Financial Section

Message from the CFO

Financial regulations have been continuously strengthened on a global basis in the wake of the financial crisis that started with the Lehman Shock in 2008. Since the end of March 2013, the Daiwa Securities Group has gradually applied the standards set out in the Basel III accords, a comprehensive package of regulations for financial companies. In addition to past standards for capital adequacy, the accord will introduce new regulations for liquidity risk. The Liquidity Coverage Ratio (LCR) will go into effect from 2015, while the Net Stable Funding Ratio (NSFR) will be introduced from 2018. The LCR requirements are intended to ensure that a financial company maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress scenario. The NSFR standard is structured to ensure that long-term assets are funded with at least a minimum amount of stable liabilities in relation to their liquidity risk profiles.

In FY2013, the Daiwa Securities Group posted a record net income of ¥169.4 billion, which boosted shareholders' equity to its highest level ever – ¥1,078.5 billion. As of the end of March 2014, the Group maintained a consolidated capital adequacy ratio (under Basel III standards) of 21.8%. This exceeds the level of other major financial groups, and illustrates the great financial health of the Daiwa Securities Group.

Regarding liquidity risk, the Group has adopted the liquidity coverage ratio figures offered for reference purposes by the Basel Committee on Banking Supervision as the basis of its finance management activities. Stress tests are conducted on a daily basis to confirm the status of our liquidity portfolio. The stress tests indicate that the Group has sufficient liquidity in its portfolio to handle any conceivable capital outflows. Based on these calculations, we can conclude that the Group would be able to continue operating even if it was unable to raise unsecured funds for a period of at least one year.

In accordance with our policies on shareholder returns, the Group is constantly seeking ways to enhance shareholder value, including dividend distributions equivalent to around 30% of net income, paid out twice a year. In addition, considering a stable dividend payout ratio, if retained earnings should reach levels deemed more than adequate, the Group's policy is to take a more aggressive stance towards shareholder returns. Based on this policy, in FY2013 we increased the annual dividend per share to ¥34, matching its highest level ever. As a result, the dividend payout ratio for FY2013 reached 34.1%, and the dividend yield at the end of FY2013 stood at 3.79%.

In the future, in order to remain compliant with all new financial regulations, the Group is required to more conservatively maintain an ample level of capital adequacy and liquidity sufficient to meet the stricter regulatory standards. By maintaining top financial health, capital efficiency and liquidity assets, the Group aims to balance the interests of all stakeholders – shareholders, creditors, customers and employees alike – while pursuing sustainable long-term growth.

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

Twelve-Quarter Financial Summary

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	FY2011 1Q	2Q	3Q	4Q
MARKET DATA				
Nikkei 225 (end of each quarter, yen)	9,816.09	8,700.29	8,455.35	10,083.56
TSE average daily trading value (billions of yen)	1,382	1,355	1,074	1,405
Net purchases (sales) by investors on two major securities exchanges* (billions of yen)				
Institutions	2	1,351	923	(1,380)
Individuals	(149)	442	(117)	(783)
Foreigners	946	(1,648)	(381)	1,289
Securities companies	10	40	(1)	(36)
Ten-year Japanese government bond yield (end of each quarter, %)	1.130	1.020	0.980	0.985
Foreign exchange rates: Yen per U.S. dollar (end of each quarter)	80.44	76.84	77.36	82.08

* The two major exchanges refer to the Tokyo Stock Exchange and the Nagoya Stock Exchange. Data prior to the 1Q of FY2013 is for the three major exchanges (Tokyo Stock Exchange, Osaka Securities Exchange and Nagoya Stock Exchange).

OPERATING PERFORMANCE				Millions of yen
Operating revenues	¥113,625	¥102,480	¥92,919	¥113,348
Commissions	55,060	56,171	52,535	57,077
Brokerage commission	10,515	10,202	8,249	11,815
Underwriting commission	3,832	4,787	8,091	2,797
Distribution commission	13,394	12,661	10,726	12,356
Other commission	27,318	28,519	25,468	30,109
Net gain on trading	26,244	14,895	8,572	29,703
Profit (loss) on equity trading	(8,479)	(11,820)	1,259	12,576
Profit on bond and foreign exchange trading	34,724	26,715	7,312	17,127
Net gain (loss) on private equity and other investments	1,251	1,892	1,470	(2,658)
Interest and dividend income	20,076	19,865	20,910	18,909
Service fees and other revenues	10,992	9,656	9,429	10,316
Interest expenses	15,217	12,937	16,329	15,205
Cost of service fees and other revenues	7,325	5,922	6,245	7,175
Net operating revenues	91,083	83,621	70,344	90,967
Selling, general and administrative expenses	94,021	93,729	86,352	85,626
Commissions and other expenses	17,514	18,639	16,286	16,415
Employees' compensation and benefits	42,268	41,815	37,994	36,219
Occupancy and rental	11,273	11,374	11,203	11,029
Data processing and office supplies	6,954	6,832	6,521	7,443
Depreciation and amortization	10,153	10,235	9,879	9,592
Taxes other than income taxes	2,136	1,465	1,436	1,542
Others	3,719	3,365	3,031	3,383
Operating income (loss)	(2,938)	(10,108)	(16,008)	5,340
Non-operating income	3,656	3,915	1,426	3,806
Non-operating expenses	1,522	174	131	(535)
Ordinary income (loss)	(803)	(6,366)	(14,713)	9,682
Extraordinary gains	427	777	125	38,330
Extraordinary losses	2,480	9,833	2,102	29,918
Income (loss) before income taxes and minority interests	(2,856)	(15,422)	(16,690)	18,095
Net income (loss)	(9,434)	(19,353)	(21,567)	10,920

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

			FY2012				FY2013
1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
9,006.78	8,870.16	10,395.18	12,397.91	13,677.32	14,455.80	16,291.31	14,827.83
1,219	1,056	1,338	2,453	3,513	2,355	2,629	2,766
987	175	(840)	(3,436)	(1,393)	58	10	9
541	(414)	(1,254)	(256)	(2,284)	(1,854)	(4,355)	1,507
(397)	(262)	2,195	3,747	4,575	1,629	5,166	(1,833)
31	(17)	(66)	(55)	(211)	(26)	(214)	40
0.830	0.765	0.795	0.560	0.855	0.680	0.735	0.640
79.49	77.63	86.10	94.09	99.05	97.79	104.99	103.21

			Millions of yen				Millions of yen
¥113,897	¥113,486	¥125,190	¥172,836	¥183,082	¥148,899	¥163,448	¥147,398
48,045	52,566	53,287	75,622	90,347	69,471	76,133	65,984
8,832	8,100	11,362	20,576	31,788	18,583	22,665	16,596
3,328	9,239	5,584	8,531	7,742	7,758	8,292	5,812
9,612	9,400	11,245	16,349	19,475	11,979	13,216	11,296
26,272	25,826	25,094	30,165	31,340	31,150	31,958	32,279
24,395	22,726	30,524	45,891	42,163	34,133	45,190	35,012
(9,351)	(3,103)	27,919	22,716	21,795	5,752	13,557	6,209
33,746	25,829	2,605	23,174	20,368	28,381	31,632	28,803
4,899	1,047	2,952	7,630	7,937	6,178	335	3,002
20,948	21,520	25,024	25,782	29,402	26,004	27,599	24,968
15,608	15,625	13,401	17,909	13,232	13,110	14,190	18,430
16,670	15,392	20,103	17,963	17,788	12,399	15,799	14,346
10,224	9,739	8,749	9,259	10,021	9,342	9,296	11,884
87,003	88,353	96,338	145,613	155,272	127,157	138,352	121,168
82,756	81,991	80,354	88,393	92,965	86,999	90,137	87,255
16,928	16,151	16,376	17,056	19,076	18,412	19,123	17,747
37,062	37,510	37,886	44,527	46,686	42,173	44,403	43,785
10,101	10,034	8,842	9,189	9,031	8,824	9,149	9,256
6,149	5,911	5,340	5,732	6,105	6,362	6,199	6,036
7,802	7,974	7,677	7,318	7,001	6,832	6,597	6,120
1,426	1,385	1,330	1,594	2,027	1,463	1,651	1,461
3,283	3,024	2,900	2,975	3,035	2,930	3,014	2,848
4,246	6,362	15,983	57,219	62,307	40,158	48,214	33,912
5,494	2,979	2,742	3,284	3,546	3,267	2,940	5,233
1,206	900	601	428	766	396	649	722
8,534	8,441	18,124	60,075	65,087	43,028	50,505	38,423
136	2,688	278	6,649	3,811	1,490	2,081	2,280
445	2,527	1,258	9,022	3,486	1,366	2,693	3,585
8,225	8,602	17,143	57,702	65,413	43,152	49,893	37,118
2,678	7,389	14,068	48,773	57,297	35,534	43,409	33,215

Management's Discussion and Analysis

Macroeconomic Conditions in FY2013

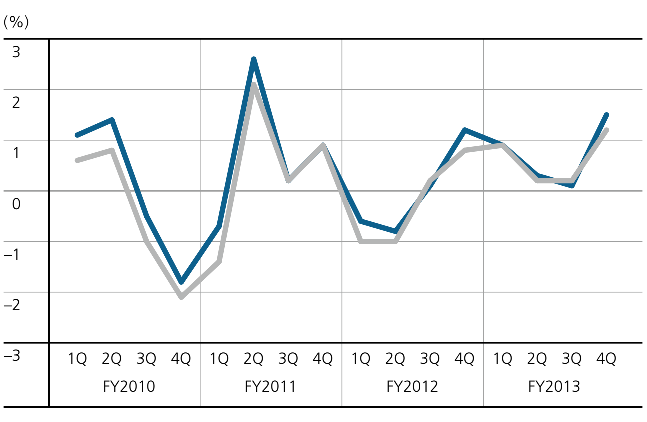
Overseas Markets

During the fiscal year, economic growth in many emerging economies began to falter, but this was offset by a gradual revival of economic expansion in leading developed countries. Firm consumer spending in the US moved the economy onto a self-sustaining growth trajectory. In Europe, recessionary conditions lingered into the new fiscal year, but by the middle of the year, signs of recovery began to emerge and contributed to a pick-up in overall economic growth. Stock prices in the US rose to historical peak levels, reflecting the underlying strength of the US economy. Indeed, stock prices on all major exchanges rose during the period. In emerging countries, however, market sentiment became increasingly risk-averse, as investors anticipated a change in the US authorities' monetary easing stance. As investors shifted capital out of these markets in search of lower-risk investment, economic growth in most emerging markets stagnated during the latter half of the fiscal year.

Economic growth in the US remained steady but gradual, with much of the impetus provided by firm demand from the household sector. Rising share prices had a favorable asset inflationary impact, and employment conditions began to improve as well, thus creating conditions that favor continued strong consumer spending. Furthermore, a pick-up in housing demand strengthened the residential real estate market and put household balance sheets on a more stable footing. However, in October 2013, the government failed to pass a budget for the new fiscal year, and when the previous budget expired at the end of the fiscal period, certain segments of the public sector ceased to operate. This "government shutdown" and other fiscal problems put negative pressure on the economy, and this was followed by severe cold and drought conditions in the January-March 2014 quarter. These negative factors weakened the economy somewhat, but the underlying strength of consumer spending allowed the US to maintain positive GDP growth. US financial authorities maintained quantitative easing policies throughout the period, but due to a recovery in employment conditions and other economic statistics, the Federal Reserve Board (FRB) decided at its December FOMC meeting that it would scale back its "QE3" quantitative easing activities. Beginning in January 2014, the FRB began to reduce the volume of assets purchased through these quantitative operations.

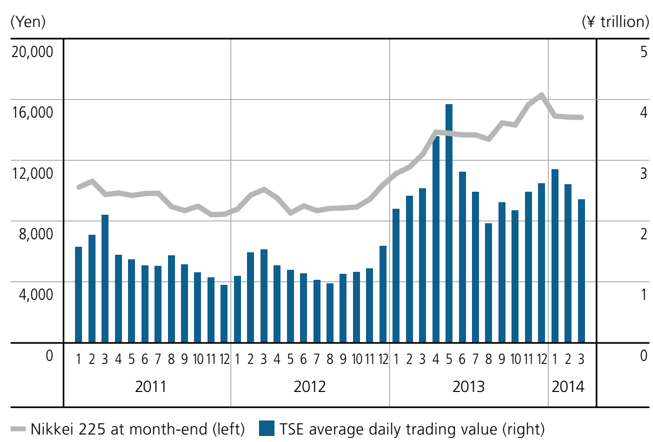
In Europe, the Euro-zone economies remained in recession during the first half of FY2013 due to the lingering impact of the fiscal and financial crisis, but by the middle of the year, there were signs of gradual improvement. In the April-June 2013 quarter, overall GDP for the Euro-zone posted its first year-on-year growth in seven quarters, and the positive trend continued for three periods, until the October-December 2013 quarter. The main factor driving this recovery was the fiscal austerity measures which governments in the region implemented around 2011, and have maintained ever since. This reduced the recessionary pressure on economic growth. Furthermore, now that government fiscal problems have stabilized, unemployment levels are no longer rising and consumer confidence is starting to improve, triggering a pick-up in consumer spending. Economic sentiment in the corporate sector also has begun to improve after hitting bottom at the end of 2012. However, unemployment levels in peripheral European countries remain very high, and there is a wide disparity in the pace of economic recovery from country to

GDP Growth Rate 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 225 and Trading Value of TSE



Source: Tokyo Stock Exchange, Daiwa Institute of Research country, within the Euro-zone. There are still a great many uncertainties which weigh on the European economy. On the financial front, the European Central Bank (ECB) maintains an easing monetary stance. In May 2013, it lowered interest rates for the first time in ten months, and in July, it began providing "forward guidance" to signal its intention to keep long-term interest rates at low levels. Though the economy is now starting to recover, the pace of growth remained very weak and the recovery fragile, with inflation at a very low level, prompting the ECB to lower interest rates yet again in November 2013. Despite this rate cut the Euro is strong and import prices are falling, thus ensuring that the pace of inflation remains low.

