Financial Section

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Twelve-Quarter Financial Summary

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	FY2009			
	1Q	2Q	3Q	4Q
Market Data				
Nikkei 225 (end of each quarter, yen)	9,958.44	10,133.23	10,546.44	11,089.94
TSE average daily trading value (billions of yen)	1,721	1,519	1,464	1,507
Net purchases (sales) by investors on the TSE (billions of yen)				
Institutions	(662)	(1,094)	(164)	(930)
Individuals	288	(273)	(1,233)	(1,067)
Foreigners	788	1,467	2,059	2,284
Securities companies	55	5	(30)	(2)
Ten-year Japanese government bond yield (end of each quarter, %)	1.350	1.295	1.285	1.395
Foreign exchange rates: Yen per U.S. dollar (end of each quarter)	96.31	89.76	92.45	93.45

Operating Performance				Millions of yen
Operating revenues	¥132,119	¥105,631	¥183,615	¥116,549
Commissions	70,514	58,008	67,256	57,083
Brokerage commission	15,255	14,431	12,558	13,595
Underwriting commission	24,532	6,965	15,151	7,690
Distribution commission	7,298	8,641	10,001	7,509
Other commission	23,427	27,971	29,545	28,288
Net gain on trading	34,712	28,536	7,754	39,951
Net gain (loss) on private equity and other investments	(1,567)	(4,463)	86,532	(4,917)
Interest and dividend income	16,815	13,792	12,344	11,775
Service fees and other revenues	11,644	9,756	9,726	12,655
Interest expenses	15,508	11,340	10,982	9,827
Cost of service fees and other revenues	9,247	7,152	7,122	8,627
Net operating revenues	107,364	87,137	165,509	98,094
Selling, general and administrative expenses	86,552	85,569	99,775	90,946
Commissions and other expenses	14,346	15,943	16,014	15,485
Employees' compensation and benefits	39,938	37,274	52,095	40,642
Occupancy and rental	10,555	10,945	10,813	11,724
Data processing and office supplies	6,350	6,744	6,174	6,423
Depreciation and amortization	9,506	9,545	9,746	10,302
Taxes other than income taxes	2,113	1,762	1,689	2,160
Others	3,741	3,353	3,242	4,206
Operating income (loss)	20,812	1,567	65,733	7,147
Non-operating income	2,814	1,335	2,134	3,053
Non-operating expenses	798	866	(22)	39
Ordinary income (loss)	22,827	2,037	67,891	10,160
Extraordinary gains	373	264	106	945
Extraordinary losses	1,053	2,520	2,353	1,298
Income (loss) before income taxes and minority interests	22,148	(219)	65,645	9,808
Net income (loss)	17,870	1,991	26,366	(2,798)

Note: Based on unaudited financial statements included in the Group's Consolidated Financial Summary submitted to the Tokyo Stock Exchange.

			FY2010				FY2011
1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
9,382.64	9,369.35	10,228.92	9,755.10	9,816.09	8,700.09	8,455.35	10,083.56
1,666	1,257	1,439	1,864	1,383	1,355	1,075	1,406
746	791	(241)	(1,238)	2	1,351	923	(1,380)
1,160	(881)	(1,475)	(169)	(149)	442	(117)	(783)
(761)	273	1,406	3,056	946	(1,648)	(381)	1,289
91	(9)	(22)	12	10	40	(1)	(36)
1.085	0.930	1.110	1.255	1.130	1.020	0.980	0.985
88.38	83.44	81.54	83.15	80.51	77.04	76.94	82.79

			Millions of yen				Millions of yen
¥ 94,151	¥107,236	¥118,214	¥ 83,438	¥113,625	¥102,480	¥ 92,919	¥113,348
56,106	49,142	54,618	58,763	55,060	56,171	52,535	57,077
13,323	9,626	12,465	15,249	10,515	10,202	8,249	11,815
4,658	5,255	7,537	8,851	3,832	4,787	8,091	2,797
9,155	7,164	7,936	7,322	13,394	12,661	10,726	12,356
28,969	27,096	26,678	27,339	27,318	28,519	25,468	30,109
10,724	34,160	31,605	15,985	26,244	14,895	8,572	29,703
(1,924)	(3,316)	8,136	(20,154)	1,251	1,892	1,470	(2,658)
17,516	17,862	17,511	19,026	20,076	19,865	20,910	18,909
11,729	9,387	6,343	9,818	10,992	9,656	9,429	10,316
13,993	12,905	16,298	14,864	15,217	12,937	16,329	15,205
8,544	5,896	5,398	6,576	7,325	5,922	6,245	7,175
71,613	88,434	96,517	61,998	91,083	83,621	70,344	90,967
87,859	88,980	92,381	94,697	94,021	93,729	86,352	85,626
17,376	16,339	17,989	18,692	17,514	18,639	16,286	16,415
37,483	39,104	42,205	41,441	42,268	41,815	37,994	36,219
11,290	11,232	10,939	11,795	11,273	11,374	11,203	11,029
6,714	7,456	5,874	6,981	6,954	6,832	6,521	7,443
9,753	9,686	9,667	10,055	10,153	10,235	9,879	9,592
1,967	1,814	1,770	1,492	2,136	1,465	1,436	1,542
3,273	3,347	3,934	4,238	3,719	3,365	3,031	3,383
(16,245)	(546)	4,136	(32,699)	(2,938)	(10,108)	(16,008)	5,340
8,517	(94)	3,633	3,580	3,656	3,915	1,426	3,806
458	199	753	1,472	1,522	174	131	(535)
(8,187)	(839)	7,017	(30,591)	(803)	(6,366)	(14,713)	9,682
1,776	1,794	2,462	3,043	427	777	125	38,330
1,131	1,171	62	8,634	2,480	9,833	2,102	29,918
(7,542)	(217)	9,416	(36,182)	(2,856)	(15,422)	(16,690)	18,095
(1,191)	(4,192)	1,182	(33,129)	(9,434)	(19,353)	(21,567)	10,920

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Breakdown by Product and Business Sector

Daiwa Securities Group Inc. and Consolidated Subsidiaries

Millions of yen

Breakdown of Commission Income by Business	FY2007	FY2008	FY2009	FY2010	FY2011
Equity	¥ 84,593	¥ 56,402	¥ 56,388	¥ 50,254	¥ 40,221
Brokerage commission	82,487	54,809	55,010	48,929	38,951
Other	2,106	1,593	1,378	1,325	1,269
Fixed income	2,133	991	698	827	1,088
Asset management	136,377	97,001	108,266	116,734	134,269
Brokerage commission	464	555	408	407	451
Distribution commission	39,342	17,968	32,907	31,144	48,486
Management fee (excluding agency commission)	49,332	41,531	42,279	51,783	54,706
Agency commission	47,238	36,947	32,671	33,399	30,625
Investment banking	47,551	34,915	70,648	38,704	32,737
Underwriting commission (stock and other)	14,581	10,122	41,667	16,367	10,550
Underwriting commission (bond and other)	10,371	10,542	12,362	9,771	8,910
Distribution commission	3,230	725	544	434	651
Other (M&A commission, etc.)	18,851	13,225	15,765	11,966	12,577
Others	23,771	19,572	16,863	12,108	12,529
Life insurance sales commission	6,783	6,946	5,850	1,977	2,642
Investment enterprise partnership administration fee	4,223	3,384	2,628	1,789	1,221
Other	12,765	9,240	8,384	8,341	8,665
Total commissions	¥294,425	¥208,881	¥252,863	¥218,630	¥220,845

Net Gain (Loss) on Trading by Business	FY2007	FY2008	FY2009	FY2010	FY2011
Equity and other	¥ 11,020	¥(25,737)	¥ 24,481	¥ (8,797)	¥ (6,464)
Bond, forex and other	92,341	66,658	86,474	101,274	85,880
Net gain on trading	¥103,361	¥ 40,921	¥110,955	¥ 92,477	¥79,416

Results by Group Company (Ordinary Income)*1	FY2007	FY2008	FY2009	FY2010	FY2011
Daiwa Securities	¥71,026	¥ 18,396	¥40,454	¥ 41,272	¥ 38,327
Daiwa Securities Capital Markets*2	1,431	(167,468)	68,754	(75,163)	(67,728)
Daiwa Asset Management	17,494	11,613	9,929	13,741	12,333
Daiwa Institute of Research (3 companies)*3	13,379	9,140	7,901	8,339	6,364
Daiwa Corporate Investment	(5,321)	(5,895)	(6,952)	(2,489)	1,647

*1 Results by Group company have not been audited by an independent auditor.

*2 As of January 1, 2012, following the transfer of all issued stock of major overseas subsidiaries to Daiwa International Holdings Inc., a wholly owned subsidiary of Daiwa Securities Group Inc., all consolidated subsidiaries have been eliminated from the scope of consolidation of Daiwa Securities Capital Markets Co. Ltd.

*3 Figures reflect the sum of earnings from Daiwa Institute of Research Holdings, Daiwa Institute of Research, and Daiwa Institute of Research Business Innovation (excluding intercompany transactions and dividend payments).

Management's Discussion and Analysis

Macroeconomic Conditions in FY2011

<Overseas Markets>

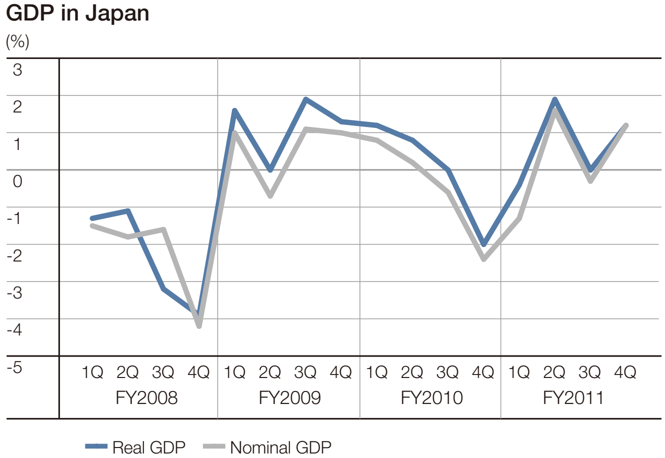
Since mid-2009, the global economy had been experiencing relatively firm growth. However, this trend was interrupted during the July–September quarter of FY2011 when deepening concerns about government debt in Europe and the US sent financial markets into turmoil and put the brakes on economic growth in leading industrialized countries. The emerging economies that had provided much of the impetus for growth in recent years faced problems of their own. As governments tightened interest rates and export demand from industrialized countries dropped off, signs of a correction began to appear. In response to signs of a slowdown in global economic growth, markets began to anticipate lower demand for raw materials, while investors fled from the commodities market in search of lower risk investments, causing prices to tumble. By the October–December quarter, increasing concerns about the debt situation in Europe had seriously unsettled the markets. This was compounded by the impact of severe flooding in Thailand in October, which disrupted supply chains and had a major impact on global manufacturing, especially in the auto and electronics sector. Commodities markets experienced another wave of volatility as turmoil in the Middle East sent prices soaring. Conditions slowly improved in the January-March quarter as fears of a debt crisis in Europe receded and signs of an economic recovery in the US started to emerge. This eased some of the uncertainty and brought a more optimistic outlook for the global economy.

During the first half of 2011, countries on the periphery of the eurozone slid into a debt crisis and one by one, were forced to seek help from the EU. In May, the EU and the International Monetary Fund (IMF) stepped in to lend financial support to Portugal, and in June a meeting of European heads of state agreed to increase the capital available in the European Financial Stability Facility from €440 billion to €780 billion. In July, an EC summit agreed to increase support to Greece. By this time, however, conditions had deteriorated to the point where it looked like the authorities were just taking stopgap measures to forestall a full-blown crisis, rather than really addressing the issues that underlie fiscal debt problems in EU countries, and which are a drain on economic growth in Europe. Credit ratings agencies lowered their ratings on government bonds in one European country after another, and markets began to question whether the Greek government could implement its reform plans. Government paralysis in countries throughout the EU lent weight to the perception that the European debt crisis had yet to be addressed seriously.

The European Central Bank (ECB) responded to decelerating economic growth by loosening its interest rate policy in November 2011, and again in December, but the outlook remains gloomy. On the other hand, the ECB made massive amounts of liquidity available to major European financial institutions in December 2011 and February 2012 in order to dispel concerns that the fiscal crisis was restricting the supply of funds to the financial sector. In March, negotiations on ways to reduce the Greek national debt progressed with no major trouble, and concerns about a possible default began to recede.

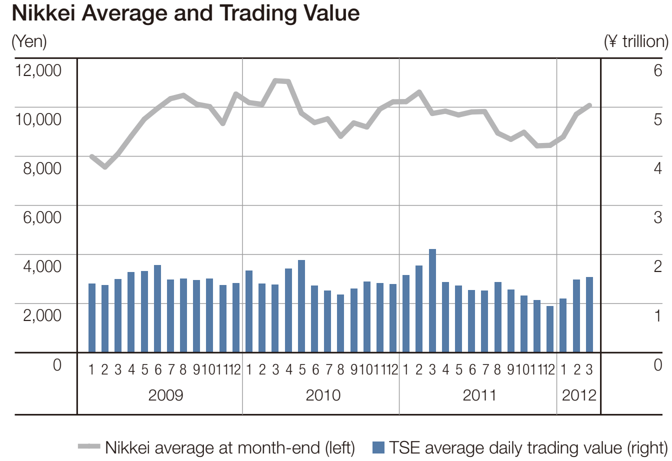
In the United States, weak employment figures and a depressed real estate market kept the economy weak until August 2011, but strong consumer spending from September onward suggested that the US economy had hit bottom sooner than other major industrialized countries. On the other hand, concerns about the US fiscal deficit began to increase from around July. In August the Congress passed legislation that raised the federal government's debt ceiling, which preserved the calm for the time being, but US credit agencies responded by lowering their ratings on US long-term treasury bonds, which had formerly held the highest possible rating. This revived concerns about a possible debt crisis and generated turmoil in financial markets. The US Federal Reserve Board

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

(FRB) had brought an end to its quantitative easing (QE2) policy in June of 2011. However, in order to ensure that the financial turmoil did not snuff out the budding economic recovery, the Federal Open Market Committee (FOMC) announced after a meeting in August that there was a high probability that the FRB would keep interest rates at their ultra-low level, at least through the middle of 2013. This clear expression of plans to keep monetary policy loose succeeded in calming the markets. In January 2012, the FRB introduced a long-term inflation target, in order to ease the policy stance a bit further, and confirmed its view that interest rates would remain near zero until the latter half of 2014. This extremely loose stance encouraged consumer spending, which in turn drove a gradual recovery in US economic growth.

In the newly industrializing countries, the pace of economic growth began to slow in response to tighter monetary policy stances and the effect of slow economic growth in the leading industrialized countries. Nevertheless, economic growth remained stronger than in the industrialized regions. However, despite their tighter monetary policies, many emerging countries continued to experience high rates of inflation. This has become a serious issue for the respective governments, but with industrialized economies at a near standstill, they also need to avoid a sudden plunge in domestic economic growth. Therefore, several countries reversed course and loosened monetary policy a notch. Brazil lowered interest rates in August 2011, China lowered its deposit reserve ratio requirements in December and India lowered its cash reserve ratio requirement in January 2012. Although emerging economies need to keep a lid on inflation, all are moving cautiously and trying to engineer a “soft landing.” Meanwhile, severe floods in Thailand during October 2011 had a substantial short-term impact on manufacturing and exports for many emerging Asian economies. As rebuilding activity began to kick in during the January–March 2012 quarter, this impact receded.

