Financial Section

Message from the CFO

Financial regulations are currently being reformed around the world as a consequence of several financial crises, starting from the Lehman Shock in 2008 and to the European sovereign debt crisis of 2012. Beginning in FY2011, the Daiwa Securities Group has been required to calculate its capital adequacy ratio (Basel II) to meet the same capital adequacy ratios as banks. In addition, Basel 2.5, introduced at the end of December 2011, places some tighter controls on market risk. Furthermore, Basel III is a comprehensive package of regulatory revisions that will be introduced in stages from the end of March 2013.

The Basel III 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. 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 Medium-Term Management Plan responds to the current trend toward tighter financial regulation. The Daiwa Securities Group's financial strategy under the plan addresses such issues as how to secure appropriate levels of capital adequacy and liquidity, and to pursue highly effective risk management.

At the end of FY2012, the Daiwa Securities Group had a consolidated capital adequacy ratio of 20.0% (based on the Basel III standards), a 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 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 continue business operations 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.

Mikita Komatsu
Executive Managing Director and CFO
Daiwa Securities Group Inc.

Twelve-Quarter Financial Summary

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	FY2010 1Q	FY2010 2Q	FY2010 3Q	FY2010 4Q
Market Data				
Nikkei 225 (end of each quarter, yen)	9,382.64	9,369.35	10,228.92	9,755.10
TSE average daily trading value (billions of yen)	1,666	1,257	1,439	1,864
Net purchases (sales) by investors on the TSE (billions of yen)				
Institutions	746	791	(241)	(1,238)
Individuals	1,160	(881)	(1,475)	(169)
Foreigners	(761)	273	1,406	3,056
Securities companies	91	(9)	(22)	12
Ten-year Japanese government bond yield (end of each quarter, %)	1.085	0.930	1.110	1.255
Foreign exchange rates: Yen per U.S. dollar (end of each quarter)	88.38	83.44	81.54	83.15
Operating Performance				Millions of yen
Operating revenues	¥ 94,151	¥107,236	¥118,214	¥ 83,438
Commissions	56,106	49,142	54,618	58,763
Brokerage commission	13,323	9,626	12,465	15,249
Underwriting commission	4,658	5,255	7,537	8,851
Distribution commission	9,155	7,164	7,936	7,322
Other commission	28,969	27,096	26,678	27,339
Net gain on trading	10,724	34,160	31,605	15,985
Profit (loss) on equity trading	(15,315)	(11,337)	6,154	11,700
Profit (loss) on bond and foreign exchange trading	26,039	45,498	25,451	4,285
Net gain (loss) on private equity and other investments	(1,924)	(3,316)	8,136	(20,154)
Interest and dividend income	17,516	17,862	17,511	19,026
Service fees and other revenues	11,729	9,387	6,343	9,818
Interest expenses	13,993	12,905	16,298	14,864
Cost of service fees and other revenues	8,544	5,896	5,398	6,576
Net operating revenues	71,613	88,434	96,517	61,998
Selling, general and administrative expenses	87,859	88,980	92,381	94,697
Commissions and other expenses	17,376	16,339	17,989	18,692
Employees' compensation and benefits	37,483	39,104	42,205	41,441
Occupancy and rental	11,290	11,232	10,939	11,795
Data processing and office supplies	6,714	7,456	5,874	6,981
Depreciation and amortization	9,753	9,686	9,667	10,055
Taxes other than income taxes	1,967	1,814	1,770	1,492
Others	3,273	3,347	3,934	4,238
Operating income (loss)	(16,245)	(546)	4,136	(32,699)
Non-operating income	8,517	(94)	3,633	3,580
Non-operating expenses	458	199	753	1,472
Ordinary income (loss)	(8,187)	(839)	7,017	(30,591)
Extraordinary gains	1,776	1,794	2,462	3,043
Extraordinary losses	1,131	1,171	62	8,634
Income (loss) before income taxes and minority interests	(7,542)	(217)	9,416	(36,182)
Net income (loss)	(1,191)	(4,192)	1,182	(33,129)

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

			FY2011				FY2012
1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
9,816.09	8,700.09	8,455.35	10,083.56	9,006.78	8,870.16	10,395.18	12,397.91
1,383	1,355	1,075	1,406	1,219	1,056	1,338	2,453
2	1,351	923	(1,380)	987	175	(840)	(3,436)
(149)	442	(117)	(783)	541	(414)	(1,254)	(256)
946	(1,648)	(381)	1,289	(397)	(262)	2,195	3,747
10	40	(1)	(36)	31	(17)	(66)	(55)
1.130	1.020	0.980	0.985	0.830	0.765	0.795	0.560
80.51	77.04	76.94	82.79	79.49	77.63	86.10	94.09

			Millions of yen				Millions of yen
¥113,625	¥102,480	¥ 92,919	¥113,348	¥113,897	¥113,486	¥125,190	¥172,836
55,060	56,171	52,535	57,077	48,045	52,566	53,287	75,622
10,515	10,202	8,249	11,815	8,832	8,100	11,362	20,576
3,832	4,787	8,091	2,797	3,328	9,239	5,584	8,531
13,394	12,661	10,726	12,356	9,612	9,400	11,245	16,349
27,318	28,519	25,468	30,109	26,272	25,826	25,094	30,165
26,244	14,895	8,572	29,703	24,395	22,726	30,524	45,891
(8,479)	(11,820)	1,259	12,576	(9,351)	(3,103)	27,919	22,716
34,724	26,715	7,312	17,127	33,746	25,829	2,605	23,174
1,251	1,892	1,470	(2,658)	4,899	1,047	2,952	7,630
20,076	19,865	20,910	18,909	20,948	21,520	25,024	25,782
10,992	9,656	9,429	10,316	15,608	15,625	13,401	17,909
15,217	12,937	16,329	15,205	16,670	15,392	20,103	17,963
7,325	5,922	6,245	7,175	10,224	9,739	8,749	9,259
91,083	83,621	70,344	90,967	87,003	88,353	96,338	145,613
94,021	93,729	86,352	85,626	82,756	81,991	80,354	88,393
17,514	18,639	16,286	16,415	16,928	16,151	16,376	17,056
42,268	41,815	37,994	36,219	37,062	37,510	37,886	44,527
11,273	11,374	11,203	11,029	10,101	10,034	8,842	9,189
6,954	6,832	6,521	7,443	6,149	5,911	5,340	5,732
10,153	10,235	9,879	9,592	7,802	7,974	7,677	7,318
2,136	1,465	1,436	1,542	1,426	1,385	1,330	1,594
3,719	3,365	3,031	3,383	3,283	3,024	2,900	2,975
(2,938)	(10,108)	(16,008)	5,340	4,246	6,362	15,983	57,219
3,656	3,915	1,426	3,806	5,494	2,979	2,742	3,284
1,522	174	131	(535)	1,206	900	601	428
(803)	(6,366)	(14,713)	9,682	8,534	8,441	18,124	60,075
427	777	125	38,330	136	2,688	278	6,649
2,480	9,833	2,102	29,918	445	2,527	1,258	9,022
(2,856)	(15,422)	(16,690)	18,095	8,225	8,602	17,143	57,702
(9,434)	(19,353)	(21,567)	10,920	2,678	7,389	14,068	48,773

Management's Discussion and Analysis

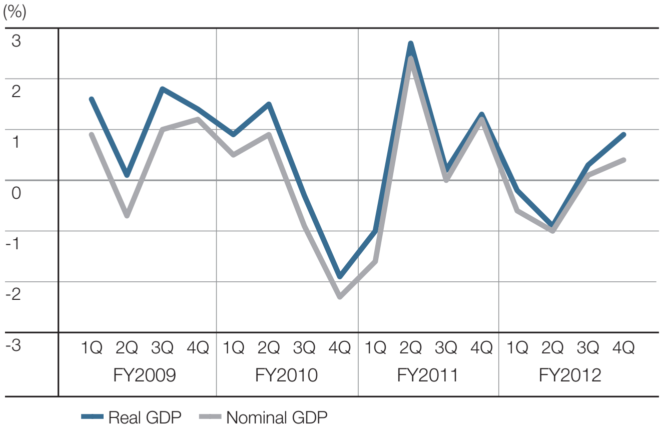
Macroeconomic Conditions in FY2012

<Overseas Markets>

In general terms, the pace of overall global economic growth has continued to slow. From the second half of the fiscal year under review, however, signs of a modest recovery began to emerge mainly in the United States and Asia. In Europe, the fiscal austerity attributable to long-standing concerns regarding government debt remained the principal factor behind a downturn in economic conditions. Despite policy measures aimed at easing monetary conditions and indications of an improvement in business confidence by the corporate sector, the real economy continued to deteriorate. In the United States, the economy has witnessed an extended period of gradual expansion supported by the underlying strength of firm personal consumption. Newly emerging economies that had also experienced a slowdown in their rates of economic growth have recently benefitted from a worldwide relaxation in credit with activities exhibiting a positive turnaround from the end of the fiscal year. Buoyed by the positive approach toward easing monetary conditions adopted by most central banks, anxieties toward the fiscal crisis in Europe, which peaked during the April–June quarter of 2012, eased from the July–September quarter of the same year. As a result, stock prices across global markets rebounded from the second half of FY2012. Moreover, there were signs that investors were adopting a less risk adverse stance. This led to an outflow of funds from the relatively safe refuge of U.S., German, and U.K. government bonds bringing under control the downturn in yields.

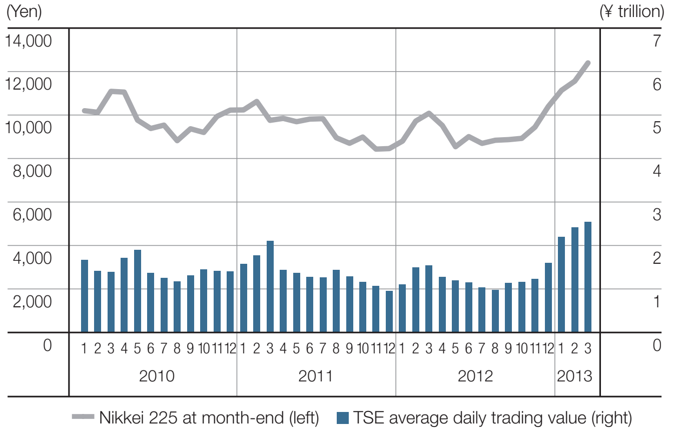
The real economy in Europe continued to deteriorate. This was largely attributable to the drop in production and upswing in unemployment fueled by anxieties surrounding the debt crisis and financial system. Elections held in Greece in May 2012 saw the Coalition of the Radical Left and major opposition party SYRIZA, who had opposed fiscal restraint, significantly increase its number of seats in parliament. This heightened fears that Greece would withdraw from the Euro zone, causing a sense of panic across international markets and particularly Europe. Thereafter, and following the rerun of elections in June 2012, the New Democracy Party, which supported fiscal austerity, secured its position as the leading party and was successful in forming a coalition government. This greatly alleviated fears of Greece's withdrawal from the Euro zone. Around the same time, Bankia, a major financial institution in Spain, edged toward bankruptcy under the burden of mounting bad debts. Following an application for public funding assistance, the Spanish government sought the support of the international community targeting countries in the Euro zone toward the end of June 2012. This request reflected the government's understanding that it was not in the position to solve the banking crisis on its own. To address these fiscal issues as well as subsequent anxieties regarding the financial system, the European Central Bank (ECB) took steps to reduce interest rates in July 2012 and decided to implement a new outright monetary transaction (OMT) program in September of the same year. Thanks largely to these initiatives, together with the launch of the European Stability Mechanism in October 2012, fears regarding the fiscal crisis and financial system began to recede during the October–December quarter of 2012. However, in Italy, another country working to restore its fiscal health, general elections held in February 2013 resulted in a hung parliament as no party won an outright majority in the upper house, or the Senate of the Republic. In March 2013, the Cyprus government rejected a tax on bank deposits as a condition of an international bailout by the European Union (EU). Despite a subsequent bank reorganization and large deposit payoff, these and other factors again pushed up concerns surrounding the fiscal crisis and financial system. As a result, the initial signs of a pickup in business confidence throughout the Euro zone were held to a low level.

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

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In the United States, economic conditions continue to exhibit a mild recovery. This is mainly due to the underlying strength of personal consumption, the increase in private-sector capital expenditure, and the impact of easy money policies implemented by the Federal Reserve Bank (FRB). Despite their low level, housing prices are enjoying an upward trend. Further developments were also seen in adjustments to household budgets. While concerns remain in connection to the slump in employment figures and a slowdown in the pace of growth from the second half of 2012, as well as the negative effects of the removal of tax reductions on salaries in January 2013 and the federal budget sequester in March 2013 on the economy, trends continue firm in overall terms. Set to expire at the end of June 2012, the so-called Operation Twist Program, which entails the sale of shorter-term securities and the purchase of the same amounts of longer-term debt in a bid to reduce long-term borrowing costs and spur the economy, was extended until the end of the year by the Federal Open Market Committee (FOMC) of the FRB. At the same time, the Committee announced its decision to maintain interest rates at their current levels through to the second half of 2014. This policy decision regarding interest rate levels was then pushed through to the middle of 2015 in September 2012 and complemented by the decision to implement a quantitative easing (QE3) policy and the purchase of US$40 billion in mortgage-backed securities (MBS) each month. While the Operation Twist Program came to its scheduled end at the end of 2012, the FRB announced its decision to purchase US$45 billion in long-term securities each month as an alternative initiative. On this basis, the FRB's extremely loose stance toward easing monetary conditions and financial policy remains unchanged.

In the emerging countries, rates of economic growth remain higher than those of developed countries in overall terms. Against the backdrop of a slowdown in exports to Europe, however, the pace of expansion is steadily declining. As a result, the number of newly industrializing countries implementing monetary easing measures to boost their economies is increasing. Looking at current conditions in major developing countries, the Monetary Policy Committee in Brazil initiated steps to lower interest rates in August 2011. Interest rates were reduced on 10 occasions during the period to October 2012. In December 2011, China lowered its deposit reserve ratio requirements. Interest rates were also cut for two consecutive months in June and July 2012. After reducing interest rates for the first time in three years in April 2012, India again cut rates in January and March 2013. As a means to curtail inflation, Russia increased interest rates in September 2012. In this context, a large number of newly industrializing countries are being forced to adopt rigorous policies to address the risk of rising inflation. Buoyed by the success of aggressive money-easing measures, however, signs of a recovery began to emerge mainly in the Asia region, including China.

