

Annual Report 2012

Year ended March 31, 2012

Daiwa Securities Group



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Forward-Looking Statements

This annual report contains forward-looking statements about the Daiwa Securities Group. You can identify these statements by the fact that they do not relate strictly to historic or current facts. These statements discuss future expectations, identify strategies, contain projections of results of operations or of financial condition, or state other "forward-looking" information. These statements are based on currently available information and represent the beliefs of the management of the Daiwa Securities Group. These statements are subject to numerous risks and uncertainties that could cause the Daiwa Securities Group's actual results, performance, achievements or financial condition to differ materially from those described or implied in the forward-looking statements. The Daiwa Securities Group undertakes no obligation to publicly update any forward-looking statements after the date of issuance of this annual report. These potential risks and uncertainties include, but are not limited to: competition within the financial services industries in Japan and overseas, our ability to adjust our business focus and to maintain profitable strategic alliances, volatile and sudden movements in the international securities markets, foreign exchange and global economic situations affecting the Daiwa Securities Group. "FY2011" refers to the fiscal year ended March 31, 2012, and other fiscal years are referred to in a corresponding manner.

Profile

The Daiwa Securities Group is a comprehensive financial services firm with a strong domestic base centered on its 120 branch offices nationwide, and a global network of operating offices covering 20 countries and regions. The primary businesses at the core of the Group are Retail, Wholesale, and Asset Management.

With particular focus on our “new” Daiwa Securities, established in April 2012, we will work to enhance synergies Group-wide through strong solidarity and continue to provide a range of financial services that meet our customers’ diverse needs.

Annual Report 2012 CSR Information

The Daiwa Securities Group strives to make positive contributions to the creation of a sustainable society through its efforts in environmental conservation and sound governance. In our annual report for fiscal 2012, information about the Group’s main CSR activities, which has been published in the CSR Report to date, has also been included so as to ensure active public disclosure of information to all our stakeholders.

Participation in International Initiatives

In January 2010, the Daiwa Securities Group became the first securities company in Japan to sign the United Nations Global Compact (UNGC). The Group is also a signatory to the Carbon Disclosure Project (CDP), a member of the United Nations Environment Programme Financial Initiative (UNEP FI) and a signatory of the Principles for Responsible Investment (PRI).



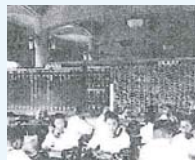
History of the Daiwa Securities Group

Toward a New

In 2012, the Daiwa Securities Group marked its 110th anniversary, and merged the Retail operation – Daiwa Securities Co. Ltd. – with Daiwa Securities Capital Markets Co. Ltd., which oversees the Wholesale business. This merger reunites Retail and Wholesale operations for the first time in 13 years. The Group has weathered the storms of change and the vicissitudes of the economic cycle many times over the course of its long history. In every era, a flexible, appropriate response to changing conditions has allowed the Group to perpetuate and expand operations.



Headquarters office of
Fujimoto Bill Broker



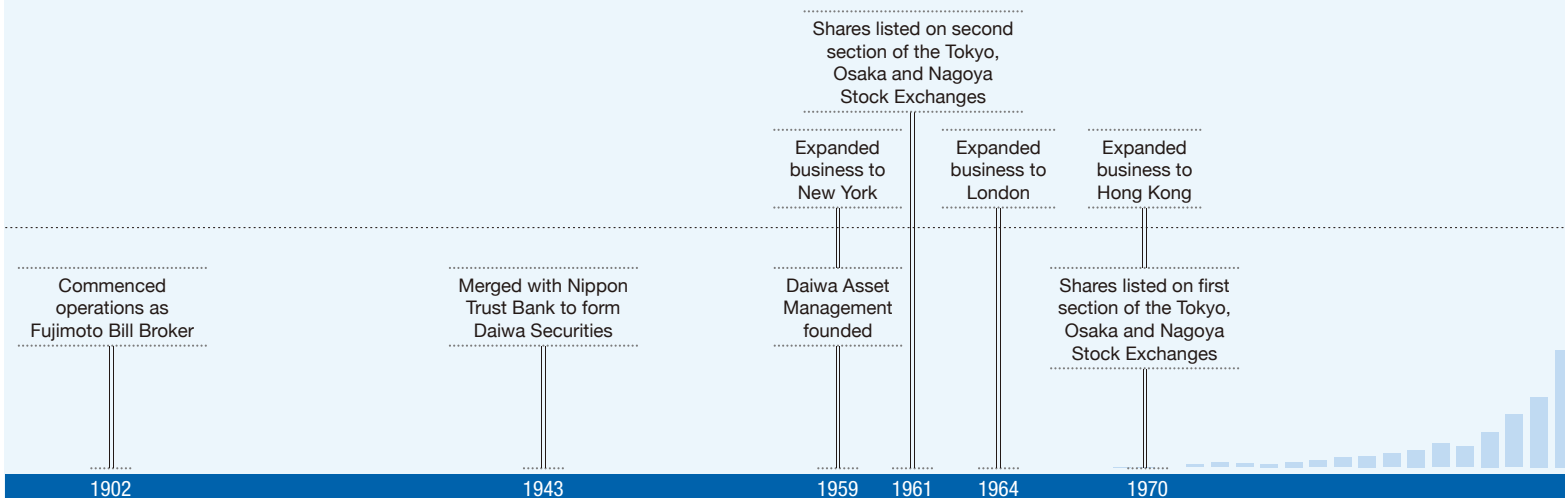
Office floor in 1940s



Daiwa Gofukubashi Building,
former company headquarters
office (completed 1956)

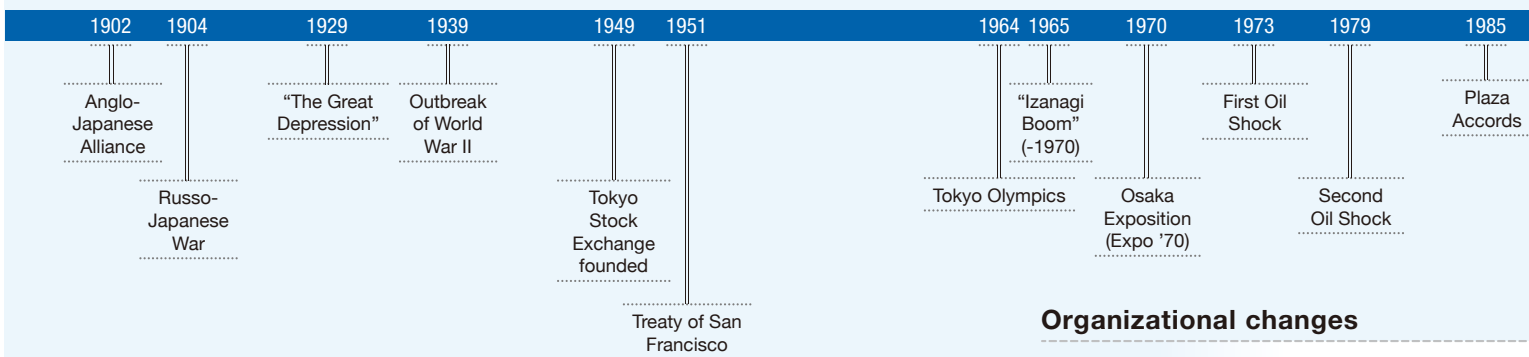


Office floor in 1970s

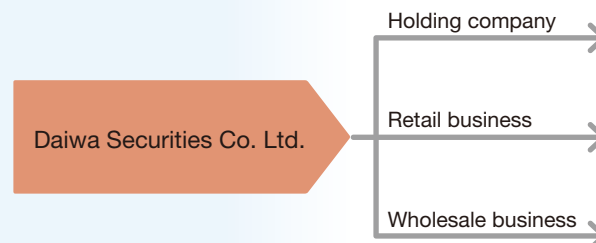


Fujimoto Bill Broker

Daiwa Securities Co. Ltd.



Organizational changes

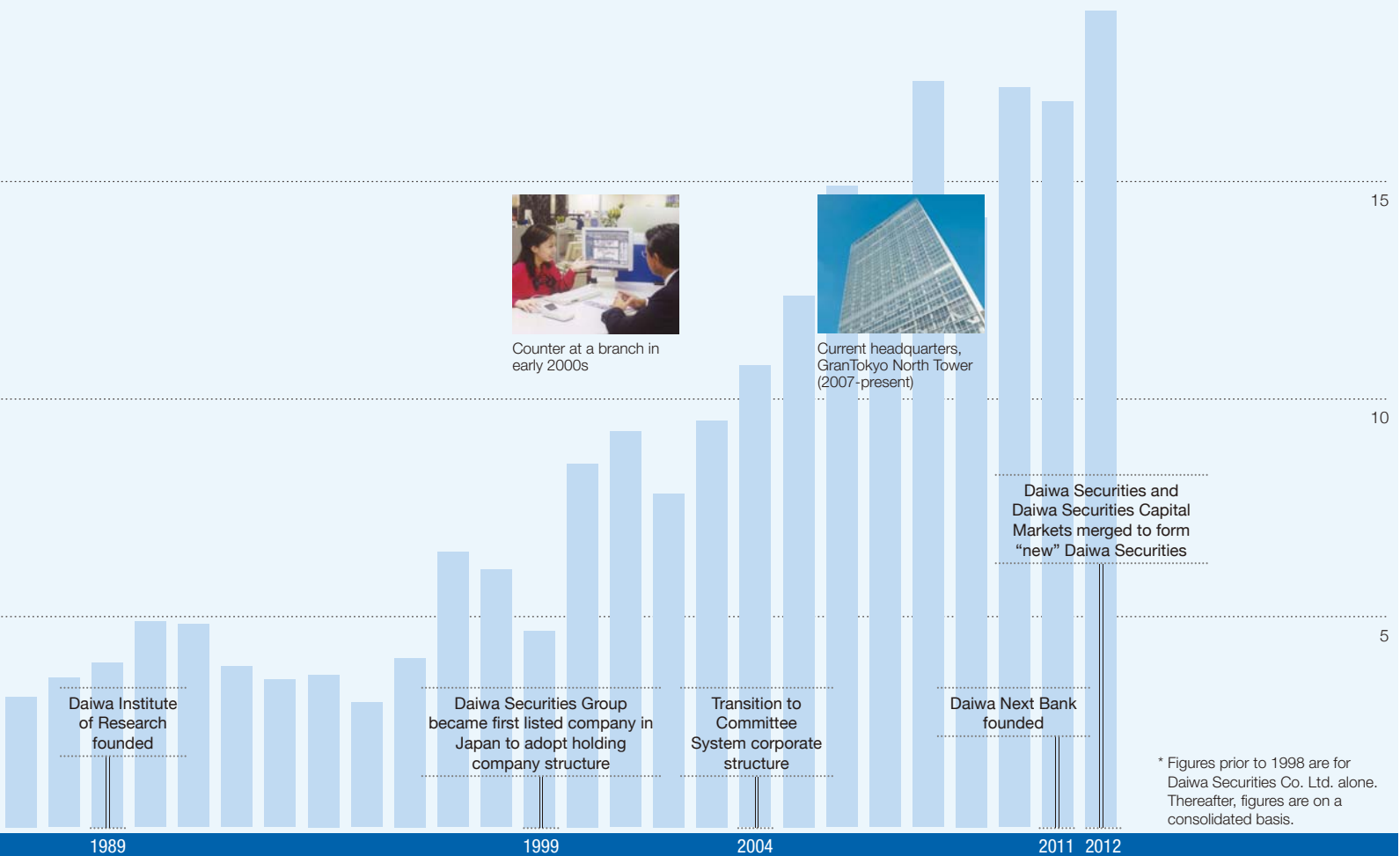


Era Backed by a 110-Year History

(¥ trillion)

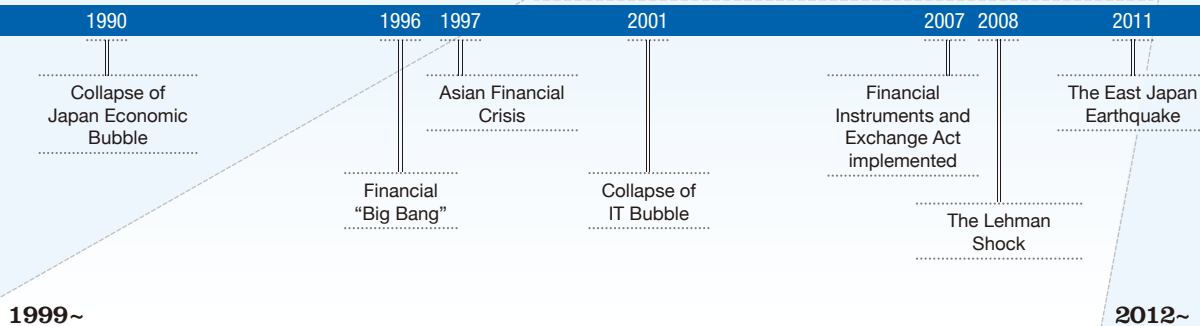
Trends in total assets of the Daiwa Securities Group*

20



Joint Venture and Company Separation

"New" Daiwa Securities Co. Ltd.



Daiwa Securities Group Inc.

Daiwa Securities Co. Ltd.

Daiwa Securities SB Capital Markets Co. Ltd.
(joint venture with Sumitomo Bank)

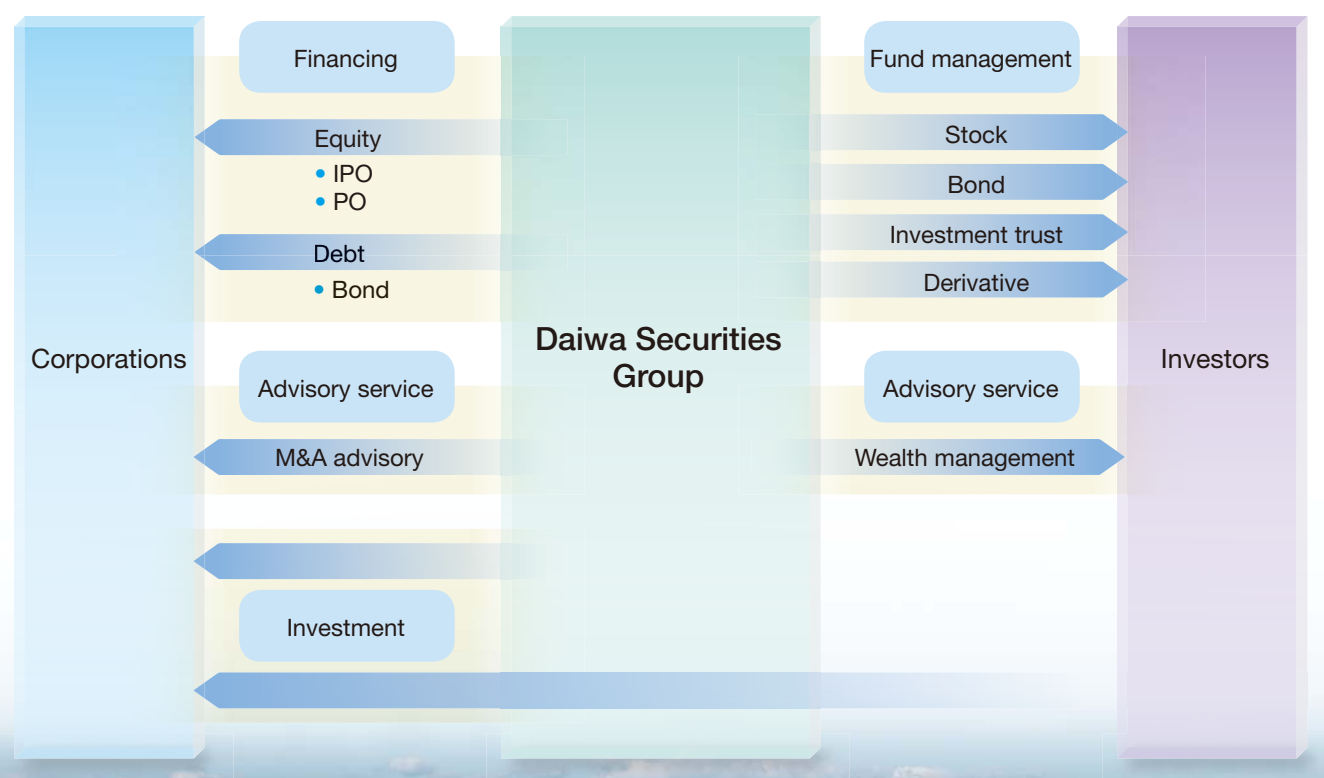
2001~
Daiwa Securities SMBC Co. Ltd.
(name changed with creation of Sumitomo Mitsui Financial Group)

2010~
Daiwa Securities Capital Markets Co. Ltd.
(joint venture with Sumitomo Mitsui Financial Group dissolved)

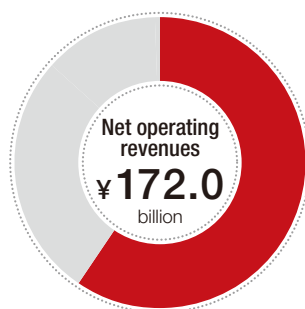
"New" Daiwa Securities Co. Ltd.

Primary Businesses of the Daiwa Securities Group

The Daiwa Securities Group performs an essential role in providing corporations and investors with access to financial markets. The Group offers expert advice and convenient service to investors to meet their investment needs. It also helps companies to grow by formulating solutions to their financing and M&A needs. Furthermore, the Group contributes to the economic growth and wealth of the countries in which it operates, by providing the capital needed to support growth in corporate value and by helping investors to earn a favorable return on their investments.



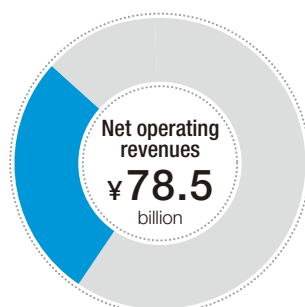
Retail Division



The Retail business responds to the asset management needs of Japanese individual investors and plays a valuable role in linking the asset formation activities of individuals to the supply of funds to the financial markets. With 120 branches nationwide and an advanced online infrastructure, Daiwa Securities provides a full spectrum of financial products and services from stock, bond and investment trust to pension insurance and wrap account service.

- Branches: 120
- Number of cash management service accounts: 3,455,000
- Online trading accounts: 2,457,000
- Total customer assets: ¥41.8 trillion

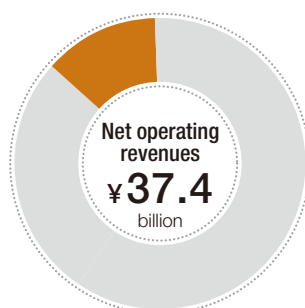
Wholesale Division (Global Markets and Global Investment Banking)



The Wholesale business, which includes the Global Markets and Global Investment Banking operations, helps corporations in Japan and overseas to procure the necessary funds to support their operations, and also oversees fund management activities for the Group. The Global Markets business conducts stock, bond and other financial instrument sales and trading mainly for institutional investors. The Global Investment Banking business underwrites the negotiable security issues of corporations and financial institutions and provides advisory services to support their M&A efforts.

- Global network: Offices in 20 countries and regions
- Listed Japanese corporations of which Daiwa Securities Group served as lead manager: 727, 21% share of total (based on data from Toyo Keizai "Japan Company Handbook")
- Total value of stock trading: ¥51.9 trillion
- Total value of underwriting and distribution: ¥227.9 billion (equity), ¥7.4 trillion (bond)

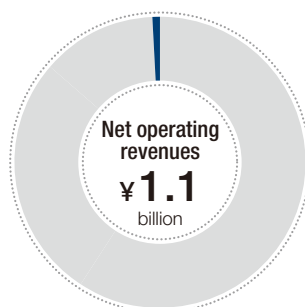
Asset Management Division



The Asset Management business specializes in managing financial assets, offering customers fund management and investment advisory services. It launches and manages investment trusts that meet the needs of individual investors, provides investment advice to institutional investors, and creates and manages real estate investment trusts. In this way, the Group supports asset creation efforts within Japan.

- Balance of assets under management: ¥13.9 trillion
- Balance of assets in mutual funds: ¥9.1 trillion
- Balance of assets for investment advisory business: ¥2.2 trillion

Investment Division



This business conducts principal investment in companies and others, as well as launches investment funds. It provides venture capital to promising new companies and takes private equity stakes in mature businesses, not only supplying capital to the target company but also giving management support and advice to companies in which it invests.

- Assets from investment funds: ¥307.7 billion from 74 funds
- Principal investment values: ¥121.0 billion

Note: The figures for the number of Retail Division branches are current as of June 30, 2012; all other figures are current either as of March 2012 or based on annual performance results for fiscal 2011.

Financial Highlights

Daiwa Securities Group Inc. (Consolidated)

* Please refer to pages 50–52 for the “Twelve-Quarter Financial Summary” and “Breakdown by Product and Business Sector.”

Millions of yen (Except as otherwise specified)

Operating Performance

	FY2007	FY2008	FY2009	FY2010	FY2011
Operating revenues	¥825,422	¥413,936	¥537,915	¥403,042	¥422,375
Commissions	294,425	208,881	252,863	218,630	220,845
Equity	84,593	56,402	56,388	50,254	40,221
Fixed income	2,133	991	698	827	1,088
Asset management	136,377	97,001	108,266	116,734	134,269
Investment banking	47,551	34,915	70,648	38,704	32,737
Others	23,771	19,572	16,863	12,108	12,529
Net gain on trading	103,361	40,921	110,955	92,477	79,416
Net gain (loss) on private equity and other investments	19,160	(79,478)	75,584	(17,259)	1,956
Interest and dividend income	358,423	192,664	54,729	71,916	79,762
Service fees and other revenues	50,053	50,948	43,783	37,278	40,396
Interest expense	339,784	176,034	47,659	58,062	59,691
Cost of service fees and other revenues	38,147	38,358	32,150	26,415	26,668
Net operating revenues	447,491	199,544	458,105	318,565	336,016
Selling, general and administrative expenses	363,859	343,270	362,844	363,920	359,729
Operating income (loss)	83,632	(143,726)	95,261	(45,355)	(23,713)
Ordinary income (loss)	90,143	(141,150)	102,917	(32,602)	(12,200)
Net income (loss)	46,411	(85,039)	43,429	(37,332)	(39,435)
Comprehensive income	—	—	—	(45,049)	(52,580)

Financial Conditions (Fiscal year-end)

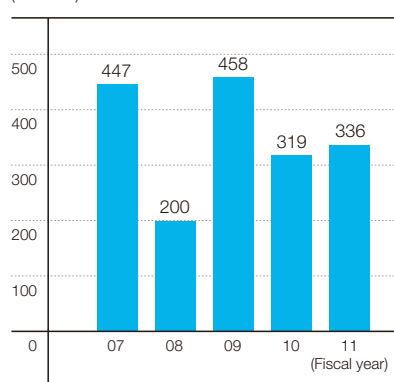
Total assets	¥17,307,120	¥14,182,579	¥17,155,345	¥16,842,412	¥18,924,038
Trading assets	7,857,122	6,203,742	7,654,334	6,770,479	8,876,950
Private equity investments	471,732	515,770	218,841	177,561	138,177
Investment securities	215,611	167,884	191,905	188,857	159,096
Net assets	1,082,924	952,329	1,017,529	921,399	951,702

Per Share Data (Yen)

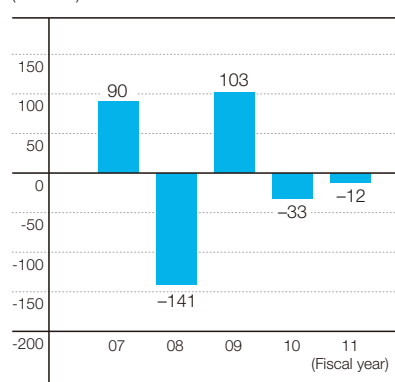
Net income (loss) *	¥ 33.69	¥ (63.16)	¥ 26.41	¥ (21.90)	¥ (23.41)
Net assets	607.64	534.99	530.27	496.76	463.04
Cash dividends applicable to the year	22.00	8.00	13.00	6.00	6.00

* Net income (loss) per share is calculated on the basis of the average number of shares outstanding during the fiscal year.