Looking at emerging countries as a group, economic growth continues, but the pace has dropped off since the middle of 2013. One of the main reasons for the economic slowdown is an expectation among investors that the US will not maintain its easing measures for much longer. As a result, since May 2012, there has been a steady outflow of capital from these markets. The monetary outflows have depressed exchange rates in the leading emerging markets, and caused share prices on the major regional exchanges to decline. As their currencies weaken, emerging countries also face rising inflation, prompting countries like Brazil, Indonesia and India to tighten their interest rate policies. This is another factor that has weakened economic growth. On the other hand, interest rate hikes combined with the pick-up in GDP growth in developed countries lend support to the underlying economic health of emerging markets. By the close of FY2013, there were signs that the outflow of capital from emerging markets had started to taper off. Looking at China's economic situation in particular, the pace of growth has declined steadily, from 7.8% year on year in July-September 2013 to 7.7% in the October-December quarter, and to 7.4% year on year in the 2014 January-March quarter. There are also increasing concerns about an impending collapse in China's real estate bubble. As the driving force behind economic growth shifts – from the excessive and unsustainable bubble of capital investment to the more steady and sustainable force of consumer spending – there is likely to be a drop in the numerical GDP growth rate. Nevertheless, China should continue to experience comparatively brisk growth in absolute terms.

Japan

In Japan, the economy is moving onto a growth trajectory driven by domestic demand – consumer spending is the main factor contributing to GDP growth. While household income levels have been slow to recover, the rise in domestic stock prices since the end of 2012 has boosted individuals' net assets and thus improved consumer confidence. This seemed to be elevating consumer spending figures early in the period, but in the 2013 July-September quarter, sentiment weakened again, as did consumption. Beginning in the October-December quarter, consumption trends were sharply elevated by the surge in spending ahead of a consumption tax increase, imposed from April 1, 2014. Housing investment also appears to be picking up. In addition to the low interest rate environment, many potential homebuyers rushed to complete housing purchases before the consumption tax hike took effect. The strong trend in domestic demand contributed to improvements in corporate manufacturing activity. Export demand remained more or less unchanged. The weakening yen caused export prices, in yen-denominated terms, to increase. This sharply increased income from the production of items for the export market. As corporate earnings improve and production activity accelerates, the Japanese manufacturing sector no longer suffers from overcapacity. There are even signs of a pick-up in capital investment. Public investment remains at a high level, and this has contributed to the economic recovery. The administration of Prime Minister Shinzo Abe unveiled "Emergency Economic Measures for the Revitalization of the Japanese Economy" in January 2013, and the following month compiled a supplementary budget for FY2012. Spending from this supplementary budget began to affect the economy in the 2013 April-June quarter, and the pace has accelerated in subsequent quarters. Though there were signs of a drop in public spending during the latter half of the period, absolute government outlays remained at a high level.

On the financial front, Haruhiko Kuroda assumed the post of Bank of Japan Governor, and in the BOJ monetary policy meetings from April 2013, he embarked on a program of quantitative and qualitative monetary easing measures. The BOJ has adopted very expansive policies, by which it intends to double Japan's base money supply over a period of two years. This ongoing stance of monetary easing has weakened the yen. In mid-May 2013, the yen-dollar exchange rate rose to over ¥100=US$1.00 for the first time in four years and one month. Thereafter, the yen stabilized, and even strengthened slightly due to risk-hedging by investors, but in November the FRB began to hint at plans to scale back its own strong monetary easing policy, elevating US interest rates, which caused the yen to weaken further. In early 2014, signs of a slowdown in the Chinese economy and political instability in Ukraine once again made investors risk-averse, and in the flight to quality, the yen strengthened against other currencies. Stock prices have also been somewhat volatile over the past year, but the general trend has been upward, due to the influence of a weaker yen and improvements in corporate earnings. The Tokyo market reached a peak around the end of the calendar year, then declined somewhat during the 2014 January-March quarter in response to emerging market uncertainties and a global dip in stock prices. Ten-year bond yields started the fiscal year at their lowest level in history – 0.315% – in response to an extension to the maturity period of JGBs targeted by the Bank of Japan's bond repurchasing operations. In May, however, indications that the FRB was planning to scale back its monetary easing stance in the US brought a sudden and sharp rise in yields, to 0.9%. In the latter half of the calendar year, yields moved gradually lower, on the whole. Between November 2013 and the end of the fiscal year, rising interest rates in the US contributed to a slight increase in JGB yields as well. However, since the BOJ maintained extremely expansive monetary easing policies, JGB yields remained at comparatively low levels.

At the end of March 2014, the Nikkei 225 closed at 14,827.83 (up 2,429.92 points from the level at the end of March 2013). Ten-year bond yields stood at 0.640% (up 0.08 percentage points), and the yen-dollar exchange rate closed the year at ¥103.21=US$1.00, compared with ¥94.09=US$1.00 on March 31, 2013.

Analysis of Consolidated Income Statements

Total Operating Revenues and Net Operating Revenues

In FY2013, consolidated operating revenues rose 22.3% year on year, to ¥642.8 billon, and net operating revenues grew 29.9%, to ¥541.9 billion.

Commissions received grew 31.6% year on year, to ¥301.9 billion. Breaking down total commissions by category, brokerage commissions soared 83.4% year on year, to ¥89.6 billion, in response to a buoyant stock market and increased trading value. Underwriting commissions rose 11.0% year on year, to ¥29.6 billion as underwriting activities increased on the back of a robust stock market and an improvement in corporate earnings. The Group secured many lead-managed transactions including SoftBank Corporation's issuance of straight bonds – the largest domestic bond issue of FY2013. Distribution commissions grew 20.1% year on year, to ¥55.9 billion thanks to the extensive lineup of mutual fund products tailored to meet the needs of individual investors, which attracted strong mutual fund sales in the Retail Division.

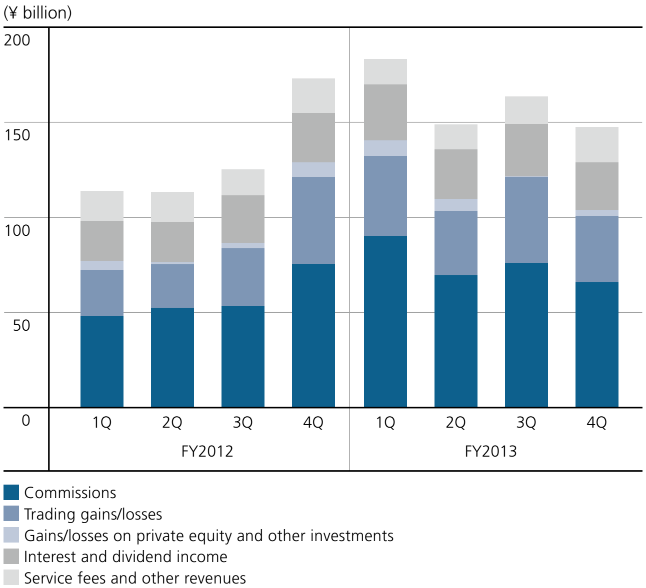
Net gains on private equity and other securities rose by 5.6% year on year, to ¥17.4 billion. This reflected the recouping of existing investments.

Breakdown of Net Operating Revenues

Millions of yen

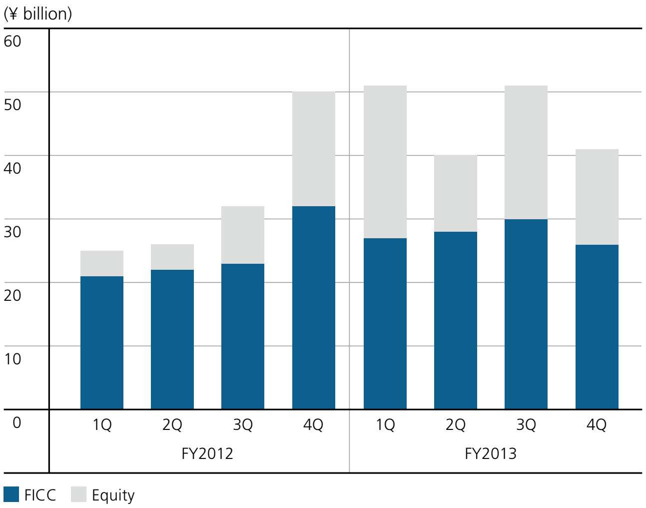
	FY2012	FY2013	YoY
Operating revenues	¥525,412	¥642,830	22.3%
Commissions	229,523	301,937	31.6%
Brokerage commission	48,872	89,634	83.4%
Underwriting commission	26,684	29,606	11.0%
Distribution commission	46,608	55,968	20.1%
Other commission	107,359	126,729	18.0%
Net gain on trading	123,537	156,500	26.7%
Net gain on private equity and other investments	16,531	17,454	5.6%
Interest and dividend income	93,276	107,975	15.8%
Service fees and other revenues	62,545	58,964	–5.7%
Interest expenses	70,131	60,333	–14.0%
Cost of service fees and other revenues	37,973	40,546	6.8%
Net operating revenues	¥417,308	¥541,951	29.9%

Breakdown of Consolidated Income



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

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



Note: Revenues from equity and FICC have not been audited by an independent auditor.

Net Gains/Losses on Trading

Net trading gains increased by 26.7%, to ¥156.4 billion due to a further increase in sales of foreign bonds and structured products, particularly sales of privately placed structured bond products in the Retail Division, as well as the proper management of trading positions under changing market conditions.

Regarding trading gains and net financial income calculated on a managerial accounting basis, equity revenues were bolstered by increased trading activities in both Japanese and foreign equities, posting a 105.7% increase year on year, to ¥72.0 billion. FICC revenues also increased by 13.3% year on year, to ¥111.0 billion as sales of privately placed structured bonds remained strong for the second year in a row.

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

Billions of yen

	FY2012	FY2013	YoY
Equity	¥ 35.0	¥ 72.0	105.7%
FICC	98.0	111.0	13.3%
Total	¥133.0	¥183.0	37.6%

Note: Revenues from equity and FICC have not been audited by an independent auditor.

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

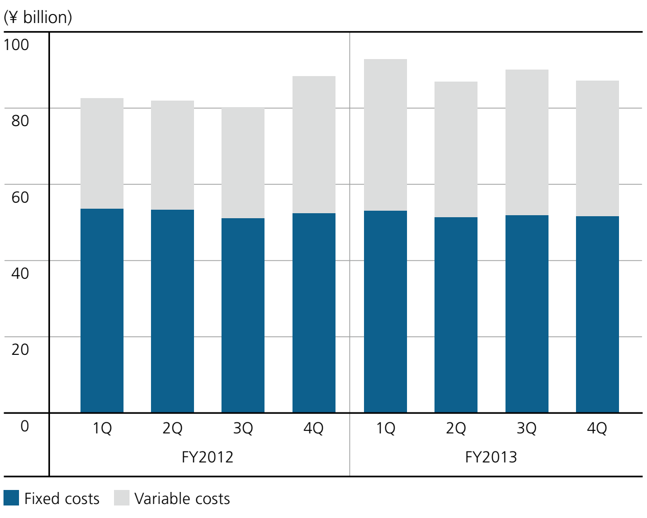
SG&A expenses increased 7.2% year on year, to ¥357.3 billion, as variable costs rose due to the robust earnings performance. The Group conducted a higher sales volumes in almost every product category, thus incurring higher commissions, and booking ¥74.3 billion in trading-related expenses (up 11.8% year on year). Personnel expenses rose 12.8% year on year, to ¥177.0 billion mainly due to the increase in bonuses linked to consolidated ordinary income. On the other hand, Group companies took steps to consolidate their office networks and restrain systems-related operating expenses, in a Group-wide effort to improve operating efficiency. These measures reduced real estate expenses by 5.0%, to ¥36.2 billion. Cost-cutting efforts also included a cutback in systems-related investment, with depreciation expenses down by 13.7% year on year, to ¥26.5 billion. As a result of these efforts to restrain fixed costs, ordinary income for the period soared 107.0% year on year, to ¥197.0 billion.