<Japan>

The Japanese economy was hit by a severe shock on March 11, 2011, when the East Japan Earthquake shattered the northeast of the country. Manufacturing industries began to recover during the period, however, supported by rebuilding demand. Economic growth was moving onto a growth track in the early part of the year, through August, but thereafter encountered the headwinds of overseas economic turmoil, a strong yen, and fading demand from the earthquake recovery effort. Domestic manufacturers experienced a sharp drop in exports, and this dispelled any momentum the economy had experienced earlier in the year. The floods in Thailand during October were yet another blow to exports, which remained weak through the end of the year. The domestic economy contracted once again in the October–December quarter before moving back onto a growth trajectory in January–March 2012. Part of the fourth-quarter rebound was due to the government’s fourth supplementary budget of FY2011, which included a reintroduced subsidy program for eco-friendly automobiles. In addition to the pickup in auto sales and production, the yen weakened slightly from mid-February through the end of the fiscal year, and employment conditions showed signs of improvement. As the period came to an end, the outlook had improved. Rebuilding demand associated with the 2011 earthquake and tsunami are likely to support a gradual recovery in the near future.

Domestic manufacturing activity was battered in the immediate aftermath of the earthquake, due to severe damage to the supply chains and enforced inactivity during rolling electric power blackouts. This naturally made it difficult to transport products, and severely depressed exports. However, companies responded to the crisis well, considering the situation. Production lines resumed operation sooner than expected and as supply capabilities recovered, manufacturing activity resumed growth from April 2011 onward. Manufacturing activity faced some difficulty during the summer due to a shortage of electric power, but nationwide efforts to save energy, coupled with measures by the electric power companies to increase capacity, succeeded in limiting the impact on output. The government’s reintroduced subsidy program for eco-friendly automobiles contributed to a rebound in automobile production during early 2012, which drove growth in domestic industrial output as a whole. Exports rose earlier in the year as production activity recovered, but the strong yen and weak economic growth overseas caused exports to stall in September 2011. The floods in Thailand in October caused both exports and production activity in some sectors to contract temporarily, but the impact gradually faded as facilities were rebuilt. The balance of trade for the full fiscal year showed a trade deficit for the first time in three years as factors like the earthquake, flooding and a strong yen hurt exports and as high raw materials prices and the use of oil and gas to offset the suspension of nuclear power generators pushed up imports. Consumer spending improved from the start of the fiscal year through October in response to improving consumer confidence and a better employment market. Thereafter, consumer confidence weakened and personal consumption stalled temporarily, but it recovered again in early 2012 thanks to the reintroduced subsidy program for eco-friendly cars and a rise in automobile purchases. By the end of FY2011, consumer spending showed signs of recovery.

The 2011 earthquake and tsunami created extensive turmoil in Japan’s financial markets, but the Bank of Japan’s policy response was very effective in preserving faith in the overall financial system. This prevented an earthquake-inspired crisis, but by the July–September quarter, as concerns about the debt crisis in Europe and the US intensified, volatility returned to international financial markets and Japanese stock prices fell sharply. Overseas investors, seeking a safe haven for their assets, began to purchase the yen, which was viewed as the most stable of the major currencies. As a result, the yen strengthened to the point that the government was forced to step in. In August 2011, the government and the Bank of Japan unilaterally intervened by selling the yen and purchasing dollars. In late October, when the yen rose to a postwar high against the US dollar, Japan again intervened to sell yen and purchase dollars, though this was not enough to turn the tide. The financial crisis in Europe began to trigger euro-selling pressure, and yen purchases. This pressure accelerated in November 2011, and by the end of the calendar year the yen had strengthened to ¥100=€1.00. In February 2012, the Bank of Japan introduced monetary easing policies, adopting a “price stability target for the medium to long term.” The yen began to retreat from its historically high levels and stock prices responded as well. The Japanese government bond market shrugged off the impact of a credit downgrade by Japanese rating agencies in late December 2011, from the highest rating level, in part because the ratings agencies’ intentions were announced well before the actual downgrades, and the future outlook projections for the ratings were listed as “stable.” The Nikkei 225 ended the fiscal year at 10,083.56 (an increase of 328.46 year on year) and ten-year JGB yields stood at 0.985% (a decline of 27 basis points year on year), while the yen closed the period at ¥82.17=US$1.00 (with the yen up ¥0.67 year on year).

Rebuilding efforts in some of the regions affected by the East Japan Earthquake have been delayed. This is partly a reflection of the fact that the sheer scale of the damage is beyond any past precedents. There is also the issue of radiation exposure, as damage to the Fukushima nuclear plant left many areas radioactive. With political will sapped by infighting, there were many delays to the development of reconstruction plans. It took more than three months following the quake—until June 2011—before a formal reconstruction plan was passed by the government, and spending budgets were only passed in July with the government’s second supplementary budget. The large-scale spending projects initially planned for inclusion in the third supplementary budget in August fell victim to internal dissent and a cabinet reshuffle, and thus did not get passed until November 2011. Reconstruction-related demand finally began to pick up in early 2012, but the scale and impact was limited. It is likely to become a significant factor, at last, during FY2012.

Analysis of Consolidated Income Statements

<Total Operating Revenues and Net Operating Revenues>

Consolidated operating revenues for the period rose 4.8% year on year, to ¥422.4 billion, while net operating revenues increased 5.5%, to ¥336.0 billion. Income from commissions rose 1.0%, to ¥220.8 billion. However, despite a slight pickup at the end of the year, brokerage commissions fell 19.5% year on year, to ¥40.8 billion, reflecting a drop in equity brokerage commissions due to weak stock market conditions over the course of the fiscal year.

Furthermore, since there were relatively few major stock underwriting contracts during the period, underwriting commissions fell 25.8% year on year, to ¥19.5 billion. On the other hand distribution commissions to support sales of the Retail Division’s investment trusts soared by 55.6%, to ¥49.1 billion.

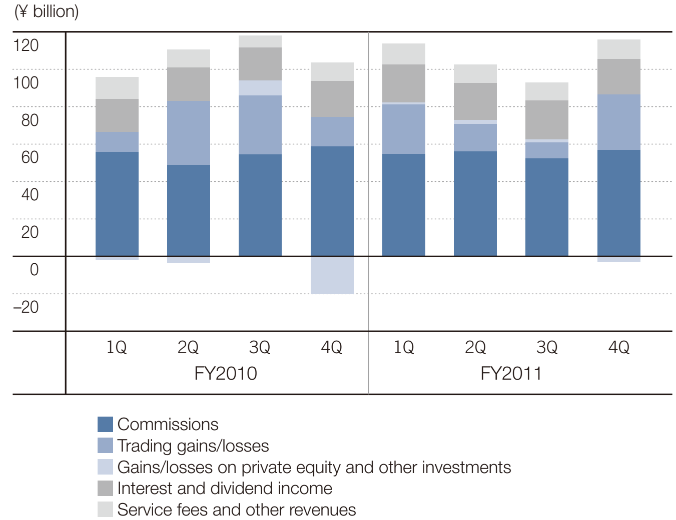
Breakdown of Net Operating Revenues

Millions of yen

	FY2010	FY2011	YoY
Operating revenues	¥403,042	¥422,375	4.8%
Commissions	218,630	220,845	1.0%
Brokerage commission	50,665	40,783	–19.5%
Underwriting commission	26,303	19,508	–25.8%
Distribution commission	31,580	49,139	55.6%
Other commission	110,083	111,416	1.2%
Net gain on trading	92,477	79,416	–14.1%
Net gain (loss) on private equity and other investments	(17,259)	1,956	—
Interest and dividend income	71,916	79,762	10.9%
Service fees and other revenues	37,278	40,396	8.4%
Interest expenses	58,062	59,691	2.8%
Cost of service fees and other revenues	26,415	26,668	1.0%
Net operating revenues	¥318,565	¥336,016	5.5%

Breakdown of Consolidated Income

(¥ billion)



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

<Net Gains/Losses on Trading>

Net trading gains decreased by 14.1% year on year, to ¥79.4 billion. Due to weak stock market conditions worldwide, trading gains and net financial income on a managerial accounting basis in the Equity Division declined by 41.8%, to ¥16.0 billion. Trading gains and net financial income on a managerial accounting basis in the Bond Division were affected by a drop in sales of foreign currency-denominated bonds to individual investors, and by increased hedge costs due to yen appreciation. As a result, this income fell 11.7% year on year, to ¥72.0 billion. Exiting some existing private equity positions to take profits produced a ¥2.0 billion net gain on private equity and other investments—a significant improvement over the previous year.

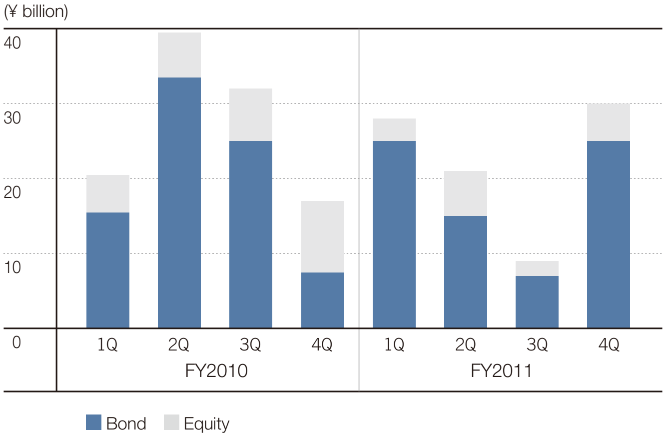
Revenues (Trading Gain/Loss) From Equity and Bond Divisions (Net Gain (Loss) on Trading + Net Financial Income, on a Managerial Accounting Basis)

Billions of yen

	FY2010	FY2011	YoY
Equity	¥ 27.5	¥16.0	–41.8%
Bond	81.5	72.0	–11.7%
Total	¥109.0	¥88.0	–19.3%

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

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



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

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

Overall SG&A expenses were reduced by 1.2% year on year, to ¥359.7 billion. Cost-cutting plans made progress, with trading-related expenses, and particularly advertising expenses, reduced 2.2%, to ¥68.9 billion. Personnel expenses declined 1.2% year on year, to ¥158.3 billion. However, investment in new systems to support the launch of Daiwa Next Bank elevated depreciation expenses by 1.8%, to ¥39.9 billion. After adjustment for net non-operating income/expenses, the Group posted a consolidated ordinary loss of ¥12.2 billion.

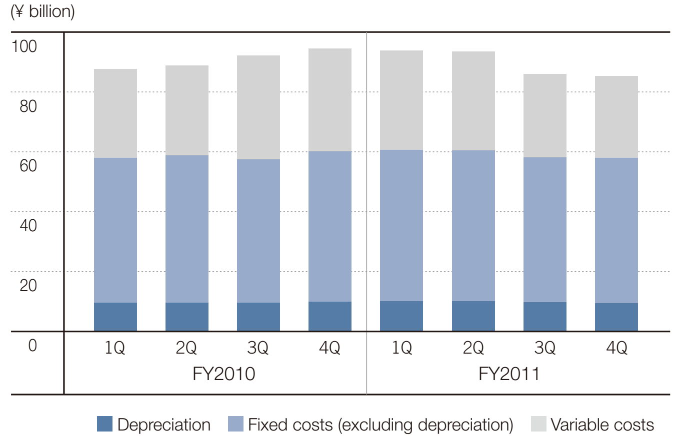
The Group posted ¥39.7 billion in extraordinary gains including gain on negative goodwill from the consolidation of Daiwa Office Investment Corporation, as a consolidated subsidiary. Business restructuring costs, impaired asset write-offs and losses on the disposal of fixed assets generated a total extraordinary loss of ¥44.3 billion. After income taxes and minority interests, the Group posted a consolidated net loss of ¥39.4 billion.

Breakdown of SG&A Expenses and Income

Millions of yen

	FY2010	FY2011	YoY
SG&A Expenses	¥363,920	¥359,729	–1.2%
Trading-related expenses	70,398	68,857	–2.2%
Personnel expenses	160,234	158,298	–1.2%
Real estate expenses	45,258	44,881	–0.8%
Office cost	27,027	27,752	2.7%
Depreciation	39,163	39,861	1.8%
Taxes and dues	7,044	6,581	–6.6%
Allowance for doubtful accounts	—	26	—
Other	14,795	13,475	–8.9%
Operating loss	(45,355)	(23,713)	—
Non-operating income/ expenses	12,753	11,513	–9.7%
Ordinary loss	(32,602)	(12,200)	—
Extraordinary gains/losses	(1,923)	(4,674)	—
Loss before income taxes and minority interests	(34,525)	(16,874)	—
Income taxes	9,714	24,400	151.2%
Net loss	¥ (37,332)	¥ (39,435)	—

Cost Structure



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

<Overview of Performance in Each Business Segment>

[Retail Division]

Although the domestic stock market picked up at the end of the fiscal year, as individual investors began moving money back into stocks, the general tone of equity prices remained weak for most of the year. Brokerage commissions declined, contributing to a 3.9% drop in net operating revenues, to ¥172.0 billion. Ordinary income fell 7.2% year on year, to ¥38.8 billion.

[Global Markets Division]

The Group implemented an aggressive plan to improve profitability in this Division, downsizing or selling off unprofitable businesses. However, a host of adverse factors from the European debt crisis and a global economic slowdown to the strong yen greatly curtailed opportunities to generate income over the course of the year. Although both domestic and overseas markets showed signs of improvement as the fiscal year drew to a close, net operating revenues fell 15.4% year on year, to ¥52.0 billion. The division posted a ¥54.4 billion ordinary loss.

[Global Investment Banking Division]

This Division managed to win the lead manager role for KDDI's convertible bond issue—the largest euro-yen CB issue of the year, and also experienced some improvement in the European M&A business. However, there were very few major equity underwriting deals during the period, and net operating revenues declined 13.6% year on year, to ¥26.5 billion. The division posted an ordinary loss of ¥14.3 billion.

[Asset Management Division]

The European debt crisis, the strong yen and other adverse factors depressed investment sentiment for the industry as a whole. However, the broad assortment of products and services offered, coupled with the Group's expansive sales channels allowed the Asset

Segment Information

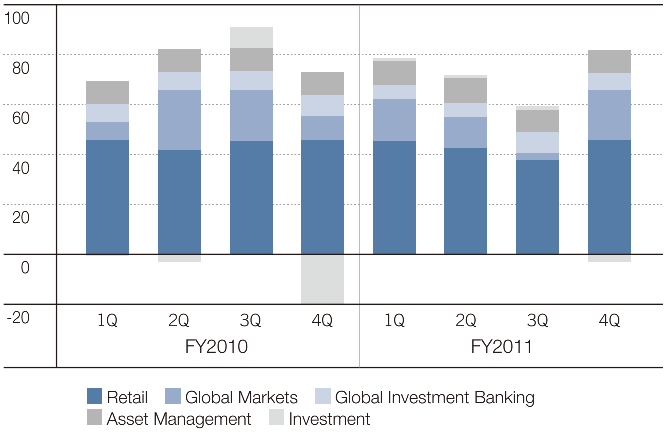
Millions of yen

	Net Operating Revenues			Ordinary Income		
	FY2010	FY2011	YoY	FY2010	FY2011	YoY
Retail	¥178,971	¥172,033	–3.9%	¥ 41,867	¥ 38,839	–7.2%
Global Markets	61,496	52,015	–15.4%	(52,174)	(54,433)	—
Global Investment Banking	30,635	26,473	–13.6%	(14,733)	(14,284)	—
Asset Management	36,324	37,424	3.0%	15,949	14,615	–8.4%
Investment	(15,278)	1,090	—	(21,477)	(1,977)	—
Others	19,393	32,503	67.6%	(8,140)	(1,191)	—
Total before adjustment	311,541	321,538	3.2%	(38,708)	(18,431)	—
Adjustment	7,024	14,478	106.1%	6,106	6,231	2.0%
Consolidated total	¥318,565	¥336,016	5.5%	¥(32,602)	¥(12,200)	—

Note: Individual balance of assets figures for each segment are not available.

Breakdown of Net Operating Revenues by Segment

(¥ billion)



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

Management Division to attract a large net inflow of funds to investment trusts, elevating the balance of assets under management. As a result, net operating revenues increased by 3.0% year on year, to ¥37.4 billion. Operating income declined 8.4%, to ¥14.6 billion.

[Investment Division]

Existing private equity stakes and the collection of existing troubled loans contributed to income in this Division. Net operating revenues were ¥1.1 billion (a return to profitability from FY2010) and the Division posted an ordinary loss of ¥2.0 billion.

