



# Daiwa Securities Group

## Annual Report 2011

Year ended March 31, 2011

The Daiwa Securities Group is a comprehensive financial services firm with a strong domestic base centered on its 120 branch offices nationwide, and a global network of operating offices covering 20 countries and regions. The primary businesses at the core of the Group are Retail, Wholesale\*, and Asset Management. Each Group company strives to maximize its expertise in its respective field while leveraging the solidarity and synergies that being part of the Group affords in order to provide a wide range of financial services tailored to customer needs.

\* The Wholesale business is comprised of the Global Markets Division and the Global Investment Banking Division.

#### Structure of Major Companies in the Daiwa Securities Group (as of July 1, 2011)



#### Forward-Looking Statements

This annual report contains forward-looking statements about the Daiwa Securities Group. You can identify these statements by the fact that they do not relate strictly to historic or current facts. These statements discuss future expectations, identify strategies, contain projections of results of operations or of financial condition, or state other "forward-looking" information. These statements are based on currently available information and represent the beliefs of the management of the Daiwa Securities Group. These statements are subject to numerous risks and uncertainties that could cause the Daiwa Securities Group's actual results, performance, achievements or financial condition to differ materially from those described or implied in the forward-looking statements. The Daiwa Securities Group undertakes no obligation to publicly update any forward-looking statements after the date of issuance of this annual report. These potential risks and uncertainties include, but are not limited to: competition within the financial services industries in Japan and overseas, our ability to adjust our business focus and to maintain profitable strategic alliances, volatile and sudden movements in the international securities markets, foreign exchange and global economic situations affecting the Daiwa Securities Group. "FY2010" refers to the fiscal year ended March 31, 2011, and other fiscal years are referred to in a corresponding manner.



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# Financial Highlights

Daiwa Securities Group Inc. (Consolidated)

\*Please refer to pages 56-59 for the "Five-Year Financial Summary," "Breakdown by Product and Business Sector," and "Twelve-Quarter Financial Summary."

	Millions of yen (Except as otherwise specified)				Millions of U.S. dollars (Note 1)
	FY2007	FY2008	FY2009	FY2010	FY2010
<b>Operating Performance</b>					
Operating revenues	¥825,422	¥ 413,936	¥537,914	<b>¥403,042</b>	<b>\$4,855</b>
Commissions	294,425	208,881	252,863	<b>218,630</b>	<b>2,634</b>
Equity	84,593	56,402	56,388	<b>50,254</b>	<b>605</b>
Fixed income	2,133	991	698	<b>827</b>	<b>9</b>
Asset management	136,377	97,001	108,266	<b>116,734</b>	<b>1,406</b>
Investment banking	47,551	34,915	70,648	<b>38,704</b>	<b>466</b>
Others	23,771	19,572	16,863	<b>12,108</b>	<b>145</b>
Net gain on trading	103,361	40,921	110,955	<b>92,477</b>	<b>1,114</b>
Net gain (loss) on private equity and other investments	19,160	(79,478)	75,584	<b>(17,259)</b>	<b>(207)</b>
Interest and dividend income	358,423	192,664	54,729	<b>71,916</b>	<b>866</b>
Service fees and other revenues	50,053	50,948	43,783	<b>37,278</b>	<b>449</b>
Interest expenses	339,784	176,034	47,659	<b>58,062</b>	<b>699</b>
Cost of service fees and other revenues	38,147	38,358	32,150	<b>26,415</b>	<b>318</b>
Net operating revenues	447,491	199,544	458,105	<b>318,565</b>	<b>3,838</b>
Selling, general and administrative expenses	363,859	343,270	362,844	<b>363,920</b>	<b>4,384</b>
Operating income (loss)	83,632	(143,726)	95,261	<b>(45,355)</b>	<b>(546)</b>
Ordinary income (loss)	90,143	(141,150)	102,917	<b>(32,602)</b>	<b>(392)</b>
Net income (loss)	46,411	(85,039)	43,429	<b>(37,332)</b>	<b>(449)</b>
<b>Financial Conditions</b> (Fiscal year-end)					
Total assets	¥17,307,120	¥14,182,579	¥17,155,345	<b>¥16,842,412</b>	<b>\$202,920</b>
Trading assets	7,857,122	6,203,742	7,654,334	<b>6,770,479</b>	<b>81,572</b>
Private equity and other investments	471,732	515,770	218,841	<b>177,561</b>	<b>2,139</b>
Investment securities	215,611	167,884	191,905	<b>188,856</b>	<b>2,275</b>
Net assets	1,082,924	952,329	1,017,529	<b>921,399</b>	<b>11,101</b>
<b>Per Share Data</b> (Yen)					
Net income (loss) (Note 2)	¥ 33.69	¥ (63.16)	¥ 26.41	<b>¥ (21.90)</b>	<b>\$ (0.26)</b>
Net assets	607.64	534.99	530.27	<b>496.76</b>	<b>5.99</b>
Cash dividends applicable to the year	22.00	8.00	13.00	<b>6.00</b>	<b>0.07</b>
<b>Financial Ratios</b> (%)					
Return on equity (ROE)	5.3%	—	5.3%	<b>—</b>	
Equity ratio	4.7%	5.1%	5.4%	<b>5.0%</b>	

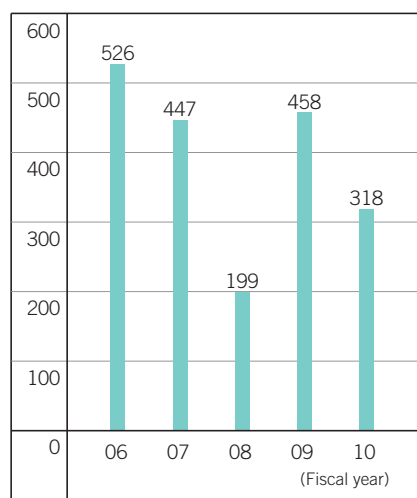
Notes: 1. Translations of the Japanese yen amounts into U.S. dollars use an exchange rate of ¥83.00 = U.S.\$1.00 (rounded down to the nearest yen), and are provided solely for the convenience of the reader.

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

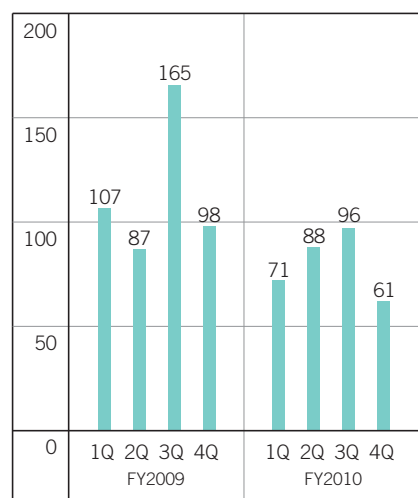
Item of account	Comment
Commissions	This covers equity brokerage commissions from securities trading activities, asset management fees from the sale and management of investment trusts, and investment banking commissions from stock and bond underwriting and M&A advisory activities.
Net gain on trading	Gains (losses) on negotiable securities and derivatives held for trading operations including mark-to-market valuation gains or losses.
Net gain (loss) on private equity and other investments	Gains (losses) associated with investment business conducted by the Daiwa Securities Group.
Trading assets	Assets related to the trading of stocks, bonds, derivatives, and other financial products held for trading operations.
Private equity and other investments	Investment in securities, monetary claims and real estate-related assets by the Daiwa Securities Group, and capital extended under limited partnership agreements.

**Net Operating Revenues (yearly data)**

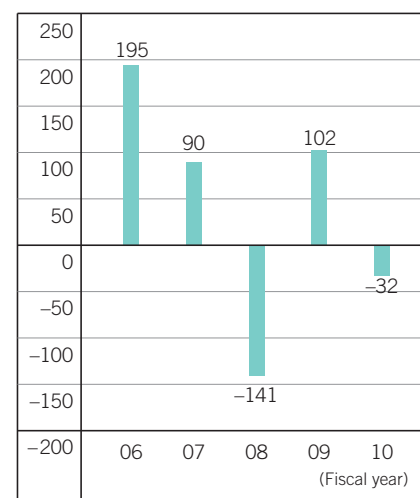
(¥ billion)

**Net Operating Revenues (quarterly data)**

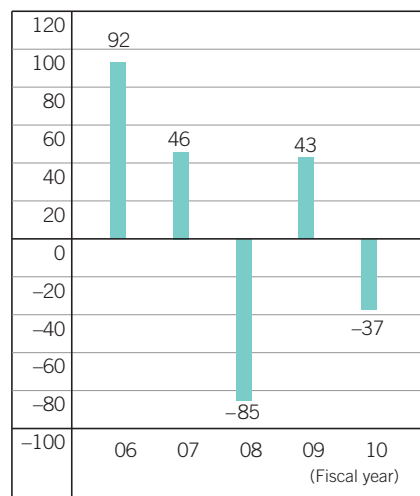
(¥ billion)

**Ordinary Income (yearly data)**

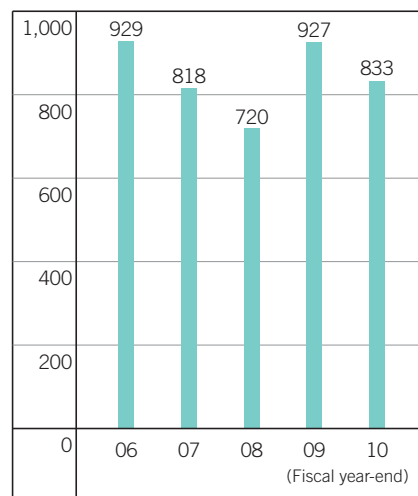
(¥ billion)

**Net Income (yearly data)**

(¥ billion)

**Shareholders' Equity (year-end data)**

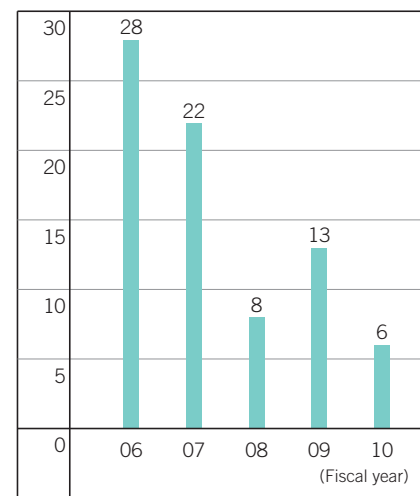
(¥ billion)



Note: Shareholders' Equity = owners' equity + accumulated other comprehensive income

**Annual Dividend Paid (yearly data)**

(¥)

**Consolidated Capital Adequacy Ratio**

(100 millions of yen)

		March 31, 2011
Total Qualifying Capital		(E)=(A)+(B)+(C)-(D) 9,668
Tier 1	(A)	8,665
Tier 2	(B)	623
Tier 3	(C)	737
Deductions	(D)	358
Total Risk-Weighted Assets		(F) 35,453
Credit Risk		15,843
Market Risk (Note 1)		12,903
Operational Risk (Note 1)		6,707
Consolidated Capital Adequacy Ratio (Note 2)		(E)/(F)×100 27.2%
Tier 1 Capital Ratio		(A)/(F)×100 24.4%

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

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

## To Our Stakeholders

On behalf of the Daiwa Securities Group, we wish to offer our sincere condolences to those who were affected by the East Japan Earthquake on March 11, 2011. We pledge to contribute in whatever way we can to help those affected to recover and rebuild. On March 18, just one week after the disaster, Daiwa Institute of Research Ltd. proposed a “Reconstruction Fund” and a “Reconstruction Solidarity Tax,” designed to fund recovery efforts in the affected regions. Vast sums of capital will be required to rebuild the region affected by the earthquake. The Daiwa Securities Group is developing financial products that support rebuilding efforts, and is seeking other ways to leverage the capital markets to help locate the funds to finance the reconstruction.



Shigeharu Suzuki  
Chairman of the Board

Takashi Hibino  
President and CEO

## Adverse Earnings Conditions in FY2010

A host of adverse factors affected business conditions both in Japan and abroad during FY2010, from a widening fiscal crisis in Europe to the sudden appreciation of the yen. As the fiscal year drew to a close, conditions deteriorated even further, with a wave of social unrest in the Middle East, rising inflation in emerging economies, and the East Japan Earthquake. The Daiwa Securities Group's Retail and Asset Management businesses managed to overcome the difficult market conditions, thanks to steady business operations, and recorded ordinary income growth for the period. However, earnings in each Division of the Wholesale and Investment businesses as deteriorated, with the East Japan Earthquake triggering severe trading losses and valuation losses on private equity and other investments, resulting in ordinary loss for the fiscal year. Consolidated net operating revenues contracted by 30.5% year on year, to ¥318.5 billion, and the Group posted a consolidated net loss of ¥37.3 billion.

Although the largest direct cause of FY2010's unsatisfying results was an extraordinary event – the East Japan Earthquake – management nevertheless faces an urgent challenge in trying to rebuild the earnings structure quickly, despite the difficult business conditions that still persist.

## Earnings Results by Operating Segments

**The Retail Business** was able to generate profit growth despite the adverse market conditions, on the back of strong sales of foreign equities and foreign bonds. Daiwa Securities Co. Ltd. was the only company in the industry to record a net increase in the balance of “wrap account” assets under management, and it also captured a major share of the market for “impact investment” products. Despite these generally favorable results, the Group believes it can do an even better job of increasing the net inflow of assets under custody and addressing the needs of customers in the mutual funds business. It will place top priority on improving these operations in the future.

**The Wholesale Business** saw earnings fall due to trading losses and a drop in underwriting commissions. Results were very disappointing, with both the Global Markets and Global Investment Banking Divisions posting losses for the period. The Group plans to re-evaluate the profitability of each line of business, seeking to rapidly consolidate operations and revise its business model. In this way, it intends to broaden its market reach throughout Asia while still maintaining a core focus on Japan.

**The Asset Management Business** suffered a decline in the value of its assets as a result of weak domestic stock prices and a strong yen. However, this was more than offset by a steady inflow into investment trusts resulting in an overall increase in total assets under management. Daiwa Asset Management Co. Ltd. continued working to diversify marketing channels for the investment trusts, while also raising its profile in the market, for example by developing new products that combine emerging economy stocks and high interest-rate currencies. The “Short-Term Australian Dollar Bond Open Fund,” managed by Daiwa SB Investments Ltd., ranked second in the entire industry in terms of the net increase in assets under management during FY2010. In this way, the Group is steadily expanding asset management operations.

## Comprehensive Efforts to Revitalize the Earnings Structure of the “New” Daiwa Securities Group

Since the latter half of FY2009, the Daiwa Securities Group has been energetically developing its business structure in Asia; we are pleased to report that the first stage of that effort is nearly complete. The Group now has a strong presence in the Hong Kong market; it has successfully promoted the cross-border M&A deals of numerous Japanese companies, and it expects operations in Asia to make a contribution to revenues going forward.

While making progress with the Asian strategy, the Group also intends to make concerted efforts towards strengthening its earnings structure in light of the harsh nature of the current business climate. To this end, the Group has incorporated two management goals for FY2011 onwards: to establish a robust business structure, and to become Asia’s leading financial services firm.

In July 2011, the Daiwa Securities Group announced plans to reorganize the Group’s internal corporate structure, in order to lay the foundation for efforts to meet our two management goals. In 1999, when the Group adopted a holding company structure, it divided the retail securities businesses and the wholesale securities businesses into separate companies in an effort to provide top-level services specialized for the separate customer bases of these two businesses. With the current reorganization, these two core subsidiaries will be merged once again. The specialized capabilities developed in each subsidiary will be consolidated, enhancing the Group’s synthetic competence and unity to further refine our business. The merger will simultaneously allow the Group to consolidate administrative activities and improve management efficiency. In addition, all existing overseas subsidiaries of the wholesale arm, Daiwa Securities Capital Markets Co. Ltd., will be placed under direct ownership and control of Daiwa Securities Group Inc., thus creating a stronger structure of global corporate governance. This will allow the holding company to promote the Group’s growth strategy more effectively, and with a more comprehensive perspective.

The decision to merge Daiwa Securities Co. Ltd. and Daiwa Securities Capital Markets Co. Ltd. is one of the most important steps in the Group’s 100-year history. Today, the domestic and international business environment leaves no room for complacency. We must move swiftly and decisively to keep costs at appropriate levels and establish an earnings structure that can withstand the vicissitudes of the financial markets. By laying the foundations for a management structure that can respond flexibly to market changes, the Daiwa Securities Group aims to leverage the growth opportunities linking Japanese and Asian markets, and build an organization of which employees and business associates can be proud.

July 2011



Shigeharu Suzuki  
Chairman of the Board  
Daiwa Securities Group Inc.



Takashi Hibino  
President and CEO  
Daiwa Securities Group Inc.



## Interview With the CEO

### Management's Two Main Objectives Will Help Enhance Corporate Value

From April 1, 2011, Takashi Hibino has taken over as the new CEO of Daiwa Securities Group Inc. Previously, he served as Deputy President of Daiwa Securities Capital Markets Co. Ltd., and played a leading role in spearheading the Group's expansion in Asia. In addition to serving as CEO of Daiwa Securities Group Inc., he also holds the President post at Daiwa Securities Co. Ltd. and Daiwa Securities Capital Markets Co. Ltd. Under his leadership, the Group intends to solidify its earnings base in Japan while bolstering operations in Asia and promoting greater cohesion within the Group.



**QUESTION:** From an overall perspective, how does the Daiwa Securities Group perceive current conditions in financial markets?

**A.** Since the collapse of Lehman Brothers and the outbreak of the global financial crisis, investment banking operations have faced a very adverse business climate. Japan's nominal GDP has not grown significantly for almost 20 years, and as this flat economic growth trend persists, the domestic stock markets have begun to contract both in terms of trading value and total market capitalization. This means that all securities companies must battle for a share of a pie that is not getting any larger. Meanwhile, financial regulations are being tightened up worldwide, and companies are competing to be the first to introduce the latest in IT capabilities.

The effort to comply with new regulations and capture market share naturally increases operating costs. Our domestic wholesale operations face extremely harsh earnings conditions, due to rising costs and stagnant revenues. In the past, the Daiwa Securities Group channeled a large portion of its resources into developing the domestic wholesale business. It is now apparent, however,

that macroeconomic trends in the Japanese market cannot support the Group's former business structure. In order to remain a vibrant, profitable company, we will have to redistribute management resources towards growing markets.

First of all, the Group needs to shift the focus of its wholesale operations to Asia. A multitude of Japanese companies are expanding into Asian markets to take advantage of the growth potential and earnings power of the region. The Group needs to follow the same path if we hope to maintain growth over the longer term. We have resolved to expand the scope of our "home"

Trading value in the Japanese stock exchanges and total market capitalization are gradually shrinking, leading to stagnation in potential earnings for all securities companies. The only option is to shift management resources toward markets and sectors where there is still potential for growth.

market to encompass all of Asia. By establishing a presence as one of the leading investment banks in Asia, the Group can benefit from the burgeoning links between Japan and the rest of Asia.

In Japan, meanwhile, the Group needs to shift its focus towards the Retail and Asset Management businesses. At present, a major percentage of personal financial assets is still held in the

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## QUESTION : What specific measures is the Group taking to establish a robust business structure and become Asia's leading financial services firm?

**A.** In recent years, financial markets have gone through several phases of stress and earnings decline, such as in FY2002 following the collapse of the IT bubble, and during the global financial crisis in FY2008. We estimate that the Group needs to improve profitability by about ¥100 billion in order to maintain a break-even performance during such a downturn. To meet this goal, we are seeking ways to expand stable sources of revenue, which are less susceptible to market fluctuations, and improving administrative efficiency by slimming down management operations, which have become somewhat bloated since the switch to a holding company structure and company separation. Our main sources of stable revenues can be found in the Group's

Retail and Asset Management Divisions. By expanding the balance of customer assets, we aim to increase agency fees and trust fees from investment trusts, and other stable revenues. To further accelerate growth in customer assets, we established Daiwa Next Bank, Ltd. in 2011, and launched a bank agency business at Daiwa Securities Co. Ltd. In addition to offering favorable interest rates, Daiwa Next Bank can use Daiwa Securities as an agent, to offer customers face-to-face service via the nationwide branch network of 120 sales offices. The addition of banking functions to our Group operations means that the Daiwa Securities Group can now offer customers a broad range of products to match their risk

profile, from ordinary deposits to the Asset Management Division's attractive lineup of investment trusts and a multitude of financial products provided by the Retail Division. This will allow the Group to expand its customer base and the balance of assets. Under our current plan, we expect to increase income from asset-based businesses by around ¥60 billion per year.

Meanwhile, to reduce administrative expenses, we initiated efforts in June 2011 to consolidate the planning, personnel and finance functions of Daiwa Securities Group Inc., Daiwa Securities Co. Ltd. and Daiwa Securities Capital Markets Co. Ltd. into a single, more efficient administrative unit for the entire Group. Personnel will be reassigned to the Retail

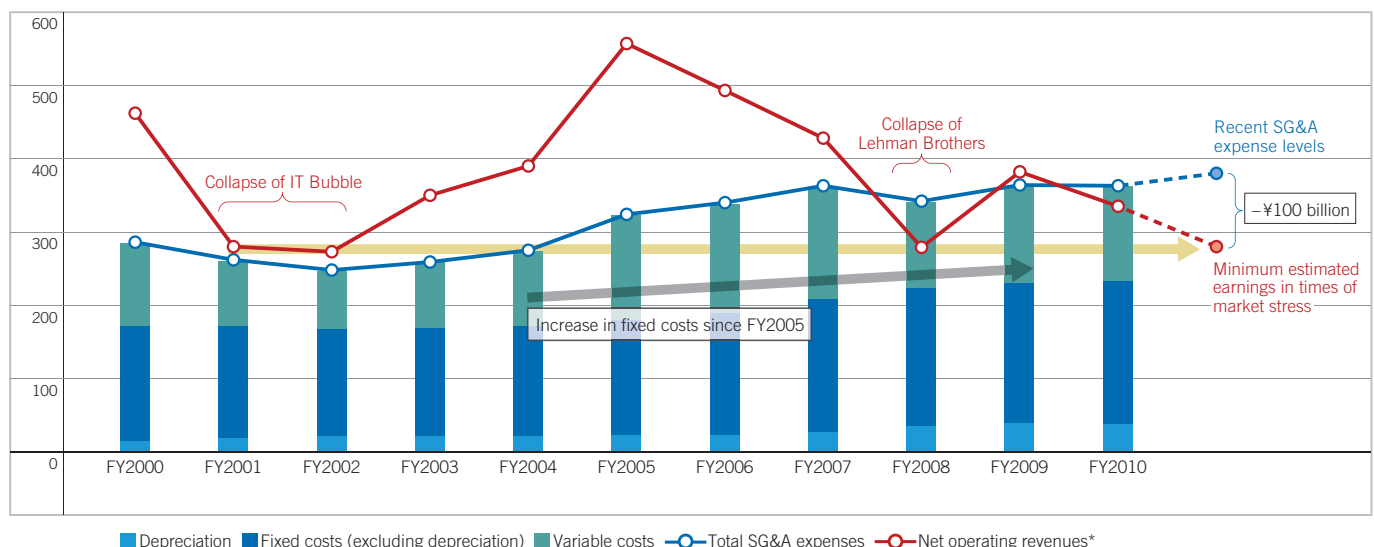
and Asset Management Divisions accordingly. There will also be reductions in SG&A expenses in real estate-related and IT operations. We expect the result of these steps to be an improvement in profitability of around ¥40 billion per year.

We have also announced the consolidation of the retail operations of Daiwa Securities and the wholesale operations of Daiwa Securities Capital Markets into a single company which will shift management resources toward retail operations, particularly those that help to expand stable revenues. This will also help to cut costs and reduce administrative inefficiency arising from the separation of corporate structures.

The Group aims to improve earnings by roughly ¥100 billion, by expanding stable sources of revenue which are not susceptible to market fluctuations, and reducing SG&A expenses through improvements in management efficiency.

### Profit Structure of the Daiwa Securities Group

(¥ billion)



## Interview With the CEO

### Two Pillars for ¥100 Billion Profit Improvement





tapping Asian financial markets. The number of mandates won by Daiwa Securities Capital Markets (including M&A mandates) has increased steadily due to the scale of Asian markets and the opportunities they offer. We expect this Division to achieve much better results going forward.

As the Group expands the workforce at its offices in Asia, personnel costs are rising apace. In FY2010, these costs depressed earnings; it will take time before investment in top

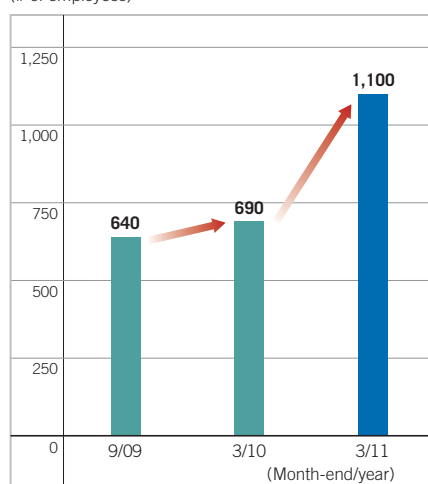
quality personnel starts to pay off. However, earnings in the Global Markets Division began to pick up in the latter half of FY2010. We expect expansion efforts to begin making a contribution to earnings in the Global Investment Banking Division as well, with our Asia operations moving above the break-even point in the near future.

\*POWL: Public Offering Without Listing – a method used by companies listed on overseas stock exchanges to raise capital in Japan.

## Progress of Strategy for Expansion in Asia

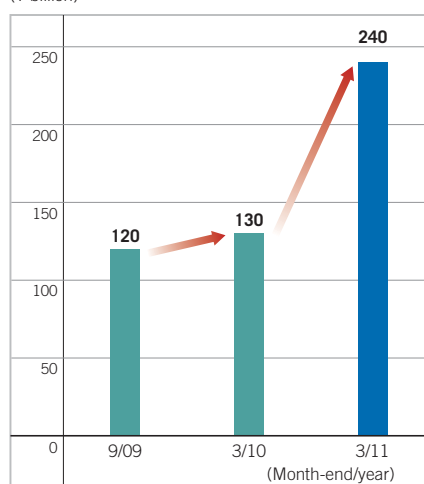
### Personnel in Asia (ex-Japan)

(# of employees)



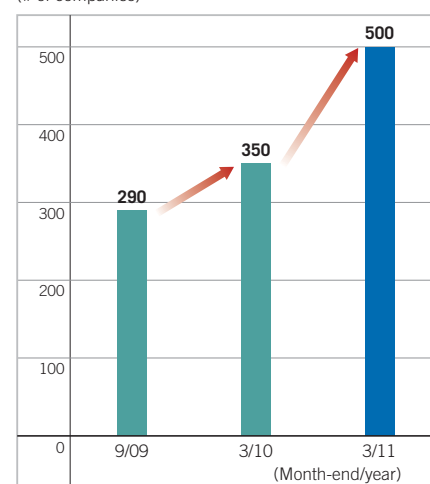
### Total Capitalization of Overseas Subsidiaries

(¥ billion)



### Number of Asian Companies (ex-Japan) Covered by Equity Research Analysts

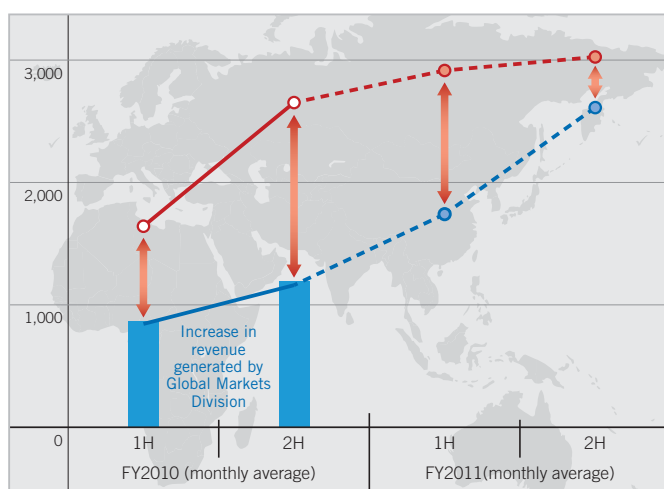
(# of companies)



Note: Includes subsidiaries in Europe and the Americas.

### Revenues and SG&A Expenses in Asia (ex-Japan)

(¥ million)



■ Revenues in Asian region (results)    ○ SG&A in Asian region (results)  
 -●- Revenues in Asian region (assumed)    -○- SG&A in Asian region (planned)

Note: Managerial accounting basis.

### The Daiwa Securities Group Subsidiaries in Asia



## Interview With the CEO

### Accomplishments of the Daiwa Securities Group's Investment Banking Operation in Asia

#### Underwriting Overseas IPOs by Asian Companies

In FY2010, the Daiwa Securities Group lead-managed IPOs by three Chinese companies. China Sanjian Fine Chemicals raised U.S.\$115 million by listing its shares in Hong Kong, International Taifeng Holdings conducted a U.S.\$74 million IPO in Hong Kong, and Novarise Renewable Resources made a U.S.\$29 million listing in Australia. All of these were big deals, compared with most recent IPO activity on the Japanese markets. The Group also was selected joint book-runner for the Singapore listing of the Sabana Shari'ah Compliant Industrial REIT, the world's largest Islamic REIT, which raised a total of U.S.\$593 million.

#### Japanese Companies Listed on Overseas Exchanges

In February 2011, Elpida Memory selected the Group to jointly lead-manage its depositary receipts, listed on the Taiwan stock exchange. This was the first time for a Japanese company to be listed on the Taiwanese market. Elpida Memory issued roughly ¥12 billion in Taiwan Depositary Receipts (TDR). In April 2011, SBI Holdings made a similar, ¥18 billion listing on the Hong Kong exchange, which was also sponsored by the Daiwa Securities Group. This was also the first time for a Japanese company to use Hong Kong Depositary Receipts (HDR) to make a Hong Kong listing, and only the second time that a foreign (non-Chinese) company had done so. The first such listing was by the Brazilian raw materials company Vale S.A.