Extraordinary income included a ¥9.6 billion gain on sales of investment securities and an ¥11.1 billion loss to write off impaired assets. After adjusting for corporate income taxes and minority interests, net income grew 132.4% year on year, to ¥169.4 billion.

Breakdown of SG&A and Income

	FY2012	FY2013	YoY
			Millions of yen
SG&A	¥333,496	¥357,358	7.2%
Trading-related expenses	66,513	74,360	11.8%
Personnel expenses	156,988	177,049	12.8%
Real estate expenses	38,169	36,261	–5.0%
Office cost	23,133	24,704	6.8%
Depreciation	30,774	26,551	–13.7%
Taxes and dues	5,737	6,604	15.1%
Allowance for doubtful accounts	45	11	–74.8%
Other	12,137	11,818	–2.6%
Operating income	83,812	184,593	120.2%
Non-operating income/ expenses	11,364	12,452	9.6%
Ordinary income	95,176	197,045	107.0%
Extraordinary gains/losses	(3,501)	(1,466)	—
Income before income taxes and minority interests	91,675	195,579	113.3%
Income taxes	11,561	17,671	52.8%
Net income	¥ 72,910	¥169,457	132.4%

Cost Structure



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

Segment Information

Retail Division

The Retail Division's efforts to provide extensive investment products that match investors' needs, supported by such favorable market conditions as a weaker yen and higher stock prices, led to a surge in trading of Japanese and foreign stocks, as well as brisk sales of bond and mutual funds. Net operating revenues in the Retail Division grew by 37.2% year on year, to ¥253.0 billion, while ordinary income soared 107.3% year on year, to ¥102.1 billion.

Wholesale Division

In Global Markets operations, the weaker yen and higher stock prices contributed to an increase in customer flows toward Japanese and foreign equity stocks as well as bonds. As a result, both equity revenues and FICC revenues increased. Global Investment Banking operations also saw revenue growth as the Group managed many transactions including the underwriting of equity and debt issues, while undertaking M&A advisory activities. As a result, net operating revenues for the Wholesale Division increased by 31.7% year on year, to ¥175.3 billion, and ordinary income climbed 294.1% year on year, to ¥47.4 billion.

Asset Management Division

Increased sales of mutual funds, coupled with the weaker yen and higher share prices, generated continuing growth in the balance of assets under management. Net operating revenues in the Division rose 11.8% year on year, to ¥48.7 billion, while ordinary income was up 32.7% year on year, to ¥25.3 billion.

Investment Division

The Group made progress in efforts to recoup existing investments, generating a 14.3% increase in net operating revenues, to ¥19.9 billion. Ordinary income rose 21.3% year on year, to ¥17.1 billion.

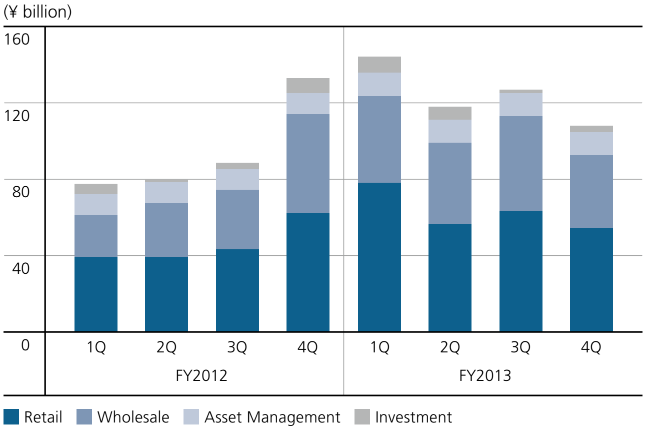
Segment Information

Millions of yen

	Net Operating Revenues			Ordinary Income		
	FY2012	FY2013	YoY	FY2012	FY2013	YoY
Retail	¥184,416	¥253,093	37.2%	¥49,251	¥102,120	107.3%
Wholesale	133,110	175,338	31.7%	12,035	47,429	294.1%
Asset Management	43,591	48,715	11.8%	19,089	25,328	32.7%
Investment	17,495	19,989	14.3%	14,162	17,172	21.3%
Others	38,696	44,816	—	639	4,996	—
Consolidated total	¥417,308	¥541,951	29.9%	¥95,176	¥197,045	107.0%

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

Breakdown of Net Operating Revenues by Segment



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

Overseas Operations

Breaking down ordinary income figures by region, the Group's European operations posted a loss of ¥2.3 billion, while Asia and Oceania reported a ¥3.7 billion loss. On the other hand, operations in the Americas returned to a profit of ¥0.9 billion, recovering from the loss posted in the previous fiscal year. Despite overseas operations as a whole incurring a ¥5.1 billion loss for FY2013, the scale of losses significantly declined as, on the one hand, operating revenues increased by utilizing the global network, and on the other hand, ongoing cost-control efforts in all overseas regions helped to reduce SG&A expenses.

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

Millions of yen

	FY2012	FY2013
Europe	¥ (2,874)	¥(2,308)
Asia & Oceania	(7,611)	(3,763)
Americas	(87)	916
Total	¥(10,572)	¥(5,155)

Note: Ordinary income (loss) from overseas operations has not been audited by an independent auditor

Analysis of Consolidated Balance Sheets and Cash Flow Statements

Assets

At the end of FY2013, the Group had total assets worth ¥19,480.8 billion, an increase of ¥431.7 billion compared with the end of FY2012. Current assets increased by ¥407.9 billion from the end of FY2012, to ¥18,737.1 billion, while fixed assets increased by ¥23.8 billion, to ¥743.7 billion. Breaking down current assets by category, trading assets declined by ¥1,738.1 billion, to ¥7,110.9 billion, while the balance of collateralized short-term financing agreements rose ¥1,046.6 billion, to ¥5,888.4 billion, and short-term investment securities increased by ¥470.2 billion, to ¥2,583.3 billion.

Liabilities and Net Assets

Total liabilities at the end of FY2013 stood at ¥18,227.4 billion, an increase of ¥260.8 billion from the end of FY2012. Current liabilities increased by ¥99.3 billion, to ¥16,154.7 billion. Breaking down current liabilities by category, trading liabilities increased by ¥330.7 billion, to ¥5,296.4 billion and deposits in the banking business increased by ¥405.9 billion, to ¥2,197.7 billion, while collateralized short-term financing agreements decreased by ¥812.6 billion, to ¥6,330.2 billion and short-term loans declined by ¥42.3 billion, to ¥903.9 billion. Long-term liabilities stood at ¥2,069.1 billion at the end of FY2013, an increase of ¥160.6 billion over the previous fiscal year-end. In specific terms, corporate bonds increased by ¥50.8 billion, to ¥1,249.0 billion and long-term loans increased by ¥106.1 billion, to ¥748.9 billion.

Net assets as of the end of FY2013 stood at ¥1,253.4 billion, ¥170.8 billion higher than at the end of FY2012. The sum of common stock issued and capital surplus was almost unchanged from the previous fiscal year-end, totaling ¥478.1 billion, while retained earnings increased by ¥119.7 billion, to ¥528.4 billion, reflecting the addition of net income for the period. Treasury stock at cost declined by ¥1.3 billion, to ¥17.8 billion, due to the sale of treasury stock. Valuation difference on available-for-sale securities increased by ¥11.1 billion, to ¥87.8 billion reflecting the rise in market values, and the weakening yen increased translation adjustments by ¥30.6 billion, to ¥14.9 billion. Minority interests increased by ¥3.1 billion, to ¥167.5 billion.

Analysis of Cash Flows

Cash flow from operating activities brought a net inflow of ¥1,123.5 billion (a net inflow of ¥1,795.0 billion in FY2012). This mainly reflected changes in the value of trading assets and liabilities, changes in the balance of collateralized short-term financing agreements, and changes in the balance of deposits for the banking business. Cash flow from investing activities showed a net outflow of ¥448.4 billion (a net outflow of ¥798.4 billion in FY2012), mainly due to purchase of securities. Cash flow from financing activities brought a net inflow of ¥25.5 billion (a net outflow of ¥909.4 billion in FY2012). The major items were changes in the balance of short-term borrowings, the issuance of new corporate bonds, and redemption of existing bond issues. After adjustments for the impacts of exchange rates and other factors, the balance of cash and cash equivalents stood at ¥1,846.6 billion at the end of FY2013.

Liquidity

Maintaining Financial Efficiency and Stability

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

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

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

The Daiwa Securities Group has established a framework of liquidity management using the standards set by the Basel Committee on Banking Supervision as a reference. Specifically, the Group conducts various stress scenarios that consider the repayment periods of existing unsecured debt and the possible market and environmental stresses that might coincide with repayment dates.

It then establishes a portfolio that is capable of providing enough liquidity to withstand the events anticipated in the stress scenarios.

This portfolio is reviewed on a daily basis, and the liquidity management framework is designed to ensure that the Daiwa Securities Group would be able to maintain stable operations even in the event that no new unsecured funding could be procured for the space of a full year. As of the end of FY2013, the Daiwa Securities Group's liquidity portfolio and balance of short-term unsecured debt was as follows:

Unsecured Capital Procurement Conditions and Liquidity Portfolio at the Group (As of March 31, 2014)

	Billions of yen
Short-term borrowings from banks and other financial institutions	¥ 234.4
Other short-term borrowings	428.7
Commercial paper	266.4
Current portion of bonds	224.3
Short-term unsecured capital procurement	¥1,154.0
Cash	¥1,387.6
Government bonds, government-backed bonds, other	226.0
Liquidity portfolio	1,613.7
Other bonds	419.1
Publicly listed shares, other	550.2
Other	10.0
Supplementary liquidity portfolio	979.3
Liquidity portfolio and other total	¥2,593.0

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

As of the end of FY2013, the Daiwa Securities Group's liquidity portfolio had a balance of ¥1,613.7 billion, and the supplementary liquidity portfolio increases this to ¥2,593.0 billion. This provided a coverage ratio equal to 224.7% of total unsecured short-term debt.

Group-Wide Capital Management

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

Capital Liquidity Contingency Plan

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

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

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

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

Credit Ratings by Major Credit Ratings Agencies

Daiwa Securities Group Inc. and Daiwa Securities Co. Ltd. have been assigned long-term and short-term credit ratings by major credit ratings agencies. These ratings take into account the impact of multiple factors on the Group's creditworthiness. Factors considered by the ratings agencies include current macroeconomic conditions, the business environment and condition of the securities markets, management strategy, Group management structure, the competitive position of Group companies in their respective markets, profitability, profit volatility, cost structure elasticity, risk management structure, liquidity conditions, capital policy, adequacy of capital, corporate governance, and other issues. The securities issued by Daiwa Securities Group Inc. and Daiwa Securities Co. Ltd. to obtain funds have also been assigned credit ratings by leading agencies. As of June 30, 2014, the credit ratings assigned were as follows:

Daiwa Securities Group Inc.

Credit ratings agencies	Long-term	Short-term
Moody's Japan	Baa3	—
Standard & Poor's Ratings Japan	BBB	A-2
Rating and Investment Information (R&I)	A	a-1
Japan Credit Rating Agency (JCR)	A+	—

Daiwa Securities

Credit ratings agencies	Long-term	Short-term
Moody's Japan	Baa2	P-2
Standard & Poor's Ratings Japan	BBB+	A-2
Fitch Ratings	BBB+	F2
Rating and Investment Information (R&I)	A	a-1
Japan Credit Rating Agency (JCR)	A+	—

Consolidated Balance Sheets

DAIWA SECURITIES GROUP INC.
March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2014	2013	2014
Cash and cash deposits:			
Cash and cash equivalents (Notes 5 and 7)	¥ 1,846,617	¥ 1,136,053	$ 18,104,088
Cash segregated as deposits for regulatory purposes (Note 5)	294,070	260,198	2,883,039
Time deposits (Notes 5 and 9)	50,342	86,190	493,549
	2,191,029	1,482,441	21,480,676
Receivables:			
Loans receivable from customers (Note 5)	237,417	171,844	2,327,618
Loans receivable from other than customers	6,226	15,626	61,039
Receivables related to margin transactions (Notes 3 and 5)	264,725	193,643	2,595,343
Other (Note 22)	326,799	291,756	3,203,912
Less: Allowance for doubtful accounts (Note 5)	(206)	(280)	(2,020)
	834,961	672,589	8,185,892
Collateralized short-term financing agreements (Notes 4, 5 and 22)	5,888,421	4,841,727	57,729,617
Trading assets (Notes 5, 6 and 9)	7,110,968	8,849,128	69,715,373
Securities (Notes 5, 7 and 9)	2,573,315	2,103,039	25,228,579
Private equity investments:			
Private equity and other investments (Notes 5 and 7)	143,011	149,329	1,402,069
Less: Allowance for possible investment losses (Note 5)	(35,151)	(35,495)	(344,618)
	107,860	113,834	1,057,451
Trade account receivables, net (Note 5)	—	235,449	—
Other assets:			
Property and equipment, at cost (Notes 9 and 19)	562,091	533,200	5,510,696
Less: Accumulated depreciation	(129,725)	(126,081)	(1,271,814)
	432,366	407,119	4,238,882
Goodwill	9,425	15,465	92,402
Other intangible fixed assets (Note 19)	68,596	68,974	672,510
Investment securities (Notes 5, 7 and 9)	200,456	192,906	1,965,255
Deferred tax assets (Note 14)	10,358	8,672	101,549
Other	54,145	58,990	530,834
Less: Allowance for doubtful accounts	(1,036)	(1,234)	(10,157)
	774,310	750,892	7,591,275
	¥19,480,864	¥19,049,099	$190,988,863