<Overseas Activities>

In Europe, the Group won the lead manager role in underwriting KDDI's euro-yen convertible bond issue, and there was a good flow of advisory business for M&A deals. This supported an increase in commission income. However, the market turmoil created by the European debt crisis caused stock prices to tumble and bond markets to panic, depressing income from trading activity. Overall net operating revenues remained at almost the same level as in FY2010. However, due to efforts aimed at expanding overseas operations, which were implemented in FY2010, SG&A expenses increased year on year particularly in the Asia and Oceania region. Operations in Europe generated an ordinary loss of ¥5.0 billion, Asia and Oceania recorded a ¥17.7 billion loss and ordinary losses from the Americas amounted to ¥3.1 billion.

Ordinary Loss From Overseas Operations, Broken Down by Region

Millions of yen

	FY2010	FY2011
Europe	¥ (8,955)	¥ (5,040)
Asia & Oceania	(11,133)	(17,721)
America	(1,448)	(3,058)
Total	¥(21,536)	¥(25,818)

Analysis of Consolidated Balance Sheets and Cash Flow Statements

<Assets>

The balance of collateralized short-term financing agreements declined by ¥1,592.6 billion year on year, but the value of trading assets rose ¥2,106.4 billion and securities increased by ¥1,389.9 billion, due in part to securities managed by Daiwa Next Bank. As a result, total assets increased by ¥2,081.6 billion, to ¥18,924.0 billion.

<Liabilities and Net Assets>

Trading liabilities increased by ¥1,136.4 billion year on year, while deposits for banking business increased by ¥1,169.9 billion. As a result, total liabilities rose ¥2,051.3 billion year on year, to ¥17,972.3 billion.

Due to the net losses posted in FY2011, retained earnings declined by ¥49.7 billion year on year. The conversion of Daiwa Office Investment Corporation into a consolidated subsidiary increased minority interests by ¥80.6 billion. As a result, net assets increased by ¥30.3 billion year on year, to ¥951.7 billion.

<Analysis of Cash Flows>

Cash flow from operating activities was affected mainly by increases/decreases in trading assets and liabilities, and collateralized short-term financing agreements. Another major source of cash flow was the inflow of deposits for the banking business. As a result, the Group experienced a net cash inflow of ¥2,032.7 billion, compared with a net inflow of ¥1,676.9 billion in FY2010. In the cash flow from investing activities section, a substantial cash outflow from the purchase of securities contributed to a net outflow of ¥973.5 billion (versus a ¥79.5 billion outflow in FY2010). Cash flow from financing activities was affected by the decrease in short-term borrowings and commercial paper, and showed a net outflow of ¥1,063.0 billion (versus a ¥1,301.7 billion outflow in FY2010). After adjustment for exchange rate impact, the consolidated balance of cash and cash equivalents at the end of the fiscal year stood at ¥1,039.0 billion.

Liquidity

<Maintaining Financial Efficiency and Stability>

The Daiwa Securities Group operates securities-related businesses that require it to maintain very large balances of both assets and liabilities. Therefore, it is essential that the Group develop a policy for obtaining the funds needed to maintain the necessary liquidity to support operations, in the most efficient way possible.

Methods used by the Group to obtain unsecured funds include corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, banking deposits, as well as secured *gensaki* transactions (repurchase agreements) and repo operations. The Group seeks an appropriate balance of these diverse methods in order to maintain an effective and stable supply of operating funds.

In order to ensure financial stability and business continuity, even in the case of sudden changes in the business environment, the Group takes care to maintain an ample reserve of liquidity at all times. Particularly in light of the global financial uncertainty and credit concerns of recent years, the Group has endeavored to maintain ample liquidity on hand by obtaining funds from the market and by borrowing from financial institutions. Furthermore, the Group strives to diversify the maturities and sources of its borrowing, to limit the difficulties it might face if market turmoil should prevent it from raising new capital or refinancing existing debt.

The Daiwa Securities Group has established a framework of liquidity management that conforms to the standards set by the Basel Committee on Banking Supervision. Specifically, the Group conducts various stress scenarios that consider the repayment periods of existing unsecured debt and the possible market and environmental stresses that might coincide with repayment dates. It then establishes a portfolio which is capable of providing enough liquidity to withstand the events anticipated in the stress scenarios. This portfolio is reviewed on a daily basis, and the liquidity management framework is designed to ensure that the Daiwa Securities Group would be able to maintain stable operations even in the event that no new unsecured funding could be procured for the space of a full year. As of the end of FY2011, the Daiwa Securities Group's liquidity portfolio and balance of short-term unsecured debt was as follows:

Unsecured Capital Procurement Conditions and Liquidity Portfolio at the Group (As of March 31, 2012)

	Billions of yen
Short-term borrowings from banks and other financial institutions	¥ 265
Other short-term borrowings	332
Commercial paper	275
Current portion of bonds	215
Short-term unsecured capital procurement	1,088
Cash	1,196
Government bonds, government-backed bonds, other	109
Liquidity portfolio	1,305
Other bonds	672
Publicly listed shares, other	258
Other	10
Supplementary liquidity portfolio	939
Liquidity portfolio and other total	¥2,244

Note: The above does not include assets and liabilities in the banking business.

As of the end of FY2011, the Daiwa Securities Group's liquidity portfolio had a balance of ¥1,304.6 billion, and the supplementary liquidity portfolio increases this to ¥2,243.8 billion. This provided a coverage ratio equal to 206.2% of total unsecured short-term debt.

Credit Ratings by Major Credit Ratings Agencies

Daiwa Securities Group Inc. and Daiwa Securities 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. and Daiwa Securities Co. Ltd. in order to obtain funds have also been assigned credit ratings by leading agencies. As of June 30, 2012, the credit ratings assigned were as follows:

Daiwa Securities Group Inc.

Credit ratings agencies	Long-term	Short-term
Moody's Japan	Baa3	—
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	Baa2	P-2
Standard & Poor's Ratings Japan	BBB+	A-2
Fitch Ratings	BBB+	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, 2012 and 2011

ASSETS	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars (Note 1) 2012
Cash and cash deposits:			
Cash and cash equivalents (Notes 5 and 7)	¥ 1,038,981	¥ 1,043,464	$ 12,670,500
Cash segregated as deposits for regulatory purposes (Note 5)	204,478	241,697	2,493,634
Time deposits (Note 5)	21,487	39,776	262,037
	1,264,946	1,324,937	15,426,171
Receivables:			
Loans receivable from customers	108,932	72,090	1,328,439
Loans receivable from other than customers	10,591	15,582	129,159
Receivables related to margin transactions (Notes 3 and 5)	120,870	147,848	1,474,024
Other (Note 23)	276,176	262,653	3,368,000
Less: Allowance for doubtful accounts	(1,858)	(300)	(22,659)
	514,711	497,873	6,276,963
Collateralized short-term financing agreements (Notes 4, 5 and 23)	5,735,192	7,327,846	69,941,366
Trading assets (Notes 5, 6 and 9)	8,876,950	6,770,479	108,255,488
Securities (Notes 5, 7 and 9)	1,464,395	26,435	17,858,476
Private equity investments:			
Private equity and other investments (Notes 5 and 7)	174,305	219,524	2,125,671
Less: Allowance for possible investment losses (Note 5)	(36,128)	(41,963)	(440,585)
	138,177	177,561	1,685,086
Trade account receivables, net (Note 5)	139,096	102,011	1,696,293
Other assets:			
Property and equipment, at cost (Note 20)	521,313	255,154	6,357,475
Less: Accumulated depreciation	(126,897)	(121,927)	(1,547,524)
	394,416	133,227	4,809,951
Goodwill	20,992	26,660	256,000
Other intangible fixed assets (Note 20)	81,896	109,021	998,732
Investment securities (Notes 5, 7 and 9)	159,096	188,857	1,940,195
Deferred tax assets (Note 14)	14,429	33,808	175,963
Other	120,622	124,608	1,470,999
Less: Allowance for doubtful accounts	(880)	(911)	(10,732)
	790,571	615,270	9,641,108
	¥18,924,038	¥16,842,412	$230,780,951

See accompanying notes.

Corporate Summary
Executive Messages
Business Strategy
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Financial Section
Other Information

LIABILITIES AND NET ASSETS	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars (Note 1) 2012
Debt:			
Short-term borrowings (Notes 5, 9 and 12)	¥ 1,636,651	¥ 2,585,792	$ 19,959,159
Commercial paper (Note 5)	275,192	395,196	3,356,000
Long-term debt (Notes 5 and 12)	2,280,252	2,156,673	27,807,951
	4,192,095	5,137,661	51,123,110
Payables:			
Payables to customers and counterparties (Notes 5 and 11)	346,173	402,965	4,221,622
Payables related to margin transactions (Notes 3, 5 and 9)	52,756	61,397	643,366
Deposits for banking business (Note 5)	1,169,916	–	14,267,268
Other (Note 5)	18,897	23,042	230,451
	1,587,742	487,404	19,362,707
Collateralized short-term financing agreements (Notes 4, 5 and 23)	6,068,380	5,338,882	74,004,634
Trading liabilities (Notes 5 and 6)	5,953,280	4,816,855	72,600,976
Accrued and other liabilities:			
Income taxes payable	5,822	2,241	71,000
Deferred tax liabilities (Note 14)	3,562	1,644	43,439
Accrued bonuses	20,462	23,152	249,537
Retirement benefits (Note 13)	30,488	30,385	371,805
Negative goodwill	12,556	17,122	153,122
Other (Note 23)	95,382	62,644	1,163,194
	168,272	137,188	2,052,097
Statutory reserves (Note 15)	2,567	3,023	31,305
Total liabilities	17,972,336	15,921,013	219,174,829
Contingent liabilities (Note 16)			
Net assets			
Owners' equity (Note 17)			
Common stock, no par value;			
Authorized—4,000,000 thousand shares			
Issued—1,749,379 thousand shares as of March 31, 2012	247,397	247,397	3,017,037
Capital surplus	230,655	230,632	2,812,866
Retained earnings	345,983	395,751	4,219,305
Treasury stock at cost	(22,681)	(27,055)	(276,598)
	801,354	846,725	9,772,610
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	23,339	23,135	284,622
Deferred gains or losses on hedges	(1,676)	85	(20,439)
Translation adjustment	(40,518)	(36,012)	(494,122)
	(18,855)	(12,792)	(229,939)
Stock subscription rights (Note 18)	5,429	4,386	66,207
Minority interests	163,774	83,080	1,997,244
Total net assets	951,702	921,399	11,606,122
	¥18,924,038	¥16,842,412	$230,780,951

See accompanying notes.

Consolidated Statements of Operations

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Operating revenues:			
Commissions	¥220,845	¥218,630	$2,693,232
Net gain on trading (Note 25)	79,416	92,477	968,488
Net gain (loss) on private equity and other investments	1,956	(17,259)	23,854
Interest and dividend income (Note 23)	79,762	71,916	972,707
Service fees and other revenues	40,396	37,278	492,634
	422,375	403,042	5,150,915
Interest expense (Note 23)	59,691	58,062	727,939
Cost of service fees and other revenues	26,668	26,415	325,220
Net operating revenues (Note 22)	336,016	318,565	4,097,756
Selling, general and administrative expenses (Notes 13 and 26)	359,729	363,920	4,386,939
Operating loss	(23,713)	(45,355)	(289,183)
Other income (expenses):			
Provision for statutory reserves, net (Note 15)	456	885	5,561
Other, net (Note 27)	6,383	9,945	77,841
	6,839	10,830	83,402
Loss before income taxes and minority interests	(16,874)	(34,525)	(205,781)
Income taxes (Note 14):			
Current	7,453	6,907	90,890
Deferred	16,947	2,807	206,671
	24,400	9,714	297,561
Loss before minority interests	(41,274)	(44,239)	(503,342)
Minority interests	1,839	6,907	22,427
Net loss	¥ (39,435)	¥ (37,332)	$ (480,915)

	Yen		U.S. dollars (Note 1)
Per share amounts:			
Net loss	¥(23.41)	¥(21.90)	$(0.29)
Diluted net income	–	–	–
Cash dividends applicable to the year	6.00	6.00	0.07

See accompanying notes.

Consolidated Statements of Comprehensive Income

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Loss before minority interests	**¥(41,274)**	¥(44,239)	**$(503,342)**
Other comprehensive income:			
Valuation difference on available-for-sale securities	**(5,013)**	12,269	**(61,134)**
Deferred gains or losses on hedges	**(1,761)**	(231)	**(21,476)**
Translation adjustment	**(4,604)**	(12,383)	**(56,146)**
Share of other comprehensive income of associates accounted for using equity method	**72**	(465)	**878**
Total other comprehensive income	**(11,306)**	(810)	**(137,878)**
Comprehensive income	**¥(52,580)**	¥(45,049)	**$(641,220)**

	Millions of yen		Thousands of U.S. dollars (Note 1)
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	**¥(45,497)**	¥(47,543)	**$(554,841)**
Comprehensive income attributable to minority interests	**(7,083)**	2,494	**(86,378)**

See accompanying notes.

Consolidated Statements of Changes in Net Assets

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2012 and 2011

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, 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 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
Cash dividends paid				(10,281)						
Net loss				(39,435)						
Change in treasury stock, net			23		4,374					
Decrease due to exclusion of a consolidated subsidiary				(52)						
Net changes of items other than owners' equity						204	(1,761)	(4,506)	1,043	80,694
Balance at March 31, 2012	1,749,379	¥247,397	¥230,655	¥345,983	¥(22,681)	¥23,339	¥(1,676)	¥(40,518)	¥5,429	¥163,774

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, 2011	$3,017,037	$2,812,585	$4,826,231	$(329,939)	$282,134	$ 1,037	$(439,171)	$53,488	$1,013,171
Cash dividends paid			(125,378)						
Net loss			(480,915)						
Change in treasury stock, net		281		53,341					
Decrease due to exclusion of a consolidated subsidiary			(633)						
Net changes of items other than owners' equity					2,488	(21,476)	(54,951)	12,719	984,073
Balance at March 31, 2012	$3,017,037	$2,812,866	$4,219,305	$(276,598)	$284,622	$(20,439)	$(494,122)	$66,207	$1,997,244

See accompanying notes.