<Japan>

While the Japanese economy continued to experience a steady downturn in the pace of its expansion, indications of a positive turnaround appeared toward the end of the fiscal year.

Despite an upswing in reconstruction demand in the wake of the Great East Japan Earthquake and the positive flow-on effects of such policy measures as the subsidy program for eco-friendly automobiles, this positive turnaround in production activity through to April 2012 was buffeted by the growing sense of deterioration in overseas economies from May 2012 and the termination of such initiatives as the aforementioned subsidy program for eco-friendly automobiles in September 2012. During the October–December 2012 quarter, however, the negative impact of the termination of the subsidy program for eco-friendly automobiles began to settle. At the same time, returns on exports improved on the back of the sudden drop in the value of the yen from the end of 2012. As a result, signs of a recovery again began to emerge. Despite the prolonged downturn in activity toward Europe, which continues to experience an overall economic decline, the drop in exports appeared to have bottomed out on the underlying strengths of ongoing improvements in the United States and Asia as well as the increased competitiveness of Japanese products and services, reflecting the decrease in the value of the yen from the end of 2012. Turning to imports, adjustments in resource prices and a slump in domestic corporate-sector activity had a debilitating effect on positive trends. The increase in prices commensurate with the weak yen, however, saw an upswing in the amount of imports in nominal terms from the end of 2012. With imports continuing to hover at a high level, the balance of trade remains in a deficit. From a personal consumption perspective, recovery was supported by such favorable factors as improvements in consumer confidence as well as employment and income conditions. Buoyed by the subsidy program for eco-friendly automobiles, automobile sales increased to August 2012. Despite concerns that personal consumption would again regress as the subsidy program came to a close in September 2012, signs that the decline in corporate earnings had bottomed out from the end of 2012 and easy money measures triggered increases in stock prices. This, in turn, spurred an upswing in consumer confidence, which improved substantially toward the end of 2012. Entering 2012, concrete signs of the impact of reconstruction demand became increasingly evident. This contributed to prolonged steady undertones of improvement through to the 2013 January–March quarter.

Turning to financial markets, the Bank of Japan bolstered its monetary easing policies with increases in its Asset Purchase Program of ¥10 trillion each in September and December 2012. This was after an earlier increase of ¥5 trillion in April 2012. More recently, the Japanese government and the Bank of Japan released a joint statement announcing their decision to coordinate policies in January 2013. In further reinforcing the commitment to an easy money stance, both the government and the Bank of Japan have adopted an inflation target. As a result, Japan's financial system remains stable with improvements in corporate-sector financing. This is evidenced by the ratio of non-performing loans at Japanese banks, which remain steady at a low level and the strength of their balance sheets compared with banks in Europe supported by the quality of securities held. Taking these factors into consideration, there are clear indications that the Bank of Japan's extreme easy money financial policy stance has been effective in preserving faith in the nation's overall financial system. Stock prices continued to fluctuate, influenced by the combination of the downward pressure of a downturn in the rate of global economic growth and upward pressure coming from monetary easing, up to the 2012 July–September quarter. However, markets experienced an about-face thanks to the additional monetary easing policies, and then, this upward trend surged at the end of the fiscal year on the back of growing expectations toward the new administration that was installed in Japan in December 2012 and further measures to bolster liquidity, which initiated an abrupt drop in the value of the yen. Looking at foreign currency exchange markets, moves by overseas investors to purchase the yen expanded throughout the 2012 July–September quarter. This reflected the view that the yen offered greater stability compared with other major currencies. As a result, the yen continued to strengthen. With the market taking stock of additional monetary easing initiatives implemented by the Bank of Japan, however, the value of the yen fell dramatically from the end of 2012 to the close of the fiscal year. Recognized in relative terms as a safe haven, investment funds flowed steadily into Japanese government bonds. This, in turn, triggered an overall decline in yields. Toward the end of 2012, U.S. interest rates increased as a result of concerns surrounding the fiscal cliff, and, as a result, Japanese government bond interest rates rose temporarily. Subsequently, however, they declined owing mainly to growing perceptions of a further easing of monetary conditions following the appointment of a new Bank of Japan Governor in March 2013. As of March 31, 2013, the Nikkei 225 stood at ¥12,397.91, up ¥2,314.35 year on year. Ten-year Japanese government bond (JGB) yields were 0.560%, a decline of 42.5 basis points year on year, while the yen closed at ¥94.09=US$1.00, down ¥12.01 year on year.

Analysis of Consolidated Income Statements

<Total Operating Revenues and Net Operating Revenues>

Consolidated operating revenues for the period rose 24.4% year on year, to ¥525.4 billion, while net operating revenues increased 24.2%, to ¥417.3 billion.

Income from commissions rose 3.9%, to ¥229.5 billion. Brokerage commissions also grew, up 19.8%, to ¥48.8 billion. This was largely attributable to favorable stock market conditions in the second half of the fiscal year under review and an upswing in the trading values of Japanese stocks. Underwriting commissions climbed 36.8%, to ¥26.6 billion. These achievements reflect Daiwa Securities' lead role in the return of Japan Airlines Co., Ltd. to the stock market, marking the largest Japanese IPO for the year, and its position as joint global coordinator* in the Japanese government's decision to sell off a portion of its equity in Japan Tobacco Inc. In contrast, distribution income declined 5.2%, to ¥46.6 billion. Despite the substantial increase in equity mutual fund sales by the Retail Division in the second half of the fiscal year, this year-on-year decline essentially reflected the drop in full fiscal year results compared with FY2011.

Net gain on private equity and other securities jumped 745.4%, to ¥16.5 billion, due to the collection of existing investments.

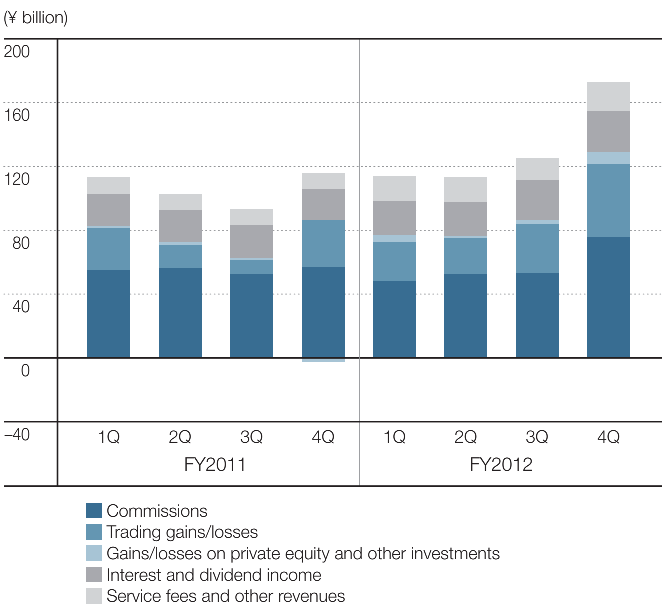
Note: A global coordinator is the lead manager or underwriter who oversees the operations of a public offering that is issued on a worldwide basis.

Breakdown of Net Operating Revenues

Millions of yen

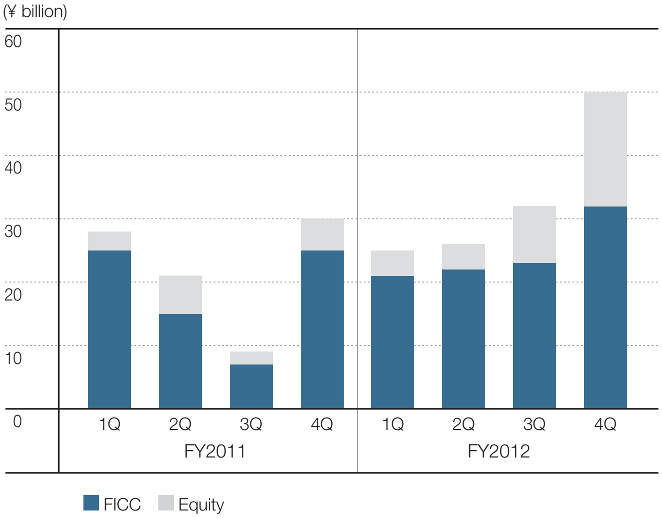
	FY2011	FY2012	YoY
Operating revenues	¥422,375	**¥525,412**	24.4%
Commissions	220,845	**229,523**	3.9%
Brokerage commission	40,783	**48,872**	19.8%
Underwriting commission	19,508	**26,684**	36.8%
Distribution commission	49,139	**46,608**	–5.2%
Other commission	111,415	**107,359**	–3.6%
Net gain on trading	79,416	**123,537**	55.6%
Net gain on private equity and other investments	1,956	**16,531**	745.4%
Interest and dividend income	79,762	**93,276**	16.9%
Service fees and other revenues	40,396	**62,545**	54.8%
Interest expenses	59,691	**70,131**	17.5%
Cost of service fees and other revenues	26,668	**37,973**	42.4%
Net operating revenues	¥336,016	**¥417,308**	24.2%

Breakdown of Consolidated Income



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

Revenues (Trading Gain/Loss) from Equity and FICC Divisions (Net Gain (Loss) on Trading + Net Financial Income, on Managerial Accounting Basis)



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

<Net Gains/Losses on Trading>

Net trading gains increased 55.6% year on year, to ¥123.5 billion, as sales of foreign bonds and structured bonds expanded, due mainly to substantial growth in the amount of privately placed structured bond sales by the Retail Division.

Trading gains and net financial income on a managerial accounting basis in the Equity Division improved 118.8%, to ¥35.0 billion. This was largely attributable to robust stock market conditions in the second half of the fiscal year. In the FICC Division, trading gains and net financial income on a managerial accounting basis were up 36.1%, to ¥98.0 billion, owing mainly to firm sales of privately placed structured bonds.

Revenues (Trading Gain/Loss) from Equity and FICC Divisions (Net Gain (Loss) on Trading + Net Financial Income, on Managerial Accounting Basis)

Billions of yen

	FY2011	FY2012	YoY
Equity	¥16.0	**¥ 35.0**	118.8%
FICC	72.0	**98.0**	36.1%
Total	¥88.0	**¥133.0**	51.1%

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

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

Overall SG&A declined 7.3% year on year, to ¥333.4 billion. Cost-cutting efforts initiated from the previous fiscal year continued to make progress with trading-related expenses (particularly advertising expenses) falling 3.4%, to ¥66.5 billion. Personnel expenses contracted 0.8% year on year, to ¥156.9 billion. During the fiscal year under review, thoroughgoing steps were also taken to increase efficiencies across the Group as a whole. This entailed a variety of measures, including relocating the head office of Daiwa Asset Management Co. Ltd. and controlling IT maintenance expenses. As a result, real estate expenses dropped 15.0% year on year, to ¥38.1 billion. Moreover, thanks largely to successful efforts to control investment in systems, depreciation declined 22.8%, to ¥30.7 billion. Accounting for each of these factors, ordinary income for the fiscal year totaled ¥95.1 billion, a turnaround from the ordinary loss recorded in the previous fiscal year.

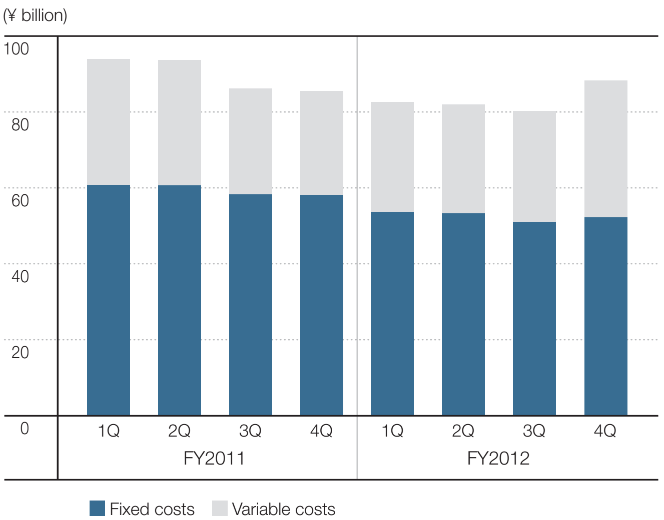
The Group posted ¥9.7 billion in extraordinary gains, including gains on sales of investment securities and gain on negative goodwill. Impaired asset write-offs, business restructuring costs, and other items generated a total extraordinary loss of ¥13.2 billion. After income taxes and minority interests, the Group reported consolidated net income of ¥72.9 billion.

Breakdown of SG&A and Income

Millions of yen

	FY2011	FY2012	YoY
SG&A	¥359,729	**¥333,496**	–7.3%
Trading-related expenses	68,857	**66,513**	–3.4%
Personnel expenses	158,298	**156,988**	–0.8%
Real estate expenses	44,881	**38,169**	–15.0%
Office cost	27,752	**23,133**	–16.6%
Depreciation	39,861	**30,774**	–22.8%
Taxes and dues	6,581	**5,737**	–12.8%
Allowance for doubtful accounts	26	**45**	74.5%
Other	13,473	**12,137**	–9.9%
Operating income (loss)	(23,713)	**83,812**	—
Non-operating income/ expenses	11,513	**11,364**	–1.3%
Ordinary income (loss)	(12,200)	**95,176**	—
Extraordinary gains/losses	(4,674)	**(3,501)**	—
Income (loss) before income taxes and minority interests	(16,874)	**91,675**	—
Income taxes	24,400	**11,561**	–52.6%
Net income (loss)	¥ (39,435)	**¥ 72,910**	—

Cost Structure



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

<Segment Information>

[Retail Division]

Against the backdrop of a robust stock market, equities-related revenue increased. At the same time, sales of foreign bonds and structured bonds grew, with an upswing in bond revenue. In specific terms, the Group took steps to further enhance its ability to put forward product proposals on a timely basis through the integration of two securities subsidiaries. This, in turn, contributed to growth in sales of privately placed structured bonds.

Accounting for each of the aforementioned, net operating revenues in the Retail Division came to ¥184.4 billion, with ordinary income amounting to ¥49.2 billion.

[Wholesale Division]

In Global Markets operations, equities-related revenue increased on the back of stock market growth and an upswing in trading volume. Buoyed by the improvement in foreign bond and structured bond sales in the Retail Division, fixed income, currency, and commodities (FICC) income also increased. In its Global Investment Banking activities, the Group was involved in a number of underwriting deals. During the fiscal year under review, Daiwa Securities won the lead manager's role in Japan Airlines' relisting. This marked the largest Japanese IPO for FY2012. The Company was also appointed joint global coordinator for Japan Tobacco's global offering. These achievements contributed to an increase in revenue.