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 1) 2014
Debt:			
Short-term borrowings (Notes 5, 9 and 12)	**¥ 697,792**	¥ 794,206	**$ 6,841,098**
Commercial paper (Note 5)	**266,480**	301,711	**2,612,549**
Long-term debt (Notes 5, 9 and 12)	**2,429,745**	2,215,290	**23,821,029**
	3,394,017	3,311,207	**33,274,676**
Payables:			
Payables to customers and counterparties (Notes 5 and 11)	**619,986**	435,915	**6,078,294**
Payables related to margin transactions (Notes 3, 5 and 9)	**52,435**	57,762	**514,069**
Deposits for banking business (Note 5)	**2,197,719**	1,791,766	**21,546,265**
Other (Note 5)	**39,480**	35,537	**387,058**
	2,909,620	2,320,980	**28,525,686**
Collateralized short-term financing agreements (Notes 4, 5 and 22)	**6,330,270**	7,142,965	**62,061,471**
Trading liabilities (Notes 5 and 6)	**5,296,429**	4,965,693	**51,925,775**
Trade account payables, net	**74,472**	—	**730,118**
Accrued and other liabilities:			
Income taxes payable	**15,348**	3,095	**150,471**
Deferred tax liabilities (Note 14)	**32,336**	24,294	**317,020**
Accrued bonuses	**34,922**	30,856	**342,373**
Retirement benefits (Note 13)	**34,347**	32,381	**336,735**
Negative goodwill	**3,424**	7,990	**33,568**
Other (Note 22)	**98,744**	124,516	**968,078**
	219,121	223,132	**2,148,245**
Statutory reserves (Note 15)	**3,472**	2,555	**34,039**
Total liabilities	**18,227,401**	17,966,532	**178,700,010**
Contingent liabilities (Note 16)			
Net assets			
Owners' equity (Note 17)			
Common stock, no par value;			
Authorized—4,000,000 thousand shares			
Issued—1,749,379 thousand shares as of March 31, 2014	**247,397**	247,397	**2,425,461**
Capital surplus	**230,765**	230,676	**2,262,402**
Retained earnings	**528,407**	408,648	**5,180,461**
Treasury stock at cost	**(17,817)**	(19,212)	**(174,676)**
Deposit for subscriptions to treasury stock	**2**	—	**20**
	988,754	867,509	**9,693,668**
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	**87,845**	76,740	**861,225**
Deferred gains or losses on hedges	**(12,935)**	(16,766)	**(126,814)**
Translation adjustment	**14,911**	(15,710)	**146,186**
	89,821	44,264	**880,597**
Stock subscription rights (Note 18)	**7,363**	6,388	**72,186**
Minority interests	**167,525**	164,406	**1,642,402**
Total net assets	**1,253,463**	1,082,567	**12,288,853**
	¥19,480,864	¥19,049,099	**$190,988,863**

See accompanying notes.

Consolidated Statements of Income

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2014 and 2013

	Millions of yen 2014	2013	Thousands of U.S. dollars (Note 1) 2014
Operating revenues:			
Commissions	**¥301,937**	¥229,523	**$2,960,167**
Net gain on trading (Note 24)	**156,500**	123,537	**1,534,314**
Net gain on private equity and other investments	**17,454**	16,531	**171,118**
Interest and dividend income (Note 22)	**107,975**	93,276	**1,058,578**
Service fees and other revenues	**58,964**	62,545	**578,078**
	642,830	525,412	**6,302,255**
Interest expense (Note 22)	**60,333**	70,131	**591,500**
Cost of service fees and other revenues	**40,546**	37,973	**397,510**
Net operating revenues (Note 21)	**541,951**	417,308	**5,313,245**
Selling, general and administrative expenses (Notes 13 and 25)	**357,358**	333,496	**3,503,510**
Operating income	**184,593**	83,812	**1,809,735**
Other income (expenses):			
Provision for statutory reserves, net (Note 15)	**(917)**	113	**(8,990)**
Other, net (Note 26)	**11,903**	7,750	**116,696**
	10,986	7,863	**107,706**
Income before income taxes and minority interests	**195,579**	91,675	**1,917,441**
Income taxes (Note 14):			
Current	**19,226**	8,220	**188,490**
Deferred	**(1,555)**	3,341	**(15,245)**
	17,671	11,561	**173,245**
Income before minority interests	**177,908**	80,114	**1,744,196**
Minority interests	**(8,451)**	(7,204)	**(82,853)**
Net income	**¥169,457**	¥ 72,910	**$1,661,343**

	Yen		U.S. dollars (Note 1)
Per share amounts:			
Net income	**¥99.63**	¥43.00	**$0.98**
Diluted net income	**98.71**	42.89	**0.97**
Cash dividends applicable to the year	**34.00**	15.00	**0.33**

See accompanying notes.

Consolidated Statements of Comprehensive Income

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Income before minority interests	**¥177,908**	¥ 80,114	**$1,744,196**
Other comprehensive income:			
Valuation difference on available-for-sale securities	**8,694**	49,339	**85,235**
Deferred gains (losses) on hedges	**3,807**	(15,112)	**37,324**
Translation adjustment	**30,303**	24,774	**297,088**
Share of other comprehensive income of associates accounted for using equity method	**545**	212	**5,343**
Total other comprehensive income	**43,349**	59,213	**424,990**
Comprehensive income	**¥221,257**	¥139,327	**$2,169,186**

	Millions of yen		Thousands of U.S. dollars (Note 1)
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	**¥215,013**	¥136,031	**$2,107,970**
Comprehensive income attributable to minority interests	**6,244**	3,296	**61,216**

See accompanying notes.

Financial Section

Other Information

Consolidated Statements of Changes in Net Assets

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2014 and 2013

Millions of yen

		Owners' equity					Accumulated other comprehensive income				
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Deposit for subscriptions to treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustment	Stock subscription rights	Minority interests
Balance at March 31, 2012	1,749,379	¥247,397	¥230,655	¥345,983	¥(22,681)	¥—	¥23,339	¥ (1,676)	¥(40,518)	¥5,429	¥163,774
Cash dividends paid				(10,282)							
Net income				72,910							
Change in treasury stock, net			21		3,469						
Change of scope of consolidation				37							
Net changes of items other than owners' equity							53,401	(15,090)	24,808	959	632
Balance at March 31, 2013	1,749,379	247,397	230,676	408,648	(19,212)	¥—	76,740	(16,766)	(15,710)	6,388	164,406
Cash dividends paid				**(49,698)**							
Net income				**169,457**							
Change in treasury stock, net			**89**		**1,395**						
Other						**2**					
Net changes of items other than owners' equity							**11,105**	**3,831**	**30,621**	**975**	**3,119**
Balance at March 31, 2014	**1,749,379**	**¥247,397**	**¥230,765**	**¥528,407**	**¥(17,817)**	**¥ 2**	**¥87,845**	**¥(12,935)**	**¥ 14,911**	**¥7,363**	**¥167,525**

Thousands of U.S. dollars (Note 1)

	Owners' equity					Accumulated other comprehensive income				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Deposit for subscriptions to treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustment	Stock subscription rights	Minority interests
Balance at March 31, 2013	$2,425,461	$2,261,529	$4,006,353	$(188,353)	$—	$752,353	$(164,373)	$(154,020)	$62,627	$1,611,824
Cash dividends paid			**(487,235)**							
Net income			**1,661,343**							
Change in treasury stock, net		**873**		**13,677**						
Other					**20**					
Net changes of items other than owners' equity						**108,872**	**37,559**	**300,206**	**9,559**	**30,578**
Balance at March 31, 2014	**$2,425,461**	**$2,262,402**	**$5,180,461**	**$(174,676)**	**$20**	**$861,225**	**$(126,814)**	**$ 146,186**	**$72,186**	**$1,642,402**

See accompanying notes.

Consolidated Statements of Cash Flows

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Cash flows from operating activities:			
Net income	**¥ 169,457**	¥ 72,910	**$ 1,661,343**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**31,005**	38,250	**303,971**
Gains on negative goodwill	**—**	(4,676)	**—**
Allowance for doubtful accounts, net	**(164)**	(691)	**(1,608)**
Stock subscription rights	**975**	959	**9,559**
Statutory reserves, net	**917**	(113)	**8,990**
Losses (gains) related to investment securities	**(9,520)**	(4,492)	**(93,333)**
Losses (gains) related to fixed assets	**6,539**	5,681	**64,108**
Losses (gains) on step acquisitions	**—**	420	**—**
Deferred income taxes	**(1,555)**	3,341	**(15,245)**
Minority interests	**8,451**	7,204	**82,853**
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	**(76,410)**	(62,645)	**(749,118)**
Other receivables and other payables	**151,161**	(82,921)	**1,481,971**
Collateralized short-term financing agreements	**(1,946,345)**	1,852,476	**(19,081,814)**
Trading assets and liabilities	**2,495,243**	(813,968)	**24,463,167**
Private equity and other investments	**5,080**	18,192	**49,804**
Deposits for banking business	**405,953**	621,849	**3,979,931**
Other, net	**(117,193)**	143,245	**(1,148,951)**
Total adjustments	**954,137**	1,722,111	**9,354,285**
Net cash flows provided by operating activities	**1,123,594**	1,795,021	**11,015,628**
Cash flows from investing activities:			
Increase in time deposits	**(10,995)**	(76,666)	**(107,794)**
Decrease in time deposits	**42,146**	6,093	**413,196**
Purchase of securities	**(921,908)**	(1,629,213)	**(9,038,314)**
Proceeds from sales and redemption of securities	**484,346**	921,818	**4,748,490**
Payments for purchases of property and equipment	**(35,388)**	(19,143)	**(346,941)**
Proceeds from sales of property and equipment	**196**	387	**1,922**
Payments for purchases of intangible fixed assets	**(24,355)**	(14,317)	**(238,775)**
Payments for purchases of investment securities	**(9,745)**	(15,547)	**(95,539)**
Proceeds from sales and redemption of investment securities	**24,618**	26,555	**241,353**
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 19)	**—**	1,002	**—**
Payments of loans receivable	**(2,713)**	(8,257)	**(26,598)**
Collection of loans receivable	**2,331**	8,886	**22,853**
Other, net	**2,973**	(89)	**29,148**
Net cash flows used in investing activities	**(448,494)**	(798,491)	**(4,396,999)**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Cash flows from financing activities:			
Decrease in short-term borrowings and commercial paper	**(132,315)**	(817,728)	**(1,297,206)**
Increase in long-term debt	**827,563**	413,856	**8,113,363**
Decrease in long-term debt	**(620,242)**	(498,223)	**(6,080,803)**
Payments of cash dividends	**(49,698)**	(10,282)	**(487,235)**
Other, net	**276**	2,915	**2,706**
Net cash flows provided by (used in) financing activities	**25,584**	(909,462)	**250,825**
Effect of exchange rate changes on cash and cash equivalents	**9,880**	9,944	**96,860**
Net increase in cash and cash equivalents	**710,564**	97,012	**6,966,314**
Cash and cash equivalents at beginning of year	**1,136,053**	1,038,981	**11,137,774**
Increase in cash and cash equivalents from newly consolidated subsidiary	**—**	60	**—**
Cash and cash equivalents at end of year	**¥ 1,846,617**	¥1,136,053	**$ 18,104,088**

See accompanying notes.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2014 and 2013

1. Basis of financial statements

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

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

Daiwa Securities operates retail and wholesale business. Retail business is operated through a network of 135 branches and sales offices as well as non-face-to-face channels, including the Internet and a full-fledged call center to provide online and telephone-based securities-related services. Wholesale business is operated as encompassing global capital markets business and global investment banking business. DAM is the asset management company of Daiwa.

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

The Company and its domestic consolidated subsidiaries maintain their official accounting records in yen and in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with generally accepted accounting principles in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards (“IFRS”). The financial statements prepared by foreign subsidiaries in accordance with IFRS or the generally accepted accounting principles in the United States (U.S. GAAP) tentatively can be used for the consolidation process with adjusting certain items such as amortization of goodwill. The accounts of other overseas consolidated subsidiaries are maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been prepared by adjusting the difference in accounting policies from Japanese GAAP, if any.

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

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2014, which was ¥102 to U.S.$1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

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

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

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

Goodwill and negative goodwill which was generated before March 31, 2010 are amortized under the straight-line method within 20 years. In case of no materiality, it is amortized in a lump sum when it accrues.