Consolidated Statements of Cash Flows

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Cash flows from operating activities:			
Net loss	¥ (39,435)	¥ (37,332)	$ (480,915)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	41,114	40,487	501,390
Gains on negative goodwill	(35,266)	–	(430,073)
Allowance for doubtful accounts, net	1,987	(705)	24,232
Allowance for retirement benefits, net	–	1,916	–
Stock subscription rights	1,044	1,144	12,732
Statutory reserves, net	(456)	(885)	(5,561)
Losses (gains) related to investment securities	3,362	(155)	41,000
Losses related to fixed assets	25,192	1,011	307,220
Gains on step acquisitions	(2,119)	–	(25,841)
Deferred income taxes	16,947	2,807	206,671
Minority interests	(1,839)	(6,907)	(22,427)
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	18,337	26,662	223,622
Other receivables and other payables	45,192	(99,532)	551,122
Collateralized short-term financing agreements	2,303,620	1,244,882	28,092,927
Trading assets and liabilities	(1,469,538)	482,141	(17,921,195)
Private equity and other investments	30,985	56,772	377,866
Deposits for banking business	1,169,916	—	14,267,268
Other, net	(76,366)	(35,423)	(931,293)
Total adjustments	2,072,112	1,714,215	25,269,660
Net cash flows provided by operating activities	2,032,677	1,676,883	24,788,745
Cash flows from investing activities:			
Increase in time deposits	(43,646)	(115,796)	(532,268)
Decrease in time deposits	61,603	152,934	751,256
Purchase of securities	(1,593,335)	(50,121)	(19,430,915)
Proceeds from sales and redemption of securities	610,340	79,229	7,443,171
Payments for purchases of property and equipment	(10,064)	(6,969)	(122,732)
Proceeds from sales of property and equipment	516	5,689	6,293
Payments for purchases of intangible fixed assets	(21,099)	(31,299)	(257,305)
Payments for purchases of investment securities	(8,791)	(39,517)	(107,207)
Proceeds from sales and redemption of investment securities	11,671	20,901	142,329
Payments for acquisition of business	–	(95,627)	–
Payments for purchases of investments in subsidiaries resulting in change in scope of consolidation	–	(511)	–
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 19)	15,250	–	185,976
Payments of loans receivable	(406)	(2,869)	(4,951)
Collection of loans receivable	1,987	3,461	24,232
Other, net	2,481	1,029	30,255
Net cash flows used in investing activities	(973,493)	(79,466)	(11,871,866)

	Millions of yen 2012	2011	Thousands of U.S. dollars (Note 1) 2012
Cash flows from financing activities:			
Decrease in short-term borrowings and commercial paper	(1,068,402)	(1,670,115)	(13,029,293)
Increase in long-term debt	371,175	674,882	4,526,524
Decrease in long-term debt	(358,823)	(260,814)	(4,375,890)
Payments of cash dividends	(10,281)	(19,233)	(125,378)
Other, net	3,308	(26,377)	40,340
Net cash flows used in financing activities	(1,063,023)	(1,301,657)	(12,963,697)
Effect of exchange rate changes on cash and cash equivalents	(644)	(5,740)	(7,854)
Net increase (decrease) in cash and cash equivalents	(4,483)	290,020	(54,671)
Cash and cash equivalents at beginning of year	1,043,464	753,982	12,725,171
Decrease in cash and cash equivalents resulting from exclusion of a subsidiary from consolidation	–	(845)	–
Increase in cash and cash equivalents resulting from merger with an unconsolidated subsidiary	–	307	–
Cash and cash equivalents at end of year	¥ 1,038,981	¥ 1,043,464	$ 12,670,500

See accompanying notes.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2012 and 2011

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") (Note)
– Daiwa Securities Capital Markets Co. Ltd. ("Daiwa Securities CM") (Note)
– Daiwa Asset Management Co. Ltd. ("DAM")
– Daiwa Institute of Research Holdings Ltd.
– Daiwa Corporate Investment Co., Ltd.

(Note) Daiwa Securities (surviving company of merger), and Daiwa Securities CM were merged in an absorption type merger on April 1, 2012.

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 management, investment business and other business through a network in major capital markets.

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.

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, 2012, which was ¥82 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" (Accounting Standards Board of Japan ("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.

Goodwill and negative goodwill which was generated before March 31, 2010 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," "Securities," "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 10.

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

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

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

Retirement benefits—The Company and 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.

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

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, 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.

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, 2012 and 2011 are not presented, since net loss is reported in the consolidated statements of income.

(Changes in accounting policy)
Effective April 1, 2011, the Company adopted "Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2 revised on June 30, 2010), and "Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, revised on June 30, 2010).

The method of calculating diluted earnings per share has been changed to the method which adds the fair value of potential services to be offered by the employees to the amount of payment from exercising the stock options whose rights are secured after the employment for a certain period. As the earnings of fiscal year 2011 and 2012 result in loss, the Company doesn't disclose fully diluted earnings per share.

(Additional Information)
The Company adopted "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan ("ASBJ") Statement No. 24, issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) for accounting changes and corrections of prior period errors which are made from the fiscal year beginning on April 1, 2011.

Unapplied accounting policies
- Revised Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22)
- Revised Guidance on Disclosures about Certain Special Purpose Entities (ASBJ Guidance No. 15)
- Revised Guidance on Determining a Subsidiary and an Affiliate (ASBJ Guidance No. 22)
- Revised Control Criteria and Influence Criteria for Investment Associations (ASBJ PITF No. 20)

These amendments modify consolidation criteria for special purpose entities such that an investor in a special purpose entity is not exempted from consolidation unless the investor is the transferor of assets to the special purpose entity. These amendments will be effective for annual periods beginning on or after April 1, 2013. The Company is currently in the process of determining the effects of these new standards on the consolidated financial statements.

3. Margin transactions

Margin transactions at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Assets:			
Customers' margin loans	¥106,976	¥114,480	$1,304,585
Cash deposits as collateral for securities borrowed	13,894	33,368	169,439
	¥120,870	¥147,848	$1,474,024
Liabilities:			
Payable to securities finance companies	¥ 3,110	¥ 4,774	$ 37,927
Proceeds of securities sold for customers' accounts	49,646	56,623	605,439
	¥ 52,756	¥ 61,397	$ 643,366

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, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Assets:			
Securities purchased under agreements to resell	¥ 6,048	¥ 1,054	$ 73,756
Securities borrowed	5,729,144	7,326,792	69,867,610
	¥5,735,192	¥7,327,846	$69,941,366
Liabilities:			
Securities sold under agreements to repurchase	¥ 810,545	¥ 125,584	$ 9,884,695
Securities loaned	5,257,835	5,213,298	64,119,939
	¥6,068,380	¥5,338,882	$74,004,634

5. Financial instruments

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 of private offerings for subscription of securities, and banking business or other businesses related to the securities and financial fields.

Daiwa holds financial assets and liabilities as follows to execute its businesses: securities, derivatives, operational investment securities, loans 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, deposits, etc. Under the basic policy for financing that enough liquidity for continuing business should be effectively secured, Daiwa is maintaining an appropriate balance between assets and liabilities by diversifying financial measures and maturity dates, and realizing effective and stable financing 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 in terms of financial assets and liabilities.

Daiwa entirely and efficiently manages 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 trusts), loans secured by securities and loans payable secured by securities, margin transaction assets and liabilities, (b) derivatives, traded on exchanges, such as stock index futures, bond futures, interest rate futures and options for those, (c) derivatives (OTC derivatives), not traded on exchanges, such as interest rate and foreign exchange swaps, foreign currency futures, currency options, bond options, FRA and OTC securities derivatives, etc. And Daiwa holds operational investment securities, etc. in the principal investments business and venture capital business, loans and securities, etc. in the banking 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 risks of suffering 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. and from the market environment in which no transaction can be executed because of an excessive decrease of liquidity or one in which market participants are focused to trade in extremely unfavorable conditions. Credit risk means the risk of suffering losses from defaults or credit changing of counterparts 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. These include transactions which are volatile because of the correlation with stock indices, foreign exchange rates and interest rates of reference assets or which tend to move in a complicated manner. Therefore, these carry higher risk than the reference assets. These derivative transactions are categorized as trading assets in the consolidated balance sheets and the realized and unrealized profit/loss by fluctuation of fair values are recorded as the net gain on trading.

Daiwa is raising its capital utilizing corporate bonds, medium-term notes, borrowing from financial institutions, deposits, etc., as well as holding its financial instruments, and is exposed to liquidity risk. Liquidity risk indicates the risk of suffering losses such that cash management may be impossible and remarkably higher financing costs than usual may be requested as a result of an abrupt change of market environment or unexpected credit crunch of Daiwa, 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 the meeting of the Board of Directors which states the basic policy of risk management, types of risks that should be managed and responsible executive officers and department for each major risk. Each subsidiary conducts risk management suitable for each business profile and size in accordance with the basic policy of risk management. And the Company monitors the structure and process of subsidiaries' risk management. Also, the Group Risk Management Committee 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 issues concerning the risk management system of each subsidiary and discusses them. Subsidiaries regularly hold risk management committee meetings, etc., and strengthen each risk management system.

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

(a) Management of market risk

The Group manages its trading positions 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 recognizes the market risk of Daiwa and informs the management of the Company on a daily basis. In order to cover the capacity limit of VaR calculated by the statistical hypothesis based on the data obtained for a certain period, the Company applies the stress test with a scenario supposing the impact of an abrupt change in the market and the hypothetical stress events.

(Quantitative information concerning market risk)
Major subsidiaries engaged in securities business 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, 2012 (fiscal year end) was 1.4 billion yen ($18 million) in total. In the meantime, Daiwa executes the back test which compares calculated 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 an environment in which the market unexpectedly changes beyond the estimation.

(b) Management of credit risk
Concerning transactions in the trading business which generate 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 in Daiwa, 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 operational investment securities, etc., as a result of the principal investments business and venture capital business and investment securities for the business relationship, and loans and securities, etc., in the banking business. 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 risk 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 an investment committee in accordance with the investment limit approved by the Company and make each investment judgment. After investments, it establishes a strategy for restructuring governance of invested companies and for exit. Also, it constructs a system which enables it 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 down 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, it holds a risk management committee and monitors the situation and exit strategy from invested companies and financial influence on the business, etc.

The subsidiary that engages in the banking business, established the management policy and management system for each risk which needs management. Furthermore, an ALM committee, a body under the Board of Directors, was established to discuss and decide the way to manage the risks. The committee manages the credit risk, market risk and liquidity risk, and discusses the important matters relating to the management of assets, liabilities and capitals. The subsidiary controls the risks by doing business within the limited amount decided by the Board of Directors and the committees.

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)
(a) Financial assets and liabilities (excluding the financial assets and liabilities held by the subsidiaries which engage in the banking business)
The main financial assets that are influenced by market risk are operational investment securities in the principal investments business and venture capital business and investment securities for the business relationship. As of March 31, 2012, market prices of the listed equities in operational investment securities and investment securities would fluctuate by 11.1 billion yen ($135.5 million) if the index, such as TOPIX, were to change by 10%.

Also the main financial liabilities in Daiwa that are influenced by market risk are bonds and notes and long-term borrowings. As of March 31, 2012, if all other risk variables were assumed to be unchanged and the interest rate supposed to change by 10 basis points (0.1%), the market prices of bonds and notes and long-term borrowings would fluctuate by 1.2 billion yen ($15.6 million) and 0.0 billion yen ($0.2 million), respectively.

(b) Financial assets and liabilities held by the subsidiary that engages in the banking business

The subsidiary that engages in the banking business regards the financial value changes as the market risk for its financial assets and liabilities, and utilizes it for the quantitative analysis when managing the interest rate risk. The financial value changes are derived from 99 percentile figure of the interest rate volatility measured with a holding period of one year and observation period of five years.

Calculating the financial value changes, the financial assets and liabilities are categorized according to the interest due date and interest rate volatility is used for each term. At the end of the fiscal year, presuming that all the risk factors except interest rates are unchanged, the financial value derived from the 99th percentile figure will be decreased by 4.1 billion yen ($51 million).

The financial value changes suppose that the risk factors except interest rates are unchanged, and it is not considered to be a correlation between the interest rates and other risk factors. Therefore it is possible that the actual impact may exceed the calculated amount in the case that the interest rates fluctuation is not within the reasonably estimated range.

(iii) Management of liquidity risk concerning raising capital

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

Methods of raising capital of Daiwa include unsecured fundraising such as corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, and deposits, etc. and secured fundraising such as Gensaki transactions and repurchase agreements, etc. By those methods, Daiwa realizes effective and stable raising of 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 suffering trouble. Especially in recent years, Daiwa has increased liquidity by raising 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 raised capital and sources of funding preparing for the event that it becomes difficult to raise new capital and to reschedule the existing raising of capital due to a financial crisis occurring.

Further, Daiwa has established a 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 without collateral that has a maturity date within a certain period as well as the estimated cash outflow caused by realization of one of some stress scenarios prepared in advance during the same period, is maintained or not. Daiwa has established a system that enables Daiwa to continue the business even if Daiwa cannot raise funds for a year or so.

The Company collectively manages and monitors the liquidity of Daiwa under the basic policy to secure the appropriate liquidity of Daiwa as a whole. The Company always monitors whether the liquidity portfolio is sufficiently secured against short-term raised capital without collateral preparing for the case that it becomes difficult to raise new capital and to reschedule the existing raising of capital due to the occurrence of some stress which is specific to the Company or influences the entire market. Also, Daiwa has established a system that enables the Company to flexibly supply capital to the group companies if necessary, and achieves efficient and unified raising of capital and capital management. That enables Daiwa to raise and manage capital integrally.

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

The contingency plan of Daiwa was established considering the stress that the entire group may face and is periodically revised to quickly respond to changing financial environments.

Moreover, Daiwa Securities, Daiwa Securities CM, Daiwa Next Bank, Ltd. and foreign securities subsidiaries, which are sensitive to influence by financial markets and for which the importance to secure liquidity of the capital is significant, each decide their own contingency plans and are periodically revising their plans 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 scenarios assumed and tries to preliminarily execute countermeasures, 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, 2012 and 2011, 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

	2012			2011		
	Amounts on consolidated balance sheets	Fair value	Difference	Amounts on consolidated balance sheets	Fair value	Difference
Assets						
(1) Cash and cash equivalents	¥ 1,038,981	¥ 1,038,981	¥ –	¥ 1,043,464	¥ 1,043,464	¥ –
(2) Cash segregated as deposits for regulatory purposes	204,478	204,478	–	241,697	241,697	–
(3) Time deposits	21,487	21,487	–	39,776	39,776	–
(4) Receivables related to margin transactions	120,870	120,870	–	147,848	147,848	–
(5) Collateralized short-term financing agreements	5,735,192	5,735,192	–	7,327,846	7,327,846	–
(6) Trading assets	8,876,950	8,876,950	–	6,770,479	6,770,479	–
(7) Securities, Private equity and other investments and Investment securities						
(a) Securities intended to be held for trading purposes	2,462	2,462	–	2,537	2,537	–
(b) Held-to-maturity debt securities	563,688	564,074	386	100	99	(2)
(c) Subsidiaries companies' stocks and related companies' stocks	–	–	–	22,479	32,304	9,825
(d) Available-for-sale securities	1,103,509			261,939		
Allowance for possible investment loss	(7,549)			(6,209)		
	1,095,960	1,095,960	–	255,730	255,730	–
(8) Trade account receivables, net	139,096	139,096	–	102,011	102,011	–
Total assets	¥17,799,164	¥17,799,550	¥ 386	¥15,953,967	¥15,963,791	¥ 9,824
Liabilities						
(9) Short-term borrowings	¥ 1,636,651	¥ 1,636,651	¥ –	¥ 2,585,792	¥ 2,585,792	¥ –
(10) Commercial paper	275,192	275,192	–	395,196	395,196	–
(11) Long-term debt	2,280,252	2,161,867	118,385	2,156,673	2,158,335	(1,662)
(12) Deposits for banking business	1,169,916	1,169,475	441	–	–	–
(13) Payables to customers and counterparties	346,173	346,173	–	402,965	402,965	–
(14) Payables related to margin transactions	52,756	52,756	–	61,397	61,397	–
(15) Payables-other	18,897	18,897	–	23,042	23,042	–
(16) Collateralized short-term financing agreements	6,068,380	6,068,380	–	5,338,882	5,338,882	–
(17) Trading liabilities	5,953,280	5,953,280	–	4,816,855	4,816,855	–
Total liabilities	¥17,801,497	¥17,682,671	¥118,826	¥15,780,802	¥15,782,464	¥(1,662)
Derivatives used for non-trading						
Derivatives to which hedge accounting is not applied	¥ (88)	¥ (88)	¥ –	¥ –	¥ –	¥ –
Derivatives to which hedge accounting is applied	(3,637)	(3,918)	(281)	179	10	(168)
Total derivatives related to non-trading	¥ (3,725)	¥ (4,006)	¥ (281)	¥ 179	¥ 10	¥ (168)

* Net receivables or payables derived from derivatives are presented on a net basis. The item that is a net liability in total is presented in parentheses.

