338,882	¥3,886,235	**$64,323,880**

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). Furthermore, quantitative information concerning market risk is disclosed from the fiscal year ended March 31, 2011. Information on financial instruments for the year ended March 31, 2011 and 2010 pursuant to the revised accounting standards is as follows.

1. Concerning the situation of financial instruments

(1) Policy for dealing 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 public offerings for subscription and secondary offering of securities, treating private offerings for subscription of securities, and other businesses related to the securities and financial fields.

Daiwa holds financial assets and liabilities as follows to execute its businesses: securities, derivatives, private equity and other investments and investment securities, etc. and raises its capital utilizing a variety of financial instruments such as corporate bonds, medium-term notes, borrowing from financial institutions, etc. Under the basic policy for financing that enough liquidity for continuing business should be effectively secured, Daiwa is maintaining an appropriate balance between assts and liabilities by diversifying financial measures and maturity dates, and realizing effective and stable finance when it decides to raise its capital. Also, Daiwa uses interest rate swaps and foreign currency swaps, etc. for the purpose of hedging fluctuation of interest rates and foreign currencies.

Daiwa attempts to entirely and efficiently manage the variety of risks incurred by holding financial assets and liabilities and maintains sound finances.

(2) Contents and risk of financial instruments

Daiwa holds financial instruments in the trading business as follows: (a) trading securities and others (stocks and warrants, bonds and units of investment trust), loans secured by securities and loans payable secured by securities, margin transaction assets and liabilities, (b) derivatives, traded at exchange, such as stock index futures, bond futures, interest rate futures and options for those, (c) derivatives not traded at exchanges (OTC derivatives), such as interest rate and foreign exchange swaps, foreign currency futures, currency options, bond options, FRA and OTC securities derivatives, etc. And Daiwa holds private equity and other securities in the principal investments business and venture capital business and investment securities for the business relationship, etc.

Of the various risks, the major risks implied in these financial instruments are market risk and credit risk. Market risk means the risk of incurring losses from fluctuations in the value of holding financial instruments and transactions in accordance with changes of market prices of interest rates, currency exchange rates and stock prices, etc. Credit risk means the risk of suffering losses from defaults or credit changing of counterparties or 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. Out of derivatives executed to meet customer needs and embedded into structured notes, there are some derivative of which risk are higher than reference assets because the volatilities of those derivative are large against correlation of reference assets such as stock indices, foreign exchange rate, and interest rates and they fluctuate in a complicated manner. Therefore, these carry higher risk than the reference assets. These derivative transactions are categorized as “Trading assets” and “Trading liabilities” in the consolidated balance sheets and the realized and unrealized gains and losses by fluctuation of fair values are stated as the “Net gain on trading” in the accompanying consolidated financial statements.

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

Subsidiaries engaged in the trading business utilize derivative transactions as brokers and end-users. Derivative products have been necessary to deal with a variety of customers’ financial needs and subsidiaries engaged in the trading business provide customers with financial instruments to meet their customers’ requests in many ways as brokers. For instance, they provide customers with foreign currency futures to hedge the exchange rate risk of foreign currency of foreign bonds held by customers and interest rate swaps to hedge interest rates when customers issue corporate bonds, etc. As end-users, they 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 their trading positions.

(3) Risk management system concerning financial instruments

For risk management of Daiwa, the Company has resolved the “Risk Management Rule” at meeting of the Board of Directors which states the basic policy of risk management, type of risk that should be managed and executive officers and department responsible 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. And the Company monitors the structure and process of Subsidiaries’ risk management. Also, the Internal Control Committee (restructured to Group Risk Management Committee as of April 1, 2011) as a sub-committee of the Executive Committee of the Company receives reports on matters such as risk exposure obtained by monitoring of subsidiaries and themes concerning the risk management system of each subsidiary and discusses them. Subsidiaries regularly hold risk management committee meetings, etc. to strengthen each risk management system.

(i) Management of risk of financial instruments held for trading purpose

(a) 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 influence of fluctuation of the market on the value of assets and liabilities held by Daiwa and to understand the risk as objectively as possible.

Under those understandings, subsidiaries manage the market risk by establishing the limit for VaR which indicates the estimate of the maximum loss amount under a certain probability, position and sensibility etc., considering the financial situation, the business plan and budget of each division. The Risk Management Department of the Company receives reports on the VaR and position from the subsidiaries engaged in securities business, recognizes the equity risk of the entire group and informs it to the management of the Company on a daily basis. Also 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.

(Quantitative information concerning market risk)

Most of the subsidiaries utilize the historical simulation method (holding period: 1 day, confidence interval: 99%, observation period: 520 business days) for calculating VaR of products traded in the market. The VaR as of March 31, 2011 was 5,129 million yen ($61,795 thousand) in total. In the meantime, Daiwa executes the back test which compares the VaR and the actual profit / loss and verifies its effectiveness. The VaR statistically figures the risk based on historical market fluctuation and may be sometimes unable to completely grasp the risk in the environment that the market unexpectedly changes beyond the estimation.

(b) Management of credit risk

Concerning transactions in the trading business which generates credit risk, Daiwa has established the credit limits based on ratings of counterparties in advance and monitored notional principals and credit amounts. Especially, in connection with the wholesale business that carries a relatively high credit risk, Daiwa assesses the credit condition of its counterparties with qualitative and quantitative analysis based on the rating analysis model. Daiwa also has established a credit limit for each of the counterparties considering transaction conditions such as the term, collateral, etc. and conducts daily monitoring. 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 circumstances of holding them.