#### Taisho Pharmaceutical's Acquisition of a Malaysian Company

In April 2011 Taisho Pharmaceutical announced the acquisition of a Malaysian pharmaceuticals company, Hoepharma Holdings Sdn. Bhd., for 370 million Ringgit (approximately ¥10 billion). Hoepharma sells its products in some 40 countries worldwide, with operations centered in Thailand, Indonesia and other parts of Southeast Asia. It is the largest locally owned pharmaceuticals company in Malaysia.

#### Handling Numerous POWL Issues

The Daiwa Securities Group has handled numerous POWL issues, which allow overseas companies making public offerings to attract investment from Japanese individual investors. In the past, most of the deals that the Group has jointly lead managed involved the privatization of large Chinese companies. The Daiwa Securities Group has a very strong presence in this business segment. In July 2010, the Group acted as a joint book-runner of a POWL deal for the privatization of the Agricultural Bank of China on the Hong Kong market. In October 2010, it also acted as a joint book-runner for the POWL deal in the IPO of AIA Group – the Asian subsidiary of the U.S.-based insurance company AIG. In March 2011, the Group was selected as the Japanese lead manager for the POWL of Hutchison Port Holdings Trust, whose IPO in Singapore raised U.S.\$5.4 billion, making it the largest IPO ever in Southeast Asia.

### QUESTION : What measures does the Group intend to implement in FY2011?

**A.** Following FY2010's disappointing earnings results, we have set management objectives for the future which will depend greatly on what we achieve in FY2011. In the Retail Division, our main goal is to increase the balance of customer assets under custody.

As I mentioned earlier, one step towards this goal was the creation of Daiwa Next Bank. We also intend to focus on investment trusts in FY2011. We are changing our evaluation system for sales personnel to reflect their success in marketing investment trusts and

increasing stable sources of revenues. In April 2011, we established "area consultant sections" at certain Retail Division offices in the major urban areas of Japan. After analyzing the distribution of high-net-worth individuals in each neighborhood, Daiwa

Securities has assigned sales persons to cover promising areas. This will allow us to reach customers who previously did not have sufficient access to the Group's financial products and services, and guide future plans to open new branches. In this way, our

sales efforts will focus on cultivating customers more aggressively.

In the wholesale business, Asian operations will reach full-scale activity in FY2011. We intend to carefully examine the profitability of each business segment, focusing man-

agement resources on those that will help us to enhance profitability. In addition, we will focus on optimizing overseas offices for cost-efficiency.

The Retail Division is accelerating efforts to attract new sources of revenues from both new and existing customers, while the wholesale business takes steps to improve efficiency and pursue business in Asia.

## QUESTION : What are your longer-term goals for the Daiwa Securities Group?

**A.** Just as Japanese companies are expanding their outlook to include all of Asia, Japan itself is becoming more closely intertwined with the Asian region as a whole. The Daiwa Securities Group has adopted the byword “Asia Including Japan” in its business activities, and is providing support for financial interaction throughout the region. We will promote exchanges that enrich both Japan and the rest of Asia. This includes such activities as disseminating advanced Japanese technology throughout Asia, supporting Japanese companies as they open offices in the region, and building bridges between the vast financial assets available in Japan and the intense demand for financing in the other parts of Asia. In doing so, we not only ensure the

By contributing to prosperity in Japan and the Asia region, the Group aims to become Asia’s leading financial services firm and establish itself as an essential participant in the international financial system.

long-term growth potential of the Daiwa Securities Group, but we also contribute to the prosperity and development of Asian society in general.

To facilitate these benefits we are leveraging the consulting functions of the Retail business and the Wholesale business’s ability to develop and supply financial products. We are taking steps to improve synergy by reorganizing the Group’s organizational structure, such as merging Daiwa Securities and Daiwa

Securities Capital Markets. As Asia’s leading financial services firm, the reorganized Daiwa Securities Group will focus its management efforts on becoming an essential contributor to the international financial system.



# Top Management

## Directors (Members of the Board)

Chairman of the Board

**Shigeharu Suzuki**

Directors

**Takashi Hibino**

**Nobuyuki Iwamoto**

**Makoto Shirakawa**

**Takatoshi Wakabayashi**

**Kazuo Oda**

**Toshihiko Onishi**

**Ryuji Yasuda**

**Koichi Uno**

**Nobuko Matsubara**

**Keiichi Tadaki**

**Kensuke Itoh**

## Executive Officers

	<p><b>Takashi Hibino</b>..... President and CEO, Head of Retail and Wholesale President, Daiwa Securities Co. Ltd. President, Daiwa Securities Capital Markets Co. Ltd.</p>		<p><b>Nobuyuki Iwamoto</b>..... Deputy President, COO and CFO Chief Planning / Human Resources Officer Deputy President, Daiwa Securities Capital Markets Co. Ltd.</p>
<p>1979 Joined Daiwa Securities Co. Ltd. 2002 Head of Corporate Planning Department, Daiwa Securities Group Inc. Senior Managing Director, Daiwa Securities SMBC Co. Ltd. (currently Daiwa Securities Capital Markets Co. Ltd.) 2004 Member of the Board and Executive Managing Director, Daiwa Securities Group Inc. 2007 Senior Executive Managing Director 2008 Senior Executive Managing Director, Daiwa Securities SMBC Co. Ltd. 2009 Deputy President, Daiwa Securities Group Inc. Deputy President, Daiwa Securities SMBC Co. Ltd. 2011 President and CEO, Daiwa Securities Group Inc. President, Daiwa Securities Co. Ltd. President, Daiwa Securities Capital Markets Co. Ltd.</p>			<p>1980 Joined Daiwa Securities Co. Ltd. 2001 Head of International Finance Department, Daiwa Securities SMBC Co. Ltd. (currently Daiwa Securities Capital Markets Co. Ltd.) 2005 Senior Managing Director, Daiwa Securities Group Inc. 2006 Member of the Board and Senior Managing Director 2008 Executive Managing Director 2009 Senior Executive Managing Director 2011 Deputy President Deputy President, Daiwa Securities Capital Markets Co. Ltd.</p>
	<p><b>Makoto Shirakawa</b>..... Deputy President Deputy Head of Retail Deputy President, Daiwa Securities Co. Ltd.</p>		<p><b>Akio Takahashi</b>..... Deputy President Deputy Head of Wholesale Deputy President, Daiwa Securities Capital Markets Co. Ltd.</p>
<p>1978 Joined Daiwa Securities Co. Ltd. 2003 Head of Financial Institutions Dept. I Daiwa Securities SMBC Co. Ltd. (currently Daiwa Securities Capital Markets Co. Ltd.) 2004 Senior Managing Director, Daiwa Securities Co. Ltd. 2006 Executive Managing Director 2007 Senior Executive Managing Director 2009 Deputy President, Daiwa Securities Group Inc. Deputy President, Daiwa Securities Co. Ltd. 2010 Member of the Board and Deputy President, Daiwa Securities Group Inc.</p>			<p>1978 Joined Daiwa Securities Co. Ltd. 2003 Head of Equity Capital Markets Department, Daiwa Securities SMBC Co. Ltd. (currently Daiwa Securities Capital Markets Co. Ltd.) 2004 Senior Managing Director 2007 Executive Managing Director 2008 Member of the Board and Executive Managing Director 2009 Senior Executive Managing Director 2011 Deputy President, Daiwa Securities Group Inc. Deputy President, Daiwa Securities Capital Markets Co. Ltd.</p>
	<p><b>Toshiro Ishibashi</b>..... Deputy President Head of Asset Management President, Daiwa Asset Management Co. Ltd.</p>		<p><b>Takashi Fukai</b>..... Deputy President Head of Think Tank President, Daiwa Institute of Research Holdings Ltd. President, Daiwa Institute of Research Ltd. President, Daiwa Institute of Research Business Innovation Ltd.</p>
<p>1973 Joined Daiwa Securities Co. Ltd. 1998 Member of the Board, Chief Investment Banking Officer 1999 Senior Managing Director, Daiwa SBCM Co. Ltd. (currently Daiwa Securities Capital Markets Co. Ltd.) 2003 Member of the Board and Executive Managing Director, Daiwa Securities Co. Ltd. 2005 Senior Executive Managing Director 2007 Representative Senior Executive Managing Director 2008 Member of the Board and Deputy President, Daiwa Securities Group Inc. Deputy President, Daiwa Securities Co. Ltd. 2009 Deputy President, Daiwa Securities Group Inc. President, Daiwa Asset Management Co. Ltd.</p>			<p>1978 Joined Daiwa Securities Co. Ltd. 2001 Head of Kobe Branch 2002 Senior Managing Director 2005 Executive Managing Director 2007 Senior Executive Managing Director 2009 Member of the Board and Deputy President, Daiwa Securities Group Inc. Deputy President, Daiwa Securities Co. Ltd. 2010 Deputy President, Daiwa Securities Group Inc. President, Daiwa Institute of Research Holdings Ltd. President, Daiwa Institute of Research Ltd. President, Daiwa Institute of Research Business Innovation Ltd.</p>



**Takatoshi Wakabayashi**

Senior Executive Managing Director and CRO  
Representative Director and Senior Executive Managing Director,  
Daiwa Securities Capital Markets Co. Ltd.

**Kazuo Oda**

Executive Managing Director and CIO  
Executive Managing Director,  
Daiwa Securities Capital Markets Co. Ltd.  
Senior Executive Managing Director,  
Daiwa Institute of Research Ltd.

**Saburo Jifuku**

Executive Managing Director  
Internal Audit Officer

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

1976 Joined Daiwa Securities Co. Ltd.  
1994 Head of Corporate System Development Department,  
Daiwa Institute of Research Ltd.  
(currently Daiwa Institute of Research Holdings Ltd.)  
1999 Senior Managing Director (Councillor)  
2002 Senior Managing Director  
2004 Executive Managing Director  
2007 Senior Executive Managing Director  
2008 Representative Senior Executive Managing Director,  
Daiwa Institute of Research Ltd.  
2009 Member of the Board, Executive Managing Director,  
Daiwa Securities Group Inc.  
Senior Executive Managing Director,  
Daiwa Institute of Research Ltd.  
2010 Executive Managing Director,  
Daiwa Securities Capital Markets Co. Ltd.

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

**Koichi Matsushita**

Executive Managing Director  
Corporate Communications Officer, Head of Secretariat Office

**Toshihiro Matsui**

Executive Managing Director  
Chief Legal Officer  
Deputy Chief Planning /  
Human Resources Officer

**Noriaki Kusaka**

Senior Managing Director  
Deputy Chief Human Resources Officer,  
Head of Human Resources Department

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

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

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

**Hiroyuki Inose**

Senior Managing Director  
Group Risk Management Officer

**Shigeharu Suzuki**

Senior Managing Director  
Chairman of the Board,  
Daiwa Securities Co. Ltd.

1984 Joined Daiwa Securities Co. Ltd.  
2010 Head of Group Risk Management Department,  
Daiwa Securities Group Inc.  
2011 Senior Managing Director  
Senior Managing Director, Daiwa Securities Co. Ltd.  
Senior Managing Director, Daiwa Securities Capital Markets Co. Ltd.

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

## Special Feature: New Efforts to Increase Stable Sources of Revenues

# Elevating Stable Revenues by ¥60 Billion

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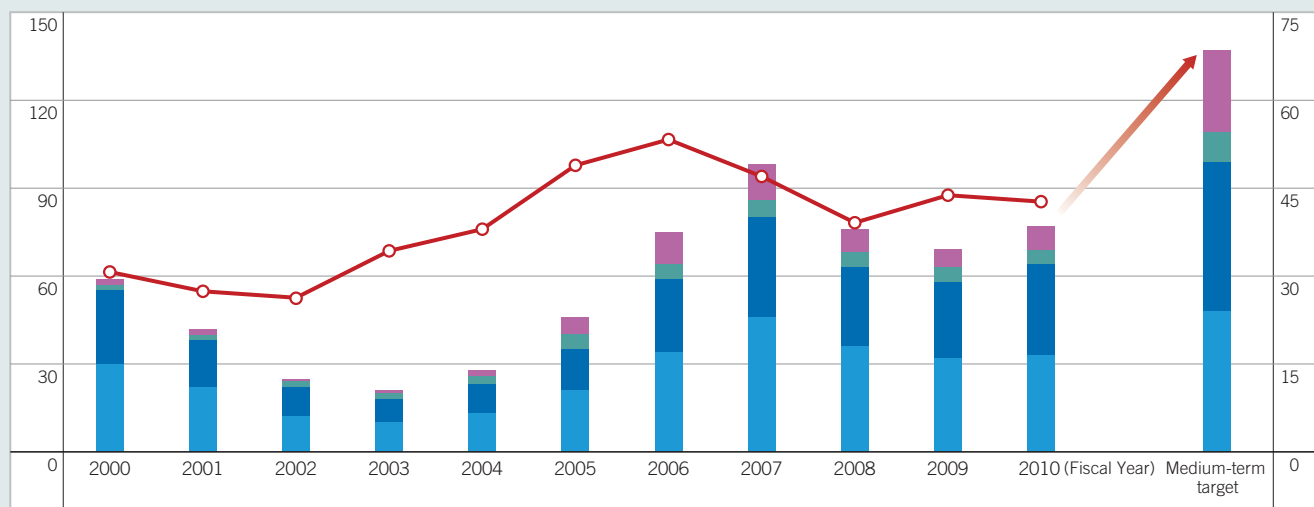
For many years, the Daiwa Securities Group has been making efforts to expand assets under custody, and thereby increase stable sources of revenues in the Retail business. Customer assets under custody have risen steadily since FY2003, increasing stable revenues for the Group, but more recently the balance of assets, as well as revenues from stable sources, have leveled off somewhat.

In order to establish a robust business structure, the Group has once again placed top priority on expanding customer assets, and thereby strengthening these stable revenue sources further. The entire group is taking steps to facilitate this process. For example, in 2011, the Group established Daiwa Next Bank, Ltd. In the near term, the Group hopes to attract ¥5 trillion in deposits, while increasing the balance of mutual fund assets operated by the Retail Division by ¥2 trillion, and assets in the Asset Management Division by ¥5 trillion. Meeting these targets would increase stable sources of revenues by around ¥60 billion per year over the medium term.

## Sources of Stable Revenues\* for the Group

(¥ billion)

(¥ trillion)

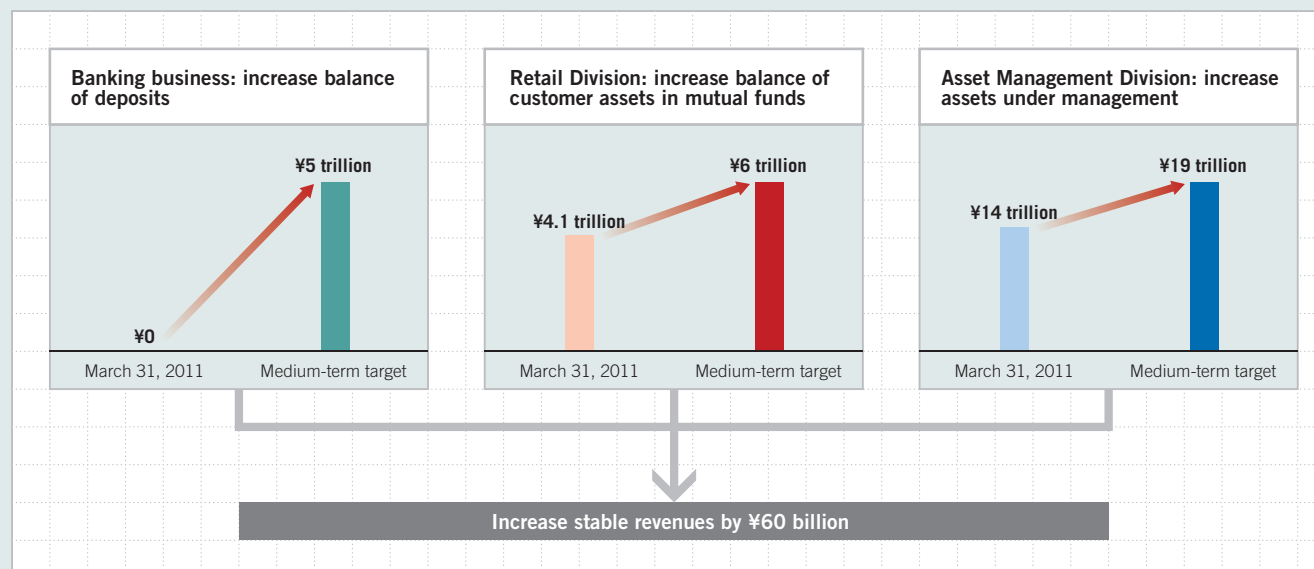


■ Daiwa Securities agency fees (left) ■ Daiwa Asset Management trust fees (left) ■ Daiwa SB Investments trust fees (left) ■ Other stable revenues (left)

● Balance of customer assets under custody at year-end (right)

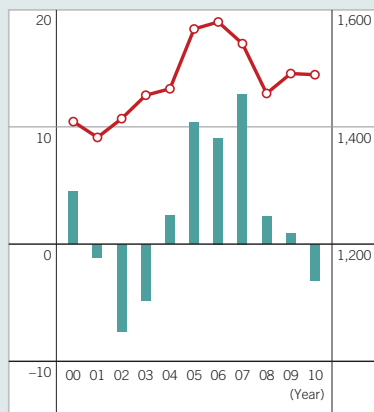
\* Stable Revenues = Daiwa Securities agency fees + Daiwa Asset Management and Daiwa SB Investments trust fees (management fees – commissions paid) + Other stable revenues (financial income of margin trade and secured loan + wrap fees). In the case of Daiwa SB Investments, trust fees are calculated based on ownership ratio.

## Overview of Measures to Increase Stable Revenues by ¥60 billion



**Household Financial Assets**

(¥ trillion) (¥ trillion)



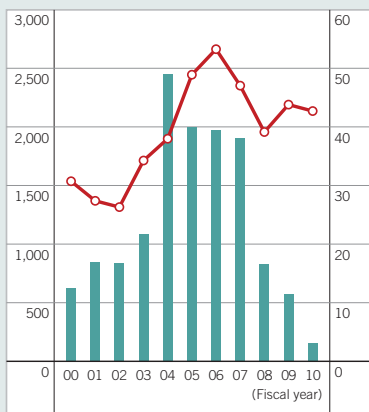
■ Net inflow to securities (left)

○ Balance of household financial assets (right)

Source: Flow of Funds statistics by the Bank of Japan

**Daiwa Securities Group  
Customer Assets Under Custody and Net Inflow**

(¥ billion) (¥ trillion)



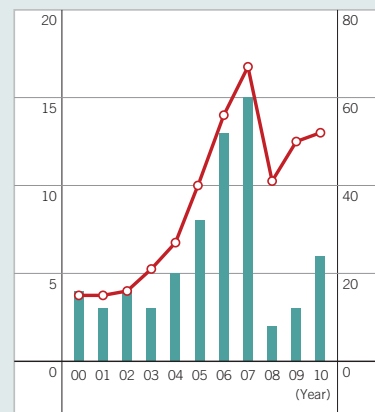
■ Net inflow in assets under custody (left)\*

○ Balance of customer assets under custody (right)

\* Excludes re-invested dividends.

**Balance of Assets in Mutual Funds,  
and Net Inflow**

(¥ trillion) (¥ trillion)



■ Net inflow to mutual funds (left)

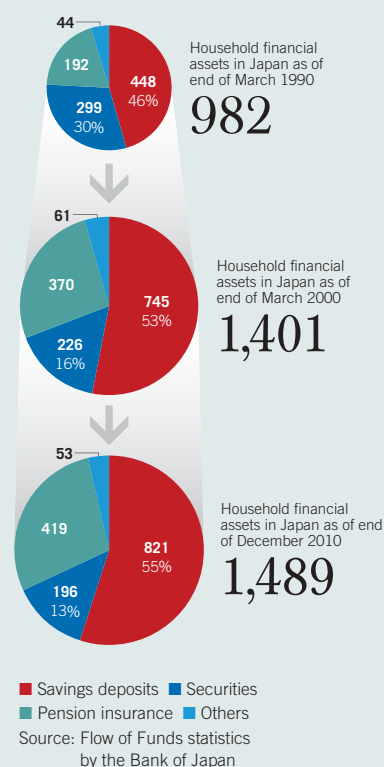
○ Balance of assets in publicly offered mutual funds (right)

Source: Investment Trusts Association of Japan  
"Changes in Assets of Publicly Placed Investment  
Trusts of Contractual Type (mutual funds)"

## The Clear Trends in Household Financial Assets Are in Bank Deposits and Mutual Funds

**Bank Deposits Account for a Large  
Share of Household Financial Assets**

(¥ trillion)



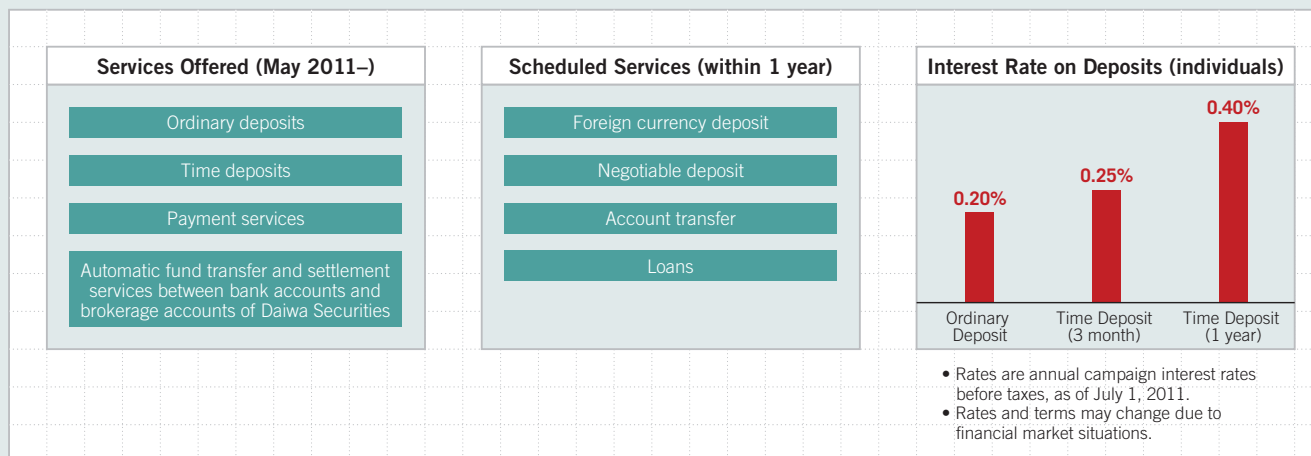
Trends in the distribution of household financial assets offer one of the best indicators of customer assets. Household financial assets in Japan have been rising in an almost unbroken trend since the end of the Second World War, but following the collapse of the economic bubble in 1990, the vast majority of those assets moved into the safe haven of bank deposits. Even after interest rates fell to virtually zero, in the 2000s, Japanese individuals kept most of their assets tied up in term deposits and regular bank accounts. It was only in the latter half of the 2000s that these assets started to make their way into securities. However, in recent years the overall balance of financial assets has leveled off, and the flow of assets into securities has stagnated as well. Indeed, in 2010, the flow of assets into investments actually reversed, and there was a net outflow from securities.

Trends in the Daiwa Securities Group's customer assets under custody have unfortunately followed much the same pattern as the macroeconomic trend. The balance has remained more or less level for the past three years. The inflow of customer assets in FY2010 was far below the average recorded over the preceding ten years. This stagnation in asset growth has become a matter of great urgency for the Group as a whole; it is apparent that dramatic changes in strategy will be required. On the other hand, while purchases of securities have stagnated, there has been a pick-up in the flow of money to mutual funds, which bottomed out during the global economic crisis of 2008.

Most of the baby-boom generation have now reached retirement age. There is a possibility that this will lead to reductions in the pool of individual financial assets as retirees start drawing from their savings. This is a concern, since the Group is urgently hoping to increase its balance of customer assets. For the Daiwa Securities Group, it is essential to consider the macroeconomic trends, and decide how to target both the accumulated pool of individual deposits and the steady flow of funds into mutual funds. By concentrating management resources on this issue, the Group aims to expand its base of customer assets.



## Daiwa Next Bank: Overview of Main Services



## Entering the Banking Business to Attract Customer Savings Deposits

In May 2011, the Daiwa Securities Group established Daiwa Next Bank, and took its first step into the retail banking sector. At the same time, Daiwa Securities Co. Ltd. received permission to operate a bank agency business.

Daiwa Next Bank enjoys the low operating cost structure of an Internet bank, which allows it to offer depositors attractive interest rates. At the same time, through its bank agency relationship, it can provide personal service via Daiwa Securities' 120 branch offices nationwide. While enjoying the benefits of an Internet bank structure, the Group can also reach out to customers directly, using the branch offices and their sales personnel as a marketing channel.

As of December 2010, Japanese individuals had some ¥820 trillion in savings deposits – that is roughly four times the amount invested in securities. In the past, Daiwa Securities, the Group's Retail business,

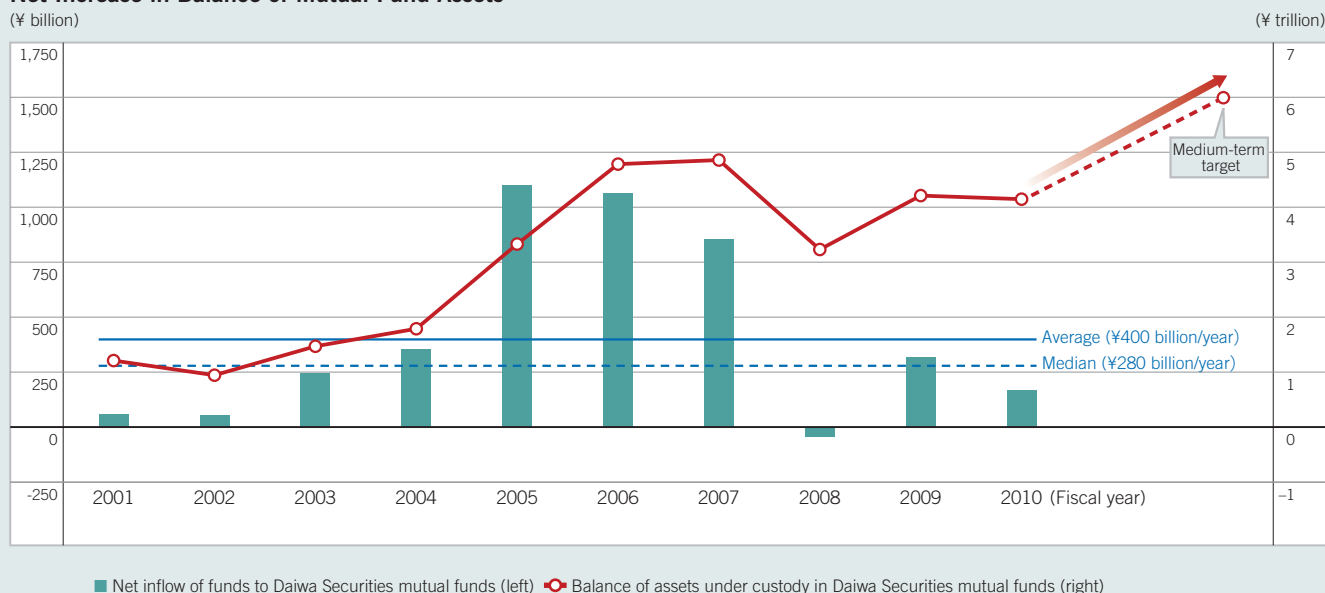
focused on securities investments, but with the advent of Daiwa Next Bank, its lineup of products and services now includes various types of bank deposits, covering a broader range of risk profiles. It also can provide much greater convenience to customers. The unique combination of an Internet bank and full-service securities company allows customers to seamlessly link their savings accounts and their investment portfolios, with a "sweep service" that handles automatic fund transfers and settlements between a customer's savings account at Daiwa Next Bank and their brokerage account at Daiwa Securities. In this way, the Group is creating synergy among its various operations.

Daiwa Next Bank aims to increase deposits to around ¥1.1 trillion by the end of March 2014. In the longer term, the Group believes this balance can grow to as much as ¥5 trillion. Using its unique business model, Daiwa Next Bank hopes to establish itself as one of Japan's leading banks.

### Daiwa Next Bank



### Net Increase in Balance of Mutual Fund Assets



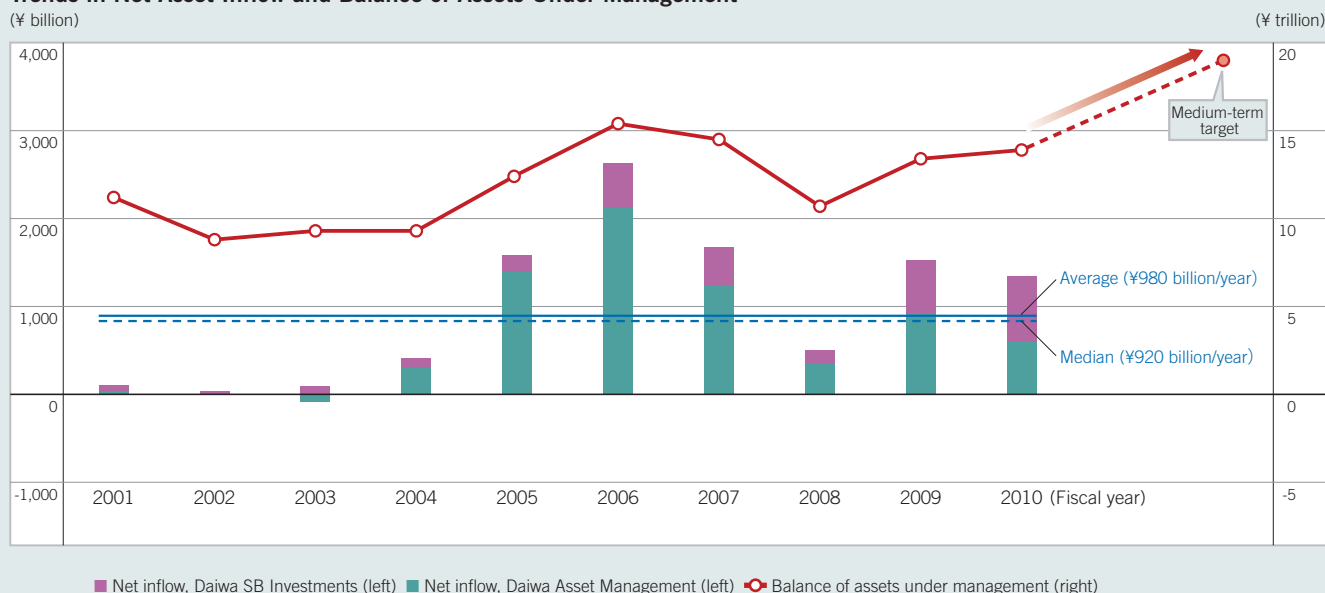
## Focusing on Mutual Funds — Retail Division

The Group's Retail Division, overseen by Daiwa Securities, is one of the pioneers of monthly-dividend-payment-type investment trusts. The Division has been steadily expanding its lineup of such products, and responding to changing trends in customer needs and market conditions by providing new funds. Despite these efforts, though, the net inflow to mutual funds has stagnated since the collapse of Lehman Brothers, and the Group needs to make a concerted effort to improve sales of mutual funds.