Net operating revenues in the Wholesale Division were ¥133.1 billion and ordinary income of ¥12.0 billion.

[Asset Management Division]

In addition to contributions from Daiwa Office Investment Corporation, which was included in the scope of Daiwa Securities' consolidation as a subsidiary company, management fees were boosted by an increase in the balance of assets under management. As a result, net operating revenues in this division totaled ¥43.5 billion and ordinary income came to ¥19.0 billion.

[Investment Division]

Accounting for the sales of private equity investments and monetary claims as well as steady progress in the exit of certain investments to take profits, net operating revenues were ¥17.4 billion and ordinary income was ¥14.1 billion.

Segment Information

Millions of yen

	Net Operating Revenues			Ordinary Income		
	FY2011	FY2012	YoY	FY2011	FY2012	YoY
Retail	¥159,516	**¥184,416**	15.6%	¥ 28,693	**¥49,251**	71.6%
Wholesale	94,109	**133,110**	41.4%	(59,339)	**12,035**	—
Asset Management	37,424	**43,591**	16.5%	14,615	**19,089**	30.6%
Investment	3,625	**17,495**	382.7%	552	**14,162**	—
Others	41,342	**38,696**	—	3,278	**639**	—
Consolidated total	¥336,016	**¥417,308**	24.2%	¥(12,201)	**¥95,176**	—

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

Breakdown of Net Operating Revenues by Segment

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

<Overseas Activities>

By region, the Group incurred ordinary losses of ¥2.8 billion in Europe, ¥7.6 billion in the Asia and Oceania region, and ¥0.08 billion in the Americas. As a result, the total ordinary loss for the Group's overseas operations came to ¥10.5 billion. Against the backdrop of an extremely harsh business environment in its overseas operations and difficulties in securing an increase in earnings, the Group made steady progress in its plan to cut costs. Buoyed by these endeavors, the Group achieved a substantial year-on-year improvement in the balance between expenses and income.

Ordinary Loss from Overseas Operations, Broken Down by Region

Millions of yen

	FY2011	FY2012
Europe	¥ (5,039)	**¥ (2,874)**
Asia & Oceania	(17,721)	**(7,611)**
America	(3,058)	**(87)**
Total	¥(25,818)	**¥(10,572)**

Analysis of Consolidated Balance Sheets and Cash Flow Statements

<Assets>

The balance of total assets as of March 31, 2013 stood at ¥19,049.0 billion, up ¥125.0 billion compared with the end of the previous fiscal year. During the fiscal year under review, the balance of collateralized short-term financing agreements declined ¥893.4 billion. On the other hand, the balance of short-term investment securities invested by Daiwa Next Bank, Ltd. climbed ¥638.6 billion.

<Liabilities and Net Assets>

The balance of total liabilities decreased ¥5.8 billion year on year, to ¥17,966.5 billion. Despite increases in collateralized short-term financing agreements and deposits for banking business of ¥1,074.5 billion and ¥621.8 billion, respectively, this decrease was largely attributable to the decrease in trading liabilities of ¥987.5 billion and the drop in short-term borrowings of ¥842.4 billion.

The balance of net assets as of the end of FY2012 stood at ¥1,082.5 billion, an increase of ¥130.8 billion compared with the end of the previous fiscal year. This largely reflected retained earnings growth of ¥62.6 billion on the back of net income recorded for the fiscal year, an increase in the valuation difference on available-for-sale securities of ¥53.4 billion owing mainly to an increase in the values of securities held, and the upswing in the translation adjustment of ¥24.8 billion due to continued depreciation in the value of the yen. For the fiscal year under review, net assets per share came to ¥536.72.

<Analysis of Cash Flows>

Cash flow from operating activities was affected mainly by increases/decreases in trading assets and liabilities, collateralized short-term financing agreements, and deposits for the banking business. As a result, the Group experienced a net cash inflow of ¥1,795.0 billion. In the cash flow from investing activities section, a cash outflow from the purchase of securities contributed to a net outflow of ¥798.4 billion. Cash flow from financing activities was affected by the decrease in short-term borrowings, and showed a net outflow of ¥909.4 billion. After adjustment for exchange rate impact and other factors, the consolidated balance of cash and cash equivalents at the end of the fiscal year stood at ¥1,136.0 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 to maintain an effective and stable supply of operating funds.

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 that 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 FY2012, 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, 2013)

	Billions of yen
Short-term borrowings from banks and other financial institutions	¥ 235.3
Other short-term borrowings	396.8
Commercial paper	301.7
Current portion of bonds	221.2
Short-term unsecured capital procurement	¥1,155.1
Cash	¥1,319.7
Government bonds, government-backed bonds, other	139.6
Liquidity portfolio	1,459.3
Other bonds	502.1
Publicly listed shares, other	365.3
Other	20.0
Supplementary liquidity portfolio	887.4
Liquidity portfolio and other total	¥2,346.8

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

As of the end of FY2012, the Daiwa Securities Group's liquidity portfolio had a balance of ¥1,459.3 billion, and the supplementary liquidity portfolio increases this to ¥2,346.8 billion. This provided a coverage ratio equal to 203.2% of total unsecured short-term debt.

<Group-Wide Capital Management>

The Daiwa Securities Group maintains the basic policy of ensuring adequate liquidity. Guided by this policy, the Company takes steps to manage and monitor the liquidity of capital on an integrated basis. Recognizing the difficulties in procuring new capital or replacing existing capital during periods of both inherent and market stress, the Daiwa Securities Group carefully monitors the adequacy of its liquidity portfolio in connection with short-term unsecured capital procurement. In addition, the Company expeditiously distributes and provides capital to Group companies as and when required while at the same time promoting the efficient and integrated procurement and management of capital by putting in place a structure that is capable of accommodating requirements within the Group.

<Capital Liquidity Contingency Plan>

The Daiwa Securities Group has prepared a contingency plan to ensure that it is fully prepared to address liquidity risk. This plan provides for a system through which the Group can respond speedily to maintain liquidity. Elements of this system include a mechanism for reporting the severity of internal stress factors, such as a fall in creditworthiness, and external stress factors, such as turmoil in financial markets.

The Group's contingency plan has been formulated taking into account the severity of stress across the entire Group and is reviewed periodically to expeditiously address changes in the financial environment.

In the case of Daiwa Securities Co. Ltd., Daiwa Next Bank, Ltd., and overseas securities subsidiaries, where the impact of changes in financial markets is substantial and the importance of ensuring capital liquidity is high, individual contingency plans are formulated, which are then reviewed on a regular basis.

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

Credit Ratings by Major Credit 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. to obtain funds have also been assigned credit ratings by leading agencies. As of June 30, 2013, 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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2013	2012	2013
Cash and cash deposits:			
Cash and cash equivalents (Notes 5 and 7)	¥ 1,136,053	¥ 1,038,981	$ 12,085,670
Cash segregated as deposits for regulatory purposes (Note 5)	260,198	204,478	2,768,064
Time deposits (Notes 5 and 9)	86,190	21,487	916,915
	1,482,441	1,264,946	15,770,649
Receivables:			
Loans receivable from customers	171,844	108,932	1,828,128
Loans receivable from other than customers	15,626	10,591	166,234
Receivables related to margin transactions (Notes 3 and 5)	193,643	120,870	2,060,032
Other (Note 23)	291,756	276,176	3,103,787
Less: Allowance for doubtful accounts	(280)	(1,858)	(2,979)
	672,589	514,711	7,155,202
Collateralized short-term financing agreements (Notes 4, 5 and 23)	4,841,727	5,735,192	51,507,734
Trading assets (Notes 5, 6 and 9)	8,849,128	8,876,950	94,139,660
Securities (Notes 5, 7 and 9)	2,103,039	1,464,395	22,372,755
Private equity investments:			
Private equity and other investments (Notes 5 and 7)	149,329	174,305	1,588,606
Less: Allowance for possible investment losses (Note 5)	(35,495)	(36,128)	(377,606)
	113,834	138,177	1,211,000
Trade account receivables, net (Note 5)	235,449	139,096	2,504,776
Other assets:			
Property and equipment, at cost (Notes 9 and 20)	533,200	521,313	5,672,340
Less: Accumulated depreciation	(126,081)	(126,897)	(1,341,287)
	407,119	394,416	4,331,053
Goodwill	15,465	20,992	164,521
Other intangible fixed assets (Note 20)	68,974	81,896	733,766
Investment securities (Notes 5, 7 and 9)	192,906	159,096	2,052,191
Deferred tax assets (Note 14)	8,672	14,429	92,255
Other	58,990	120,622	627,555
Less: Allowance for doubtful accounts	(1,234)	(880)	(13,128)
	750,892	790,571	7,988,213
	¥19,049,099	¥18,924,038	$202,649,989

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2013	2012	Thousands of U.S. dollars (Note 1) 2013
Debt:			
Short-term borrowings (Notes 5, 9 and 12)	¥ 794,206	¥ 1,636,651	$ 8,449,000
Commercial paper (Note 5)	301,711	275,192	3,209,691
Long-term debt (Notes 5, 9 and 12)	2,215,290	2,280,252	23,566,915
	3,311,207	4,192,095	35,225,606
Payables:			
Payables to customers and counterparties (Notes 5 and 11)	435,915	346,173	4,637,394
Payables related to margin transactions (Notes 3, 5 and 9)	57,762	52,756	614,489
Deposits for banking business (Note 5)	1,791,766	1,169,916	19,061,340
Other (Note 5)	35,537	18,897	378,054
	2,320,980	1,587,742	24,691,277
Collateralized short-term financing agreements (Notes 4, 5 and 23)	7,142,965	6,068,380	75,988,989
Trading liabilities (Notes 5 and 6)	4,965,693	5,953,280	52,826,521
Accrued and other liabilities:			
Income taxes payable	3,095	5,822	32,926
Deferred tax liabilities (Note 14)	24,294	3,562	258,447
Accrued bonuses	30,856	20,462	328,255
Retirement benefits (Note 13)	32,381	30,488	344,479
Negative goodwill	7,990	12,556	85,000
Other (Note 23)	124,516	95,382	1,324,638
	223,132	168,272	2,373,745
Statutory reserves (Note 15)	2,555	2,567	27,181
Total liabilities	17,966,532	17,972,336	191,133,319
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, 2013	247,397	247,397	2,631,883
Capital surplus	230,676	230,655	2,454,000
Retained earnings	408,648	345,983	4,347,319
Treasury stock at cost	(19,212)	(22,681)	(204,383)
	867,509	801,354	9,228,819
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	76,740	23,339	816,383
Deferred gains or losses on hedges	(16,766)	(1,676)	(178,362)
Translation adjustment	(15,710)	(40,518)	(167,127)
	44,264	(18,855)	470,894
Stock subscription rights (Note 18)	6,388	5,429	67,957
Minority interests	164,406	163,774	1,749,000
Total net assets	1,082,567	951,702	11,516,670
	¥19,049,099	¥18,924,038	$202,649,989

See accompanying notes.

Consolidated Statements of Operations

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Operating revenues:			
Commissions	¥229,523	¥220,845	$2,441,734
Net gain on trading (Note 25)	123,537	79,416	1,314,223
Net gain (loss) on private equity and other investments	16,531	1,956	175,862
Interest and dividend income (Note 23)	93,276	79,762	992,298
Service fees and other revenues	62,545	40,396	665,372
	525,412	422,375	5,589,489
Interest expense (Note 23)	70,131	59,691	746,074
Cost of service fees and other revenues	37,973	26,668	403,968
Net operating revenues (Note 22)	417,308	336,016	4,439,447
Selling, general and administrative expenses (Notes 13 and 26)	333,496	359,729	3,547,830
Operating income (loss)	83,812	(23,713)	891,617
Other income (expenses):			
Provision for statutory reserves, net (Note 15)	113	456	1,202
Other, net (Note 27)	7,750	6,383	82,447
	7,863	6,839	83,649
Income (loss) before income taxes and minority interests	91,675	(16,874)	975,266
Income taxes (Note 14):			
Current	8,220	7,453	87,446
Deferred	3,341	16,947	35,543
	11,561	24,400	122,989
Income (loss) before minority interests	80,114	(41,274)	852,277
Minority interests	(7,204)	1,839	(76,639)
Net income (loss)	¥ 72,910	¥ (39,435)	$ 775,638

	Yen		U.S. dollars (Note 1)
Per share amounts:			
Net income (loss)	¥43.00	¥(23.41)	$0.46
Diluted net income	42.89	—	0.46
Cash dividends applicable to the year	15.00	6.00	0.16

See accompanying notes.

Consolidated Statements of Comprehensive Income

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Income (loss) before minority interests	¥ 80,114	¥(41,274)	$ 852,277
Other comprehensive income:			
Valuation difference on available-for-sale securities	49,339	(5,013)	524,883
Deferred gains (losses) on hedges	(15,112)	(1,761)	(160,766)
Translation adjustment	24,774	(4,604)	263,553
Share of other comprehensive income of associates accounted for using equity method	212	72	2,255
Total other comprehensive income (loss)	59,213	(11,306)	629,925
Comprehensive income (loss)	¥139,327	¥(52,580)	$1,482,202

	Millions of yen		Thousands of U.S. dollars (Note 1)
Comprehensive income (loss) attributable to:			
Comprehensive income (loss) attributable to owners of the parent	¥136,031	¥(45,497)	$1,447,138
Comprehensive income (loss) attributable to minority interests	3,296	(7,083)	35,064

See accompanying notes.

Consolidated Statements of Changes in Net Assets

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2013 and 2012

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 (losses) on hedges	Translation adjustment	Stock subscription rights	Minority interests
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					
Change of scope of consolidation				(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
Cash dividends paid				(10,282)						
Net income				72,910						
Change in treasury stock, net			21		3,469					
Change of scope of consolidation				37						
Net changes of items other than owners' equity						53,401	(15,090)	24,808	959	632
Balance at March 31, 2013	1,749,379	¥247,397	¥230,676	¥408,648	¥(19,212)	¥76,740	¥(16,766)	¥(15,710)	¥6,388	¥164,406

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 (losses) on hedges	Translation adjustment	Stock subscription rights	Minority interests
Balance at March 31, 2012	$2,631,883	$2,453,777	$3,680,670	$(241,287)	$248,287	$ (17,830)	$(431,043)	$57,755	$1,742,277
Cash dividends paid			(109,383)						
Net income			775,638						
Change in treasury stock, net		223		36,904					
Change of scope of consolidation			394						
Net changes of items other than owners' equity					568,096	(160,532)	263,916	10,202	6,723
Balance at March 31, 2013	$2,631,883	$2,454,000	$4,347,319	$(204,383)	$816,383	$(178,362)	$(167,127)	$67,957	$1,749,000

See accompanying notes.

