

17. Owners' equity

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

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

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

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Act. The total amount of retained earnings available for dividends in the Company's statutory book of accounts as of March 31, 2012 amounted to ¥343,740 million (\$4,191,951 thousand).

Under Article 459-1 of the Act, the articles of incorporation of the Company stipulate that the Board of Directors is to determine dividends. Cash dividends of ¥3 (\$0.04) per share amounting to ¥5,141 million (\$62,695 thousand) and ¥3 (\$0.04) per share amounting to ¥5,141 million (\$62,695 thousand) were approved by the Board of Directors on May 15, 2012 and October 28, 2011, respectively.

18. Share-based payment

Daiwa has various stock option plans.

The shareholders of the Company approved granting stock options to directors and certain key employees on June 23, 2004. The plan provides for the issuance of up to 4,500 thousand shares in the form of options to directors and executive officers, and the amount paid in upon exercise of such subscription rights is ¥756 (\$9.22) per share. The options may be exercised during the period from July 1, 2006 until August 31, 2011. On the same day, the shareholders' meeting of the Company approved a change in the articles of incorporation so that the Company may be entitled to repurchase its shares by the resolution of its Board of Directors.

The shareholders of the Company on June 24, 2005, June 24, 2006, June 23, 2007, June 21, 2008, June 20, 2009, June 26, 2010,

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

The date of approval at the shareholders' meeting, the balance of the exercisable options, exercise price and exercise period for the stock options of the Company at March 31, 2012 are as follows:

Date of approval at the shareholders' meeting	Balance of the exercisable options (The number of shares)	Exercise price		Exercise period
		(Yen/share)	(U.S. dollars/share)	
June 24, 2005	431,000	¥ 1	(\$ 0.01)	from July 1, 2005 to June 30, 2025
	1,816,000	¥ 750	(\$ 9.15)	from July 1, 2007 to August 31, 2012
June 24, 2006	248,000	¥ 1	(\$ 0.01)	from July 1, 2006 to June 30, 2026
	2,423,000	¥1,455	(\$17.74)	from July 1, 2011 to June 23, 2016
June 23, 2007	266,000	¥ 1	(\$ 0.01)	from July 1, 2007 to June 30, 2027
	–	¥1,176	(\$14.34)	from July 1, 2012 to June 22, 2017
June 21, 2008	316,000	¥ 1	(\$ 0.01)	from July 1, 2008 to June 30, 2028
	–	¥ 881	(\$10.74)	from July 1, 2013 to June 20, 2018
June 20, 2009	627,000	¥ 1	(\$ 0.01)	from July 1, 2009 to June 30, 2029
	–	¥ 496	(\$ 6.05)	from July 1, 2014 to June 19, 2019
June 26, 2010	1,043,000	¥ 1	(\$ 0.01)	from July 1, 2010 to June 30, 2030
	–	¥ 380	(\$ 4.63)	from July 1, 2015 to June 25, 2020
June 25, 2011	1,211,000	¥ 1	(\$ 0.01)	from July 1, 2011 to June 30, 2031
	–	¥ 326	(\$ 3.98)	from July 1, 2016 to June 24, 2021