Over the next two years, more than ¥20 trillion in fixed deposits and JGBs for individuals will reach maturity. Daiwa Securities is taking steps to promote high-yield monthly-dividend-payment-type funds, and low-risk investments such as JGB-related funds to meet the varying investment needs of customers.

Through these efforts, the Group aims to increase the balance of customer assets in mutual funds by around ¥2 trillion over the medium term. A new internal employee evaluation system has been introduced to encourage and reward those sales personnel who make strong contributions to increasing the balance of assets under custody in mutual funds. One example of the Group's efforts in this area was the launch of the "Daiwa Harris Global Selected Stock Fund" in April 2011, which has succeeded in attracting a net inflow of as much as ¥90 billion in a single month.

### Trends in Net Asset Inflow and Balance of Assets Under Management



## Focusing on Mutual Funds — Asset Management Division

The two main Group subsidiaries that are involved in asset management operations are Daiwa Asset Management Co. Ltd. and Daiwa SB Investments Ltd. Trends in the inflow of customer assets to these two companies over the past ten years show that asset management operations are attracting an average of around ¥980 billion per year in new investment. Since the regulations that prevented banks from actively marketing these financial products were lifted, these two companies have been making efforts to expand their sales channels, offer appropriate sales support, and develop new products to better serve customer needs. As a result, the Group's share of this market has steadily increased. Going forward, the Group plans to enhance its ability to manage overseas stock funds, which are increasingly in demand, and further upgrade its product development and sales support capabilities.

The Group is also expanding rapidly into a new field, real estate asset management, through Daiwa Real Estate Asset Management Co. Ltd. These efforts are aimed at increasing the balance of assets under management in this Division by around ¥5 trillion.

## Interview With the COO/CFO

### The Group Aims to Add ¥40 Billion to Earnings by Improving Organizational Efficiency

To fulfill our goal of building a robust business structure, the Daiwa Securities Group aims to make substantial improvements to profitability by promoting greater organizational efficiency. Specifically, by consolidating the administrative functions of Group companies and increasing front-office staff we plan to elevate revenues by ¥10 billion and reduce SG&A expenses by around ¥30 billion (base level, assuming a break-even ordinary income). These measures will improve the underlying profitability of the Group by a net ¥40 billion.



**QUESTION :** In July 2011, the Group announced plans to merge Daiwa Securities Co. Ltd. and Daiwa Securities Capital Markets Co. Ltd. What prompted this decision?

**A.** In 1999, the Daiwa Securities Group adopted a holding company structure and divided operations into a number of separate companies under the control of Daiwa Securities Group Inc. The three main corporations in the Group are the holding company itself, Daiwa Securities Co. Ltd., which oversees the Retail business, and Daiwa Securities Capital Markets Co. Ltd. (initially Daiwa Securities SB Capital Markets), which oversees the Wholesale business (formerly in a joint venture operation with the Sumitomo Mitsui Financial Group). In the decade since we adopted the holding company structure, however, the securities business has become increasingly technical and complex. As a result, each group subsidiary has been forced to increase its middle-office and back-office staff, creating a bloated administrative structure.

The number of individual departments handling middle- and back-office procedures has expanded from 41 in April 1999 to 69 as of February 2011, and the number of employees swelled from approximately 1,400 to 2,050 in the same period.

In order to reform this administrative structure, in February 2011, we began a project to consolidate all back-office procedures for administrative functions. The first step in this consolidation process involved unifying the planning, personnel and finance divisions of the three main Group companies. By the end of June 2011, this effort had essentially consolidated 35 departments into 13. Approximately 250 employees were reassigned, mainly to positions in the sales division.

By April 2014, we intend to reduce personnel levels in these



divisions to around 1,500. With the reorganization of administrative divisions at head offices and branch offices added up, approximately 700 employees will be reassigned to the sales division where their contributions are expected to boost revenues by around ¥10 billion annually.

The merger of Daiwa Securities and Daiwa Securities Capital

Markets represents the next step in the consolidation process. The goal is to consolidate the two companies' inter-trading activities, eliminate duplication and cut costs. By expanding our consolidation effort to target front- and middle-office functions, as well as further cementing of back-office functions, we aim to make the entire management structure even more efficient.

## QUESTION : Which specific cost items do you expect to reduce, and by how much?

**A.** We aim to cut costs by ¥30 billion per year over the medium term, focusing mainly on four cost categories: IT systems-related expenses, real-estate related expenses, overseas SG&A expenses, and other controllable expenses.

The first step in efforts to reduce IT systems-related costs will be to exercise greater selectivity in all future IT systems-related investment. Advances in the use of internal cloud computing should allow the Group to reduce operating costs. We hope to save more than ¥8 billion per year in this cost segment.

By consolidating the administrative functions of the three companies, some subsidiary company offices will be relocated to the head office building. These changes are expected to reduce costs by over ¥3 billion per year.

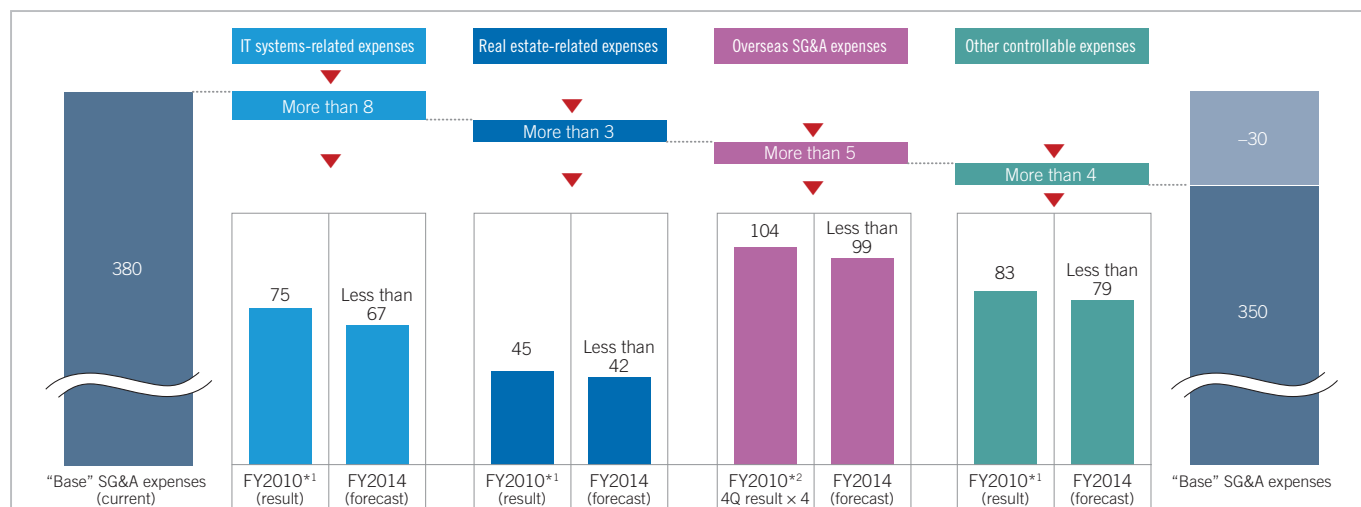
The Group plans to consolidate the administrative functions of overseas offices in much the same way that we are improving

efficiency in domestic operations. This is expected to save over ¥5 billion. In addition, we plan to reduce advertising expenses, and other controllable expenses, while taking comprehensive steps to restrain costs related to the procurement of goods and services from companies outside the Group. This should contribute another ¥4 billion or more in cost savings.

The aforementioned items, which add up to ¥20 billion in overall cost savings, will be implemented over the course of a three-year plan that aims to meet these targets by FY2014. In addition, our plan to merge the two main securities subsidiaries, and to improve profitability in the wholesale business, is expected to contribute a further ¥10 billion in cost reductions over the medium term. This takes us to the target level of cutting ¥30 billion from base SG&A expenses.

### Plans for Cutting SG&A Expenses

(¥ billion)



**QUESTION :** The Group's overall plan to build a robust business structure also includes revenue growth targets, adding up to an overall improvement of ¥100 billion in base earnings. Can you describe the timetable for this plan, including both cost cuts and revenue increases?

**A.** The diagram below shows our roadmap for earnings improvement. Phase 1 of the plan basically represents the current situation for the Group. Starting from the current "base level" of ¥380 billion in SG&A expenses, we have tried to develop a plan that will ensure that the company can break even at the ordinary income level, even in a "worst case" scenario, which involves severe stress to the business environment. Under such stress conditions we estimate that revenue could be reduced to a minimum of around ¥280 billion. Comparing these two figures, it becomes clear that we need to improve the overall earnings structure by ¥100 billion in order to achieve the goal of maintaining profitability under worst-case conditions. We plan to achieve this earnings improvement through measures such as the launch of Daiwa Next Bank, the Group-wide consolidation measures I mentioned earlier, and efforts to improve profitability at Daiwa Securities Capital Markets. We have nearly finished laying the foundation for our future earnings structure.

Phase 2 refers to our plans for the next three years: to consolidate middle- and back-office divisions, transfer personnel to the sales division, and expand the balance of customer assets, mainly

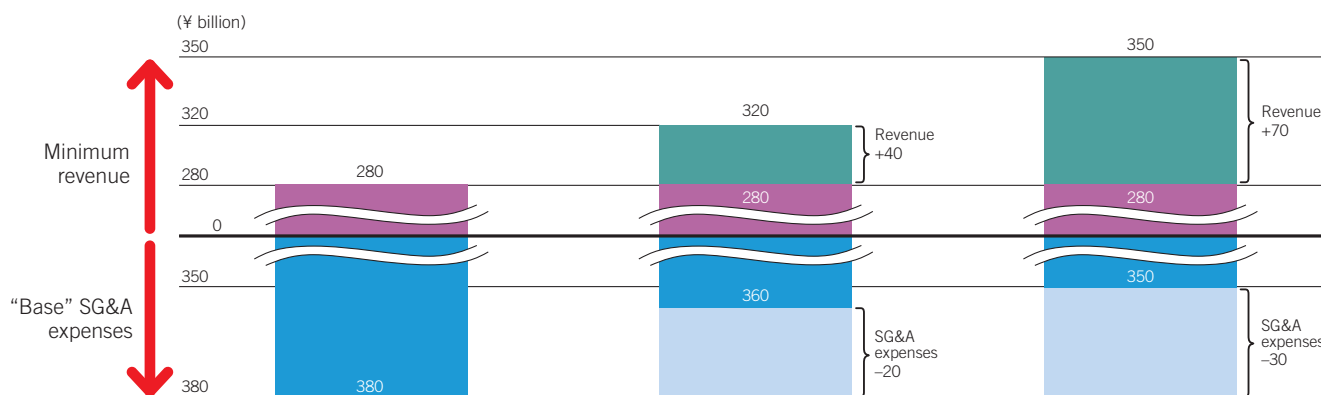
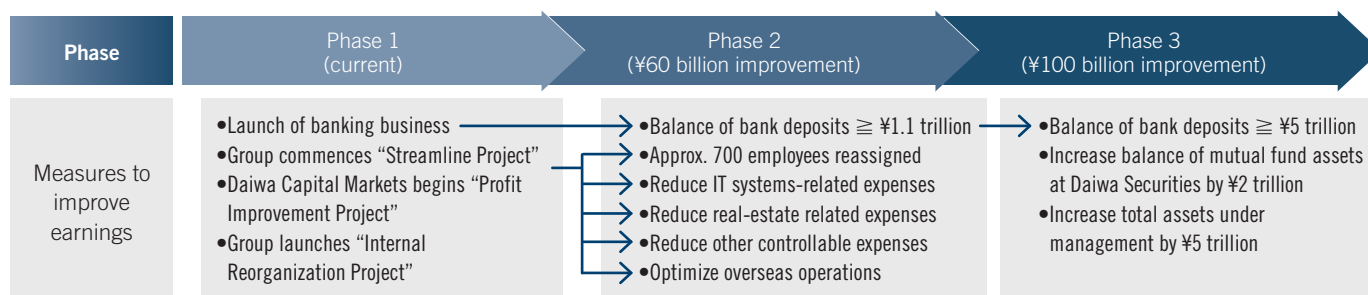
in both bank savings accounts and mutual funds, in order to add ¥40 billion to "stable revenues." Together with the estimated ¥20 billion in SG&A savings, this represents a net improvement to our earnings base of some ¥60 billion.

Phase 3 represents our longer-term goal of adding another ¥30 billion to stable revenues from banking and mutual fund operations, and cutting SG&A expenses by an additional ¥10 billion. This would elevate base earnings by some ¥100 billion compared with the situation in Phase 1. Naturally, the pace of actual growth in earnings will depend on the condition of financial markets. These trends will also have some impact on how long it takes to complete Phase 3. However, we believe that the overall plan will be completed within three to five years.

Nobuyuki Iwamoto

Deputy President  
COO and CFO  
Daiwa Securities Group Inc.

### Outline of Measures to Improve Earnings Structure



## Review of Operations

- P26** At a Glance
- P28** Retail Division
- P32** Global Markets Division
- P34** Global Investment Banking Division
- P36** Asset Management Division
- P38** Investment Division
- P39** IT/Think Tank Division

## REVIEW OF OPERATIONS

## At a Glance:

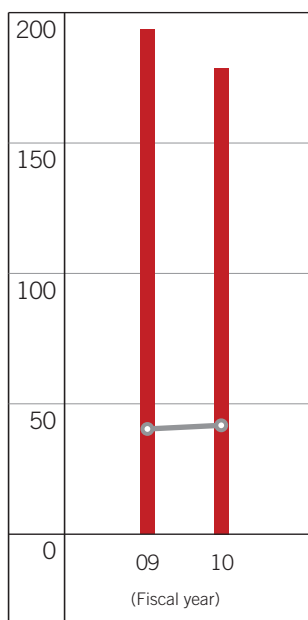
## Core Business Segments of the Daiwa Securities Group

## Retail

Daiwa Securities  
Hinode Securities

The Group's Retail Division offers a range of products and services for asset management support through its "Daiwa Consulting" and "Daiwa Direct" courses. These two courses target mainly individual investors and unlisted companies, and together allow transactions to be made over the Internet through our call center, or face-to-face at one of our 120 branch offices in Japan.

**Net Operating Revenues/Ordinary Income**  
(¥ billion)



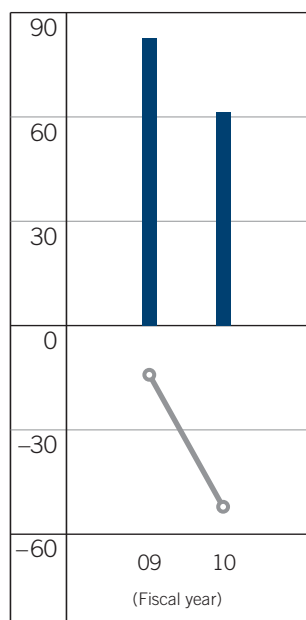
■ Net operating revenues  
— Ordinary income

## Global Markets

Daiwa Securities Capital Markets

This business provides brokerage services for equities, bonds, foreign exchange and derivatives, as well as the sale and trading of high-quality financial products and services, mainly for institutional investors.

**Net Operating Revenues/Ordinary Income**  
(¥ billion)



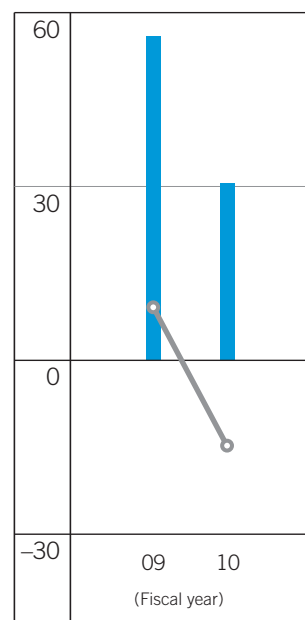
■ Net operating revenues  
— Ordinary income

## Global Investment Banking

Daiwa Securities Capital Markets  
Daiwa Corporate Advisory Partners  
Sagent Advisors

The Group's investment banking business offers support for corporations and financial institutions ranging from business expansion to finance and capital strategies by assisting financing. Services include stock and bond underwriting and M&A advisory activities.

**Net Operating Revenues/Ordinary Income**  
(¥ billion)



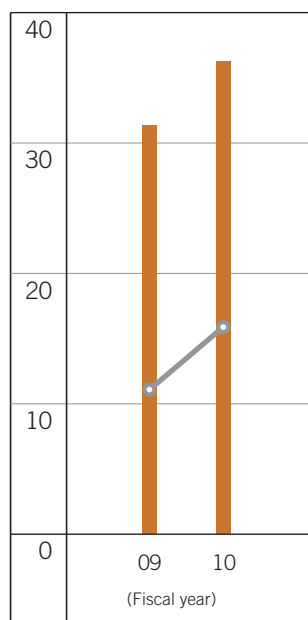
■ Net operating revenues  
— Ordinary income

## Asset Management

Daiwa Asset Management  
Daiwa SB Investments  
Daiwa Real Estate Asset Management  
Daiwa Fund Consulting

This business creates and manages mutual funds, and publicly offered bond and private investment trusts, and also provides other investment management services for real estate investment trusts, pensions, and other funds.

**Net Operating Revenues/Ordinary Income**  
(¥ billion)



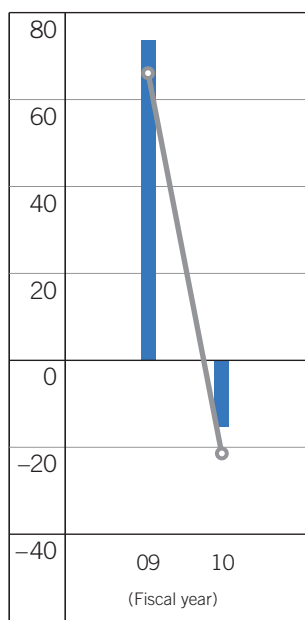
■ Net operating revenues  
— Ordinary income

## Investment

Daiwa Corporate Investment  
Daiwa PI Partners  
Daiwa Securities SMBC Principal Investments

This business invests in areas such as private equity, venture capital, business regeneration, monetary claims, and real estate using its own funds or through the formation of investment funds.

**Net Operating Revenues/Ordinary Income**  
(¥ billion)



■ Net operating revenues  
— Ordinary income

## REVIEW OF OPERATIONS

## Retail Division


**QUESTION:** What are the main challenges facing the Retail Division?

**A.** The Daiwa Securities Group intends to expand stable revenues by expanding customer assets under custody. The Retail Division is contributing to this effort by offering customers a wide range of asset management services and thus expanding the customer base. An important target is to expand customer assets under custody from the current balance of around ¥43 trillion. From this standpoint the Division's performance in FY2010 – particularly in terms of the net inflow of funds and sales of mutual funds – was somewhat disappointing. We recognize that there is still considerable room for improvement.

On the other hand, sales of foreign bonds and structured bonds were strong in FY2010, demonstrating the Retail Division's skill in offering attractive investment products to customers.

With the face-to-face service and Internet-based service combined, Daiwa Securities Co. Ltd. can reach a wider range of potential customers than any competitors. We intend to try to leverage these advantages even further in the future, and maximize growth in the base of customer assets under custody.

**QUESTION:** Which business fields will the Retail Division focus on primarily?

**A.** To begin with, we are launching new financial services linking accounts at Daiwa Securities and Daiwa Next Bank, Ltd., which began operations in May 2011. Daiwa Next Bank can offer attractive interest rates on savings deposits. At the same time, it can also offer direct services through the branch offices of Daiwa Securities which will allow us to appeal to new types of customers and thereby broaden our customer base.

The continued strong inflow into mutual funds, meanwhile, generates agency commissions, which are an important source of stable revenues. We aim to continue expanding the balance of assets under custody in mutual funds to increase agency commissions further.

The Retail Division also hopes to make important contributions to the Daiwa Securities Group's ongoing strategy of expansion in Asia. We have already begun to offer new sorts of structured bonds and POWL\* in cooperation with overseas offices in Asia, and intend to accelerate these cooperative efforts in the future. We also plan to offer an expanding range of investment opportunities to customers in Japan, focusing on attractive Asian products such as mutual funds related to Asia.

\*POWL: Public Offering Without Listing – a method used by companies listed on overseas stock exchanges to raise capital in Japan.

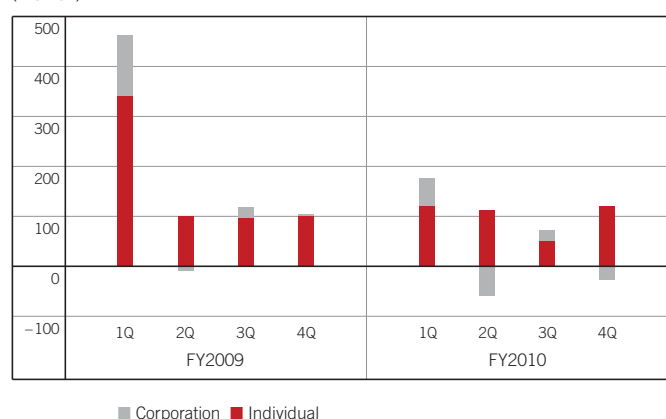
Makoto Shirakawa  
Deputy President  
Deputy Head of Retail  
Daiwa Securities Group Inc.



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

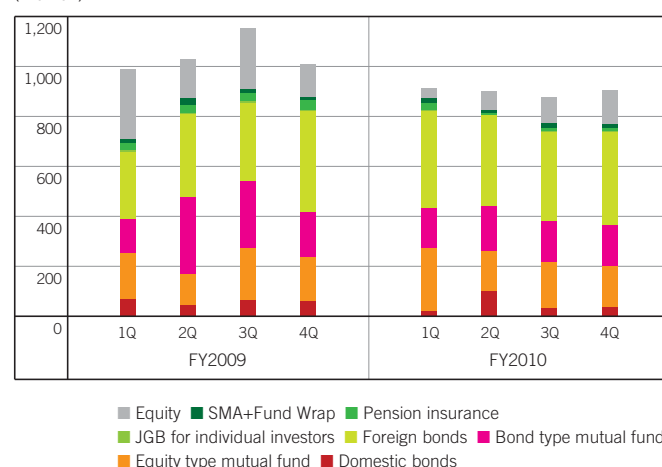
**Daiwa Securities Net Inflow of Assets**

(¥ billion)



**Daiwa Securities Sales and Distribution Amount by Product Category**

(¥ billion)



## Business Conditions and Earnings Results for FY2010

Adverse macroeconomic trends, such as the financial crisis in Europe, recessionary concerns worldwide, and rapid yen appreciation, caused the Nikkei 225 stock average to decline from a level of 11,089 at the end of FY2009 to just above 8,800 in August 2010. Intervention in the foreign exchange market by the Bank of Japan, and additional monetary easing measures by Japan and the U.S., helped to reverse the trend by fall and share prices began to recover. However, the East Japan Earthquake in March 2011 pushed the index back down to close to 9,755 at the end of FY2010. Daily trading by individual investors also contracted from an average daily trading value of ¥610 billion in FY2009 to as low as ¥400 billion at one point in FY2010 (TSE, OSE, and NSE). Consequently, brokerage commissions in the Retail Division dropped off. On the other hand, though they had a negative impact on domestic market conditions, the low interest rates in Japan and the strong yen made foreign currency-denominated bonds and publicly offered structured bonds very attractive. By promoting these products aggressively, the Division was able to maintain strong sales. Net operating revenues for the period declined by 7.7% year on year, to ¥178.9 billion, but ordinary income increased 3.4%, to ¥41.8 billion.

## Key Events of FY2010

The “Daiwa Consulting” course has increased its focus on the field of “impact investment,” which not only helps customers obtain a good return but also offers them suggestions on how to make investments that address social issues and environmental causes. In FY2010, we continued sales of so-called “Water Bonds” and other foreign currency-denominated bonds aimed at individual investors. The Division also arranged numerous “Green World Bank Bond” issues aimed at regional banks. Daiwa Securities also played a pioneering role in the microfinance market in Japan, launching the country’s first mutual fund that focused on microfinance\*1 – the “Daiwa Microfinance Fund.” The company also expanded its lineup of monthly-dividend-payment-type mutual funds, which are designed to match the dividend income needs of customers, and launched trust products that correspond to popular investment themes or market trends, such as funds that focus on emerging economies.

The Division continued to promote foreign stock-related products, such as ETFs focusing on stocks from newly emerging economies, which offer good growth prospects. Trading volume and revenues from this business expanded, boosting revenues from foreign

## REVIEW OF OPERATIONS

## Retail Division

stock-related trading to around 30% of Daiwa Securities' total equity-related revenues.

Meanwhile, total assets under management in Daiwa Securities' wrap accounts, discretionary asset management services – Daiwa SMA and Daiwa Fund Wrap – increased to ¥272.3 billion at the end of FY2010, putting the company in first place in the industry.

The “Daiwa Direct” course helped the company to attract an increasing number of customers who prefer to take a more active role in managing their investment portfolios. In services such as “Daiwa 365FX” and “Margin Trading Service” we set fees so low as to be among the lowest in the industry. In addition to lowering fees, the company is developing trading tools with comprehensive functions. These measures allowed the company to capture an industry-leading 17.5% share<sup>\*2</sup> of all trading activity on the Tokyo Financial Exchange's “Click 365” service in FY2010. Daiwa's Margin Trading Service, meanwhile, increased its share of total

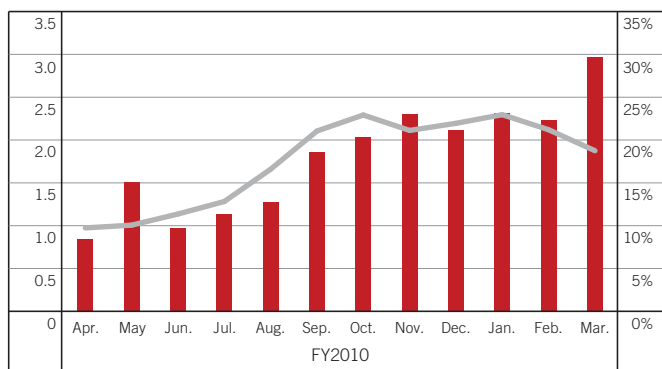
margin trading by individuals in Japan from 2.3% in the second half of FY2009 to 3.8% in the same period of FY2010.

The Retail Division is investing in IT to help rationalize administrative tasks and improve efficiency. The back office functions that used to be performed at each separate branch office are steadily being consolidated at the operations center, and a comprehensive management structure is being developed to improve efficiency while maintaining high quality. The company is also taking steps to improve customer convenience. For example, from March 2011 the “Daiwa Cards” issued to Daiwa Securities customers can be used at the ATMs of all “Seven Bank” outlets.

\*1. Microfinance allows small businesses in developing or newly emerging economies to raise operating funds through unsecured borrowing. It also can be used to provide savings- or insurance- related financial services. It has attracted a great deal of attention in recent years as a way to help small struggling businesses in developing countries.

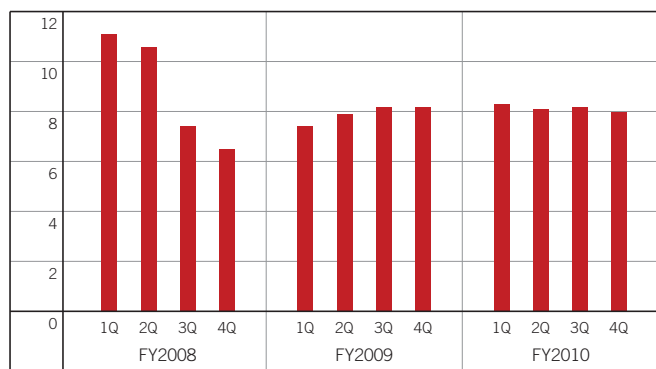
\*2. Source: FY2010 Ranking of companies participating in “Click 365” trading, by Yano Research Institute Ltd.

**Daiwa Securities “Daiwa 365FX”: Trade Volume and Market Share**  
(million)



■ “Daiwa 365FX” trade volume (left) — Daiwa's share (right)

**Daiwa Securities Mutual Fund Agency Commissions**  
(¥ billion)



## Action Plan for FY2011

In FY2011, the Retail Division will focus on attracting new customers, as well as generating more business from existing customers, in an effort to accelerate the inflow of customer assets and thus help boost the balance of total assets under custody for the Group as a whole. To achieve this, the Division intends to focus on the following measures:

### <Entering into Bank Agency Business>

In May 2011, the Group launched Daiwa Next Bank and also launched a bank agency business at Daiwa Securities. The Group launched a “Daiwa Twin Account” service, which allows seamless connections between a customer's bank account at Daiwa Next Bank and their securities account at Daiwa Securities. Daiwa Next Bank will offer attractive interest rates as well as the direct service channels and convenient service provided by the Retail Division's branch offices. In this way, the Group hopes to attract new customer assets.