Consolidated Statements of Cash Flows

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Cash flows from operating activities:			
Net income (loss)	¥ 72,910	¥ (39,435)	$ 775,638
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	38,250	41,114	406,915
Gains on negative goodwill	(4,676)	(35,266)	(49,745)
Allowance for doubtful accounts, net	(691)	1,987	(7,351)
Stock subscription rights	959	1,044	10,202
Statutory reserves, net	(113)	(456)	(1,202)
Losses (gains) related to investment securities	(4,492)	3,362	(47,787)
Losses (gains) related to fixed assets	5,681	25,192	60,436
Losses (gains) on step acquisitions	420	(2,119)	4,468
Deferred income taxes	3,341	16,947	35,543
Minority interests	7,204	(1,839)	76,638
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	(62,645)	18,337	(666,436)
Other receivables and other payables	(82,921)	45,192	(882,138)
Collateralized short-term financing agreements	1,852,476	2,303,620	19,707,191
Trading assets and liabilities	(813,968)	(1,469,538)	(8,659,234)
Private equity and other investments	18,192	30,985	193,532
Deposits for banking business	621,849	1,169,916	6,615,415
Other, net	143,245	(76,366)	1,523,883
Total adjustments	1,722,111	2,072,112	18,320,330
Net cash flows provided by operating activities	1,795,021	2,032,677	19,095,968
Cash flows from investing activities:			
Increase in time deposits	(76,666)	(43,646)	(815,596)
Decrease in time deposits	6,093	61,603	64,819
Purchase of securities	(1,629,213)	(1,593,335)	(17,332,053)
Proceeds from sales and redemption of securities	921,818	610,340	9,806,574
Payments for purchases of property and equipment	(19,143)	(10,064)	(203,649)
Proceeds from sales of property and equipment	387	516	4,117
Payments for purchases of intangible fixed assets	(14,317)	(21,099)	(152,309)
Payments for purchases of investment securities	(15,547)	(8,791)	(165,394)
Proceeds from sales and redemption of investment securities	26,555	11,671	282,500
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 19)	1,002	15,250	10,660
Payments of loans receivable	(8,257)	(406)	(87,840)
Collection of loans receivable	8,886	1,987	94,532
Other, net	(89)	2,481	(946)
Net cash flows used in investing activities	(798,491)	(973,493)	(8,494,585)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Cash flows from financing activities:			
Decrease in short-term borrowings and commercial paper	¥ (817,728)	¥(1,068,402)	$ (8,699,234)
Increase in long-term debt	413,856	371,175	4,402,723
Decrease in long-term debt	(498,223)	(358,823)	(5,300,244)
Payments of cash dividends	(10,282)	(10,281)	(109,383)
Other, net	2,915	3,308	31,011
Net cash flows used in financing activities	(909,462)	(1,063,023)	(9,675,127)
Effect of exchange rate changes on cash and cash equivalents	9,944	(644)	105,787
Net increase (decrease) in cash and cash equivalents	97,012	(4,483)	1,032,043
Cash and cash equivalents at beginning of year	1,038,981	1,043,464	11,052,989
Increase in cash and cash equivalents from newly consolidated subsidiary	60	—	638
Cash and cash equivalents at end of year	¥1,136,053	¥ 1,038,981	$12,085,670

See accompanying notes.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2013 and 2012

1. Basis of financial statements

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

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

Daiwa Securities operates retail and wholesale business. Retail business is operated through a network of 118 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. Wholesale business is operated as 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, 2013, which was ¥94 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 operations. 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 based on whether the decline is temporary by considering the movements of the market price over the last twelve months 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 than 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.

(Change in accounting policies with amendment of respective law or regulation that are not distinguishable from change in accounting estimates)
From the year ending March 31, 2013, in accordance with the amendment in corporate tax law, the Company and its domestic subsidiaries have changed its depreciation method for property and equipments. Assets acquired on or after April 1, 2012 are depreciated using the method prescribed in amended corporate tax law. The effect of the change is immaterial.

Intangible fixed assets—Intangible fixed assets are generally amortized by the straight-line method. Daiwa computes the amortization over estimated useful lives. The useful lives of software 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 the 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 is not presented, since net loss is reported in the consolidated statements of income.

(Additional Information)
Unapplied accounting standards

- 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 also transfers assets to the special purpose entity. These amendments will be effective from the beginning of annual periods ending on March 31, 2014. The Company is currently in the process of determining the effects of these new standards on the consolidated financial statements.

3. Margin transactions

Margin transactions at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Assets:			
Customers' margin loans	¥182,882	¥106,976	$1,945,553
Cash deposits as collateral for securities borrowed	10,761	13,894	114,479
	¥193,643	¥120,870	$2,060,032
Liabilities:			
Payable to securities finance companies	¥ 12,617	¥ 3,110	$ 134,223
Proceeds of securities sold for customers' accounts	45,145	49,646	480,266
	¥ 57,762	¥ 52,756	$ 614,489

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, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Assets:			
Securities purchased under agreements to resell	¥ 1,620	¥ 6,048	$ 17,234
Securities borrowed	4,840,107	5,729,144	51,490,500
	¥4,841,727	¥5,735,192	$51,507,734
Liabilities:			
Securities sold under agreements to repurchase	¥ 243,803	¥ 810,545	$ 2,593,649
Securities loaned	6,899,162	5,257,835	73,395,340
	¥7,142,965	¥6,068,380	$75,988,989

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 investments 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

At the meeting of the Board of Directors, the Company has resolved the "Risk Management Rule" 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 and conducted risk management of the entire Group. 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. Major 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 business 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, 2013 (fiscal year end) was 1.6 billion yen ($17.0 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 investment 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 subsidiaries, which engage in the investment business, investigate each investment through the investment committee etc. and make decision. The subsidiaries regularly monitor the situation of invested companies and inform the results to the risk management committee 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 regularly monitors the situation of risk and informs the results to the management of the Company.

(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 investment business and investment securities for the business relationship. As of March 31, 2013, market prices of the listed equities in operational investment securities and investment securities would fluctuate by 12.6 billion yen ($134.0 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, 2013, 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 1.1 billion yen ($11.7 million) and 0.0 billion yen ($0.1 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. Also, regarding assets and liabilities in foreign currencies whose balance are less than 5% of total assets or liabilities, interest rates shock according to the parallel displacement of 200 basis points (2%) up and down across the board, is used for calculating the financial value changes. At the end of the fiscal year, presuming that all the risk factors except interest rates are unchanged, the financial value will be decreased by 3.5 billion yen ($37 million) by interest rate volatility.

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 Co. Ltd., Daiwa Next Bank, Ltd. and foreign securities subsidiaries, which are sensitive to influence by financial markets and for which the importance to secure liquidity of the capital is significant, each decide their own contingency plans and are periodically revising their plans as well.

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

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

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

2. Fair values of financial instruments

The figures stated in the consolidated balance sheets as of March 31, 2013 and 2012, 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

	2013			2012		
	Amounts on consolidated balance sheets	Fair value	Difference	Amounts on consolidated balance sheets	Fair value	Difference
Assets						
(1) Cash and cash equivalents	¥ 1,136,053	¥ 1,136,053	¥ —	¥ 1,038,981	¥ 1,038,981	¥ —
(2) Cash segregated as deposits for regulatory purposes	260,198	260,198	—	204,478	204,478	—
(3) Time deposits	86,190	86,190	—	21,487	21,487	—
(4) Receivables related to margin transactions	193,643	193,643	—	120,870	120,870	—
(5) Collateralized short-term financing agreements	4,841,727	4,841,727	—	5,735,192	5,735,192	—
(6) Trading assets	8,849,128	8,849,128	—	8,876,950	8,876,950	—
(7) Securities, Private equity and other investments and Investment securities						
(a) Securities intended to be held for trading purposes	—	—	—	2,462	2,462	—
(b) Held-to-maturity debt securities	2,923	2,924	1	563,688	564,074	386
(c) Subsidiaries companies' stocks and related companies' stocks	418	606	188	—	—	—
(d) Available-for-sale securities	2,323,748			1,103,509		
Allowance for possible investment loss	(6,911)			(7,549)		
	2,316,837	2,316,837	—	1,095,960	1,095,960	—
(8) Trade account receivables, net	235,449	235,449	—	139,096	139,096	—
Total assets	¥17,922,566	¥17,922,755	¥ 189	¥17,799,164	¥17,799,550	¥ 386
Liabilities						
(9) Short-term borrowings	¥ 794,206	¥ 794,206	¥ —	¥ 1,636,651	¥ 1,636,651	¥ —
(10) Commercial paper	301,711	301,711	—	275,192	275,192	—
(11) Long-term debt	2,215,290	2,192,042	23,248	2,280,252	2,161,867	118,385
(12) Deposits for banking business	1,791,766	1,791,360	406	1,169,916	1,169,475	441
(13) Payables to customers and counterparties	435,915	435,915	—	346,173	346,173	—
(14) Payables related to margin transactions	57,762	57,762	—	52,756	52,756	—
(15) Payables-other	35,537	35,537	—	18,897	18,897	—
(16) Collateralized short-term financing agreements	7,142,965	7,142,965	—	6,068,380	6,068,380	—
(17) Trading liabilities	4,965,693	4,965,693	—	5,953,280	5,953,280	—
Total liabilities	¥17,740,845	¥17,717,191	¥23,654	¥17,801,497	¥17,682,671	¥118,826
Derivatives used for non-trading						
Derivatives to which hedge accounting is not applied	¥ (615)	¥ (615)	¥ —	¥ (88)	¥ (88)	¥ —
Derivatives to which hedge accounting is applied	(32,729)	(18,392)	14,337	(3,637)	(3,918)	(281)
Total derivatives related to non-trading	¥ (33,344)	¥ (19,007)	¥14,337	¥ (3,725)	¥ (4,006)	¥ (281)

* 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 2013		
	Amounts on consolidated balance sheets	Fair value	Difference
Assets			
(1) Cash and cash equivalents	$ 12,085,670	$ 12,085,670	$ —
(2) Cash segregated as deposits for regulatory purposes	2,768,064	2,768,064	—
(3) Time deposits	916,915	916,915	—
(4) Receivables related to margin transactions	2,060,032	2,060,032	—
(5) Collateralized short-term financing agreements	51,507,734	51,507,734	—
(6) Trading assets	94,139,660	94,139,660	—
(7) Securities, Private equity and other investments and Investment securities			
(a) Securities intended to be held for trading purposes	—	—	—
(b) Held-to-maturity debt securities	31,096	31,106	10
(c) Subsidiaries companies' stocks and related companies' stocks	4,447	6,447	2,000
(d) Available-for-sale securities	24,720,723		
Allowance for possible investment loss	(73,521)		
	24,647,202	24,647,202	—
(8) Trade account receivables, net	2,504,776	2,504,776	—
Total assets	$190,665,596	$190,667,606	$ 2,010
Liabilities			
(9) Short-term borrowings	$ 8,449,000	$ 8,449,000	$ —
(10) Commercial paper	3,209,691	3,209,691	—
(11) Long-term debt	23,566,915	23,319,596	247,319
(12) Deposits for banking business	19,061,340	19,057,021	4,319
(13) Payables to customers and counterparties	4,637,394	4,637,394	—
(14) Payables related to margin transactions	614,489	614,489	—
(15) Payables-other	378,054	378,054	—
(16) Collateralized short-term financing agreements	75,988,989	75,988,989	—
(17) Trading liabilities	52,826,521	52,826,521	—
Total liabilities	$188,732,393	$188,480,755	$251,638
Derivatives used for non-trading			
Derivatives to which hedge accounting is not applied	$ (6,542)	$ (6,542)	$ —
Derivatives to which hedge accounting is applied	(348,181)	(195,660)	152,521
Total derivatives related to non-trading	$ (354,723)	$ (202,202)	$152,521

* 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, 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, 2013 and 2012 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
	2013	2012	2013
Subsidiaries' stocks and related companies' stocks			
Unlisted equities	¥35,292	¥32,465	$375,447
Other securities			
Unlisted equities	61,476	74,639	654,000
Investments in limited partnership and other similar partnerships	15,784	16,534	167,915
Others	5,633	4,499	59,926

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, 2013

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥1,136,053	¥ —	¥ —	¥ —
Cash segregated as deposits for regulatory purposes	260,198	—	—	—
Time deposits	85,990	200	—	—
Receivables related to margin transactions	193,643	—	—	—
Collateralized short-term financing agreements	4,841,727	—	—	—
Securities, Private equity and other investments and Investment securities				
Held-to-maturity securities	2,823	100	—	—
Government bonds, municipal bonds, etc.	—	—	—	—
Corporate bonds	—	—	—	—
Other bonds	2,823	100	—	—
Other securities with a maturity date	28,267	551,827	1,377,843	118,834
Bonds	27,850	551,827	1,377,843	118,834
Government bonds, municipal bonds, etc.	11,852	—	1,266,546	—
Corporate bonds	8	124,288	25,102	118,834
Other bonds	15,990	427,539	86,195	—
Other securities	417	—	—	—
Total	¥6,548,701	¥552,127	¥1,377,843	¥118,834

* 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".

	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
				Thousands of U.S. dollars
Cash and cash equivalents	$12,085,670	$ —	$ —	$ —
Cash segregated as deposits for regulatory purposes	2,768,064	—	—	—
Time deposits	914,787	2,128	—	—
Receivables related to margin transactions	2,060,032	—	—	—
Collateralized short-term financing agreements	51,507,734	—	—	—
Securities, Private equity and other investments and Investment securities				
Held-to-maturity securities	30,032	1,064	—	—
Government bonds, municipal bonds, etc.	—	—	—	—
Corporate bonds	—	—	—	—
Other bonds	30,032	1,064	—	—
Other securities with a maturity date	300,713	5,870,499	14,657,904	1,264,191
Bonds	296,277	5,870,499	14,657,904	1,264,191
Government bonds, municipal bonds, etc.	126,085	—	13,473,894	—
Corporate bonds	85	1,322,212	267,043	1,264,191
Other bonds	170,107	4,548,287	916,967	—
Other securities	4,436	—	—	—
Total	$69,667,032	$5,873,691	$14,657,904	$1,264,191

* 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, 2013

	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
				Millions of yen
Payable to securities finance companies	¥ 12,617	¥ —	¥ —	¥ —
Deposits for banking business	1,653,979	137,787	—	—
Commercial paper	301,711	—	—	—
Long-term debts	373,763	1,176,303	135,961	529,263
Total	¥2,342,070	¥1,314,090	¥135,961	¥529,263

* 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”.