Because the margin transactions generate credit to customers, deposits which were set as collateral will be charged to the customers. In connection with the securities loan transaction, Daiwa has tried to reduce credit risk by establishing credit limit for counterparties, charging necessary collaterals, and daily mark to market.

(ii) Management of risk of financial instruments other than trading purpose

Daiwa holds financial instruments for other than trading business such as private equity and other securities as a result of principal investments business and venture capital business and investment securities for the business relationship. These financial instruments carry market risk and credit risk as well. Because those financial instruments have a characteristic risk profile for each product, the Company has conducted management that suits each risk profile. The Company periodically monitors the situation of risk and informs it to the management of the Company.

The subsidiaries which engage in the principal investments business investigate each investment through the investment committee in accordance with the investment limit approved by the Company and make each investment judgment. After investments, they establish a strategy for restructuring governance of invested companies and for exit. Also, they construct a system which enables them to directly conduct monitoring of invested companies, if necessary, by sending personnel to invested companies.

The subsidiaries which engage in the venture capital business narrow investment candidates to the ones that have innovative technology or business models and make the investment judgment at a meeting of the Board of Directors or investment committee by conducting due diligence of the investment candidates and based on the result of examination by the examination division. After investment, they hold the risk management committee and monitor the situation and exit strategy of invested companies and financial influence on the business, etc.

In connection with investment securities as long-term holding for the business relationship, etc, Daiwa decides to acquire or sell the securities in accordance with the policy defined by the relevant company's rules. Also, Daiwa monitors the situation of its investment portfolio.

(Quantitative information concerning market risk)

Main financial assets in Daiwa that are influenced by market risk are available-for-sale securities in the principal investments business and venture capital business and investment securities for the business relationship. As of March 31, 2011, market prices of the listed equities in available-for-sale securities and investment securities fluctuate by 11,468 million yen ($138,168 thousand) if the index, such as TOPIX, changes by 10%.

And main financial liabilities in Daiwa that are influenced by market risk are bonds and notes and long-term borrowings. These are included in "Long-term debt" in the accompanying consolidated balance sheets. As of March 31, 2011, if all other risk variables are constant and the interest rate changes by 10 basis points (0.1%), the fair values of bonds and notes and long-term borrowings fluctuate by 1,382 million yen ($16,650 thousand) and 146 million yen ($1,759 thousand), respectively.

(iii) Management of liquidity risk concerning raising capital

Daiwa conducts its business with a core focus on the securities related business with utilizing a lot of assets and liabilities and establishes the basic policy which is clarifier to efficiently secure enough liquidity for continuing its business.

The methods of raising capital of Daiwa include corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, gensaki transactions and repurchase agreements, etc. By those methods, Daiwa realizes effective and stable raising capital.

In terms of financial stability, preparing for the case that the environment vastly changes, Daiwa endeavors in ordinary times to secure a stable reserve to prevent the business from business continuity problem. Especially after the latter half of the fiscal year 2008, Daiwa has increased liquidity with capital raising from the market and borrowing from financial institutions, preparing for the world wide financial crisis and credit crunch.

Also, Daiwa tries to diversify the maturity of raising capital and sources of funding preparing for the event that it has difficulties raising new capital and rescheduling the existing capital raising due to a financial crisis occurring.

Further, Daiwa establishes liquidity management system in accordance with liquidity coverage ratio suggested by Basel Committee on Banking Supervision. That means that Daiwa daily monitors if the liquidity portfolio, which should cover financing proceeds with no collateral that has the maturity date within certain period and the estimated cash outflow caused by realization of one of some stress scenarios prepared in advance during the same period, is maintained or not. As a result, even in the case that it is difficult for Daiwa to raise short term capital without collateral over the next year, Daiwa have a system that can maintain business continuity.

The Company collectively manages and monitors the liquidity of Daiwa 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 raised capital without collateral preparing for the case that it has difficulties raising new capital and rescheduling the existing capital raising due to the stress which is specific to the Company or influences to the entire market arising. Also, Daiwa has established a system that enables the Company to flexibly supply the capital to the group companies if necessary and achieves efficient and unified capital raising and management.

Concerning domestic and foreign subsidiaries engaged in securities business etc. (Daiwa Securities, Daiwa Securities CM, etc.), with securing its liquidity portfolio necessary for continuing its business and considering each business characteristic, the Company controls the capital raising optimized for Daiwa.

Concerning the other subsidiaries, the Company has conducted entire and effective raising and managing of capital by both collectively raising capital and distributing the capital to subsidiaries.

And Daiwa has established the contingency plan as one of the measures of dealing with liquidity risk. This plan states basic policy concerning the report line depending upon the urgency of stress internally originated including credit crunch and externally originated including an abrupt change of market environment, and the method of raising capital. That enables Daiwa to prepare the system securing liquidity with swift response.

The contingency plan of Daiwa is established considering the stress that may influence the entire group and periodically revised to quickly response to changing financial environment.

And concerning Daiwa Securities and Daiwa Securities CM (including its foreign subsidiaries), which are significantly influenced by financial markets and whose importance to securing the Daiwa's capital liquidity is significant, they establish its own contingency plan and periodically revise the plan as well.

The Company periodically monitors the maintenance of its subsidiaries' contingency plans. The Company revises, if necessary, the capital raising plan or contingency plan itself with crisis scenario assumed and tries to preliminarily execute both increasing the liquidity and reducing assets at the same time.