### <Improving Mutual Fund Sales Capabilities>

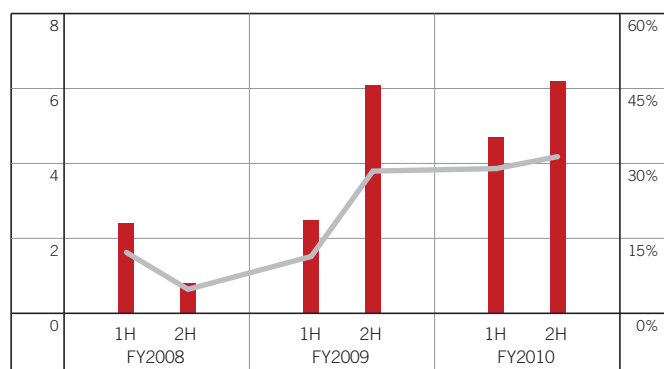
Over the next two years, over ¥20 trillion of fixed deposits and individually held JGBs will reach maturity. At least some of these assets will be reinvested in investment trusts. The Retail Division plans to step up efforts in sales of mutual funds products in order to boost agency commissions, which account for a significant portion of the Group's stable revenues. The Group has the lead in developing monthly-dividend-payment-type mutual funds, and this position will be leveraged to attract more investments. In addition, the Group has been working to expand its lineup of mutual funds that address a particular theme or market trend. Examples include the "Daiwa Harris Global Selected Stock Fund," which was established in April 2011, and low-risk products such as a JGB fund. Daiwa Securities is trying to provide a lineup of products that match a wide range of customer needs and risk tolerances.

### <Increasing Foreign Stock Trading>

Japanese investors are showing a growing interest in ETFs which target emerging economies, where growth expectations are high, and stocks in overseas companies with good growth potential. The Retail Division is working to expand its trading in these products. However, foreign currency-denominated assets still account for a very low percentage of total household financial assets, and there is strong potential for future growth. The Retail Division is expanding its cooperation with Daiwa Securities Capital Markets Co. Ltd., which spearheads the Daiwa Securities Group's Asian expansion strategy. In this way, we hope to promote the shares of growth companies in Asia, as well as other quality financial products, to Japanese investors.

#### Daiwa Securities Foreign Equity Revenue

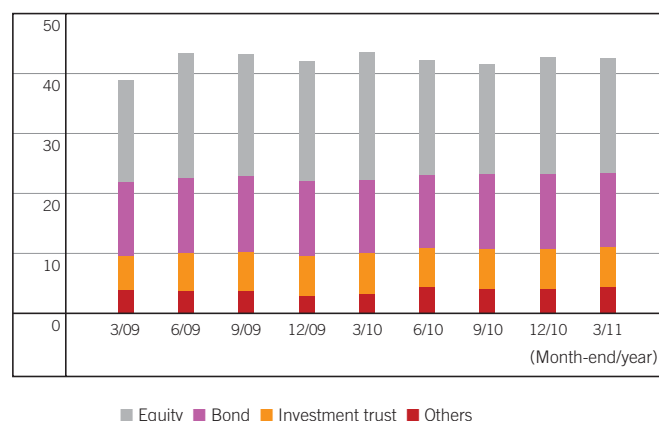
(¥ billion)



■ Foreign equity revenue (left) — Proportion of foreign equity in equity revenue (right)

#### Customer Assets (Overall Group)

(¥ trillion)



■ Equity ■ Bond ■ Investment trust ■ Others

### <Expanding the Customer Base of "Daiwa Direct" Course>

The Retail Division continues working to attract customers to the "Daiwa Direct" course, a service plan designed for customers who like to take a more active approach in managing their investments. In June 2011, the Division launched a "Futures and Options Trading Service," and it plans to continue working to improve trading functions and services for margin trading and FX trading. To attract new customers, the Division is seeking ways to enhance our approach to novice investors and the younger generations of investors just starting to accumulate assets. In addition to offering savings accounts from May 2011, the Division intends to cooperate with Daiwa Next Bank to introduce a "mutual fund accumulation service," which makes fixed monthly investments in a mutual fund. This will help the Group to expand its customer base.

## REVIEW OF OPERATIONS

## Global Markets Division

**QUESTION:** What are the main challenges facing the Global Markets Division?

**A.** In recent years, Japan's stock market has remained weak. Institutional investors and other customers have therefore put increasing priority on business opportunities and stock investments in other parts of Asia. Their needs are changing; nowadays they demand information and support that spans the entire Asian region. We have responded to these changing needs by moving quickly to offer services covering all of Asia. Indeed, in autumn 2009 Daiwa Securities Capital Markets was assigned the role of spearheading Asia-related business strategy for the entire Daiwa Securities Group. We strive to be a financial services firm that places customers first, and generates high levels of satisfaction. We are aggressively channeling management resources into this effort and are reorganizing operations to try to meet their needs. Among other developments, we have introduced electronic trading for execution of orders, and acquired the KBC Group's Global Convertible Bond and Asian Equity Derivatives businesses. We have assembled a team of top-class personnel covering each market in Asia and are working to steadily expand our lineup of products and services throughout the region.

In FY2010 business results were hurt by a very adverse market environment. In addition, we were making extensive investments to further strengthen our base and build for the future. The result was a severe drop in ordinary income. However, in FY2011, we intend to leverage the infrastructure that we have built to aggressively cultivate customers and expand our business. The key challenge for the Global Markets Division is to maximize the payoffs from past investments, and revive profitability.

**QUESTION:** Which business fields will the Global Markets Division focus on primarily?

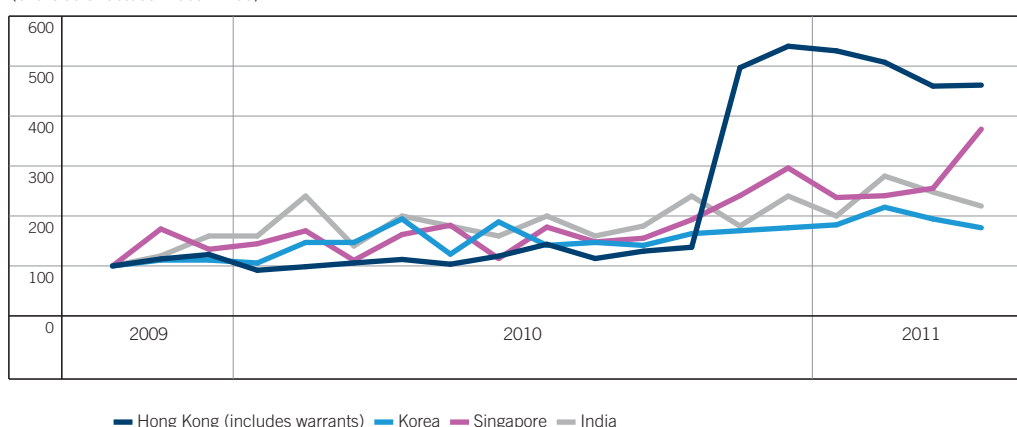
**A.** By expanding Pan-Asian research, we aim to improve our ranking in equity brokerage in Asia including Japan. Our market share in each of the major Asian stock markets is steadily rising. In the near term, we expect to emerge as one of the top competitors throughout the region, in terms of trading capabilities, sales activities and customer satisfaction. Many institutional investors have already begun to place Japanese stocks and other Asian stocks on an even footing when making investment decisions, and using the same standard rule for stock selection among companies in the same industry, regardless of where they are based. Our stock analysts are engaged in extensive cross-border activity and are working to establish a truly Pan-Asian research approach. This will help give the Group a competitive advantage in our coverage of the region.

Toshinao Matsushima  
Senior Executive Managing Director  
Head of Global Markets  
Daiwa Securities Capital Markets Co. Ltd.

The Global Markets Division provides brokerage services for equities, bonds, foreign exchange and derivatives, as well as the sale and trading of high-quality financial products and services. The Division has a comprehensive presence in each of the world's main financial centers – Tokyo, Hong Kong, London, and New York – and provides brokerage and trading services in each market, as well as cutting-edge financial products. In this way, the Division can propose ideal investment and financing solutions for institutional investors, financial institutions and business corporations.

**Share of Total Trading Volume in Asian Stock Markets**

(Share as of October 2009 = 100)



## Business Conditions and Earnings for FY2010

During the latter half of FY2010, the Global Markets Division benefitted from increased trading activity in Asian stocks and a rebound in purchases of Japanese equities by foreign investors. This boosted brokerage commissions by 29.5% year on year, to ¥23.7 billion. Trading income was hit by a loss in the fourth quarter as the East Japan Earthquake rocked both stock and bond markets and created a very uncertain market environment. As a result, trading income for the full fiscal year was down 46.6% year on year, to ¥31.7 billion. Total net operating revenues in the Global Markets Division dipped 25.7%, to ¥61.4 billion.

Over the course of the year, the Division hired a large number of new employees to strengthen operations at offices in Asia. By the end of the fiscal year, the number of personnel in the Division had nearly doubled from year-ago levels. The resulting increase in personnel expenses caused the Division to post a ¥52.1 billion ordinary loss.

## Action Plan for FY2011

In FY2011, the Division will begin to leverage the global business platform it built during the previous year, offering a wider range of products and providing financial services that respond even more effectively to customer needs. Based on its leading position in Japan and an expanded business foundation in Asia, the Division will be able to help Japanese investors take greater advantage of investment opportunities in Asian stocks and convertible bonds. In this way, Asia's growth potential can be harnessed to benefit the Division and its customers alike.

The Global Markets Division has already earned a strong reputation for its order execution capabilities and other electronic trading services, such as algorithm trading and crossing networks. By further building on these capabilities, and developing a cross-border research network, the Division hopes to further enhance its reputation with customers. The development and launch of new structured bond and derivative products should help nurture new customer segments as well as better address the needs of domestic investors.



## REVIEW OF OPERATIONS

## Global Investment Banking Division

**QUESTION:** What are the main challenges facing the Global Investment Banking Division?

**A.** For investment banking businesses like ours, which are engaged in a variety of stock and bond underwriting and M&A activities, the most important skill is creativity – the ability to come up with creative ideas, propose the most effective solution to a client's business needs, and to leverage the company's origination skills to implement it. Each of the Division's functional units plays a critical role. Relationship Management personnel carefully monitor and manage relationships with clients, the Corporate Finance Department provides specialized expertise in industry financing, the Capital Markets Department contributes to a thorough knowledge of the financial markets, and M&A specialists help to align the needs and capabilities of two or more companies. These four departments work together to best serve the needs of clients.

The company places a high priority on reinforcing its infrastructure in the rapidly growing markets of Asia. In order to provide clients with cross-border solutions, we have established a global business platform that encompasses all the major financial centers in Asia, Europe and North America, as well as Japan. As this global strategy unfolds, we will be able to generate even stronger and more stable revenue flows.

**QUESTION:** Which business fields will the Global Investment Banking Division focus on primarily?

**A.** As mentioned before, we are taking steps to strengthen our network in Asia. We have nearly completed our goal of establishing a top-class team of specialists in each region to cover the roles of country banker, sector banker and product banker. For example, in the Hong Kong office we expanded our team of country banker staff in charge of China from just two employees at the end of FY2009 to 11 as of March 31, 2011. The same trend is progressing in other offices and sectors as well.

In FY2010, the Division handled a large volume of POWL deals as well as taking part in the underwriting of IPOs for mainland Chinese companies listing on the Hong Kong market. Some Japanese companies listed depositary receipts on the markets in Hong Kong and Taiwan, and we also attracted IPO of REIT on the Singapore exchange. In the M&A business, we cooperate closely with our European subsidiary, Daiwa Corporate Advisory Partners, and with Daiwa Securities Group affiliate, Sagent Advisors in the U.S. In Asia, meanwhile, the Division landed more than twice the volume of mandate contracts compared to the beginning of FY2010. This is why we believe the potential is there to become a truly global investment bank in FY2011.

Akio Takahashi

Deputy President  
Deputy Head of Wholesale  
Daiwa Securities Group Inc.

Deputy President  
Head of Global Investment Banking  
Daiwa Securities Capital Markets Co. Ltd.



The Global Investment Banking Division is engaged in underwriting stock and bond issues, handling IPOs and securitization, and serving as an advisor for M&A deals. The Global Investment Banking Division has accumulated extensive knowhow and a solid track record of accomplishment and can leverage a growing international network to propose global solutions that help clients increase their corporate value.

### Major Lead-Managed Deals and Publicly Announced M&A Advisory Activities in FY2010 (Including Participation as Joint Book-Runner)

#### Primary and Secondary Equity Offerings (including CBs)

Mizuho Financial Group	Global Public Offering	¥780.0 billion
Resona Holdings	Global Public Offering	¥572.0 billion
Elpida Memory	Domestic CB	¥60.0 billion
Elpida Memory	Taiwan DR (First for Japanese company)	¥12.0 billion
SBI Holdings	Hong Kong DR (First for Japanese company)	¥17.5 billion
Agricultural Bank of China	POWL	U.S.\$22.1 billion
AIA Group	POWL	U.S.\$20.6 billion
Hutchison Port Holdings Trust	POWL	U.S.\$5.5 billion

#### IPO

CALBEE	IPO	¥11.0 billion
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#### REIT

Sabana REIT	Overseas REIT (First listed Shari'ah Compliant REIT in the world)	U.S.\$0.5 billion
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#### Bonds

Asian Development Bank	U.S. dollar-denominated global bonds	U.S.\$3.0 billion
Republic of Turkey	Samurai bonds (guaranteed by Japan Bank for International Cooperation)	¥180.0 billion
Kommunalbanken Norway	U.S. dollar-denominated global/144A bonds	U.S.\$2.0 billion
European Bank for Reconstruction and Development	U.S. dollar-denominated global bonds	U.S.\$1.5 billion

#### M&A

Merger of Sumitomo Trust & Banking and Chuo Mitsui Trust Holdings	Advisor to Sumitomo Trust & Banking
Takeover bid by Panasonic to acquire Panasonic Electric Works	Advisor to Panasonic Electric Works
Acquisition of SAE Towers (U.S.) by KEC International (India)	Advisor to KEC International

## Business Conditions and Earnings for FY2010

Business conditions for the Global Investment Banking Division were extremely harsh during FY2010, as M&A activity receded and equity finance by Japanese companies declined by some 50%. Net operating revenues for the period fell 45.4% year on year, to ¥30.6 billion, and the Division posted an ordinary loss of ¥14.7 billion. Nevertheless, the Division did attract some major equity finance deals, acting as book-runner on the Resona Holdings' capital increase and Elpida Memory's convertible bond issue. The Division also managed Elpida Memory's listing on the Taiwan Stock Exchange\* and SBI Holdings' listing on the Hong Kong Stock Exchange\* (listed in April 2011). It also helped various Japanese companies with cross-border M&A deals. For example, it assisted with Taisho Pharmaceutical's acquisition of Malaysia's Hoeppharma Holdings (announced in April 2011) as an advisor to Hoeppharma.

The Division continues to expand its Asian operations, especially in Hong Kong. This growth is reflected in three POWL attracted in FY2010, including deals for the Agricultural Bank of China and AIA Group, and seven book-runner contracts for equity finance issuances by Asian corporations such as Sabana REIT.

The Division even served as an advisor for a deal under which India's KEC International acquired a U.S.-based company.

\* Elpida Memory and SBI Holdings listed in Asian markets with the issuance of depositary receipts (DR).

## Action Plan for FY2011

The primary objective that the Division has set for itself in FY2011 is to revive earnings and improve its position in the league tables. Resources are being allocated to various operations based on client segmentation in an effort to improve efficiency. It is also building connections throughout the world to enhance origination capabilities and the company's capacity to organize bridge loans and currency exchange for underwriting opportunities and M&A. In this way, it hopes to diversify income sources to the greatest extent possible.

The Division increased personnel in Asia from around 90 employees at the end of FY2009 to around 140 at the end of FY2010. It is placing emphasis on IPOs and equity finance in the Chinese and Hong Kong markets, where potential revenues exceed those in Japan, in an effort to turn its mandates into concrete sources of revenue.

## REVIEW OF OPERATIONS

## Asset Management Division


**QUESTION:** What are the main challenges facing the Asset Management Division?

**A.** One of the Daiwa Securities Group's main management objectives is "to expand stable revenues," and one of the best ways to do this will be to increase the balance of assets under management in the Asset Management Division. During FY2010, Daiwa Asset Management Co. Ltd. and Daiwa SB Investments Ltd. cultivated several very popular investment funds which became a major talking point in Japan's mutual fund market as a whole. As a result, the two companies increased their combined share of the Japanese market for publicly traded mutual funds to 17.8%. Given the Group's background and experiences in this market as well as its ability to attract investment capital, we think there is still room to further expand our market share and the absolute scale of assets under management.

Despite credit concerns in Europe and uncertainty in the U.S. economy, during FY2010, Japanese investors continued to show a strong interest in mutual funds that focus on overseas bonds and stocks. The mutual fund market in Japan continues to benefit from the steady flow of individual financial assets and reaffirms its leading role in engineering a flow "from savings to investment." Daiwa Asset Management is developing a broader range of monthly-dividend-payment-type mutual funds, which have become very popular with individual investors. Furthermore, the company has earned the trust of customers by providing easy-to-understand explanations of each fund at sales agencies. By developing popular fund products, the Asset Management Division has been able to strengthen its marketing channels year by year to include banks and even the sales offices of other securities companies outside the Daiwa Securities Group. By carefully cultivating relationships with these companies, we hope to target the acquisition of further assets.

**QUESTION:** Which business fields will the Asset Management Division focus on primarily?

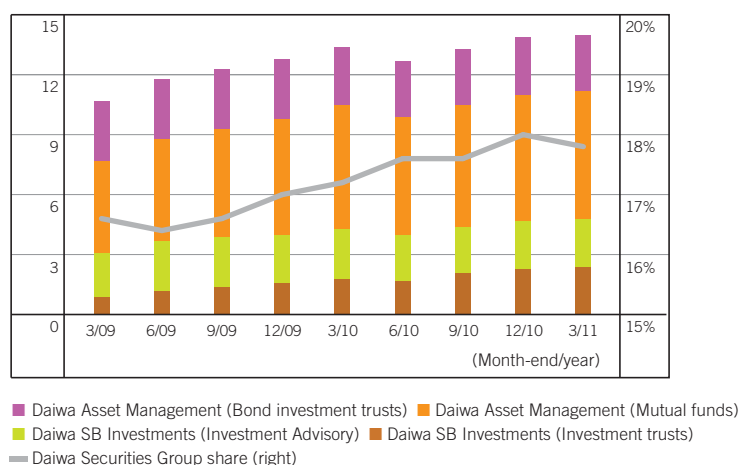
**A.** Daiwa Asset Management and Daiwa SB Investments are both investing in measures to further expand overseas research and fund management capability. We hope to benefit from the synergy between these operations and the Daiwa Securities Group's overall strategy of expansion in Asia. In this way, the Group will be able to offer products clearly differentiated from competing offerings.

Daiwa Asset Management already has asset management offices in Shanghai, Hong Kong and Singapore. In December 2010, we added another center for managing funds by acquiring an India-based asset management company. The company is headquartered in Mumbai, operates five offices in India's largest cities and has a network of allied sales channels throughout the country, including many local banks and securities companies. This not only allows the Daiwa Securities Group to develop new products for Japanese investors focusing on Indian companies, but also gives us access to the household assets held by India's rapidly growing middle class.

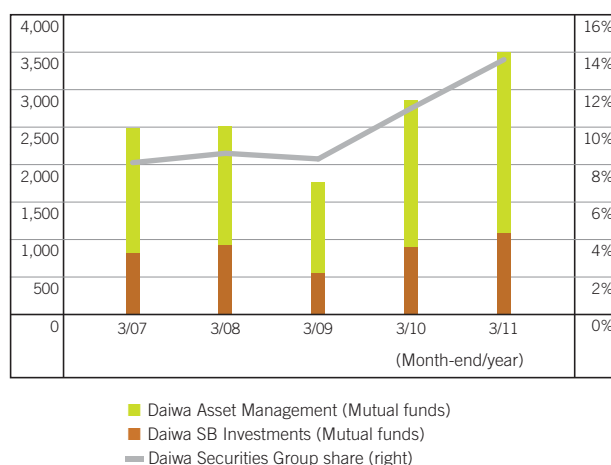
Toshio Ishibashi  
Deputy President  
Head of Asset Management  
Daiwa Securities Group Inc.

The Daiwa Securities Group's Asset Management Division comprises three separate companies. Daiwa Asset Management Co. Ltd. has established a global research organization which allows the Group to develop and manage mutual fund products that respond directly to the financial needs of individual investors. Daiwa SB Investments Ltd. has earned a strong reputation among institutional investors for providing investment advisory services and pension fund management support. In addition, Daiwa Real Estate Asset Management Co. Ltd. was established in July 2009 to operate a J-REIT business.

**Balance of Assets Under Management in the Asset Management Division**  
(¥ trillion)



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



## Business Conditions and Earnings for FY2010

In FY2010, a number of factors created some headwind for overseas investment demand, including Brazil's introduction of IOF taxes on transactions related to foreign investment in Brazil, and the sudden strengthening of the yen in the latter half of the year. Nevertheless, individual investors continued to show a strong interest in mutual funds, generating a net inflow of ¥5.3 trillion to Japan's market for publicly traded mutual funds (excluding ETFs) in FY2010.

Due to various sales channels including banks, Daiwa Asset Management succeeded in generating strong demand for its "High Grade Oceania Bond Open Fund" and the "Brazil Bond Open Fund." Other popular products included the "Daiwa Global REIT Open Fund" and the "Twin Accelerator Fund," which combines investment in Brazilian government bonds with emerging market stock issues. Daiwa SB Investments, meanwhile, attracted booming demand for its "Short-Term Australian Dollar Bond Open Fund," which surpassed the ¥1 trillion mark for total assets under management. The net inflow to Daiwa Asset Management's publicly traded mutual funds (excluding ETFs) during the fiscal year reached ¥611.2 billion, whereas Daiwa SB Investments recorded a net inflow of ¥747.9 billion.

There was a temporary drop in the net asset value of mutual funds following the East Japan Earthquake in March 2011.

Nevertheless, net operating revenues in this Division rose by 15.3% year on year, to ¥36.3 billion. Ordinary income expanded by 42.4% year on year, to ¥15.9 billion.

## Action Plan for FY2011

Daiwa Asset Management's action plan for FY2011 sets three objectives: strengthening fund management capabilities, improving fund development activities, and enhancing customer support. The company has set specific targets and matrices for achieving each of these goals. For example, Daiwa Asset Management will use the percentage of funds in each category, which are among the top performers, as a benchmark to evaluate success in improving fund management performance. The company's market share of assets in publicly traded mutual funds will be used as an indicator of customer satisfaction.

Daiwa SB Investments intends to further enhance its management capabilities for Japanese stocks, while using its Hong Kong subsidiary and other overseas offices to strengthen Asian stock management capabilities. The company hopes to increase the number of pension funds it manages and expand its sales channels for mutual funds during the fiscal year. Specifically, it aims to move into the top ten in terms of its share of domestic public pension funds managed.

## REVIEW OF OPERATIONS

## Investment Division

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

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

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

Daiwa Corporate Investment focuses on companies that are considered likely to list their shares on the stock market or to become a target for a merger or acquisition. After locating such companies Daiwa Corporate Investment performs due diligence, evaluates the business model and technology of the target company and identifies potential risk factors, and if everything is in order, it then acquires a direct capital stake by purchasing shares in the company. A “Hands-On Management” approach is generally adopted, with directors appointed to help the target company enhance its corporate value, and when this process has made sufficient headway, Daiwa Corporate Investment begins seeking an exit, through such methods as the listing of the company’s shares, to complete the investment process.

#### <Venture Capital Investment>

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

#### <Buy-Out Investment>

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

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

Daiwa PI Partners Co. Ltd. was launched in 2001, under the name Daiwa Securities SMBC Principal Investments Co. Ltd. The company was involved in private equity investment, monetary claims investment, real estate investment, investment in green-house gas emissions credits and regional recovery funds. In February 2010, the investment portfolio was transferred to a company that retained the original name, Daiwa Securities SMBC Principal Investments Co. Ltd., whereas the current company adopted the name Daiwa PI Partners Co. Ltd., and began pursuing new investment activities. Daiwa PI Partners has accumulated extensive and specialized experience in a number of business sectors. By leveraging its existing experience, knowhow and relationship network, it can address the varying needs of target companies for raising capital and selling off assets.

#### <Monetary Claims Investment>

The Daiwa Securities Group has been a pioneer in monetary claims investments since 1998. It acquires loan contracts and nonperforming loans from financial institutions and business corporations throughout Japan. The Group has transacted such deals with more than half of the banks in Japan, and has a top-class track record in this business.

#### <Private Equity Investment>

The Group has made more than ¥300 billion in private equity investments in over 20 Japanese and Asian companies. In 2010 it also began investing in J-REITs through Daiwa Office Investment Corporation.

#### <Investment Funds>

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

# IT/Think Tank Division

## One of Japan's Leading Think Tanks

### Daiwa Institute of Research Group

The Daiwa Institute of Research Group encompasses a number of companies involved in research, information services and other support functions. The group includes Daiwa Institute of Research Holdings Ltd., the administrative parent of the group; Daiwa Institute of Research Ltd., which offers research and consulting services as well as providing systems support to companies in the Daiwa Securities Group; and Daiwa Institute of Research Business Innovation Ltd., which provides systems support to companies outside the Daiwa Securities Group. The synergy between these companies has made the group one of Japan's leading think tanks, addressing sectors ranging from economics and social issues to corporate business strategy and IT solutions. In FY2010, the three main group companies generated a combined ordinary income of ¥8.3 billion, up 5.5% from the previous year.

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

The Daiwa Institute of Research Group has over 40 years of experience in researching macroeconomic topics and regulatory factors that affect financial and capital markets both in Japan and overseas. The group is working to enhance the knowledge and expertise it possesses, and its capacity to make proposals and recommendations based on such research. Furthermore, it is developing its ability to disseminate this information, in order to serve as a Think Tank and an opinion leader in Japan and overseas.

### Consulting Services Help Clients Enhance Their Corporate Value

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

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

The IT systems support business has adopted cost-value optimization methods such as building cutting-edge offshore development structures and one of the most advanced cloud computing environments in Japan, to help make the Daiwa Securities Group more competitive. The offshore development structure was established in cooperation with a Chinese systems development company, SinoCom Software Group Ltd. The joint venture, SinoCom DIR Business Innovation Technology (Beijing) Co., Ltd., specializes in developing and introducing standardized systems security platforms and communications platforms, and has improved systems development efficiency. Efforts to develop the domestic cloud computing environment include not only the expanded use of cloud computing at the Daiwa Securities Group companies, but also collaboration with other IT companies to develop "Alliance Cloud" – a consortium that is working to apply cloud computing technology to core systems. In the future, steps will be taken to enhance the quality of operations.

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



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a New Way to Bank

# Daiwa Next Bank

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## Management Systems and CSR Activities

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## Message From the Chairman



### Corporate Philosophy of the Daiwa Securities Group

#### Building trust

The trust and approval of customers forms the very foundation of the Daiwa Securities Group. The Group will always place the needs of customers first, and strive to develop the advanced, specialized skills to offer them the most attractive products and services of any securities group.

#### Placing importance on personnel

The source of the Group's competitiveness lies in the capabilities of its employees. The Group will promote the creativity of employees by offering them a challenging and self-directed working environment that encourages their abilities and appropriately rewards their contributions.

#### Contributing to society

The Daiwa Securities Group will seek to benefit the economy and society through the development of healthy financial markets. In addition to scrupulously observing both regulations and internal policies, the Group will strive to maintain a high sense of morality and duty, endeavoring to continue contributing to the sustainable growth of the societies in which we operate.

#### Maintaining healthy earnings results

The Group will always seek to develop healthy business operations and to increase corporate value for the benefit of shareholders. By providing customers with attractive products and services, the Daiwa Securities Group will seek to generate strong profits and healthy returns for shareholders.

The corporate philosophy of the Daiwa Securities Group is expressed in the motto "Building Trust;" this reflects the fact that our continued growth and prosperity depend heavily on the Group's ability to earn the trust and reliance of customers, as well as society in general. Management and employees of the Group take pride in the sincere contributions we make to financial and capital markets. By demonstrating these contributions to the public, we hope to establish a strong and abiding relationship with all of our stakeholders.

"Corporate Governance," as a mechanism designed to maintain the Group's steady and persistent growth, is founded on such employees respecting the Group's corporate philosophy, behaving ethically, and maintaining high standards of professionalism.

Based on such principles, the Group is committed to building an organization in which employees are highly motivated to work, and can fully realize their abilities and aspirations. We strive to cultivate a corporate culture founded on transparency, trust and cooperation, and in which all personnel exercise strong self-discipline, motivation and enthusiasm as they contribute to enhancing the corporate value of the Group.

In the future, management will do its utmost to chart a course towards continued growth and success for the Group. We appreciate the continuing support of all our stakeholders.

Shigeharu Suzuki  
Chairman of the Board  
Daiwa Securities Group Inc.

## Corporate Governance

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

### Features of the Corporate Governance System

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

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

The Nominating Committee met four times in FY2010 to discuss the composition of the Board of Directors and its effect on corporate governance, the basic policy for nominating candidates for directorships, and the selection of these candidates. The Nominating Committee selects candidates for directorships in light of the Group’s selection standards for the appointment of directors. These standards include criteria that help ensure the independence of outside directors.

The Audit Committee met 12 times during FY2010. The committee evaluated the activities of directors and executive officers, audited documentation including financial statements and business reports, and prepared an audit report for the period under review.

The Compensation Committee met four times in FY2010 to discuss compensation policy and determine the compensation of each director, and also studied a Group-wide incentive plan aimed at improving consolidated earnings results.

The Board of Directors met 10 times during FY2010 and outside directors had a 100% record of attendance.