	Amounts on consolidated balance sheets	Fair value	Difference
	Thousands of U.S. dollars		
	2012		
Assets			
(1) Cash and cash equivalents	$ 12,670,500	$ 12,670,500	$ –
(2) Cash segregated as deposits for regulatory purposes	2,493,634	2,493,634	–
(3) Time deposits	262,037	262,037	–
(4) Receivables related to margin transactions	1,474,024	1,474,024	–
(5) Collateralized short-term financing agreements	69,941,366	69,941,366	–
(6) Trading assets	108,255,488	108,255,488	–
(7) Securities, Private equity and other investments and Investment securities			
(a) Securities intended to be held for trading purposes	30,024	30,024	–
(b) Held-to-maturity debt securities	6,874,244	6,878,951	4,707
(c) Subsidiaries companies' stocks and related companies' stocks	–	–	–
(d) Available-for-sale securities	13,457,427		
Allowance for possible investment loss	(92,061)		
	13,365,366	13,365,366	–
(8) Trade account receivables, net	1,696,293	1,696,293	–
Total assets	$217,062,976	$217,067,683	$ 4,707
Liabilities			
(9) Short-term borrowings	$ 19,959,159	$ 19,959,159	$ –
(10) Commercial paper	3,356,000	3,356,000	–
(11) Long-term debt	27,807,951	26,364,232	1,443,719
(12) Deposits for banking business	14,267,268	14,261,890	5,378
(13) Payables to customers and counterparties	4,221,622	4,221,622	–
(14) Payables related to margin transactions	643,366	643,366	–
(15) Payables-other	230,451	230,451	–
(16) Collateralized short-term financing agreements	74,004,634	74,004,634	–
(17) Trading liabilities	72,600,976	72,600,976	–
Total liabilities	$217,091,427	$215,642,330	$1,449,097
Derivatives related to non-trading			
Derivatives to which hedge accounting is not applied	$ (1,073)	$ (1,073)	$ –
Derivatives to which hedge accounting is applied	(44,354)	(47,780)	(3,426)
Total derivatives related to non-trading	$ (45,427)	$ (48,853)	$ (3,426)

* Net receivables or payables derived from derivatives are presented on a net basis. The item that is a net liability in total is presented in parentheses.

(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 recorded 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), (14) 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), (16) Collateralized short-term financing agreements
These are stated as their book value because fair values are similar to book value and most of them are settled in the short term.

(6), (17) 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) Securities, 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) Trade account receivables, net

Trade account receivables, net is 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, these are calculated from book values which are adjusted with consideration of interest rate fluctuations from the issuances and changes of credit spread of the Company. The credit spread of the Company is referred to interest rates of the latest issuance or market prices of similar bonds issued by the Company, etc.

(12) Deposits for banking business

For demand deposits, the payment amounts required at the end of the fiscal year are considered as fair value.

In addition, fair values of fixed deposits are calculated by classifying them based on their terms and by discounting the future cash flows.

Discount rate is calculated by yield curve which includes credit spread of the Group. For the fixed deposits whose maturity date is within one year, their book value is considered as their fair value because the fair value is close to the book value.

(13), (15) Payables to customers and counterparties and payables-other

These 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 deposits received as guarantee from customers, the payment amount (book value) when settled at the end of this fiscal year is considered as fair values.

(Note 2) Any financial product which is extremely difficult to obtain its fair value at March 31, 2012 and 2011 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
	2012	2011	2012
Subsidiaries' stocks and related companies' stocks			
Unlisted equities	¥32,465	¥32,467	$395,915
Other securities			
Unlisted equities	74,639	88,586	910,232
Investments in limited partnership and other similar partnerships	16,534	21,466	201,634
Others	4,499	5,242	54,866

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

(Note 3) Scheduled redemption amount of financial receivables and securities with a maturity date after March 31, 2012

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥1,038,981	¥ –	¥ –	¥ –
Cash segregated as deposits for regulatory purposes	204,478	–	–	–
Time deposits	21,487	–	–	–
Receivables related to margin transactions	120,870	–	–	–
Collateralized short-term financing agreements	5,735,192	–	–	–
Securities, Private equity and other investments and Investment securities				
Held-to-maturity securities	–	251,371	216,588	95,729
Government bonds, municipal bonds, etc.	–	–	211,088	–
Corporate bonds	–	500	–	95,729
Other bonds	–	250,871	5,500	–
Other securities with a maturity date	6,908	126,951	717,317	31,066
Bonds	4,139	126,951	717,317	31,066
Government bonds, municipal bonds, etc.	–	–	654,561	–
Corporate bonds	1,198	95,283	55,031	31,066
Other bonds	2,941	31,668	7,725	–
Other securities	2,769	–	–	–
Total	¥7,127,916	¥378,322	¥933,905	¥126,795

* 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 to be settled in short term, and included in "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	$12,670,500	$ –	$ –	$ –
Cash segregated as deposits for regulatory purposes	2,493,634	–	–	–
Time deposits	262,037	–	–	–
Receivables related to margin transactions	1,474,024	–	–	–
Collateralized short-term financing agreements	69,941,366	–	–	–
Securities, Private equity and other investments and Investment securities				
Held-to-maturity securities	–	3,065,500	2,641,317	1,167,426
Government bonds, municipal bonds, etc.	–	–	2,574,244	–
Corporate bonds	–	6,098	–	1,167,426
Other bonds	–	3,059,402	67,073	–
Other securities with a maturity date	84,244	1,548,183	8,747,768	378,854
Bonds	50,476	1,548,183	8,747,768	378,854
Government bonds, municipal bonds, etc.	–	–	7,982,451	–
Corporate bonds	14,610	1,161,988	671,110	378,854
Other bonds	35,866	386,195	94,207	–
Other securities	33,768	–	–	–
Total	$86,925,805	$4,613,683	$11,389,085	$1,546,280

* 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 to be settled in short term, and included in "Within 1 year."

(Note 4) Scheduled redemption amount of payable to securities finance companies, deposits for banking business, commercial paper and long-term debts after March 31, 2012

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Payable to securities finance companies	¥ 3,110	¥ –	¥ –	¥ –
Deposits for banking business	1,116,254	53,662	–	–
Commercial paper	275,192	–	–	–
Long-term debts	373,572	1,140,937	175,864	589,879
Total	¥1,768,128	¥1,194,599	¥175,864	¥589,879

* Payable to securities finance companies is considered to be settled in the short term and included in "Within 1 year."
* Payable to securities finance companies are part of the "Payables related to margin transactions" in the accompanying consolidated balance sheets.
* Demand deposits in deposits for banking business is included in "Within 1 year."

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Payable to securities finance companies	$ 37,927	$ –	$ –	$ –
Deposits for banking business	13,612,854	654,414	–	–
Commercial paper	3,356,000	–	–	–
Long-term debts	4,555,756	13,913,866	2,144,683	7,193,646
Total	$21,562,537	$14,568,280	$2,144,683	$7,193,646

* Payable to securities finance companies is considered to be settled in the short term and included in "Within 1 year."
* Payable to securities finance companies are part of the "Payables related to margin transactions" in the accompanying consolidated balance sheets.
* Demand deposits in deposits for banking business is included in "Within 1 year."

6. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Trading assets:			
Trading securities:			
Equities	¥ 203,648	¥ 368,019	$ 2,483,512
Government, corporate and other bonds	5,807,597	4,065,776	70,824,353
Investment trusts	74,255	63,933	905,549
Commercial paper, certificates of deposits and others	62,795	52,071	765,793
Derivatives:			
Option transactions	424,841	394,029	5,180,988
Futures and forward transactions	84,300	31,565	1,028,049
Swap agreements	2,189,167	1,777,084	26,697,159
Other derivatives	41,996	33,065	512,146
Risk reserves	(11,649)	(15,063)	(142,061)
	¥8,876,950	¥6,770,479	$108,255,488

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Trading liabilities:			
Trading securities:			
Equities	¥ 114,085	¥ 268,070	$ 1,391,280
Government, corporate and other bonds	3,434,101	2,744,432	41,879,280
Investment trusts	–	291	–
Commercial paper, certificates of deposits and others	21,967	–	267,890
Derivatives:			
Option transactions	422,229	396,974	5,149,134
Futures and forward transactions	106,563	47,150	1,299,549
Swap agreements	1,817,733	1,325,956	22,167,477
Other derivatives	36,602	33,982	446,366
	¥5,953,280	¥4,816,855	$72,600,976

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,” “Securities,” “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, 2012 and 2011 consisted of the following:

			Millions of yen
	Cost	Fair value	Difference
March 31, 2012	¥2,419	¥2,462	¥ 43
March 31, 2011	¥2,835	¥2,537	¥(298)

			Thousands of U.S. dollars
	Cost	Fair value	Difference
March 31, 2012	$29,500	$30,024	$524

Amortized cost of held-to-maturity debt securities as of March 31, 2012 and 2011 consisted of the following:

			Millions of yen
	Cost	Fair value	Difference
March 31, 2012:			
Government, municipal and other bonds	¥211,088	¥211,534	¥ 446
Corporate bonds	96,229	97,031	803
Other	256,371	255,509	(862)

			Millions of yen
	Cost	Fair value	Difference
March 31, 2011:			
Government, municipal and other bonds	¥ –	¥ –	¥ –
Corporate bonds	100	98	(1)
Other	–	–	–

			Thousands of U.S. dollars
	Cost	Fair value	Difference
March 31, 2012:			
Government, municipal and other bonds	$2,574,248	$2,579,683	$ 5,435
Corporate bonds	1,173,522	1,183,310	9,788
Other	3,126,480	3,115,962	(10,518)

Cost and fair value of marketable available-for-sale securities as of March 31, 2012 and 2011 consisted of the following:

			Millions of yen
	Cost	Fair value	Difference
March 31, 2012:			
Equities	¥ 88,566	¥ 118,213	¥29,647
Government, corporate and other bonds	874,696	880,228	5,532
Other	111,660	115,068	3,408
	¥1,074,922	¥1,113,509	¥38,587

			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

			Thousands of U.S. dollars
	Cost	Fair value	Difference
March 31, 2012:			
Equities	$ 1,080,073	$ 1,441,622	$361,549
Government, corporate and other bonds	10,667,024	10,734,488	67,463
Other	1,361,708	1,403,268	41,561
	$13,108,805	$13,579,378	$470,573

8. Derivatives used for non-trading purposes

1. Derivatives to which hedge accounting is not applied

Contract amount, fair value and net unrealized gains (losses) of these derivatives at March 31, 2012 and 2011 are as follows:

			Millions of yen
	Contract amount	Fair value	Unrealized gains (losses)
March 31, 2012:			
Stock index future	¥1,669	¥(88)	¥(88)

			Millions of yen
	Contract amount	Fair value	Unrealized gains (losses)
March 31, 2011:			
Stock index future	¥–	¥–	¥–

			Thousands of U.S. dollars
	Contract amount	Fair value	Unrealized gains (losses)
March 31, 2012:			
Stock index future	$20,354	$(1,073)	$(1,073)

2. Derivatives to which hedge accounting is applied

Main hedged items, contract amount and fair value of these derivatives at March 31, 2012 and 2011 are as follows:

March 31, 2012

				Millions of yen
Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount	Fair value
Foreign exchange forward contract	Allocation method	Foreign bond	¥ 54	¥ 54
	Fundamental method	Forecasted transaction in foreign currency	735	(11)
Interest swap	Fundamental method	Long-term debt and government bond	623,500	(3,626)
	Special treatment	Long-term debt and government bond	181,550	(335)

March 31, 2011

Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount (Millions of yen)	Fair value (Millions of yen)
Foreign exchange forward contract	Allocation method	Foreign bond	¥ 222	¥(141)
	Fundamental method	Forecasted transaction in foreign currency	787	2
Interest swap	Special treatment	Long-term debt	3,050	(35)
Stock index future	Fundamental method	Investment securities	2,435	183

March 31, 2012

Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Foreign exchange forward contract	Allocation method	Foreign bond	$ 659	$ 659
	Fundamental method	Forecasted transaction in foreign currency	8,963	(134)
Interest swap	Fundamental method	Long-term debt and government bond	7,603,659	(44,220)
	Special treatment	Long-term debt and government bond	2,214,024	(4,085)

9. Pledged assets

Secured obligations at March 31, 2012 and 2011 consisted of the following:

	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
Short-term borrowings	¥1,372,960	¥1,985,082	$16,743,414
Payables related to margin transactions	3,110	4,590	37,927
	¥1,376,070	¥1,989,672	$16,781,341

All above obligations at March 31, 2012 and 2011 are secured by the following assets:

	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
Trading assets	¥1,466,731	¥1,268,838	$17,886,963
Securities	214	–	2,610
Investment securities	16,301	22,615	198,793
	¥1,483,246	¥1,291,453	$18,088,366

In addition to the above, securities borrowed amounting to ¥339,224 million ($4,136,878 thousand) and ¥1,148,947 million were pledged as guarantees at March 31, 2012 and 2011, respectively.

Total fair value of the securities pledged as collateral at March 31, 2012 and 2011 consisted of the following:

	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
Securities loaned	¥5,997,031	¥6,130,436	$73,134,524
Other	1,274,261	617,542	15,539,768
	¥7,271,292	¥6,747,978	$88,674,292

Total fair value of the securities received as collateral at March 31, 2012 and 2011 consisted of the following:

	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
Securities borrowed	¥6,695,182	¥8,623,571	$81,648,561
Other	307,561	502,630	3,750,744
	¥7,002,743	¥9,126,201	$85,399,305

10. Lease transactions

Assets used under finance leases other than the ones that transfer ownership to the lessee at the end of the lease term, which started before March 31, 2008, are accounted for in the same manner as ordinary rental transactions. Certain information concerning such non-capitalized finance leases and operating leases at March 31, 2012 and 2011 are summarized as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Non-capitalized finance leases:			
Total assets under non-capitalized finance leases	¥ 130	¥ 663	$ 1,585
Accumulated depreciation	121	416	1,476
Future lease payments in respect of non-capitalized leases	9	74	110
Due within one year	9	59	110
Operating leases:			
Future lease payments in respect of operating leases	67,358	70,509	821,439
Due within one year	12,335	13,091	150,427

Lessor:	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Operating leases:			
Future lease receipts in respect of operating leases	¥13,890	¥4,610	$169,390
Due within one year	6,239	648	76,085

11. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash received for customers' accounts	¥111,247	¥132,256	$1,356,671
Cash deposits received from customers	226,144	249,362	2,757,854
Other	8,782	21,347	107,097
	¥346,173	¥402,965	$4,221,622

12. Long-term debt

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

The weighted average interest rate on total outstanding short-term borrowings principally from banks at March 31, 2012 and 2011 was 0.21% and 0.16%, respectively.

Long-term debt at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Bond payable in yen: 2.08% due CY2016	¥ 30,000	¥ 30,000	$ 365,854
Bond payable in yen: 1.80% due CY2011	–	50,000	–
Bond payable in yen: 1.50% due CY2012	50,000	50,000	609,756
Bond payable in yen: 1.43% due CY2013	60,000	60,000	731,707
Bond payable in yen: 1.66% due CY2013	70,000	70,000	853,659
Bond payable in yen: 1.65% due CY2011	–	78,000	–
Bond payable in yen: 0.92% due CY2015	50,000	50,000	609,756
Bond payable in yen: 0.71% due CY2014	30,000	–	365,854
Bond payable in yen: 0.31% due CY2014	30,000	30,000	365,854
Bond payable in yen: 0.33% due CY2015	30,000	30,000	365,854
Bond payable in yen: 0.53% due CY2014	40,000	–	487,805
Bond payable in yen: 1.40% due CY2014	30,000	30,000	365,854
Bond payable in yen: 0.94% due CY2015	41,300	41,300	503,659
Bond payable in yen: 0.62% due CY2015	20,500	20,500	250,000
Bond payable in yen: 1.26% due CY2017	19,800	19,800	241,463
Bond payable in yen: 1.72% due CY2020	18,400	18,400	224,390
Bond payable in yen: 2.16% due CY2025	7,800	7,800	95,122
Bond payable in yen: 0.34% due CY2031	–	5,000	–
Bond payable in yen: 2.41% due CY2026	3,000	–	36,585
Bond payable in yen: 2.24% due CY2026	5,000	–	60,976
Bond payable in yen: 0.63% due CY2026	2,200	–	26,829
Bond payable in yen: 1.87% due CY2013	5,000	–	60,976
Euro medium-term notes issued by the Company and a domestic consolidated subsidiary, maturing through CY2042	896,564	840,173	10,933,706
Subordinated bond payable in yen: maturing through CY2019	58,225	58,225	710,061
Subordinated borrowings from banks in yen, maturing through CY2016	46,000	128,000	560,976
Long-term borrowings principally from banks in yen, maturing through CY2038	734,901	539,341	8,962,206
Lease obligation	1,562	134	19,049
	¥2,280,252	¥2,156,673	$27,807,951

The amount for euro medium-term notes issued by the Company and a domestic consolidated subsidiary as of March 31, 2012 includes US$370,436 thousand, AU$857,000 thousand, NZ$665,000 thousand and ZAR 3,768,000 thousand.