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

The fair value of financial instruments includes the price based on market value and the theoretical price reasonably calculated in the case of no market value. They may be changed with different conditions because a certain condition is applied to calculating theoretical prices.

2. Fair values of financial instruments

The figures stated in the consolidated balance sheets as of March 31, 2011 and 2010, fair value and the difference of those are as below. Any item for which it is extremely difficult to obtain its fair value is not included in the below table (see Note 2).

Millions of yen

	2011			2010		
	Amounts on consolidated balance sheets	Fair value	Difference	Amounts on consolidated balance sheets	Fair value	Difference
Assets						
(1) Cash and cash equivalents	¥ 1,043,464	¥ 1,043,464	¥ –	¥ 753,982	¥ 753,982	¥ –
(2) Cash segregated as deposits for regulatory purposes	241,697	241,697	–	291,104	291,104	–
(3) Time deposits	39,776	39,776	–	75,197	75,197	–
(4) Receivables related to margin transactions	147,848	147,848	–	185,879	185,879	–
(5) Collateralized short-term financing agreements	7,327,846	7,327,846	–	7,067,400	7,067,400	–
(6) Trading assets	6,770,479	6,770,479	–	7,654,334	7,654,334	–
(7) Private equity and other investments and Investment securities						
(a) Securities intended to be held for trading purposes	2,537	2,537	–	3,599	3,599	–
(b) Held-to-maturity debt securities	100	99	(1)	1,400	1,398	(2)
(c) Subsidiaries companies' stocks and related companies' stocks	22,479	32,304	9,825	10,141	10,362	221
(d) Available-for-sale securities	261,939			315,389		
Allowance for possible investment loss	(6,209)			(2,337)		
	255,730	255,730	–	313,052	313,052	–
(8) Trade account receivables, net	102,011	102,011	–	–	–	–
Total assets	¥15,953,967	¥15,963,791	¥ 9,824	¥16,356,088	¥16,356,307	¥ 219
Liabilities						
(9) Short-term borrowings	¥ 2,585,792	¥ 2,585,792	¥ –	¥ 4,310,695	¥ 4,310,695	¥ –
(10) Commercial paper	395,196	395,196	–	351,750	351,750	–
(11) Long-term debt	2,156,673	2,158,335	(1,662)	1,748,349	1,735,376	12,973
(12) Payable to customers and counterparties	402,965	402,965	–	405,009	405,009	–
(13) Payables related to margin transactions	61,397	61,397	–	72,766	72,766	–
(14) Payables-other	23,042	23,042	–	47,713	47,713	–
(15) Collateralized short-term financing agreements	5,338,882	5,338,882	–	3,886,235	3,886,235	–
(16) Trading liabilities	4,816,855	4,816,855	–	4,925,289	4,925,289	–
(17) Trade account payables, net	–	–	–	228,042	228,042	–
Total liabilities	¥15,780,802	¥15,782,464	¥(1,662)	¥15,975,848	¥15,962,875	¥12,973

	Thousands of U.S. dollars		
	2011		
	Amounts on consolidated balance sheets	Fair value	Difference
Assets			
(1) Cash and cash equivalents	$ 12,571,855	$ 12,571,855	$ –
(2) Cash segregated as deposits for regulatory purposes	2,912,012	2,912,012	–
(3) Time deposits	479,229	479,229	–
(4) Receivables related to margin transactions	1,781,301	1,781,301	–
(5) Collateralized short-term financing agreements	88,287,301	88,287,301	–
(6) Trading assets	81,572,036	81,572,036	–
(7) Private equity and other investments and Investment securities			
(a) Securities intended to be held for trading purposes	30,566	30,566	–
(b) Held-to-maturity debt securities	1,205	1,193	(12)
(c) Subsidiaries companies' stocks and related companies' stocks	270,831	389,205	118,374
(d) Available-for-sale securities	3,155,892		
Allowance for possible investment loss	(74,807)		
	3,081,085	3,081,085	–
(8) Trade account receivables, net	1,229,048	1,229,048	–
Total assets	$192,216,469	$192,334,831	$118,362
Liabilities			
(9) Short-term borrowings	$ 31,154,120	$ 31,154,120	$ –
(10) Commercial paper	4,761,398	4,761,398	–
(11) Long-term debt	25,984,012	26,004,036	(20,024)
(12) Payable to customers and counterparties	4,855,000	4,855,000	–
(13) Payables related to margin transactions	739,723	739,723	–
(14) Payables-other	277,614	277,614	–
(15) Collateralized short-term financing agreements	64,323,880	64,323,880	–
(16) Trading liabilities	58,034,398	58,034,398	–
Total liabilities	$190,130,145	$190,150,169	$ (20,024)

(Note 1) Accounting method of fair values of financial instruments
(1), (3) Cash and cash equivalents and time deposits
Cash and cash equivalents and time deposits are stated as their book value because fair values are similar to book value and they are settled in the short term.

(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.

(4), (13) Receivables related to margin transactions and payables related to margin transactions
Receivables related to margin transactions consist of lending money to customers generated from margin transactions and collateral to securities finance companies. Those are stated at their book value as settled in the short term because the former is settled by reversing trades by customers' decision 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 amount equivalent of customers generated from margin transactions. Those are stated as their book value as settled in the short term because the former is marked to market and the latter is settled by reversing trades by customers' decision.