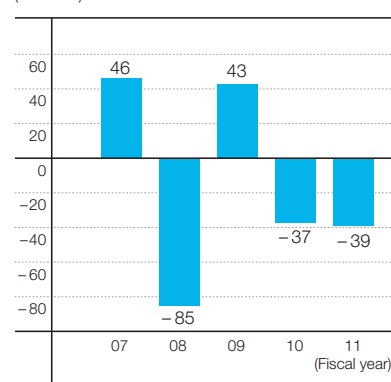
Net Operating Revenues
(¥ billion)



Ordinary Income
(¥ billion)



Net Income
(¥ billion)



Operational Data

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	Billions of yen (Except as otherwise specified)		
	FY2009	FY2010	FY2011
Daiwa Securities Group			
Daiwa Securities Group customer assets*	¥43,359	¥40,970	¥41,755
Equities	21,223	19,173	19,504
Bonds	12,277	12,295	13,278
Investment trusts	6,994	6,832	6,348
Others	2,864	2,671	2,625
Daiwa Securities			
Net inflow of retail assets	¥ 778	¥ 395	¥1,060
Individuals	641	405	807
Unlisted corporations, etc.	137	(10)	253
Cash Management Service (CMS) accounts* (thousands)	3,359	3,401	3,455
Online trading accounts* (thousands)	2,184	2,249	2,458
Sales of core products			
Mutual funds	1,583	1,429	2,050
Foreign bonds and others	1,323	1,478	999
Daiwa Asset Management			
Net assets under management*	¥9,165	¥9,262	¥9,125
Mutual funds	6,218	6,418	6,625
Bond investment trusts*	2,948	2,844	2,501

* As of the end of each fiscal year

Consolidated Capital Adequacy Ratio

		(100 millions of yen)	
		March 31, 2011	March 31, 2012
Total Qualifying Capital	(E)=(A)+(B)+(C)-(D)	9,668	9,742
Tier 1	(A)	8,665	9,040
Tier 2	(B)	623	471
Tier 3	(C)	737	579
Deductions	(D)	358	348
Total Risk-Weighted Assets	(F)	35,453	35,545
Credit Risk		15,843	17,918
Market Risk (Note 1)		12,903	10,141
Operational Risk (Note 1)		6,707	7,487
Consolidated Capital Adequacy Ratio (Note 2)	(E)/(F)×100	27.2%	27.4%
Tier 1 Capital Ratio	(A)/(F)×100	24.4%	25.4%

Notes: 1. Market and Operational Risk hereunder is computed by multiplying each risk amount by 12.5 (the reciprocal of 8%).

2. Consolidated Capital Adequacy Ratio hereunder is calculated under the principle of Financial Service Agency Public Notice 130 of the Financial Instruments and Exchange Act (Article 57-17-1).

To Our Stakeholders

Shigeharu Suzuki
Chairman of the Board
Daiwa Securities Group Inc.

Takashi Hibino
President and CEO
Daiwa Securities Group Inc.



FY2011 was a challenging year for the Daiwa Securities Group as the harsh economic climate intensified. Earnings started to recover in the fourth quarter when global markets finally began to stabilize, but the overall market outlook remained cloudy. In light of these conditions, the Group decided to merge Daiwa Securities Co. Ltd. with Daiwa Securities Capital Markets Co. Ltd. on April 1, 2012, reuniting Retail and Wholesale operations for the first time in 13 years. As the “new” Daiwa Securities Co. Ltd. opens a new chapter in its history, the Group also formulated a new Medium-Term Management Plan designed to “return to profitability by pursuing management efficiencies.” The plan also seeks to “achieve high-quality earnings growth” by more precisely addressing customer needs. In this way, the Group aims to establish a robust business platform that can withstand short-term fluctuations in the global economy and business environment.

A Stormy Business Climate in FY2011

During FY2011, the Japanese economy struggled to recover from the shattering impact of the East Japan Earthquake, which hit right at the end of FY2010, severing supply chains and creating electric power shortages. Other natural disasters, such as massive flooding in Thailand, also affected industrial activity. Financial and capital markets, particularly the foreign exchange market, were thrown into turmoil by factors ranging from a debt crisis in Europe to credit rating downgrades on US treasuries and the US Federal Reserve Bank’s introduction of quantitative easing measures (QE2). The resulting rapid appreciation of the yen further depressed the earnings of Japanese export-oriented companies. The stock market dropped particularly during the summer and remained weak through the end of the fiscal year, sharply curtailing demand for equity financing. All of these factors weighed heavily on the earnings of Japanese securities companies.

Overseas economic conditions were not much better either. Adverse business conditions caused stock prices throughout Europe and Asia to fall over 20% between April and December 2011, depressing overseas equity financing demand as well.

Since the start of calendar 2012, signs of an economic recovery began to emerge as the US Federal Reserve Bank’s financial easing measures took hold and fears of a debt crisis in Europe also started to recede. This brought a gradual recovery to most of the world’s major stock markets. On the domestic front, the Nikkei 225 responded by edging back above the 10,000 level due to improvements in the financial environment, such as a slight yen weakening from new financial easing policies by the Bank of Japan. The bond market regained strength too as electric power companies—which accounted for some 10% of total domestic bond issuance—returned to the market for the first time since the East Japan Earthquake (Tohoku Electric Power issued new bonds). Since the start of the new fiscal year, however, market conditions have weakened again and the longer-term outlook remains uncertain.

The stormy business climate deteriorated earnings in every segment of the Daiwa Securities Group over the full course of the fiscal year. Although the Retail and Asset Management businesses were able to withstand these harsh conditions and post relatively steady earnings, profit figures declined slightly from the previous year. The Global Markets and Global Investment Banking businesses, which make up the Group’s Wholesale securities operation, continued to generate losses, but losses from Investment operations were dramatically reduced compared with FY2010. As a result, consolidated net operating revenues rose 5.5% year on year, to ¥336.0 billion and the Group posted a consolidated net loss of ¥39.4 billion.

On a positive note, efforts to control SG&A expenses are bearing fruit and earnings in all business segments showed signs of improvement in the fourth quarter. In FY2012, as the Daiwa Securities Group opens a new chapter in its organizational history, we will strive to further improve efficiency and strengthen profitability in accordance with the trust and high expectations of all stakeholders.



“New” Daiwa Securities and “New” Medium-Term Management Plan

On April 1, 2012, Daiwa Securities Co. Ltd. merged with Daiwa Securities Capital Markets Co. Ltd., opening a new chapter in the Daiwa Securities Group's history. This merger will reunite the Retail operations of Daiwa Securities with the Wholesale activities of Daiwa Securities Capital Markets for the first time since 1999, when the Group adopted a holding company structure. We have concluded that this re-unification is an essential step in our effort to “establish a robust business structure.” Indeed, we see it as one of the most important decisions in the 110-year history of the Daiwa Securities Group. Preparatory work to merge the two companies and a project to revise the Group's organizational structure has been under way since early 2011. The consolidation and streamlining project aims to eliminate all the inefficiency and duplication that developed over the 13 years during which operations were managed separately, while aggressively cutting costs, especially in the Wholesale business, to address today's highly competitive business environment. These efforts have already lowered break-even levels dramatically. In this way, we are laying a firm foundation on which the Daiwa Securities Group can write a new chapter in its history. As the “new” Daiwa Securities begins operations, we will strive to create the efficient management structure and powerful sales capabilities needed to succeed as a comprehensive, full-service securities company.

In the year since I was appointed CEO, I have been constantly impressed by the vast management resources possessed by the Daiwa Securities Group. In the past, the qualities that have allowed the Group to thrive were not ambitious M&A-based strategies but, rather, the importance that Daiwa places on developing a corporate culture committed to excellence. The unity and reliability of this organization are the Group's most valuable assets.

Even when considering the broad sweep of its 110-year history, I believe that FY2012 will go down as a historic year for the Daiwa Securities Group. To guide the “new” Daiwa Securities as it enters the next phase of its evolution, we have formulated a “new” Medium-Term Management Plan—“Passion for the Best” 2014. This plan, which commenced in April 2012, contains the Group's roadmap for the next three years. I take pride in having the opportunity to contribute to this important transition and I would like to thank all Daiwa Securities Group stakeholders for their support as we strive to build a sustainable corporate structure and pursue a new phase of growth.

July 2012

日比野 隆司

Takashi Hibino
President and CEO
Daiwa Securities Group Inc.

Message From the Chairman



Over the 110 years since it was founded, the Daiwa Securities Group has contributed to economic growth and the progress of society, through its activities in capital and financial markets. Since it was established in 1902, the Group has been noted for the loyalty and dedication to corporate principles that employees and executives demonstrated—qualities that have carried Daiwa Securities through eleven decades of external change and reform. We have cultivated a corporate culture in which employees and executives consistently place cooperation and contributions to the success of the Group ahead of their own personal gain.

This sort of loyalty is a critical element in the growth and health of a business organization. I view it as the most important source of the Daiwa Securities Group's competitiveness—an “invisible asset” that prompts employees and executives to seek ways to improve their workplace and which discourages actions that might hurt the company, thus facilitating internal control policies. In addition, a company can continuously invest in the advancement and training of the workforce to enhance its own long-term security, as it can depend on the unceasing efforts of talented, motivated personnel.

These bonds of loyalty run in both directions. The Daiwa Securities Group aims to be a company that employees want to work for. Management strives to earn the trust of employees, and

to create a work environment that promotes cooperation, camaraderie and pride in one's work. Cooperation in turn contributes to greater efficiency, effective teamwork in pursuit of shared goals, and a spirit of determination that is impossible to quantify. I believe that the merger of Daiwa Securities Co. Ltd. and Daiwa Securities Capital Markets Co. Ltd. to create a “new” Daiwa Securities will promote even greater cooperation and teamwork among business divisions, create a unified spirit among the employees and executives, and further refine our efforts to create value.

Today, the very purpose and role of a financial company is changing to reflect changes in society. Nevertheless, I am confident that the unchanging values and strong loyalty of Daiwa Securities Group employees will serve us well, as we try to draw on traditions from the past and build bridges to the future. I have no doubt that the Daiwa Securities Group will continue to play an important role in Japan's capital and financial markets and to provide continued value to the societies in which we operate.

鈴木茂隆

Shigeharu Suzuki
Chairman of the Board
Daiwa Securities Group Inc.

Business Strategy

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P22 Retail Division

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Interview With the CEO

In April 2012, the Daiwa Securities Group unveiled a new Medium-Term Management Plan entitled “Passion for the Best” 2014. The management strategies underlying this business plan have been outlined since CEO Takashi Hibino took up his current position in 2011. Based on his experiences during his first year as CEO, Mr. Hibino and his executives have since refined and enhanced the plans. The first and most visible step in the new strategies involved merging the Retail and Wholesale businesses to create a “new” Daiwa Securities Co. Ltd. In this interview, Mr. Hibino discusses the elements of the new Medium-Term Management Plan and the bright future he envisions for the Daiwa Securities Group.

Q1 In order to provide us with a clear background, would you please explain the assumptions and underlying vision behind the new Medium-Term Management Plan?

A. The Daiwa Securities Group's management vision is to become a leading financial services firm in Asia while possessing and leveraging a solid business platform in Japan. To meet this objective, we will have to establish a robust earnings structure capable of generating profits even in times of economic stress. In addition, the Group must achieve sustainable growth by linking Japan and the growth of Asia. These two objectives form our basic management policies. The current Medium-Term Management Plan aims to establish an efficient business foundation while expanding “stable revenue” businesses and also lays out a roadmap for strengthening business in Asian markets—with Japan at the core—in order to produce steady, continuous earnings growth.



Q2 What are the main objectives of the Medium-Term Management Plan and what are the ordinary income targets? There has been some uncertainty surrounding the financial markets, what with earnings targets likely being affected by future market trends and conditions.

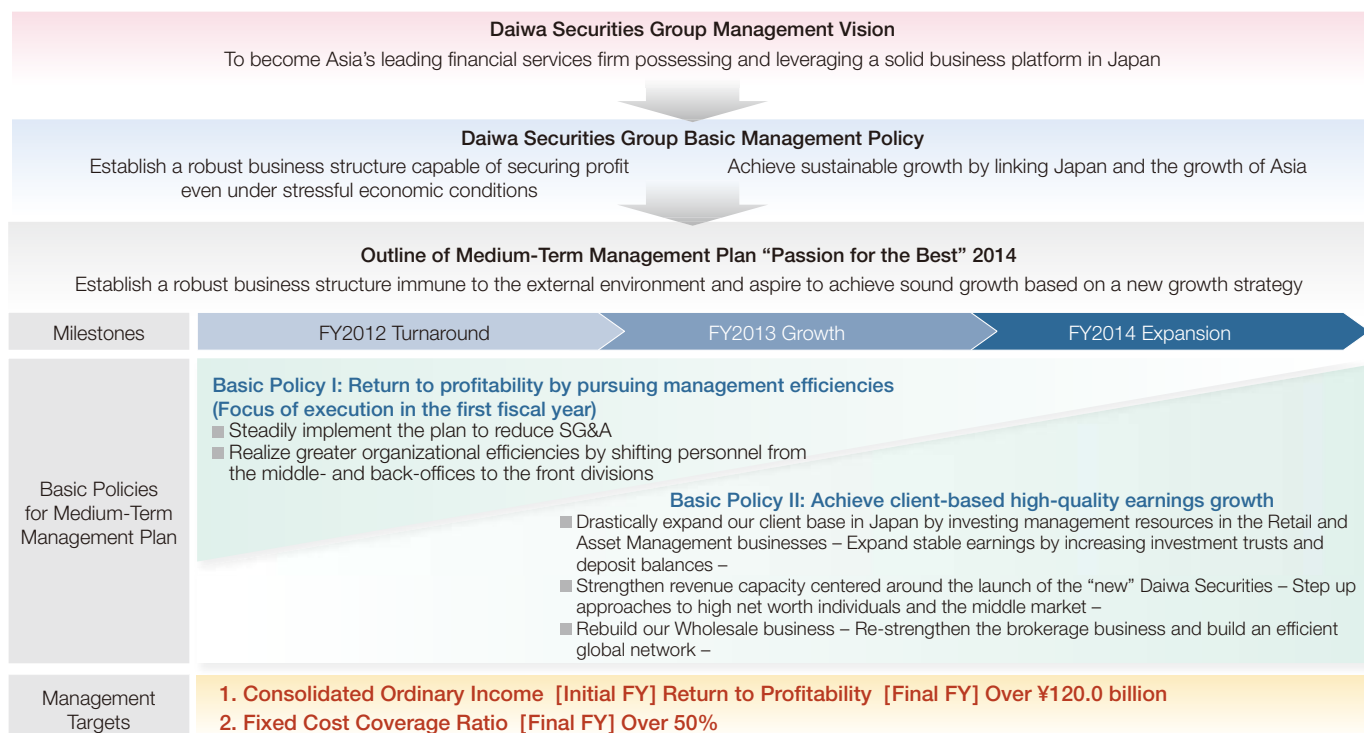
A. We expect to return to profitability in FY2012, and increase consolidated ordinary income to ¥120 billion by FY2014. Our objective is to cover at least 50% of fixed costs with revenues from stable sources.

In the final year of the current medium-term plan, we hope to increase ordinary income to over ¥88 billion in the Retail business, ¥20 billion in the Wholesale business, and ¥24 billion or more in the Asset Management business. As is often accurately pointed out, the securities industry is always going to be affected by market trends and conditions. It is quite common for a securities company to set targets at the beginning of a three-year plan and then revise them significantly, midway through the three-year term. For that reason, we have now adopted a “rolling method” system. The figures selected at the start of a Medium-Term Plan serve mainly as guideposts for Group management to refer to as the plan proceeds. Each fiscal year we summarize our progress toward the targets, consider the impact of a changing market outlook, and if conditions so dictate we will revise the numerical targets either up or down to reflect those changes. The underlying thrust of the management plan is what we are most concerned about, and what guides our business strategy. In principle, these qualitative objectives will not change regardless of revisions to the headline figures.

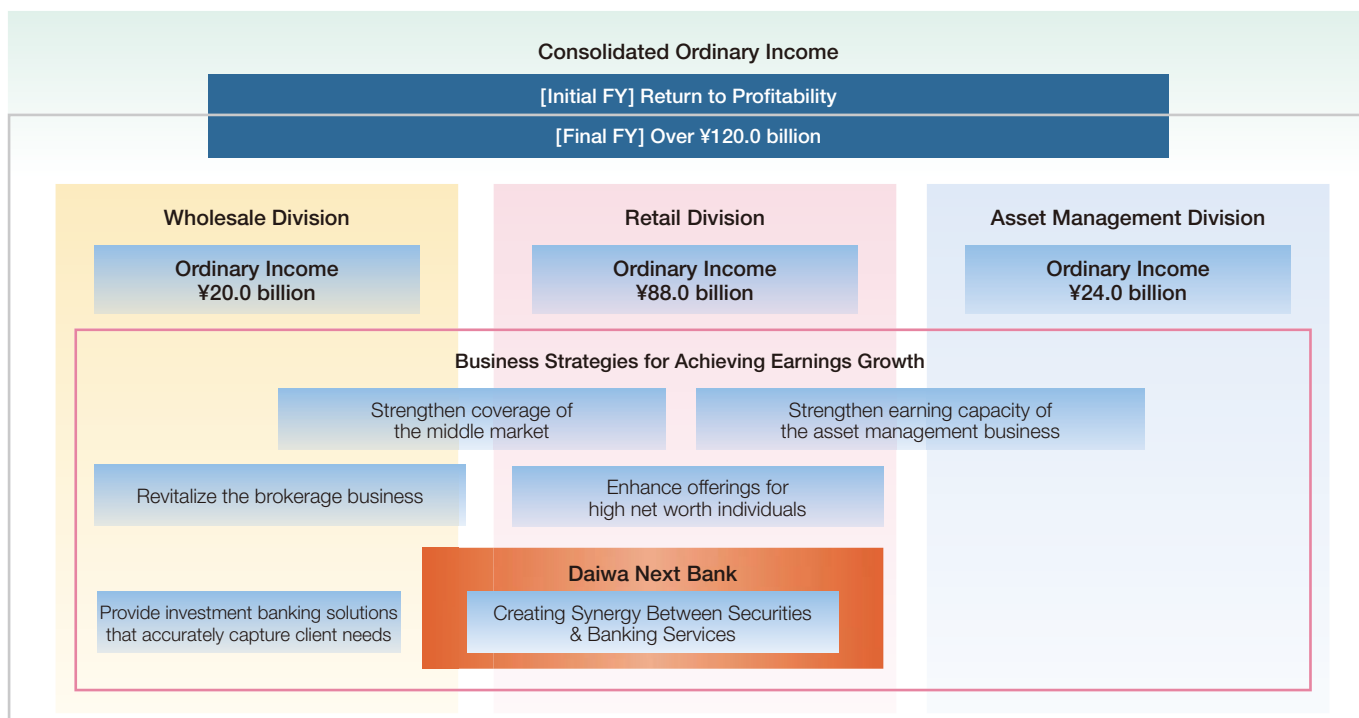
Q3 The new plan includes, for the first time, a target for the “fixed cost coverage ratio.” Would you please explain the purpose of this target?

A. The “fixed cost coverage ratio” tells us the extent to which reliable sources of income cover our operating costs. It is calculated by dividing the total income derived from “stable” sources by total fixed costs.

Summary of the “New” Medium-Term Management Plan

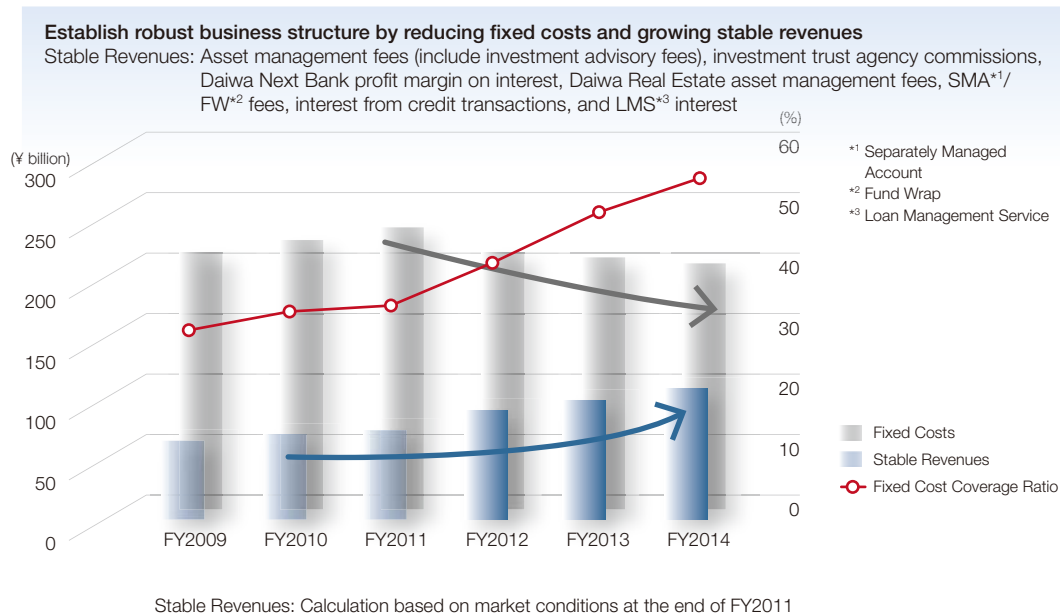


Management Targets



Environmental Assumptions for Medium-Term Management Plan		
Economy	[Global]	[Global economic growth rate: average of 3.9% for the duration of the plan / US: 2.3%; Euro-zone: 0.6%; Other: 4.8%]
	[Domestic]	[Real GDP growth rate: 1.8% in FY2012; 1.8% in FY2013; and 1.4% in FY2014]
Market Conditions	[Stock]	[TOPIX: 910 for FY2012; 1,080 for FY2013; and 1,200 for FY2014]
	[Interest]	[Long-term interest rate: 1.0% for FY2012; 1.6% for FY2013; and 2.0% for FY2014]
	[Currency]	[Yen-dollar exchange rate: 85 yen for FY2012; 88 yen for FY2013; 90 yen for FY2014]

Fixed Cost Coverage Ratio



At present, the Daiwa Securities Group has a fixed cost coverage ratio of 32%. By reducing fixed expenses and working to expand stable sources of income, we aim to increase that figure to over 50% by the end of FY2014. **We view this ratio as a key performance indicator and we intend to monitor it closely since it tells us to what extent we have achieved the management objective of “establishing a robust business structure.”**

We learned the hard way—during the financial crisis that followed the Lehman Shock—that when a severe shock occurs, it can be very difficult to change directions quickly. Therefore, we will continue working to cut costs and revive earnings even if the markets do start to recover. The Daiwa Securities Group has tried to cultivate a business philosophy of steadily expanding stable income sources, rather than just trying to cash in on short-term profits.