	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
				Thousands of U.S. dollars
Payable to securities finance companies	$ 134,224	$ —	$ —	$ —
Deposits for banking business	17,595,521	1,465,819	—	—
Commercial paper	3,209,691	—	—	—
Long-term debts	3,976,202	12,513,862	1,446,394	5,630,457
Total	$24,915,638	$13,979,681	$1,446,394	$5,630,457

* 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, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Trading assets:			
Trading securities:			
Equities	¥ 313,218	¥ 203,648	$ 3,332,106
Government, corporate and other bonds	5,242,826	5,807,597	55,774,746
Investment trusts	173,378	74,255	1,844,447
Commercial paper, certificates of deposits and others	372,021	62,795	3,957,670
Derivatives:			
Option transactions	544,093	424,841	5,788,223
Futures and forward transactions	73,270	84,300	779,468
Swap agreements	2,105,154	2,189,167	22,395,255
Other derivatives	34,783	41,996	370,032
Risk reserves	(9,615)	(11,649)	(102,287)
	¥8,849,128	¥8,876,950	$94,139,660
Trading liabilities:			
Trading securities:			
Equities	¥ 155,927	¥ 114,085	$ 1,658,798
Government, corporate and other bonds	2,360,080	3,434,101	25,107,234
Investment trusts	8	—	85
Commercial paper, certificates of deposits and others	108,227	21,967	1,151,351
Derivatives:			
Option transactions	477,926	422,229	5,084,319
Futures and forward transactions	96,378	106,563	1,025,298
Swap agreements	1,735,178	1,817,733	18,459,340
Other derivatives	31,969	36,602	340,096
	¥4,965,693	¥5,953,280	$52,826,521

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, 2013 and 2012 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2013	¥ —	¥ —	¥—
March 31, 2012	¥2,419	¥2,462	¥43

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2013	$—	$—	$—

Amortized cost of held-to-maturity debt securities as of March 31, 2013 and 2012 consisted of the following:

			Millions of yen
	Cost	Fair value	Difference
March 31, 2013:			
Government, municipal and other bonds	¥ —	¥ —	¥—
Corporate bonds	—	—	—
Other	2,923	2,924	1

			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	802
Other	256,371	255,509	(862)

			Thousands of U.S. dollars
	Cost	Fair value	Difference
March 31, 2013:			
Government, municipal and other bonds	$ —	$ —	$—
Corporate bonds	—	—	—
Other	31,096	31,106	10

Cost and fair value of marketable available-for-sale securities as of March 31, 2013 and 2012 consisted of the following:

			Millions of yen
	Cost	Fair value	Difference
March 31, 2013:			
Equities	¥ 83,542	¥ 135,412	¥ 51,870
Government, corporate and other bonds	2,020,569	2,076,345	55,776
Other	111,117	121,991	10,874
	¥2,215,228	¥2,333,748	¥118,520

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

			Thousands of U.S. dollars
	Cost	Fair value	Difference
March 31, 2013:			
Equities	$ 888,745	$ 1,440,553	$ 551,809
Government, corporate and other bonds	21,495,415	22,088,777	593,362
Other	1,182,095	1,297,776	115,680
	$23,566,255	$24,827,106	$1,260,851

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, 2013 and 2012 are as follows:

	Millions of yen		
	Contract amount	Fair value	Unrealized gains (losses)
March 31, 2013:			
Foreign exchange forward	¥284,823	¥(938)	¥(938)
Interest swap	¥ 40,000	¥ 324	¥ 324

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

	Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gains (losses)
March 31, 2013:			
Foreign exchange forward	$3,030,021	$(9,979)	$(9,979)
Interest swap	$ 425,532	$ 3,447	$ 3,447

2. Derivatives to which hedge accounting is applied

Main hedged items, contract amount and fair value of these derivatives at March 31, 2013 and 2012 are as follows:

March 31, 2013

			Millions of yen	
Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount	Fair value
Foreign exchange forward contract	Allocation method	Foreign bond	¥ 19	¥ 19
Interest swap	Fundamental method	Debt and government bond	1,326,933	(32,729)
	Special treatment	Debt and government bond	27,350	(83)
Interest and currency swap	Integration of special treatment and allocation method	Corporate bond	58,638	14,401

March 31, 2012

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

March 31, 2013

			Thousands of U.S. dollars	
Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount	Fair value
Foreign exchange forward contract	Allocation method	Foreign bond	$ 202	$ 202
Interest swap	Fundamental method	Debt and government bond	14,116,309	(348,181)
	Special treatment	Debt and government bond	290,957	(883)
Interest and currency swap	Integration of special treatment and allocation method	Corporate bond	623,809	153,202

9. Pledged assets

Secured obligations at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Short-term borrowings	¥440,800	¥1,372,960	$4,689,362
Long-term debt	4,800	—	51,064
Payables related to margin transactions	12,617	3,110	134,223
	¥458,217	¥1,376,070	$4,874,649

All above obligations at March 31, 2013 and 2012 are secured by the following assets:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Time deposits	¥ 8,200	¥ —	$ 87,234
Trading assets	448,679	1,466,731	4,773,180
Securities	15,969	214	169,883
Investment securities	11,792	16,301	125,447
Property and equipment	363	—	3,862
	¥485,003	¥1,483,247	$5,159,606

In addition to the above, securities borrowed amounting to ¥329,374 million ($3,503,979 thousand) and ¥339,224 million were pledged as guarantees at March 31, 2013 and 2012, respectively.

Total fair value of the securities pledged as collateral at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Securities loaned	¥7,574,101	¥5,997,031	$80,575,543
Other	778,411	1,274,261	8,280,968
	¥8,352,512	¥7,271,292	$88,856,511

Total fair value of the securities received as collateral at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Securities borrowed	¥5,735,417	¥6,695,182	$61,015,074
Other	450,661	307,561	4,794,266
	¥6,186,078	¥7,002,743	$65,809,340

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, 2013 and 2012 are summarized as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Non-capitalized finance leases:			
Total assets under non-capitalized finance leases	¥ —	¥ 130	$ —
Accumulated depreciation	—	121	—
Future lease payments in respect of non-capitalized leases	—	9	—
Due within one year	—	9	—
Operating leases:			
Future lease payments in respect of operating leases	58,898	67,358	626,574
Due within one year	11,713	12,335	124,606

Lessor:	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Operating leases:			
Future lease receipts in respect of operating leases	¥15,559	¥13,890	$165,521
Due within one year	6,975	6,239	74,202

11. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash received for customers' accounts	¥136,425	¥111,247	$1,451,330
Cash deposits received from customers	286,675	226,144	3,049,734
Other	12,815	8,782	136,330
	¥435,915	¥346,173	$4,637,394

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, 2013 and 2012 was 0.16% and 0.21%, respectively.

Long-term debt at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Bond payable in yen: 2.08% due CY2016	¥ 30,000	¥ 30,000	$ 319,149
Bond payable in yen: 1.50% due CY2012	—	50,000	—
Bond payable in yen: 1.43% due CY2013	—	60,000	—
Bond payable in yen: 1.66% due CY2013	70,000	70,000	744,681
Bond payable in yen: 0.92% due CY2015	50,000	50,000	531,915
Bond payable in yen: 0.71% due CY2014	30,000	30,000	319,149
Bond payable in yen: 0.29% due CY2014	30,000	30,000	319,149
Bond payable in yen: 0.31% due CY2015	30,000	30,000	319,149
Bond payable in yen: 0.51% due CY2014	40,000	40,000	425,532
Bond payable in yen: 0.6% due CY2016	30,000	—	319,149
Bond payable in yen: 0.31% due CY2017	8,000	—	85,106
Bond payable in yen: 1.40% due CY2014	30,000	30,000	319,149
Bond payable in yen: 0.94% due CY2015	41,300	41,300	439,362
Bond payable in yen: 0.62% due CY2015	20,500	20,500	218,085
Bond payable in yen: 1.26% due CY2017	19,800	19,800	210,638
Bond payable in yen: 1.72% due CY2020	18,400	18,400	195,745
Bond payable in yen: 2.16% due CY2025	7,800	7,800	82,979
Bond payable in yen: 0.66% due CY2032	3,300	—	35,106
Bond payable in yen: 2.41% due CY2026	3,000	3,000	31,915
Bond payable in yen: 2.24% due CY2026	5,000	5,000	53,191
Bond payable in yen: 0.61% due CY2026	2,200	2,200	23,404
Bond payable in yen: 1.87% due CY2013	5,000	5,000	53,191
Euro medium-term notes issued by the Company and a domestic consolidated subsidiary, maturing through CY2042	887,139	896,564	9,437,649
Subordinated bond payable in yen: maturing through CY2019	58,025	58,225	617,287
Subordinated borrowings from banks in yen, maturing through CY2016	31,500	46,000	335,106
Long-term borrowings principally from banks in yen, maturing through CY2038	763,441	734,901	8,121,714
Lease obligation	885	1,562	9,415
	¥2,215,290	¥2,280,252	$23,566,915

The amount for euro medium-term notes issued by the Company and a domestic consolidated subsidiary as of March 31, 2013 includes US$674,463 thousand, AU$1,112,700 thousand, NZ$395,144 thousand and ZAR3,768,000 thousand.

Interest rates of euro medium-term notes range from 0.00% to 7.30% at March 31, 2013 and from 0.00% to 7.30% at March 31, 2012. The weighted average interest rate on total outstanding yen subordinated borrowings and borrowings principally from banks at March 31, 2013 and 2012 was 0.75% and 0.81%, respectively. The weighted average interest rate on total outstanding lease obligations at March 31, 2013 was 1.64%.

Daiwa had an unused commitment line amounting to ¥9,405 million ($100,053 thousand) under agreements with several banks at March 31, 2013.

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, 2013 and 2012, in the amount of ¥31,813 million ($338,436 thousand) and ¥29,984 million, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2013 and 2012 were ¥3,431 million ($36,500 thousand), ¥2,451 million, respectively.

Retirement benefits for directors

Directors' retirement benefits in consolidated subsidiaries of ¥567 million ($6,032 thousand) and ¥504 million are included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2013 and 2012, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2013 and 2012 were ¥215 million ($2,287 thousand), ¥218 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 38.0% and 40.7% for the years ended March 31, 2013 and 2012. Overseas consolidated subsidiaries are subject to income taxes of the countries in which they operate.

A reconciliation of the difference between the Japanese statutory income tax rate and the effective income tax rate reflected in the consolidated statements of income for the year ended March 31, 2013 is as follows:

	2013
Statutory tax rate	38.0%
Valuation allowance	(29.8)
Permanent difference (expense)	4.1
Permanent difference (income)	(0.3)
Lower tax rate applicable to income of overseas consolidated subsidiaries	3.8
Adjustment of unrealized inter-company profit	1.4
Amortization of goodwill and negative goodwill	(3.5)
Other	(1.1)
Effective tax rate	12.6%

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

Details of deferred tax assets and liabilities at March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Net operating losses carry-forward	¥ 148,717	¥ 179,644	$ 1,582,096
Revaluation of assets on consolidation	13,969	14,094	148,606
Write-down of investment securities	12,157	11,463	129,330
Retirement benefits	11,422	10,945	121,511
Deferred (gain) loss on hedge	9,298	891	98,915
Compensation and bonuses	7,295	3,118	77,606
Allowance for doubtful accounts	1,752	1,490	18,638
Impairment losses on fixed assets	10,648	10,944	113,277
Elimination of unrealized gain	1,056	2,611	11,234
Loss on private equity and other investments	13,082	9,627	139,170
Loss on trading	4,449	5,198	47,330
Other	20,889	17,075	222,223
Gross deferred tax assets	254,734	267,100	2,709,936
Less: Valuation allowance	(225,480)	(244,577)	(2,398,723)
Total deferred tax assets	29,254	22,523	311,213
Deferred tax liabilities	44,876	11,655	477,403
Net deferred tax assets	¥ (15,622)	¥ 10,868	$ (166,192)

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.

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 ¥2,360 million ($25,106 thousand) and ¥2,630 million at March 31, 2013 and 2012, 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, 2013 amounted to ¥360,506 million ($3,835,170 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 ¥12 ($0.13) per share amounting to ¥20,564 million ($218,766 thousand) and ¥3 ($0.03) per share amounting to ¥5,141 million ($54,691 thousand) were approved by the Board of Directors on May 15, 2013 and November 2, 2012, respectively.

18. Share-based payment

Daiwa has various stock option plans.

The shareholders of the Company on June 24, 2005, June 24, 2006, June 23, 2007, June 21, 2008, June 20, 2009, June 26, 2010, June 25, 2011, and June 27, 2012 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, 2013 are as follows:

Date of approval at the shareholders' meeting	Balance of the exercisable options (The number of shares)	Exercise price (Yen/share)	(U.S. dollars/share)	Exercise period
June 24, 2005	372,000	¥ 1	($ 0.01)	from July 1, 2005 to June 30, 2025
June 24, 2006	224,000	¥ 1	($ 0.01)	from July 1, 2006 to June 30, 2026
	2,383,000	¥1,455	($15.48)	from July 1, 2011 to June 23, 2016
June 23, 2007	252,000	¥ 1	($ 0.01)	from July 1, 2007 to June 30, 2027
	2,385,000	¥1,176	($12.51)	from July 1, 2012 to June 22, 2017
June 21, 2008	308,000	¥ 1	($ 0.01)	from July 1, 2008 to June 30, 2028
	—	¥ 881	($ 9.37)	from July 1, 2013 to June 20, 2018
June 20, 2009	622,000	¥ 1	($ 0.01)	from July 1, 2009 to June 30, 2029
	—	¥ 496	($ 5.28)	from July 1, 2014 to June 19, 2019
June 26, 2010	1,038,000	¥ 1	($ 0.01)	from July 1, 2010 to June 30, 2030
	—	¥ 380	($ 4.04)	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	($ 3.47)	from July 1, 2016 to June 24, 2021
June 27, 2012	831,000	¥ 1	($ 0.01)	from February 12, 2013 to June 30, 2032
	—	¥ 598	($ 6.36)	from July 1, 2017 to June 26, 2022

19. Business combinations and related matters

Detail of business combinations and related matters for the year ended March 31, 2013 are as follows.