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

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

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

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

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

Impairment is assessed for investments including private equity holdings. For marketable securities, if the year-end market value declines 30% or more but less than 50% from the carrying value for individual securities, an impairment loss is recognized if there is no chance of recoverability in value. Recoverability is assessed based on whether the decline is temporary by considering the movements of the market price over the last twelve months and the financial conditions of the issuer. If the year-end market value declines 50% or more from the carrying value, then an impairment loss is recognized immediately. For non-marketable equity investments, Daiwa generally compares the carrying amount and the net asset value of the issuing company attributable to Daiwa's holding share, and recognizes an impairment loss if the net asset value attributable to Daiwa's holding share is significantly lower than 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. Interest 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. Daiwa computes depreciation principally by the straight-line method over estimated useful lives.

(Changes in accounting policies which is difficult to distinguish from changes in accounting estimates)
Effective April 1, 2013, the Company and its domestic subsidiaries changed their depreciation method for Property and equipment from the declining-balance method to the straight-line method. The Company believes that the straight-line method better reflects the pattern of consumption of the estimated future benefits to be derived from those assets being depreciated and provides a better matching of costs and revenues over the assets' estimated useful lives. Consequently, depreciation expenses decreased by ¥1,135 million ($11,127 thousand) for the fiscal year ended March 31, 2014. Meanwhile, ordinary income and income before income taxes increased by ¥1,135 million ($11,127 thousand) compared to the previous method, respectively.

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.

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 recoverable amounts of the asset or the related asset group.

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

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

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

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

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

Accounting standard for revenue and cost recognition of long-term construction contracts—Concerning some consolidated domestic subsidiaries which engage in made-to-order software, when the outcome of individual contracts is deemed certain during the course of the activity, the domestic subsidiaries apply the percentage-of-completion method to the work, otherwise the completed-contract method is applied. The percentage / stage of completion at the end of the reporting period is measured by the proportion of the cost incurred to the estimated total cost.

Income taxes—Income taxes consist of corporation, enterprise and inhabitants taxes. The provision for current income taxes is computed based on the pre-tax income of the Company and each of its consolidated subsidiaries with certain adjustments, as appropriate. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards, 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 balance sheets 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 per share—Net income 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.

Changes in accounting policy—The Company has applied the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26 of May 17, 2012) and "Guidance on Accounting standard for Retirement Benefits" (ASBJ Guidance No. 25 of May 17, 2012) since the current fiscal year-end (except for the main clause of Article 35 of the standard and the main clause of Article 67 of the guidance). There is no effect on the consolidated financial statements at the current fiscal year due to this change.

(Additional Information)
Unapplied accounting standards
- Revised Accounting Standard for Business Combination (ASBJ Statement No. 21)
- Revised Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22)
- Revised Accounting Standard for Business Divestiture (ASBJ Statement No. 7)
- Revised Accounting Standard for Net Income Per Share (ASBJ Statement No. 2)
- Revised Guidance on Accounting Standard for Business Combination and Accounting Standard for Business Divestiture (ASBJ Guidance No. 10)
- Revised Guidance on Accounting Standard for Net Income Per Share (ASBJ Guidance No. 4)

These revisions mainly introduce some changes to accounting for transactions with non-controlling interests in case of continuing dominance, acquisition-related costs and provisional accounting treatment. These revisions will be effective from the beginning of annual periods ending on March 31, 2016. The Company is currently in the process of determining the effects of these new standards on the consolidated financial statements.

- Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts (ASBJ PITF No. 30).

This practical solution clarifies accounting for transactions of delivering the company's own stock to employees, etc., through trusts. This practical solution will be effective from the beginning of annual periods ending on March 31, 2015. The Company is currently in the process of determining the effects of this new standard on the consolidated financial statements.

3. Margin transactions

Margin transactions at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Assets:			
Customers' margin loans	**¥245,828**	¥182,882	**$2,410,078**
Cash deposits as collateral for securities borrowed	**18,897**	10,761	**185,265**
	¥264,725	¥193,643	**$2,595,343**
Liabilities:			
Payable to securities finance companies	**¥ 5,589**	¥ 12,617	**$ 54,794**
Proceeds of securities sold for customers' accounts	**46,846**	45,145	**459,275**
	¥ 52,435	¥ 57,762	**$ 514,069**

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, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Assets:			
Securities purchased under agreements to resell	**¥ 1,814**	¥ 1,620	**$ 17,784**
Securities borrowed	**5,886,607**	4,840,107	**57,711,833**
	¥5,888,421	¥4,841,727	**$57,729,617**
Liabilities:			
Securities sold under agreements to repurchase	**¥ 30,505**	¥ 243,803	**$ 299,069**
Securities loaned	**6,299,765**	6,899,162	**61,762,402**
	¥6,330,270	¥7,142,965	**$62,061,471**

5. Financial instruments

1. Concerning the situation of financial instruments

(1) Policy for dealing with financial instruments

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

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

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

(2) Contents and risk of financial instruments

Daiwa holds financial instruments in the trading business as follows: (a) trading securities and others (stocks and warrants, bonds and investment trusts), loans secured by securities and loans payable secured by securities, margin transaction assets and liabilities, (b) derivatives, traded on exchanges, such as stock index futures, bond futures, interest rate futures and options for those, (c) derivatives (OTC derivatives), not traded on exchanges, such as interest rate and foreign exchange swaps, forward foreign exchange contracts, currency options, bond options, FRA and OTC securities derivatives, etc. And Daiwa holds operational investment securities, etc., in the investments business, loans and securities, etc., in the banking business and investment securities for the business relationship, etc.

Of the various risks, the major risks implied in these financial instruments are market risk and credit risk. Market risk means the risks of suffering losses from fluctuations in the value of holding financial instruments and transactions in accordance with changes of market prices of interest rates, currency exchange rates and stock prices, etc., and from the market environment in which no transaction can be executed because of an excessive decrease of liquidity or one in which market participants are focused to trade in extremely unfavorable conditions. Credit risk means the risk of suffering losses from defaults or credit changing of 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. These include transactions which are volatile because of the correlation with stock indices, foreign exchange rates and interest rates of reference assets or which tend to move in a complicated manner. Therefore, these carry higher risk than the reference assets. These derivative transactions are categorized as trading assets and liabilities in the consolidated balance sheets and the realized and unrealized profit/loss by fluctuation of fair values are recorded as the net gain on trading.

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

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

(3) Risk management system concerning financial instruments

At the meeting of the Board of Directors, the Company has resolved the "Risk Management Rule" which states the basic policy of risk management, types of risks that should be managed and responsible executive officers and department for each major risk and conducted risk management of the entire Group. Each subsidiary conducts risk management suitable for each business profile and size in accordance with the basic policy of risk management. And the Company monitors the structure and process of subsidiaries' risk management. Also, the Group Risk Management Committee as a sub-committee of the Executive Committee of the Company receives reports on matters such as risk exposure obtained by monitoring of subsidiaries and issues concerning the risk management system of each subsidiary and discusses them. Major subsidiaries regularly hold risk management committee meetings, etc., and strengthen each risk management system.

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

(a) Management of market risk

The Group manages its trading business by establishing the limit for VaR which indicates the estimate of the maximum loss amount under a certain probability, position and sensibility etc., considering the financial situation, the business plan and budget of each division. The risk management department of the Company monitors the market risk of Daiwa and informs the management of the Company on a daily basis. In order to cover the capacity limit of VaR calculated by the statistical hypothesis based on the data obtained for a certain period, the Company applies the stress test with a scenario supposing the impact of an abrupt change in the market and the hypothetical stress events.

(Quantitative information concerning market risk)

Major subsidiaries engaged in securities business utilize the historical simulation method (holding period: 1 day, confidence interval: 99%, observation period: 520 business days) for calculating VaR of products traded in the market. The VaR as of March 31, 2014 (fiscal year-end) was ¥1.4 billion ($13.7 million) in total. In the meantime, Daiwa executes the back test which compares calculated VaR and the actual profit/loss and verifies its effectiveness. The VaR statistically figures the risk based on historical market fluctuation and may be sometimes unable to completely grasp the risk in an environment in which the market unexpectedly changes beyond the estimation.

(b) Management of credit risk

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

Because the margin transactions generate credit to customers in Daiwa, deposits which were set as collateral will be charged to the customers. In connection with the securities loan transaction, Daiwa has tried to reduce credit risk by establishing credit limit for counterparties, charging necessary collaterals, and daily mark-to-market.

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

Daiwa holds financial instruments for other than trading business such as operational investment securities, etc., as a result of the investment business and investment securities for the business relationship, and loans and securities, etc., in the banking business. These financial instruments carry market risk and credit risk as well. Because those financial instruments have a characteristic risk profile for each product, the Company has conducted risk management that suits each risk profile.

The subsidiaries, which engage in the investment business, investigate each investment through the investment committee etc., and make decisions. The subsidiaries regularly monitor the situation of invested companies and inform the results to the risk management committee, etc.

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

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

(Quantitative information concerning market risk)
(a) Financial assets and liabilities (excluding the financial assets and liabilities held by the subsidiaries which engage in the banking business)
The main financial assets that are influenced by market risk are operational investment securities in the investment business and investment securities for the business relationship. As of March 31, 2014, market prices of the listed equities in operational investment securities and investment securities would fluctuate by ¥14.4 billion ($141.2 million) if the index, such as TOPIX, were to change by 10%.

Also, the main financial liabilities in Daiwa that are influenced by market risk are bonds and notes and long-term borrowings. As of March 31, 2014, if all other risk variables were assumed to be unchanged and the interest rate supposed to change by 10 basis points (0.1%), the market prices of bonds and notes and long-term borrowings would fluctuate by ¥1.3 billion ($12.7 million) and ¥0.1 billion ($1.0 million), respectively.

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

Calculating the financial value changes, the financial assets and liabilities are categorized according to the interest due date and interest rate volatility is used for each term. Also, regarding assets and liabilities in foreign currencies whose balance are less than 5% of total assets or liabilities, interest rates shock according to the parallel displacement of 200 basis points (2%) up and down across the board, is used for calculating the financial value changes. At the end of the fiscal year, presuming that all the risk factors except interest rates are unchanged, the financial value will be decreased by ¥7.8 billion ($76.5 million) by interest rate volatility.

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

(iii) Management of liquidity risk concerning raising capital
Daiwa conducts its business with a core focus on the securities-related business, utilizing a lot of assets and liabilities and establishes the basic policy which clarifies to efficiently secure enough liquidity for continuing its business.

Methods of raising capital of Daiwa include unsecured fundraising such as corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, and deposits, etc., and secured fundraising such as Gensaki transactions and repurchase agreements, etc. By those methods, Daiwa realizes effective and stable raising of capital.

In terms of financial stability, preparing for the case that the environment vastly changes, Daiwa endeavors in ordinary times to secure a stable reserve to prevent the business from being disturbed. Especially in recent years, Daiwa has increased liquidity through capital raising from the market and borrowing from financial institutions, preparing for a world wide financial crisis and credit crunch.

Also, Daiwa tries to diversify the maturity of raised capital and sources of funding preparing for the event that it becomes difficult to raise new capital and to reschedule the existing raising of capital due to a financial crisis occurring.

Further, Daiwa has established a liquidity management system in accordance with the liquidity coverage ratio suggested by Basel Committee on Banking Supervision. This means that Daiwa daily monitors if the liquidity portfolio, which should cover financing proceeds without collateral that has a maturity date within a certain period as well as the estimated cash outflow caused by realization of one of some stress scenarios prepared in advance during the same period, is maintained or not. Daiwa has established a system that enables Daiwa to continue the business even if Daiwa cannot raise funds for a year or so.

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

Company to flexibly supply capital to the group companies if necessary, and achieves efficient and unified raising of capital and capital management. This enables Daiwa to raise and manage capital integrally.