Interest rates of euro medium-term notes range from 0.00% to 7.30% at March 31, 2012 and from 0.02% to 7.30% at March 31, 2011. The weighted average interest rate on total outstanding yen subordinated borrowings and borrowings principally from banks at March 31, 2012 and 2011 was 0.81% and 1.02%, respectively. The weighted average interest rate on total outstanding lease obligations at March 31, 2012 was 1.66%.

Daiwa had an unused commitment line amounting to ¥13,219 million ($161,207 thousand) under agreements with several banks at March 31, 2012.

13. Retirement benefits

Retirement benefits for employees

Unfunded plan

Accumulated contribution plus interest to this unfunded plan are included in "Retirement benefits" in the consolidated balance sheets as of March 31, 2012 and 2011, in the amount of ¥29,984 million ($365,659 thousand) and ¥28,001 million, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2012 and 2011 were ¥2,451 million ($29,890 thousand), ¥3,288 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 ¥504 million ($6,146 thousand) and ¥437 million are included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2012 and 2011, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2012 and 2011 were ¥218 million ($2,659 thousand), ¥204 million, respectively.

14. Income taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes levied on income. The effective statutory tax rate in Japan was approximately 40.7% for the years ended March 31, 2012 and 2011. Overseas consolidated subsidiaries are subject to income taxes of the countries in which they operate.

Reconciliation of the difference between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2012 and 2011 are not presented, since net loss is reported in the consolidated statements of income.

Details of deferred tax assets and liabilities at March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Net operating losses carry-forward	¥ 179,644	¥ 151,793	$ 2,190,780
Revaluation of assets on consolidation	14,094	–	171,878
Write-down of investment securities	11,463	13,550	139,793
Retirement benefits	10,945	12,038	133,476
Compensation and bonuses	3,118	3,835	38,024
Allowance for doubtful accounts	1,490	1,492	18,171
Impairment losses on fixed assets	10,944	7,037	133,463
Elimination of unrealized gain	2,611	4,074	31,841
Loss on private equity and other investments	9,627	10,887	117,402
Loss on trading	5,198	7,018	63,390
Other	17,966	13,668	219,099
Gross deferred tax assets	267,100	225,392	3,257,317
Less: Valuation allowance	(244,577)	(186,512)	(2,982,646)
Total deferred tax assets	22,523	38,880	274,671
Deferred tax liabilities	11,655	6,716	142,134
Net deferred tax assets	¥ 10,868	¥ 32,164	$ 132,537

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.

On December 2, 2011, amendments to the Japanese tax regulations were enacted into law. As a result of these amendments, the statutory income tax rate for the Company will be reduced to 38.01% for years beginning on or after April 1, 2012 and 35.64% for years beginning on or after April 1, 2015. For the year ended March 31, 2012, due to these changes in statutory income tax rate, net deferred tax assets decreased by ¥705 million ($8,598 thousand) and deferred income tax expenses increased by ¥1,385 million ($16,890 thousand) and valuation difference on available-for-sale securities increased by ¥798 million ($9,732 thousand) respectively. In addition, deferred gains or losses on hedges decreased by ¥118 million ($1,440 thousand).

15. Statutory reserves

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

16. Contingent liabilities

Daiwa had contingent liabilities amounting to ¥2,630 million ($32,073 thousand) and ¥3,059 million at March 31, 2012 and 2011, respectively, mainly arising as guarantors of employees' borrowings.

17. Owners' equity

In principle, the Companies Act of Japan ("the Act") requires a company to credit the entire amount of issued shares to common stock (and preferred stock, if any); however, a company may classify an amount not exceeding one-half of the entire issued amount of shares as additional paid-in capital, which is included in "Capital surplus" 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, 2012 amounted to ¥343,740 million ($4,191,951 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 ($62,695 thousand) and ¥3 ($0.04) per share amounting to ¥5,141 million ($62,695 thousand) were approved by the Board of Directors on May 15, 2012 and October 28, 2011, respectively.

18. Share-based payment

Daiwa has various stock option plans.

The shareholders of the Company approved granting stock options to directors and certain key employees on June 23, 2004. The plan provides for the issuance of up to 4,500 thousand shares in the form of options to directors and executive officers, and the amount paid in upon exercise of such subscription rights is ¥756 ($9.22) 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, 2012 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 24, 2005	431,000	¥ 1	($ 0.01)	from July 1, 2005 to June 30, 2025
	1,816,000	¥ 750	($ 9.15)	from July 1, 2007 to August 31, 2012
June 24, 2006	248,000	¥ 1	($ 0.01)	from July 1, 2006 to June 30, 2026
	2,423,000	¥1,455	($17.74)	from July 1, 2011 to June 23, 2016
June 23, 2007	266,000	¥ 1	($ 0.01)	from July 1, 2007 to June 30, 2027
	–	¥1,176	($14.34)	from July 1, 2012 to June 22, 2017
June 21, 2008	316,000	¥ 1	($ 0.01)	from July 1, 2008 to June 30, 2028
	–	¥ 881	($10.74)	from July 1, 2013 to June 20, 2018
June 20, 2009	627,000	¥ 1	($ 0.01)	from July 1, 2009 to June 30, 2029
	–	¥ 496	($ 6.05)	from July 1, 2014 to June 19, 2019
June 26, 2010	1,043,000	¥ 1	($ 0.01)	from July 1, 2010 to June 30, 2030
	–	¥ 380	($ 4.63)	from July 1, 2015 to June 25, 2020
June 25, 2011	1,211,000	¥ 1	($ 0.01)	from July 1, 2011 to June 30, 2031
	–	¥ 326	($ 3.98)	from July 1, 2016 to June 24, 2021

19. Business combinations and related matters

Detail of business combinations and related matters for the year ended March 31, 2012 are as follows.

Outline of the business combination

(i) Name of the acquired company and its business
Daiwa Office Investment Corporation (Investment management business to the specified assets)

(ii) Main reasons for the business combination
Daiwa PI Partners Co. Ltd., a consolidated subsidiary of the Company, executed a loan agreement with K.K. Columbus and provided a loan secured by 68,905 investment units (17.41% of the total issued and outstanding investment units) issued by Daiwa Office Investment Corporation and held by K.K. Columbus. Daiwa PI Partners Co. Ltd. decided to foreclose the security interest pursuant to the provision of the loan agreement and acquired 68,905 units issued by Daiwa Office Investment Corporation. The Company believes that it will be able to enhance the value of the entire Group by supporting and realizing the growth of Daiwa Office Investment Corporation by making available the corporate resources of the Group.

(iii) Date of business combination
February 29, 2012 (deemed acquisition date)

(iv) Legal form of the business combination
Acquisition of investment units of Daiwa Office Investment Corporation

(v) Ratio of voting rights the Group has acquired

Ratio of voting rights owned before business acquisition:	28.27%
Ratio of voting rights additionally acquired at the date of business combination:	17.41%
Ratio of voting rights after acquisition:	45.68%

Period of the acquired company's financial results included in the consolidated financial statements

The business before the date of business combination (February 29, 2012 is considered to be the acquisition date) is reflected in the investment profit under the equity method.

Acquisition cost of the acquired company

Fair value of investment units of Daiwa Office Investment Corporation owned before business combination:
¥23,878 million ($291,195 thousand)

Fair value of investment units of Daiwa Office Investment Corporation additionally acquired at the date of business combination:
¥14,704 million ($179,317 thousand)

Acquisition cost of the acquired company:
¥38,582 million ($470,512 thousand)

Difference between acquisition cost of the acquired corporation and total acquisition cost of individual transactions leading to acquisition

Gains on step acquisitions: ¥2,118 million ($25,829 thousand)

Negative goodwill and reason for recognizing negative goodwill

(i) Amount of negative goodwill:
¥35,266 million ($430,073 thousand)

(ii) Reason for recognizing negative goodwill
The market price of the assets and liabilities of the acquired corporation exceeds the acquisition cost.

Amount of assets and liabilities acquired on the day of the business combination and reconciliation between the acquisition cost of investment units and the proceeds from purchase

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Current assets	¥ 15,868	$ 193,512
Fixed assets	269,678	3,288,756
Current liabilities	(43,685)	(532,744)
Fixed liabilities	(80,190)	(977,927)
Minority interests	(87,823)	(1,071,012)
Negative goodwill	(35,266)	(430,073)
The acquisition cost of investment units	38,582	470,512
The investment by the equity method of accounting at consolidation	(22,854)	(278,707)
Gains on step acquisition	(2,118)	(25,829)
Acquisition of investment units by the exercise of a security interest	(13,610)	(165,976)
Cash and equivalents held by Daiwa Office Investment Corporation	(15,250)	(185,976)
Net: Proceeds from purchase	15,250	185,976

Approximate amounts of impact on the consolidated statements of income for fiscal 2011 by supposing that the business combination had been completed on the beginning date of fiscal 2011

	Millions of yen	Thousands of U.S. dollars
Net Operating Revenue	¥7,732	$94,293
Ordinary Income	2,365	28,841
Net Income	1,604	19,561

(Calculation method of approximate amounts)
The amounts indicated as the estimated impact of the combination are the differences between the amount of net operating revenue and income calculated by considering adjustments such as the elimination of intercompany transactions and the gain or loss under the equity method with the assumption that the business combination was concluded on April 1, 2011 and the amount of those in the consolidated statements of operating of the Company. The estimated amounts of the impact of the combination have not been audited.

20. Investment and rental properties

Some subsidiaries own office buildings (including land) for rent in Tokyo and other areas.

The book value, net changes in the book value and the fair value of the investment and rental properties are as follows.

Millions of yen

Book value			Fair value
As of March 31, 2011	Change during the period	As of March 31, 2012	As of March 31, 2012
¥–	¥269,320	¥269,320	¥269,320

Millions of yen

Book value			Fair value
As of March 31, 2010	Change during the period	As of March 31, 2011	As of March 31, 2011
¥–	¥–	¥–	¥–

Thousands of U.S. dollars

Book value			Fair value
As of March 31, 2011	Change during the period	As of March 31, 2012	As of March 31, 2012
$–	$3,284,390	$3,284,390	$3,284,390

(Note 1) The book value represents the acquisition cost less accumulated depreciation.
(Note 2) For the year ended March 31, 2012, the major reason of increase is the acquisition of the subsidiary holding rental properties.
(Note 3) The fair value as of March 31, 2012 represents the sum of values estimated by external real estate appraisers.

21. 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 404.0% (unaudited) and 405.3% (unaudited) for March 31, 2012 and 2011, respectively, and those of Daiwa Securities CM were 408.5% (unaudited) and 289.5% (unaudited) for March 31, 2012 and 2011, respectively. Daiwa also announced that Daiwa has calculated the consolidated capital adequacy ratio as of March 31, 2012 in accordance with the principal stipulated in the Notification 130 Pursuant to the Article 57-17-1 of the Financial Instruments and Exchange Act issued by the Japanese Financial Service Agency (i.e. in Basel II method). The consolidated capital adequacy ratio as of March 31, 2012 was 27.4% (unaudited).

22. Segment information

Daiwa's reportable segments are 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: "Retail," "Global markets," "Global investment banking," "Asset management" and "Investment" by similarity of economic character.

(Information on net operating revenues by reportable segment)

Millions of yen

	Retail	Global Markets	Global Investment Banking	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2012:								
Net operating revenues:								
Outside customer	¥138,843	¥ 73,269	¥29,350	¥ 57,697	¥ 3,722	¥302,881	¥ 2,250	¥305,131
Elimination amount between segments	33,190	(21,254)	(2,877)	(20,273)	(2,632)	(13,846)	30,253	16,407
Total	¥172,033	¥ 52,015	¥26,473	¥ 37,424	¥ 1,090	¥289,035	¥32,503	¥321,538
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

Thousands of U.S. dollars

	Retail	Global Markets	Global Investment Banking	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2012:								
Net operating revenues:								
Outside customer	$1,693,207	$ 893,524	$357,927	$ 703,622	$ 45,390	$3,693,670	$ 27,440	$3,721,110
Elimination amount between segments	404,756	(259,195)	(35,085)	(247,232)	(32,098)	(168,854)	368,939	200,085
Total	$2,097,963	$ 634,329	$322,842	$ 456,390	$ 13,292	$3,524,816	$396,379	$3,921,195

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

* "Net operating revenues" consist 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.

(Difference between the segment information and the consolidated financial statements) (adjustment of difference)

	Millions of yen		Thousands of U.S. dollars
Net operating revenues	2012	2011	2012
Reportable segment total	¥289,035	¥292,148	$3,524,816
Net operating revenues from "Others"	32,503	19,393	396,379
Elimination between segments	(16,407)	(20,624)	(200,085)
Commission fee deducted from net operating revenues	28,849	26,919	351,821
Other adjustments	2,036	729	24,825
Net operating revenue of financial statements	¥336,016	¥318,565	$4,097,756

(Information on impairment losses on fixed assets by reportable segment)

Millions of yen

	Retail	Global Markets	Global Investment Banking	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination	Total
Year ended March 31, 2012:									
Impairment losses on fixed assets	¥17	¥8,269	¥1,334	¥76	¥–	¥9,696	¥10,526	¥(2,338)	¥17,884

Millions of yen

	Retail	Global Markets	Global Investment Banking	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination	Total
Year ended March 31, 2011:									
Impairment losses on fixed assets	¥–	¥–	¥480	¥35	¥112	¥627	¥2	¥(35)	¥594

Thousands of U.S. dollars

	Retail	Global Markets	Global Investment Banking	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination	Total
Year ended March 31, 2012:									
Impairment losses on fixed assets	$207	$100,842	$16,268	$927	$–	$118,244	$128,366	$(28,512)	$218,098

(Information on gains on negative goodwill by reportable segment)

Current fiscal year from April 1, 2011 to March 31, 2012

Daiwa recorded negative goodwill of ¥35,266 million ($430,073 thousand) by converting Daiwa Office Investment Corporation into a consolidated subsidiary. Daiwa doesn’t allocate negative goodwill to any reportable segment.

23. Transactions with related parties

The information on subsidiaries' material transactions with related parties and individuals for the years ended March 31, 2012 and 2011, 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 2012
Tokyo Tanshi Co., Ltd.	¥10,000	Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	¥209,966
		Interest and dividend expense	¥11	Collateralized short-term financing agreements (assets)	115,859
		Interest income	2	Receivables—Other	1
		Interest and dividend income	¥11	Accrued and other liabilities—Other	2
		Interest expense	7		

Description of transactions			Millions of yen 2011
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

Description of transactions			Thousands of U.S. dollars 2012
Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	$2,560,561
Interest and dividend expense	$134	Collateralized short-term financing agreements (assets)	1,412,915
Interest income	24	Receivables—Other	12
Interest and dividend income	$134	Accrued and other liabilities—Other	24
Interest expense	85		

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

24. Special purpose entities subject to disclosure

Some consolidated subsidiaries utilized 6 special purpose entities for the year ended March 31, 2012 (6 for year ended March 31, 2011) 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, 2012 and 2011 are ¥405,374 million ($4,943,585 thousand) and ¥233,649 million, respectively.