Q4 The first basic policy of the new plan is to “Return to profitability by pursuing management efficiencies.” Specifically, how do you plan to accomplish this?

A. By placing top priority on the introduction of more efficient methods and policies, we aim to return operations to the black in FY2012, the first year of the new medium-term plan.

At the start of FY2011, we calculated that the level of Base SG&A expenses—that is, the level at which ordinary income would be zero—was around ¥380 billion on a consolidated basis. The new medium-term management plan calls for us to reduce that break-even level to ¥320 billion or less by the end of FY2014. After breaking SG&A costs down by category, we believe that we can cut IT-related expenses by ¥19 billion and trim a further ¥33.5 billion from costs by rationalizing overseas operations. The remaining ¥7.5 billion savings will be achieved by reducing real estate expenses and other costs at Group subsidiaries. We expect to implement nearly 80% of these cost cuts during FY2012, reducing consolidated SG&A expenses by almost ¥50 billion.

Meanwhile, we are making progress in the effort to restructure our workforce. Plans for transferring personnel to front-office positions were announced last February. We initially intended to complete the transfer of middle- and back-office staff within three years, reducing the workforce in these sections to around 1,500. However, under a new plan we accelerated the process in order to complete most of the transfers by this April. Looking ahead, we hope to introduce multitasking and enhance the skills of our workforce further, creating a slimmer and more efficient operating structure.

Q5 According to the plan, you intend to meet the second basic policy of “Achieve client based high-quality earnings growth” by channeling resources into the Retail and Asset Management businesses. How, exactly, is this expected to work?

A. There are actually three specific strategies involved. First of all, we will “**create a unique business model with synergies between securities and banking services.**” This strategy is really our top priority, in terms of fostering growth for the “new” Daiwa Securities. By entering the banking sector, the Daiwa Securities Group has opened the door to a lot of new possibilities. We can now offer retail customers a very broad and flexible lineup of products and services, from savings-type accounts with guaranteed principal to higher-risk investment products. This gives the Group access to many customers who are hard to reach through the sales channels used by securities companies. Daiwa Securities can now approach customers with savings accounts as well as show them other ways to manage their money, thus expanding the base of customers in our securities business.

Meanwhile, we will broaden the product and service lineup to include foreign currency-denominated deposits, and we will enhance our service through convenient online account service and personal service at one of the Group’s sales offices. The Group is developing a business model to link banking and securities operations that will offer customers a single portal to any and all financial services. For example, customers who open a savings account will also be able to conduct stock transactions from that account, thus promoting a shift of assets from savings to more investment-oriented products.

By creating a business model that fosters synergy between securities and banking operations, the Daiwa Securities Group can offer Japanese individuals more latitude to manage their assets effectively, raising awareness of equity investment and international diversification of investments. I believe that it is our mission to take the lead in this process.

The second strategy is to “**strengthen earnings capacity of the asset management business.**” We concentrated on shifting the Daiwa Securities Group’s human resources into the two companies that handle the

Return to Profitability by Pursuing Management Efficiencies (Focus of execution in the first fiscal year)

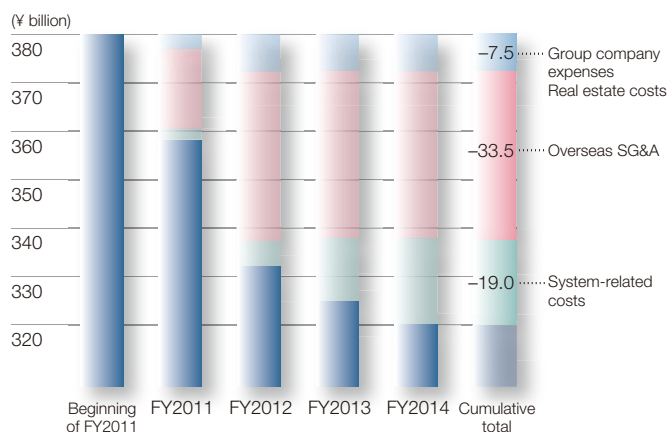
- Steadily implement the plan to reduce SG&A
- Realize greater organizational efficiencies by shifting personnel from the middle- and back-offices to the front division

SG&A Reduction

Reduce base SG&A from the beginning of FY2011 by more than 60 billion yen.

- Have already enhanced organizational efficiencies in Japan and reduced headcount by a total of 500 overseas in line with the size reduction / exit from unprofitable businesses / branches.
- Base SG&A at under 320 billion yen for FY2014.

Efforts to Reduce Base SG&A*

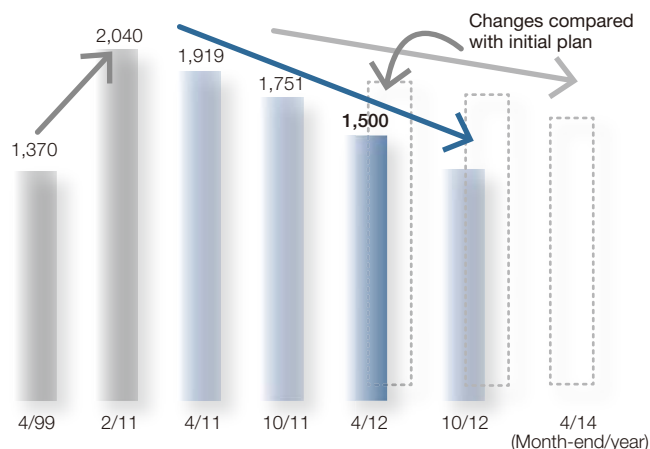


Personnel Shifts

Continue to shift middle- and back-office personnel to the front division by eliminating redundancies and reorganizing around the launch of the “new” Daiwa Securities.

- Personnel shift from 2,040 to 1,500 was executed well ahead of the initial plan (to be completed over three years by April 2014) and was completed by April 2012.

Trends in Number of Middle- and Back-office Personnel





Group's asset management business, hoping to attract a dominant share of the assets flowing into investment trusts through bank-related sales channels. Meanwhile, the Retail business is strengthening its mutual fund sales capabilities, placing top priority on increasing the balance of assets under management.

The Daiwa Securities Group's share of the balance of assets in mutual funds is at its highest level ever, reflecting the strong reputation of the funds we offer for quality as well as quantity. A survey of banks, conducted by R&I and entitled "Sales agents' ranking of best funds," found that the top three choices were all Daiwa Securities Group products: "Brazil

Bond Open Fund," "Short-Term Australian Bond Open" and "High Grade Oceania Bond Open Fund." We will continue to offer attractive products while strengthening our support for sales agents in an effort to increase our share of the market even further.

We are also taking steps to boost the earnings potential of the real estate asset management business. In March 2012, our listed REIT (real estate investment trust)—Daiwa Office Investment Corporation—became a consolidated subsidiary of Daiwa Securities Group Inc. Planning and support for this REIT has been exemplary, and it has become an important source of stable earnings for the Group. We have high expectations for the real estate asset management business in the future, and intend to provide strong support for Daiwa Office Investment Corporation, both in financing and locating new properties, in order to increase its total assets under management.

The third strategy is to **"enhance offerings for high net worth individuals."** As Japan's demographic shift towards an elderly population continues, it is estimated that estates worth some ¥50 trillion per year will be transferred via inheritance procedures, including many instances in which family businesses are passed on or transferred. This creates an enormous opportunity for consulting services and business continuity support. The Retail business is enhancing its solutions business for high net worth individuals, focusing on estate and business continuity consulting in particular.

By building strong relationships with these clients and addressing a wide spectrum of needs, the Daiwa Securities Group can not only handle issues of inheritance and business continuity, but also offer negotiable securities, pension insurance and securities-backed loans, real estate and many other solutions.

Q6 What role does the "new" Daiwa Securities play in the Group's Medium-Term Management Plan?

A. Daiwa Securities Co. Ltd. will play a central role, serving as the platform for the fourth strategy listed in the medium-term plan; **"strengthen 'coverage of the middle market'."** In the past our securities business was segmented, with Daiwa Securities offering retail services to individual investors and unlisted companies, while Daiwa Securities Capital Markets Co. Ltd. was responsible for serving institutional investors and listed corporations. There were firewalls between the two corporations that prevented them from exchanging information on clients. This made it difficult for the Group to cover the so-called "middle market," consisting of foundations, incorporated associations, incorporated schools, religious corporations and regional financial institutions.

Now that the Retail and Wholesale businesses have been reunited, the "new" Daiwa Securities will be able to enhance its services and coverage of these middle-market entities by assigning dedicated staff to address their needs, offering them the products typical of our Wholesale securities business (structured bonds, derivatives, etc.) and providing specialized knowledge and sales support. We are currently bolstering the sales support divisions to ensure that middle-market customers receive "seamless" service that incorporates the merits of both Retail and Wholesale operations.

Furthermore, when the two operations were separated, the Retail and Wholesale businesses offered slightly different products and services. Working together, they can now respond better to the diverse needs of middle-market customers. At present, the Daiwa Securities Group's share of the middle market is quite limited, so there is great potential for growth in this market segment. If we strengthen our sales structure and coverage of this segment, the impact on earnings could be considerable.

Q7 What are your plans for the Wholesale business?

A. As noted in the medium-term plan, our fifth strategy is to “**revitalize the brokerage business.**” As financial regulations are strengthened on a global scale, investment banks face a very challenging business environment. This is likely to continue, and therefore the Daiwa Securities Group has to concentrate on customer-oriented businesses that will allow us to elevate profitability and capital efficiency at the same time.

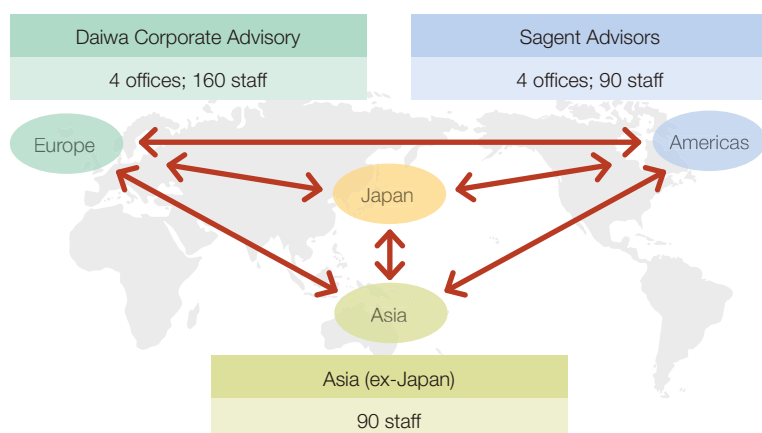
The Global Markets business makes full use of our solid domestic customer base and global network to provide a diverse range of products while also driving cohesive and efficient operations in the Asian region. Specifically, we continue to efficiently provide value-added services that differentiate us from our competitors through the enhancement of an integrated sales system in Asia with Japan as its core and a pan-Asian research network.

Furthermore, we are also working to “**provide investment banking solutions that accurately capture client needs,**” which is our sixth individual strategy. Since our Global Investment Banking business is not tied to any of Japan’s large corporate groupings, by cultivating the sales and proposal capabilities of investment bank personnel

we can precisely address the needs of a broad range of clients without being limited by group affiliations, and propose optimal solutions.

Leveraging the Daiwa Securities Group’s global network centered in Asia, including Japan, we will concentrate on supporting the efforts of Japanese companies to expand into Asia, and on offering investment banking solutions to leading companies in Asia. We also intend to improve cooperation between the four main bases of our M&A business—Japan, Asia, Europe and the Americas—in an effort to expand cross-border M&A consulting income. We also aim to diversify and maximize the earnings potential associated with M&A activities, focusing on associated activities like financing and foreign exchange trading.

Cross-border M&A



Q8 As part of the plan to expand “stable” revenue, what targets has Daiwa Securities Group set for specific product segments and businesses?

A. We have identified the following revenue categories as “stable”: Asset management fees (including investment advisory fees), investment trust agency commissions, Daiwa Next Bank profit margin on interest, Daiwa Real Estate asset management fees, SMA / FW fees, interest from credit transactions, and LMS interest. To expand these income sources, we hope to increase the balance of assets under management in Daiwa Securities’ mutual funds by ¥800 billion, and the balance of assets under management of mutual funds at the two asset management subsidiaries by ¥2.6 trillion.

Targets for Increasing Stable Sources of Income

Figures in parentheses reflect market assumptions

Retail Division	Asset Management Division
Net increase of mutual fund [3-year cumulative]: +¥0.8 trillion (+¥1.7 trillion) Increase in agency fees: +¥6 billion (+¥12 billion)	Net increase of mutual fund [3-year cumulative]: +¥2.6 trillion (+¥4.6 trillion) Increase in asset management fees: +¥7.8 billion (+¥13.5 billion)

Message From the COO/CFO

Since the global financial crisis that followed the Lehman Shock in 2008, governments throughout the world have been introducing tighter regulations aimed at fostering changes in the business models of financial institutions and ensuring their financial stability. The Daiwa Securities Group has always maintained a comparatively healthy financial position, but in the future we plan to go a step further. We intend to take even more proactive steps to procure and manage capital and maintain appropriate levels of liquidity, maintain an appropriate balance of assets and liabilities, and seek to enhance sustainable improvement of company value from the standpoint of financial health.

Dramatic Changes in Global Financial Regulation

Governments are making major revisions to their financial industry regulatory structures, due to the financial crisis starting from the Lehman Shock in 2008, to the European debt crisis in 2012.

With the introduction of new rules on consolidated regulation and supervision, the Daiwa Securities Group is now required—as of FY2011—to meet the same capital adequacy ratios as banks (the “Basel 2” regulations). The “Basel 2.5” accords introduced at the end of December 2011 place some tighter controls on market risk, but the next major change in capital adequacy rules will be the “Basel 3” accords, a comprehensive package of revisions that will be introduced in stages from March 2013. The Basel 3 regulations will require financial companies to maintain “going concern capital”—an amount of high-quality assets (common stocks and retained earnings) sufficient to cover any losses that might conceivably be generated in the course of ongoing operations. These rules will prevent companies from over-leveraging, and ensure that they maintain enough liquidity to ride out any major environmental

stress. In other words, the regulations on financial companies are now being extended to include not only capital adequacy, but also liquidity and leverage.

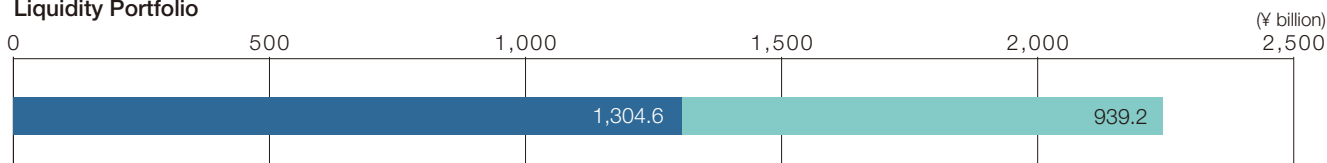
In addition to the Basel Accords, the G20 is taking steps to introduce new controls on derivative trading that will help limit settlement risk and counterparty risk. They have agreed to revise laws governing the over-the-counter derivatives market by the end of 2012. The US government is also considering whether to introduce the so-called “Volcker Rule,” which would prohibit depository financial institutions from trading on their own accounts as well as from owning or sponsoring investment funds.

Emphasizing Capital Efficiency

The new financial regulatory environment that the Daiwa Securities Group faces reflects a hasty reaction to the prolonged turmoil in financial markets. The Basel 3 accords are an attempt to dictate more conservative norms among financial companies regarding the appropriate levels of capital adequacy and liquidity and it will be necessary to make various changes to meet the new standards.

Short-term Unsecured Capital Procurement and Liquidity Portfolio of the Daiwa Securities Group as of March 2012

Liquidity Portfolio



■ Portfolio of liquid assets (cash, JGBs, etc.) ■ Semi-liquid assets (bonds, listed stock, etc.)

Short-term Unsecured Capital Procurement



■ Loans ■ Commercial paper ■ Bonds maturing within one year



Businesses that consume a great deal of capital or place a heavy burden on liquidity will be more tightly controlled and financial companies will have to build the most appropriate portfolio of businesses based on the assumption that regulations will continue to tighten.

Our new Medium-Term Management Plan responds to the current trend towards tighter financial regulation. The Daiwa Securities Group's financial strategy under the new plan addresses issues such as how to secure appropriate levels of capital adequacy and liquidity. It pursues highly effective risk management. The general business strategy focuses on client asset-based businesses that manage the assets of customers, such as bank deposits and investment trusts, and on brokerage businesses that reflect the flow of orders from customers. In this way, the business plan emphasizes stable earnings and capital efficiency.

Maintaining Financial Health

At the end of FY2011, the Daiwa Securities Group had a consolidated capital adequacy ratio of 27.4% (based on the Basel 2.5 standards)—a very high level relative to those of other major financial groups. In addition, the Group has already established a liquidity management structure to regulate the liquidity coverage ratio in accordance with the Basel Committee on Banking Supervision. Stress tests are conducted on a daily basis in order to confirm the condition of our liquidity portfolio. Furthermore, the results of these stress tests showed that the liquidity coverage ratio remained well above 100% in every stress test. This indicates that we would be able to maintain business continuity even if market conditions were

to prevent the Group from obtaining unsecured loans for a period of one year. The Group can boast an extremely solid financial base, and the systems we have set up for controlling capital adequacy and liquidity should be able to fully comply with any further tightening of financial regulations in the future. We will continue to refine these structures.

Although the businesses that the Group conducts carry with them a multitude of inherent risks, constant monitoring of risk throughout the Group will allow us to maintain a healthy financial base and earnings structure. As noted above, global financial regulations are likely to place even greater importance on capital efficiency. The Daiwa Securities Group is responding to this trend by introducing risk management structures and procedures that can control market risk and credit risk at appropriate levels and minimize operational risk in the future.

Nobuyuki Iwamoto

Deputy President
COO and CFO
Daiwa Securities Group Inc.

Retail Division

In order to suit the varied investment styles and preferences of customers, the Retail Division offers two main courses for products and services. The “Daiwa Consulting” course allows customers to obtain high value-added services and products from experienced sales staff in face-to-face consultations, whereas the “Daiwa Direct” course allows customers to transact their investments conveniently, via the Internet or telephone call centers. In addition to offering a multitude of investment products covering stocks and bonds for domestic and overseas, mutual funds, pension insurance and wrap account services, the Retail Division also offers securities-backed loans and good interest rates for both ordinary deposits and fixed-term deposits. This portfolio of products and services allows the company to meet the varying needs of each individual customer.

Action Plan for FY2012

1. Establish a unique business model creating synergy between securities and banking services
2. Strengthen wealth management businesses
3. Strengthen service coverage of the middle markets
4. Raise revenue level by improving earning capacity and productivity

Business Conditions and Earnings Results for FY2011

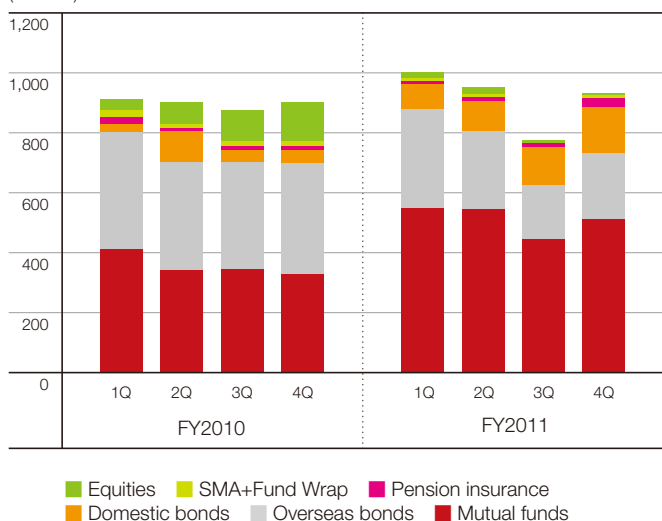
A host of negative factors contributed to a harsh business climate in FY2011, from the earthquake-related electric power shortages in Japan and floods in Thailand to the debt crisis in Europe and the credit downgrade on US treasuries, which elevated the yen against other currencies. These factors caused Japanese stock prices to fall steadily from the summer onward. At the end of December the Nikkei 225 stood at a low 8,455. In early 2012, however, signs of improving economic conditions in the US, measures to address the debt crisis in Europe, and further monetary easing measures by the Bank of Japan calmed market fears and stock prices began to recover. By the end of FY2011 the Nikkei 225 had risen to 10,083. Reflecting these conditions, Retail Division revenues from both stocks and bonds declined steadily until the third quarter, although they recovered in the fourth quarter. Meanwhile, sales of mutual funds—a key product focused on by Daiwa Securities—increased

substantially. As a result, the company was able to limit the decline in net operating revenues for the period to 3.9% year on year, to ¥172.0 billion, while ordinary income fell by 7.2%, to ¥38.8 billion.

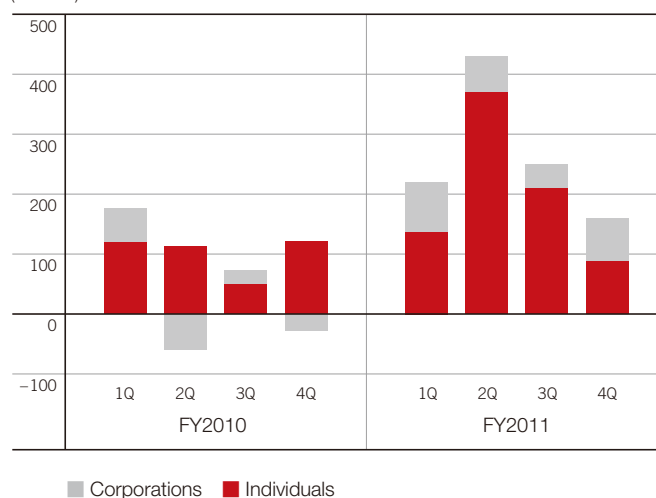
Key Events of FY2011

The Retail Division has been concentrating its sales efforts on mutual funds, and expanding its lineup of monthly dividend-type funds, in order to address customers' need for dividend income. Daiwa Securities aggressively develops and introduces new funds to reflect market trends and themes. Products such as the “Daiwa Harris Global Selected Stock Fund” and “Daiwa ASEAN Domestic Demand-Related Stock Fund” helped generate over ¥2 trillion in mutual fund sales during FY2011, increasing Daiwa Securities' share of the market to 9.1%. Investment trust sales commissions rose 60% year on year, to ¥46.9 billion.