### Corporate Governance System at Daiwa Securities Group Inc.



## Executive Compensation More Closely Linked to Performance

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

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

### Compensation Paid to Directors and Executive Officers in FY2010

	Directors		Executive Officers		Total	
	Recipients	Amount	Recipients	Amount	Recipients	Amount
Amounts based on resolution of the Compensation Committee	7 persons	¥121 million	14 persons	¥537 million	21 persons	¥659 million

Notes: 1. No performance-based compensation was paid in this fiscal year.

2. The above compensation amounts include a total of ¥83 million in stock acquisition rights granted as stock options to directors and executive officers.

3. Compensation paid to the five outside directors totaled ¥84 million.

4. Eight directors also served as executive officers; their total compensation is included in the "Executive Officers" category.

## Internal Control System

The Daiwa Securities Group defines four internal control objectives: promoting "business effectiveness and efficiency," "reliable financial reporting," "compliance with laws related to business activities," and "asset preservation." The Group is building an extensive internal control system to ensure that these processes function effectively and efficiently.

Internal auditing departments have been established at major Group companies to carry out internal audits. In addition, the Group Internal Audit Department, which is under the control of a full-time executive officer, audits Group companies that do not have their own internal auditing departments.

The Group Internal Audit Department was established in place of the former Internal Audit Department in April 2011. The motives behind this were twofold: to strengthen the internal auditing of the Group as a whole, and to address changes made to strengthen the regulatory and supervisory functions of the Group as a whole in response to revisions to the Financial Instruments and Exchange Law. In reorganizing our internal audit functions in this way, we aim to improve operating efficiency and strengthen collaboration between the relevant departments of Daiwa Securities Group Inc., Daiwa Securities Co. Ltd., and Daiwa Securities Capital Markets Co. Ltd. The same core personnel will be responsible concurrently for the internal audit of these three companies.

The Group's internal auditing departments undertake regular audits based on internal rules pertaining to internal auditing, and verify the status of internal control activities. Audits are performed periodically or as necessary following an evaluation of the extent and management of inherent risks faced by the Company and individual departments and other factors. The Group Internal Audit Department at the holding company regularly communicates with the internal auditing departments of major Group companies, and thereby coordinates efforts to upgrade the Group's internal control and internal auditing systems.

In the case of Daiwa Securities Group Inc., internal auditing plans and the results of internal audits are reported to and

approved by the Group Internal Audit Committee, directly under the control of the CEO of Daiwa Securities Group Inc.

Furthermore, the auditing plans and results for major Group companies are reported to and approved by committees such as the Legal Affairs & Compliance Committee. The Group Internal Audit Department of the holding company also reports the results of internal audits to the Audit Committee.

The Audit Committee conducts audits in collaboration with the Group Internal Audit Department and, when necessary, can ask the Group Internal Audit Department to research the items required to conduct the audits.

### "Internal Control Report System" to Govern Financial Disclosure Activities

In FY2008, the government introduced legislation under the Financial Instruments and Exchange Law, which requires management to submit reports on the internal control system used to oversee financial reporting. The objective of this regulation is to support the objective of "ensuring reliable financial reporting." The reports that each company submits serve as a formal confirmation by company management that they approve of the control systems and believe that they are effective in ensuring accurate financial reporting. The Group prepared for and executed compliance with this new legislation through project teams set up at all of the major Group companies in FY2006. The efforts were organized into four main categories—control of Group companies, oversight of Group IT activities, control of business processes, and verification measures—each of which was overseen by a separate working group. From FY2008 onwards, each group compiled yearly a list of the potential risks to accurate financial reporting in their area of focus and possible internal control measures that could be used to monitor and evaluate these risks. At the end of this process, the Group determined that its internal control systems were adequate to ensure accurate financial reporting for that year. A report on the Group's internal control systems was then compiled and disclosed.

## Corporate Governance Committee System

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

### Committee Members

#### Nominating Committee

Shigeharu Suzuki  
(Chairman)

Takashi Hibino

Ryuji Yasuda

Nobuko Matsubara

Keiichi Tadaki

Kensuke Itoh

#### Audit Committee

Koichi Uno  
(Chairman)

Toshihiko Onishi

Nobuko Matsubara

Keiichi Tadaki

#### Compensation Committee

Shigeharu Suzuki  
(Chairman)

Takashi Hibino

Ryuji Yasuda

Koichi Uno

Kensuke Itoh



**Toshihiko Onishi**  
Member of the Board

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



**Ryuji Yasuda**  
Outside Director (Member of the Board)

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



**Koichi Uno**  
Outside Director (Member of the Board)

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



**Nobuko Matsubara**  
Outside Director (Member of the Board)

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



**Keiichi Tadaki**  
Outside Director (Member of the Board)

1969 Public Prosecutor of the Tokyo District Public Prosecutors Office  
1996 Chief Prosecutor of the Oita District Public Prosecutors Office  
1997 Public Prosecutor of the Supreme Public Prosecutors Office  
Deputy Vice-Minister of Justice  
2002 Vice-Minister of Justice  
2004 Superintending Prosecutor of the Tokyo High Public Prosecutors Office  
2006 Prosecutor General  
2008 Special Counsel Attorney at law of Mori Hamada & Matsumoto  
Chairman of Japanese Correctional Association  
2009 Outside Director (Member of the Board), Daiwa Securities Group Inc.



**Kensuke Itoh**  
Outside Director (Member of the Board)

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

# Disclosure

The Daiwa Securities Group strives to earn the trust of stakeholders by meeting the “very highest standards of disclosure among Japanese companies.” We work proactively to provide fair, prompt, and appropriate information to customers, shareholders, investors, the local communities, executives, and employees in order to ensure that all of these stakeholders receive a clear understanding and proper evaluation of the Group’s business activities.

## Disclosure System

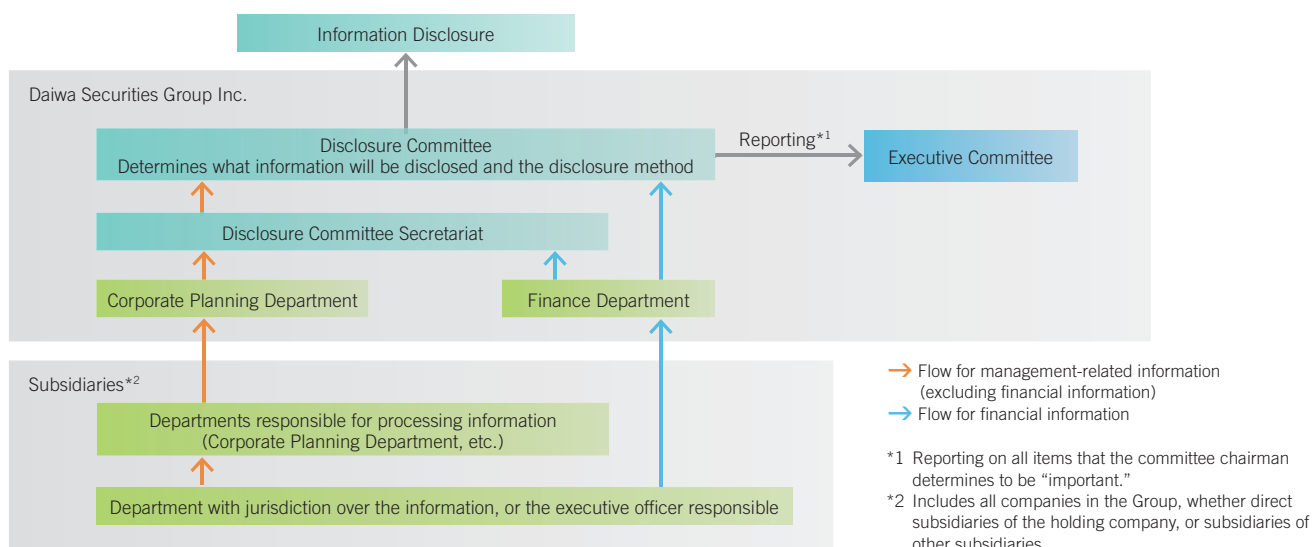
The Daiwa Securities Group has formulated the Disclosure Policy, which outlines the Group’s basic approach to information disclosure and strives to provide information that is fair, prompt, and appropriate.

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

appropriate collection of information and presentation of reports to Daiwa Securities Group Inc.

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

## Flowchart of the Daiwa Securities Group’s Disclosure Activities



## Daiwa Securities Group Disclosure Policy

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



## Compliance

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

### The Daiwa Securities Group's Approach to Compliance

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

In FY2010, the Group continued its focus on training related to insider trading from FY2009. The subject matter of this training is being made more concrete through the use of such materials as the list of fines collected from financial offenders published by the Financial Services Agency. Insider trading is a serious concern because it can severely damage the public's faith in capital and financial markets. As a major participant in capital and financial market activities, the Daiwa Securities Group has a duty to make sure that it is never involved in this sort of activity. To this end, we continue to conduct training programs related to insider trading on a yearly basis.

The Group is also taking steps to eliminate any and all relations with corporate racketeers and other antisocial groups. Daiwa Securities Group Inc. has organized the "Corporate Ethics Promotion Liaison Meeting," which meets once each quarter, in principle, and includes representatives from the departments responsible for compliance at each Group company. These meetings have been used as a tool to provide guidance on how to respond to such undesirable organizations. As one facet of this, in FY2010, the meeting monitored various Group companies' response methods toward antisocial groups, upgraded relevant rules and provided guidance for their application in day-to-day operations.

### Compliance Initiatives at Daiwa Securities Co. Ltd.

Daiwa Securities Co. Ltd. is taking measures, under the Group's compliance program, to ensure the effective operation of its internal control system in order to ensure strict compliance with laws and regulations. Measures taken in FY2010 included strengthening the internal control system of sales branches. All sales branches were switched to a structure whereby a single employee

serves exclusively as the internal control supervisor for that branch. Also, in order to ensure the efficiency and effectiveness of internal control systems, Daiwa Securities is focusing on improving the efficiency of operations such as clerical work by utilizing its system infrastructure as well as instituting various types of training and employee education programs focusing on inappropriate trade practices and antisocial groups.

In FY2011, the Group will implement initiatives aimed at bolstering internal control systems, and augmenting efficient and effective support structures for the integration of compliance functions of the Group's three companies. We believe that such measures, in addition to improvements in the quality of sales service via self-initiated remedial action at our sales branches through the execution of compliance programs, will be productive in moving us towards meeting our management targets.

### Compliance Initiatives at Daiwa Securities Capital Markets Co. Ltd.

Daiwa Securities Capital Markets Co. Ltd. has identified legal compliance and the creation of a strict internal control system as among the most important issues for management to address. As a result, the company has formulated a detailed compliance strategy, which it has implemented as part of its compliance program. In FY2010, Daiwa Securities Capital Markets took steps to strengthen its systems to ensure the protection of compliance, including implementing measures geared toward fulfilling its responsibility to develop systems to address issues defined in revisions to the Financial Instruments and Exchange Law (including changes to rules on disclosure of secondary distribution of securities, professional investors associated with local governments, and solicitation of derivative transactions, etc.) and bolster structures for checking that all transactions are free from involvement with criminal elements (systems upgraded to improve the accuracy of data retrieved from search systems). It also conducted training programs for all executives and employees to ensure that they are aware of and comply with all laws and regulations. FY2010 also saw the establishment of a control room in Hong Kong designed to share compliance functions for the entire Asia and Oceania regions. In FY2011, Daiwa Securities Capital Markets will work to maintain and strengthen its compliance systems with the aim of expanding its business in Asia. At the same time, it will implement the rules regarding the revisions to the Financial Instruments and Exchange Law and strengthen its prevention systems to eliminate transactions with antisocial groups. Through such efforts, as well as through the enhancement of education programs, Daiwa Securities Capital Markets will develop an even more robust internal control system going forward.

# Risk Management

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

## Basic Risk Management Policy

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

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

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

## Types of Risks

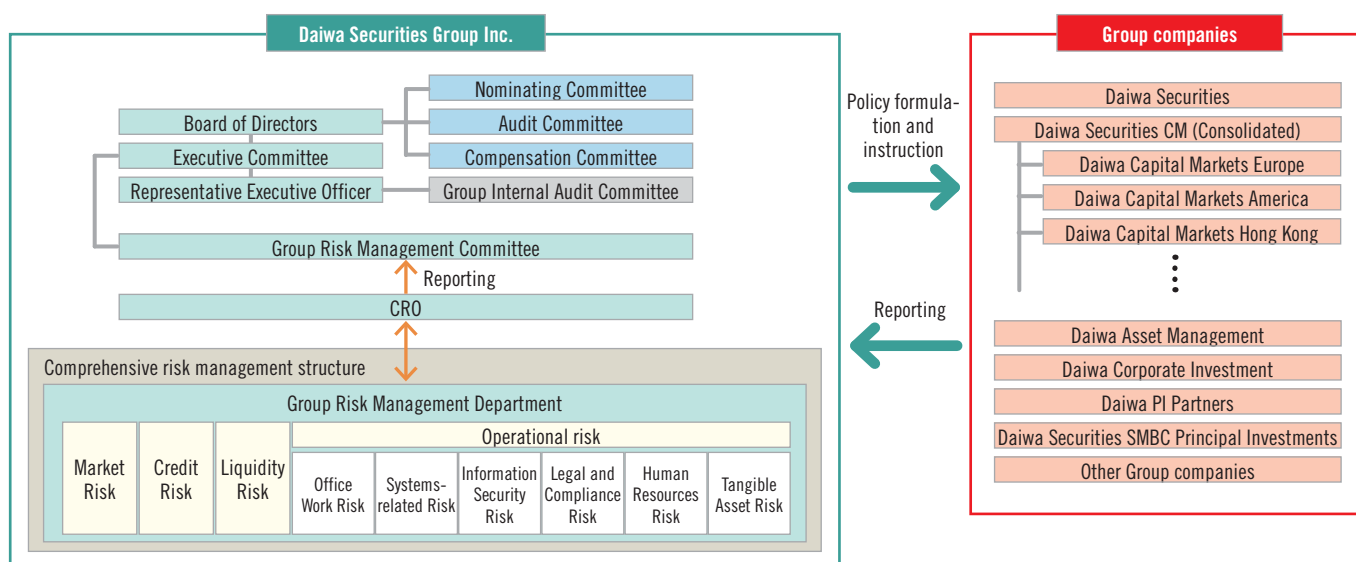
The Daiwa Securities Group faces various risks in the course of its business activities. The Group therefore believes that it is important to properly identify, evaluate, and manage these risks in order to maintain healthy financial and earnings structures. Daiwa Securities Group Inc. engages in risk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

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

## Risk Management System

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

## Risk Management System



## Major Risks and Methods of Management

### <Market Risk>

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

The Group uses Value at Risk (VaR) which indicates maximum potential loss at a specific confidence level, position, and sensitivity for the Group's trading positions. It then uses this information to set limits on risk, and monitors whether or not these limits are being adhered to.

The Group is using backtesting to compare actual profits and losses with VaR estimates to verify the performance of VaR models. In addition, stress tests using scenarios based on actual empirical market data, as well as hypothetical stress event scenarios, are carried out to understand the scale of losses that could emerge in the case of severe market fluctuations.

### <Credit Risk>

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

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 estimations of the notional value of the relevant principal and adherence to the amount of credit used.

In particular, in businesses such as the wholesale business, where the exposure to credit risk is comparatively high, the Group determines the credit standing of each counterparty by conducting quantitative and qualitative evaluations based on a credit evaluation model. The Group then assigns a credit limit to each counterparty, taking into account various transaction conditions such as the

credit period and availability and appropriateness of collateral. In addition, the Group measures credit-VaR and periodically monitors the effects of large exposure to a single counterparty.

### <Market Risk and Credit Risk Unrelated to Trading Positions>

The Group also owns private equity and other investments related to principal investment businesses and venture capital, as well as investment securities unrelated to its trading positions that are held for a long-term perspective for the purpose of maintaining business relationships. Calculations are made to periodically monitor the effects of these assets on market and credit risk.

### <Liquidity Risk>

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

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

### Value at Risk

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

#### Daiwa Securities Group (Consolidated)

(Billions of yen)

		6/09	9/09	12/09	3/10	6/10	9/10	12/10	3/11
VaR (Month-end)		1.77	2.81	2.99	4.33	6.47	5.63	6.01	5.13
Quarterly	High	4.08	3.71	5.13	7.07	12.00	8.48	6.91	6.86
	Low	1.77	1.62	2.53	2.63	4.38	4.39	5.44	4.62
	Average	2.89	2.44	3.64	5.26	7.31	6.27	6.08	5.90

#### By Risk Factor (Month-end)

Equity	0.89	0.95	0.78	0.57	0.77	1.39	1.34	2.08
Interest	1.24	0.86	2.36	4.27	4.48	4.84	5.26	4.82
Currency	1.28	2.57	1.71	1.01	4.04	2.03	1.42	0.68
Commodities	0.01	0.01	—	—	—	—	—	—

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

#### <Operational Risk>

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

As the Group's business becomes more sophisticated, diversified, and systemized, the accompanying risks become more varied, and as a result the need to manage such operational risk grows each year. The Group has set up a framework based on basic rules regarding operational risk management whereby each section in charge of operational risks manages individual risk factors from its particular standpoint, under the overall control of the Group Risk Management Department.

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.

#### <Systems-related Risk, Information Security Risk>

Systems-related risk and information security risk refer to the potential for incurring losses due to a computer breakdown or malfunction, or other systems-related problem, or the inappropriate use of a computer. It also covers the risk that the security of information resources (confidentiality, completeness, availability) is not properly protected against threats from inside or outside of the Company.

The Group has developed regulations and manuals that define the basic procedures for reducing and preventing the occurrence of such risks as well as the management of information resources. Internal audits are used as an opportunity to periodically confirm whether or not these regulations are being adhered to. At the same time, the Group is working to maintain and strengthen the precautionary measures that enable it to quickly uncover problems related to computer systems and properly repair them. Further, steps are being taken to improve the understanding and awareness of information security held by executives and employees.

#### <Legal and Compliance Risk>

Legal and compliance risk includes regulatory risk, which is the risk regarding compliance with the law, and litigation risk, and refers to the potential for incurring any of a variety of losses due to noncompliance with laws and other regulations, lawsuits, invalid contracts with third parties, or violations of corporate ethics rules. Such potential losses may include loss of reputation as a service provider or loss of business.

The Group is managed through the principles of Group management with securities-related operations as its core business. It must abide by the Financial Instruments and Exchange Law, as well as observe the associated laws and regulations when executing securities transactions and comply with various regulations in general operations outside of the securities business. Even in nonoperational matters, high standards of discipline are expected of financial instruments dealers and brokers and their personnel with regard to market rules and regulations, such as those related to insider trading.

To ensure that these regulations are observed, the Group has set up compliance sections at each Group company and established committees to discuss and resolve compliance issues and matters related to corporate ethics.

Securities transactions and other third-party agreements often require high levels of specialization to determine the legality of contracts and suitability of processes. In response to such cases, the Group has consulting agreements with law firms, including overseas firms, to obtain legal advice.

#### <Reputation Risk>

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

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

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

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

## IT Strategy and Information Security

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

### IT Strategy

#### <IT Governance System>

The Group has established the Group IT Strategy Committee, chaired by the CIO, as a subcommittee of the Executive Committee. This committee deliberates and makes decisions on such issues as budgets for IT investment and the allocation of IT functions. In regard to IT investment planning, the Group rigorously selects the investment necessary for each individual operating division. Budget resources are then allocated based on the strategic importance to the Group of each investment.

Additionally, the Group IT Management Council has been established as a preliminary discussion forum for this committee. The council discusses IT-related matters of importance at the executive level, such as the control of systems-related risk and the construction of Group-wide infrastructure systems.

#### <IT Strategy>

The Group uses IT strategically to achieve its main goal of improving its competitive edge while maintaining the effectiveness of control over the quality and costs of system services. Our focus in FY2010 in particular was on a number of initiatives including the strengthening of our global business base, the enrichment of products and services for online trade, and preparations for entering the banking business, in tandem with cut-backs in systems-related costs.

FY2011 will see the Group address the need for cost reductions in systems maintenance, as well as to make improvements in the strategic allocation of IT resources. This will involve improving the efficiency of our system operations through better accommodation efficiency in our data centers, and utilization of our internal cloud computing infrastructure. In addition, the Group will seek to establish efficient IT support frameworks to better support global businesses. In constructing such frameworks, the Group will integrate and consolidate global IT resources such as personnel, infrastructure, hardware and software.

### Information Security

#### <Measures for Maintaining Information Security>

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

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

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

#### <Efforts to Enhance the Level of Information Security>

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

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

## Financial Strategy

In order to maintain a healthy balance between financial stability and effectiveness, the Daiwa Securities Group concentrates on finding ways to use financial resources to enhance corporate value. The Group seeks to maintain an appropriate level of liquidity through effective yet flexible methods of procuring and utilizing funds that reflect market conditions. Furthermore, the Group strives to maintain a healthy balance between assets and liabilities to ensure that its financial condition remains constantly stable.

### Financial Stability

The Group exercises great care to ensure that it always has access to a stable supply of funds, and thereby avoids any situation that might jeopardize the Group's continued viability in the case of extreme fluctuations in economic and financial conditions. In particular, the Group constantly monitors whether there are sufficient funds on hand and its funding capabilities corresponding to unsecured current liabilities in order to prepare itself for any unexpected eventualities.

The Group has established a contingency plan as part of its response to deal with 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 plan also determines methods of fund procurement. Furthermore, an individual contingency plan is formulated for each of the Group's main subsidiaries, which is then monitored and reviewed on a regular basis, and if necessary, revised.

### Group-wide Capital Management and Effective Methods of Procuring Funds

Daiwa Securities Group Inc. is responsible for monitoring and managing liquidity conditions for the Group as a whole. In congruence with the basic policy of maintaining the financial stability of the Group, the Group's domestic and overseas securities subsidiaries (including Daiwa Securities Co. Ltd. and Daiwa Securities Capital Markets Co. Ltd.) as well as Daiwa Next Bank conduct fund procurement based on the characteristics of their business, and work to maintain the liquidity necessary to continue their business activities. Daiwa Securities Group Inc. also conducts basic fund procurement activities for other subsidiaries, and manages Group-wide finances comprehensively with the goal of allocating capital effectively.

The Group uses a diverse assortment of methods when procuring funds, including through straight corporate bonds, medium-term

notes, loans from other financial institutions, commercial paper, call money, *gensaki* trading (repurchase agreements), and repo operations. The Group adopts an appropriate mix of these methods in order to procure capital effectively. When utilizing medium- and long-term instruments, such as straight corporate bonds and medium-term notes, the Group maintains a constant awareness of trends in the financial markets, thereby procuring funds at the most advantageous time possible.

### Maintaining Both Financial Efficiency and Stability

The Group uses a diverse assortment of methods when procuring funds and adopts an appropriate mix of these methods in order to ensure a stable, effective supply of funds.

To ensure financial stability, the Group is establishing a liquidity management system based on the Liquidity Coverage Ratio as defined by the Basel Committee on Banking Supervision. Under this system, daily checks are performed to ascertain that liquidity portfolios are sufficient to cover both unsecured short-term funds procured falling due within a fixed time period and the estimated outflow of funds in the event of a number of envisioned stress scenarios in that same period. As a result, we are able to maintain a regime whereby we would be able to continue operations even in the event that procuring funds without collateral for one whole year became an impossibility.

### Maintaining and Bolstering a Healthy Financial Base

In order to maintain a healthy, stable financial base, the Group intends to revise its capital allocation strategy. The Group will strive to enhance fund procurement ability in order to respond flexibly to growth opportunities. At the same time, the Group will adopt a broader range of methods for fund procurement and seek funds from a greater variety of sources. It is believed that such measures will be successful in shoring up the Group's financial base.



# Human Resource Management

The Daiwa Securities Group derives much of its competitive strength from its personnel. To maximize competitiveness, the Group fosters a working environment in which all employees are motivated to enhance their abilities and realize their full potential. We actively encourage employees to upgrade their skills, and we are striving to establish a personnel management system that can evaluate employee performance more accurately.

## Group Personnel Policy

The Group is “keenly aware of the importance of our employees,” who are the wellspring of the Group’s competitiveness. Our stated policy is to “emphasize the creativity of each employee, foster a free and vigorous corporate culture filled with the spirit of challenge, and accurately evaluate the performance and contributions of employees.” One of the best ways for a company to improve customer satisfaction, which in turn will raise shareholder value, is to seek out optimal systems and methods for motivating employees. In addition to maximizing their job satisfaction, the policies we are putting in place aim to create a company that each and every Group employee, and their families, can feel proud of.

## Advanced Evaluation System and Fair Treatment of Employees

The Group aims to ensure that its personnel system is fair and objective. In response to changes in the Group’s personnel distribution and social environment, the Group reviewed and revised all aspects of its personnel system in April 2010. The goal of this undertaking was to develop a working environment in which all employees can remain highly motivated in their work, from entering the Group until retiring.

In order to ensure the fair and objective treatment of employees, the Group uses a Multi Dimension Feedback System in which managers are evaluated by their subordinates and other closely related divisions based on objective criteria. Daiwa Securities Co. Ltd. has established the President’s Awards, which are awarded twice a year in an effort to further motivate employees. A similar award program has been introduced at Group companies.

The Group has also adopted an employee remuneration system that is based on job category as well as performance appraisals using a detailed, job-specific evaluation process. At the Director level, this could result in up to a 17-fold difference in bonuses and up to a three-fold difference in salary based on results from FY2010.

## Training for True Financial Professionals

The Group continues to upgrade its personnel support systems, which encourage employees to enhance their skills and obtain qualifications related to financial services, such as toward becoming a securities analyst or financial planner. We also have implemented various programs that train employees in important skills, including helping them to acquire practical business skills such as giving presentations or coaching subordinates, as well as training for the next generation of managers. Additionally, we are developing a working environment in which employees can learn English through such means as e-learning programs. Employees must earn a specified number of “qualification points” in order to receive promotion to a given job level. Points are awarded when the employee meets certain certification-based criteria, and the number of points awarded increases relative to the difficulty of earning the particular qualification. This system provides employees with greater incentives to enhance their abilities.

## Promotion of a Better Balance Between Work and Personal Life

The Group has initiated a number of measures aimed at helping our employees better understand the importance of a more harmonious balance between work and personal life. In addition to providing a range of available work patterns, we are encouraging our employees to leave the office by 7 p.m. as well as to take their annual leave. The Group organizes events whereby family members of employees can visit the workplace and experience the work of their parents/spouses. We intend to continue with such policies as we see them as key to maintaining a high-performing team of top-quality professionals.

## CSR Initiatives

The Daiwa Securities Group's mission is to contribute to the sustainable development of society and the economy through daily operations, including wealth management and supporting corporate clients' activities. We believe that a strong relationship based on trust with stakeholders including customers, shareholders, employees and society as a whole is essential to accomplish this mission.

### Important CSR Challenges for the Daiwa Securities Group

The Group aims to realize a higher level of effectiveness in its CSR activities in order to build a sustainable society. For this reason, we have established the following two important CSR challenges based on feedback received from stakeholders.

#### 1. Leverage financial capabilities to contribute to a sustainable society

Currently, the world we live in is facing a host of social issues that threaten its sustainability. These include environmental challenges such as climate change and the loss of biodiversity, as well as issues regarding the widening gap between rich and poor within the global economy. In addition, Japan also has to face a number of other issues closer to home, not least the damage caused by the East Japan Earthquake and the power shortages that followed, to name but two. We believe that solutions to these issues require an economy revitalized via the flow of capital to businesses and their technology, the construction of new frameworks, and bold policies.

We believe that the financial sector has a responsibility to create capital flows whereby society can satisfy its need for funds at the same time as optimizing returns to the investor of those funds. As such, we have contributed to the creation of such flows, and by extension to the solution of social issues, by offering socially responsible investing options, through which investors can fund corporations engaged in socially-responsible activities, and, from 2008, Impact Investment vehicles such as Vaccine Bonds and Microfinance Bonds—allowing investors to pursue a

financial return in the knowledge that, at the same time, they are contributing to social improvement.

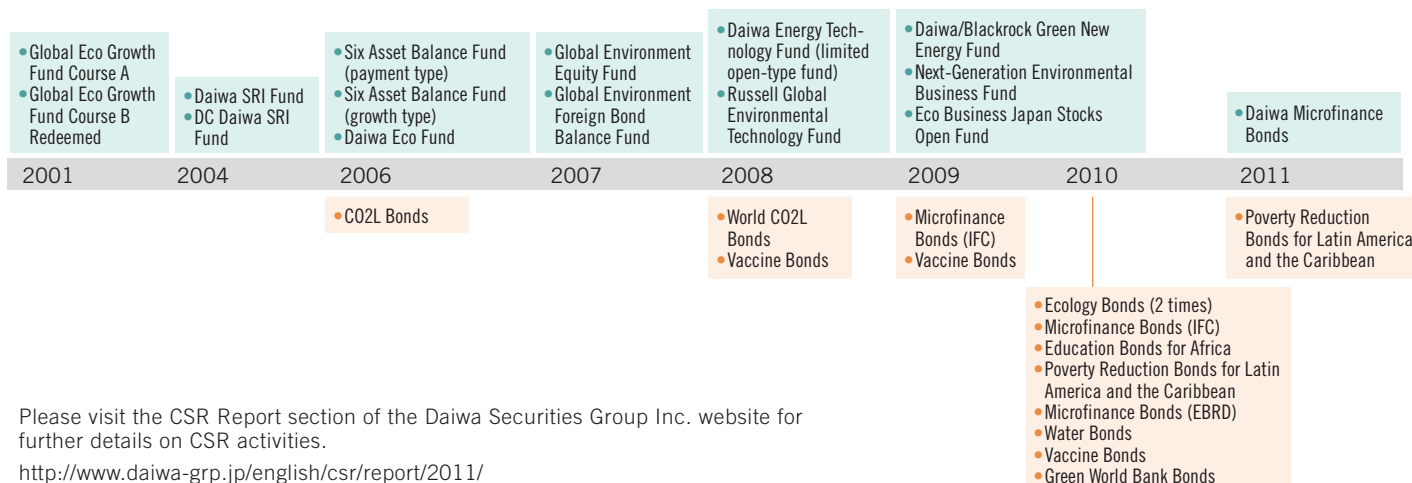
Going forward we intend to intensify our efforts to address the new challenges we now face in Japan's post-earthquake restoration.