(5), (15) Collateralized short-term financing agreements
These are stated as their book value because fair values are similar to book value and those are most of them settled in the short term.

(6), (16) Trading assets and trading liabilities
(a) Trading securities and others

Equities and others	closing price or closing quotations 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 rate
Units of Investment trust	closing price or closing quotations at exchange, or net asset value

(b) Derivative transactions

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

Concerning OTC derivatives, both credit risk and liquidity risk equivalent to the amount of the counterparty are added to the fair value if necessary.

(7) Private equity and other investments and investment securities

Equities and others	closing price or closing quotations 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 rate, or reasonably calculated price based on the value of collateralized assets
Units of Investment trusts	closing price or closing quotations 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 estate, 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), (17) Trade account receivables, net and trade account payables, net
Trade account receivables, net and trade account payables, net are stated as their book value because fair values are similar to book value and they are settled in the short term.

(9), (10) Short-term borrowings and commercial paper
These are stated as their book value because they are settled in the short term and fair value is similar to book value.

(11) 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, there 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.

(12), (14) Payable to customers and counterparties and payables-other
There are mainly composed of deposit 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 fiscal year is considered as fair value. Other deposits are stated as their book value 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 value as the terms of the settlement period deemed to be short with those characteristics which are marked to market for each transaction. Concerning the other cash deposit received as guarantee from customers, the payment amount (book value) when settled at the end of this fiscal year are considered as fair values.

(Note 2) Any financial product which is extremely difficult to obtain its fair value at March 31, 2011 and 2010 is as below and is not included in the "Assets (7)(c) Subsidiaries companies' stocks and related companies' stocks and (d) Available-for-sale securities" of fair value information of financial instruments.

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Subsidiaries' stocks and related companies' stocks			
Unlisted equities	**¥32,467**	¥28,329	**$ 391,169**
Other securities			
Unlisted equities	**88,586**	94,857	**1,067,301**
Investments in limited partnership and other similar partnerships	**21,466**	38,801	**258,627**
Others	**5,242**	6,726	**63,157**

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 receivable and securities with a maturity date after March 31, 2011

				Millions of yen
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥1,043,464	¥ –	¥ –	¥–
Cash segregated as deposits for regulatory purposes	241,697	–	–	–
Time deposits	39,776	–	–	–
Receivables related to margin transactions	147,848	–	–	–
Collateralized short-term financing agreements	7,327,846	–	–	–
Private equity and other investments and Investment securities				
Held-to-maturity securities (Corporate bonds)	–	100	–	–
Other securities with a maturity date	5,415	–	3,500	–
Bonds	5,415	–	3,500	–
Government bonds, municipal bonds, etc.	–	–	–	–
Corporate bonds	1,264	–	–	–
Other bonds	4,151	–	3,500	–
Other securities	–	–	–	–
Total	¥8,806,046	¥100	¥3,500	¥–

* Cash segregated as deposits for regulatory purposes 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."

				Thousands of U.S. dollars
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	$ 12,571,855	$ –	$ –	$–
Cash segregated as deposits for regulatory purposes	2,912,012	–	–	–
Time deposits	479,229	–	–	–
Receivables related to margin transactions	1,781,301	–	–	–
Collateralized short-term financing agreements	88,287,301	–	–	–
Private equity and other investments and Investment securities				
Held-to-maturity securities (Corporate bonds)	–	1,205	–	–
Other securities with a maturity date	65,241	–	42,169	–
Bonds	65,241	–	42,169	–
Government bonds, municipal bonds, etc.	–	–	–	–
Corporate bonds	15,229	–	–	–
Other bonds	50,012	–	42,169	–
Other securities	–	–	–	–
Total	$106,096,939	$1,205	$42,169	$–

* Cash segregated as deposits for regulatory purposes 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 payable to securities finance companies, commercial paper and long-term debts after March 31, 2011

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Payable to securities finance companies	¥ 4,774	¥ –	¥ –	¥ –
Commercial paper	395,196	–	–	–
Long-term debts	229,790	1,076,738	230,027	620,118
Total	¥629,760	¥1,076,738	¥230,027	¥620,118

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Payable to securities finance companies	$ 57,518	$ –	$ –	$ –
Commercial paper	4,761,398	–	–	–
Long-term debts	2,768,554	12,972,747	2,771,410	7,471,301
Total	$7,587,470	$12,972,747	$2,771,410	$7,471,301

* Payable to securities finance companies considered that it is settled in the short term, and included “Within 1 year.”
* Payable to securities finance companies are part of the “Payables related to margin transactions” in the accompanying consolidated balance sheets.

6. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Trading assets:			
Trading securities:			
Equities	**¥ 368,019**	¥ 345,370	**$ 4,433,964**
Government, corporate and other bonds	**4,065,776**	5,229,929	**48,985,253**
Investment trusts	**63,933**	102,754	**770,277**
Commercial paper, certificates of deposits and others	**52,071**	28,955	**627,361**
Derivatives:			
Option transactions	**394,029**	277,908	**4,747,337**
Futures and forward transactions	**31,565**	57,250	**380,301**
Swap agreements	**1,777,084**	1,583,669	**21,410,651**
Other derivatives	**33,065**	39,604	**398,374**
Risk reserves	**(15,063)**	(11,105)	**(181,482)**
	¥6,770,479	¥7,654,334	**$81,572,036**

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Trading liabilities:			
Trading securities:			
Equities	**¥ 268,070**	¥ 163,548	**$ 3,229,759**
Government, corporate and other bonds	**2,744,432**	3,304,824	**33,065,446**
Investment trusts	**291**	253	**3,506**
Derivatives:			
Option transactions	**396,974**	238,818	**4,782,819**
Futures and forward transactions	**47,150**	116,350	**568,072**
Swap agreements	**1,325,956**	1,062,518	**15,975,373**
Other derivatives	**33,982**	38,978	**409,423**
	¥4,816,855	¥4,925,289	**$58,034,398**

Government, corporate and other bonds include convertible bonds.