25. Net gain on trading

Net gain on trading for the years ended March 31, 2012 and 2011 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Equity and other	¥ (6,464)	¥ (8,797)	$ (78,829)
Bond, forex and other	85,880	101,274	1,047,317
	¥79,416	¥ 92,477	$ 968,488

26. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Employees' compensation and benefits	¥158,298	¥160,234	$1,930,463
Commissions and brokerage	38,394	37,638	468,220
Communications	20,708	21,517	252,537
Occupancy and rental	44,881	45,258	547,329
Data processing and office supplies	27,752	27,027	338,439
Taxes other than income taxes	6,581	7,044	80,256
Depreciation	39,861	39,163	486,110
Other	23,254	26,039	283,585
	¥359,729	¥363,920	$4,386,939

27. Other income (expenses)

Details of "Other, net" in the accompanying consolidated statements of operations for the years ended March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Gains on sale or disposal of fixed assets	¥ –	¥ 1,597	$ –
Gains on sales of investment securities	1,820	5,633	22,195
Gain on step acquisitions	2,119	–	25,841
Gain on negative goodwill	35,266	–	430,073
Other (income)	12,806	16,599	156,171
Losses on sale or disposal of fixed assets	(7,308)	(2,014)	(89,122)
Losses on sales of investment securities	(277)	(9)	(3,378)
Impairment losses on fixed assets	(17,884)	(594)	(218,098)
Write-down of investment securities	(4,556)	(5,561)	(55,561)
Business restructuring cost	(11,212)	–	(136,732)
Other (expenses)	(4,391)	(5,706)	(53,548)
	¥ 6,383	¥ 9,945	$ 77,841

Impairment loss on fixed assets

(Fiscal year ended March 31, 2012)

Daiwa recognized the impairment losses for the following asset groups.

			Millions of yen	Thousands of U.S. dollars
	Condition	Location	Impairment loss	Impairment loss
Idle assets	Low profit-earning assets	Kanto region and others	¥14,193	$173,085
Assets to be disposed	Low operating asset	Kanto region	3,691	45,013
Total			¥17,884	$218,098

With regards to the assets which are managed individually, such as sales branches, Daiwa grouped them individually. The other operating assets are grouped in accordance with classifications used for internal management. Assets to be disposed are grouped individually.

The decline of the profitability and the changes in the way of use arose with these assets. The book values of certain assets were reduced to recoverable amounts and the amounts of the differences between the book value and recoverable amounts were recorded as impairment loss of ¥17,884 million ($218,098 thousand). The break-down of the amounts is ¥14,193 million ($173,085 thousand) for idle assets (¥21 million ($256 thousand) for buildings, ¥11,794 million ($143,829 thousand) for software, ¥2,367 million ($28,866 thousand) for goodwill and ¥11 million ($134 thousand) for the others) and ¥3,691 million ($45,013 thousand) for the assets to be disposed (¥357 million ($4,354 thousand) for buildings, ¥1,343 million ($16,378 thousand) for lands, ¥1,986 million ($24,220 thousand) for leasehold rights and ¥5 million ($60 thousand) for the others).

The recoverable amounts of software in idle assets are measured by value in use, which is calculated by discounting future cash flows at a discount rate of 2.0%. The recoverable amount of goodwill is measured by re-evaluated company value. The recoverable amounts for assets to be disposed are measured by net selling price and valued by appraisal price.

(Fiscal year ended March 31, 2011)

Daiwa recognized impairment loss for the following asset groups.

	Condition	Location	Millions of yen Impairment loss
Idle assets	Low profit-earning assets	Kanto region and others	¥594

With regards to assets which are managed individually, such as sales branches, Daiwa grouped them individually. The other operating assets are grouped in accordance with classifications used for internal management. Assets to be disposed are grouped individually.

For idle assets for which profitability has declined, the book values of certain assets were reduced to the recoverable amounts and the amounts of the reductions were recorded as impairment loss of ¥594 million. The breakdown of the amounts are ¥13 million for equipment and vehicles, ¥27 million for lands, ¥479 million for goodwill and ¥75 million for software and others.

The recoverable amounts of assets are mainly measured by net selling price and buildings and lands are valued by the assessed value for property taxes. The recoverable amount of goodwill is measured by reevaluated company value.

28. 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 share-holders on June 27, 2012 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.

Regarding Internal Reorganization—Daiwa Securities Co. Ltd. and Daiwa Securities Capital Markets Co. Ltd. conducted a merger on April 1, 2012 based on a Merger Agreement on February 20, 2012. An outline of the transactions is as follows:

1. Company's name, the substance of business, date of business combination, legal form of business combination, Company's name after business combination and outline of the deal including the objective of the deal.

(1) Name and business of combined entities

Corporate name	Daiwa Securities Co. Ltd.	Daiwa Securities Capital Markets Co. Ltd
The substance of business	Securities Related Business Investment Advisory and Agency Business	Securities Related Business

(2) Date of business combination
April 1, 2012

(3) Legal form of business combination
A merger by absorption with Daiwa Securities Co. Ltd. as the surviving company

(4) Name of the entity after the business combination
Daiwa Securities Co. Ltd.

(5) Outline of the deal including the objective of the deal
The integration of Daiwa Securities Co. Ltd. and Daiwa Securities Capital Markets Co. Ltd. vastly elevates the reliability of the strong management foundation, by means of further optimization of administrations and augmentation of added value, to meet the highly diversifying client demands.

2. Outline of accounting procedure

The Company processed the deal as under common control in conformity with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 of December 26, 2008) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 of December 26, 2008).

KPMG

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Daiwa Securities Group Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Daiwa Securities Group Inc. and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 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

June 28, 2012
Tokyo, Japan

Report Regarding Situation of Soundness in Management

Qualitative Disclosure (Consolidated)

1. Scope of Consolidation

A). Discrepancy in the scope of consolidation defined under consolidated financial statement reported and that for consolidated capital adequacy ratio calculation.

Not applicable.

B). Number of consolidated subsidiaries, and company names and businesses of major consolidated subsidiaries.

Number of consolidated subsidiaries: 60 companies

Company Name	Business
Daiwa Securities Co. Ltd. (Note 1)	Securities related business Investment advisory and agency business
Daiwa Securities Capital Markets Co. Ltd. (Note 1)	Securities related business
Daiwa Asset Management Co. Ltd.	Investment management business Investment advisory and agency business
Daiwa Institute of Research Holdings Ltd.	Integration and management of subsidiaries
Daiwa Institute of Research Ltd.	Information Service
Daiwa Securities Business Center Co. Ltd.	Back office operation
Daiwa Property Co., Ltd.	Lending and borrowing of real estates
Daiwa Corporate Investment Co., Ltd.	Venture capital business
Daiwa Institute of Research Business Innovation	Information Service
Daiwa Next Bank, Ltd.	Banking business
Daiwa Securities SMBC Principal Investments Co.	Principal investment business
Daiwa PI Partners Co. Ltd.	Principal investment business
Daiwa Real Estate Asset Management Co., Ltd.	Investment management business Investment advisory and agency business
Daiwa Office Investment Corporation	Investment in specified assets
Daiwa Capital Markets Europe Limited	Securities related business
Daiwa Capital Markets Asia Holding B.V.	Integration and management of subsidiaries
Daiwa Capital Markets Hong Kong Limited	Securities related business
Daiwa Capital Markets Singapore Limited	Securities related business
Daiwa Capital Markets America Holdings Inc.	Integration and management of subsidiaries
Daiwa Capital Markets America Inc.	Securities related business

(Note 1) Daiwa Securities Co. Ltd and Daiwa Securities Capital Markets Co. Ltd merged on April 1, 2012 as Daiwa Securities Co. Ltd.

C). Number of affiliated companies engage in financial activities, company names, and core businesses of major affiliated companies that engaged in financial activities under the provision of Article 9 of the Consolidated Capital Adequacy Ratio Notification published by Japan FSA.

No company is subject to proportionate consolidation methods.

D). Number of companies subject to the deduction, the names of major companies, and main businesses subject to the capital deduction specified under the provision of Article 8 Paragraph 1 (ii), (a)-(c) of the Consolidated Capital Adequacy Ratio Notification published by Japan FSA.

Number of companies subject to the deductions: 25 companies

Company Name	Business
Daiwa Asset Management (India) Private Limited	Investment management and advisory business

E). Overview of the restrictions on the transfer of funds and regulatory capital within Group companies

There is no specific restriction set forth regarding the transfer of funds and regulatory capital within Group companies.

2. Overview of Capital Instruments

The Group's capital is consisted of common stock and subordinated debts with defined maturity.

Capital Instruments	Balance
Common Stock	1,749 Million Shares
Subordinated Bonds	57.1 Billion Yen
Subordinated Loans	45.6 Billion Yen

3. Overview of Capital Adequacy Assessment Methods

The Group set forth "The Rules of Economic Capital Management" and "The Rules of Regulatory Capital Management", and assesses capital adequacy from economic capital as well as regulatory capital point of views.

<Economic Capital>

The Group sets economic capital allocation amount after reserving capital buffer adequately resists financial stress under Tier 1 capital, and accordingly allocates such capital toward major Group companies.

In assessing the capital adequacy, the Group monitors capital requirements based on the aggregated level of each Group company against the economic capital allocated to them.

Economic capital allocated toward major companies is set with reflecting historical risk amount, business plans, budget, and others are considered. Capital adequacy is assessed by confirming and quantifying if the risk amount held by the Group companies as a result of their business activities falls with in the range of allocated capital.

<Regulatory Capital>

The Group monitors regulatory capital against the alert level which is set well above the minimum regulatory capital ratio.

4. Credit Risk

A). Overview of risk management policies and procedures

<Credit Risk Management Policy>

In regard to transactions that involve exposure to credit risk, before the transaction is made, the Group assigns the counterparty a credit limit based on its credit rating. Subsequently, the Group carefully monitors the notional amount and the credit equivalent amount. In particular, in the wholesale business where the exposure to credit risk is comparatively high, the Group assigns credit limit based on the probability of failure of each counterparty and expected recovery rate of the transaction. The probability of failure is estimated via internal model and expected recovery rate from the transaction conditions such as the maturity, collaterals and legal enforceability of the agreement. In addition, the Group measures and periodically monitors credit VaR at the portfolio level.

<Allowance for Doubtful Account>

In order to prepare for the loss from bad debts on loan and others, allowance for doubtful accounts is provided for probable losses on loans and receivables, based on the actual historical default rate for normal claims, and based on individually assessed amounts for doubtful and default loans.

<Calculation of Credit Risk Asset>

Credit risk exposures are being calculated in the Standardized Approach.

B). The Name of the external credit assessment institutions (hereunder ECAIs) used when determining the risk weight

Following ECAIs are used to determine the risk weight.

Rating & Investment Information, Inc.
Japan Credit Rating Agency, Ltd.
Moody's Investors Service, Inc.
Standard & Poor's Rating Services

5. Overview of Policy and Procedure for the Credit Risk Mitigation Techniques

Collateral is used for the Credit Risk Mitigation techniques (hereunder CRM Techniques) purpose.

Types of collaterals are generally cash or high liquid securities. Received collateral is valued mark to market daily and monitored against exposures. In addition, balance and type of collaterals taken are also subject to the monitoring. For derivative and repo transactions, bilateral netting agreements are generally set. For transaction where legally enforceable bilateral netting arrangement exists, the CRM Techniques are applied.

The Group uses the Comprehensive Approach for the CRM Techniques.

6. Overview of Policies and Procedures for the Counterparty Credit Risk Management of Derivative and Long Settlement Transactions

For derivative transactions, credit review of counterparty is conducted in advance, and credit limit is assigned when the credit soundness is confirmed. Exposure amount and collateral value are calculated and compared daily; accordingly, collateral is pledged or accepted. Likewise, for long settlement transactions, credit review of counterparty is required and transaction can only be conducted if the credit limit is assigned.

Credit limits of the counterparty are reviewed periodically. In addition, for uncollateralized exposures, allowance amount is calculated based upon allowance percentage that is set in accordance with the Group's internal credit rating and maturity of transaction.

Risk capital is allocated based upon the credit VaR, and reviewed semiannually. Upon the time when own credit rating downgraded, additional collateral will be required. The Group carefully monitors the additional collateral amount and accordingly, such amount falls into the allowable level.

7. Securitization Exposures

A). Overview of risk management policies and nature of other risks

The Group is involved in securitization transactions as an investor, and accordingly holds securitization products under investment and trading accounts.

Outstanding exposures and credit soundness of securitization products are periodically monitored by independent risk control departments.

B). Overview of monitoring systems and situation of its operations

Periodical monitoring of securitization exposures are being conducted in order to adequately grasp comprehensive risk characteristics of securitization exposures including risk characteristics of underlying asset, performance related information of underlying assets, and the scheme of the securitization transaction.

C). Policies when securitization transactions are used for CRM Techniques purpose

Not applicable.

D). Method of calculating credit risk asset

The Standardized Approach is used in order to calculate credit risk amount.

E). Method of calculating market risk amount

For general market risk, the internal model is used, for specific risk, the standardized approach is used.

F). Engagement to the securitization transaction through Special Purpose Entity, if applied type of SPE and the exposure

Trust and Special Purpose Company are used as SPEs, and the securitization exposure is partially owned and treated on balance.

G). The name of the Group company that holds securitization exposure when securitization transaction is engaged by the subsidiary of Group company (excluding consolidated subsidiaries) and affiliated Group company (including securitization transaction engaged by the Group through SPEs)

Not applicable

H). Accounting policy applied for the securitization transaction

The Group complies with Accounting Standard Board of Japan Statement No. 10, "Accounting Standard for Financial Instruments" in recognizing, evaluating, and booking the occurrence or extinguishment of financial assets or liabilities related to securitization transactions.

I). ECAIs used when determining the risk weight

Following ECAIs are used in order to determine the risk weight for the securitization exposures.

Rating & Investment Information, Inc.
Japan Credit Rating Agency, Ltd.
Moody's Investors Service, Inc.
Standard & Poor's Rating Services
Fitch Ratings Ltd.

J). Overview when the Group uses the Internal Assessment Approach

Not applicable

K). Overview if significant change in quantitative information is observed

Not applicable

8. Market Risk

A). Overview of risk management policies and procedures

Under the Group's trading position, with considering soundness in financial outstanding and business plan, and budget, limits on VaR, position, and sensitivity are set. The Group's Risk Management Department monitors market risk and accordingly reports to the managements daily.

Back testing is being conducted in order to verify accuracy of VaR model. In addition, so as to support VaR which have calculated based upon given time horizon and statistical hypothesis, stress test is conducted by applying historical and hypothetical stress events as a scenario.

B). Methods used for calculation of market risk

i. Internal Models Approach
General market risk for Daiwa Securities Capital Markets, and foreign subsidiaries

ii. Standardized Approach
Specific risk
General market risk that is not included in above query "i."

C). The method in order to adequately evaluate price in accordance with characteristics of the product/transaction, with recognizing the assumed holding period and the inability to close the positions within the period

The Group' sets forth the policies and operational manual regarding valuation. The independent risk control department from the department which engages with trading businesses carefully analyzes and reviews the relevancy of value and valuation method, and such results are periodically reviewed by the external audit.

D). Overview and the explanation of internal model and explanation of back-testing and stress test

The Group uses VaR as well as Stressed VaR in which indicates maximum potential loss under stress period. In addition, in order to test accuracy of VaR, the Group conducts back-testing so as to reconcile VaR against actual profit and loss. Likewise, stress test is conducted in order to grasp possible loss incurred as a result of historical and hypothetical stress event.

E). Overview of the model used when incremental risk is measured by internal model.

Not applicable

F). Overview of the model used when comprehensive risk is measured by internal model.

Not applicable

G). Assumptions and the methods in internal capital adequacy assessment of market risk.

Historical simulation model that uses historical market scenario are used. Assumptions of historical simulation model are stated as followings:

- Holding Period: 10 business days
- Observation Period: 520 business days
- Confidence Level: 99%

(Note 2) As for March 2012, observation holding period as for VaR calculation has changed from a 1 day holding period scaled up to 10 days to a 10 days holding period.

9. Operational Risk

A). Risk management policies and procedures

As the Group's business becomes more sophisticated, diversified, and systemized, the accompanying risks become more varied, and as a result the need to manage such operational risk grows each year. The Group's major subsidiary companies engage in RCSA (Risk Control Self Assessment) in compliance with operational risk management rule, and adequately manage operational risk. In addition, due to the diversifying nature of its business, the Group also sets rigid rules concerning authority, automates office work processes to reduce human error, prepares business manuals, and takes other necessary measures. Each Group company strives to reduce operational risk according to the nature of its own business.