#### 2. Develop sound financial and capital markets for the next generation

Financial and capital markets are a part of the social infrastructure that has become indispensable in recent years. In order to build a sound and sustainable society, we consider the ongoing development of fair and transparent markets to be the core social mission of financial institutions.

One way in which we work to accomplish this mission is through providing high-quality financial information. Further, we recognize that improving the level of financial literacy, especially among young people, is crucial in order to develop sound financial markets. While for most people the world of finance seems a stiff, somber place far removed from everyday life, it is important that they understand that sound financial and capital markets are premised on the behavior of individuals, acting in accordance with their personal values and beliefs as they take part in economic activities and make financial decisions based on a proper understanding of the significance and value of money and financial instruments. Toward this end, we continue to participate in corporate training programs, build academic-industrial alliances, and hands-on training programs for students of all school grades in cooperation with Junior Achievement (JA), the world's largest non-profit organization (NPO) promoting economic educational activities for youth.

### Daiwa Securities Group's History of SRI Funds and Impact Investment Bonds



Please visit the CSR Report section of the Daiwa Securities Group Inc. website for further details on CSR activities.

<http://www.daiwa-grp.jp/english/csr/report/2011/>

## The Daiwa Securities Group in Figures

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# Five-Year Financial Summary

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	Millions of yen					Millions of U.S. dollars* <sup>1</sup>
	FY2006	FY2007	FY2008	FY2009	FY2010	FY2010
<b>Operating Performance</b>						
<b>Operating revenues</b>	¥917,308	¥825,422	¥ 413,936	¥537,914	<b>¥403,042</b>	<b>\$4,855</b>
Commissions	306,736	294,425	208,881	252,863	<b>218,630</b>	<b>2,634</b>
Net gain on trading	157,333	103,361	40,921	110,955	<b>92,477</b>	<b>1,114</b>
Net gain (loss) on private equity and other investments	32,818	19,160	(79,478)	75,584	<b>(17,259)</b>	<b>(207)</b>
Interest and dividend income	373,453	358,423	192,664	54,729	<b>71,916</b>	<b>866</b>
Service fees and other revenues	46,968	50,053	50,948	43,783	<b>37,278</b>	<b>449</b>
<b>Net operating revenues</b>	<b>526,764</b>	<b>447,491</b>	<b>199,544</b>	<b>458,105</b>	<b>318,565</b>	<b>3,838</b>
<b>Operating income (loss)</b>	<b>186,391</b>	<b>83,632</b>	<b>(143,726)</b>	<b>95,261</b>	<b>(45,355)</b>	<b>(546)</b>
<b>Ordinary income (loss)</b>	<b>195,415</b>	<b>90,143</b>	<b>(141,150)</b>	<b>102,917</b>	<b>(32,602)</b>	<b>(392)</b>
<b>Income (loss) before income taxes and minority interests</b>	<b>185,923</b>	<b>81,951</b>	<b>(163,794)</b>	<b>97,382</b>	<b>(34,525)</b>	<b>(415)</b>
<b>Net income (loss)</b>	<b>92,725</b>	<b>46,411</b>	<b>(85,039)</b>	<b>43,429</b>	<b>(37,332)</b>	<b>(449)</b>

	Millions of yen					Millions of U.S. dollars* <sup>1</sup>
	FY2006	FY2007	FY2008	FY2009	FY2010	FY2010
<b>Balance Sheet</b>						
<b>Total assets</b>	¥14,411,265	¥17,307,120	¥14,182,579	¥17,155,345	<b>¥16,842,412</b>	<b>\$202,920</b>
Private equity and other investments	440,178	471,732	515,770	218,841	<b>177,561</b>	<b>2,139</b>
Property and equipment, at cost (excl. accumulated depreciation)	134,536	153,393	150,202	142,446	<b>133,227</b>	<b>1,605</b>
Investment securities	269,805	254,716	201,804	246,772	<b>215,292</b>	<b>2,593</b>
<b>Owners' equity</b>	<b>844,854</b>	<b>801,881</b>	<b>696,296</b>	<b>929,745</b>	<b>846,725</b>	<b>10,201</b>
<b>Net assets</b>	<b>1,223,226</b>	<b>1,082,924</b>	<b>952,329</b>	<b>1,017,529</b>	<b>921,399</b>	<b>11,101</b>

	Yen					U.S. dollars* <sup>1</sup>
	FY2006	FY2007	FY2008	FY2009	FY2010	FY2010
<b>Per Share Data</b>						
<b>Net income (loss)*<sup>2</sup></b>	¥ 67.90	¥ 33.69	¥ (63.16)	¥ 26.41	<b>¥ (21.90)</b>	<b>\$(0.26)</b>
<b>Net assets*<sup>2</sup></b>	665.98	607.64	534.99	530.27	<b>496.76</b>	<b>5.99</b>
<b>Cash dividends</b>	28.00	22.00	8.00	13.00	<b>6.00</b>	<b>0.07</b>

						%
	FY2006	FY2007	FY2008	FY2009	FY2010	FY2010
<b>Financial Ratios</b>						
Return on equity (ROE)* <sup>3</sup>	10.8	5.3	—	5.3	<b>—</b>	<b>—</b>
Equity ratio	6.5	4.7	5.1	5.4	<b>5.0</b>	<b>5.0</b>

<b>Other Data</b>						
Total number of employees	13,264	14,456	15,224	15,450	<b>15,310</b>	

\*1 Translations of the Japanese yen amounts into U.S. dollars use an exchange rate of ¥83.00 = U.S.\$1.00 (rounded down to the nearest yen), and are provided solely for the convenience of the reader.

\*2 Net income (loss) per share is calculated on the basis of the average number of shares outstanding during the fiscal year. Net assets per share are calculated using the following formula:  
 Net assets per share = (net assets – stock subscription rights – minority interests) / (shares outstanding as of the fiscal year-end – treasury shares as of the fiscal year-end)

\*3 Return on equity is calculated using the average of equity at the start of the fiscal year and equity at the end of the fiscal year. Equity is calculated as follows:  
 Equity = owners' equity + accumulated other comprehensive income

# Breakdown by Product and Business Sector

Daiwa Securities Group Inc. and Consolidated Subsidiaries

Millions of yen

	FY2006	FY2007	FY2008	FY2009	FY2010
<b>Breakdown of Commission Income by Business</b>					
<b>Equity</b>	¥ 98,987	¥ 84,593	¥ 56,402	¥ 56,388	¥ 50,254
Brokerage commission	97,062	82,487	54,809	55,010	48,929
Other	1,925	2,106	1,593	1,378	1,325
<b>Fixed income</b>	2,667	2,133	991	698	827
<b>Asset management</b>	106,906	136,377	97,001	108,266	116,734
Brokerage commission	317	464	555	408	407
Distribution commission	37,210	39,342	17,968	32,907	31,144
Management fee (excluding agency commission)	33,667	49,332	41,531	42,279	51,783
Agency commission	35,711	47,238	36,947	32,671	33,399
<b>Investment banking</b>	74,986	47,551	34,915	70,648	38,704
Underwriting commission (stock and other)	43,510	14,581	10,122	41,667	16,367
Underwriting commission (bond and other)	9,407	10,371	10,542	12,362	9,771
Distribution commission	1,310	3,230	725	544	434
Other (M&A commission, etc.)	19,607	18,851	13,225	15,765	11,966
<b>Others</b>	23,190	23,771	19,572	16,863	12,108
Life insurance sales commission	6,134	6,783	6,946	5,850	1,977
Investment enterprise partnership administration fee	4,981	4,223	3,384	2,628	1,789
Other	12,074	12,765	9,240	8,384	8,341
<b>Total commissions</b>	¥306,736	¥294,425	¥208,881	¥252,863	¥218,630

## Net Gain (Loss) on Trading by Business

Equity and other	¥ 31,288	¥ 11,020	¥(25,737)	¥ 24,481	¥ (8,797)
Bond, forex and other	126,045	92,341	66,658	86,474	101,274
<b>Net gain on trading</b>	¥157,333	¥103,361	¥ 40,921	¥110,955	¥ 92,477

## Results by Group Company (Ordinary Income)\*4

Daiwa Securities	¥74,477	¥71,026	¥ 18,396	¥40,454	¥ 41,272
Daiwa Securities Capital Markets	92,866	1,431	(167,468)	68,754	(75,163)
Daiwa Asset Management	13,015	17,494	11,613	9,929	13,741
Daiwa Institute of Research (3 companies)*5	9,744	13,379	9,140	7,901	8,339
Daiwa Corporate Investment	4,233	(5,321)	(5,895)	(6,952)	(2,489)

\*4 Results by Group company have not been audited by an independent auditor.

\*5 Figures reflect the sum of earnings from Daiwa Institute of Research Holdings, Daiwa Institute of Research, and Daiwa Institute of Research Business Innovation (excluding inter-company transactions and dividend payments).

# Twelve-Quarter Financial Summary

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	FY2008			
	1Q	2Q	3Q	4Q
<b>Market Data</b>				
Nikkei 225 (end of each quarter, yen)	13,481.38	11,259.86	8,859.56	8,109.53
TSE average daily trading value (billions of yen)	2,522	2,222	1,897	1,445
Net purchases (sales) by investors on the TSE (billions of yen)				
Institutions	(101)	477	3,941	2,904
Individuals	(468)	(108)	988	344
Foreigners	2,274	(1,160)	(2,786)	(2,452)
Securities companies	7	20	54	36
Ten-year Japanese government bond yield (end of each quarter, %)	1.610	1.480	1.165	1.340
Foreign exchange rates: Yen per U.S. dollar (end of each quarter)	106.08	106.02	90.27	98.80

	Millions of yen			
<b>Operating Performance</b>				
<b>Operating revenues</b>	¥165,376	¥131,559	¥ 38,564	¥ 78,436
Commissions	61,792	54,045	49,383	43,658
Brokerage commission	17,149	13,299	14,320	10,959
Underwriting commission	4,559	3,181	7,636	5,587
Distribution commission	7,666	5,361	2,269	3,394
Other commission	32,417	32,202	25,157	23,718
Net gain (loss) on trading	21,300	10,864	(22,849)	31,606
Net gain (loss) on private equity and other investments	(1,007)	(15,206)	(37,478)	(25,785)
Interest and dividend income	69,748	69,129	37,525	16,259
Other sales revenues	13,541	12,726	11,983	12,696
<b>Interest expenses</b>	62,343	64,161	34,774	14,754
<b>Cost of sales</b>	10,006	9,301	9,372	9,677
<b>Net operating revenues</b>	93,026	58,096	(5,582)	54,003
<b>Selling, general and administrative expenses</b>	88,446	89,293	83,606	81,923
Commissions and other expenses	18,013	17,842	15,380	14,782
Employees' compensation and benefits	37,120	35,605	35,331	33,542
Occupancy and rental	11,082	11,505	10,566	10,549
Data processing and office supplies	7,836	7,686	7,460	7,174
Depreciation and amortization	8,252	8,384	8,767	10,186
Taxes other than income taxes	1,816	1,505	1,657	1,575
Others	4,324	6,763	4,444	4,112
<b>Operating income (loss)</b>	4,580	(31,196)	(89,189)	(27,919)
Non-operating income	4,143	907	1,256	1,654
Non-operating expenses	402	1,235	2,089	1,658
<b>Ordinary income (loss)</b>	8,321	(31,525)	(90,022)	(27,923)
Extraordinary gains	462	1,829	644	3,485
Extraordinary losses	3,029	5,585	9,535	10,913
<b>Income (loss) before income taxes and minority interests</b>	5,754	(35,282)	(98,913)	(35,351)
<b>Net income (loss)</b>	5,885	(20,522)	(53,039)	(17,363)

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



FY2009				FY2010			
1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
9,958.44	10,133.23	10,546.44	11,089.94	9,382.64	9,369.35	10,228.92	9,755.10
1,721	1,519	1,464	1,507	1,666	1,257	1,439	1,864
(662)	(1,094)	(164)	(930)	746	791	(241)	(1,238)
288	(273)	(1,233)	(1,067)	1,160	(881)	(1,475)	(169)
788	1,467	2,059	2,284	(761)	273	1,406	3,056
55	5	(30)	(2)	91	(9)	(22)	12
1.350	1.295	1.285	1.395	1.085	0.930	1.110	1.255
96.31	89.76	92.45	93.45	88.38	83.44	81.54	83.15

Millions of yen				Millions of yen			
¥132,119	¥105,631	¥183,615	¥116,549	¥ 94,151	¥107,236	¥118,214	¥ 83,438
70,514	58,008	67,256	57,083	56,106	49,142	54,618	58,763
15,255	14,431	12,558	13,595	13,323	9,626	12,465	15,249
24,532	6,965	15,151	7,690	4,658	5,255	7,537	8,851
7,298	8,641	10,001	7,509	9,155	7,164	7,936	7,322
23,427	27,971	29,545	28,288	28,969	27,096	26,678	27,339
34,712	28,536	7,754	39,951	10,724	34,160	31,605	15,985
(1,567)	(4,463)	86,532	(4,917)	(1,924)	(3,316)	8,136	(20,154)
16,815	13,792	12,344	11,775	17,516	17,862	17,511	19,026
11,644	9,756	9,726	12,655	11,729	9,387	6,343	9,818
15,508	11,340	10,982	9,827	13,993	12,905	16,298	14,864
9,247	7,152	7,122	8,627	8,544	5,896	5,398	6,576
107,364	87,137	165,509	98,094	71,613	88,434	96,517	61,998
86,552	85,569	99,775	90,946	87,859	88,980	92,381	94,697
14,346	15,943	16,014	15,485	17,376	16,339	17,989	18,692
39,938	37,274	52,095	40,642	37,483	39,104	42,205	41,441
10,555	10,945	10,813	11,724	11,290	11,232	10,939	11,795
6,350	6,744	6,174	6,423	6,714	7,456	5,874	6,981
9,506	9,545	9,746	10,302	9,753	9,686	9,667	10,055
2,113	1,762	1,689	2,160	1,967	1,814	1,770	1,492
3,741	3,353	3,242	4,206	3,273	3,347	3,934	4,238
20,812	1,567	65,733	7,147	(16,245)	(546)	4,136	(32,699)
2,814	1,335	2,134	3,053	8,517	(94)	3,633	3,580
798	866	(22)	39	458	199	753	1,472
22,827	2,037	67,891	10,160	(8,187)	(839)	7,017	(30,591)
373	264	106	945	1,776	1,794	2,462	3,043
1,053	2,520	2,353	1,298	1,131	1,171	62	8,634
22,148	(219)	65,645	9,808	(7,542)	(217)	9,416	(36,182)
17,870	1,991	26,366	(2,798)	(1,191)	(4,192)	1,182	(33,129)

# Operational Data

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	Billions of yen (Unless otherwise specified)			
	1Q	2Q	3Q	FY2008 4Q
<b>Daiwa Securities Group</b>				
<b>Daiwa Securities Group customer assets<sup>*1</sup></b>	¥50,195	¥45,878	¥40,472	¥39,122
Equities	23,215	20,484	18,030	17,067
Bonds	13,577	12,386	11,680	12,260
Investment trusts	8,223	7,316	5,912	5,806
Others	5,178	5,691	4,849	3,988
<b>Daiwa Securities</b>				
<b>Net inflow of retail assets<sup>*2</sup></b>	¥250	¥382	¥303	¥(104)
Individuals	195	239	310	20
Unlisted corporations, etc.	54	142	(6)	(124)
<b>Cash Management Service (CMS) accounts<sup>*1</sup> (thousands)</b>	3,088	3,144	3,222	3,244
<b>Online trading accounts<sup>*1</sup> (thousands)</b>	1,885	1,941	2,016	2,048
<b>Assets under custody of online accounts<sup>*1</sup></b>	11,860	10,510	9,184	9,041
<b>Online transactions (thousands)</b>	2,004	1,654	2,210	1,676
Online ratio	84.9%	85.7%	84.5%	85.6%
<b>Online trading value</b>	1,809	1,273	1,328	1,002
Online ratio	71.3%	73.4%	70.2%	73.0%
<b>“Daiwa Direct” course accounts<sup>*1</sup> (thousands)</b>	947	1,004	1,072	1,107
<b>Assets under custody of “Daiwa Direct” accounts<sup>*1</sup></b>	2,585	2,348	2,185	2,143
<b>Sales of core products</b>				
Equity investment trusts	325	227	105	160
Foreign bonds and others	251	236	179	228
<b>Daiwa Asset Management</b>				
<b>Net assets under management<sup>*1</sup></b>	¥10,172	¥9,306	¥7,764	¥7,594
Equity investment trusts	6,893	6,080	4,754	4,602
Bond investment trusts <sup>*3</sup>	3,278	3,226	3,010	2,992

\*1 As of the end of each quarter

\*2 Net inflow of retail assets = net inflow of cash and securities

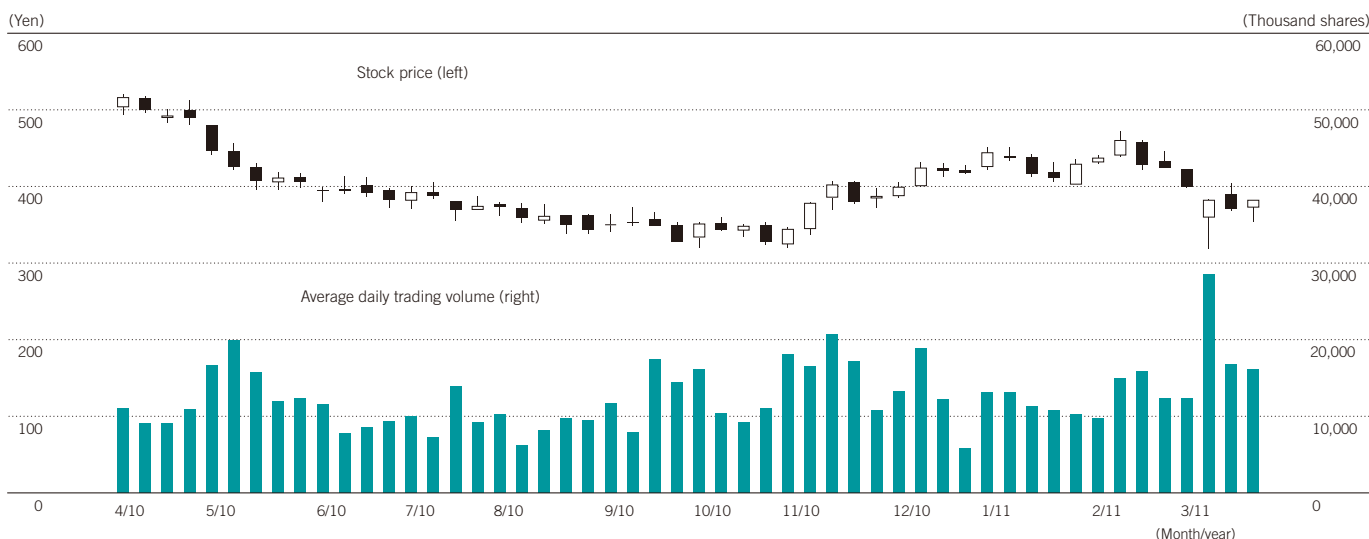
Calculations for FY2009 onwards were modified to allow the inclusion of both inflow and outflow caused by dividend payment from investment trusts.

\*3 Figures from FY2009 onwards include yen-denominated foreign bonds.

Billions of yen (Unless otherwise specified)				Billions of yen (Unless otherwise specified)			
FY2009				FY2010			
1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
¥43,426	¥43,487	¥42,271	¥43,809	¥42,482	¥41,712	¥42,930	¥42,748
20,766	20,301	19,962	21,222	19,176	18,337	19,420	19,172
12,407	12,797	12,440	12,277	12,278	12,562	12,599	12,294
6,413	6,605	6,769	6,994	6,570	6,802	6,843	6,832
3,838	3,782	3,098	3,314	4,456	4,008	4,065	4,448
¥463	¥91	¥118	¥104	¥175	¥ 53	¥72	¥ 92
342	99	96	101	120	112	51	120
120	(8)	21	2	55	(58)	21	(27)
3,285	3,323	3,340	3,359	3,374	3,383	3,392	3,401
2,089	2,133	2,158	2,183	2,203	2,218	2,233	2,249
10,486	10,584	10,789	11,285	10,462	10,570	11,037	11,046
2,327	1,928	1,462	1,588	1,763	1,235	1,516	2,431
86.1%	85.5%	83.6%	83.4%	85.4%	86.0%	84.9%	87.3%
1,639	1,368	979	1,076	1,160	805	1,068	1,730
72.8%	70.2%	65.0%	66.9%	70.7%	74.3%	71.8%	76.9%
1,151	1,195	1,224	1,251	1,270	1,285	1,299	1,314
2,547	2,559	2,581	2,763	2,549	2,547	2,699	2,676
323	431	476	351	413	341	346	327
266	332	315	408	389	361	356	370
¥8,147	¥8,434	¥8,819	¥9,165	¥8,693	¥8,930	¥9,209	¥9,262
5,125	5,390	5,802	6,217	5,858	6,111	6,276	6,418
3,022	3,044	3,016	2,947	2,835	2,819	2,933	2,844

# Stock Information

## 1. Stock Price and Trading Volume on the Tokyo Stock Exchange (April 1, 2010–March 31, 2011)



## 2. Major Shareholders (As of March 31, 2011)

Name	Number of shares held (Thousands)	% of total outstanding shares
State Street Bank and Trust Company 505223	131,494	7.67%
Japan Trustee Services Bank, Ltd. Trust Account	65,860	3.84%
The Master Trust Bank of Japan, Ltd. Trust Account	55,370	3.23%
State Street Bank and Trust Company	36,446	2.12%
The Master Trust Bank of Japan, Ltd. ESOP ESOP Trust Account 75404	34,789	2.03%
SSBT OD05 OMNIBUS ACCOUNT – TREATY CLIENTS	33,704	1.96%
Sumitomo Mitsui Banking Corporation	30,328	1.76%
Japan Trustee Services Bank, Ltd. The Sumitomo Trust & Banking Retirement Benefit Account	24,888	1.45%
State Street Bank and Trust Company	24,360	1.42%
The Bank of New York, Treaty Jasdec Account	22,759	1.32%

Notes: 1. Numbers of shares are rounded down to the closest thousand.

2. % of total outstanding shares are rounded off to the second decimal place.

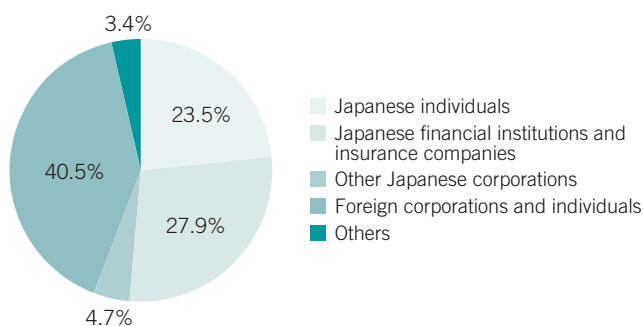
3. Treasury stock of 35,836,953 shares is excluded for calculating the percentage of the above list of major shareholders.

4. The Company holds its own treasury stocks (35,836 thousands shares) as of March 31, 2011 and those shares are excluded from the above list.

## 3. Stock Price on the Tokyo Stock Exchange (April 1, 2010–March 31, 2011)

Open	High	Low	Close	Average daily trading volume
¥493	¥520	¥319	¥382	12,439 thousand shares

## 4. Breakdown of Shareholders (As of March 31, 2011)



## Financial Section

- P64** Management's Discussion and Analysis
- P72** Consolidated Balance Sheets
- P74** Consolidated Statements of Operations
- P75** Consolidated Statements of Comprehensive Income
- P76** Consolidated Statements of Changes in Net Assets
- P77** Consolidated Statements of Cash Flows
- P79** Notes to Consolidated Financial Statements
- P102** Independent Auditors' Report

# Management's Discussion and Analysis

## Macroeconomic Conditions in FY2010

### <Overseas Markets>

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

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

In China, meanwhile, the government responded to inflation and rising real estate prices by taking steps to restrain the overheating economy. Beginning in 2010, China acted quickly to tighten policy, raising the deposit reserve requirement ratio and tightening regulations on real estate investment and other types of speculation. Lending rates were increased by stages, in

October and December 2010, and February 2011. This helped to cool off GDP growth rates, which stood at 11.9% year on year in the January-March 2010 quarter. However, the pace of expansion remained brisk, with a 9.7% year-on-year increase posted in the January-March 2011 quarter, due to rising exports associated with economic recovery in the U.S. Other newly emerging economies, particularly in Asia, also posted strong economic growth. Much of the liquidity that has been created in developed countries to address their domestic economic concerns is making its way into newly emerging countries, elevating stock prices and driving growth in the real economy of these regions, and also triggering inflation. Many emerging countries have already begun to tighten financial and monetary policies in response.

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

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

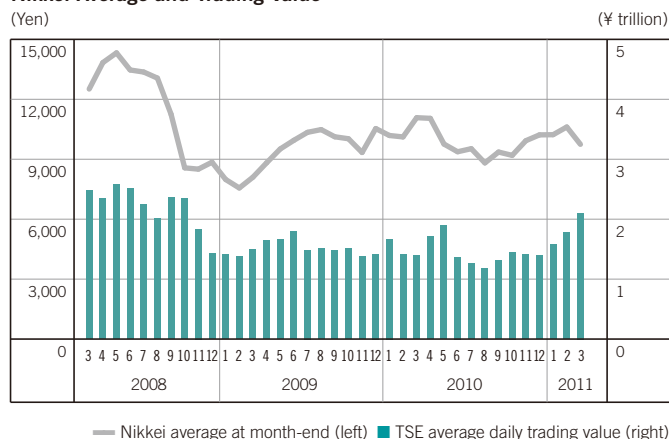
### GDP in Japan



Note: The above data comprises seasonally adjusted annual rates. Growth rates may not correspond to rates calculated based on total production.

Source: Cabinet Office, Government of Japan

### Nikkei Average and Trading Value



Source: Tokyo Stock Exchange, Daiwa Institute of Research



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

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

#### <Japan>

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

In June 2010, Prime Minister Hatoyama stepped down after a brief eight months at the helm, and was replaced by the government of Naoto Kan. In the same month, the Japanese government unveiled its New Growth Strategy, and the Bank of Japan began taking steps to coordinate its policies with those of the government, to “supply funds to support a stronger foundation for growth.” The expenditures associated with this strategy were included in a greatly increased budget, which would add to Japan’s already large deficit and accumulated debt. Given the financial crisis in many countries of Southern Europe, markets began to take greater notice of Japan’s financial position. Also in June, the government unveiled a Fiscal Management Strategy to explain how it intended to maintain fiscal continuity. This strategy placed much of the budget-balancing emphasis on tax

increases and other new revenues. The issue of a consumption tax increase was a major focus of the Upper House elections that took place in July, with most candidates forced to declare allegiance to either “economic growth” or “fiscal soundness” in their election platforms.

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

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

As the government and the Bank of Japan increased their cooperation, the global economy was also showing signs of picking up steam. Exports and industrial output bottomed out and positive signs started to emerge for the Japanese economy. Economists began forecasting a further recovery that was expected to quickly follow the “transition phase.” But the East Japan Earthquake on March 11 dashed all of these expectations and delivered a sudden reverse to the Japanese economy. In addition to the immediate destruction caused by the earthquake and tsunami, the country faced a serious nuclear accident which rose to the level of a national emergency. The electric power network was forced to conduct rolling blackouts to deal with the shortage of generating capacity, industrial production was hit by interruptions in the supply chain, and consumers responded with extremely defensive

consumption behavior. Economic activity came to a halt, while the issue of the New Growth Strategy and Fiscal Management Strategy, which had been adopted in June 2010, remained unresolved, along with any plans for a corporate tax cut.

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

## Analysis of Business and Financial Conditions

### <Overview>

During FY2010, a host of issues arose both inside and outside Japan, which created uncertainty and placed pressure

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

## Analysis of Income Statements

### <Net Operating Revenues>

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

### Breakdown of Net Operating Revenues

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

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

### <Breakdown of Commissions by Product and Business Sector>

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

In the Asset Management business, the Group succeeded in expanding the total balance of assets under management by

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

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

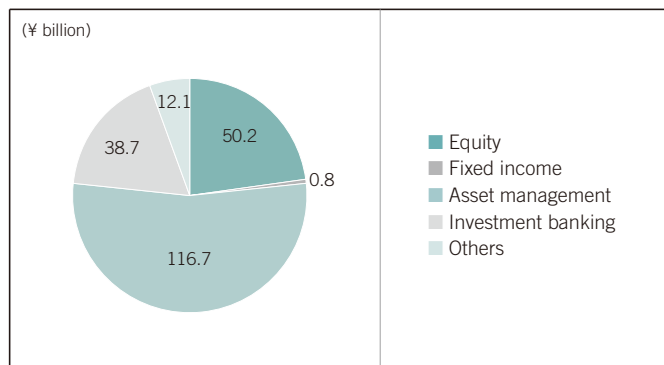
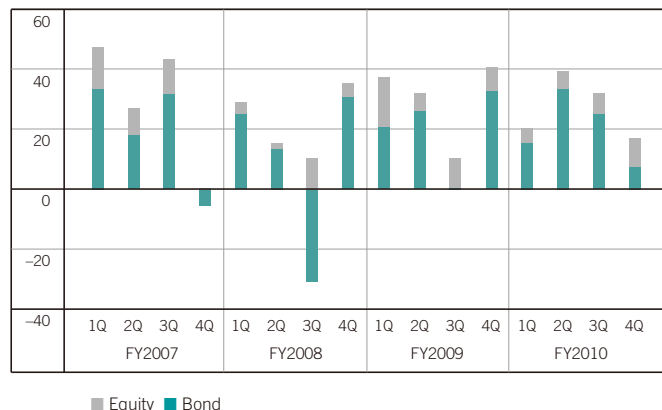
## Breakdown of Commissions

Millions of yen

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

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

## Breakdown of Commissions

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

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

## &lt;Net Gain (Loss) on Trading&gt;

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

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

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

Billions of yen

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

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

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

Total SG&A expenses remained almost unchanged from the previous fiscal year, at ¥363.9 billion. Daiwa Asset Management Co. Ltd. experienced an increase in commission paid to companies outside the Group due to growth in the balance of assets under management. This elevated commissions and other expenses by 13.9% year on year, to ¥70.3 billion. In addition, Daiwa Asset Management incurred higher contracted research expenses as

### Cost Structure

(¥ billion)



part of its effort to increase the lineup of investment trust products with the launch of new trusts focusing on emerging market stocks and bonds. This increased data processing and office supplies expenses by 5.2%, to ¥27.0 billion. On the other hand, since the Group posted a consolidated net loss, employee bonuses were reduced and total personnel expenses declined 5.7% year on year, to ¥160.2 billion. Cutbacks in IT-related spending ensured that depreciation and amortization expenses remained at ¥39.1 billion—about the same level as in the previous year.