Deals under common control

a. Outline of the deals under common control

(i) Name of acquired corporation
Name: Daiwa Office Investment Corporation
Business: Investment management business to the specified assets

(ii) Legal form of business combination
Additional acquisition of investment units issued by Daiwa Office Investment Corporation

(iii) Corporate name after business combination
Unchanged

(iv) Outline of the deal and the objective
While the Company held 45.68% (including indirectly-owned shares) of the voting rights of the total issued and outstanding investment units issued by Daiwa Office Investment Corporation, the Company acquired additional investment units from July 23, 2012 to October 5, 2012 in order to strengthen earning power and governance of the real property asset management business in the Group. As a result, the percentage of voting rights has become 47.56% (including indirectly-owned shares).

b. Outline of accounting procedure

Based on 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), the Group processed the deal as the transaction with minority shareholders.

c. Information regarding the additional acquisitions

(i) Acquisition cost and breakdown
The amount of consideration: ¥1,707 million ($18,160 thousand)
The amount of the expenses incurred directly for the acquisition: ¥13 million ($138 thousand)
The amount of acquisition cost (cash and deposit): ¥1,720 million ($18,298 thousand)

(ii) The amount of negative goodwill and reason for its recognition
The amount of negative goodwill: ¥1,351 million ($14,372 thousand)
Reason for its recognition:
The cost for the additional acquisition of the investment units issued by Daiwa Office Investment Corporation is less than the amount of corresponding decline of the minority interests.

Business combination by acquisition

a. Outline of the business combination

(i) Name and business of acquired corporation
Name: Retela Crea Securities Co., Ltd.
Business: Securities-related business

(ii) Main reason for the business combination
The Company has dispatched two board members to Retela Crea Securities Co., Ltd. and has constructed an amicable relationship with Retela Crea Securities Co., Ltd. The Company conducted the tender offer for all of the outstanding common shares and equity warrant in order to build closer capital ties through the additional acquisition of the common shares, etc. of Retela Crea Securities Co., Ltd.

(iii) Date of business combination
March 31, 2013 (To be considered as the acquisition date)

(iv) Legal form of business combination
Acquisition of common stocks issued by Retela Crea Securities Co., Ltd.

(v) Percentage of voting rights acquired

Percentage of voting rights held before the business combination:	14.98%
Percentage of voting rights acquired on the date of business combination:	46.02%
Percentage of voting rights held after the business combination:	61.01%

b. The term of the financial results of the acquired company included in the consolidated financial statements

As March 31, 2013 is considered to be the acquisition date, the financial results of the acquired company is not included in the consolidated financial statements.

c. Acquisition cost and breakdown

(i) The fair value of the stocks of Retela Crea Securities Co., Ltd. held by the Company just before the business combination: ¥452 million ($4,809 thousand)

(ii) The fair value of the additional stocks issued by Retela Crea Securities Co., Ltd. acquired on the effective date of the business combination: ¥1,390 million ($14,787 thousand)

(iii) The amount of the expenses incurred directly for the acquisition: ¥6 million ($64 thousand)

(iv) The amount of acquisition cost: ¥1,848 million ($19,660 thousand)

d. Difference between the acquisition cost at the date of business combination and the sum of the historical acquisition cost of each transaction

Loss on step acquisition: ¥420 million ($4,468 thousand)

e. Amount of negative goodwill and reason for its recognition

(i) Amount of negative goodwill: ¥3,324 million ($35,362 thousand)

(ii) Reason for its recognition:
The net of fair value of the assets and liabilities of the acquired company at the date of business combination exceeds the acquisition cost.

f. Assets acquired and liabilities assumed at the date of business combination, and reconciliation between the acquisition cost of stocks and the proceeds from purchase

	Millions of yen	Thousands of U.S. dollars
	2013	2013
Current assets	¥ 34,550	$ 367,552
Fixed assets	4,173	44,393
Current liabilities	(28,948)	(307,957)
Fixed liabilities	(1,193)	(12,691)
Statutory reserves	(101)	(1,074)
Minority interests	(3,309)	(35,202)
Negative goodwill	(3,324)	(35,361)
The additional acquisition cost of stocks	1,848	19,660
Loss on step acquisition	420	4,468
The historical cost of stocks	(872)	(9,277)
Cash and cash equivalents held by Retela Crea Securities Co., Ltd.	(2,398)	(25,511)
Net: Proceeds from acquisition	1,002	10,660

g. Approximate effects on the consolidated statements of income for the year ended March 31, 2013 and method of calculation assuming that the business combination was completed on the beginning day of the year ended March 31, 2013

	Millions of yen	Thousands of U.S. dollars
Net Operating Revenue	¥2,602	$27,681
Ordinary Loss	113	1,202
Net Income	528	5,618

(Method adopted to estimate approximate effects)
Assuming that the business combination was completed on the beginning day of the year ended March 31, 2013, the approximate effects is the difference between the profit/loss information and the amount of net operating revenue after eliminating the internal transactions, and the profit/loss information and the amount of net operating income of acquired corporation. These approximate effects have not been audited.

20. Investment and rental properties

Some subsidiaries own office buildings (including land) for rent in Tokyo and other areas. Net income from investment and rental properties is ¥8,069 million ($85,840 thousand). Income or expenses from rental properties is included in other income (expenses). 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, 2012	Change during the period	As of March 31, 2013	As of March 31, 2013
¥269,320	¥13,087	¥282,407	¥287,380

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

Thousands of U.S. dollars

Book value			Fair value
As of March 31, 2012	Change during the period	As of March 31, 2013	As of March 31, 2013
$2,865,106	$139,224	$3,004,330	$3,057,234

(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.
For the year ended March 31, 2013, the major reason of increase is the acquisition of rental properties (¥14,494 million, $154,191 thousand). The major reason of decrease is depreciation (¥2,294 million, $24,404 thousand).
(Note 3) The fair value as of March 31, 2013 and 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 ratio of Daiwa Securities was 310.0% (unaudited) for March 31, 2013. Daiwa also announced that Daiwa has calculated the consolidated capital adequacy ratio as of March 31, 2013 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, 2013 was 20.0% (unaudited).

22. Segment information

Daiwa defines reportable segments as a group of operating segments whose discrete financial information is available and reviewed by the management regularly in order to make decisions about resources to be allocated and assess their performance. Focusing on securities-related business, Daiwa offers overall investment and financial service in coordination with group's support business, and 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 reportable segments by business market and business category based on the organization structure, and aggregates to four reportable segments: "Retail", "Wholesale", "Asset management" and "Investment" by similarity of economic character.

(Changes of reportable segments)
Daiwa Securities Co. Ltd. and Daiwa Securities Capital Markets Co. Ltd. conducted a merger on April 1, 2012. Therefore, the Company changed its reportable segments from five segments ("Retail", "Global markets", "Global investment banking", "Asset management" and "Investment") to four segments ("Retail", "Wholesale", "Asset management" and "Investment"). The methods to measure revenue and loss of each segment was also changed.

Since in practice, it is difficult to reclassify reportable segments in the year ended March 31, 2012 using the new method, the Company do not disclosed it.

(Net operating revenues by reportable segment)

Millions of yen

	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2013:							
Net operating revenues:							
Sales to customers	¥161,544	¥112,181	¥ 64,216	¥17,626	¥355,567	¥12,011	¥367,578
Intersegment sales and transfers	22,872	20,929	(20,625)	(131)	23,045	14,851	37,896
Total	¥184,416	¥133,110	¥ 43,591	¥17,495	¥378,612	¥26,862	¥405,474

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:								
Sales to customers	¥138,843	¥ 73,269	¥29,350	¥ 57,697	¥ 3,722	¥302,881	¥ 2,250	¥305,131
Intersegment sales and transfers	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

Thousands of U.S. dollars

	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2013:							
Net operating revenues:							
Sales to customers	$1,718,553	$1,193,415	$ 683,149	$187,511	$3,782,628	$127,776	$3,910,404
Intersegment sales and transfers	243,319	222,649	(219,415)	(1,394)	245,159	157,990	403,149
Total	$1,961,872	$1,416,064	$ 463,734	$186,117	$4,027,787	$285,766	$4,313,553

* "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 management does not allocate it to each segment for managerial decision-making.

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

Net operating revenues	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars 2013
Reportable segment total	¥378,612	¥289,035	$4,027,787
Net operating revenues from "Others"	26,862	32,503	285,766
Elimination between segments	(37,896)	(16,407)	(403,149)
Commission fee deducted from net operating revenues	27,254	28,849	289,936
Other adjustments	22,476	2,036	239,107
Net operating revenue of financial statements	¥417,308	¥336,016	$4,439,447

(Impairment losses on fixed assets by reportable segment)

Millions of yen

	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination	Total
Year ended March 31, 2013:								
Loss on impairment	**¥—**	**¥4,572**	**¥—**	**¥—**	**¥4,572**	**¥3,488**	**¥(3,488)**	**¥4,572**

Millions of yen

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

Thousands of U.S. dollars

	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination	Total
Year ended March 31, 2013:								
Loss on impairment	**$—**	**$48,638**	**$—**	**$—**	**$48,638**	**$37,106**	**$(37,106)**	**$48,638**

(Gains on negative goodwill by reportable segment)

For the year ended March 31, 2012, Daiwa recorded negative goodwill of ¥35,266 million by consolidating Daiwa Office Investment Corporation.

For the year ended March 31, 2013, Daiwa recorded negative goodwill of ¥4,675 million ($49,734 thousand) by consolidating Retela Crea Securities Co., Ltd and additional acquisition of investment units issued by Daiwa Office Investment Corporation.

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, 2013 and 2012, and the resulting account balances with such related party at the balance sheet dates are as follows:

Name of related company	Paid-in Capital Millions of yen	Description of transactions		Account balances	Millions of yen 2013
Tokyo Tanshi Co., Ltd.	¥10,000	Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	**¥613,320**
		Interest and dividend expense	**¥19**	Collateralized short-term financing agreements (assets)	**28,913**
		Interest income	**3**	Receivables—Other	**1**
		Interest and dividend income	**¥17**	Accrued and other liabilities—Other	**3**
		Interest expense	**13**		

Millions of yen

			2012
Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	¥209,966
Interest and dividend expense	¥11	Collateralized short-term financing agreements (assets)	115,859
Interest income	2	Receivables—Other	1
Interest and dividend income	¥11	Accrued and other liabilities—Other	2
Interest expense	7		

Name of related company	Paid-in Capital Millions of yen	Description of transactions		Account balances	Thousands of U.S. dollars 2013
Tokyo Tanshi Co., Ltd.	¥10,000	Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	$6,524,681
		Interest and dividend expense	$202	Collateralized short-term financing agreements (assets)	307,585
		Interest income	32	Receivables—Other	11
		Interest and dividend income	$181	Accrued and other liabilities—Other	32
		Interest expense	138		

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, 2013 (6 for the year ended March 31, 2012) 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, 2013 and 2012 are ¥522,784 million ($5,561,532 thousand) and ¥405,374 million, respectively.

25. Net gain on trading

Net gain on trading for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Equity and other	¥ 38,182	¥ (6,464)	$ 406,191
Bond, forex and other	85,355	85,880	908,032
	¥123,537	¥79,416	$1,314,223

26. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Employees' compensation and benefits	¥156,988	¥158,298	$1,670,085
Commissions and brokerage	38,248	38,394	406,894
Communications	19,672	20,708	209,277
Occupancy and rental	38,169	44,881	406,053
Data processing and office supplies	23,133	27,752	246,096
Taxes other than income taxes	5,737	6,581	61,032
Depreciation	30,774	39,861	327,383
Other	20,775	23,254	221,010
	¥333,496	¥359,729	$3,547,830

27. Other income (expenses)

Details of "Other, net" in the accompanying consolidated statements of operations for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Gains on sales of investment securities	¥ 4,964	¥ 1,820	$ 52,809
Gain on step acquisitions	—	2,119	—
Gain on negative goodwill	4,676	35,266	49,745
Other (income)	14,501	12,806	154,266
Losses on sale or disposal of fixed assets	(1,109)	(7,308)	(11,798)
Loss on step acquisitions	(420)	—	(4,468)
Losses on sales of investment securities	—	(277)	—
Impairment losses on fixed assets	(4,572)	(17,884)	(48,638)
Write-down of investment securities	(384)	(4,556)	(4,085)
Business restructuring cost	(5,522)	(11,212)	(58,745)
Other (expenses)	(4,384)	(4,391)	(46,639)
	¥ 7,750	¥ 6,383	$ 82,447

Impairment losses on fixed assets

(Fiscal year ended March 31, 2013)

Daiwa recognized the impairment losses for the following asset group.

	Condition	Location	Millions of yen Impairment loss	Thousands of U.S. dollars Impairment loss
Idle assets	Low profit-earning assets	Others	¥4,572	$48,638

Assets are grouped in accordance with classifications used for internal management.

The decline of the profitability 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 ¥4,572 million ($48,638 thousand). The breakdown of the amounts is ¥4,572 million ($48,638 thousand) for idle assets (¥4,572 million ($48,638 thousand) for goodwill).

The recoverable amount of goodwill is measured by re-evaluated company value.

(Fiscal year ended March 31, 2012)

Daiwa recognized the impairment losses for the following asset groups.

	Condition	Location	Millions of yen Impairment loss
Idle assets	Low profit-earning assets	Kanto region and others	¥14,193
Assets to be disposed	Low operating asset	Kanto region	3,691
Total			¥17,884

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. The breakdown of the amounts is ¥14,193 million for idle assets (¥21 million for buildings, ¥11,794 million for software, ¥2,367 million for goodwill and ¥11 million for the others) and ¥3,691 million for the assets to be disposed (¥357 million for buildings, ¥1,343 million for lands, ¥1,986 million for leasehold rights and ¥5 million 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 are to be issued free to directors, executive officers and employees of the Company and its subsidiaries by the resolutions in the meeting of shareholders on June 26, 2013 in accordance with Articles 236, 238 and 239 of the Companies Act of Japan, and the amount paid in upon exercise of such subscription rights is ¥1 ($0.01) per share.

KPMG

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Daiwa Securities Group Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013 and 2012, 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, 2013 and 2012, 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, 2013 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 27, 2013
Tokyo, Japan

Report Regarding Situation of Soundness in Management

(As of March 31, 2013)

In accordance with the Financial Instruments and the Exchange Act Article 57-17, "Notification, etc. of Documents Describing Status of Soundness in Management", Daiwa Securities Group Inc. reports situation of soundness in management as of March 31, 2013.