Sales and Distribution Amount by Product Category (Daiwa Securities)
(¥ billion)



Net Inflow of Assets (Daiwa Securities)
(¥ billion)





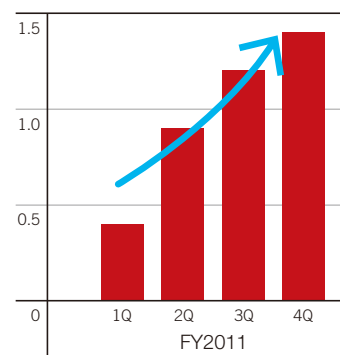
Yoriyuki Kusaki

Deputy President
Deputy Head of Retail
Daiwa Securities Group Inc.

In May 2011, with the launch of Daiwa Next Bank, the company entered the banking business as a bank agent. In collaboration with the bank, it launched the “Daiwa Twin Account,” which allows seamless connection between a customer’s bank account at Daiwa Next Bank and their brokerage account at Daiwa Securities, making their fund allocation activities easier and more efficient. It also offers good interest rates on deposits, providing both convenience and enhanced services to help expand the customer base. As of the end of March 2012, Daiwa Next Bank had attracted some 480,000 accounts with a balance of deposits exceeding ¥1,430 billion. The bank turned a profit in the third fiscal quarter since the bank was founded. Now that the company can offer various types of savings accounts, in addition to the investment vehicles that have been its forte in the past, Daiwa Securities will be able to attract a broader range of customers to use the Daiwa Securities Group’s services. The impact is already apparent; in FY2011 the company increased the number of new accounts by 22% year on year, to 154,000, and the net inflow of assets soared by 168% year on year, to ¥1,060 billion.

Daiwa Securities not only offers customers opportunities to generate a good return on their investments. The company has also been focusing on so-called “impact investments” which make a positive social contribution to the environment or to economically disadvantaged groups. In FY2011, the company began selling “JICA bonds,” the first retail market-oriented bonds issued by the Japan International Cooperation Agency (JICA). In addition, it helped arrange “Green Bonds,” which are issued by the World Bank and marketed mainly to regional banks.

Balance of Deposits at Daiwa Next Bank
(¥ trillion)



Major “Impact Investment”-Type Products Marketed by Daiwa Securities in FY2011

Issue	Issuer	Intended use of funds	Currency	Sales amount (approx.)*	Issue date
Ecology Bond	Nordic Investment Bank	Funds projects aimed at improving the environment, such as facilities to reduce air and water pollution	S. African Rand	¥9.1 billion	Nov. 2011
JICA Bond	Japan International Cooperation Agency	Provides international yen loans to support developing countries	Japanese Yen	¥13.0 billion	Dec. 2011
Water Bond	Asian Development Bank	Funds water-related projects in the Asia-Pacific region	Turkish Lira	¥21.6 billion	Feb. 2012

* Based on TTM rate on date of issuance

Wholesale Division

The Wholesale Division consists of the “Global Markets” business, which provides high-quality financial services and products such as stocks, bonds, currencies and derivatives brokerage to institutional investors, and the “Global Investment Banking” business, which underwrites stock and bond issues for corporations and provides IPO and M&A advisory services. The Division has established a solid platform for operations including offices in the four main financial centers of Tokyo, Hong Kong, London and New York. Daiwa Securities has extensive experience and knowhow, and has earned a good reputation for providing financial solutions to global clients including corporations, other financial institutions and institutional investors.

Action Plan for FY2012

1. Acquire IB deals by utilizing global network cored on Asia including Japan
2. Provide timely products to link firm client base and markets environments
3. Develop business focused on client trading flows with priorities in capital efficiency and based on appropriate risk management system

Business Conditions and Earnings Results for FY2011

The Wholesale Division was severely affected by harsh business conditions, as equity financing both in Japan and overseas contracted following the East Japan Earthquake, and as the debt crisis in Europe depressed trading profits. During FY2011 the Global Markets business experienced a 15.4% drop in net operating revenues, to ¥52.0 billion, and generated an ordinary loss of ¥54.4 billion. The Global Investment Banking business also saw net operating revenues decline 13.6%, to ¥26.5 billion, and posted a ¥14.2 billion ordinary loss. In the fourth quarter, however, restructuring efforts and personnel reductions at overseas offices, domestic improvements in management efficiency and IT-related cost-cutting greatly improved the profit structure. As major global stock markets

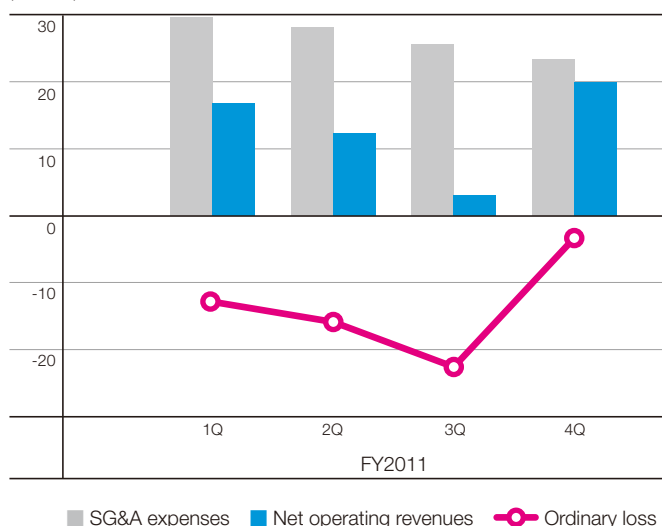
began to recover and interest and exchange rates stabilized, trading profits improved and earnings improved dramatically compared with the start of the fiscal year.

Key Events of FY2011

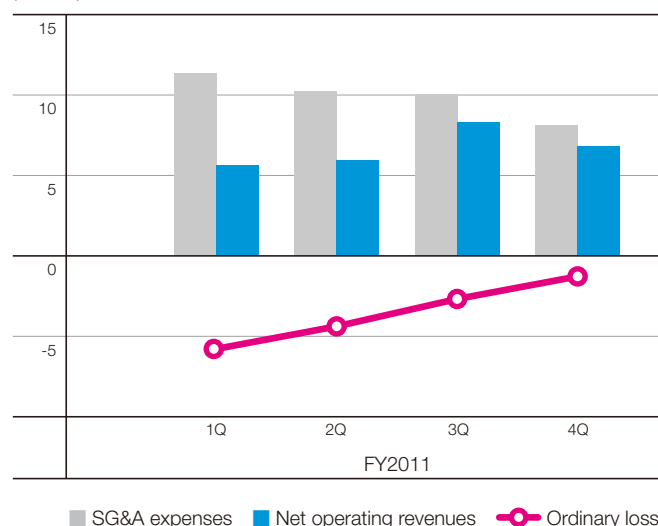
During FY2011, the Group took proactive steps to improve earnings in the Global Markets business including the transfer of Synthetic Prime Brokerage* operations and the downsizing or closure of other unprofitable businesses. On the other hand, in order to bolster stock trading capabilities in Asia, including Japan, the Group established a Pan-Asian research team that can offer comprehensive and effective coverage of Japanese and Asian equities. In preparation for the merger of Daiwa Securities and Daiwa Securities Capital

Quarterly Earnings Trends in FY2011

Global Markets
(¥ billion)



Global Investment Banking
(¥ billion)





Akio Takahashi

Deputy President
Deputy Head of Wholesale
Daiwa Securities Group Inc.

Markets, and with the aim of maximizing the impact of this merger, a sales support structure (providing information and product proposals) was established to target the so-called “middle market”—a segment that offers Daiwa Securities the best prospects for future earnings growth.

In equity finance, the Global Investment Banking business leveraged synergies developed through the acquisition of a global CB business division from KBC, a leading Belgian financial group, to win the sole lead manager role in KDDI's ¥200 billion CB issue despite the harsh business climate. This was the largest single issue won in FY2011. By winning several large-scale debt financing issues in FY2011, Daiwa Securities claimed second place in the league table for straight corporate bonds (excluding issuance of

the company's own bonds). The M&A business was also quite successful. Revenues in Europe increased year on year and cooperation with Sagent Advisors, with which the Group has capital ties, earned Daiwa Securities an advisory role in Daicel Corporation's acquisition of US company, Special Devices Inc. (SDI). Cross-border M&A business is increasing in general. This shows that the global business strategy—leveraging offices in the world's four major financial centers—is starting to bear fruit.

* Provides investors with credit securities, funding and market access through portfolio swaps (swap trading using a securities portfolio as the underlying asset)

Major Lead-Managed Deals and Publicly Announced M&A Advisory Activities in FY2011 (Including Participation as Joint Book-Runner)

Primary and Secondary Equity Offerings (Including CBs)

KDDI	Euro/Yen CB	¥200.0 billion
Skymark Airlines	Subscription sales	¥20.4 billion
REXLot Holdings	CB	HK\$9.6 billion

IPO

Sichuan Yimikang Environmental Tech	Shenzhen IPO	CNY¥340 million
Beijing Jingneng Clean Energy	Hong Kong IPO	HK\$2.1 billion

Bonds

ORIX	Yuan-denominated bonds (Dim sum bonds)	CNY¥500 million
Republic of Turkey (guaranteed by JBIC)	Samurai bonds	¥90.0 billion
Int'l Bank for Reconstruction & Development	Global US dollar-denominated bonds	US\$6.2 billion in total

M&A

Teva Pharmaceutical Industries' acquisition of Taiyo Pharmaceutical Industry	Advisor to Taiyo Pharmaceutical
Taisho Pharmaceutical's acquisition of Hoepharm Holdings	Advisor to Hoepharm Holdings
Daicel Corporation's acquisition of Special Devices Inc.	Advisor to Daicel Corporation

Asset Management Division

There are four main subsidiaries that comprise the Daiwa Securities Group's Asset Management business. Daiwa Asset Management Co. Ltd. focuses on the establishment and management of investment trusts mainly for individual investors. Daiwa SB Investments Ltd. (an equity method affiliate) has an established history of results and reliability in providing investment advisory services to pension funds and other institutional investors. Daiwa Real Estate Asset Management Co. Ltd. manages real estate assets, and Daiwa Office Investment Corp., the J-REIT that Daiwa Real Estate Asset Management Co. Ltd. manages, became a consolidated subsidiary of the Group in March 2012.

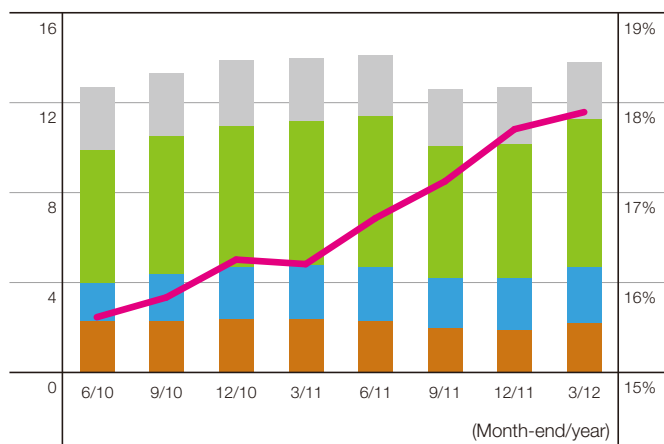
A deteriorating market environment, including the deepening debt crisis in Europe, battered the entire asset management industry. Mutual funds lost ¥3.0 trillion in value across the industry as a whole, closing FY2011 with a net asset value of ¥51.2 trillion. Though there was a net outflow of investment in the latter half of the year, this was offset by the inflow of new investment earlier in the period. Over the full fiscal year there was a net inflow of ¥2.0 trillion.

Daiwa Asset Management led the industry in the net inflow of assets to mutual funds, during FY2011, with ¥667.2 billion. The balance of assets under management closed the year at ¥6,624.9 billion, increasing the company's market share by 1.1 percentage points to 12.9%. Daiwa Asset Management also had the two top-ranked funds in the industry in terms of net asset inflow. The "Daiwa C&S Beikoku REIT Fund" led the industry with an inflow of ¥507.2 billion and the "Daiwa C&S US REIT Open B course (Currency Unhedged)" was second, with ¥470.1 billion. Daiwa Securities has donated its sales-commission portion of the management fees from the "Daiwa Japan Supporter Vol.3-Phoenix Japan" launched in May 2011 to the Japan NPO Center's Japan

Earthquake Local NPO Support Fund, which assists with reconstruction in the aftermath of the East Japan Earthquake. The Group intends to continue making contributions each fiscal period, out of the income from this fund, to support the rebuilding effort. Daiwa Asset Management won several recognitions during the period, including the Morningstar Award "Fund of the Year 2011" and the R&I Fund Award 2012. It was also selected as the top-ranked fund manager in the Sixth Annual Fund Manager Brand Survey conducted by The Japan Financial News Co., Ltd.'s "Nikken Investment Trust News," demonstrating the company's strong reputation among the banks that distribute mutual funds.

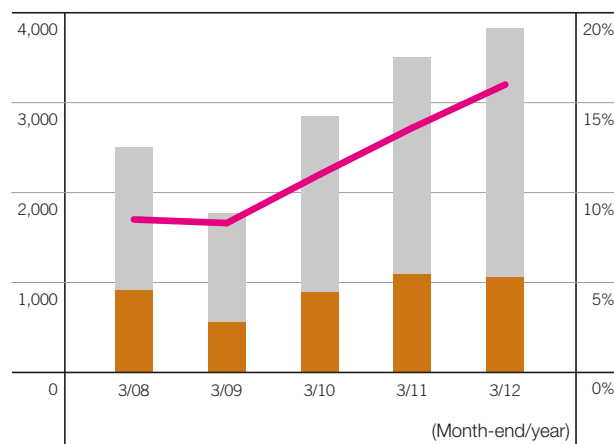
Daiwa SB Investments recorded a net inflow of ¥480.3 billion to its mutual funds during FY2011. At the end of the fiscal year, the balance of assets under management of mutual funds stood at ¥2,547.2 billion, increasing its share of the market by 0.6 percentage points to 5.0%. The company's "Short-Term Australian Bond Open" ranked second in the industry for the total balance of assets under management, and this fund continued to expand, with a net inflow of ¥398.2 billion in FY2011. The "Emerging Bond Fund With Currency Selection" also recorded a strong net inflow of ¥327.3 billion. In the

Balance of Assets Under Management at the Two Asset Management Subsidiaries, and Market Share
(¥ trillion)



■ Daiwa Asset Management (Bond investment trusts)
 ■ Daiwa Asset Management (Mutual funds)
 ■ Daiwa SB Investments (Mutual funds)
 ■ Daiwa SB Investments (Investment Advisory)
 ■ Daiwa Securities Group mutual funds share (right)

Sales of Mutual Funds Through Bank-related Sales Channels
(¥ billion)



■ Daiwa Asset Management (Mutual funds)
 ■ Daiwa SB Investments (Mutual funds)
 ■ Daiwa Securities Group share (right)



Makoto Shirakawa

Deputy President
Head of Asset Management
Daiwa Securities Group Inc.

investment advisory business, Daiwa SB Investments maintained its first-place overall position in the investment advisory rankings published by Rating & Investment Information, Inc. (R&I)'s "Pensions & Investments" newsletter, for a third consecutive year. It also received various awards from R&I's Fund Awards 2012 and the ninth-annual Mercer MPA Awards (Japan).

These strong performances boosted the Daiwa Securities Group's overall share of the market for mutual funds by

1.7 percentage points, to 17.9%. The two companies together controlled a 16.0% share of all mutual funds sold through bank sales channels in FY2011—an increase of 2.4 percentage points over the previous year. Net operating revenues for the overall Asset Management Division increased by 3.0% year on year, to ¥37.4 billion, and ordinary income declined by 8.4%, to ¥14.6 billion.

Action Plan for FY2012

1. Sophisticate investment style and research analysis
2. Improve product development functions and offer new attractive products
3. Enhance supports to distributors and provide information meeting client needs
4. Establish an efficient organization and enhance risk management system

Daiwa Asset Management

■ Improve fund management capabilities

Adopt more sophisticated management techniques, better research and analysis in order to improve fund performance, and promote diversification of investment objects and investment strategies

■ Enhance product development capabilities

Develop products with content and performance that meets client needs, and develop in-house infrastructure to support new product development

■ Improve marketing capabilities

Bolster product proposal and customer support capabilities and strengthen transmissions of information from the investor's perspective

■ Strengthen the organizational base

Invest in a solid organizational base that can provide top-quality services, while pursuing the most efficient cost structure by prioritizing cost-cutting targets

Daiwa SB Investments

■ Improve fund management capabilities

Strengthen fund management base focusing in particular on growing Asian asset markets, and enhance competitiveness of existing products

■ Expand range of fund management products

Develop and manage competitive funds that address investors' needs

■ Improve sales and marketing base

Establish a stronger base to manage publicly offered investment trusts by increasing support for sales agents; elevate and maintain the market presence of the investment advisory business by developing products and services that meet customer needs

■ Strengthen the organizational base

Upgrade quality and efficiency of specialized operations, train and efficiently utilize personnel and enhance product management

IT/Think Tank Division

One of Japan's Leading Think Tanks

Daiwa Institute of Research Group

The Daiwa Institute of Research Group encompasses a number of companies involved in research, information services and other support functions. The group includes Daiwa Institute of Research Holdings Ltd., the administrative parent of the group; Daiwa Institute of Research Ltd., which offers research and consulting services as well as providing systems support to companies in the Daiwa Securities Group; and Daiwa Institute of Research Business Innovation Ltd., which provides systems support to companies outside the Daiwa Securities Group. The synergy between these companies has made the group one of Japan's leading think tanks, addressing sectors ranging from economics and social issues to corporate business strategy and IT solutions. In FY2011, the three main group companies generated a combined ordinary income of ¥6.4 billion, down 23.7% from the previous year.

Action Plan for FY2012

- | | |
|---|--|
| 1. Enhance the Group's presence by further increasing values as a think tank | 3. Decrease system-related administration and development costs by introducing in-house IT development and the Group's internal-cloud system |
| 2. Create business opportunities by enhancing consulting services in Asia including Japan | |

Enhanced Skills in Disseminating Information are Making the Group an "Opinion Leader" in Japan

The Daiwa Institute of Research Group has over 40 years of experience in conducting macroeconomic research, financial and capital markets research both in Japan and overseas, and environment-related research. The group is working to enhance the knowledge and expertise it possesses, and its capacity to make proposals and recommendations based on such research. Furthermore, it is developing its ability to disseminate this information, in order to serve as a think tank and an opinion leader in Japan and overseas.

Consulting Services Help Clients Enhance Their Corporate Value

As business adopts an increasingly global focus, the consulting needs of corporations are growing more sophisticated and diverse. To meet these needs, the Daiwa Institute of Research Group offers a broad assortment of different consulting services, from management consulting to business strategy, corporate financing strategy, and human resource and organizational consulting. The group also assists Japanese companies with their efforts to expand into Asian markets, with research on local business and investment conditions and consulting support for new business expansion plans. Using its accumulated consulting experience, the group can help customers make decisions and enhance corporate value.

Optimizing the Cost-Effectiveness of IT Systems to Make the Daiwa Securities Group More Competitive

The IT systems support business has adopted cost-value optimization methods such as building cutting-edge offshore development structures and one of the most advanced cloud computing environments in Japan, to help make the Daiwa Securities Group more competitive. The group will improve systems development efficiency through its Chinese systems development subsidiary, SinoCom DIR Business Innovation Technology (Beijing) Co., Ltd., with the aim of establishing a cutting-edge offshore development structure. Efforts to develop the domestic cloud computing environment include not only the expanded use of cloud computing at the Daiwa Securities Group companies, but efforts to promote the standardization of cloud-computing platforms for operating core systems through the "Global Alliance for User-driven Cloud Computing" which the Group launched in collaboration with other IT companies.

In step with the Group's overall global strategy, IT governance for global systems is being upgraded to provide fuller IT support to the Daiwa Securities Group's business activities.

Investment Division

The Daiwa Securities Group is active in investment businesses, including venture capital investments, private equity investments and fund management. These businesses not only offer a supply of capital to meet the funding needs of customers, but they also enhance their corporate value through “Hands-On Management.”

Action Plan for FY2012

1. Maximize returns from the existing portfolio
2. Invest and raise funds in a timely and appropriate manner

Investing in the Future Through Private Equity Stakes Daiwa Corporate Investment Co., Ltd.

Daiwa Corporate Investment Co., Ltd. was established in 1982 as a private equity firm. The company uses its extensive business network, centered on the Daiwa Securities Group, and a wealth of accumulated experience and knowhow to supply capital for venture companies or buy-outs. In this way, it has helped numerous businesses to grow and eventually to list their shares publicly. In the fund management business, which supplies capital for investments, the company also operates a highly transparent financial instruments operation (Type II Financial Instruments Business and Investment Management Business).

In FY2011, Daiwa Corporate Investment established the East Japan Earthquake Small and Medium Enterprises Revival Support Investment Limited Partnership, with the aim of providing assistance for recovery and growth from the East Japan Earthquake. This fund aims to contribute to the early recovery and sustained growth of the disaster-stricken region by flexibly providing risk money (equity investment) to the region's unlisted companies.

<Venture Capital Investment >

Daiwa Corporate Investment generally provides support to companies with advanced technologies and companies with unique business models, content or services. Its approach is to offer venture companies a “Hands-On” support package that includes not only investment capital but also contacts to prospective executives or employees, advice on listing the company's shares, and a full array of other types of management assistance.

<Buy-Out Investment>

This business focuses on business reorganization and reformation of medium-sized businesses with valuable management assets, often through MBO*. Investment focuses on companies with no clear management succession, the subsidiaries of large corporations, business divisions that are being spun off, or companies which aspire to become privately-held. The experience and knowhow cultivated at Daiwa Corporate Investment through venture investment is leveraged in directly assisting the buy-out investment of target companies.

* MBO: Management Buyout—The act in which management leads the buyout of a company's own shares.

Developing Solutions Through Investment Activities Daiwa PI Partners Co. Ltd.

Daiwa PI Partners Co. Ltd. was launched in 2001, under the name Daiwa Securities SMBC Principal Investments Co. Ltd. The company was involved in private equity investment, monetary claims investment, real estate investment, investment in green-house gas emissions credits and regional recovery funds. In February 2010, the investment portfolio was transferred to a company that retained the original name, Daiwa Securities SMBC Principal Investments Co. Ltd., whereas the current company adopted the name Daiwa PI Partners Co. Ltd., and began pursuing new investment activities. Through its investment activities, Daiwa PI Partners addresses the varying needs of target companies for raising capital and selling off assets.

In FY2011, Daiwa PI Partners established Aozora Daiwa Finance Co., Ltd. together with Aozora Bank, Ltd. in October 2011. Through this joint venture, Daiwa PI Partners will build a one-stop framework for a wide range of high-value-added services providing fund raising solutions in bridge loans and mezzanine finance for M&A transactions, which require both speediness and specialized expertise.

<Monetary Claims Investment>

The Daiwa Securities Group has been a pioneer in monetary claims investments since 1998. It acquires loan contracts and nonperforming loans from financial institutions and business corporations throughout Japan.

<Private Equity Investment>

The Group has made more than ¥300 billion in private equity investments in over 20 Japanese and Asian companies.

<Investment Funds>

The Group has established Daiwa Quantum Capital Partners I—an investment fund operated jointly with Quantum Leaps Corporation, the venture capital firm founded by former Sony CEO, Mr. Nobuyuki Idei. This fund invests mainly in growing companies in Asia, including Japan.