7. Securities other than trading assets

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, 2011 and 2010 consisted of the following:

			Millions of yen
	Cost	Fair value	Difference
March 31, 2011	**¥2,835**	**¥2,537**	**¥(298)**
March 31, 2010	¥ 4,438	¥ 3,599	¥ (839)

			Thousands of U.S. dollars
	Cost	Fair value	Difference
March 31, 2011	**$34,157**	**$30,566**	**$(3,591)**

Amortized cost of held-to-maturity debt securities as of March 31, 2011 and 2010 consisted of the following:

		Millions of yen	Thousands of U.S. dollars
	2011	2010	**2011**
Corporate bonds	**¥100**	¥1,400	**$1,205**

Cost and fair value of marketable available-for-sale securities as of March 31, 2011 and 2010 consisted of the following:

			Millions of yen
	Cost	Fair value	Difference
March 31, 2011:			
Equities	**¥ 99,795**	**¥141,499**	**¥41,704**
Government, corporate and other bonds	**9,702**	**9,705**	**3**
Other	**169,310**	**168,736**	**(574)**
	¥278,807	**¥319,940**	**¥41,133**

			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

			Thousands of U.S. dollars
	Cost	Fair value	Difference
March 31, 2011:			
Equities	**$1,202,349**	**$1,704,807**	**$502,458**
Government, corporate and other bonds	**116,892**	**116,928**	**36**
Other	**2,039,879**	**2,032,964**	**(6,915)**
	$3,359,120	**$3,854,699**	**$495,579**

8. Pledged assets

Secured obligations at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Short-term borrowings	¥1,985,082	¥3,726,600	$23,916,651
Payables related to margin transactions	4,590	5,605	55,301
	¥1,989,672	¥3,732,205	$23,971,952

All above obligations at March 31, 2011 and 2010 are secured by the following assets:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Trading assets	¥1,268,838	¥2,723,331	$15,287,205
Investment securities	22,615	26,012	272,470
	¥1,291,453	¥2,749,343	$15,559,675

In addition to the above, securities borrowed amounting to ¥1,148,947 million ($13,842,735 thousand) and ¥1,273,547 million were pledged as guarantees at March 31, 2011 and 2010, respectively.

Total fair value of the securities pledged as collateral at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Securities loaned	¥6,130,436	¥3,799,164	$73,860,675
Other	617,542	1,067,998	7,440,265
	¥6,747,978	¥4,867,162	$81,300,940

Total fair value of the securities received as collateral at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Securities loaned	¥8,623,571	¥7,686,295	$103,898,446
Other	502,630	357,910	6,055,783
	¥9,126,201	¥8,044,205	$109,954,229

9. Lease transactions

Assets used under finance leases other than the ones that transfer ownership to the lessee at the end of the lease term, which started before March 31, 2008, are accounted for in the same manner as ordinary rental transactions. Certain information concerning such non-capitalized finance leases and operating leases at March 31, 2011 and 2010 are summarized as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Non-capitalized finance leases:			
Total assets under non-capitalized finance leases	¥ 663	¥ 899	$ 7,988
Accumulated depreciation	416	503	5,012
Future lease payments in respect of non-capitalized leases	74	406	892
Due within one year	59	153	711
Operating leases:			
Future lease payments in respect of operating leases	70,509	67,211	849,506
Due within one year	13,091	12,646	157,723

Lessor:	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Operating leases:			
Future lease receipts in respect of operating leases	¥4,610	¥5,278	$55,542
Due within one year	648	711	7,807

10. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash received for customers' accounts	¥132,256	¥134,456	$1,593,446
Cash deposits received from customers	249,362	246,603	3,004,361
Other	21,347	23,950	257,193
	¥402,965	¥405,009	$4,855,000

11. Long-term debt

As is customary in Japan, in the case of unsecured bank borrowings, security must be given under certain conditions if requested by a lending bank. The bank has the right to offset cash deposited by the borrower against any debt or obligation that becomes due, and in the case of default and certain other specified events, against all debts payable to the bank. Such request has never been made and such right has never been exercised.

The weighted average interest rate on total outstanding short-term borrowings principally from banks at March 31, 2011 and 2010 was 0.16% and 0.63%, respectively.