Composition of Capital Disclosure

Items		Millions of yen	Millions of yen: Exclusion under transitional arrangements	Basel Ⅲ template number
Common Equity Tier 1 capital: instruments and reserves				
Shareholder's Equity		¥847,123		1a+2–1c–26
Common stock and capital surplus		478,073		1a
Retained earnings		408,647		2
Treasury stock (△)		19,212		1c
Planned distributions (△)		20,385		26
Others		—		
Stock subscription rights		6,387		1b
Accumulated other comprehensive income (and other reserves)		—	¥44,264	3
Minority interest after adjustments		—		5
Common Equity Tier 1 capital under transitional Basel Ⅲ rules		71,595		
Minority interest		71,595		
Common Equity Tier 1 capital before regulatory adjustments	(a)	925,106		6
Common Equity Tier 1 capital: regulatory adjustments				
Intangible assets other than mortgage-servicing rights (net of related tax liability)		—	84,439	8+9
Goodwill (net of related tax liability)		—	15,465	8
Other intangibles other than mortgage-servicing rights (net of related tax liability)		—	68,974	9
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		—	3,369	10
Cash-flow hedge reserve		—	(20)	11
Shortfall of allowance to expected losses		—	—	12
Securitization gain on sale (as set out in paragraph 562 of Basel Ⅱ framework)		—	—	13
Gains and losses due to changes in own credit risk on fair valued liabilities		—	—	14
Defined-benefit pension fund net assets		—	—	15
Investments in own shares (if not already netted off paid-in capital on reported balance sheet)		—	893	16
Reciprocal cross-holdings in common equity		—	—	17
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		—	29,335	18
Amount exceeding the 10% threshold		—	—	19+20+21
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)		—	—	19
Mortgage servicing rights (amount above 10% threshold)		—	—	20
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		—	—	21
Amount exceeding the 15% threshold		—	—	22
of which: significant investments in the common stock of financials		—	—	23
of which: mortgage servicing rights		—	—	24
of which: deferred tax assets arising from temporary differences		—	—	25
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		20,336		27
Total regulatory adjustments to Common equity Tier 1	(b)	20,336		28
Common Equity Tier 1 capital				
Common Equity Tier 1 capital (CET1) ((a) – (b))	(c)	¥904,770		29

Items		Millions of yen	Exclusion under transitional arrangements	Basel Ⅲ template number
Additional Tier 1 capital: instruments				
Shareholder’s Equity		¥ —		31a
Stock subscription rights		—		31b 30
Liabilities		—		32
Instruments issued by Special Purpose Companies		—		
Minority interest after adjustments		10,838		34-35
Tier 1 capital under Basel Ⅱ included in Additional Tier 1 capital under transitional Basel Ⅲ rules		—		33+35
Capital instruments issued by Daiwa Securities Group Inc. and its Special Purpose Companies		—		33
Capital instruments issued by consolidated subsidiaries and affiliates (excluding Special Purpose companies of Daiwa Securities Group Inc.)		—		35
Additional Tier 1 capital under transitional Basel Ⅲ rules		(15,709)		
Minority interest		—		
Foreign currency translation adjustment		(15,709)		
Additional Tier 1 capital before regulatory adjustments	(d)	(4,871)		36
Additional Tier 1 capital: regulatory adjustments				
Investments in own Additional Tier 1 instruments		—	¥ —	37
Reciprocal cross-holdings in Additional Tier 1 instruments		—	—	38
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		—	2,380	39
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		—	73	40
Regulatory adjustments of additional Tier 1 capital under transitional Basel Ⅲ rules		15,465		
Goodwill (net of related tax liability)		15,465		
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		—		42
Total regulatory adjustments to Additional Tier 1 capital	(e)	15,465		43
Additional Tier 1 capital				
Additional Tier 1 capital (AT1) ((d) – (e))	(f)	—		44
Tier 1 capital				
Tier 1 capital (T1 = CET1 + AT1) ((c) + (f))	(g)	904,770		45
Tier 2 capital: instruments and allowance				
Shareholder’s Equity		—		46
Stock subscription rights		—		
Liabilities		—		
Capital instruments issued by Special Purpose Companies		—		
Minority interest after adjustments		2,550		48–49
Tier 2 capital under Basel II included in Tier 2 capital under transitional Basel Ⅲ rules		—	—	47+49
Capital instruments issued by Daiwa Securities Group Inc. and its Special Purpose Companies		—	—	47
Capital instruments issued by consolidated subsidiaries and affiliates (excluding Special Purpose companies of Daiwa Securities Group Inc.)		—	—	49
General allowance included and eligible allowance in Tier 2 capital		—		50
General allowance		—		50a
Eligible allowance		—		50b
Tier 2 capital under transitional Basel Ⅲ rules		45,803		
Capital instruments included in Tier 2 capital		—		
Unrealized holding gain or loss on securities and cash flow hedge reserve		45,803		
Tier 2 capital before regulatory adjustments	(h)	¥ 48,353		51

Items			Millions of yen, % Exclusion under transitional arrangements	Basel Ⅲ template number
Tier 2 capital: regulatory adjustments				
Investments in own Tier 2 instruments		¥ —	¥ —	52
Reciprocal cross-holdings in Tier 2 instruments		—	—	53
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)		—	26,268	54
Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		—	—	55
Tier 2 capital adjustments under transitional Basel Ⅲ rules		73		
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		73		
Total regulatory adjustments to Tier 2 capital	(i)	73		57
Tier 2 capital				
Tier 2 capital (T2) ((h) – (i))	(j)	48,279		58
Total capital				
Total capital (TC = T1 + T2) ((g) + (j))	(k)	953,050		59
Risk weighted assets				
Amount of risk weighted assets under transitional Basel Ⅲ rules		130,328		
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)		57,984		
Intangible assets (other than Goodwill)		68,974		
Deferred tax assets excluding assets arising from temporary differences (net of related tax liability)		3,369		
Total risk weighted assets	(l)	4,755,172		60
Consolidated capital adequacy ratio				
Common Equity Tier 1 (as a percentage of risk weighted assets)	((c) / (l))	19.0%		61
Tier 1 (as a percentage of risk weighted assets)	((g) / (l))	19.0%		62
Total capital (as a percentage of risk weighted assets)	((k) / (l))	20.0%		63
Amounts below the thresholds for deduction (before risk weighting)				
Non-significant investments in the capital of other financials		80,909		72
Significant investments in the common stock of financials		45,186		73
Mortgage servicing rights (net of related tax liability)		—		74
Deferred tax assets arising from temporary differences (net of related tax liability)		5,302		75
Applicable caps on the inclusion of allowance in Tier 2				
Allowance eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)		—		76
Cap on inclusion of allowance in Tier 2 under standardised approach		—		77
Allowance eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		—		78
Cap for inclusion of allowance in Tier 2 under internal ratings-based approach		—		79
Capital instruments subject to phase-out arrangements				
Current cap on AT1 instruments subject to phase out arrangements		—		82
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		—		83
Current cap on T2 instruments subject to phase out arrangements		—		84
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		—		85

Qualitative Disclosure (Consolidated)

1. Scope of Consolidation

A) Discrepancy and the reason 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: 52 companies

Major Consolidated Subsidiaries	Businesses
Daiwa Securities Co. Ltd.	Securities related businesses Investment advisory and agency businesses
Daiwa Asset Management Co. Ltd.	Investment management businesses Investment advisory and agency businesses
Daiwa Institute of Research Holdings Ltd.	Integration and management of subsidiaries
Daiwa Securities Business Center Co. Ltd.	Back office operations
Daiwa Property Co., Ltd.	Lending and borrowing of real estates
Daiwa Next Bank, Ltd.	Banking businesses
Daiwa Institute of Research Ltd.	Information services
Daiwa Institute of Research Business Innovation Ltd.	Information services
Daiwa Corporate Investment Co., Ltd.	Investment businesses
Daiwa Securities SMBC Principal Investments Co. Ltd.	Investment businesses
Daiwa PI Partners Co. Ltd.	Investment businesses
Daiwa Real Estate Asset Management Co., Ltd.	Investment management businesses Investment advisory and agency businesses
Daiwa Office Investment Corporation	Investment in specified assets
Daiwa Capital Markets Europe Limited	Securities related businesses
Daiwa Capital Markets Asia Holding B.V.	Integration and management of subsidiaries
Daiwa Capital Markets Hong Kong Limited	Securities related businesses
Daiwa Capital Markets Singapore Limited	Securities related businesses
Daiwa Capital Markets America Holdings Inc.	Integration and management of subsidiaries
Daiwa Capital Markets America Inc.	Securities related businesses

C) Number of affiliated companies engage in financial activities, company names, total asset as well as net asset in Balance Sheet, and 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) Company names, total asset as well as net asset in Balance Sheet, and business of company which belong to Daiwa Group but not included under the scope of consolidation in the financial statement; and company which included under the scope of consolidation in the financial statement but does not belong to Daiwa Group

Not applicable.

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 Adequacy Assessment Methods

The Group sets 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. Capital adequacy is assessed by confirming and quantifying if the risk amount held by the Group companies as a result of their business activities falls with in the range of allocated capital.

<Regulatory Capital>

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

3. 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 is 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 are 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

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

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

Types of collaterals are generally cash or high liquid securities. Received collateral is valued mark to market daily and monitored against exposures. In addition, balance and type of collaterals taken are also subject to the monitoring.

For derivative and repo transactions, bilateral netting agreements are generally set. For transaction where legally enforceable bilateral netting arrangement exists, the CRM Techniques are applied.

The Group uses the Comprehensive Approach for the CRM Techniques.

5. 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.

6. Securitization Exposures

A) Overview of risk management policies and characteristics 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 framework of the regulation set forth under the provision of Article 227 Paragraph 4 (iii)–(vi) of the Consolidated Capital Adequacy Ratio Notification

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 if the Group uses the Internal Assessment Approach

Not applicable

K) Overview if significant change in quantitative information is observed

Not applicable

7. 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 Co. Ltd., 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 events.

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 is used. Assumptions of historical simulation model are stated as followings:

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

8. Operational Risk

A) Risk management policies and procedures

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

B) Methods for the calculation of operational risk amount

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

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

In addition to trading businesses, the Group posses investment securities for investment as well as business relation purposes. Because those financial instruments have distinct 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.

10. 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 loans payable. 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. For those currency positions which consists less than 5% of gross asset or liability, upward and downward rate shocks of 200 basis points (2%) is uniformly applied in a parallel move, and changes are being calculated.

11. The Amount of Each Account in Balance Sheet as in Published Statement and the Reference Number in Composition of Capital Disclosure Under the Assumption of the Financial Statement Under the Regulatory Scope of Consolidation Complying the Capital Adequacy Ratio Accord Item 3

	Millions of yen		
	Balance Sheet as in published statement	Under regulatory scope of consolidation	Reference number in composition of capital disclosure
Current assets			
Cash and deposits	¥ 1,212,243	¥ 1,212,243	
Cash segregated as deposits	260,197	260,197	
Notes and accounts receivable-trade	13,675	13,675	
Short-term investment securities	2,113,038	2,113,038	18, 39, 54, 72, 73
Trading products	8,849,128	8,849,128	16, 18, 39, 54, 72, 73
Trade date accrual	235,449	235,449	
Operational investment securities	149,329	149,329	18, 39, 54, 72, 73
Allowance for investment loss	(35,495)	(35,495)	
Operating loans	171,843	171,843	
Work in process	574	574	
Margin transaction assets	193,642	193,642	
Loans secured by securities	4,841,726	4,841,726	
Advances paid	26,934	26,934	
Short-term loans receivable	10,524	10,524	
Accrued income	34,831	34,831	
Deferred tax assets	5,643	5,643	10, 75
Other current assets	246,143	246,143	
Allowance for doubtful accounts	(280)	(280)	
Total current assets	18,329,152	18,329,152	
Noncurrent assets			
Tangible assets	407,118	407,118	
Intangible assets	84,439	84,439	
Goodwill	15,465	15,465	8
Others	68,974	68,974	9
Investments and other assets	228,389	228,389	
Investment securities	192,906	192,906	18, 39, 54, 72, 73
Deferred tax assets	3,028	3,028	10, 75
Others	32,454	32,454	
Total noncurrent assets	719,947	719,947	
Total assets	¥19,049,099	¥19,049,099	

	Millions of yen		
	Balance Sheet as in published statement	Under regulatory scope of consolidation	Reference number in composition of capital disclosure
Liabilities			
Current liabilities			
Notes and accounts payable-trade	¥ 3,508	¥ 3,508	
Trading products	4,965,693	4,965,693	
Margin transaction liabilities	57,762	57,762	
Loans payable secured by securities	7,142,965	7,142,965	
Deposits from banking business	1,791,765	1,791,765	
Deposits received	168,453	168,453	
Guarantee deposits received	286,675	286,675	
Short-term loans payable	946,311	946,311	
Commercial papers	301,711	301,711	
Current portion of bonds	221,291	221,291	
Income taxes payable	3,094	3,094	
Deferred tax liabilities	13,889	13,889	
Provision for bonuses	30,855	30,855	
Other current liabilities	121,448	121,448	
Noncurrent liabilities			
Bonds payable	1,198,172	1,198,172	
Long-term loans payable	642,835	642,835	
Deferred tax liabilities	10,403	10,403	
Provision for retirement benefits	31,813	31,813	
Provision for loss on litigation	648	648	
Negative goodwill	7,990	7,990	
Other noncurrent liabilities	16,685	16,685	
Reserves under the special laws	2,555	2,555	
Total liabilities	17,966,531	17,966,531	
Net assets			
Shareholder's equity			
Common stock	247,397	247,397	1a
Capital surplus	230,676	230,676	1a
Retained earnings	408,647	408,647	2
Treasury stock	(19,212)	(19,212)	1c
Total shareholder's equity	867,509	867,509	
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	76,740	76,740	
Cash flow hedge reserve	(16,765)	(16,765)	11
Foreign currency translation adjustment	(15,709)	(15,709)	
Total accumulated other comprehensive income	44,264	44,264	3
Stock subscription rights	6,387	6,387	1b
Minority interests	164,406	164,406	34-35, 48-49
Total net assets	¥1,082,567	¥1,082,567	

Quantitative Disclosure (Consolidated)

1. Within Subsidiary Company That is Classified as the Significant Investment in the Capital of Financial Institution, Name as well as the Total Amount of Capital Adequacy for the Group's Subsidiary

Not applicable

2. Capital Adequacy

Capital requirements for credit risk

	Millions of yen
	March 2013
On-balance transactions	¥117,339
1. Cash	—
2. Japanese government and central bank	—
3. Non-Japanese sovereign and central bank	1,133
4. Bank for International Settlement (BIS)	—
5. Japanese local public authorities	—
6. Non-Japanese public sector entities (excluding sovereign)	439
7. Multilateral development banks (MDBs)	—
8. Japan Finance Organization for Municipalities (JFM)	477
9. Japanese government sponsored entities	1,567
10. Three major local public corporations of Japan	—
11. Financial institutions and securities firms	10,305
12. Corporates	24,202
13. SMEs and individuals (risk weight 75% applied)	—
14. Residential mortgage loans	—
15. Projects including acquisition of real estate properties	527
16. Past due exposures for three months or more	84
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	23,418
21. Others	40,292
22. Securitizations (as an originator)	—
23. Securitizations (not as an originator)	1,461
24. Funds	13,427

	Millions of yen
	March 2013
Off-balance transactions	¥ 46,881
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	210
9. Sale and repurchase agreements and asset sales with recourse	—
10. Forward asset purchases, forward forward deposits and partly-paid shares and securities	—
11. Lending or posting of securities as collateral	14,118
12. Derivative transactions	31,734
13. Long settlement transactions	448
14. Unsettled transactions	291
15. Securitization exposure qualifies as an 'eligible liquidity facility' or an 'eligible servicer cash advance facility'	—
16. Others (Securitization off-balance transactions)	79
CVA risk capital charge	54,194
Exposures to Central Counterparties (CCPs)	1,791
Total capital requirements for credit risk	¥220,206

* There is no applicable credit risk exposure in which calculated under IRB approach.