B). Methods for the calculation of operational risk amount

The Basic Indicator Approach is used for the calculation of operational risk amount.

10. Overview of Risk Management Policy and Procedure for Equity Exposure on Non Trading Accounts

The Group holds financial instruments for non trading businesses such as principal investments business, venture capital business, and investment securities for the business relationship. Because those financial instruments have specific risk profiles for each product, the Group conducts adequate credit as well as market risk managements including measurement of risk by the profile.

For the consolidated subsidiaries, the scopes of the risk management are assets and liabilities. For the affiliated companies, the scopes of the risk management are equity exposures. Those are subject to the risk management in each classification.

Also, marketable available-for-sale securities are stated at their fair values based on quoted market consolidated closing prices (the unrealized gain or loss is fully recognized, and the cost of products sold is mainly pursuant to moving average method). Non-marketable available-for-sale securities are carried at cost by moving average method.

11. Interest Rate Risk Under Non Trading Accounts

A). Overview of risk management policies and procedures

In regard to non trading accounts of the Group, most interest rate risk arises from the assets and liabilities held by Daiwa Next Bank, Ltd.

Daiwa Next Bank, Ltd. complies with management rules of market risk and manages the risk of incurring losses from changes in the value of assets and liabilities or in the net incomes.

Middle and back offices, which are independent from front office, are set, and it acts as a system of checks and balances. In addition, the ALM committee is periodically held and discussed regarding the management and operation of market and liquidity risks as well as the management of assets, liabilities, and capital efficiencies.

B). Overview of management's method for measuring interest rate risk under non trading accounts

i. Financial assets and liabilities (exclude financial assets and liabilities held by subsidiaries engaged in the banking business)

Financial assets and liabilities that are resulted by interest rate risk are bonds and notes and long-term borrowings. The change in fair value is calculated under assumption of changes in interest rate for 10 basis points (0.1%).

ii. Financial assets and liabilities held by subsidiaries engaged in the banking business

For the financial assets and liabilities in the subsidiaries engaged in the banking business, market risk amount is measured in a change of economic value used the 99th percentile of observed interest rate changes using a year holding period and 5 years of observations. It is used for quantitative analysis to manage risk of change in an interest rate. For calculating the amount of changes, the balances of the financial assets and liabilities are classified in each period. The changes of interest rate in each period are applied.

Quantitative Disclosure (Consolidated)

1. The Name of Company and Aggregate Amount of Capital Falls Below the Regulatory Capital Ratio Within the Scope of the Capital Deduction Specified Under the Provision of Article 8 Paragraph 1 (ii) (a)-(c) of the Consolidated Capital Adequacy Ratio Notification published by Japan FSA

Not applicable.

2. Capital Structure

(Unit: 100 Million Yen)

	Mar 31, 2012
Tier 1 (A)	9,040
Common stock	2,474
Capital surplus	2,307
Retained earnings	3,460
Minority interests in consolidated subsidiaries and affiliates	1,638
Step up and redeemable preferred stock	–
Subscription rights to shares	54
Foreign currency translation adjustments	(405)
Treasury stock (△)	227
Planned distributions (△)	51
Valuation losses on available-for-sale securities (△)	–
Goodwill (△)	210
Goodwill derived from acquisitions (△)	–
Intangible assets acquired from mergers (△)	–
Capital increased by securitization transactions (△)	–
(Internal Ratings Based (IRB) Approach) 50% of expected losses in excess of qualified allowance (△)	–
Deduction for deferred tax assets	–
Tier 2 (B)	471
Tier 3 (C)	579
Deductions (D)	348
Total qualifying capital (E = A + B + C – D)	9,742
Total risk-weighted assets (F)	35,545
Credit risk	17,918
Market risk	10,141
Operational risk	7,487
Capital adequacy ratio (E/F)	27.4%

(Note 3) Market and Operational Risk hereunder is computed by multiplying each risk amount by 12.5 (the Reciprocal of 8%).

3. Capital Adequacy

Capital requirements for credit risk

(Unit: 100 Million Yen)

	Capital requirements
On-balance transactions	1,050
1. Cash	–
2. Japanese government and central bank	–
3. Non-Japanese sovereign and central bank	6
4. Bank for International Settlement (BIS)	–
5. Japanese local public authorities	–
6. Non-Japanese public sector entities (excluding sovereign)	1
7. Multilateral development banks (MDBs)	–
8. Japan Finance Organization for Municipalities (JFM)	0
9. Japanese government sponsored entities	17
10. Three major local public corporations of Japan	0
11. Financial institutions and securities firms	114
12. Corporates	238
13. SMEs and individuals	–
14. Residential mortgage loans	–
15. Projects including acquisition of real estate properties	5
16. Past due exposures for three months or more	1
17. Cash items in process of collection	–
18. Exposures secured by Credit Guarantee Association in Japan	–
19. Exposures secured by Enterprise Turnaround Initiative Corporation of Japan	–
20. Equities	152
21. Others	405
22. Securitizations (as an originator)	–
23. Securitizations (not as an originator)	6
24. Funds	105
Off-balance transactions	383
1. Unconditionally or automatically cancellable commitments	–
2. Commitments with an original maturity up to one year	–
3. Short-term self-liquidating trade letters of credit arising from the movement of goods	–
4. Certain transaction-related contingent items	–
5. Note issuance facilities (NIFs) and revolving underwriting facilities (RUFs)	–
6. Commitments with an original maturity over one year	–
7. Commitments related IRB Approach	–
8. Direct credit substitutes and acceptances	4
9. Sale and repurchase agreements and asset sales with recourse	–
10. Forward asset purchases, forward forward deposits and partly-paid shares and securities	–
11. Lending or posting of securities as collateral	122
12. Derivative transactions	255
13. Long settlement transactions	1
14. Unsettled transactions	1
15. Securitization exposure qualifies as an ‘eligible liquidity facility’ or an ‘eligible servicer cash advance facility’	–
16. Others (Securitization off-balance transactions)	–
Total capital requirements for credit risk	1,433

(Note 4) Credit risk exposures are being calculated in the Standardized Approach, hence there is no applicable credit risk exposure in which calculated under IRB approach.

Capital requirements for market risk

(Unit: 100 Million Yen)

	Capital requirements
Standardized Approach	533
Interest rate risk	410
Equity risk	107
Foreign exchange risk	16
Commodities risk	1
Option transactions	–
Internal Models Approach	278
Total capital requirements for market risk	811

Capital requirements for operational risk

(Unit: 100 Million Yen)

	Capital requirements
Basic indicator approach	599
Standardized approach	–
Advanced measurement approach	–
Total capital requirements for operational risk	599

Capital adequacy ratio and Tier 1 capital ratio

	Ratios
Capital adequacy ratio	27.4%
Tier 1 capital ratio	25.4%

Total capital requirements

(Unit: 100 Million Yen)

	Capital requirements
Credit risk	1,433
Market risk	811
Operational risk	599
Total capital requirements	2,844

4. Credit Risk Exposures (excluding exposures under IRB approach and securitization exposures)

Exposures by geographical area, industry, and residual contractual maturity

(Unit: 100 Million Yen)

	Credit risk exposures						Past due exposures for three months or more
		Loans	Repo	Derivatives	Securities	Others (Note 5)	
Japan	130,053	913	49,540	43,034	17,894	18,671	8
Overseas	66,094	1	61,576	1,578	33	2,905	4
Total (by area)	196,146	914	111,117	44,612	17,926	21,577	12
Sovereign	25,682	–	7,709	486	11,285	6,201	0
Financial institutions	118,563	–	72,183	39,928	417	6,035	1
Corporates	39,991	227	31,224	4,197	2,754	1,589	11
Individuals	1,961	687	–	0	–	1,274	–
Others	9,949	–	–	–	3,471	6,478	–
Total (by industry)	196,146	914	111,117	44,612	17,926	21,577	12
≦1year	103,588	756	98,608	1,125	117	2,983	
>1year≦3years	2,097	1	–	1,301	794	–	
>3year≦5years	19,960	0	–	19,557	403	–	
>5year≦7years	28,742	–	–	19,557	9,185	–	
>7year	4,370	1	–	3,071	1,298	–	
Indeterminate	37,389	155	12,509	–	6,130	18,594	
Total (by maturity)	196,146	914	111,117	44,612	17,926	21,577	

(Note 5) Including deposits, properties and equipments, intangible assets.

Year-end balance of general and specific allowances for credit loss, and allowances to specific foreign obligations

(Unit: 100 Million Yen)

	Geographic area	Mar 31, 2012	Against Mar 31, 2011
General allowance	–	2	(30)
Specific allowance	Japan	372	(54)
	Overseas	0	(0)
Allowance to specific foreign obligations	–	–	–

	Industry	Mar 31, 2012	Against Mar 31, 2011
General allowance	–	2	(30)
Specific allowance	Sovereign	–	–
	Financial institutions	–	–
	Corporates	10	3
	Individuals	0	(0)
	Others	363	(57)
Allowance to specific foreign obligations	–	–	–

Loan write-offs by industry

Not applicable

Exposure by risk weight after Credit Risk Mitigation (CRM) techniques

(Unit: 100 Million Yen)

Risk weight	Exposure amounts	Application of external rating	Others
0%	15,411	511	14,900
10%	2,213	–	2,213
20%	18,870	18,671	200
35%	6	–	6
50%	2,592	2,592	0
75%	–	–	–
100%	11,578	365	11,214
150%	15	2	13
Others	2,410	–	2,410
Capital deduction	–	–	–
Total	53,095	22,140	30,955

5. Credit Risk Mitigation (CRM) Techniques

Exposure for which CRM Techniques are applied

(Unit: 100 Million Yen)

	Exposure amounts
Cash	61,182
Debts	47,848
Equities	2,793
Mutual funds	–
Eligible Financial Collateral Total	111,823
Guarantees	–
Credit derivatives	–
Guarantees and Credit Derivatives Total	–

6. Counterparty Risk for Derivative Transactions and Long Settlement Transactions

The credit-equivalent amounts are calculated by applying the Current-Exposure method.

(Unit: 100 Million Yen)

	Gross replacement cost	Gross add–on	Credit equivalent amounts
Foreign exchanges	4,933	5,977	10,911
Interest rates	17,120	7,925	25,045
Equities	2,401	3,269	5,670
Other commodities	3	5	8
Credit derivatives	391	2,607	2,997
Total (A)	24,848	19,782	44,631
Benefit through close-out netting agreements (B)			31,073
Credit equivalent amounts after netting (C=A–B)			13,557
Credit risk mitigation benefits (D)			2,727
Cash			1,230
Debts			1,402
Equities			95
Mutual funds			–
Credit equivalent amounts after netting and CRM benefits (C–D)			10,830

Notional amount of credit derivatives subject to the calculation of the credit equivalent amounts

(Unit: 100 Million Yen)

	Notional amounts	
Credit derivatives type	Protection bought	Protection sold
Credit default swaps	15,862	17,056

Notional amount of credit derivatives used for CRM purpose

Not applicable

7. Securitization Exposures

A). Securitization exposures for calculating Credit Risk Asset as an originator

Not applicable

B). Securitization exposures for calculating Credit Risk Asset as an investor

i. Underlying assets

(Unit: 100 Million Yen)

	Exposure amounts		Capital deduction	
Underlying assets		Resecuritization		Resecuritization
Loans and receivables	322	33	–	–
Real estates	1	–	–	–
Equities	–	–	–	–
Others	22	–	22	–
Total	345	33	22	–

ii. Exposures balance and capital requirements by risk weight

(Unit: 100 Million Yen)

	Exposure amounts		Capital requirements	
Risk weight		Resecuritization		Resecuritization
≦20%	289	–	5	–
>20%≦50%	33	33	1	1
>50%≦100%	1	–	0	–
>100%≦350%	–	–	–	–
>350%≦1250%	–	–	–	–
Capital deduction	22	–	22	–
Total	345	33	28	1

iii. The presence of resecuritized exposures subject to the CRM method, and the breakdown by guarantor or by the risk weight segments of guarantors

Not applicable

C). Securitization exposures for calculating Market Risk as an originator

Not applicable

D). Securitization exposures for calculating Market Risk Asset as an investor

i. Underlying asset

(Unit: 100 Million Yen)

Underlying assets	Exposure amounts	Resecuritization	Capital deduction	Resecuritization
Loans and receivables	63	–	0	–
Real estates	4	–	–	–
Equities	0	–	–	–
Others	0	–	–	–
Total	67	–	–	–

ii. Exposure balance and capital requirements by risk weight

(Unit: 100 Million Yen)

Risk weight	Exposure amounts	Resecuritization	Capital requirements	Resecuritization
≦3.2%	63	–	1	–
>3.2%≦8%	4	–	0	–
>8%≦18%	–	–	–	–
>18%≦52%	–	–	–	–
>52%≦100%	–	–	–	–
Capital deduction	0	–	0	–
Total	67	–	1	–

iii. The total amount of securitization exposures subject to the comprehensive risk calculation

Not applicable

8. Market Risk

Internal Models Approach Value at Risk (VaR) Results

(Calculation Method)
Historical Simulation Method
(Assumption)
Holding period: 10 business days and a 99% Confidence level

(Unit: 100 Million Yen)

	VaR (From Jan. 2012 to Mar. 2012)	Stressed VaR (From Jan. 2012 to Mar. 2012)
Mar 31, 2012	35	60
Maximum	55	85
Average	36	57
Minimum	23	32

(Reference)
Holding Period: 1 business day
Confidence level: 99%

(Unit: 100 Million Yen)

	VaR (From Apr. 2011 to Mar. 2012)	Stressed VaR (From Oct. 2011 to Mar. 2012)
Mar 31, 2012	14	22
Maximum	37	39
Average	16	25
Minimum	9	18

Excess number of back-testing	0 time

(Note 6) Back-Testing

Comparing VaR for a one day holding period with daily profit and loss is conducted in order to verify accuracy of VaR model.
Excess number of back testing is a number of times that losses are exceeded VaR over a giver holding period.

9. Equity Exposure on Non Trading Accounts

A). Booking and market values on consolidated balance sheet

(Unit: 100 Million Yen)

	Consolidated balance sheet amount	Market value
Listed equity exposure	1,182	1,182
Others	717	–

(Note 7) Investment related equity exposure for which it is difficult to obtain market value is not included hereby.

B). Gains and losses from sales and write-offs on equity exposures

(Unit: 100 Million Yen)

	Gains on sales	Losses on sales	Write-offs
Equity exposure	71	40	25

C). Unrealized gains or losses recognized on the consolidated balance sheet and not on the consolidated income statement

(Unit: 100 Million Yen)

	Unrealized gains / losses
Unrealized gains or losses recognized on the consolidated balance sheet and not on the consolidated income statement	296

(Note 8) Only securities in which have adequate market values are disclosed hereby.

D). Unrealized gains or losses not recognized on the consolidated balance sheet and the consolidated income statement

Not applicable

E). Equity exposure amounts which are subject to the Supplementary Provision Article 6 of the Consolidated Capital Adequacy Ratio Notification published by Japan FSA, and which are sectioned by portfolio

Not applicable

10. Credit Risk Exposure Calculation Which Set Forth under Article 144 of the Consolidated Capital

Adequacy Ratio Notification published by Japan FSA is applied.

Not applicable

11. Gain or Loss in Earnings or Economic Value (or Relevant Measure Used by Management) for Upward and Downward Rate Shocks According to Management's Method for Measuring Interest Rate Risk under Non Trading Accounts.

Interest rate risk under non trading accounts

i. Financial asset and liability except for which possessed by the Group companies that transact banking business under assumption of change in interest rate for 10 basis point (i.e. 0.1%), we anticipate that the market value of assets or liabilities to change approximately 1.3 billion yen.

ii. Financial asset and liability which held by the Group companies that engage banking business for the Group companies that engages banking business, in relation to its financial assets and liability, with applying 99% confidence adverse interest rate change, we anticipate economic value of 4.1 billion yen to decrease with assuming all risk factors except for interest rate are constant.