Long-term debt at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Bond payable in yen: 1.30% due CY2011	¥ –	¥ 70,000	$ –
Bond payable in yen: 1.80% due CY2011	50,000	50,000	602,410
Bond payable in yen: 1.65% due CY2011	78,000	78,000	939,758
Bond payable in yen: 1.50% due CY2012	50,000	50,000	602,410
Bond payable in yen: 1.43% due CY2013	60,000	60,000	722,892
Bond payable in yen: 1.66% due CY2013	70,000	70,000	843,373
Bond payable in yen: 0.31% due CY2014	30,000	–	361,446
Bond payable in yen: 0.33% due CY2015	30,000	–	361,446
Bond payable in yen: 0.92% due CY2015	50,000	–	602,410
Bond payable in yen: 2.08% due CY2016	30,000	30,000	361,446
Bond payable in yen: 1.40% due CY2014	30,000	30,000	361,446
Bond payable in yen: 0.94% due CY2015	41,300	–	497,590
Bond payable in yen: 0.63% due CY2015	20,500	–	246,988
Bond payable in yen: 1.26% due CY2017	19,800	–	238,554
Bond payable in yen: 1.72% due CY2020	18,400	–	221,687
Bond payable in yen: 2.16% due CY2025	7,800	–	93,976
Bond payable in yen: 0.35% due CY2031	5,000	–	60,241
Euro medium-term notes issued by the Company and a domestic consolidated subsidiary, maturing through CY2040	840,173	886,421	10,122,566
Subordinated bond payable in yen: maturing through CY2021	58,225	20,700	701,506
Subordinated borrowings from banks in yen, maturing through CY2016	128,000	121,000	1,542,169
Long-term borrowings principally from banks in yen, maturing through CY2038	539,341	282,117	6,498,084
Lease obligation	134	111	1,614
	¥2,156,673	¥1,748,349	$25,984,012

The amount for euro medium-term notes issued by the Company and a domestic consolidated subsidiary as of March 31, 2011 includes 92,906 thousand US$, 312,170 thousand AU$, 504,000 thousand NZ$ and 2,422,000 thousand ZAR.

Interest rates of euro medium-term notes range from 0.02% to 7.30% at March 31, 2011 and from 0.09% to 5.70% at March 31, 2010. The weighted average interest rate on total outstanding yen subordinated borrowings and borrowings principally from banks at March 31, 2011 and 2010 was 1.02% and 1.39%, respectively. The weighted average interest rate on total outstanding lease obligations at March 31, 2011 was 3.02%.

Daiwa had an unused commitment line amounting to ¥98,315 million ($1,184,518 thousand) under agreements with several banks at March 31, 2011.

12. Retirement benefits

Retirement benefits for employees

Unfunded plan

Accumulated contribution plus interest to this unfunded plan are included in “Retirement benefits” in the consolidated balance sheets as of March 31, 2011 and 2010, in the amount of ¥28,001 million ($337,361 thousand) and ¥25,767 million, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2011, 2010 and 2009 were ¥3,288 million ($39,614 thousand), ¥3,463 million and ¥3,399 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 ¥437 million ($5,265 thousand) and ¥531 million are included in “Retirement benefits” in the accompanying consolidated balance sheets as of March 31, 2011 and 2010, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2011, 2010 and 2009 were ¥204 million ($2,458 thousand), ¥217 million and ¥193 million, respectively.

13. Income taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes levied on income. The effective statutory tax rate in Japan was approximately 40.7% for the years ended March 31, 2011, 2010 and 2009. 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 year ended March 31, 2010 is as follows:

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

Reconciliation of the difference between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2011 and 2009 are not presented, since net loss is reported in the consolidated statements of income.

Details of deferred tax assets and liabilities at March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Net operating losses carry-forward	¥ 151,793	¥ 77,265	$ 1,828,831
Investment in subsidiary companies	–	15,012	–
Write-down of investment securities	13,550	12,524	163,253
Retirement benefits	12,038	11,467	145,036
Compensation and bonuses	3,835	9,490	46,205
Allowance for doubtful accounts	1,492	3,453	17,976
Impairment losses on fixed assets	7,037	7,545	84,783
Elimination of unrealized gain	4,074	5,164	49,084
Loss on private equity and other investments	10,887	9,510	131,169
Loss on trading	7,018	6,853	84,554
Other	13,668	16,851	164,675
Gross deferred tax assets	225,392	175,134	2,715,566
Less: Valuation allowance	(186,512)	(129,510)	(2,247,132)
Total deferred tax assets	38,880	45,624	468,434
Deferred tax liabilities	6,716	10,012	80,916
Net deferred tax assets	¥ 32,164	¥ 35,612	$ 387,518

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 stated at the Company and domestic subsidiaries with tax loss carry-forwards. In assessing the realizability of deferred tax assets, management considers, as part of its scheduling exercise, factors such as expected taxable income, reversal of temporary differences and utilization of tax loss carry-forwards, and determines whether it is more likely than not that the assets are not realizable in which case the valuation allowance is provided.

14. Statutory reserves

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

15. Contingent liabilities

Daiwa had contingent liabilities amounting to ¥3,059 million ($ 36,855 thousand) and ¥2,502 million at March 31, 2011 and 2010, respectively, mainly arising as guarantors of employees' borrowings.

16. Owners' equity

In principle, the Companies Act of Japan ("the Act") requires a company to credit the entire amount of issued shares to common stock (and preferred stock, if any); however, a company may classify an amount not exceeding one-half of the entire issued amount of shares as additional paid-in capital, which is included in "Capital surplus" in the accompanying consolidated balance sheets, 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, 2011 amounted to ¥281,247 million ($3,388,518 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 ¥3 ($0.04) per share amounting to ¥5,141 million ($61,940 thousand) and ¥3 ($0.04) per share amounting to ¥5,245 million ($63,193 thousand) were approved by the Board of Directors on May 17, 2011 and October 29, 2010, respectively.

17. Share-based payment

Daiwa has various stock option plans.