The Daiwa Securities Group introduces to you
a New Way to Bank

Daiwa Next Bank



Why not save, while you invest?

Daiwa offers you a new style of financial service.

When it comes to saving and investing, we are here to be your “Best Partner.”

Agency Services

Principal Bank

Daiwa Securities

Daiwa Next Bank

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Top Management

Directors (Members of the Board)

Chairman of the Board

Shigeharu Suzuki

Directors

Takashi Hibino

Nobuyuki Iwamoto

Akio Takahashi

Yoriyuki Kusaki

Takatoshi Wakabayashi

Toshihiko Onishi

Ryuji Yasuda

Koichi Uno

Nobuko Matsubara

Keiichi Tadaki

Kensuke Itoh

Corporate Executive Officers



Takashi Hibino

President and CEO
Head of Retail and
Wholesale

President, Daiwa Securities
Co. Ltd.

1979 Joined Daiwa Securities Co. Ltd.
2002 Head of Corporate Planning Department,
Daiwa Securities Group Inc.
Senior Managing Director,
Daiwa Securities SMBC Co. Ltd.
2004 Member of the Board and Executive Managing
Director, Daiwa Securities Group Inc.
2007 Senior Executive Managing Director
2008 Senior Executive Managing Director,
Daiwa Securities SMBC Co. Ltd.
2009 Deputy President, Daiwa Securities Group Inc.
Deputy President, Daiwa Securities SMBC Co. Ltd.
2011 President and CEO, Daiwa Securities Group Inc.
President, Daiwa Securities Co. Ltd.
President, Daiwa Securities Capital Markets Co. Ltd.
2012 President and CEO, Daiwa Securities Group Inc.
President, Daiwa Securities Co. Ltd.



**Nobuyuki
Iwamoto**

Deputy President,
COO and CFO
Human Resources Officer
Head of Overseas Offices

Deputy President,
Daiwa Securities Co. Ltd.

1980 Joined Daiwa Securities Co. Ltd.
2001 Head of International Finance Department,
Daiwa Securities SMBC Co. Ltd.
2005 Senior Managing Director,
Daiwa Securities Group Inc.
2006 Member of the Board and Senior Managing Director
2008 Executive Managing Director
2009 Senior Executive Managing Director
2011 Deputy President, Daiwa Securities Group Inc.
Deputy President, Daiwa Securities Capital Markets
Co. Ltd.
2012 Deputy President, Daiwa Securities Group Inc.
Deputy President, Daiwa Securities Co. Ltd.



Akio Takahashi

Deputy President
Deputy Head of Wholesale

Deputy President,
Daiwa Securities Co. Ltd.

1978 Joined Daiwa Securities Co. Ltd.
2003 Head of Equity Capital Markets Department,
Daiwa Securities SMBC Co. Ltd.
2004 Senior Managing Director
2007 Executive Managing Director
2008 Member of the Board and Executive Managing
Director
2009 Senior Executive Managing Director
2011 Deputy President, Daiwa Securities Group Inc.
Deputy President, Daiwa Securities Capital Markets
Co. Ltd.
2012 Member of the Board and Deputy President, Daiwa
Securities Group Inc.
Deputy President, Daiwa Securities Co. Ltd.



Yoriyuki Kusaki

Deputy President
Deputy Head of Retail

Deputy President,
Daiwa Securities Co. Ltd.

1980 Joined Daiwa Securities Co. Ltd.
2002 Head of Corporate Institutions Dept. III
Daiwa Securities SMBC Co. Ltd.
2004 Senior Managing Director
2007 Executive Managing Director
2009 Member of the Board and Senior Executive Managing
Director, Daiwa Securities Co. Ltd.
2012 Member of the Board and Deputy President,
Daiwa Securities Group Inc.
Deputy President, Daiwa Securities Co. Ltd.



**Makoto
Shirakawa**

Deputy President
Head of Asset Management

President,
Daiwa Asset Management
Co. Ltd.

1978 Joined Daiwa Securities Co. Ltd.
2003 Head of Financial Institutions Dept. I
Daiwa Securities SMBC Co. Ltd.
2004 Senior Managing Director, Daiwa Securities Co. Ltd.
2006 Member of the Board and
Executive Managing Director
2007 Senior Executive Managing Director
2009 Deputy President, Daiwa Securities Group Inc.
Deputy President, Daiwa Securities Co. Ltd.
2010 Member of the Board and Deputy President,
Daiwa Securities Group Inc.
2012 Deputy President, Daiwa Securities Group Inc.
President, Daiwa Asset Management Co. Ltd.



Takashi Fukai

Deputy President
Head of Think Tank

President, Daiwa Institute
of Research Holdings Ltd.
President, Daiwa Institute
of Research Ltd.
President, Daiwa Institute
of Research Business
Innovation Ltd.

1978 Joined Daiwa Securities Co. Ltd.
2001 Head of Kobe Branch
2002 Senior Managing Director
2005 Member of the Board and Executive Managing Director
2007 Senior Executive Managing Director
2009 Member of the Board and Deputy President,
Daiwa Securities Group Inc.
Deputy President, Daiwa Securities Co. Ltd.
Deputy President, Daiwa Securities Group Inc.
2010 President, Daiwa Institute of Research Holdings Ltd.
President, Daiwa Institute of Research Ltd.
President, Daiwa Institute of Research Business
Innovation Ltd.



1980 Joined Daiwa Securities Co. Ltd.
2004 Head of Personnel Department and Managing Director, Assistant to Head of Planning, Daiwa Securities Group Inc.
2005 Senior Managing Director
2007 Senior Managing Director, Daiwa Securities SMBC Co. Ltd.
2008 Executive Managing Director
2009 Member of the Board and Representative Executive Managing Director
2010 Member of the Board and Senior Executive Managing Director, Daiwa Securities Group Inc.
Representative Senior Executive Managing Director, Daiwa Securities Capital Markets Co. Ltd.
2012 Member of the Board and Senior Executive Managing Director, Daiwa Securities Group Inc.
Member of the Board and Senior Executive Managing Director, Daiwa Securities Co. Ltd.



1982 Joined Daiwa Securities Co. Ltd.
2006 Managing Director of Personnel Department, Daiwa Securities Group Inc.
2008 Member of the Board and Senior Managing Director
2011 Senior Executive Managing Director
Senior Managing Director, Daiwa Securities Co. Ltd.
Senior Managing Director, Daiwa Securities Capital Markets Co. Ltd.
2012 Executive Managing Director, Daiwa Securities Group Inc.
Executive Managing Director, Daiwa Securities Co. Ltd.



1984 Joined Daiwa Securities Co. Ltd.
2006 Kinki Group Manager
Head of Kyoto Branch
Head of Consulting Department, Kyoto Branch
2008 Senior Managing Director
2011 Executive Managing Director, Daiwa Securities Group Inc.
Senior Managing Director, Daiwa Securities Co. Ltd.
Senior Managing Director, Daiwa Securities Capital Markets Co. Ltd.
2012 Executive Managing Director, Daiwa Securities Group Inc.
Executive Managing Director, Daiwa Securities Co. Ltd.



1985 Joined Daiwa Securities Co. Ltd.
2008 Head of Corporate Planning Department, Daiwa Securities Group Inc.
2009 Senior Managing Director
2011 Executive Managing Director
Senior Managing Director, Daiwa Securities Co. Ltd.
2012 Executive Managing Director, Daiwa Securities Group Inc.
Executive Managing Director, Daiwa Securities Co. Ltd.



1985 Joined Daiwa Securities Co. Ltd.
2006 Head of Personnel Department
2009 Senior Managing Director
2011 Senior Managing Director, Daiwa Securities Group Inc.
Senior Managing Director, Daiwa Securities Co. Ltd.
Senior Managing Director, Daiwa Securities Capital Markets Co. Ltd.
2012 Executive Managing Director, Daiwa Securities Group Inc.
Executive Managing Director, Daiwa Securities Co. Ltd.



1971 Joined Daiwa Securities Co. Ltd.
1997 Member of the Board, Head of Corporate Institution Division
1998 Executive Managing Director
2001 Senior Executive Managing Director
2002 Senior Executive Managing Director, Daiwa Securities SMBC Co. Ltd.
2003 Representative Director and Senior Executive Managing Director
2004 Member of the Board, President and CEO, Daiwa Securities Group Inc.
President, Daiwa Securities Co. Ltd.
2011 Chairman of the Board and Senior Managing Director, Daiwa Securities Group Inc.
Chairman of the Board, Daiwa Securities Co. Ltd.

Corporate Governance

The Daiwa Securities Group clearly separates the supervisory and executive functions of management to create a highly transparent and objective corporate governance system. The Group is pursuing a management structure that improves the efficiency of head office operations and maximizes synergies between the Group companies. Under this structure, employees responsible for head office functions also perform similar roles for securities subsidiaries, in addition to the corporate executive officers of Daiwa Securities Group Inc.

Features of the Corporate Governance System

In 1999, the Daiwa Securities Group became the first listed Japanese company to adopt a holding company structure. Since then, we have been pursuing a highly transparent and objective corporate governance system that maximizes synergies between Group companies while showcasing the independence and unique expertise of each Group member.

In June 2004, Daiwa Securities Group Inc. made a transition to a "Committee System" of corporate governance and accelerated the decision-making process by transferring a substantial portion of authority from the Board of Directors to corporate executive officers. In addition, we strengthened the supervisory functions of management by increasing the number of outside directors and establishing the Nominating Committee, Audit Committee, and Compensation Committee. The representative directors of the major Group companies also serve as corporate executive officers of the holding company, thereby allowing them to efficiently implement individual business strategies based on Group strategies.

The Nominating Committee met three times in FY2011 to discuss the composition of the Board of Directors and its effect on corporate governance, the basic policy for nominating candidates for directorships, and the selection of these candidates. The Nominating Committee selects candidates for directorships in light of the Group's selection standards for the appointment of directors. These standards include criteria that ensure the independence of outside directors.

The Audit Committee met 12 times during FY2011. The committee evaluated the activities of directors and corporate executive officers, audited documentation including financial statements and business reports, and prepared an audit report for the period under review.

The Compensation Committee met six times in FY2011 to discuss compensation policy and determine the compensation of each director, and also studied a Group-wide incentive plan aimed at improving consolidated earnings results.

The Board of Directors met 10 times during FY2011 and outside directors had a 98% record of attendance.

Corporate Governance System at Daiwa Securities Group



Executive Compensation More Closely Linked to Performance

Compensation for directors and corporate executive officers is determined by the Compensation Committee. It generally has three components; basic compensation, performance-based

compensation, and stock-price-linked compensation. Comprehensive criteria used in calculating performance-based compensation include consolidated ordinary income and ROE, as well as other factors such as which of the management goals outlined in the Medium-Term Management Plan have been met.

Compensation Paid to Directors and Corporate Executive Officers of Daiwa Securities Group Inc. in FY2011

Amounts based on resolution of the Compensation Committee	Directors		Corporate Executive Officers		Total	
	Recipients	Amount	Recipients	Amount	Recipients	Amount
	9 persons	¥107 million	14 persons	¥424 million	23 persons	¥531 million

Notes: 1. No performance-based compensation was paid in this fiscal year.
 2. The above compensation amounts include a total of ¥94 million in stock acquisition rights granted as stock options to directors and corporate executive officers.
 3. Compensation paid to the six outside directors totaled ¥80 million.
 4. Seven directors also served as corporate executive officers; their total compensation is included in the "Corporate Executive Officers" category.

Internal Control System and Internal Audit

In recognition that management is responsible for maintaining an effective internal control system to ensure the sound and proper execution of business, the Group, under the main initiative of Daiwa Securities Group Inc., has established a system for managing the Group's major business risks. The Group also maintains this internal control system for ensuring "business effectiveness and efficiency," "reliable financial reporting," "compliance with laws related to business activities," and "asset preservation." The Internal Audit Department verifies the internal control system. This department, established independently from all other departments and reporting to a full-time corporate executive officer, ensures internal audits to act as an important function of raising Group value through the creation of sound and efficient internal controls. The department's internal auditing plans and the results of internal audits are reported to and approved by the Group Internal Audit Committee, which is directly under the control of the CEO of Daiwa Securities Group Inc.

The department also reports the results of internal audits to an Audit Committee. This Audit Committee, comprised of members of the Board of Directors of Daiwa Securities Group Inc., in turn has the authority to conduct internal audits in collaboration with the Internal Audit Department and have the department perform its research.

The Internal Audit Department directly audits major Group companies. Major Group companies also have internal auditing departments of their own, which are subject to monitoring and alignment by the Internal Audit Department.

The Group's internal audits, in following a common Group internal audit policy and audit plan formulated on a risk-by-risk basis, are managed and monitored primarily by the Internal Audit Department. The internal audits that Group companies perform are monitored and directly audited as required by the Group in view of the status of control over the Group and collaboration within the Group. The Group seeks to raise corporate value by conducting internal audits that pay special attention to the legal and regulatory compliance and risk management position of Daiwa Securities Co. Ltd. and the Group's overseas securities business sites as a global financial instruments business operator, and Daiwa Next Bank, Ltd. as a bank.

To maintain oversight and ensure the proper and efficient conduct of Group internal auditing activities, the Internal Audit Department holds periodic meetings and collaborates in auditing activities with the internal auditing segment of each Group company, and maintains contact and coordination with the Group's Audit Committee and accounting auditor.

Corporate Governance Committee System

In 1999, Daiwa Securities Group Inc. became the first listed company in Japan to adopt a holding company structure. In 2004, the Group introduced a Committee System of corporate governance with three major committees that report to the Board—the Nominating Committee, Audit Committee and Compensation Committee. It also increased the number of outside directors, and established a clear separation between the oversight functions of the Board and the execution functions of corporate executive officers.

Committee Members

Nominating Committee

Shigeharu Suzuki (Chairman)
Takashi Hibino
Ryuji Yasuda
Nobuko Matsubara
Keiichi Tadaki
Kensuke Itoh

Audit Committee

Koichi Uno (Chairman)
Toshihiko Onishi
Nobuko Matsubara
Keiichi Tadaki

Compensation Committee

Shigeharu Suzuki (Chairman)
Takashi Hibino
Ryuji Yasuda
Koichi Uno
Kensuke Itoh



Toshihiko Onishi

Member of the Board

1984 Joined Daiwa Securities Co. Ltd.
2007 Managing Director and Assistant to Head of Planning of Daiwa Securities SMBC Co. Ltd.
Seconded to Daiwa Securities SMBC Principal Investments Co. Ltd. (currently, Daiwa PI Partners Co. Ltd.)
Member of the Board and Executive Managing Director, Daiwa Securities SMBC Principal Investments Co. Ltd.
2008 Senior Managing Director, Daiwa Securities SMBC Co. Ltd.
2011 Member of the Board, Daiwa Securities Group Inc.

Ryuji Yasuda

Outside Director (Member of the Board)

1976 Joined Morgan Guaranty Trust Company of New York (currently JPMorgan Chase & Co.) as Investment Research Officer
1979 Joined McKinsey & Company
1996 Managing Director, Asia Pacific, Member of the Board of Management, A.T. Kearney, Inc.
2002 Chairman of A.T. Kearney, Far East Asia Visiting Professor, Hitotsubashi University, Graduate School of International Corporate Strategy
2003 Stepped down as Chairman of A.T. Kearney, Far East Asia
Chairman of the Board, J-Will Partners Co., Ltd.
Outside Director (Member of the Board), Daiwa Securities Group Inc.
2004 Professor, Hitotsubashi University, Graduate School of International Corporate Strategy
2006 Stepped down as Chairman of the Board, J-Will Partners Co., Ltd.

Ryuji Yasuda is currently a Professor of Hitotsubashi University's Graduate School of International Corporate Strategy. Before that, he was a partner at various prominent consulting firms. The Company has drawn on Mr. Yasuda's specialized knowledge and experience in management strategy nurtured throughout his career for management advice. His term as a director of the Board is nine years.



Koichi Uno

Outside Director (Member of the Board)

1967 Joined Arthur Andersen & Company Tokyo Office
 1976 Transferred to Arthur Andersen & Company London Office
 1977 Returned to Tokyo Office
 1979 Partner, Tax Division
 1981 Representative Partner, Koichi Uno Tax Accounting Office
 2000 Part-time lecturer, Hitotsubashi University, Graduate School of International Corporate Strategy
 Retired from Arthur Andersen & Company Founded CPA, UNO OFFICE
 2004 Outside Director (Member of the Board), Daiwa Securities Group Inc. Stepped down as part-time lecturer, Hitotsubashi University, Graduate School of International Corporate Strategy

Koichi Uno has been involved in the financial and tax affairs of many companies throughout his career as a certified accountant and tax accountant. The Company has drawn on Mr. Uno's wealth of experience and specialized knowledge nurtured throughout his career for management advice. His term as a director of the Board is eight years.

Nobuko Matsubara

Outside Director (Member of the Board)

1964 Entered Ministry of Labor
 1987 Director of International Labor Division
 1991 Director-General of Women's Bureau
 1997 Vice Minister
 1999 President of Japan Association for Employment of Persons with Disabilities
 2002 Ambassador of Japan to Italy
 Ambassador of Japan to Albania
 Ambassador of Japan to San Marino
 Ambassador of Japan to Malta
 2006 Chairman, Japan Institute of Workers' Evolution
 2008 Outside Director (Member of the Board), Daiwa Securities Group Inc.

Nobuko Matsubara is currently the chairman of the Japan Institute of Workers' Evolution. Before that, she was the Vice Minister of Labor, and served as the Ambassador of Japan to Italy, among other posts. The Company has drawn on Ms. Matsubara's specialized knowledge and broad experience nurtured throughout her career for management advice. Her term as a director of the Board is four years.

Keiichi Tadaki

Outside Director (Member of the Board)

1969 Public Prosecutor of the Tokyo District Public Prosecutors Office
 1996 Chief Prosecutor of the Oita District Public Prosecutors Office
 1997 Public Prosecutor of the Supreme Public Prosecutors Office
 Deputy Vice Minister of Justice
 Vice Minister of Justice
 2002 Superintending Prosecutor of the Tokyo High Public Prosecutors Office
 2004 Prosecutor General
 2006 Stepped down as Prosecutor General
 2008 Attorney at law
 2009 Outside Director (Member of the Board), Daiwa Securities Group Inc.

Keiichi Tadaki is currently an attorney at law. Before that, he was the Vice Minister of Justice, and served as the Superintending Prosecutor of the Tokyo High Public Prosecutors Office, and the Prosecutor General. The Company has drawn on Mr. Tadaki's wealth of experience and specialized knowledge on legal and compliance issues nurtured throughout his career for management advice. His term as a director of the Board is three years.

Kensuke Itoh

Outside Director (Member of the Board)

1959 Joined Kyoto Ceramic Co., Ltd. (currently, Kyocera Corporation)
 1975 Member of the Board and Senior Managing Director
 1979 Executive Managing Director
 1981 Senior Executive Managing Director
 1985 Representative Director and Deputy President
 1989 Representative Director and President
 1999 Representative Director and Chairman of the Board
 2005 Advisor and Senior Managing Director
 2009 Advisor
 2011 Outside Director (Member of the Board), Daiwa Securities Group Inc.

Kensuke Itoh is currently an advisor to Kyocera Corporation, after having served as its President, among other representative positions. The Company has drawn on Mr. Itoh's wealth of management experience and insight nurtured throughout his career at Kyocera for management advice. His term as a director of the Board is one year.

Disclosure

The Daiwa Securities Group works proactively to provide fair, prompt, and appropriate information to customers, shareholders, investors, the local communities, executives, and employees in order to ensure that all of these stakeholders receive a clear understanding and proper evaluation of the Group's business activities.

Disclosure System

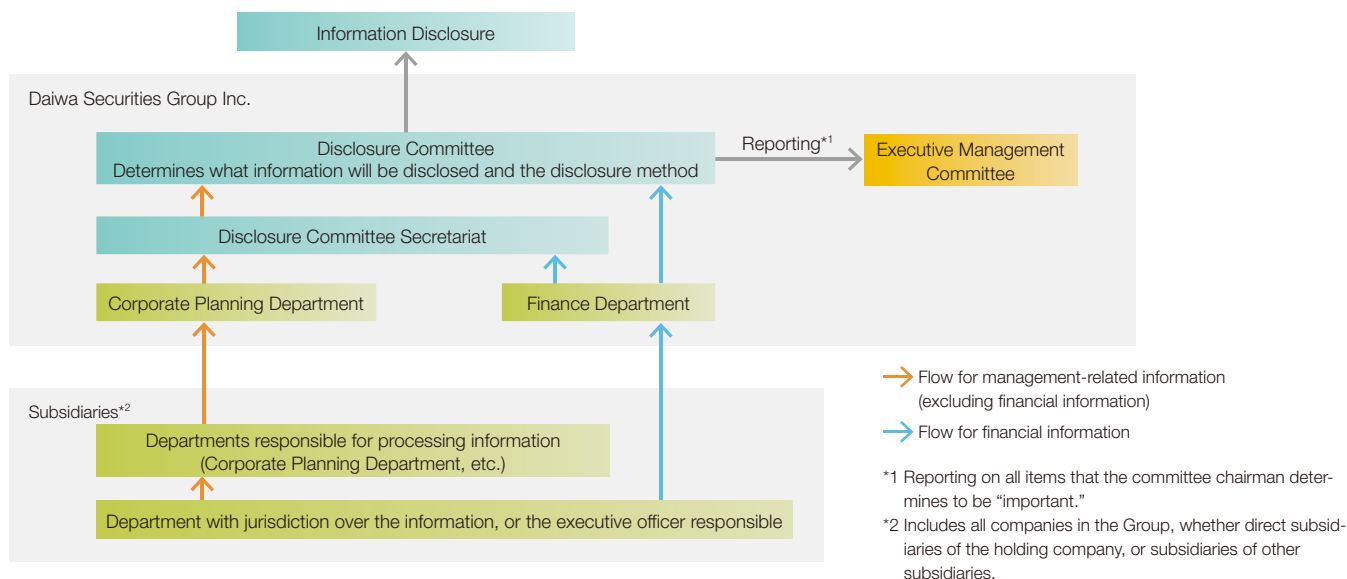
The Daiwa Securities Group has formulated the Disclosure Policy, which outlines the Group's basic approach to information disclosure and strives to provide information that is fair, prompt, and appropriate.

In addition, Daiwa Securities Group Inc. has established the Disclosure Committee—a sub-committee of the Executive Management Committee—as stipulated in the Group's Disclosure Regulations, which were established in order to ensure concrete implementation of the spirit of the Disclosure Policy. The committee is responsible for making final decisions regarding the disclosure of information. Major Group companies have also established their own regulations, or Management-related Information, which govern the appropriate collection of information and presentation of reports

to Daiwa Securities Group Inc.

The responsibilities for disclosure are clearly allocated, based on the intended recipient of the information. The Investor Relations Department handles disclosure to shareholders, investors and analysts. The Corporate Communications Department is responsible for communications with the mass media and local communities. Information is released through a variety of media, including via the Internet and in print. In addition, representatives from disclosure-related divisions of all Group companies take part in the Group PR/IR Meeting, which convenes once a month, to discuss the issues that affect disclosure activities for the Daiwa Securities Group as a whole.