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

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

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

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

(4) Supplementary explanation for the fair value 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, 2014 and 2013, 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

	2014			2013		
	Amounts on consolidated balance sheets	Fair value	Difference	Amounts on consolidated balance sheets	Fair value	Difference
Assets						
(1) Cash and cash equivalents	**¥ 1,846,617**	**¥ 1,846,617**	**¥ —**	¥ 1,136,053	¥ 1,136,053	¥ —
(2) Cash segregated as deposits for regulatory purposes	**294,070**	**294,070**	**—**	260,198	260,198	—
(3) Time deposits	**50,342**	**50,342**	**—**	86,190	86,190	—
(4) Loans receivable from customers	**237,417**			171,844		
Allowance for doubtful accounts	**(29)**			(90)		
	237,388	**237,640**	**252**	171,754	171,783	29
(5) Receivables related to margin transactions	**264,725**	**264,725**	**—**	193,643	193,643	—
(6) Collateralized short-term financing agreements	**5,888,421**	**5,888,421**	**—**	4,841,727	4,841,727	—
(7) Trading assets	**7,110,968**	**7,110,968**	**—**	8,849,128	8,849,128	—
(8) Securities, Private equity and other investments and Investment securities						
(a) Held-to-maturity debt securities	**100**	**100**	**0**	2,923	2,924	1
(b) Subsidiaries companies' stocks and related companies' stocks	**27,418**			418		
Allowance for possible investment loss	**(6,911)**			—		
	20,507	**20,535**	**28**	418	606	188
(c) Available-for-sale securities	**2,787,577**			2,323,748		
Allowance for possible investment loss	**—**			(6,911)		
	2,787,577	**2,787,577**	**—**	2,316,837	2,316,837	—
(9) Trade account receivables, net	**—**	**—**	**—**	235,449	235,449	—
Total assets	**¥18,500,715**	**¥18,500,995**	**¥ 280**	¥18,094,320	¥18,094,538	¥ 218

	2014			2013		
Millions of yen	Amounts on consolidated balance sheets	Fair value	Difference	Amounts on consolidated balance sheets	Fair value	Difference
Liabilities						
(10) Short-term borrowings	**¥ 697,792**	**¥ 697,792**	**¥ —**	¥ 794,206	¥ 794,206	¥ —
(11) Commercial paper	**266,480**	**266,480**	**—**	301,711	301,711	—
(12) Long-term debt	**2,429,745**	**2,429,298**	**447**	2,215,290	2,192,042	23,248
(13) Deposits for banking business	**2,197,719**	**2,197,613**	**106**	1,791,766	1,791,360	406
(14) Payables to customers and counterparties	**619,986**	**619,986**	**—**	435,915	435,915	—
(15) Payables related to margin transactions	**52,435**	**52,435**	**—**	57,762	57,762	—
(16) Payables—other	**39,480**	**39,480**	**—**	35,537	35,537	—
(17) Collateralized short-term financing agreements	**6,330,270**	**6,330,270**	**—**	7,142,965	7,142,965	—
(18) Trading liabilities	**5,296,429**	**5,296,429**	**—**	4,965,693	4,965,693	—
(19) Trade account payable, net	**74,472**	**74,472**	**—**	—	—	—
Total liabilities	**¥18,004,808**	**¥18,004,255**	**¥ 553**	¥17,740,845	¥17,717,191	¥23,654
Derivatives used for non-trading						
Derivatives to which hedge accounting is not applied	**¥ (7,305)**	**¥ (7,305)**	**¥ —**	¥ (615)	¥ (615)	¥ —
Derivatives to which hedge accounting is applied	**(19,285)**	**(1,308)**	**17,977**	(32,729)	(18,392)	14,337
Total derivatives related to non-trading	**¥ (26,590)**	**¥ (8,613)**	**¥17,977**	¥ (33,344)	¥ (19,007)	¥14,337

* Net receivables or payables derived from derivatives are presented on a net basis. The item that is a net liability in total is presented in parentheses.
* "Loans receivable from customer" is separately noted from this fiscal year, due to the materiality of amounts. The amount of last fiscal year is noted to reflect this change in presentation.

	2014		
Thousands of U.S. dollars	Amounts on consolidated balance sheets	Fair value	Difference
Assets			
(1) Cash and cash equivalents	**$ 18,104,088**	**$ 18,104,088**	**$ —**
(2) Cash segregated as deposits for regulatory purposes	**2,883,039**	**2,883,039**	**—**
(3) Time deposits	**493,549**	**493,549**	**—**
(4) Loans receivable from customers	**2,327,618**		
Allowance for doubtful accounts	**(284)**		
	2,327,334	**2,329,804**	**2,470**
(5) Receivables related to margin transactions	**2,595,343**	**2,595,343**	**—**
(6) Collateralized short-term financing agreements	**57,729,617**	**57,729,617**	**—**
(7) Trading assets	**69,715,373**	**69,715,373**	**—**
(8) Securities, Private equity and other investments and Investment securities			
(a) Held-to-maturity debt securities	**980**	**980**	**0**
(b) Subsidiaries companies' stocks and related companies' stocks	**268,804**		
Allowance for possible investment loss	**(67,755)**		
	201,049	**201,324**	**275**
(c) Available-for-sale securities	**27,329,186**	**27,329,186**	**—**
Total assets	**$181,379,558**	**$181,382,303**	**$ 2,745**

	Thousands of U.S. dollars		
	2014		
	Amounts on consolidated balance sheets	Fair value	Difference
Liabilities			
(9) Short-term borrowings	**$ 6,841,098**	**$ 6,841,098**	**$ —**
(10) Commercial paper	**2,612,549**	**2,612,549**	**—**
(11) Long-term debt	**23,821,029**	**23,816,647**	**4,382**
(12) Deposits for banking business	**21,546,265**	**21,545,227**	**1,038**
(13) Payables to customers and counterparties	**6,078,294**	**6,078,294**	**—**
(14) Payables related to margin transactions	**514,069**	**514,069**	**—**
(15) Payables—other	**387,058**	**387,058**	**—**
(16) Collateralized short-term financing agreements	**62,061,471**	**62,061,471**	**—**
(17) Trading liabilities	**51,925,775**	**51,925,775**	**—**
(18) Trade account payable, net	**730,118**	**730,118**	**—**
Total liabilities	**$176,517,726**	**$176,512,306**	**$ 5,420**
Derivatives related to non-trading			
Derivatives to which hedge accounting is not applied	**$ (71,618)**	**$ (71,618)**	**$ —**
Derivatives to which hedge accounting is applied	**(189,069)**	**(12,824)**	**176,245**
Total derivatives related to non-trading	**$ (260,687)**	**$ (84,442)**	**$176,245**

* Net receivables or payables derived from derivatives are presented on a net basis. The item that is a net liability in total is presented in parentheses.
* "Loans receivable from customer" is separately noted from this fiscal year, due to the materiality of amounts.

(Note 1) Accounting method of fair values of financial instruments
(1), (3) Cash and cash equivalents and time deposits
Cash and cash equivalents and time deposits are recorded as their book value because fair values are similar to book value and they are settled in the short term.

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

(4) Loans receivable from customers
Loans receivable from customers mainly consist of lending under banking business and loans secured by customers' safekeeping securities. Loans with a floating rate for banking business are recorded at their book value, because fair value is similar to book value by reflecting money market rates in the short term as far as the credit condition of borrowers does not greatly change. The fair value of loans with a fixed rate for banking business is calculated by discounting the total amount of principal and interest at the rate assumed when the similar new loan is performed based on the loan type and duration, etc. Loans secured by securities are recorded at their book value, because the fair value is close to the book value by considering prospective repayment period and interest rate conditions, etc.

(5), (14) Receivables related to margin transactions and payables related to margin transactions
Receivables related to margin transactions consist of lending money to customers generated from margin transactions and collateral to securities finance companies. Those are stated at their book value as settled in the short term because the former is settled by reversing trades by customers' decision and the latter is collateral 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' decisions.

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

(7), (17) Trading assets and trading liabilities

(a) Trading securities and others

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

(b) Derivative transactions

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

(8) Securities, private equity, other investments and investment securities

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

(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 the interest rate of the latest issuance or market prices of similar bonds issued by the Company, etc.

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

(12) Deposits for banking business

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

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

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

(13), (15) Payables to customers and counterparties and payables—other
These are mainly composed of deposits 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 the fiscal year is considered as fair value. Other deposits are stated as their book value since the terms of the settlement period are short and the fair values approximate the book values.

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

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

(Note 2) Any financial product which is extremely difficult to obtain its fair value at March 31, 2014 and 2013 is as below and is not included in the "Assets (7)(c) Subsidiaries companies' stocks and related companies' stocks and (d) Available-for-sale securities" of fair value information of financial instruments.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Subsidiaries' stocks and related companies' stocks			
Unlisted equities	**¥35,163**	¥35,292	**$344,735**
Other securities			
Unlisted equities	**57,497**	61,476	**563,696**
Investments in limited partnership and other similar partnerships	**13,991**	15,784	**137,167**
Others	**5,036**	5,633	**49,373**

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

(Note 3) Scheduled redemption amount of financial receivables and securities with a maturity date after March 31, 2014

				Millions of yen
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥1,846,617	¥ —	¥ —	¥ —
Cash segregated as deposits for regulatory purposes	294,070	—	—	—
Time deposits	50,321	—	—	21
Loans receivable from customers	112,475	72,624	33,897	18,421
Receivables related to margin transactions	264,725	—	—	—
Collateralized short-term financing agreements	5,888,421	—	—	—
Securities, Private equity and other investments and Investment securities				
Held-to-maturity securities	100	—	—	—
Government bonds, municipal bonds, etc.	—	—	—	—
Corporate bonds	—	—	—	—
Other bonds	100	—	—	—
Other securities with a maturity date	26,306	552,852	1,564,979	372,356
Bonds	25,851	552,852	1,564,979	372,356
Government bonds, municipal bonds, etc.	3,512	—	1,294,058	169,413
Corporate bonds	11,432	57,633	3,253	202,943
Other bonds	10,907	495,219	267,668	—
Other securities	455	—	—	—
Total	¥8,483,035	¥625,476	¥1,598,876	¥390,798

* Cash segregated as deposits for regulatory purposes is included in "Within 1 year" because it is comprised of trusts for holding customer assets.
* Receivables related to margin transactions are considered to be settled in the short term, and included in "Within 1 year".

	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
				Thousands of U.S. dollars
Cash and cash equivalents	$18,104,088	$ —	$ —	$ —
Cash segregated as deposits for regulatory purposes	2,883,039	—	—	—
Time deposits	493,343	—	—	206
Loans receivable from customers	1,102,696	712,000	332,324	180,598
Receivables related to margin transactions	2,595,343	—	—	—
Collateralized short-term financing agreements	57,729,618	—	—	—
Securities, Private equity and other investments and Investment securities				
Held-to-maturity securities	980	—	—	—
Government bonds, municipal bonds, etc.	—	—	—	—
Corporate bonds	—	—	—	—
Other bonds	980	—	—	—
Other securities with a maturity date	257,902	5,420,118	15,342,931	3,650,549
Bonds	253,441	5,420,118	15,342,931	3,650,549
Government bonds, municipal bonds, etc.	34,431	—	12,686,843	1,660,912
Corporate bonds	112,078	565,029	31,892	1,989,637
Other bonds	106,932	4,855,089	2,624,196	—
Other securities	4,461	—	—	—
Total	$83,167,009	$6,132,118	$15,675,255	$3,831,353

* Cash segregated as deposits for regulatory purposes is included in "Within 1 year" because it is comprised of trusts for holding customer assets.
* Receivables related to margin transactions are considered to be settled in the short term, and included in "Within 1 year".

(Note 4) Scheduled redemption amount of payable to securities finance companies, deposits for banking business, commercial paper and long-term debts after March 31, 2014

	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
				Millions of yen
Payable to securities finance companies	¥ 5,589	¥ —	¥ —	¥ —
Deposits for banking business	2,132,681	65,038	—	—
Commercial paper	266,480	—	—	—
Long-term debts	430,996	1,323,462	257,410	417,877
Total	¥2,835,746	¥1,388,500	¥257,410	¥417,877

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

	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
				Thousands of U.S. dollars
Payable to securities finance companies	$ 54,793	$ —	$ —	$ —
Deposits for banking business	20,908,638	637,627	—	—
Commercial paper	2,612,549	—	—	—
Long-term debts	4,225,451	12,975,118	2,523,627	4,096,833
Total	$27,801,431	$13,612,745	$2,523,627	$4,096,833

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

6. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Trading assets:			
Trading securities:			
Equities	**¥ 483,064**	¥ 313,218	**$ 4,735,922**
Government, corporate and other bonds	**3,862,369**	5,242,826	**37,866,362**
Investment trusts	**114,931**	173,378	**1,126,775**
Commercial paper, certificates of deposits and others	**275,980**	372,021	**2,705,686**
Derivatives:			
Option transactions	**620,949**	544,093	**6,087,735**
Futures and forward transactions	**81,355**	73,270	**797,598**
Swap agreements	**1,640,050**	2,105,154	**16,078,922**
Other derivatives	**40,929**	34,783	**401,265**
Risk reserves	**(8,659)**	(9,615)	**(84,892)**
	¥7,110,968	¥8,849,128	**$69,715,373**
Trading liabilities:			
Trading securities:			
Equities	**¥ 151,592**	¥ 155,927	**$ 1,486,196**
Government, corporate and other bonds	**3,156,611**	2,360,080	**30,947,167**
Investment trusts	**—**	8	**—**
Commercial paper, certificates of deposits and others	**118,515**	108,227	**1,161,912**
Derivatives:			
Option transactions	**532,304**	477,926	**5,218,667**
Futures and forward transactions	**93,885**	96,378	**920,441**
Swap agreements	**1,201,271**	1,735,178	**11,777,167**
Other derivatives	**42,251**	31,969	**414,225**
	¥5,296,429	¥4,965,693	**$51,925,775**

* Government, corporate and other bonds include convertible bonds.