The shareholders of the Company approved granting stock options to directors and certain key employees on June 23, 2004. The plan provides for the issuance of up to 4,500 thousand shares in the form of options to directors and executive officers, and the amount paid in upon exercise of such subscription rights is ¥756 ($9.11) 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, June 26, 2010, and June 25, 2011 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 ($0.01) 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, 2011 are as follows:

Date of approval at the shareholders' meeting	Balance of the exercisable options (The number of shares)	Exercise price (Yen/share)	Exercise price (U.S. dollars/share)	Exercise period
June 23, 2004	1,502,000	¥ 727	($ 8.76)	from July 1, 2006 to August 31, 2011
June 24, 2005	453,000	¥ 1	($ 0.01)	from July 1, 2005 to June 30, 2025
	1,835,000	¥ 750	($ 9.04)	from July 1, 2007 to August 31, 2012
June 24, 2006	262,000	¥ 1	($ 0.01)	from July 1, 2006 to June 30, 2026
	–	¥1,455	($17.53)	from July 1, 2011 to June 23, 2016
June 23, 2007	276,000	¥ 1	($ 0.01)	from July 1, 2007 to June 30, 2027
	–	¥1,176	($14.17)	from July 1, 2012 to June 22, 2017
June 21, 2008	326,000	¥ 1	($ 0.01)	from July 1, 2008 to June 30, 2028
	–	¥ 881	($10.61)	from July 1, 2013 to June 20, 2018
June 20, 2009	639,000	¥ 1	($ 0.01)	from July 1, 2009 to June 30, 2029
	–	¥ 496	($ 5.98)	from July 1, 2014 to June 19, 2019
June 26, 2010	1,056,000	¥ 1	($ 0.01)	from July 1, 2010 to June 30, 2030
	–	¥ 380	($ 4.58)	from July 1, 2015 to June 25, 2020

18. Capital adequacy requirements

In Japan, a securities company is subject to risk-based capital adequacy rules established and administered by the Financial Services Agency. Securities subsidiaries report their capital adequacy ratio as defined pursuant to these rules. The authorities will take certain administrative measures if such ratio declines below 140%. The capital adequacy ratios of Daiwa Securities were 405.3% (unaudited) and 393.3% (unaudited) for March 31, 2011 and 2010, respectively, and those of Daiwa Securities CM were 289.5% (unaudited) and 378.3% (unaudited) for March 31, 2011 and 2010, respectively. Daiwa also announced that Daiwa has calculated the consolidated capital adequacy ratio as of March 31, 2011 in accordance with the principal stipulated in the Notification 130 Pursuant to the Article 57-17-1 of the Financial Instruments and the Exchange Act issued by the Japanese Financial Service Agency (i.e. in Basel II method). The consolidated capital adequacy ratio as of March 31, 2011 was 27.2% (unaudited).

19. Segment information

Daiwa's reportable segment is defined as a group of operating segments for which discrete financial information is available and reviewed by the Company's management regularly in order to make decisions about resources to be allocated to the segments and assess their performance. Focusing on securities-related business, Daiwa offers overall investment and financial service in coordination with group's support business, and the Company decides the comprehensive strategies by each organization in management corresponding to business market and business category domestically and internationally and conducts business activities. Therefore, Daiwa decides operating segments by business market and business category based on the organization structure, and aggregates to five reporting segments such as "Retail," "Global Markets," "Global Investment Banking," "Asset Management" and "Investment" by similarity of economic character.

(Additional information)

Effective April 1, 2010, the Company adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Accounting Standards Board of Japan ("ASBJ") Statement No. 17 issued on March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, issued on March 21, 2008).

A summary of net operating revenue, segment income (loss) and the others by reportable segment for the years ended March 31, 2011 and 2010 is as follows:

Millions of yen

	Retail	Global Markets	Global Investment Banking	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2011:								
Net operating revenues:								
Outside customer	**¥133,154**	**¥ 80,486**	**¥39,396**	**¥ 58,739**	**¥(15,347)**	**¥296,428**	**¥ (5,511)**	**¥290,917**
Elimination amount between segments	**45,817**	**(18,990)**	**(8,761)**	**(22,415)**	**69**	**(4,280)**	**24,904**	**20,624**
Total	**¥178,971**	**¥ 61,496**	**¥30,635**	**¥ 36,324**	**¥(15,278)**	**¥292,148**	**¥19,393**	**¥311,541**
Year ended March 31, 2010:								
Net operating revenues:								
Outside customer	¥138,584	¥ 95,279	¥ 74,972	¥ 53,999	¥74,981	¥437,815	¥ 4,872	¥442,687
Elimination amount between segments	55,237	(12,530)	(18,908)	(22,507)	(990)	302	29,029	29,331
Total	¥193,821	¥ 82,749	¥ 56,064	¥ 31,492	¥73,991	¥438,117	¥33,901	¥472,018

Thousands of U.S. dollars

	Retail	Global Markets	Global Investment Banking	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2011:								
Net operating revenues:								
Outside customer	**$1,604,265**	**$ 969,711**	**$ 474,651**	**$ 707,699**	**$(184,904)**	**$3,571,422**	**$ (66,398)**	**$3,505,024**
Elimination amount between segments	**552,012**	**(228,795)**	**(105,554)**	**(270,060)**	**831**	**(51,566)**	**300,048**	**248,482**
Total	**$2,156,277**	**$ 740,916**	**$ 369,097**	**$ 437,639**	**$(184,073)**	**$3,519,856**	**$233,650**	**$3,753,506**

* "Others" are the business segments which are not included in the reportable segments and include the business of consolidation and management of subsidiaries, information service, back-office service and real-estate rental, etc.