Flowchart of the Daiwa Securities Group's Disclosure Activities



Daiwa Securities Group Disclosure Policy

- » The Daiwa Securities Group will disclose important financial, social and environmental information about the Group ("Management-related Information") in a prompt, fair and appropriate manner, so that our stakeholders, (including shareholders, investors and the communities we operate in) may understand and maintain realistic expectations of the Daiwa Securities Group.
- » The Group will comply with the Financial Instruments and Exchange Act and other laws and ordinances related to securities transactions and the various rules of the financial instruments exchanges on which our stock is listed.
- » The Group will strive to disclose information fairly, in terms of both content and timing.
- » The Group will utilize various communication channels including presentations, telephone conferences, the Internet and printed materials to disclose information in a manner that is easy for investors to comprehend.
- » The Group will keep in mind its responsibility to set an example for other listed corporations, in terms of disclosure, and will strive to promote healthy markets.
- » To ensure that these policies are implemented properly, the Group has established "Disclosure Regulations" which include guidelines for disclosing management-related information and standards for establishing a "Disclosure Committee."

Compliance

The Daiwa Securities Group's corporate principles identify "building trust" and "contributing to society" as among the most important goals of our business operations. We believe that compliance is necessary to "build trust." The goal of the Group's compliance activities is not merely to "comply with laws and regulations," but to earn the trust of customers, the market, and society.

The Daiwa Securities Group's Approach to Compliance

The Daiwa Securities Group is constantly taking steps to educate and train executives and employees to uphold external regulations, exercise self-discipline and appropriate conduct, and thereby maintain high ethical standards to fulfill its role in society. We aggressively conduct compliance training programs for our employees. These programs commence as soon as employees join the Group and continue through regularly scheduled training sessions throughout their career, thus ensuring that every employee is aware of, and thoroughly understands, compliance issues. As the Group pursues new business ventures in areas where the regulatory structure is still incomplete, employees are trained to approach all matters with strong self-discipline and legal awareness, refer to existing legal precedents whenever possible, and always adhere to accepted social norms of proper behavior.

In FY2011, Group companies continued to hold training related to insider trading regulations from FY2010. Furthermore, the Group promoted the integration of head office functions in pursuit of efficiency by consolidating the overlapping functions within Daiwa Securities Co. Ltd., Daiwa Securities Capital Markets Co. Ltd., and Daiwa Securities Group Inc. The consequent unification of management structures of the companies enabled the Group to strengthen its compliance systems further.

Initiatives the Group took to eliminate any and all relations with corporate racketeers and other antisocial groups involved collecting information on their increasingly sophisticated methods by working in close contact with mainly police organizations and legal experts, and enhancing the Group's various outward procedures for scrupulously severing contact with such undesirable groups. As a result, a system of cooperation among Group companies to perform checks preventing the outflow of funds to antisocial forces is now in place.

Compliance Initiatives at Daiwa Securities Co. Ltd.

Daiwa Securities Co. Ltd. is taking measures, under the compliance program, to ensure the effective operation of its internal control system in order to ensure strict compliance with laws and regulations.

Measures taken in FY2011 included strengthening the self-correcting mechanism of sales branches, an internal control system for head office departments as a whole, a structure to prevent unjust trade practices, and a compliance system that is being used on a global basis.

In FY2012, the Company will formulate the following three compliance programs aimed at bolstering internal control systems further, in moving us towards meeting our management targets.

1. Program for building effective and efficient internal control systems
2. Program for further improving customer sales and marketing manners
3. Program for raising the quality of internal control systems through thorough inspection

Risk Management

While the Daiwa Securities Group pursues profitability and growth, it also recognizes the importance of accurately identifying, evaluating, and effectively controlling the various risks associated with its business operations. Our objective is to steadily improve corporate value by maintaining a sound financial base and profit structure by properly balancing risks and returns and by implementing effective risk control and management.

Basic Risk Management Policy

The Daiwa Securities Group Inc. has established “basic risk management regulations” governing all activities by the Group companies to manage risk in order to ensure that they conform to the following basic policies:

1. Management shall demonstrate an active concern for risk management.
2. A risk management system shall be established to address the specific characteristics of risk faced by the Group.
3. Management shall, through the aforementioned comprehensive risk management structure, ascertain the aggregate risk faced by the Group and enhance capital adequacy accordingly.
4. All risk management processes shall be clearly identified.

Limits are set for each type of risk so as to control risk within an amount suitable for the management strength of the Group.

Types of Risks

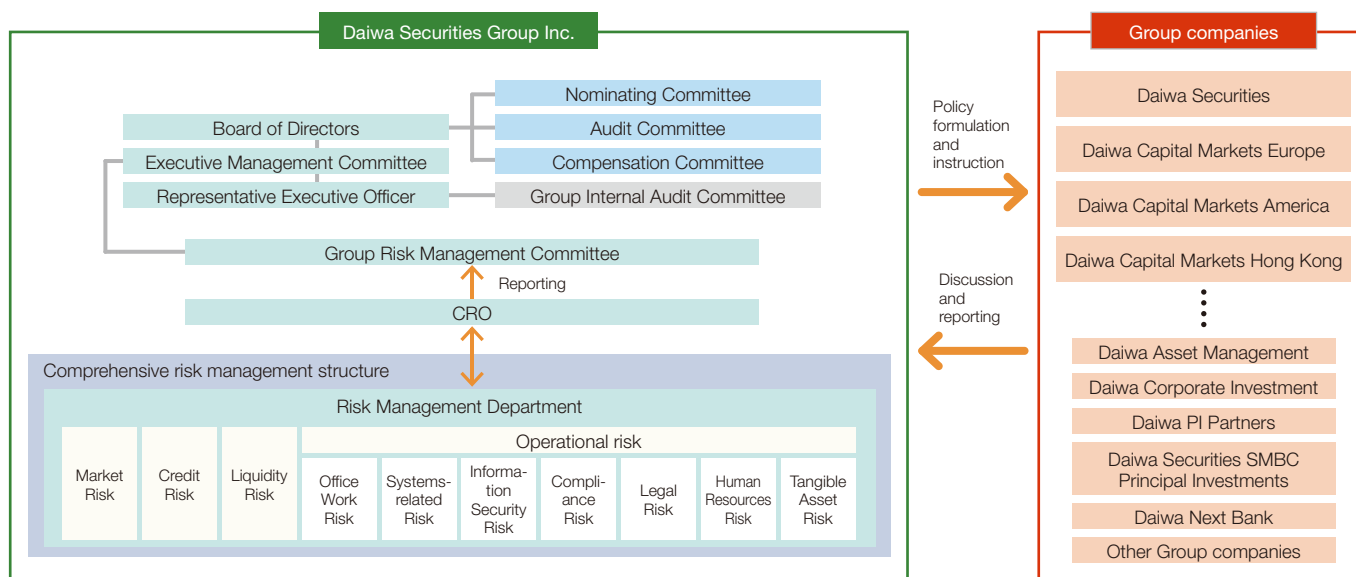
The Daiwa Securities Group faces various risks in the course of its business activities. The Group therefore believes that it is important to properly identify, evaluate, and manage these risks in order to maintain healthy financial and earnings structures. Daiwa Securities Group Inc. engages in risk management to clearly identify risks

based on the respective Group company's business characteristics and risk profile. The types of risks that have been deemed important to manage include market risk, credit risk, liquidity risk, operational risk, and reputation risk.

Risk Management System

The Board of Directors of Daiwa Securities Group Inc. has approved “basic risk management regulations.” These regulations define basic policies related to risk management, the types of risk that are necessary to be managed, and the executive and department for each major risk. Each subsidiary conducts risk management suitable for the risk profile and size of each business in accordance with these basic policies related to risk management. Daiwa Securities Group Inc. monitors the system and situation of its subsidiaries' risk management. Also, the Group Risk Management Committee, as a sub-committee of the Executive Management Committee of Daiwa Securities Group Inc., receives reports about risk exposures obtained via the aforementioned monitoring of subsidiaries and themes concerning their risk management system and discusses and resolves those issues. In addition, major Group companies regularly hold risk management committees in order to strengthen their risk management.

Risk Management System



Major Risks and Methods of Management

<Market Risk Management>

Market risk refers to the risk of incurring losses due to market fluctuations, which affect the value of stock prices, interest rates, foreign exchange rates, and commodity prices.

In terms of the Group's trading positions, the Group sets limits on Value at Risk (VaR), which indicates maximum potential loss at a specific confidence level, position, and sensibility, with consideration given to the financial status of the Group and the business plans and budgets of the departments exposed to trading positions. The Risk Management Department monitors market risk for the Group as a whole and reports daily on the status of market risk to management. In addition, considering the case of severe market fluctuation and potential VaR, which do not appear under the calculation based on statistical hypotheses drawn from set time periods of empirical data, the Group carries out stress tests using scenarios based on actual empirical market data, as well as hypothetical stress event scenarios.

<Credit Risk Management>

Credit risk refers to the risk of any losses caused when a client to which the Group extended credit suffers a deterioration in financial conditions, a valuation loss on assets (including off-balance-sheet assets), or for some other reason is unable to repay its debt.

Before the Group can take on a transaction involving credit risk in its trading position, the Group assigns a line of credit to the counterparty mainly based on its credit rating. Subsequently, the Group carefully monitors estimations of the notional value of the relevant principal and adherence to the amount of credit used.

In particular, in businesses such as the wholesale business, where the exposure to credit risk is comparatively high, the Group determines the credit standing of each counterparty by conducting quantitative and qualitative evaluations based on a credit evaluation model. The Group then assigns a line of credit to each counterparty, taking into account various transaction conditions such as the credit period and availability and appropriateness of collateral. In addition, the Group measures credit-VaR and also periodically monitors the effects of large exposure to a single counterparty.

<Management of Market Risk and Credit Risk Unrelated to Trading Positions>

The Group also owns private equity and other investments related to principal investment businesses and venture capital, and loans and marketable securities related to the banking business, as well as investment securities unrelated to its trading positions that are held for a long-term perspective for the purpose of maintaining business relationships. Although such assets are also exposed to market and credit risks, the risk management of such assets is conducted in accordance with the risk characteristics unique to each line of business.

<Liquidity Risk Management>

Liquidity risk refers to the risk of suffering losses due to cash management difficulties or becoming subject to financing at markedly higher costs than usual as a result of an abrupt change in market conditions or a worsening of the Group's finances. The Group, while employing a variety of financial assets and liabilities, conducts its business with a focus on securities-related operations as its core business. Accordingly, it procures funds based on the policy of efficiently and periodically ensuring ample liquidity necessary for the continuation of its business.

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

Value at Risk

Range and Assumption of VaR • Confidence level: 99% Holding period: 1 day • Adjusted for price correlation between products

Daiwa Securities Group (Consolidated)

(Billions of yen)

	6/10	9/10	12/10	3/11	6/11	9/11	12/11	3/12
VaR (Month-end)	6.47	5.63	6.01	5.13	3.81	3.39	1.94	1.49
Quarterly	High	12.00	8.48	6.91	6.86	4.59	4.21	2.54
	Low	4.38	4.39	5.44	4.62	2.74	3.04	1.39
	Average	7.31	6.27	6.08	5.90	3.61	3.62	1.94

By Risk Factor (Month-end)

Equity	0.77	1.39	1.34	2.08	1.70	0.77	0.82	0.42
Interest	4.48	4.84	5.26	4.82	4.00	3.39	1.35	1.62
Currency	4.04	2.03	1.42	0.68	0.63	0.70	0.68	0.59
Commodities	—	—	—	—	0.02	0.08	0.23	0.02

The Group is establishing a liquidity management system based on the Liquidity Coverage Ratio as defined by the Basel Committee on Banking Supervision. Under this system, daily checks are performed to ascertain that liquidity portfolios are sufficient to cover both unsecured short-term funds procured falling due within a fixed time period and the estimated outflow of funds in the event of a number of envisioned stress scenarios in that same period. This system makes it possible for the Group to continue operations even in the event that procuring funds without collateral for one whole year became an impossibility.

<Operational Risk Management>

Operational risk is the risk of incurring losses due to inappropriate or malfunctioning internal processes, personnel, or computer systems, or due to adverse external events.

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.

Major Group companies conduct risk control self-assessments (RCSA) and control their operational risks properly in other ways in accordance with a set of rules Daiwa Securities Group Inc. has set forth on operational risk management. In addition, the Group has taken other necessary measures such as the institution of rigid rules concerning authority and the preparation of procedural manuals for automating office operations and reducing human error. Each Group company strives to reduce operational risk according to the nature of its own business.

<Reputation Risk Management>

Reputation risk refers to the possibility of the Group sustaining unforeseen losses due to a deterioration of its reputation, caused by the spread of rumors or erroneous economic information. There are no uniform procedures for managing reputation risk because it can emanate from a variety of sources.

The Group has established various regulations under its Disclosure Policy, with particular emphasis on the management and provision of information. It has also set up the Disclosure Committee within Daiwa Securities Group Inc.

Each Group company is charged with the task of reporting information on reputation risk to the Disclosure Committee. Information is obtained and centrally managed at Daiwa Securities Group Inc., which disseminates it in a prompt and accurate manner according to the decisions of the Disclosure Committee.

The Group works hard to keep abreast of problems and occurrences that may affect its reputation so that if and when such problems occur, their impact on the Group can be minimized. It also acts to ensure that erroneous and inaccurate information is properly corrected, and responds appropriately to libel and other issues. The Group has public relations and investor relations systems in place to prevent and minimize risks regarding its reputation.

IT Strategy and Information Security

The Daiwa Securities Group aims to provide customers with high value-added products and services quickly, precisely, and reasonably priced. To this end, it uses IT strategically. As an active participant in the financial and capital markets, the Group possesses information resources, including personal information. In order to protect these information resources from outside threats, the Group is working to maintain and improve the level of its information security.

IT Strategy

<IT Governance System>

The Group has established the Group IT Strategy Committee as a subcommittee of the Executive Management Committee. This committee deliberates and makes decisions on such issues as budgets for IT investment and the allocation of IT functions. In regard to IT investment planning, the Group IT Strategy Committee rigorously selects the IT investments necessary for the Group and allocates budgets based on the strategic importance of each investment.

Additionally, the Group IT Strategy Committee is strengthening Group IT governance by primarily bolstering the management and control function in connection with managing systems construction projects within the Group.

<IT Strategy>

The Group strategically uses IT to achieve its main goal of improving its competitive edge while maintaining the effectiveness of control over the quality and costs of system services. In FY2011, management and control over IT-related budget execution was strengthened, along with the construction of a new infrastructure system for online trading and systems that were adapted for the consolidation of securities subsidiaries (the merger of Daiwa Securities Co. Ltd. and Daiwa Securities Capital Markets Co. Ltd.).

Starting FY2012, the Group, aiming for sustainable growth, will begin promoting the two IT strategies (basic IT policies) of “raising the cost competitiveness of business infrastructures through reconstruction,” and “strengthening IT governance” under its “new” Medium-Term Management Plan “Passion for the Best” 2014. In accordance with the plan, the Group will re-examine both the functions and scale of existing business infrastructures and reconfigure them so as to enable the “new” Daiwa Securities to provide services more efficiently in both the retail business and wholesale business.

Information Security

<Measures for Maintaining Information Security>

In order to fulfill its social responsibility as an active participant in the financial and capital markets, as well as gain the trust of customers, the Group has adopted a full spectrum of information security policies at companies throughout the Group to ensure that important personal information received from customers and all other information resources are managed in a secure and appropriate manner.

Among the organizational measures that we have adopted is the Information Security Group Minimum Standard, which dictates the basic rules that all companies in the Group must adopt for handling information. In addition to introducing these information security rules at each company, we have appointed a “Chief Information Security Officer” at each Group company to oversee information management activities.

A variety of technical and structural measures have also been introduced to enhance security and ensure that Group information resources are managed appropriately, such as office automation through the use of thin clients and high-security access controls at the data center. The online trading systems of Daiwa Securities Co. Ltd. employ highly advanced encryption technology for data transmission and for user ID verification, thereby ensuring that clients are able to use the system safely and securely.

<Efforts to Enhance the Level of Information Security>

The Group has put in place a self-assessment scheme for employees in order to maintain and build upon the current level of information security across the Group as a whole. Each Group company has formulated further initiatives tailored to meet the information security needs of the products and services they offer.

Additionally, in recognition of the importance of human factors in effective information security systems, the Group has introduced training programs to educate all executives and employees in the basics of information security. The programs are offered periodically as group training sessions, as well as through e-learning.

CSR Initiatives

The Daiwa Securities Group's mission is to contribute to the development of society and the economy through daily operations, including wealth management for investors and support for the financial strategies and other aspects of corporations and public institutions. Deepening the bond of trust we share with our stakeholders, including customers, shareholders, employees and society, is essential to the accomplishment of our mission and sustainable growth together with society.

Corporate Principles of the Daiwa Securities Group

Building trust	The trust and approval of customers forms the very foundation of the Daiwa Securities Group. The Group will always place the needs of customers first, and strive to develop the advanced, specialized skills to offer them the most attractive products and services of any securities group.
Placing importance on personnel	The source of the Group's competitiveness lies in the capabilities of its employees. The Group will promote the creativity of employees by offering them a challenging and self-directed working environment that encourages their abilities and appropriately rewards their contributions.
Contributing to society	The Daiwa Securities Group will seek to benefit the economy and society through the development of healthy financial markets. In addition to scrupulously observing both regulations and internal policies, the Group will strive to maintain a high sense of morality and duty, endeavoring to continue contributing to the sustainable growth of the societies in which we operate.
Maintaining healthy earnings results	The Group will always seek to develop healthy business operations and to increase corporate value for the benefit of shareholders. By providing customers with attractive products and services, the Daiwa Securities Group will seek to generate strong profits and healthy returns for shareholders.

Key Issues for Daiwa Securities Group

To achieve its corporate principles and realize a sustainable society, the Group seeks to initiate even more effective CSR activities. Based on the requests and opinions we have received from our stakeholders thus far, we have addressed the following key issues:

1. Leveraging financial capabilities to contribute to a sustainable society
2. Developing sound financial and capital markets for the next generation

Human resources are the key to addressing these issues. We believe keeping each and every one of our executives and employees motivated and proud of their work is essential for tackling these key issues.

In addition to these two CSR issues, the Group strives to create a rewarding workplace in which our executives and employees can take pride.

To achieve its corporate principles, the Daiwa Securities Group anchors its CSR activities in these goals.

Daiwa Securities Group Stakeholders

Investors

We are committed to improving customer satisfaction by offering products and services that meet the needs of individual investors, institutional investors, and potential investors who are considering investing in the future.

Shareholders

To earn the confidence of our shareholders, we aim to provide fully transparent information disclosure, and meet their expectations by continually creating value.

Employees

We are endeavoring to create a workplace where our employees, who create added value for all other stakeholders, are fully motivated and can find satisfaction in their work and lives. Our employees' families are also important stakeholders.

Customers

Investors

Issuers

Issuers

For private corporations, public institutions and other entities seeking to raise funds through equity, debt, or other sources, we propose optimal solutions from a wide range of financing options and provide full-scale support, from planning to execution.

Business Partners

We maintain fair relationships with all our business partners and work together to create a sustainable society.

Government

We fulfill our tax obligations and offer policy suggestions to create a better society.

Society

NPOs/NGOs

We collaborate with NPOs and NGOs in such fields as financial and economic education and disaster relief. We reflect social values in our management through active dialogue.

Local Communities

As members of their local communities, our branches and overseas offices promote community-based efforts.

Daiwa Securities Group

Relationship With Customers

The success of the Daiwa Securities Group is founded upon the relationship of trust we have forged with customers. We strive to maintain levels of customer satisfaction that surpass that of any industry rival.

<Strengthening Bonds of Trust>

The Group places great importance on its responsibility to provide clients with clear information and explanations of all the financial products we handle, surpassing the requirements of the Financial Instruments and Exchange Act enforced in September 2007. This is just one of the ways that we promote a strong relationship of trust with our clients.

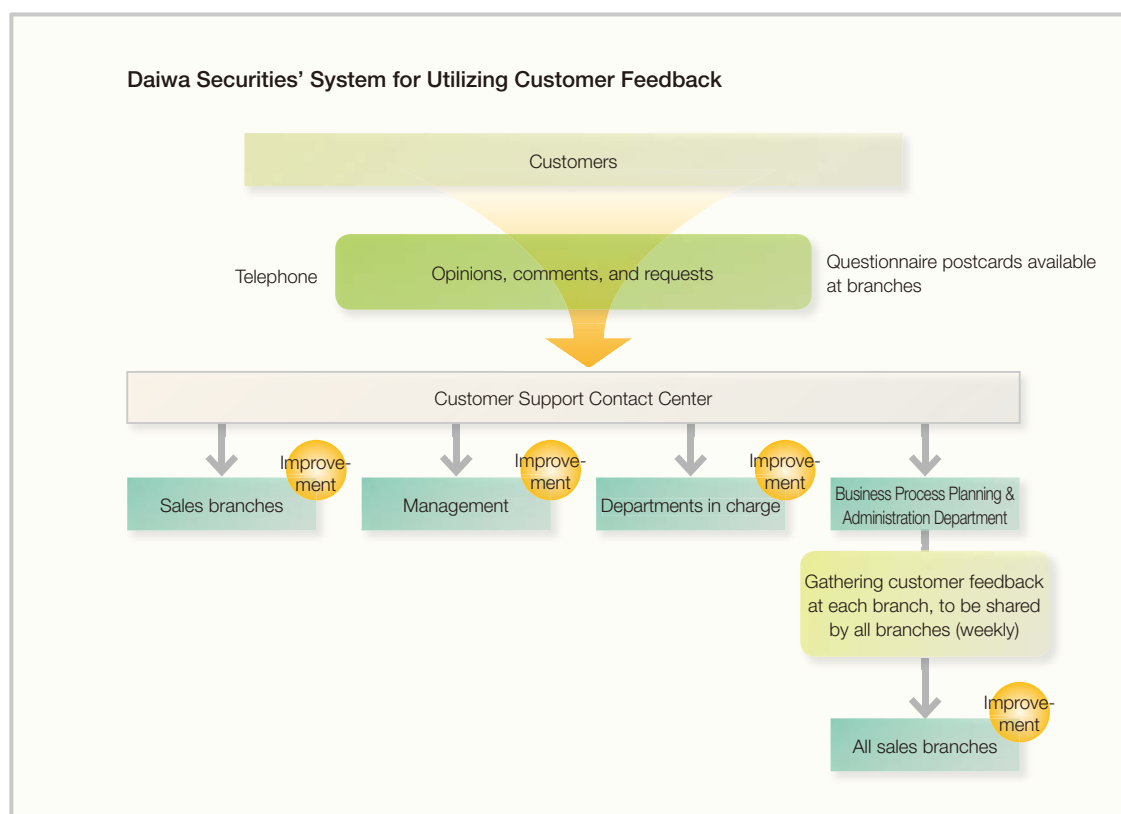
To further enhance trust, we always go the extra mile in providing post-sales service to our customers. To truly earn the customer's loyalty, a financial institution must provide them with full explanations and address any uncertainty or dissatisfaction they might have, if and when the price of products they have purchased declines. In addition, Daiwa Securities provides investment seminars on the fifth of every month to inform customers about financial issues and keep them up to date on market conditions both in Japan and overseas. The 480 customer-support personnel at our call center respond to questions or concerns that clients might

have. The call center also analyzes data on each inquiry or comment and provides feedback to the related operational divisions, in an effort to promote even higher levels of customer satisfaction.