7. Securities other than trading assets

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

Amortized cost of held-to-maturity debt securities as of March 31, 2014 and 2013 consisted of the following:

			Millions of yen
	Cost	Fair value	Difference
March 31, 2014:			
Government, municipal and other bonds	**¥ —**	**¥ —**	**¥—**
Corporate bonds	**—**	**—**	**—**
Other	**100**	**100**	**0**

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

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2014:			
Government, municipal and other bonds	**$ —**	**$ —**	**$—**
Corporate bonds	**—**	**—**	**—**
Other	**980**	**980**	**0**

Cost and fair value of marketable available-for-sale securities as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2014:			
Equities	**¥ 69,507**	**¥ 131,898**	**¥ 62,391**
Government, corporate and other bonds	**2,460,347**	**2,516,029**	**55,682**
Other	**125,966**	**139,650**	**13,684**
	¥2,655,820	**¥2,787,577**	**¥131,757**

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

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2014:			
Equities	**$ 681,441**	**$ 1,293,118**	**$ 611,677**
Government, corporate and other bonds	**24,121,049**	**24,666,951**	**545,902**
Other	**1,234,961**	**1,369,117**	**134,156**
	$26,037,451	**$27,329,186**	**$1,291,735**

8. Derivatives used for non-trading purposes

A. Derivatives to which hedge accounting is not applied

Contract amount, fair value and net unrealized gains (losses) of these derivatives at March 31, 2014 and 2013 are as follows:

	Millions of yen		
	Contract amount	Fair value	Unrealized gains (losses)
March 31, 2014:			
Foreign exchange forward	**¥460,721**	**¥(7,578)**	**¥(7,578)**
Interest swap	**¥ 40,000**	**¥ 273**	**¥ 273**

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

	Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gains (losses)
March 31, 2014:			
Foreign exchange forward	**$4,515,873**	**$(74,294)**	**$(74,294)**
Interest swap	**$ 392,157**	**$ 2,676**	**$ 2,676**

B. Derivatives to which hedge accounting is applied

Main hedged items, contract amount and fair value of these derivatives at March 31, 2014 and 2013 are as follows:

March 31, 2014 — Millions of yen

Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount	Fair value
Foreign exchange forward contract	Allocation method	Foreign bond	**¥ —**	**¥ —**
Interest swap	Fundamental method	Debt and government bond	**1,598,615**	**(19,285)**
	Special treatment	Debt and government bond	**32,350**	**(96)**
Interest and currency swap	Integration of special treatment and allocation method	Corporate bond	**78,322**	**15,797**

March 31, 2013 — Millions of yen

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

March 31, 2014 — Thousands of U.S. dollars

Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount	Fair value
Foreign exchange forward contract	Allocation method	Foreign bond	**$ 21,373**	**$ 21,373**
Interest swap	Fundamental method	Debt and government bond	**15,672,696**	**(189,069)**
	Special treatment	Debt and government bond	**317,157**	**0**
Interest and currency swap	Integration of special treatment and allocation method	Corporate bond	**767,863**	**154,873**

9. Pledged assets

Secured obligations at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Short-term borrowings	**¥370,400**	¥440,800	**$3,631,373**
Long-term debt	**45,700**	4,800	**448,039**
Payables related to margin transactions	**5,589**	12,617	**54,794**
	¥421,689	¥458,217	**$4,134,206**

All above obligations at March 31, 2014 and 2013 are secured by the following assets:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Time deposits	**¥ 650**	¥ 8,200	**$ 6,373**
Trading assets	**393,796**	448,679	**3,860,745**
Securities	**76,412**	15,969	**749,137**
Investment securities	**7,970**	11,792	**78,137**
Property and equipment	**—**	363	**—**
	¥478,828	¥485,003	**$4,694,392**

In addition to the above, securities borrowed amounting to ¥322,731 million ($3,164,029 thousand) and ¥329,374 million were pledged as guarantees at March 31, 2014 and 2013, respectively.

Total fair value of the securities pledged as collateral at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Securities loaned	¥7,558,418	¥7,574,101	$74,102,137
Other	458,084	778,411	4,491,020
	¥8,016,502	¥8,352,512	$78,593,157

Total fair value of the securities received as collateral at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Securities borrowed	¥7,388,205	¥5,735,417	$72,433,382
Other	418,391	450,661	4,101,873
	¥7,806,596	¥6,186,078	$76,535,255

10. Lease transactions

The information concerning operating leases at March 31, 2014 and 2013 are as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Operating leases:			
Future lease payments in respect of operating leases	¥51,415	¥58,898	$504,069
Due within one year	11,538	11,713	113,118

Lessor:	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Operating leases:			
Future lease receipts in respect of operating leases	¥17,630	¥15,559	$172,843
Due within one year	7,784	6,975	76,314

11. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash received for customers' accounts	¥147,610	¥136,425	$1,447,157
Cash deposits received from customers	395,407	286,675	3,876,539
Other	76,969	12,815	754,598
	¥619,986	¥435,915	$6,078,294

12. Long-term debt

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

The weighted average interest rate on total outstanding short-term borrowings principally from banks at March 31, 2014 and 2013 was 0.12% and 0.16%, respectively.

Long-term debt at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Bond payable in yen: 2.08% due CY2016	**¥ 30,000**	¥ 30,000	**$ 294,118**
Bond payable in yen: 1.66% due CY2013	**—**	70,000	**—**
Bond payable in yen: 0.92% due CY2015	**50,000**	50,000	**490,196**
Bond payable in yen: 0.71% due CY2014	**30,000**	30,000	**294,118**
Bond payable in yen: 0.59% due CY2016	**30,000**	—	**294,118**
Bond payable in yen: 0.93% due CY2018	**40,000**	—	**392,157**
Bond payable in yen: 1.25% due CY2020	**30,000**	—	**294,118**
Bond payable in yen: 0.60% due CY2017	**30,000**	—	**294,118**
Bond payable in yen: 0.29% due CY2014	**—**	30,000	**—**
Bond payable in yen: 0.30% due CY2015	**30,000**	30,000	**294,118**
Bond payable in yen: 0.50% due CY2014	**40,000**	40,000	**392,157**
Bond payable in yen: 0.56% due CY2016	**30,000**	30,000	**294,118**
Bond payable in yen: 0.30% due CY2017	**8,000**	8,000	**78,431**
Bond payable in yen: 0.46% due CY2017	**40,000**	—	**392,157**
Bond payable in yen: 0.37% due CY2018	**40,000**	—	**392,157**
Bond payable in yen: 1.40% due CY2014	**30,000**	30,000	**294,118**
Bond payable in yen: 0.94% due CY2015	**41,300**	41,300	**404,902**
Bond payable in yen: 0.49% due CY2015	**20,500**	20,500	**200,980**
Bond payable in yen: 1.26% due CY2017	**19,800**	19,800	**194,118**
Bond payable in yen: 1.72% due CY2020	**18,400**	18,400	**180,392**
Bond payable in yen: 2.16% due CY2025	**7,800**	7,800	**76,471**
Bond payable in yen: 2.41% due CY2026	**3,000**	3,000	**29,412**
Bond payable in yen: 2.24% due CY2026	**5,000**	5,000	**49,020**
Bond payable in yen: 0.51% due CY2026	**2,200**	2,200	**21,569**
Bond payable in yen: 0.59% due CY2032	**3,300**	3,300	**32,353**
Bond payable in yen: 0.25% due CY2033	**3,700**	—	**36,275**
Bond payable in yen: 1.87% due CY2013	**—**	5,000	**—**
Euro medium-term notes issued by the Company and a domestic consolidated subsidiary, maturing through CY2042	**832,327**	887,139	**8,160,069**
Subordinated bond payable in yen: maturing through CY2021	**58,025**	58,025	**568,873**
Subordinated borrowings from banks in yen, maturing through CY2016	**20,500**	31,500	**200,980**
Long-term borrowings principally from banks in yen, maturing through CY2038	**934,597**	763,441	**9,162,710**
Lease obligation	**1,296**	885	**12,706**
	¥2,429,745	¥2,215,290	**$23,821,029**

The amount for euro medium-term notes issued by the Company and a domestic consolidated subsidiary as of March 31, 2014 includes US$886,695 thousand, AU$813,700 thousand, NZ$399,000 thousand and ZAR 2,796,000 thousand.

Interest rates of euro medium-term notes range from 0.00% to 6.65% at March 31, 2014 and from 0.00% to 7.30% at March 31, 2013. The weighted average interest rate on total outstanding yen subordinated borrowings and borrowings principally from banks at March 31, 2014 and 2013 was 0.57% and 0.75%, respectively. The weighted average interest rate on total outstanding lease obligations at March 31, 2014 was 1.42%.

Daiwa had an unused commitment line amounting to ¥10,292 million ($100,902 thousand) under agreements with several banks at March 31, 2014.

13. Retirement benefits

Retirement benefits for employees

(1) Defined benefit plans

Retirement benefits in the consolidated balance sheets as of March 31, 2014 and 2013 are ¥33,740 million ($330,784 thousand) and ¥31,813 million, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2014 and 2013 were ¥3,479 million ($34,108 thousand) and ¥3,431 million, respectively.

Movement in retirement benefit obligations consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Balance at April 1, 2013	**¥31,813**	**$311,892**
Service cost	**3,479**	**34,108**
Benefits paid	**(1,696)**	**(16,627)**
Other	**144**	**1,411**
Balance at March 31, 2014	**¥33,740**	**$330,784**

(2) Defined contribution plan

Benefit expenses to "Defined contribution" for the years ended March 31, 2014 and 2013 were ¥4,332 million ($42,471 thousand) and ¥4,134 million, respectively.

Retirement benefits for directors

Directors' retirement benefits in consolidated subsidiaries of ¥607 million ($5,951 thousand) and ¥567 million are included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2014 and 2013, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2014 and 2013 were ¥214 million ($2,098 thousand) and ¥215 million, respectively.

14. Income taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes levied on income. The effective statutory tax rate in Japan was approximately 38.0% and 38.0% for the years ended March 31, 2014 and 2013. 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 years ended March 31, 2014 and 2013 are as follows:

	2014	2013
Statutory tax rate	38.0%	38.0%
Valuation allowance	(30.8)	(29.8)
Permanent difference (expense)	1.6	4.1
Permanent difference (income)	(0.2)	(0.3)
Lower tax rate applicable to income of overseas consolidated subsidiaries	(0.9)	(3.8)
Adjustment of unrealized inter-company profit	(0.2)	1.4
Amortization of goodwill and negative goodwill	(0.2)	(3.5)
Other	1.7	6.5
Effective tax rate	9.0%	12.6%

Details of deferred tax assets and liabilities at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Net operating losses carry-forward	¥ 96,066	¥ 148,717	$ 941,824
Revaluation of assets on consolidation	13,906	13,969	136,333
Loss on private equity and other investments	12,795	13,082	125,441
Retirement benefits	11,990	11,422	117,549
Impairment losses on fixed assets	10,404	10,648	102,000
Write-down of investment securities	10,227	12,157	100,265
Compensation and bonuses	8,551	7,295	83,833
Deferred gain on hedges	7,187	9,298	70,461
Loss on trading	6,584	4,449	64,549
Other	23,714	23,697	232,490
Gross deferred tax assets	201,424	254,734	1,974,745
Less: Valuation allowance	(173,782)	(225,480)	(1,703,745)
Total deferred tax assets	27,642	29,254	271,000
Deferred tax liabilities	49,620	44,876	486,471
Net deferred tax assets	¥ (21,978)	¥ (15,622)	$ (215,471)

The Company and certain consolidated subsidiaries provided valuation allowance to reflect the estimated unrealized amount of gross deferred tax assets. The valuation allowance was provided mainly against deferred tax assets stated at the Company and domestic subsidiaries with tax loss carry-forwards. In assessing the realizability of deferred tax assets, management considers, as part of its scheduling exercise, factors such as expected taxable income, reversal of temporary differences and utilization of tax loss carry-forwards, and determines whether it is more likely than not that the assets are not realizable in which case the valuation allowance is provided.

On March 31, 2014, amendments to the Japanese tax regulations were enacted into law. As a result of these amendments, the statutory income tax rate for the Company will be reduced to 35.64% from 38.01% for years beginning on or after April 1, 2014. Based on the amendments, the statutory income tax rate utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized for the year beginning on April 1, 2014 is 35.64%. For the year ended March 31, 2014, due to this change in statutory income tax rate, net deferred tax assets decreased by ¥745 million ($7,304 thousand) and deferred income tax expenses increased by ¥745 million ($7,304 thousand).

15. Statutory reserves

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

16. Contingent liabilities

Daiwa had contingent liabilities amounting to ¥2,403 million ($23,559 thousand) and ¥2,360 million at March 31, 2014 and 2013, respectively, mainly arising as guarantors of employees' borrowings.

17. Owners' equity

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

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

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Act. The total amount of retained earnings available for dividends in the Company's statutory book of accounts as of March 31, 2014 amounted to ¥315,214 million ($3,090,333 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 ¥17 ($0.17) per share amounting to ¥29,135 million ($285,637 thousand) and ¥17 ($0.17) per share amounting to ¥29,134 million ($285,627 thousand) were approved by the Board of Directors on May 16, 2014 and October 29, 2013, respectively.

18. Share-based payment

Daiwa has various stock option plans.