* "Net operating revenue" consists of "Operating revenue," "Interest expense," "Cost of service fees and other revenues" and "Commissions and brokerage" (Selling, general and administrative expenses).

* The Company does not disclose the segment information on assets because the manager does not allocate it to each segment for managerial decision-making.

The reconciliation between the segment information and the consolidated financial statements is as follows:

	Millions of yen		Thousands of U.S. dollars
Net operating revenue	**2011**	2010	**2011**
Reportable segment total	**¥292,148**	¥438,117	**$3,519,856**
Net operating revenue from "Others"	**19,393**	33,901	**233,650**
Elimination between segments	**(20,624)**	(29,331)	**(248,482)**
Commission fee deducted from net operating revenue	**26,919**	22,902	**324,325**
Other adjustments	**729**	(7,484)	**8,784**
Net operating revenue of financial statements	**¥318,565**	¥458,105	**$3,838,133**

20. Transactions with related parties

The information on subsidiaries' material transactions with related parties and individuals for the years ended March 31, 2011, 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	Description of transactions			Account balances Millions of yen 2011
Tokyo Tanshi Co., Ltd.	¥10,000		Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements (assets)	**¥173,692**
		Interest and dividend income	**¥11**	Receivables—Other	**1**
		Interest expense	**11**	Accrued and other liabilities—Other	**1**

		Millions of yen 2010
Continual transactions of collateralized short-term financing agreements		
	Collateralized short-term financing agreements (assets)	¥173,858
Interest and 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 and dividend income ¥ 4	Receivables—Other	2
Interest expense 16	Accrued and other liabilities—Other	4

		Thousands of U.S. dollars 2011
Continual transactions of collateralized short-term financing agreements		
	Collateralized short-term financing agreements (assets)	**$2,092,675**
Interest and dividend income **$133**	Receivables—Other	**12**
Interest expense **133**	Accrued and other liabilities—Other	**12**

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

21. Special purpose entities subject to disclosure

Some consolidated subsidiaries utilized 6 special purpose entities for the year ended March 31, 2011 (6 for year ended March 31, 2010) principally for the securitization of structured notes in order to support securitization of monetary assets of customers. Those consolidated subsidiaries acquire and transfer bonds to those special purpose entities (incorporated in the Cayman Islands) and issue structured notes collateralized by those bonds. The Company and consolidated companies do not own any shares with voting rights in any of these special purpose entities and have 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, 2011 and 2010 are ¥233,649 million ($2,815,048 thousand) and ¥166,032 million, respectively.

22. Net gain on trading

Net gain on trading for the years ended March 31, 2011, 2010 and 2009 is as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	**2011**
Equity and other	**¥ (8,797)**	¥ 24,481	¥(25,737)	**$ (105,988)**
Bond, forex and other	**101,274**	86,474	66,658	**1,220,169**
	¥ 92,477	¥110,955	¥ 40,921	**$1,114,181**

23. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2011, 2010 and 2009 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	**2011**
Employees' compensation and benefits	**¥160,234**	¥169,951	¥141,600	**$1,930,531**
Commissions and brokerage	**37,638**	31,038	33,696	**453,470**
Communications	**21,517**	20,806	21,045	**259,241**
Occupancy and rental	**45,258**	44,038	43,704	**545,277**
Data processing and office supplies	**27,027**	25,693	30,157	**325,627**
Taxes other than income taxes	**7,044**	7,726	6,554	**84,867**
Depreciation	**39,163**	39,101	35,590	**471,843**
Other	**26,039**	24,491	30,924	**313,723**
	¥363,920	¥362,844	¥343,270	**$4,384,579**

24. Other income (expenses)

Details of "Other, net" in the accompanying consolidated statements of operations for the years ended March 31, 2011, 2010 and 2009 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	**2011**
Gains on sales of investment securities	**¥ 4,060**	¥ 871	¥ 2,330	**$ 48,915**
Losses on sales of investment securities	**(9)**	(302)	(60)	**(108)**
Write-down of investment securities	**(5,562)**	(3,346)	(24,812)	**(67,012)**
Gains or losses on sale or disposal of fixed assets	**(416)**	(1,021)	(1,430)	**(5,012)**
Equity in earnings of affiliates	**2,387**	608	(1,106)	**28,759**
Impairment losses on fixed assets	**(594)**	(1,464)	(452)	**(7,157)**
Other	**10,079**	6,265	1,862	**121,434**
	¥ 9,945	¥ 1,611	¥(23,668)	**$119,819**

25. Subsequent events

Granting stock options—Stock subscription rights were issued free to directors, executive officers and employees of the Company and its affiliated companies by the resolutions in the meeting of shareholders and the meeting of executive officers and employees on June 25, 2011 in accordance with Articles 236, 238 and 239 of the Companies Act of Japan, and the amount paid in upon exercise of such subscription rights is ¥1 ($0.01) per share.

KPMG

Independent Auditors' Report

To the Shareholders and 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, 2011 and 2010, the related consolidated statements of income and comprehensive income for the years then ended, statement of income for the year ended March 31, 2009, and statements of changes in net assets and cash flows for each of the three years in the period ended March 31, 2011, 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 financial position of Daiwa Securities Group Inc. and subsidiaries as of March 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2011, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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 LLC

Tokyo, Japan
June 27, 2011