<Services Accessible to Handicapped Customers and the Socially Minded>

As Daiwa Securities renovates its sales offices nationwide and opens new branches, it places great importance on accessibility and convenience, particularly for the handicapped. For example, the number of steps or other obstacles on the floor is reduced or access ramps are provided, and service counters are widened. The company uses written communication to explain services to hearing-impaired customers, or assists them in conducting their transactions via the Internet.

The Daiwa Point Program allows customers to accumulate bonus points for each transaction they conduct. These points can be exchanged for products or used to make donations to nonprofit organizations. On March 18, 2011, Daiwa Securities introduced a program that allows customers to convert their bonus points into monetary contributions to the relief effort for victims of the East Japan Earthquake. The full sum of these cash contributions is directed to activities that benefit victims of the quake and tsunami, via the nonprofit organization Japan Platform.



Relationship With Employees and Executives

The Daiwa Securities Group believes that maximizing each employee's motivation increases customer satisfaction and, as a result, will enhance shareholder value. The Group has introduced a range of measures to ensure that employees and executives feel satisfied with their job, and also, along with their families and all others concerned, can feel proud to be a member of the Group.

<Employee Training and Evaluation>

With the aim of creating a professional cadre and in turn becoming Japan's most impressive securities firm, the Group provides employees with the basic skills necessary to do their jobs effectively and conducts a variety of training programs that promote employee excellence. The training programs include those related to the Group's principles and CSR policies.

For example, the Group is working on improving the communication skills of employees to further our globalization efforts and support the Group's strategic emphasis on business in Asia.

Furthermore, the Group places core qualifications for financial service business on its financial planners and analysts. It is the goal of Daiwa Securities to have every employee obtain either certification and to lead the industry in terms of the total number of employees with Certified Financial Planner (CFP) certification.

<Employee Evaluation System>

A fair, transparent and agreeable system of employee evaluation is a key factor in ensuring that employees remain highly motivated. The Group employs a multifaceted evaluation system for all management-level personnel that involves evaluations by direct subordinates and from relevant departments. The Group strives to ensure that its evaluation structure is not influenced by factors like seniority, so that employees of all age levels and career ranks will strive equally to earn promotions and expanded responsibilities.

<Promoting a "Work-life Balance">

In order to attract top-quality personnel and motivate them to high levels of achievement, the Group has adopted numerous policies aimed at promoting a healthy balance between work and personal life. These efforts to promote a "work-life balance" aim to create a favorable working environment for all employees, regardless of gender. The Group has not only adopted flexible policies to accommodate various work patterns; it also promotes effective time management, encourages employees to use all of their allocated days for annual leave, and welcomes office visits by family members. In addition, the "Daiwa WLB Station" section of the Group's internal website has received a substantial increase in traffic since it was updated in February 2012.

<Encouraging Women to Succeed>

The Group has experienced a dramatic increase in the number of women who have applied for career-track and regional career-track positions, hoping to promote their career ambitions. Over the past three years—from fiscal 2009 through 2011—more than 659 women have transferred to such positions. The Group would also like to expand the number of women in management positions. To this end, internal publications have featured numerous articles on individuals who can be positive role models for female employees. These and other measures help to motivate women employees and communicate an inspirational message throughout the Group. By continuing to expand the ranks of women in top management positions, we hope to cultivate future female leaders for the Japanese financial industry.

Female Employees and Managers at the Daiwa Securities Group

	(%)			
	March 31, 2009	March 31, 2010	March 31, 2011	March 31, 2012
Percentage of female employees	36.8	37.1	36.1	36.2
Percentage of female managers	3.4	3.9	4.1	4.3

Note: Ratios are on the basis of the consolidated Group.

Relationship With Society

The Daiwa Securities Group actively seeks ways to make a positive contribution to society. These corporate citizenship efforts include support for economic and financial education or research, cultural and artistic activities, as well as support for foundations and non-profit organizations (NPOs) that benefit local, regional and global society. This includes vigorous support for the recovery efforts in northeastern Japan following the East Japan Earthquake on March 11, 2011.

<Benefitting Regional and Global Society Through NPOs and Foundations>

The Daiwa Securities Foundation supports volunteer efforts in the fields of social welfare and medicine, and strives to promote the spirit of volunteerism. As of fiscal 2011, the foundation had issued a cumulative total of ¥572 million in grants for the volunteer activities of 2,474 organizations. The Daiwa Securities Health Foundation was set up to support medical research projects, focusing in particular on outstanding research that can improve the health, medical care and welfare of older citizens. As of fiscal 2011, the foundation had issued a cumulative total of ¥1,027 million in grants to 1,042 separate researchers.

These two foundations served as the focal point for the Group's efforts to aid the victims of the East Japan Earthquake. Daiwa Securities Foundation gave ¥30 million in grants in fiscal 2011 to 64 organizations, particularly those organizations and groups that conducted volunteer efforts to benefit the victims of the earthquake and tsunami. In addition, Daiwa Securities Health Foundation issued ¥10 million in research grants to ten recipients pursuing studies of disaster relief medicine and medical activities in the area affected by the East Japan Earthquake.

The Group established the "Daiwa Securities Group Tsunami Reconstruction Fund" to support recovery efforts in the region affected by the Sumatra Earthquake and Tsunami in 2004. A portion of the trust fees from this and other SRI*-related investment funds contributed to various support programs that address social issues.

*Socially Responsible Investment

<The East Japan Earthquake Small and Medium Enterprises Revival Support Investment Limited Partnership>

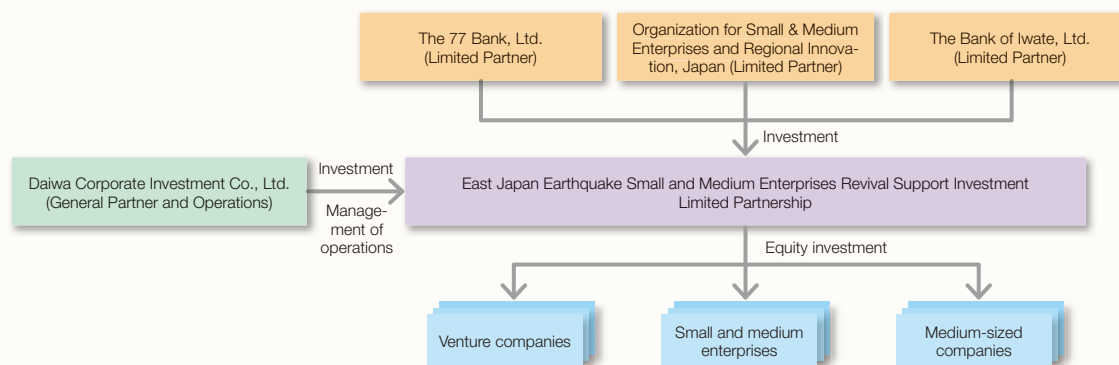
In January 2012, Daiwa Corporate Investment Co., Ltd. launched a new limited partnership for investment, named the "East Japan Earthquake Small and Medium Enterprises Revival Support Investment Limited Partnership." This partnership makes equity investments in unlisted companies located in the region affected by the earthquake, providing the companies with the capital they need to rebuild and recover from the disaster, to launch new business ventures, and to refocus, restructure or reorganize operations. By providing timely support to companies that are trying to recover, launch new operations, expand, and develop, this partnership will help contribute to a faster economic recovery in the area affected by the quake and tsunami. Principal investors in this partnership include the Organization for Small & Medium Enterprises and Regional Innovation, Japan, The 77 Bank, Ltd. and The Bank of Iwate, Ltd. The first equity investments were made in March 2012.

<Efforts to Promote Economic/Financial Education>

The Group draws upon the experience, economic and financial know-how, and expertise it has acquired over decades of business operations to support a variety of educational programs that teach young people about economic and financial issues. In partnership with economics- and business-related learning institutions, we support educational programs at junior and senior high schools that give the younger generation the knowledge they will need to build a prosperous future.

Junior Achievement Japan is one example of a program supported by the Group. Junior Achievement (JA) is a leading nonprofit organization providing hands-on curriculum content to young people. We work with JA to provide practical experience in financial matters to students and teachers. The Group also organizes a "social business college," which is a seminar open to the public. We invite social entrepreneurs as speakers to learn various aspects of social business, from financing to developing a sustainable business model together. The Group also provides a variety of seminars and university lectures that offer guidance on how financial issues are involved in each individual's daily life, and promote understanding of socially responsible investment.

Outline of the "East Japan Earthquake Small and Medium Enterprises Revival Support Investment Limited Partnership"



Environmental Initiatives

Protecting the planet Earth is an essential responsibility for any company that seeks a sustainable future. The Daiwa Securities Group does its best to address environmental issues through its core business activities, by helping to provide funds to companies developing products that reduce society's impact on the environment, or which produce and popularize environmental infrastructure products. But this is just the first step in our environmental effort. The Group also collects data on the environmental impact of our own business activities, and then uses it to reduce the overall environmental impact of our operations and to raise the environmental awareness of every employee. In an effort to further stimulate in-house environmental efforts, in May 2012 the Group upgraded its basic policies on the issue, renaming the former "Stance and basic policy on the environment" to "Environmental vision, principles and basic policies" (see chart below).

<Environmental Management>

Each company in the Group adopts and implements an environmental management policy. For example, Daiwa Institute of Research Business Innovation Ltd.'s EMS complies with ISO 14001. Every other month, a representative from each Group company attends meetings of the Environmental Management Council to share data, ideas and views on environmental issues. This Council, and the Group as a whole, is constantly seeking ways to improve and implement environmental management systems.

The Group compiles and reports quantitative data on its environmental impact each year, including details such as energy and water consumption, CO₂ emissions, paper usage, waste disposal and recycling volume. Beginning in March 2012, a system was

introduced in which paper documents used by Group companies are recycled into toilet paper used at Group office facilities.

<Measures to Reduce Environmental Burden>

Whenever new equipment, such as air conditioners, power supply units, power conversion equipment, and water supply and sewerage units, is introduced in Daiwa Securities branch offices, policy dictates that the company use products that meet the highest ("top runner") standards for environmental impact. The "top runner" standard is based on Japan's "Act on the Rational Use of Energy," which requires that manufacturers clear certain benchmarks for energy conservation in the new products they develop and produce.

In 2008, Daiwa Securities Business Center Co. Ltd. established an "Eco Promotion Committee" to promote environmental initiatives. The company sets targets for the use of electricity and paper, among other items, to raise awareness among employees and motivate them to suggest other environmental measures. For example, data on paper usage, electric power consumption, hours of power use, etc., is collected and calculated on a monthly, quarterly, semiannual and annual basis, and then published on the company website to inform employees of their progress in meeting targets.

In fiscal 2011, Daiwa Securities Business Center achieved a 6.3% reduction in paper use over the previous fiscal year. Paper use has been cut by a cumulative 34.5% since the program started. During fiscal 2011 the entire Daiwa Securities Group redoubled its efforts to conserve electric power. Lighting in offices was lowered, signs and displays such as the stock price "big board" were turned off, and office equipment at companies throughout the Group was set to power-conserve mode.

Environmental Vision

The Group is dedicated to protecting the precious global environment and preserving it for future generations by leveraging financial capabilities.

Environmental Principles

The Group recognizes the importance of environmental principles such as the effort to combat global warming, recycling and reuse of raw materials, and preserving biodiversity, in order to create a sustainable society for the 21st century. The Group pledges to contribute to solving environmental issues through its business as a financial service company and to constantly seek new ways to reduce its environmental impact as a responsible corporate citizen.

Basic Environmental Policies

1. Make positive environmental contributions through our core business activities

We shall seek to develop and provide financial products and services that promote a low-carbon, recycling-oriented and symbiotic society.

2. Implement an environmental management system

We shall implement an environmental management system and constantly seek new ways to improve environmental activities. In addition, we shall support environmental education and publicity efforts, while promoting environmental protection efforts by employees.

Daiwa Securities Group Inc.
President and CEO Takashi Hibino
(May 22, 2012)

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

Breakdown by Product and Business Sector

Daiwa Securities Group Inc. and Consolidated Subsidiaries

Millions of yen

	FY2007	FY2008	FY2009	FY2010	FY2011
Breakdown of Commission Income by Business					
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

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

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.

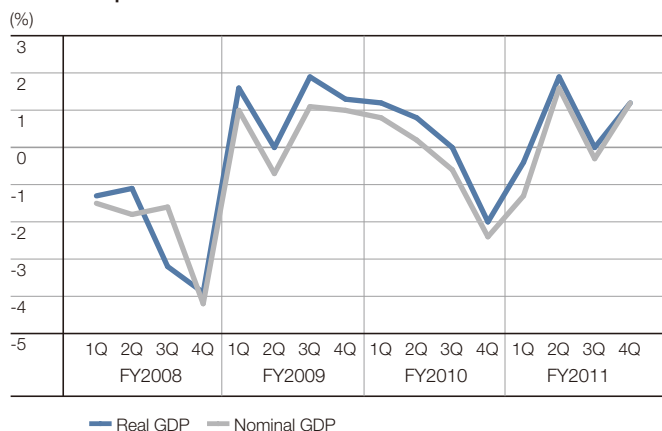
During the first half of 2011, countries on the periphery of the eurozone slid into a debt crisis and one by one, were forced to seek help from the EU. In May, the EU and the International Monetary Fund (IMF) stepped in to lend financial support to Portugal, and in June a meeting of European heads of 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

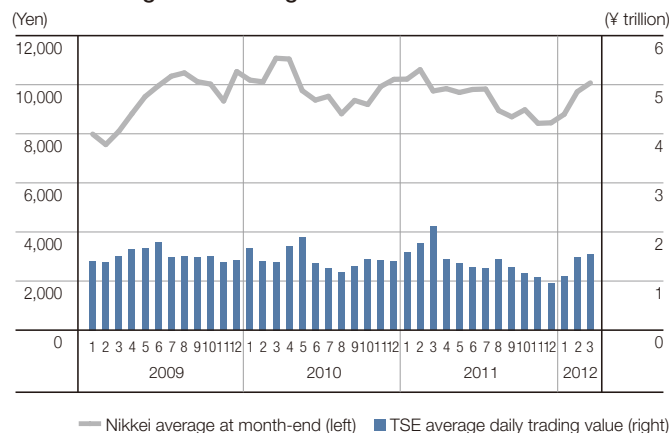
GDP in Japan



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 black-outs. 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.

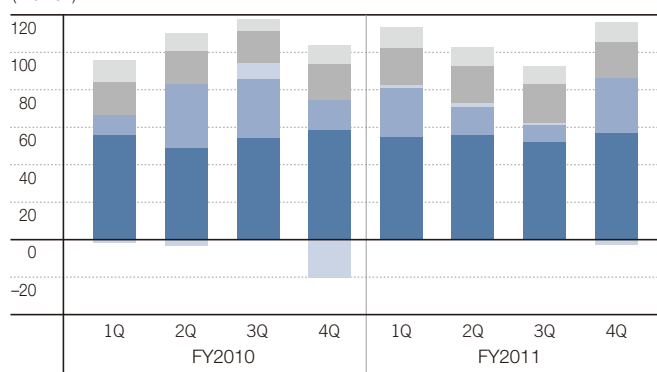
Furthermore, since there were relatively few major stock underwriting contracts during the period, underwriting commissions fell 25.8% year on year, to ¥19.5 billion. On the other hand distribution commissions to support sales of the Retail Division’s investment trusts soared by 55.6%, to ¥49.1 billion.

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)



- Commissions
- Trading gains/losses
- Gains/losses on private equity and other investments
- Interest and dividend income
- Service fees and other revenues

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.

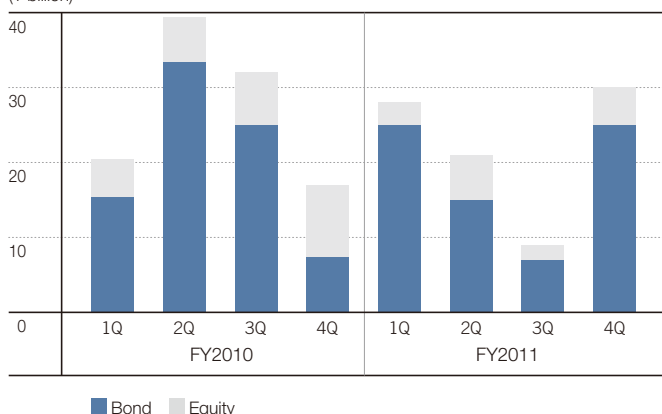
**Revenues (Trading Gain/Loss) From Equity and Bond Divisions
(Net Gain (Loss) on Trading + Net Financial Income, on a
Managerial Accounting Basis)**

	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)**

(¥ billion)



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.

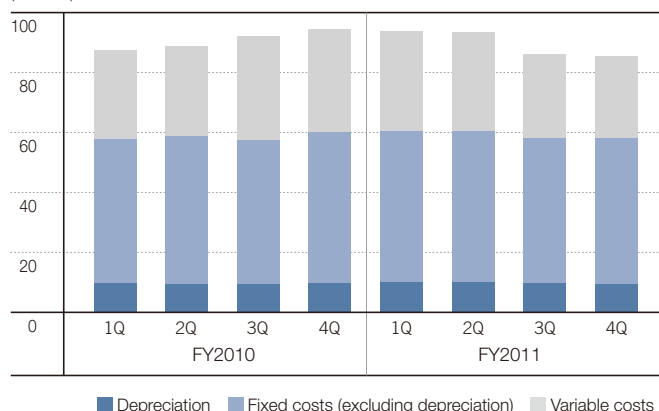
The Group posted ¥39.7 billion in extraordinary gains including gain on negative goodwill from the consolidation of Daiwa Office Investment Corporation, as a consolidated subsidiary. Business restructuring costs, impaired asset write-offs and losses on the disposal of fixed assets generated a total extraordinary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

(¥ billion)



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

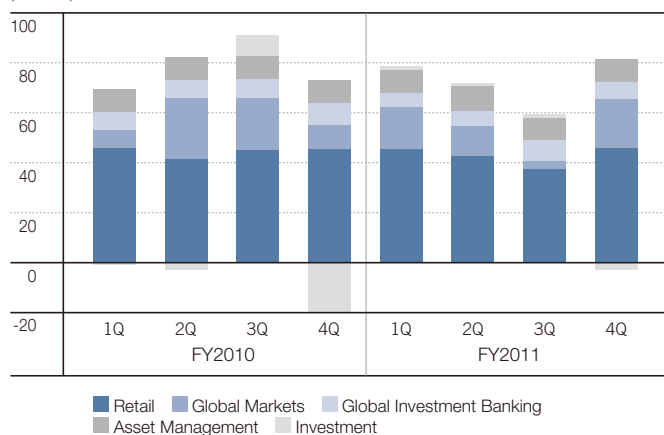
Millions of yen

	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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
ASSETS			
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.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
LIABILITIES AND NET ASSETS			
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		Thousands of U.S. dollars (Note 1)
	2012	2011	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.

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.

(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.

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 counter-measures, 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.

Thousands of U.S. dollars			
2012			
	Amounts on consolidated balance sheets	Fair value	Difference
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:

	Cost	Fair value	Millions of yen 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
	Cost	Fair value	Millions of yen 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
	Cost	Fair value	Thousands of U.S. dollars 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:

	Contract amount	Fair value	Millions of yen Unrealized gains (losses)
March 31, 2012:			
Stock index future	¥1,669	¥(88)	¥(88)
	Contract amount	Fair value	Millions of yen Unrealized gains (losses)
March 31, 2011:			
Stock index future	¥—	¥—	¥—
	Contract amount	Fair value	Thousands of U.S. dollars 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

Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount	Fair value	Millions of yen
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	Millions of yen	
			Contract amount	Fair value
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	Thousands of U.S. dollars	
			Contract amount	Fair value
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		Thousands of U.S. dollars
	2012	2011	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		Thousands of U.S. dollars
	2012	2011	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		Thousands of U.S. dollars
	2012	2011	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		Thousands of U.S. dollars
	2012	2011	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		Exercise period
		(Yen/share)	(U.S. dollars/share)	
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 2012	Thousands of U.S. dollars 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
	2012	2011	2012
Net operating revenues			
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:

		Description of transactions		Account balances
				Millions of yen
Name of related company	Paid-in Capital 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	Collateralized short-term financing agreements (assets)	115,859
		Interest income	Receivables—Other	1
		Interest and dividend income	Accrued and other liabilities—Other	2
		Interest expense		
		Millions of yen		
		2011		
		Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements (assets)	¥173,692
		Interest and dividend income	Receivables—Other	1
			Accrued and other liabilities—Other	1
		Interest expense		
		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	Collateralized short-term financing agreements (assets)	1,412,915
		Interest income	Receivables—Other	12
		Interest and dividend income	Accrued and other liabilities—Other	24
		Interest expense		

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.

	Condition	Location	Millions of yen Impairment loss	Thousands of U.S. dollars 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 breakdown 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.

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 shareholders 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

(Fiscal year ended March 31, 2011)

Daiwa recognized impairment loss for the following asset groups.

Idle assets	Condition	Location	Millions of yen
			Impairment loss
	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.

(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).



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 within 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 transac-

tions, 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.

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.

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 RCSEA (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

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 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	Loans	Repo	Derivatives	Securities	Others (Note 5)
						Past due exposures for three months or more
Japan	130,053	913	49,540	43,034	17,894	18,671
Overseas	66,094	1	61,576	1,578	33	2,905
Total (by area)	196,146	914	111,117	44,612	17,926	21,577
Sovereign	25,682	–	7,709	486	11,285	6,201
Financial institutions	118,563	–	72,183	39,928	417	6,035
Corporates	39,991	227	31,224	4,197	2,754	1,589
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
≤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		Others
		Application of external rating	
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 resecutitized 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		Capital deduction	
		Resecuritization		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		Capital requirements	
		Resecuritization		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

(Reference)

Holding Period: 1 business day

Confidence level: 99%

	(Unit: 100 Million Yen)			(Unit: 100 Million Yen)	
	VaR (From Jan. 2012 to Mar. 2012)	Stressed VaR (From Jan. 2012 to Mar. 2012)		VaR (From Apr. 2011 to Mar. 2012)	Stressed VaR (From Oct. 2011 to Mar. 2012)
Mar 31, 2012	35	60	Mar 31, 2012	14	22
Maximum	55	85	Maximum	37	39
Average	36	57	Average	16	25
Minimum	23	32	Minimum	9	18

Excess number of back-testing	0 time
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(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 given 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.