### <Ordinary Income and Net Income>

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

### Ordinary Income and Net Income

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

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

### <Overview of Performance in Each Business Segment>

#### [Retail Division]

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

#### [Global Markets Division]

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

**[Global Investment Banking Division]**

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

**[Asset Management Division]**

Weak equity markets and adverse foreign exchange conditions created a strong demand for monthly dividend-payment-type

investment trusts and products related to emerging economies.

By promoting these products, the Asset Management Division registered a steady increase in the balance of assets under management. Net operating revenues increased 15.3% year on year, to ¥36.3 billion, and ordinary income rose 42.4%, to ¥15.9 billion.

**[Investment Division]**

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

**Segment Information**

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

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

**<Overseas Activities>**

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

in personnel and SG&A expenses contributed to an ordinary loss of ¥11.1 billion. The total contribution from Overseas Activities was an ordinary loss of ¥21.5 billion, after having posted positive results in FY2009.

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

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

## Analysis of Balance Sheets and Cash Flow Statements

### <Assets>

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

### <Liabilities and Net Assets>

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

Total net assets declined by ¥96.1 billion year on year, to ¥921.3 billion. The sum of common stock equity and capital surplus was nearly unchanged, increasing by just ¥100 million year on year to ¥478.0 billion. However, retained earnings declined by ¥56.7 billion, to ¥395.7 billion, due to the net loss

posted in FY2010. Purchases of outstanding Daiwa Securities Group shares increased the balance of treasury stock (at cost) by ¥26.3 billion year on year, to ¥27.0 billion. The net unrealized gains on securities, net of tax effect, increased by ¥2.7 billion year on year, to ¥23.1 billion, and purchases of outstanding shares in Group subsidiaries reduced minority interests by ¥4.0 billion year on year, to ¥83.0 billion.

### <Analysis of Cash Flows>

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

### Cash Flows

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



## Liquidity

### <Seeking to Maintain both Financial Efficiency and Stability>

The Group's liquidity portfolio and a listing of all short-term unsecured debt, as of the end of FY2010, are outlined in the table below.

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

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

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

## Credit Ratings by Major Credit Ratings Agencies

Daiwa Securities Group Inc., Daiwa Securities Co. Ltd., and Daiwa Securities Capital Markets Co. Ltd. have been assigned long-term and short-term credit ratings by major credit ratings agencies. These ratings take into account the impact of multiple factors on the Group's creditworthiness. Factors considered by the ratings agencies include current macroeconomic conditions, the business environment and condition of the securities markets, management strategy, Group management structure, the competitive position of Group companies in their respective markets, profitability, profit volatility, cost structure elasticity, risk management structure, liquidity conditions, capital policy, adequacy of capital, corporate governance, and other issues.

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

#### Daiwa Securities Group Inc.

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

#### Daiwa Securities

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

#### Daiwa Securities Capital Markets

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

# Consolidated Balance Sheets

DAIWA SECURITIES GROUP INC.  
March 31, 2011 and 2010

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

See accompanying notes.

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

See accompanying notes.

# Consolidated Statements of Operations

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2011, 2010 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	2011
<b>Operating revenues:</b>				
Commissions	¥218,630	¥252,863	¥208,881	\$2,634,096
Net gain on trading (Note 22)	92,477	110,955	40,921	1,114,181
Net gain (loss) on private equity and other investments	(17,259)	75,584	(79,478)	(207,940)
Interest and dividend income	71,916	54,729	192,664	866,458
Service fees and other revenues	37,278	43,783	50,948	449,133
	403,042	537,914	413,936	4,855,928
<b>Interest expense</b>	58,062	47,659	176,034	699,542
<b>Cost of service fees and other revenues</b>	26,415	32,150	38,358	318,253
<b>Net operating revenues</b> (Note 19)	318,565	458,105	199,544	3,838,133
<b>Selling, general and administrative expenses</b> (Notes 12 and 23)	363,920	362,844	343,270	4,384,579
<b>Operating income (loss)</b>	(45,355)	95,261	(143,726)	(546,446)
<b>Other income (expenses):</b>				
Provision for statutory reserves, net (Note 14)	885	510	3,600	10,663
Other, net (Note 24)	9,945	1,611	(23,668)	119,819
	10,830	2,121	(20,068)	130,482
<b>Income (loss) before income taxes and minority interests</b>	(34,525)	97,382	(163,794)	(415,964)
<b>Income taxes</b> (Note 13):				
Current	6,907	27,450	4,383	83,217
Deferred	2,807	22,413	(22,557)	33,819
	9,714	49,863	(18,174)	117,036
<b>Income (loss) before minority interests</b>	(44,239)	47,519	(145,620)	(533,000)
<b>Minority interests</b>	6,907	(4,090)	60,581	83,217
<b>Net income (loss)</b>	¥ (37,332)	¥ 43,429	¥ (85,039)	\$ (449,783)
			Yen	U.S. dollars (Note 1)
<b>Per share amounts:</b>				
Net income (loss)	¥(21.90)	¥26.41	¥(63.16)	\$(0.26)
Diluted net income	—	26.38	—	—
Cash dividends applicable to the year	6.00	13.00	8.00	0.07

See accompanying notes.

# Consolidated Statements of Comprehensive Income

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2011 and 2010

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

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

See accompanying notes.

# Consolidated Statements of Changes in Net Assets

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2011, 2010 and 2009

	Number of shares of common stock (thousands)	Owners' equity					Accumulated other comprehensive income				Millions of yen
		Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustment	Stock subscription rights	Minority interests	
<b>Balance at March 31, 2008</b>	1,404,665	¥ 178,324	¥157,679	¥ 527,579	¥ (61,701)	¥ 24,470	¥ 801	¥ (9,062)	¥ 1,430	¥263,404	
Cash dividends paid				(20,195)							
Net income (loss)				(85,039)							
Change in treasury stock, net				(250)	175						
Decrease due to addition of a consolidated subsidiary				276							
Net changes of items other than owners' equity						27,282	(302)	(19,213)	939	(33,716)	
<b>Balance at March 31, 2009</b>	1,404,665	178,324	157,679	421,819	(61,526)	51,752	499	(28,275)	2,369	229,688	
Issuance of new stocks	344,694	69,061	72,915								
Cash dividends paid				(12,781)							
Net income (loss)				43,429							
Change in treasury stock, net				(11)	60,836						
Net changes of items other than owners' equity						(31,386)	(183)	5,012	873	(142,565)	
<b>Balance at March 31, 2010</b>	1,749,359	247,385	230,594	452,456	(690)	20,366	316	(23,263)	3,242	87,123	
Issuance of new stocks	20	12	12								
Cash dividends paid				(19,233)							
Net income (loss)				(37,332)							
Change in treasury stock, net			26		(26,365)						
Decrease due to exclusion of a consolidated subsidiary				95							
Change of scope of equity method				(45)							
Net changes of items other than owners' equity						2,769	(231)	(12,749)	1,144	(4,043)	
<b>Balance at March 31, 2011</b>	<b>1,749,379</b>	<b>¥247,397</b>	<b>¥230,632</b>	<b>¥395,751</b>	<b>¥(27,055)</b>	<b>¥23,135</b>	<b>¥ 85</b>	<b>¥(36,012)</b>	<b>¥4,386</b>	<b>¥ 83,080</b>	

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

See accompanying notes.



# Consolidated Statements of Cash Flows

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2011, 2010 and 2009

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

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

See accompanying notes.

# Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2011, 2010 and 2009

## 1. Basis of financial statements

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

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

Daiwa Securities is a retail broker-dealer. Daiwa Securities operates through a network of 120 offices as well as non-face-to-face channels, including the Internet and a full-fledged call center to provide online and telephone-based securities-related services. Daiwa Securities CM operates our wholesale business, encompassing global capital markets business and global investment banking business. DAM is the asset management company of Daiwa.

Daiwa is primarily engaged in the business of a securities broker-dealer, pursuant to which Daiwa provides services including brokerage, trading, underwriting, strategic advice, product development, and structured finance. In addition, Daiwa provides asset and capital management, principal investment, venture capital, and research through a network in major capital markets and other services.

The Company and its domestic consolidated subsidiaries maintain their official accounting records in yen and in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with generally accepted accounting principles in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards ("IFRS"). The financial statements prepared by foreign subsidiaries in accordance with IFRS or the generally accepted accounting principles in the United States (U.S. GAAP) tentatively can be used for the

consolidation process with adjusting certain items such as amortization of goodwill. The accounts of other overseas consolidated subsidiaries are maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been prepared by adjusting the difference in accounting policies from Japanese GAAP, if any.

(Additional information)

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

The accompanying consolidated financial statements have been restructured and translated into English (with some additional explanations described solely for the convenience of the readers outside of Japan) from the consolidated financial statements prepared by the Company in accordance with Japanese GAAP and filed to the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not considered necessary for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2011, which was ¥83 to U.S.\$1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could be, converted into U.S. dollars at this or any other rate of exchange.

## 2. Significant accounting policies

**Consolidation**—The consolidated financial statements include the accounts of the Company and the entities which are controlled by the Company, directly or indirectly. Control exists generally when Daiwa holds more than 50% of the voting rights of the entity. Also, control is regarded to exist when Daiwa holds 40% or more of the voting rights of an entity and there are certain facts and circumstances which indicate that Daiwa controls the decision making body of the entity.

Investee entities which meet the conditions of "Guidance on Determining a Subsidiary and an Affiliate" (ASBJ Guidance No. 22, issued on May 13, 2008) are excluded from the consolidation even though Daiwa has control of them such as when the investee entity is held for principal investment or venture capital investment business purposes where the objective for Daiwa to have control of the investee entity is merely to seek capital gain opportunities and, Daiwa does not intend to operate its business with the entity as a part of the group.

Daiwa accounts for its investment by the equity method of accounting if Daiwa does not have control of an entity but can exercise significant influence over the entity's operating and financial policies. The ability to exercise such significant influence is generally regarded to exist when Daiwa holds 20% or more but 50% or less of the voting rights of the entity, or 15% or more of the voting rights coupled with certain facts and circumstances which indicate that Daiwa can exercise significant influence over the entity's operating and financial policies. As with the policy and considerations for consolidation, investee entities are excluded from the scope of the equity method even though Daiwa holds significant influence, when the investee entity is held as part of the principal investment or for venture capital investment business purposes.

(Changes in accounting policy)

The Company has adopted “Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No. 16, March 10, 2008) and “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (PITF No. 24, March 10, 2008) from the fiscal year ended March 31, 2011.

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

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

And the Company has adopted “Guidance on Determining a Subsidiary and an Affiliate” (ASBJ Guidance No. 22, issued on May 13, 2008) from the fiscal year ended March 31, 2010. This guidance clarified the condition where investments held for part of the principal investment or venture capital investment business purpose are excluded from consolidation scope or equity method of accounting.

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

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

Material inter-company balances, transactions and profits have been eliminated in consolidation.

**Statements of cash flows**—The Company defines cash equivalents as highly liquid investments with original maturities of three months or less.

**Trading assets and trading liabilities**—Trading assets and liabilities including securities and financial derivatives for trading purposes held by securities companies are stated on a trade date basis at fair value in the consolidated balance sheets. Gains and losses, including unrealized gains and losses, related to transactions for trading purposes are reported as “Net gain on trading” in the accompanying consolidated statements of income. Fair value is determined based on market prices, quoted prices, internal pricing models (utilizing indicators of general market conditions or other economic measurements), or management’s estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. Securities owned for non-trading purposes, shown in the

accompanying consolidated balance sheets as “Cash and cash equivalents,” “Private equity and other investments” and “Investment securities,” are discussed below.

**Securities other than trading assets and trading liabilities**—Daiwa examines the intent of holding investments and classifies those investments as (a) securities intended to be held for trading purposes by non-securities companies which are carried at fair value with recognized unrealized gain or loss included in the consolidated statements of income, (b) debt securities intended to be held to maturity (“Held-to-maturity debt securities”) which are carried at amortized cost, and (c) all other securities not classified in any of the above categories (“Available-for-sale securities”). Marketable available-for-sale securities are stated at their fair values based on quoted market closing prices with unrealized gain or loss reported in a separate component within the net assets on a net-of-tax basis, or other non-marketable investments (non-marketable “Available-for-sale securities”) are carried at cost. Investment business partnerships which are regarded as equivalent to securities by Article 2 (2) of the Financial Instruments and Exchange Act are reported as “Private equity and other investments” and “Investment securities” in the accompanying consolidated balance sheets. The share of net income of investment business partnerships has been reflected in the consolidated statements of income and the share of net unrealized gains and losses held by investment business partnerships is directly reported in a separate component within the net assets on a net-of-tax basis in proportion to the Company and its subsidiaries’ share of the investment business partnership. The cost of those investments is determined by the moving average method.

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

Impairment is assessed for investments (including private equity holdings). For marketable securities, if the year-end market value declines 30% or more but less than 50% from the carrying value for individual securities, an impairment loss is recognized if there is no chance of recoverability in value. Recoverability is assessed by determining whether the decline is temporary by considering the movements of the market price and the financial conditions of the issuer. If the year-end market value declines 50% or more from the carrying value, then an impairment loss is recognized immediately. For non-marketable equity investments, Daiwa generally compares the carrying amount and the net asset value of the issuing company attributable to Daiwa’s holding share, and recognizes an impairment loss if the net asset value attributable to Daiwa’s holding share is significantly lower from the carrying value and such decline is considered other than temporary. For non-marketable investments in “Private equity and other investments” in the accompanying consolidated financial statements, Daiwa reviews the financial conditions of the issuers and provides for allowance for possible investment losses, if necessary.

**Derivatives used for non-trading purpose**—Daiwa records derivative financial instruments at fair value except for certain cases as described below, and recognizes changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes. Valuation gains or losses on hedging instruments are deferred in a separate component within the net assets until the gains or losses on the underlying hedged instruments are realized. Plain vanilla hedging interest swap agreements satisfying the required conditions under Japanese GAAP, are not required to be marked-to-market. Interests received or paid on such exempt interest rate swap agreements for hedging purposes are accrued without being marked-to-market under special treatment. Also, certain forward foreign exchange contracts are exempted from marked-to-market valuation. The premium or discount on such exempt forward foreign exchange contracts used for hedging purposes is allocated to each fiscal term without being marked-to-market under special treatment.

**Collateralized short-term financing agreements**—Collateralized short-term financing agreements consist of securities purchased under agreements to resell (“Resell transactions”) or securities sold under agreements to repurchase (“Repurchase transactions”), and securities borrowed or loaned. Repurchase transactions and resell transactions are carried at their contractual amounts. Securities borrowed or loaned are stated at the amount of cash collateral advanced or received.

**Allowance for doubtful accounts**—Allowance for doubtful accounts is provided for probable losses on loans and receivables, based on the actual historical default rate for general loans, and based on individually assessed amounts for doubtful and default loans.

**Property and equipment**—Property and equipment are stated at the acquisition cost, net of accumulated depreciation. Daiwa computes depreciation principally by the straight-line method over estimated useful lives.

**Intangible fixed assets**—Intangible fixed assets are generally amortized by the straight-line method. Daiwa computes the amortization over estimated useful lives. The useful lives of software of in-house use, which is the most significant intangible fixed asset, are generally five years.

**Leased assets**—Leased assets in finance lease transactions other than the ones that transfer ownership to the lessee are amortized under the straight-line method over estimated useful lives taken to be leasing periods and residual values taken to be nil. The accounting for finance lease transactions other than the ones that transfer ownership to the lessee has changed from the manner similar to the accounting treatment for ordinary rental transactions to the manner similar to the accounting treatment for ordinary sale transactions and are capitalized as leased assets.

Finance lease transactions other than the ones that transfer ownership to the lessee, which started before the fiscal year that “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13) was applied for the first time, were accounted for in the accounting treatment similar to that of ordinary rental transactions. Certain information regarding these non-capitalized finance lease transactions is contained in Note 9.

#### **Asset Retirement Obligations**

(Changes in accounting policy)

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

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

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

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

**Retirement benefits**—The Company and most domestic subsidiaries have unfunded retirement benefit plans for eligible employees, under which the benefit amount is determined annually based on the performance during the year in which the related service is rendered, plus interest earned to date. Accordingly this liability does not change subsequently due to the changes in compensation level in the subsequent years. The annually earned benefits and the related interest to the accumulated benefits are expensed annually.

The Company and most domestic consolidated subsidiaries also have defined contribution plans for which annual contribution is charged to expense.

The Company and its domestic consolidated subsidiaries closed their defined benefit plan as of April 1, 1999 and accordingly, no new employees have been added to the plan and no service cost has been charged for the plan; however, the amounts that then existed are still on the balance sheets until the time the payment is made to related employees when they retire.

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

(Changes in accounting policy)

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

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

#### **Accounting method for Employee Stock Ownership Plan Trust utilizing Employee Shareholding Association—**

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

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

#### **Revenue recognition for dividend income—**

(Changes in accounting policy)

Formerly, dividend income earned from listed equities had been recognized as revenue during the period in which Daiwa actually received the payment. From the fiscal year ended March 31, 2011, Daiwa has started recognizing as revenue unrealized dividend income based on the declared estimated amount as of the ex-dividend date.

This change is to ensure consistency with the revenue recognition between dividend income and fair value measurement of related equities, and to present financial results more appropriately under the current environment in which the number of corporations which increase or resume dividend has been increasing due to their improved performances. "Operating loss" decreased by 1,968 million yen (\$23,711 thousand) and "Loss before income taxes and minority interests" decreased by 2,753 million yen (\$33,169 thousand) respectively in the consolidated statement of income for the year ended March 31, 2011, due to this accounting change.

#### **Accounting standard for revenue and cost recognition of long term construction contracts—**

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

(Changes in accounting policy)

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

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



**Income taxes**—Income taxes consist of corporation, enterprise and inhabitants' taxes. The provision for current income taxes is computed based on the pre-tax income of the Company and each of its consolidated subsidiaries with certain adjustments, as appropriate. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards, if any. A valuation allowance is recognized for any portion of the deferred tax assets if it is considered not realizable based on its tax planning, other studies, and reference to certain set requirements under Japanese GAAP.

**Translation of foreign currencies**—The Company and its domestic consolidated subsidiaries translate assets and liabilities in foreign currencies into yen at the year-end exchange rate, and translate income and expenses in foreign currencies into yen using generally the applicable exchange rate on the day when the related transaction occurred. Any gains and losses resulting from such translation are

included in current income or expense. The financial statements of overseas consolidated subsidiaries and affiliates are translated into yen using the year-end exchange rates. Income and expenses are translated at the average exchange rates of the applicable year. Differences in yen amounts arising from the use of different rates are included in adjustments on foreign currency translation in "Net assets" in the accompanying consolidated balance sheets.

**Net income (loss) per share**—Net income (loss) per share of common stock is based on the average number of common shares outstanding. Diluted net income per share is computed based on the average number of common shares outstanding for the year with an adjustment for dilutive stock subscription rights based on the number of shares of common stock that would have been issued provided that the outstanding dilutive stock subscription rights were converted at the beginning of the year. The diluted net income per share amounts for the years ended March 31, 2011 and 2009 are not presented, since net loss is reported in the consolidated statements of income.

### 3. Margin transactions

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

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

Customers' margin loans are stated at amounts equal to the purchase amounts of the relevant securities, which are collateralized by customers' securities and customers' deposits. Proceeds of securities sold for customers' accounts are stated at the sales amounts.

### 4. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2011 and 2010 consisted of the following:

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

## 5. Financial instruments

(Additional information)

Effective from the fiscal year ended March 31, 2010, the Company adopted the revised Accounting Standard, "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan ("ASBJ") Statement No. 10 revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 revised on March 10, 2008). Furthermore, quantitative information concerning market risk is disclosed from the fiscal year ended March 31, 2011. Information on financial instruments for the year ended March 31, 2011 and 2010 pursuant to the revised accounting standards is as follows.

### 1. Concerning the situation of financial instruments

#### (1) Policy for dealing financial instruments

Daiwa, the primary businesses of which are investment and financial services businesses with a core focus on securities related business, is involved in trading and brokerage of securities and derivative products, underwriting and secondary offering of securities, treating public offerings for subscription and secondary offering of securities, treating private offerings for subscription of securities, and other businesses related to the securities and financial fields.

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

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

#### (2) Contents and risk of financial instruments

Daiwa holds financial instruments in the trading business as follows:

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

Of the various risks, the major risks implied in these financial instruments are market risk and credit risk. Market risk means the risk of incurring losses from fluctuations in the value of holding financial

instruments and transactions in accordance with changes of market prices of interest rates, currency exchange rates and stock prices, etc. Credit risk means the risk of suffering losses from defaults or credit changing of counterparties or issuers of financial instruments which Daiwa holds, etc.

In the trading business, Daiwa conducts derivative transactions solely and as a part of structured notes to meet customers' needs. Out of derivatives executed to meet customer needs and embedded into structured notes, there are some derivative of which risk are higher than reference assets because the volatilities of those derivative are large against correlation of reference assets such as stock indices, foreign exchange rate, and interest rates and they fluctuate in a complicated manner. Therefore, these carry higher risk than the reference assets. These derivative transactions are categorized as "Trading assets" and "Trading liabilities" in the consolidated balance sheets and the realized and unrealized gains and losses by fluctuation of fair values are stated as the "Net gain on trading" in the accompanying consolidated financial statements.

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

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

#### (3) Risk management system concerning financial instruments

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

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

## (a) Management of market risk

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

Under those understandings, subsidiaries manage the market risk by establishing the limit for VaR which indicates the estimate of the maximum loss amount under a certain probability, position and sensibility etc., considering the financial situation, the business plan and budget of each division. The Risk Management Department of the Company receives reports on the VaR and position from the subsidiaries engaged in securities business, recognizes the equity risk of the entire group and informs it to the management of the Company on a daily basis. Also concerning the impact of an abrupt change in the market, in order to cover the capacity limit of VaR that is the valuation method based on past data and statistical hypothesis, the Company evaluates the maximum loss amount of its portfolio utilizing a scenario based on past huge market fluctuation or a scenario in which a certain risk factor vastly changes, etc.

## (Quantitative information concerning market risk)

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

## (b) Management of credit risk

Concerning transactions in the trading business which generates credit risk, Daiwa has established the credit limits based on ratings of counterparties in advance and monitored notional principals and credit amounts. Especially, in connection with the wholesale business that carries a relatively high credit risk, Daiwa assesses the credit condition of its counterparties with qualitative and quantitative analysis based on the rating analysis model. Daiwa also has established a credit limit for each of the counterparties considering transaction conditions such as the term, collateral, etc. and conducts daily monitoring. In addition, concerning the credit risk of financial instruments held in the trading business, Daiwa has established the upper limit of holding and the holding period in accordance with each issuer's category and credit rating in relation to the relevant financial instruments, and monitored the circumstances of holding them.

Because the margin transactions generate credit to customers, deposits which were set as collateral will be charged to the customers. In connection with the securities loan transaction, Daiwa has tried to reduce credit risk by establishing credit limit

for counterparties, charging necessary collaterals, and daily mark to market.

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

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

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

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

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

## (Quantitative information concerning market risk)

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

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

## (iii) Management of liquidity risk concerning raising capital

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

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

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

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

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

The Company collectively manages and monitors the liquidity of Daiwa under the basic policy to secure the appropriate liquidity of Daiwa. The Company always monitors whether the liquidity portfolio is secured enough against short-term raised capital without collateral preparing for the case that it has difficulties raising new capital and rescheduling the existing capital raising due to the stress which is specific to the Company or influences to the entire market arising. Also, Daiwa has established a system that enables the

Company to flexibly supply the capital to the group companies if necessary and achieves efficient and unified capital raising and management.

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

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

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

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

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

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

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

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

## 2. Fair values of financial instruments

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

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

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

(Note 1) Accounting method of fair values of financial instruments

(1), (3) Cash and cash equivalents and time deposits

Cash and cash equivalents and time deposits are stated as their book value because fair values are similar to book value and they are settled in the short term.

(2) Cash segregated as deposits for regulatory purposes

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

(4), (13) Receivables related to margin transactions and payables related to margin transactions

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

Payables related to margin transactions consist of customers'

borrowing money from securities finance companies and sold amount equivalent of customers generated from margin transactions. Those are stated as their book value as settled in the short term because the former is marked to market and the latter is settled by reversing trades by customers' decision.

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

These are stated as their book value because fair values are similar to book value and those are most of them settled in the short term.

(6), (16) Trading assets and trading liabilities

(a) Trading securities and others

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

## (b) Derivative transactions

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

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

## (7) Private equity and other investments and investment securities

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

(8), (17) Trade account receivables, net and trade account payables, net  
Trade account receivables, net and trade account payables, net are stated as their book value because fair values are similar to book value and they are settled in the short term.

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

## (11) Long-term debt

Concerning fair values of bonds and notes due within one year, these are stated as their book value since the terms of the settlement period are short and the fair values approximate the book values.

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

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

(12), (14) Payable to customers and counterparties and payables-other  
There are mainly composed of deposit received and cash deposits received as guarantee.

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

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



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

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

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

(Note 3) Scheduled redemption amount of financial receivable and securities with a maturity date after March 31, 2011

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

\* Cash segregated as deposits for regulatory purposes are included in "Within 1 year" because they are comprised of trust for holding customer assets.

\* Receivables related to margin transactions are considered that it is settled in short term, and included "Within 1 year."

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

\* Cash segregated as deposits for regulatory purposes are included in "Within 1 year" because they are comprised of trust for holding customer assets.

\* Receivables related to margin transactions are considered that it is settled in short term, and included "Within 1 year."

(Note 4) Scheduled redemption amount of payable to securities finance companies, commercial paper and long-term debts after March 31, 2011

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

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

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

\* Payable to securities finance companies are part of the "Payables related to margin transactions" in the accompanying consolidated balance sheets.

## 6. Trading assets and trading liabilities

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

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

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

Government, corporate and other bonds include convertible bonds.

## 7. Securities other than trading assets

Securities other than trading assets and trading liabilities are included in "Cash and cash equivalents," "Private equity and other investments" and "Investment securities" in the accompanying consolidated balance sheets.

Cost and fair value of securities intended to be held for trading purposes by non-securities companies as of March 31, 2011 and 2010 consisted of the following:

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

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
<b>March 31, 2011</b>	<b>\$34,157</b>	<b>\$30,566</b>	<b>\$(3,591)</b>

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

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Corporate bonds	<b>¥100</b>	¥1,400	<b>\$1,205</b>

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

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

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

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

## 8. Pledged assets

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

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

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

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

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

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

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

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

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

## 9. Lease transactions

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

Lessee:	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
<b>Non-capitalized finance leases:</b>			
Total assets under non-capitalized finance leases	¥ 663	¥ 899	\$ 7,988
Accumulated depreciation	416	503	5,012
Future lease payments in respect of non-capitalized leases	74	406	892
Due within one year	59	153	711
<b>Operating leases:</b>			
Future lease payments in respect of operating leases	70,509	67,211	849,506
Due within one year	13,091	12,646	157,723
<b>Lessor:</b>			
	2011	2010	2011
<b>Operating leases:</b>			
Future lease receipts in respect of operating leases	¥4,610	¥5,278	\$55,542
Due within one year	648	711	7,807

## 10. Payables to customers and counterparties

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

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

## 11. Long-term debt

As is customary in Japan, in the case of unsecured bank borrowings, security must be given under certain conditions if requested by a lending bank. The bank has the right to offset cash deposited by the borrower against any debt or obligation that becomes due, and in the case of default and certain other specified events, against all debts

payable to the bank. Such request has never been made and such right has never been exercised.

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

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

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

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

Interest rates of euro medium-term notes range from 0.02% to 7.30% at March 31, 2011 and from 0.09% to 5.70% at March 31, 2010. The weighted average interest rate on total outstanding yen subordinated

borrowings and borrowings principally from banks at March 31, 2011 and 2010 was 1.02% and 1.39%, respectively. The weighted average interest rate on total outstanding lease obligations at March 31, 2011 was 3.02%.

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

## 12. Retirement benefits

### Retirement benefits for employees

#### Unfunded plan

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

#### Closed funded plan

The effect on the consolidated financial statements was immaterial.

#### Retirement benefits for directors

Directors' retirement benefits in consolidated subsidiaries of ¥437 million (\$5,265 thousand) and ¥531 million are included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2011 and 2010, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2011, 2010 and 2009 were ¥204 million (\$2,458 thousand), ¥217 million and ¥193 million, respectively.

### 13. Income taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes levied on income. The effective statutory tax rate in Japan was approximately 40.7% for the years ended March 31, 2011, 2010 and 2009. Overseas consolidated subsidiaries are subject to income taxes of the countries in which they operate.