Capital requirements for market risk

	Millions of yen
	March 2013
Standardized approach	¥ 60,844
Interest rate risk	49,369
Equity risk	7,864
Foreign exchange risk	3,610
Commodities risk	2
Option transactions	—
Internal models approach	41,208
Total capital requirements for market risk	¥102,060

Capital requirements for operational risk

	Millions of yen
	March 2013
Basic indicator approach	¥58,147
Standardized approach	—
Advanced measurement approach	—
Total capital requirements for operational risk	¥58,147

Total capital requirements

	Millions of yen
	March 2013
Credit risk	¥220,206
Market risk	102,060
Operational risk	58,147
Total capital requirements	¥380,413

3. Credit Risk Exposures (Excluding Exposures Under IRB Approach and Securitization Exposures)

Exposures by geographical area, industry, and residual contractual maturity

Millions of yen

March 2013	Credit risk exposures	Loans	Repo	Derivatives	Securities	Others*	Past due exposures for three months or more
Japan	¥15,394,042	¥100,914	¥ 6,064,087	¥4,595,318	¥2,440,165	¥2,193,556	¥1,154
Overseas	7,759,709	118	7,394,467	108,322	15,734	241,066	370
Total (by area)	23,153,752	101,032	13,458,555	4,703,641	2,455,899	2,434,623	1,524
Sovereign	3,153,149	—	628,369	58,071	1,721,796	744,912	0
Financial institutions	9,581,598	10,000	5,082,891	3,873,435	47,516	567,755	238
Corporates	3,943,645	20,911	2,990,328	471,545	309,948	150,910	1,248
Individuals	267,624	70,120	—	85	—	197,419	38
CCPs	5,099,185	—	4,756,965	300,504	—	41,716	—
Others	1,108,548	—	—	—	376,637	731,910	—
Total (by industry)	23,153,752	101,032	13,458,555	4,703,641	2,455,899	2,434,623	¥1,524
≦1 year	12,600,173	91,891	11,962,457	296,487	34,347	214,989	
>1 year≦3 years	295,159	135	—	263,735	31,288	—	
>3 year≦5 years	1,368,737	2	—	1,207,969	160,765	—	
>5 year≦7 years	2,583,269	—	—	2,552,644	30,625	—	
>7 year	1,795,027	264	—	379,520	1,415,243	—	
Indeterminate	4,511,384	8,738	1,496,097	3,283	783,630	2,219,634	
Total (by maturity)	¥23,153,752	¥101,032	¥13,458,555	¥4,703,641	¥2,455,899	¥2,434,623	

* Including deposits, properties and equipments, intangible assets.

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

Millions of yen

Type of allowances	Geographic area	March 2013	Changes
General allowance		¥ —	¥(200)
Specific allowance	Japan	37,128	(70)
	Overseas	24	3
Allowance to specific foreign obligations		—	

Type of allowances	Industry	March 2013	Changes
General allowance		¥ —	¥(200)
Specific allowance	Sovereign	—	—
	Financial institutions	—	—
	Corporates	575	(383)
	Individuals	80	77
	Others	36,497	239
Allowance to specific foreign obligations		—	—

Loan write-off by industry

Not applicable.

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

			Millions of yen
			March 2013
	Exposure amounts		
Risk weight		Application of external rating	Others
0%	¥2,324,459	¥ 207,013	¥2,117,446
2%	171,325	—	171,325
10%	198,388	—	198,388
20%	1,903,790	1,868,021	35,769
35%	26	—	26
50%	252,455	249,539	2,916
75%	—	—	—
100%	1,151,872	52,784	1,099,088
150%	1,247	348	899
250%	70,611	—	70,611
Others	321,463	—	321,463
1250%	3,012	—	3,012
Total	¥6,398,653	¥2,377,706	¥4,020,947

4. Credit Risk Mitigation (CRM) Techniques

Exposure for which CRM Techniques are applied

	Millions of yen
Type	March 2013
Cash	¥ 7,925,786
Debts	5,282,040
Equities	457,450
Mutual funds	—
Eligible Financial Collateral Total	13,665,277
Guarantees	—
Credit derivatives	—
Guarantees and Credit Derivatives Total	—

5. Counterparty Risk for Derivative Transactions and Long Settlement Transactions

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

			Millions of yen
March 2013	Gross replacement cost	Gross add-on	Credit equivalent amounts
Foreign exchanges	¥ 645,985	¥ 645,999	¥1,291,984
Interest rates	1,634,680	631,379	2,266,060
Equities	359,285	381,058	740,343
Other commodities	75	234	309
Credit derivatives	33,829	376,811	410,641
Total (A)	2,673,856	2,035,483	4,709,340
Benefit through close-out netting agreements (B)			3,151,489
Credit equivalent amounts after netting (C=A–B)			1,557,851
Credit risk mitigation benefits (D)			344,622
Cash			182,221
Debts			154,551
Equities			7,849
Mutual funds			—
Credit equivalent amounts after netting and CRM benefits (C–D)			¥1,213,225

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

Millions of yen

March 2013	Notional amounts	
Credit derivatives type	Protection bought	Protection sold
Credit default swaps	¥2,284,163	¥2,218,617

Notional amount of credit derivatives used for CRM purpose

Not applicable

6. 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

Millions of yen

	Exposure amounts		Risk weight 1250%	
March 2013		Resecuritization		Resecuritization
Loans and receivables	¥94,598	¥1,678	¥—	¥—
Real estates	—	—	—	—
Equities	—	—	—	—
Others	—	—	—	—
Total	¥94,598	¥1,678	¥—	¥—

ii. Exposures balance and capital requirements by risk weight

Millions of yen

	Exposure amounts		Capital requirements	
March 2013		Resecuritization		Resecuritization
≦20%	¥92,919	¥ —	¥1,486	¥—
＞20%≦50%	1,678	1,678	53	53
＞50%≦100%	—	—	—	—
＞100%≦350%	—	—	—	—
＞350%＜1250%	—	—	—	—
1250%	—	—	—	—
Total	¥94,598	¥1,678	¥1,540	¥53

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

Not applicable

C) Securitization exposures for calculating Market Risk as an originator

Not applicable

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

i. Underlying assets

Millions of yen

March 2013	Exposure amounts	Resecuritization	Risk weight 1250%	Resecuritization
Loans and receivables	¥1,252	¥—	¥—	¥—
Real estates	—	—	—	—
Equities	—	—	—	—
Others	—	—	—	—
Total	¥1,252	¥—	¥—	¥—

ii. Exposure balance and capital requirements by risk weight

Millions of yen

March 2013	Exposure amounts	Resecuritization	Capital requirements	Resecuritization
≦3.2%	¥1,252	¥—	¥20	¥—
>3.2%≦8%	—	—	—	—
>8%≦18%	—	—	—	—
>18%≦52%	—	—	—	—
>52%<100%	—	—	—	—
100%	—	—	—	—
Total	¥1,252	¥—	¥20	¥—

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

Not applicable

7. Market Risk

Internal models approach Value at Risk (VaR) Results

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

Millions of yen

March 2013	VaR	Stress VaR
Amount of March 31, 2013	¥5,067	¥11,937
Maximum	6,494	13,065
Average	3,713	7,664
Minimum	2,451	3,890

Excess number of back-testing	1 time

* 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.

8. Equity Exposure on Non Trading Accounts

A) Booking and market values on consolidated balance sheet

Millions of yen

March 2013	Consolidated balance sheet amount	Market value
Listed equity exposure	¥135,411	¥135,411
Others	85,730	—

* 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-off on equity exposures

Millions of yen

March 2013	Gains on sales	Losses on sales	Write-off
	¥12,726	¥1,317	¥776

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

March 2013	Millions of yen
Unrealized gains/losses	¥51,869

* 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

March 2013	Millions of yen
Unrealized gains/losses	¥188

* Only securities in which have adequate market values are disclosed hereby.

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

9. 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

10. 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

March 2013

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 "Bonds payable" and "Long-term loans payable" to change approximately 1.1 billion yen.

ii. Financial asset and liability possessed by the Group companies that transact banking business under assumption of change in interest rate and all the other risks fixed, we anticipate that the market value to reduce by 3.5 billion yen.

Overview of Main Features of Regulatory Capital Instruments

1	Issuer	Daiwa Securities Group Inc.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	Japanese Law
	Regulatory treatment	
4	Transitional Basel Ⅲ rules	Common Equity Tier 1 capital
5	Post-transitional Basel Ⅲ rules	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Common stock
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	
	Consolidated Capital Adequacy Ratio	847,123 million Yen
9	Par value of instrument	—
10	Accounting classification	
	Consolidated Balance Sheet	Shareholder's equity
11	Original date of issuance	—
12	Perpetual or dated	NA
13	Original maturity date	—
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	—
16	Subsequent call dates, if applicable	—
	Coupons/dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	—
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	—
25	If convertible, fully or partially	—
26	If convertible, conversion rate	—
27	If convertible, mandatory or optional conversion	—
28	If convertible, specify instrument type convertible into	—
29	If convertible, specify issuer of instrument it converts into	—
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	—
32	If write-down, full or partial	—
33	If write-down, permanent or temporary	—
34	If temporary write-down, description of write-up mechanism	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel Ⅲ rules	Commom Equity Tier 1 capital	Commom Equity Tier 1 capital
5	Post-transitional Basel Ⅲ rules	Commom Equity Tier 1 capital	Commom Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2006	Stock subscription right series 3
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)		
	Consolidated Capital Adequacy Ratio	305 million Yen	1,200 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated Balance Sheet	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2006	September 4, 2006
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2026	June 23, 2016
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel Ⅲ rules	Commom Equity Tier 1 capital	Commom Equity Tier 1 capital
5	Post-transitional Basel Ⅲ rules	Commom Equity Tier 1 capital	Commom Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2007	Stock subscription right series 4
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)		
	Consolidated Capital Adequacy Ratio	330 million Yen	838 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated Balance Sheet	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2007	September 3, 2007
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2027	June 22, 2017
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel Ⅲ rules	Commom Equity Tier 1 capital	Commom Equity Tier 1 capital
5	Post-transitional Basel Ⅲ rules	Commom Equity Tier 1 capital	Commom Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2008	Stock subscription right series 5
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)		
	Consolidated Capital Adequacy Ratio	299 million Yen	720 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated Balance Sheet	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2008	September 8, 2008
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2028	June 20, 2018
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel Ⅲ rules	Commom Equity Tier 1 capital	Commom Equity Tier 1 capital
5	Post-transitional Basel Ⅲ rules	Commom Equity Tier 1 capital	Commom Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2009	Stock subscription right series 6
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)		
	Consolidated Capital Adequacy Ratio	360 million Yen	492 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated Balance Sheet	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2009	November 9, 2009
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2029	June 19, 2019
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel Ⅲ rules	Commom Equity Tier 1 capital	Commom Equity Tier 1 capital
5	Post-transitional Basel Ⅲ rules	Commom Equity Tier 1 capital	Commom Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2010	Stock subscription right series 7
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)		
	Consolidated Capital Adequacy Ratio	389 million Yen	328 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated Balance Sheet	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2010	September 1, 2010
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2030	June 25, 2020
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel Ⅲ rules	Commom Equity Tier 1 capital	Commom Equity Tier 1 capital
5	Post-transitional Basel Ⅲ rules	Commom Equity Tier 1 capital	Commom Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2011	Stock subscription right series 8
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)		
	Consolidated Capital Adequacy Ratio	433 million Yen	171 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated Balance Sheet	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2011	September 5, 2011
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2031	June 24, 2021
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel Ⅲ rules	Commom Equity Tier 1 capital	Commom Equity Tier 1 capital
5	Post-transitional Basel Ⅲ rules	Commom Equity Tier 1 capital	Commom Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in Feburary 2013	Stock subscription right series 9
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)		
	Consolidated Capital Adequacy Ratio	472 million Yen	46 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated Balance Sheet	Stock subscription right	Stock subscription right
11	Original date of issuance	Feburary 12, 2013	Feburary 12, 2013
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2032	June 26, 2022
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Office Investment Corporation
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	Japanese Law
	Regulatory treatment	
4	Transitional Basel Ⅲ rules	Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital
5	Post-transitional Basel Ⅲ rules	Additional Tier 1 capital, Tier 2 capital
6	Eligible at solo/group/group&solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Investment unit
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	
	Consolidated Capital Adequacy Ratio	84,984 million Yen
9	Par value of instrument	—
10	Accounting classification	
	Consolidated Balance Sheet	Minority interest
11	Original date of issuance	—
12	Perpetual or dated	NA
13	Original maturity date	—
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	—
16	Subsequent call dates, if applicable	—
	Coupons/dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	—
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	—
25	If convertible, fully or partially	—
26	If convertible, conversion rate	—
27	If convertible, mandatory or optional conversion	—
28	If convertible, specify instrument type convertible into	—
29	If convertible, specify issuer of instrument it converts into	—
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	—
32	If write-down, full or partial	—
33	If write-down, permanent or temporary	—
34	If temporary write-down, description of write-up mechanism	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	—