Other Information

P107 Daiwa Securities Group Inc. Corporate Data

Stock Information

P108 Organization and Officers

P112 Domestic Group Companies

P113 Overseas Group Companies

Daiwa Securities Group Inc. Corporate Data

Head Office

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-6751, Japan
Tel: (81) 3-5555-1111

Website

<http://www.daiwa-grp.jp/english/ir/>

Commencement of Operations

May 1, 1902

Date of Founding

December 27, 1943

Common Stock

Issued and Outstanding
1,749,378,772 shares
(as of March 31, 2012)

Number of Shareholders

132,312 (as of March 31, 2012)

Independent Public Accountant

KPMG AZSA LLC

Stock Exchange Listings

Tokyo, Osaka, Nagoya

Transfer Agent and Registrar

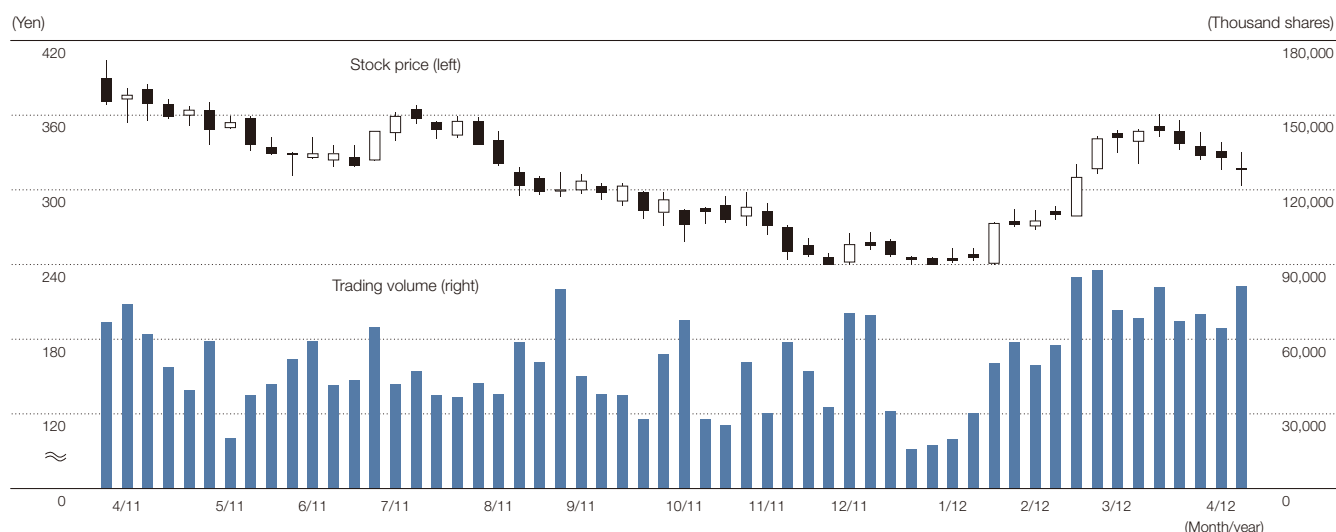
Sumitomo Mitsui Trust Bank, Limited
Stock Transfer Agency Department
1-4-1, Marunouchi, Chiyoda-ku,
Tokyo 100-8233, Japan

For further information, please contact: Daiwa Securities Group Inc. Investor Relations

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Email: ir-section@dsgj.daiwa.co.jp
URL: <http://www.daiwa-grp.jp/english/ir/>

Stock Information

1. Stock Price and Trading Volume on the Tokyo Stock Exchange (April 1, 2011–March 31, 2012)



2. Major Shareholders (As of March 31, 2012)

Name	Number of shares held (Thousands)	% of total outstanding shares
STATE STREET BANK AND TRUST COMPANY 505223	124,357	7.25%
Japan Trustee Services Bank, Ltd. (Trust Account)	65,527	3.82%
The Master Trust Bank of Japan, Ltd. (Trust Account)	59,548	3.47%
SSBT OD05 OMNIBUS ACCOUNT-TREATY CLIENTS	44,154	2.57%
STATE STREET BANK AND TRUST COMPANY	42,382	2.47%
Sumitomo Mitsui Banking Corporation	30,328	1.76%
STATE STREET BANK AND TRUST COMPANY	26,812	1.56%
STATE STREET BANK AND TRUST CLIENT OMNIBUS ACCOUNT OM02	25,457	1.48%
Japan Trustee Services Bank, Ltd. Sumitomo Trust Pension Account	24,888	1.45%
The Master Trust Bank of Japan, Ltd. (ESOP Trust Account 75404)	23,681	1.38%

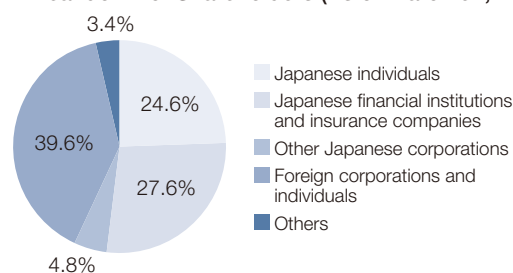
Notes: 1. Treasury stock of 35,770,328 shares is excluded for calculating the percentage of the above list of major shareholders.

2. The Company holds its own shares as treasury stock (35,770 thousand shares) as of March 31, 2012 and those shares are excluded from the above list of major shareholders.

3. Stock Price on the Tokyo Stock Exchange (April 1, 2011–March 31, 2012)

Open	High	Low	Close	Average daily trading volume
¥379	¥385	¥233	¥327	10,409 thousand shares

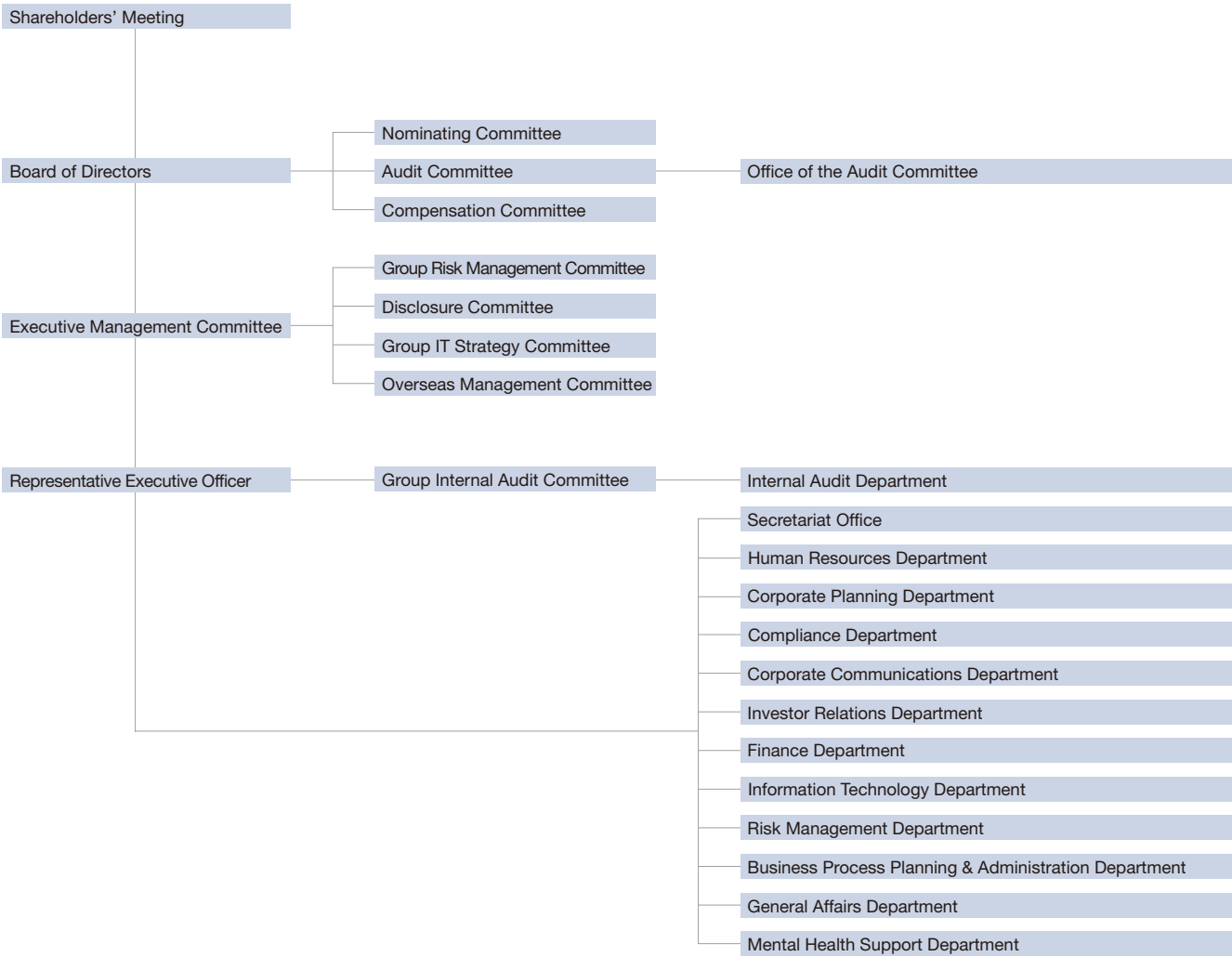
4. Breakdown of Shareholders (As of March 31, 2012)



Organization and Officers

Daiwa Securities Group Inc.

1) Organization (As of July 1, 2012)

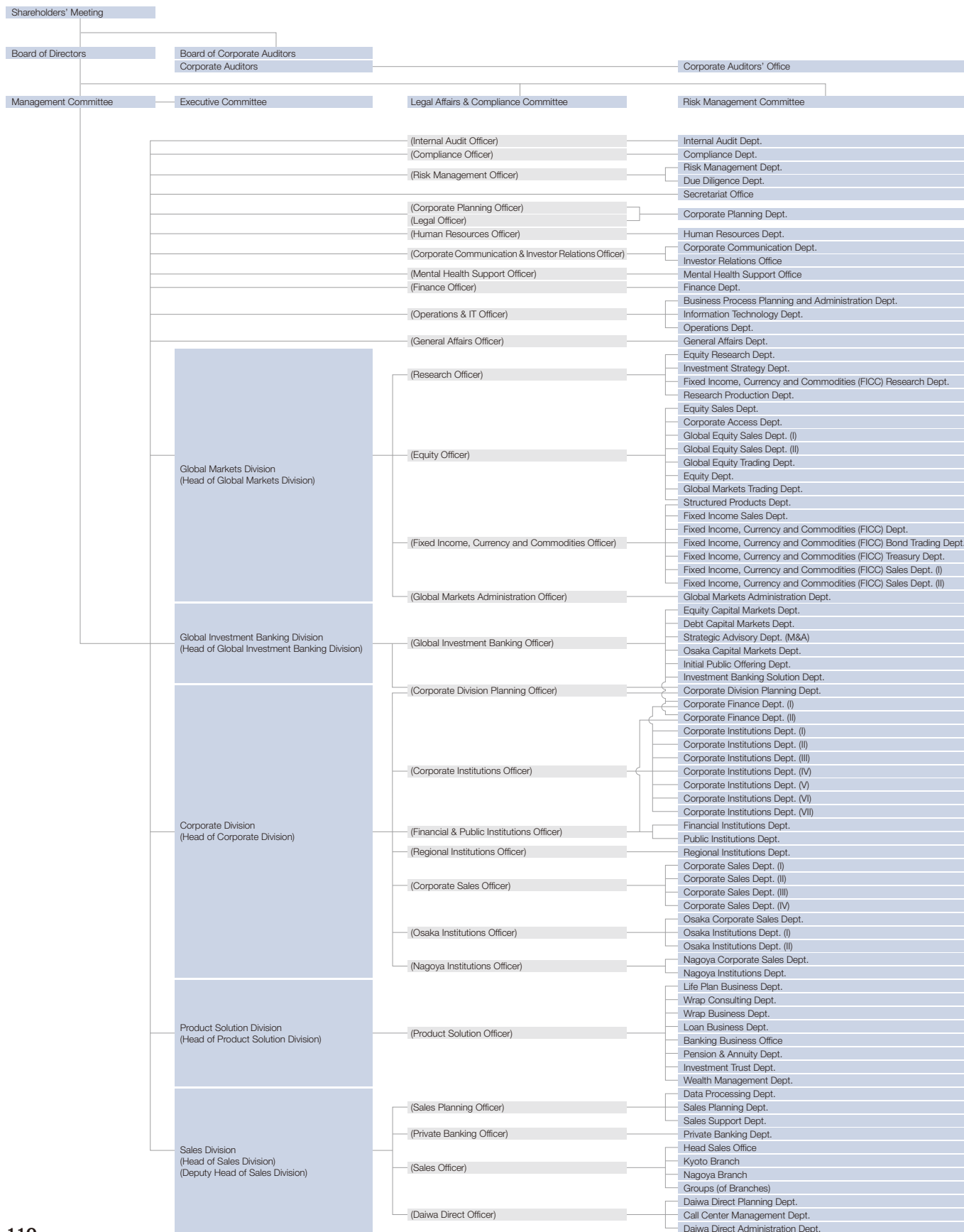


2) Officers (As of July 1, 2012)

Directors (Members of the Board)	Committee Members	Corporate Executive Officers	Executive Officers
Chairman of the Board Shigeharu Suzuki	Nominating Committee Shigeharu Suzuki (Chairman) Takashi Hibino	President and CEO Takashi Hibino	Senior Executive Managing Director Masami Tada
Director Takashi Hibino	Ryuji Yasuda Nobuko Matsubara Keiichi Tadaki	Deputy President, COO and CFO Nobuyuki Iwamoto	Senior Executive Managing Director Osamu Abiru
Director Nobuyuki Iwamoto	Kensuke Itoh	Deputy President Akio Takahashi	Senior Executive Managing Director Hiroshi Nakamura
Director Akio Takahashi	Audit Committee Koichi Uno (Chairman) Toshihiko Onishi Nobuko Matsubara Keiichi Tadaki	Deputy President Yoriyuki Kusaki	Executive Managing Director Masaaki Goto
Director Yoriyuki Kusaki	Compensation Committee Shigeharu Suzuki (Chairman) Takashi Hibino Ryuji Yasuda Koichi Uno Kensuke Itoh	Deputy President Makoto Shirakawa	Executive Managing Director Yoshio Urata
Director Takatoshi Wakabayashi		Deputy President Takashi Fukai	Senior Managing Director Wilfried Schmidt
Director Toshihiko Onishi		Senior Executive Managing Director and CRO Takatoshi Wakabayashi	Senior Managing Director Masahisa Nakagawa
Outside Director Ryuji Yasuda		Executive Managing Director Saburo Jifuku	Senior Managing Director Mikita Komatsu
Outside Director Koichi Uno		Executive Managing Director Koichi Matsushita	Senior Managing Director Hiroyuki Inose
Outside Director Nobuko Matsubara		Executive Managing Director Toshihiro Matsui	Senior Managing Director Hironori Oka
Outside Director Keiichi Tadaki		Executive Managing Director Noriaki Kusaka	
Outside Director Kensuke Itoh		Senior Managing Director Shigeharu Suzuki	

Daiwa Securities Co. Ltd.

1) Organization (As of July 1, 2012)



2) Officers (As of July 1, 2012)**Directors**

(Members of the Board)

Chairman of the Board
Shigeharu SuzukiPresident
Takashi HibinoDeputy President
Nobuyuki IwamotoDeputy President
Akio TakahashiDeputy President
Yoriyuki KusakiSenior Executive Managing
Director
Takatoshi WakabayashiRepresentative Senior Executive
Managing Director
Osamu AbiruSenior Executive Managing
Director
Hiroshi NakamuraSenior Executive Managing
Director
Seiji NakataSenior Executive Managing
Director
Shinya NishioExecutive Managing Director
Eishu KosugeExecutive Managing Director
Yoshimasa NagaseExecutive Managing Director
Shinya KusabaExecutive Managing Director
Kazuo TakahashiExecutive Managing Director
Yosuke Sakai**Corporate Auditors**

Zenichiro Onishi

Kentaro Ito

Toshihiko Onishi

Hiroshi Obayashi

Executive OfficersExecutive Managing Directors
Saburo Jifuku

Koichi Matsushita

Toshihiro Matsui

Yuichi Akai

Hiroyuki Kasahara

Junichi Aizawa

Koichi Maruo

Kazuo Hayasaki

Noriaki Kusaka

Senior Managing Directors
Naoko Saito

Keiko Tashiro

Takeshi Niikura

Wilfried Schmidt

Tetsuya Kawaguchi

Shinji Kawakami

Masahisa Nakagawa

Mikita Komatsu

Tetsuo Akuzawa

Sumio Otsuka

Tadao Sakashima

Hiroyuki Inose

Kenji Imamura

Keisuke Natsume

Masahiro Kobayashi

Hiromi Uemura

Yoshinori Matsumoto

Sei Furuichi

Domestic Group Companies

(As of July 1, 2012)

Daiwa Securities Co. Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6752, Japan
Tel: (81) 3-5555-2111

Daiwa Asset Management Co. Ltd.

10-5, Nihonbashi-Kayabacho 2-chome, Chuo-ku, Tokyo 103-0025, Japan
Tel: (81) 3-5695-2111

Daiwa Institute of Research Holdings Ltd.

15-6, Fuyuki, Koto-ku, Tokyo 135-8460, Japan
Tel: (81) 3-5620-5501

Daiwa Institute of Research Ltd.

15-6, Fuyuki, Koto-ku, Tokyo 135-8460, Japan
Tel: (81) 3-5620-5100

Daiwa SB Investments Ltd.

2-1, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo 100-0013, Japan
Tel: (81) 3-6205-0200

Daiwa Securities Business Center Co. Ltd.

3-2, Toyo 2-chome, Koto-ku, Tokyo 135-0016, Japan
Tel: (81) 3-5633-6100

Daiwa Property Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan
Tel: (81) 3-5555-4700

Daiwa Corporate Investment Co., Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan
Tel: (81) 3-5555-6300

Daiwa Institute of Research Business Innovation Ltd.

1-14-5 Eitai, Koto-ku, Tokyo 135-0034, Japan
Tel: (81) 3-5931-8600

Daiwa Next Bank, Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan
Tel: (81) 3-5555-6500

Daiwa PI Partners Co. Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6730, Japan
Tel: (81) 3-5555-6001

Daiwa Securities SMBC Principal Investments Co. Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6754, Japan
Tel: (81) 3-5555-6111

Daiwa Fund Consulting Co. Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan
Tel: (81) 3-5555-6550

Daiwa Real Estate Asset Management Co. Ltd.

2-1, Ginza 6-chome, Chuo-ku, Tokyo 104-0061, Japan
Tel: (81) 3-6215-9500

Daiwa Pension Consulting Co., Ltd.

3-2, Toyo 2-chome, Koto-ku, Tokyo 135-0016, Japan
Tel: (81) 3-3615-7771

Daiwa Investor Relations Co. Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan
Tel: (81) 3-5555-4111

Daiwa Securities Media Networks Co. Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6751, Japan
Tel: (81) 3-5555-1175

Daiwa Office Management Co., Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan
Tel: (81) 3-5555-1400

Daiwa Sanko Co., Ltd.

5-9, Sotokanda 2-chome, Chiyoda-ku, Tokyo 101-0021, Japan
Tel: (81) 3-5256-4111

HINODE SECURITIES CO., LTD.

2-14, Awajicho 2-chome, Chuo-ku, Osaka-shi, Osaka 541-0047, Japan
Tel: (81) 6-6205-7711

Overseas Group Companies

(As of July 1, 2012)

Daiwa Securities Group Inc.

Daiwa Securities Trust and Banking (Europe) PLC

5 King William Street, London EC4N 7JB, United Kingdom
Tel: (44) 20-7320-8000

Daiwa Securities Trust Company

One Evertrust Plaza, Jersey City, NJ 07302, U.S.A.
Tel: (1) 201-333-7300

Daiwa Securities Trust Europe Limited

Block 5, Harcourt Centre, Harcourt Road, Dublin 2, Ireland
Tel: (353) 1-603-9900

Daiwa Europe Fund Managers (Ireland) Ltd.

Block 5, Harcourt Centre, Harcourt Road, Dublin 2, Ireland
Tel: (353) 1-603-9900

Daiwa Europe Trustees (Ireland) Ltd.

Block 5, Harcourt Centre, Harcourt Road, Dublin 2, Ireland
Tel: (353) 1-603-9900

Daiwa Capital Markets America Inc.

New York Head Office
Financial Square, 32 Old Slip, New York, NY10005, U.S.A.
Tel: (1) 212-612-7000

San Francisco Branch

555 California Street, Suite 3360, San Francisco, CA 94104, U.S.A.
Tel: (1) 415-955-8100

Daiwa Capital Markets Europe Limited

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5 King William Street, London EC4N 7AX, United Kingdom
Tel: (44) 20-7597-8000

Frankfurt Branch

Tranion Bldg., Mainzer Landstrasse 16, 60325 Frankfurt am Main,
Federal Republic of Germany
Tel: (49) 69-717080

Paris Representative Office

36, rue de Naples, 75008 Paris, France
Tel: (33) 1-56 26 22 00

Geneva Branch

50, rue du Rhône, P.O. Box 3198, 1211 Geneva 3, Switzerland
Tel: (41) 22-818 74 00

Bahrain Branch

Bahrain World Trade Centre, South Tower,
P.O. Box 30069, Manama, Kingdom of Bahrain
Tel: (973) 1753-4452

Moscow Representative Office

Midland Plaza, 10, Arbat Street,
Moscow 119002, Russian Federation
Tel: (7) 495-641-3416

Daiwa Capital Markets Hong Kong Limited

One Pacific Place, 88 Queensway, Hong Kong
Tel: (852) 2525-0121

Daiwa Capital Markets Singapore Limited

6 Shenton Way #26-08, DBS Building Tower Two, Singapore 068809,
Republic of Singapore
Tel: (65) 6220-3666

Daiwa Capital Markets Australia Limited

Rialto North Tower, 525 Collins Street, Melbourne, Victoria 3000, Australia
Tel: (61) 3-9916-1300

Daiwa Capital Markets India Private Limited

3, North Avenue, Maker Maxity, Bandra-Kurla Complex,
Bandra East, Mumbai-400051, India
Tel: (91) 22-6622-1000

DBP-Daiwa Capital Markets Philippines, Inc.

Citibank Tower, 8741 Paseo de Roxas, Salcedo Village, Makati City,
Republic of the Philippines
Tel: (632) 813-7344

Daiwa-Cathay Capital Markets Co., Ltd.

200, Keelung Road, Sec. 1, Taipei, Taiwan, R.O.C.
Tel: (886) 2-2723-9698

Daiwa Securities Capital Markets Korea Co., Ltd.

One IFC, 10 Gukjegeumyung-Ro, Yeouido-Dong, Yeongdeungpo-Gu,
Seoul, Korea
Tel: (82) 2-787-9100

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Beijing Representative Office

SK Tower, No. 6 Jia Jiauguomen Wai Avenue, Chaoyang District,
Beijing 100022 P.R.C.
Tel: (86) 10-6500-6688

Bangkok Representative Office

M.Thai Tower, All Seasons Place, 87 Wireless Road, Lumpini, Pathumwan,
Bangkok 10330, Thailand
Tel: (66) 2-252-5650

Hanoi Representative Office

Pacific Place Building, 83B Ly Thuong Kiet Street, Hoan Kiem District,
Hanoi, Vietnam
Tel: (84) 4-3-946-0460

Daiwa SSC Securities Co., Ltd.

Hang Seng Bank Tower, 1000 Lujiazui Ring Road,
Pudong Shanghai 200120 P.R.C.
Tel: (86) 21-3858-2000

Daiwa Securities Group