A reconciliation of the difference between the Japanese statutory income tax rate and the effective income tax rate reflected in the consolidated statements of income for the year ended March 31, 2010 is as follows:

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

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

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

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

The Company and certain consolidated subsidiaries provided valuation allowance to reflect the estimated unrealized amount of gross deferred tax assets. The valuation allowance was provided mainly against deferred tax assets stated at the Company and domestic subsidiaries with tax loss carry-forwards. In assessing the realizability of deferred tax

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



## 14. Statutory reserves

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

## 15. Contingent liabilities

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

## 16. Owners' equity

In principle, the Companies Act of Japan ("the Act") requires a company to credit the entire amount of issued shares to common stock (and preferred stock, if any); however, a company may classify an amount not exceeding one-half of the entire issued amount of shares as additional paid-in capital, which is included in "Capital surplus" in the accompanying consolidated balance sheets, with a resolution of the Board of Directors.

According to the Act, a company should set aside 10% of cash dividends and other cash appropriations as additional paid-in capital or earned surplus until the total becomes one quarter of the common stock (and preferred stock, if any). Additional paid-in capital and earned surplus are allowed to be utilized to eliminate or reduce a deficit with a resolution of the shareholders' meeting or may be transferred to common stock with a resolution of the Board of Directors, and also may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

Additional paid-in capital and earned surplus are included in "Capital surplus" and "Retained earnings" in the accompanying consolidated balance sheets.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Act. The total amount of retained earnings available for dividends in the Company's statutory book of accounts as of March 31, 2011 amounted to ¥281,247 million (\$3,388,518 thousand).

Under Article 459-1 of the Act, the articles of incorporation of the Company stipulate that the Board of Directors is to determine dividends. Cash dividends of ¥3 (\$0.04) per share amounting to ¥5,141 million (\$61,940 thousand) and ¥3 (\$0.04) per share amounting to ¥5,245 million (\$63,193 thousand) were approved by the Board of Directors on May 17, 2011 and October 29, 2010, respectively.

## 17. Share-based payment

Daiwa has various stock option plans.

The shareholders of the Company approved granting stock options to directors and certain key employees on June 23, 2004. The plan provides for the issuance of up to 4,500 thousand shares in the form of options to directors and executive officers, and the amount paid in upon exercise of such subscription rights is ¥756 (\$9.11) per share. The options may be exercised during the period from July 1, 2006 until August 31, 2011. On the same day, the shareholders' meeting of the Company approved a change in the articles of incorporation so that the Company may be entitled to repurchase its shares by the resolution of its Board of Directors.

The shareholders of the Company on June 24, 2005, June 24, 2006, June 23, 2007, June 21, 2008, June 20, 2009, June 26, 2010, and June 25, 2011 approved granting stock options. These options are categorized into two types depending on the scope of the individual persons covered by the plans and exercise conditions. The first is the stock subscription rights that were issued free to directors and executive officers of the Company, its subsidiaries and its affiliated companies, and the amount paid in upon exercise of such subscription rights is ¥1 (\$0.01) per share. The second is the stock subscription rights that shall be issued to directors, executive officers and certain employees of the Company, its subsidiaries and its affiliated companies, excluding the persons to whom the first stock subscription rights were issued. The amount paid in upon exercise of such subscription rights shall be determined based on the market price of the Company's common stock at the time of the issuance of such subscription rights.

The date of approval at the shareholders' meeting, the balance of the exercisable options, exercise price and exercise period for the stock options of the Company at March 31, 2011 are as follows:

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

## 18. Capital adequacy requirements

In Japan, a securities company is subject to risk-based capital adequacy rules established and administered by the Financial Services Agency. Securities subsidiaries report their capital adequacy ratio as defined pursuant to these rules. The authorities will take certain administrative measures if such ratio declines below 140%. The capital adequacy ratios of Daiwa Securities were 405.3% (unaudited) and 393.3% (unaudited) for March 31, 2011 and 2010, respectively, and those of Daiwa Securities CM were 289.5% (unaudited) and 378.3%

(unaudited) for March 31, 2011 and 2010, respectively. Daiwa also announced that Daiwa has calculated the consolidated capital adequacy ratio as of March 31, 2011 in accordance with the principal stipulated in the Notification 130 Pursuant to the Article 57-17-1 of the Financial Instruments and the Exchange Act issued by the Japanese Financial Service Agency (i.e. in Basel II method). The consolidated capital adequacy ratio as of March 31, 2011 was 27.2% (unaudited).

## 19. Segment information

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

organization structure, and aggregates to five reporting segments such as "Retail," "Global Markets," "Global Investment Banking," "Asset Management" and "Investment" by similarity of economic character.

(Additional information)

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

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

Millions of yen								
	Retail	Global Markets	Global Investment Banking	Asset Management	Investment	Reportable segment total	Others	Total
<b>Year ended March 31, 2011:</b>								
Net operating revenues:								
Outside customer	¥133,154	¥ 80,486	¥39,396	¥ 58,739	¥(15,347)	¥296,428	¥ (5,511)	¥290,917
Elimination amount between segments	45,817	(18,990)	(8,761)	(22,415)	69	(4,280)	24,904	20,624
Total	¥178,971	¥ 61,496	¥30,635	¥ 36,324	¥(15,278)	¥292,148	¥19,393	¥311,541

**Year ended March 31, 2010:**

Net operating revenues:								
Outside customer	¥138,584	¥ 95,279	¥ 74,972	¥ 53,999	¥74,981	¥437,815	¥ 4,872	¥442,687
Elimination amount between segments	55,237	(12,530)	(18,908)	(22,507)	(990)	302	29,029	29,331
Total	¥193,821	¥ 82,749	¥ 56,064	¥ 31,492	¥73,991	¥438,117	¥33,901	¥472,018

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

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

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

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

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

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

## 20. Transactions with related parties

The information on subsidiaries' material transactions with related parties and individuals for the years ended March 31, 2011, 2010 and 2009, and the resulting account balances with such related party at the balance sheet dates are as follows:

Name of related company	Paid-in Capital Millions of yen	Description of transactions		Account balances
				Millions of yen
				<b>2011</b>
Tokyo Tanshi Co., Ltd.	¥10,000	Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements (assets)	<b>¥173,692</b>
		Interest and dividend income	Receivables—Other	<b>1</b>
		Interest expense	Accrued and other liabilities—Other	<b>1</b>
				Millions of yen
				2010
		Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements (assets)	¥173,858
		Interest and dividend income	Receivables—Other	4
		Interest expense	Accrued and other liabilities—Other	2
				Millions of yen
				2009
		Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements (liabilities)	¥157,058
		Interest and dividend income	Receivables—Other	2
		Interest expense	Accrued and other liabilities—Other	4
				Thousands of U.S. dollars
				<b>2011</b>
		Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements (assets)	<b>\$2,092,675</b>
		Interest and dividend income	Receivables—Other	<b>12</b>
		Interest expense	Accrued and other liabilities—Other	<b>12</b>

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

## 21. Special purpose entities subject to disclosure

Some consolidated subsidiaries utilized 6 special purpose entities for the year ended March 31, 2011 (6 for year ended March 31, 2010) principally for the securitization of structured notes in order to support securitization of monetary assets of customers. Those consolidated subsidiaries acquire and transfer bonds to those special purpose entities (incorporated in the Cayman Islands) and issue structured notes collateralized by those bonds. The Company and consolidated

companies do not own any shares with voting rights in any of these special purpose entities and have not dispatched any director or employee to them. Notes issued by those special purpose entities subject to disclosure as of the fiscal year ended March 31, 2011 and 2010 are ¥233,649 million (\$2,815,048 thousand) and ¥166,032 million, respectively.

## 22. Net gain on trading

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

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

## 23. Selling, general and administrative expenses

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

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

## 24. Other income (expenses)

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

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

## 25. Subsequent events

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



## Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Daiwa Securities Group Inc. and consolidated subsidiaries as of March 31, 2011 and 2010, the related consolidated statements of income and comprehensive income for the years then ended, statement of income for the year ended March 31, 2009, and statements of changes in net assets and cash flows for each of the three years in the period ended March 31, 2011, expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Daiwa Securities Group Inc. and subsidiaries as of March 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2011, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA LLC*

Tokyo, Japan  
June 27, 2011

## Other Information

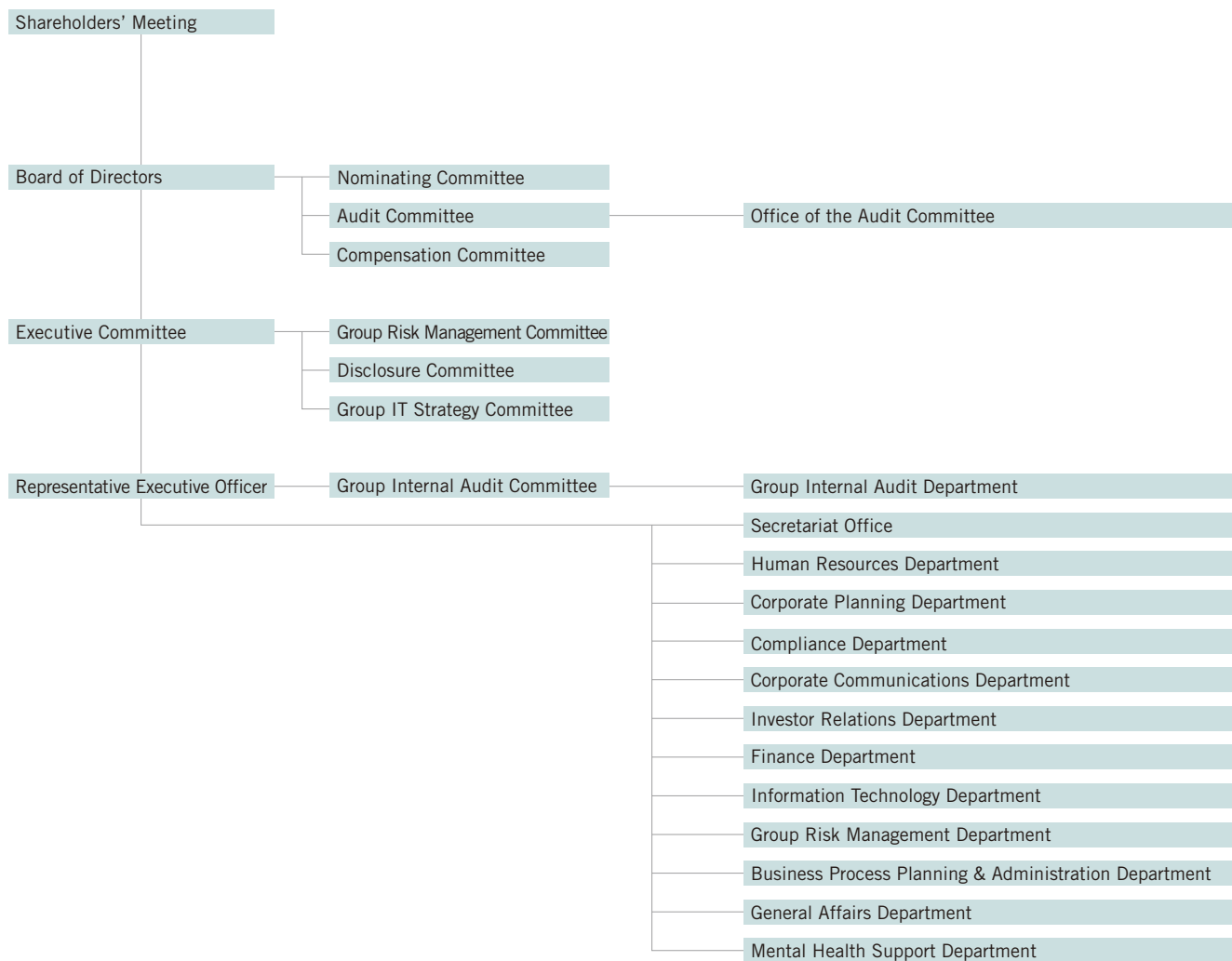
- P104** Organization and Officers
- P110** Domestic Group Companies
- P111** Overseas Group Companies
- P113** Daiwa Securities Group Inc. Corporate Data



# Organization and Officers

Daiwa Securities Group Inc.

1) **Organization** (As of July 1, 2011)



**2) Officers** (As of July 1, 2011)**Directors****(Members of the Board)**

Chairman of the Board  
Shigeharu Suzuki

Director  
Takashi Hibino

Director  
Nobuyuki Iwamoto

Director  
Makoto Shirakawa

Director  
Takatoshi Wakabayashi

Director  
Kazuo Oda

Director  
Toshihiko Onishi

Outside Director  
Ryuji Yasuda

Outside Director  
Koichi Uno

Outside Director  
Nobuko Matsubara

Outside Director  
Keiichi Tadaki

Outside Director  
Kensuke Itoh

**Committee Members**

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

Audit Committee  
Koichi Uno (Chairman)  
Toshihiko Onishi  
Nobuko Matsubara  
Keiichi Tadaki

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

**Executive Officers**

President and CEO  
Takashi Hibino

Deputy President, COO and CFO  
Nobuyuki Iwamoto

Deputy President  
Makoto Shirakawa

Deputy President  
Akio Takahashi

Deputy President  
Toshiro Ishibashi

Deputy President  
Takashi Fukai

Senior Executive Managing  
Director and CRO  
Takatoshi Wakabayashi

Executive Managing Director  
and CIO  
Kazuo Oda

Executive Managing Director  
Saburo Jifuku

Executive Managing Director  
Koichi Matsushita

Executive Managing Director  
Toshihiro Matsui

Senior Managing Director  
Noriaki Kusaka

Senior Managing Director  
Hiroyuki Inose

Senior Managing Director  
Shigeharu Suzuki

**Executive Officers**

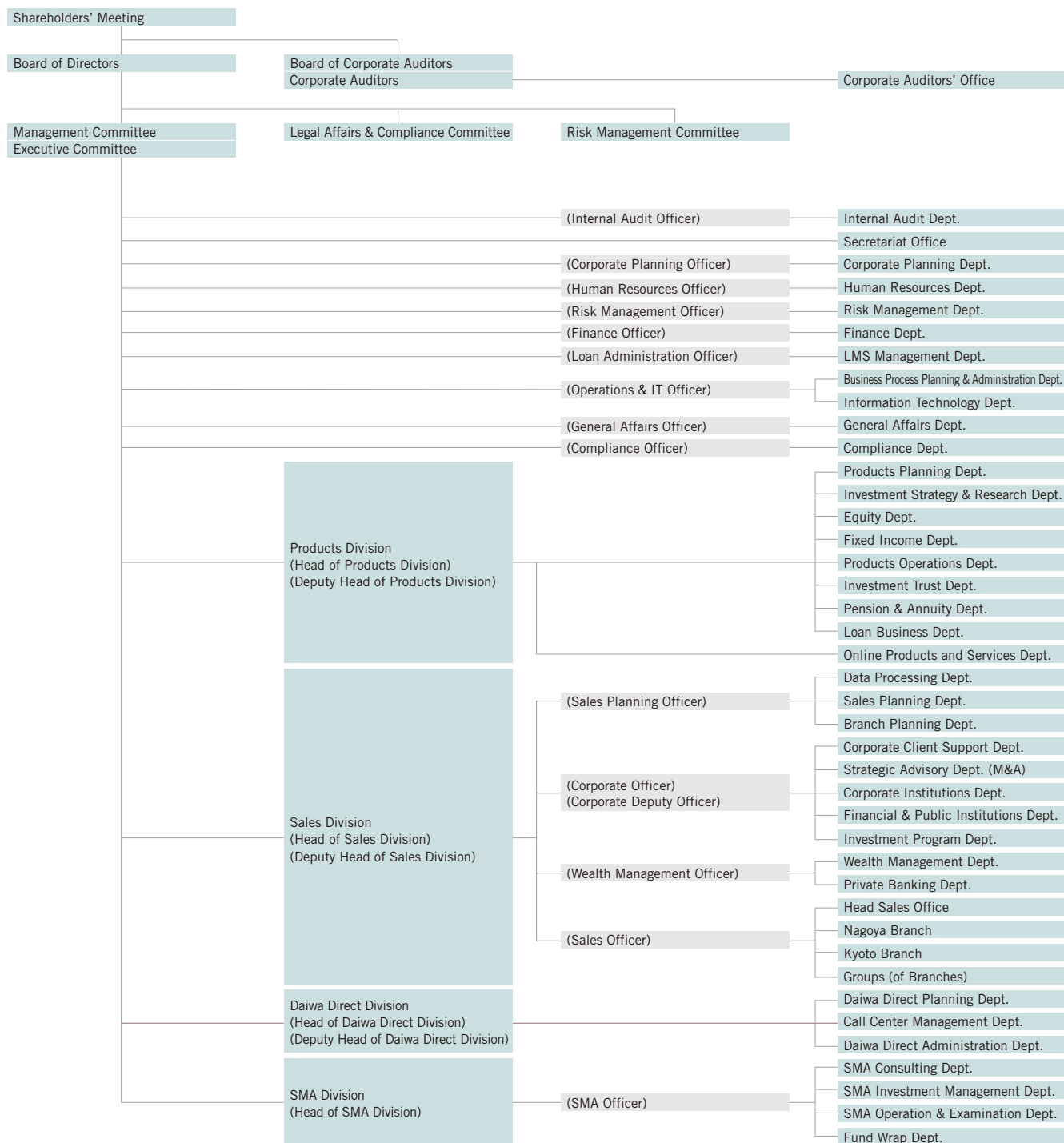
Senior Managing Director  
Osamu Abiru

Senior Managing Director  
Masahisa Nakagawa

Senior Managing Director  
Mikita Komatsu

## Daiwa Securities Co. Ltd.

## 1) Organization (As of July 1, 2011)



**2) Officers** (As of July 1, 2011)**Directors****(Members of the Board)**

Chairman of the Board  
Shigeharu Suzuki

President  
Takashi Hibino

Deputy President  
Makoto Shirakawa

Senior Executive Managing  
Director  
Yoriyuki Kusaki

Representative Senior Executive  
Managing Director  
Osamu Abiru

Senior Executive Managing  
Director  
Hiroschi Nakamura

Executive Managing Director  
Shinya Kusaba

Executive Managing Director  
Yoshimasa Nagase

Executive Managing Director  
Yosuke Sakai

**Corporate Auditors**

Zenichiro Onishi

Kentaro Ito

Hiroshi Obayashi

**Executive Officers**

Executive Managing Directors  
Keiji Komagata

Keiichi Sakai

Naofumi Idei

Senior Managing Directors  
Hiroyuki Kasahara

Junichi Okura

Junichi Aizawa

Naoko Saito

Kazuo Hayasaki

Tetsuya Kawaguchi

Shinji Kawakami

Masahisa Nakagawa

Yasuji Karita

Kenji Imamura

Hiromi Uemura

Saburo Jifuku

Koichi Matsushita

Toshihiro Matsui

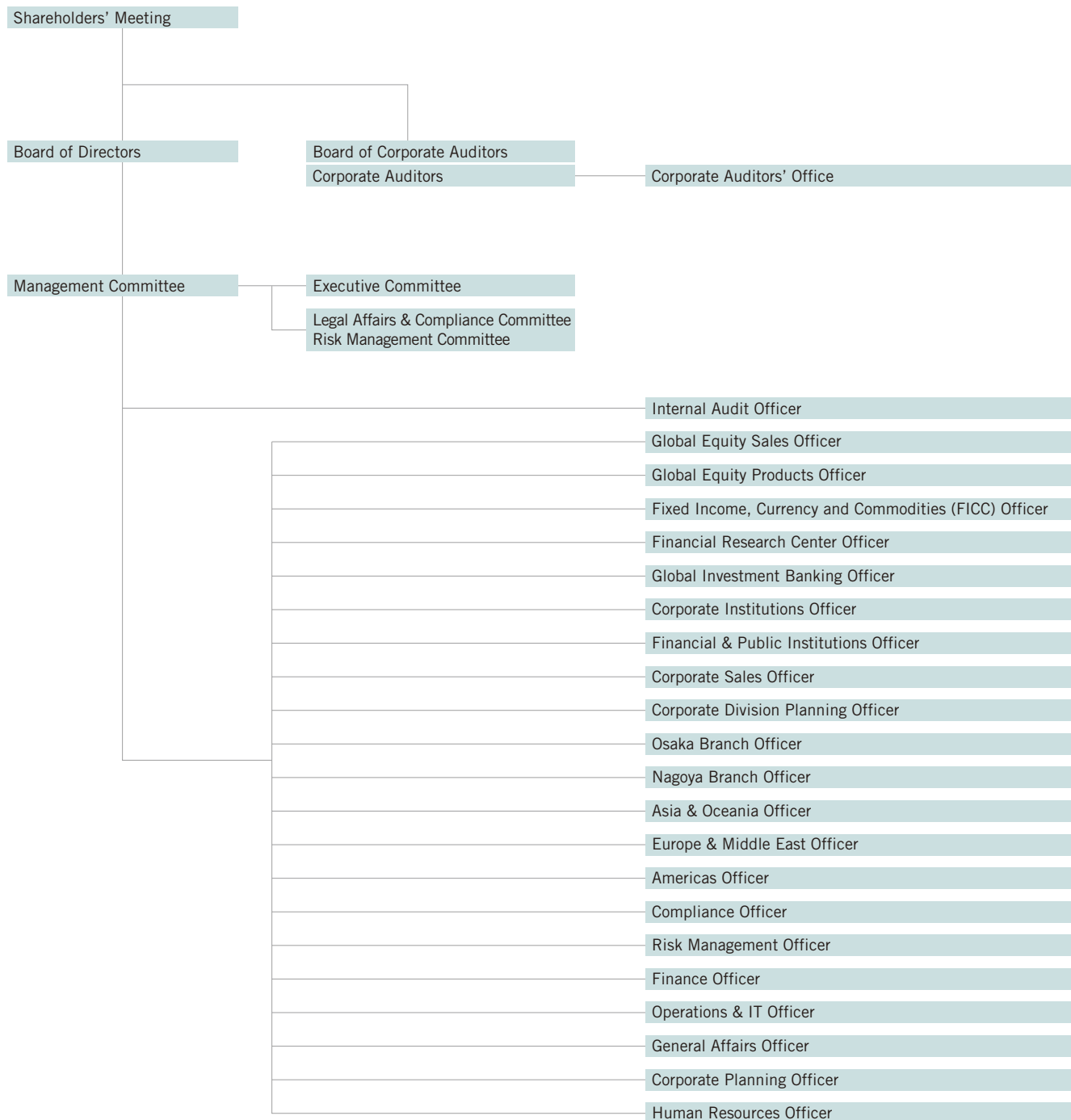
Noriaki Kusaka

Mikita Komatsu

Hiroyuki Inose

## Daiwa Securities Capital Markets Co. Ltd.

## 1) Organization (As of July 1, 2011)



**2) Officers** (As of July 1, 2011)**Directors****(Members of the Board)**

Chairman of the Board  
Shin Yoshidome

President  
Takashi Hibino

Deputy President  
Nobuyuki Iwamoto

Deputy President  
Akio Takahashi

Representative Senior Executive  
Managing Director  
Takatoshi Wakabayashi

Senior Executive Managing  
Director  
Masami Tada

Senior Executive Managing  
Director  
Toshinao Matsushima

Executive Managing Director  
Kazuo Oda

Executive Managing Director  
Shinya Nishio

Executive Managing Director  
Seiji Nakata

**Corporate Auditors**

Tatsuru Asano

Zenichiro Onishi

Toshihiko Onishi

**Executive Officers**

Executive Managing Directors  
Eishu Kosuge

Kazuo Takahashi

Masaaki Goto

Yoshio Urata

Senior Managing Directors  
Yuichi Akai

Koichi Maruo

Keiko Tashiro

Tsuneo Hasegawa

Takeshi Niikura

Wilfried Schmidt

Mikita Komatsu

Tetsuo Akuzawa

Sumio Otsuka

Tadao Sakashima

Keisuke Natsume

Masahiro Kobayashi

Osamu Abiru

Saburo Jifuku

Koichi Matsushita

Noriaki Kusaka

Masahisa Nakagawa

Hiroyuki Inose

## Domestic Group Companies

(As of July 1, 2011)

### Daiwa Securities Co. Ltd.

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

### Daiwa Securities Capital Markets Co. Ltd.

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6753, Japan  
Tel: (81) 3-5555-3111

### Daiwa Asset Management Co. Ltd.

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

### Daiwa Institute of Research Holdings Ltd.

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

### Daiwa Institute of Research Ltd.

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

### Daiwa SB Investments Ltd.

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

### Daiwa Securities Business Center Co. Ltd.

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

### Daiwa Property Co., Ltd.

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

### Daiwa Corporate Investment Co., Ltd

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

### Daiwa Institute of Research Business Innovation Ltd.

36-2 Hakozaiki-cho, Nihonbashi, Chuo-ku, Tokyo 103-0015, Japan  
Tel: (81) 3-5931-8600

### Daiwa Next Bank, Ltd.

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

### Daiwa PI Partners Co. Ltd.

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

### Daiwa Securities SMBC Principal Investments Co. Ltd.

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

### Daiwa Fund Consulting Co. Ltd.

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

### Daiwa Real Estate Asset Management Co. Ltd.

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

### Daiwa Pension Consulting Co., Ltd.

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

### Daiwa Investor Relations Co. Ltd.

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

### Daiwa Securities Media Networks Co. Ltd.

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

### Daiwa Sanko Co., Ltd.

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

### HINODE SECURITIES CO., LTD.

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

### DIR Information Systems Co., Ltd.

36-2 Hakozaiki-cho, Nihonbashi, Chuo-ku, Tokyo 103-0015, Japan  
Tel: (81) 3-6365-2580



# Overseas Group Companies

(As of July 1, 2011)

## Daiwa Securities Group Inc.

### Daiwa Securities Trust and Banking (Europe) PLC

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

### Daiwa Securities Trust Company

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

### Daiwa Europe Fund Managers (Ireland) Ltd.

Level 3, Block 5, Harcourt Centre, Harcourt Road, Dublin 2, Ireland  
Tel: (353) 1-603-9900

### Daiwa Europe Trustees (Ireland) Ltd.

Level 3, Block 5, Harcourt Centre, Harcourt Road, Dublin 2, Ireland  
Tel: (353) 1-603-9900

## Daiwa Securities Capital Markets Co. Ltd.

### Daiwa Capital Markets America Inc.

New York Head Office  
Financial Square, 32 Old Slip, New York, NY 10005, U.S.A.  
Tel: (1) 212-612-7000

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

### Daiwa Capital Markets Europe Limited

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

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

Paris Branch  
127, avenue des Champs-Élysées, 75008 Paris, France  
(33)1-56-26-22-00

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

Milan Branch  
Via Senato 14/16, 20121 Milan, Italy  
Tel: (39) 02-763271

Bahrain Branch  
7th Floor, Bahrain World Trade Centre, South Tower,  
P.O. Box 30069, Manama, Kingdom of Bahrain  
Tel: (973) 1753-4452

Moscow Representative Office  
25/9, build. 1, Per. Sivtsev Vrazhek,  
Moscow 119002, Russian Federation  
Tel: (7) 495-617-1960

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#### Daiwa Capital Markets Hong Kong Limited

26th Floor, One Pacific Place, 88 Queensway, Hong Kong  
People's Republic of China  
Tel: (852) 2525-0121

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#### Daiwa Capital Markets Singapore Limited

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

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#### Daiwa Capital Markets Australia Limited

34th Floor, Rialto North Tower, 525 Collins Street, Melbourne,  
Victoria 3000, Australia  
Tel: (61) 3-9916-1300

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#### Daiwa Capital Markets India Private Limited

10th Floor, 3 North Avenue, Maker Maxity, Bandra Kurla Complex,  
Bandra East, Mumbai 400051, India  
Tel: (91) 22-6622-1000

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#### DBP-Daiwa Capital Markets Philippines, Inc.

18th Floor, Citibank Tower, 8741 Paseo de Roxas, Salcedo Village,  
Makati City, Republic of the Philippines  
Tel: (632) 813-7344

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#### Daiwa-Cathay Capital Markets Co., Ltd.

14th Floor, 200 Keelung Road, Sec.1, Taipei, Taiwan, R.O.C.  
Tel: (886) 2-2723-9698

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#### Daiwa SSC Securities Co., Ltd.

45th Floor, Hang Seng Bank Tower, 1000 Lujiazui Ring Road,  
Pudong, Shanghai, People's Republic of China 200120  
Tel: (86) 21-3858-2000

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#### Seoul Branch

6th Floor, Hana Daetoo Securities Building, #27-3, Youido-dong,  
Yongdungpo-gu, Seoul, Republic of Korea  
Tel: (82) 2-787-9100

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#### Beijing Representative Office

Room 3503/3504, SK Tower, No. 6 Jia Jianguomen Wai Avenue,  
Chaoyang District, Beijing, People's Republic of China 100022  
Tel: (86) 10-6500-6688

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#### Bangkok Representative Office

18th Floor, M. Thai Tower, All Seasons Place, 87 Wireless Road,  
Lumpini, Pathumwan, Bangkok 10330, Thailand  
Tel: (66) 2-252-5650

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#### Hanoi Representative Office

Suite 1306, Pacific Place Building, 83B Ly Thuong Kiet Street,  
Hoan Kiem District, Hanoi, Vietnam  
Tel: (84) 4-3-946-0460

# Daiwa Securities Group Inc. Corporate Data

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## Head Office

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

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## Website

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

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## Commencement of Operations

May 1, 1902

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## Date of Founding

December 27, 1943

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## Common Stock

Issued and Outstanding  
1,749,378,772 shares  
(as of March 31, 2011)

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## Number of Shareholders

131,430 (as of March 31, 2011)

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## Independent Public Accountant

KPMG AZSA LLC

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## Stock Exchange Listings

Tokyo, Osaka, Nagoya

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## Transfer Agent and Registrar

The Sumitomo Trust and Banking Company, Limited  
Stock Transfer Agency Department  
3-1, Yaesu 2-chome, Chuo-ku,  
Tokyo 104-8476, Japan

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For further information, please contact:

Daiwa Securities Group Inc. Investor Relations

Tel: (81) 3-5555-1300

Fax: (81) 3-5555-0661

Email: [ir-section@dsgi.daiwa.co.jp](mailto:ir-section@dsgi.daiwa.co.jp)

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

# **Daiwa Securities Group**

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