The shareholders of the Company on June 24, 2005, June 24, 2006, June 23, 2007, June 21, 2008, June 20, 2009, June 26, 2010, June 25, 2011, June 27, 2012 and June 26, 2013 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, 2014 are as follows:

Date of approval at the shareholders' meeting	Balance of the exercisable options (The number of shares)	Exercise price (Yen/share (U.S. dollars/share))		Exercise period
June 24, 2005	334,000	¥ 1	($ 0.01)	from July 1, 2005 to June 30, 2025
June 24, 2006	213,000	¥ 1	($ 0.01)	from July 1, 2006 to June 30, 2026
	2,367,000	¥1,455	($14.26)	from July 1, 2011 to June 23, 2016
June 23, 2007	238,000	¥ 1	($ 0.01)	from July 1, 2007 to June 30, 2027
	2,367,000	¥1,176	($11.53)	from July 1, 2012 to June 22, 2017
June 21, 2008	296,000	¥ 1	($ 0.01)	from July 1, 2008 to June 30, 2028
	2,837,000	¥ 881	($ 8.64)	from July 1, 2013 to June 20, 2018
June 20, 2009	598,000	¥ 1	($ 0.01)	from July 1, 2009 to June 30, 2029
	—	¥ 496	($ 4.86)	from July 1, 2014 to June 19, 2019
June 26, 2010	1,015,000	¥ 1	($ 0.01)	from July 1, 2010 to June 30, 2030
	—	¥ 380	($ 3.73)	from July 1, 2015 to June 25, 2020
June 25, 2011	1,204,000	¥ 1	($ 0.01)	from July 1, 2011 to June 30, 2031
	—	¥ 326	($ 3.20)	from July 1, 2016 to June 24, 2021
June 27, 2012	831,000	¥ 1	($ 0.01)	from February 12, 2013 to June 30, 2032
	—	¥ 598	($ 5.86)	from July 1, 2017 to June 26, 2022
June 26, 2013	404,000	¥ 1	($ 0.01)	from February 10, 2014 to June 30, 2033
	—	¥1,062	($10.41)	from July 1, 2018 to June 26, 2023

19. Investment and rental properties

Some subsidiaries own office buildings (including land) for rent in Tokyo and other areas. Net income from investment and rental properties is ¥9,290 million ($91,078 thousand). Income or expenses from rental properties is included in other income (expenses). The book value, net changes in the book value and the fair value of the investment and rental properties are as follows:

			Millions of yen
		Book value	Fair value
As of March 31, 2013	Change during the period	As of March 31, 2014	As of March 31, 2014
¥282,407	¥26,448	¥308,855	¥328,290

			Millions of yen
		Book value	Fair value
As of March 31, 2012	Change during the period	As of March 31, 2013	As of March 31, 2013
¥269,320	¥13,087	¥282,407	¥287,380

			Thousands of U.S. dollars
		Book value	Fair value
As of March 31, 2013	Change during the period	As of March 31, 2014	As of March 31, 2014
$2,768,696	$259,294	$3,027,990	$3,218,529

(Note 1) The book value represents the acquisition cost less accumulated depreciation.

(Note 2) For the year ended March 31, 2013, the major reason of increase is the acquisition of rental properties (¥14,494 million). The major reason of decrease is depreciation (¥2,294 million).
For the year ended March 31, 2014, the major reason of increase is the acquisition of rental properties (¥28,128 million, $275,765 thousand). The major reason of decrease is depreciation (¥2,004 million, $19,647 thousand).

(Note 3) The fair value as of March 31, 2014 and 2013 represents the sum of values estimated by external real estate appraisers.

20. Capital adequacy requirements

In Japan, a securities company is subject to risk-based capital adequacy rules established and administered by the Financial Services Agency. Securities subsidiaries report their capital adequacy ratio as defined pursuant to these rules. The authorities will take certain administrative measures if such ratio declines below 140%. The capital adequacy ratio of Daiwa Securities was 338.0% (unaudited) for March 31, 2014.

Daiwa also announced that Daiwa has calculated the consolidated capital adequacy ratio as of March 31, 2014 in accordance with the principal stipulated in the Notification 130 Pursuant to Article 57–17–1 of the Financial Instruments and Exchange Act issued by the Japanese Financial Service Agency (i.e., in Basel II method). The consolidated capital adequacy ratio as of March 31, 2014 was 21.8% (unaudited).

21. Segment information

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

(Net operating revenues by reportable segment)

Millions of yen

	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2014:							
Net operating revenues:							
Sales to customers	**¥224,321**	**¥176,878**	**¥ 74,972**	**¥20,266**	**¥496,437**	**¥19,939**	**¥516,376**
Intersegment sales and transfers	**28,772**	**(1,540)**	**(26,257)**	**(277)**	**698**	**16,605**	**17,303**
Total	**¥253,093**	**¥175,338**	**¥ 48,715**	**¥19,989**	**¥497,135**	**¥36,544**	**¥533,679**

Millions of yen

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

Thousands of U.S. dollars

	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2014:							
Net operating revenues:							
Sales to customers	**$2,199,225**	**$1,734,098**	**$ 735,020**	**$198,686**	**$4,867,029**	**$195,481**	**$5,062,510**
Intersegment sales and transfers	**282,079**	**(15,098)**	**(257,422)**	**(2,715)**	**6,844**	**162,793**	**169,637**
Total	**$2,481,304**	**$1,719,000**	**$ 477,598**	**$195,971**	**$4,873,873**	**$358,274**	**$5,232,147**

* "Others" are the business segments which are not included in the reportable segments, and include the business of integration and management of subsidiaries, banking business, information service, back-office service and real-estate rental, etc.
* "Net operating revenues" consist of "Operating revenue," "Interest expense," "Cost of service fees and other revenues" and "Commissions and brokerage" (Selling, general and administrative expenses).
* The Company does not disclose the segment information on assets because the management does not allocate it to each segment for managerial decision-making.

(Difference between the segment information and the consolidated financial statements)

(adjustment of difference)

Net operating revenues	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
Reportable segment total	**¥497,135**	¥378,612	**$4,873,873**
Net operating revenues from "Others"	**36,544**	26,862	**358,274**
Elimination between segments	**(17,303)**	(37,896)	**(169,637)**
Commission fee deducted from net operating revenues	**28,873**	27,254	**283,069**
Other adjustments	**(3,298)**	22,476	**(32,334)**
Net operating revenue of financial statements	**¥541,951**	¥417,308	**$5,313,245**

(Impairment losses on fixed assets by reportable segment)

Millions of yen

	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination	Total
Year ended March 31, 2014:								
Loss on impairment	**¥63**	**¥5,446**	**¥—**	**¥—**	**¥5,509**	**¥568**	**¥(135)**	¥5,942

Millions of yen

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

Thousands of U.S. dollars

	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination	Total
Year ended March 31, 2014:								
Loss on impairment	**$618**	**$53,392**	**$—**	**$—**	**$54,010**	**$5,569**	**$(1,324)**	**$58,255**

(Gains on negative goodwill by reportable segment)

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

Daiwa doesn’t allocate negative goodwill to any reportable segment.

22. Transactions with related parties

The information on subsidiaries’ material transactions with related parties and individuals for the years ended March 31, 2014 and 2013, 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 **2014**
Tokyo Tanshi Co., Ltd.	¥10,000	Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	**¥685,191**
		Interest and dividend expense	**¥715**	Collateralized short-term financing agreements (assets)	**560,132**
		Interest income	**335**	Receivables—Other	**23**
		Interest and dividend income	**¥685**	Accrued and other liabilities—Other	**22**
		Interest expense	**452**		

Description of transactions		Account balances	Millions of yen 2013
Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	¥613,320
Interest and dividend expense	¥19	Collateralized short-term financing agreements (assets)	28,913
Interest income	3	Receivables—Other	1
Interest and dividend income	¥17	Accrued and other liabilities—Other	3
Interest expense	13		

Description of transactions		Account balances	
		Thousands of U.S. dollars	
			2014
Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	**$6,717,559**
		Collateralized short-term financing	
Interest and dividend expense	**$7,010**	agreements (assets)	**5,491,490**
Interest income	**3,284**	Receivables—Other	**225**
Interest and dividend income	**$6,716**	Accrued and other liabilities—Other	**216**
Interest expense	**4,431**		

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

23. Special purpose entities subject to disclosure

A consolidated subsidiary utilized six special purpose entities for the year ended March 31, 2014 (six for the year ended March 31, 2013) principally for the securitization of structured notes in order to support securitization of monetary assets of customers. The consolidated subsidiary acquires and transfers bonds to those special purpose entities (incorporated in the Cayman Islands) and issues structured notes collateralized by those bonds. The Company and the consolidated company 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, 2014 and 2013 are ¥610,541 million ($5,985,696 thousand) and ¥522,784 million, respectively.

24. Net gain on trading

Net gain on trading for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Equities and others	**¥ 47,314**	¥ 38,182	**$ 463,863**
Bonds, forex and others	**109,186**	85,355	**1,070,451**
	¥156,500	¥123,537	**$1,534,314**

25. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Employees' compensation and benefits	**¥177,049**	¥156,988	**$1,735,775**
Commissions and brokerage	**42,269**	38,248	**414,402**
Communications	**20,603**	19,672	**201,990**
Occupancy and rental	**36,261**	38,169	**355,500**
Data processing and office supplies	**24,704**	23,133	**242,196**
Taxes other than income taxes	**6,604**	5,737	**64,745**
Depreciation	**26,551**	30,774	**260,304**
Other	**23,317**	20,775	**228,598**
	¥357,358	¥333,496	**$3,503,510**

26. Other income (expenses)

Details of "Other, net" in the accompanying consolidated statements of income for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Gains on sales of investment securities	**¥ 9,665**	¥ 4,964	**$ 94,755**
Gain on negative goodwill	**—**	4,676	**—**
Other income	**14,987**	14,501	**146,931**
Losses on sale or disposal of fixed assets	**(596)**	(1,109)	**(5,843)**
Impairment losses on fixed assets	**(5,942)**	(4,572)	**(58,255)**
Office transfer related expenses	**(739)**	—	**(7,245)**
Loss on step acquisitions	**—**	(420)	**—**
Write-down of investment securities	**—**	(384)	**—**
Business restructuring cost	**—**	(5,522)	**—**
Other expenses	**(5,472)**	(4,384)	**(53,647)**
	¥ 11,903	¥ 7,750	**$116,696**

Impairment losses on fixed assets

(Fiscal year ended March 31, 2014)

Daiwa recognized the impairment losses for the following asset group.

	Condition	Location	Millions of yen Impairment loss	Thousands of U.S. dollars Impairment loss
Assets to be held and used	Low profit-earning assets	Others	¥5,446	$53,392
Assets to be disposed	Low operating assets	Kanto region	¥ 496	$ 4,863
Total			¥5,942	$58,255

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

The decline of the profitability arose with these assets. The book values of certain assets were reduced to recoverable amounts and the amounts of the differences between the book value and recoverable amounts were recorded as impairment loss of ¥5,942 million ($58,255 thousand). The breakdown of the amounts is ¥5,446 million ($53,392 thousand) for assets to be held and used, ¥5,446 million ($53,392 thousand) for goodwill. The breakdown of the amounts is ¥496 million ($4,863 thousand) for assets to be disposed, ¥40 million ($392 thousand) for buildings, ¥260 million ($2,549 thousand) for lands, ¥171 million ($1,676 thousand) for leasehold rights and ¥25 million ($246 thousand) for others.

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

(Fiscal year ended March 31, 2013)

Daiwa recognized the impairment losses for the following asset group.

	Condition	Location	Millions of yen Impairment loss
Idle assets	Low profit-earning assets	Others	¥4,572

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

The decline of the profitability arose with these assets. The book values of certain assets were reduced to recoverable amounts and the amounts of the differences between the book value and recoverable amounts were recorded as impairment loss of ¥4,572 million. The breakdown of the amounts is ¥4,572 million for idle assets (¥4,572 million for goodwill).

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

27. Subsequent events

Granting stock options—Stock subscription rights are to be issued free to directors, executive officers and employees of the Company and its subsidiaries by the resolutions in the meeting of shareholders on June 26, 2014 in accordance with Articles 236, 238 and 239 of the Companies Act of Japan, and the amount paid in upon exercise of such subscription rights is ¥1 ($0.01) per share.

KPMG

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Daiwa Securities Group Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Daiwa Securities Group Inc. and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 "Changes in accounting policies which is difficult to distinguish from changes in accounting estimates" to the consolidated financial statements, which describes the Company and its domestic subsidiaries changed its depreciation method for Property and equipment from the declining-balance method to the straight-line method during the current consolidated fiscal year.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 27, 2014
Tokyo, Japan

Report Regarding Situation of Soundness in Management

As of March 31, 2014

In accordance with the Financial Instruments and the Exchange Act Article 57-17, "Notification, etc. of Documents Describing Status of Soundness in Management", Daiwa Securities Group Inc. reports situation of soundness in management as of March 31, 2014.

Composition of capital disclosure

Items		Millions of yen	Exclusion under transitional arrangements	Basel III template number
Common Equity Tier 1 capital:instruments and reserves				
Shareholder's Equity		¥ 959,809		1a+2–1c–26
Common stock and capital surplus		478,162		1a
Retained earnings		528,406		2
Treasury stock (△)		17,817		1c
Planned distributions (△)		28,942		26
Others		—		
Stock subscription rights		7,363		1b
Accumulated other comprehensive income (and other reserves)		17,964	¥71,856	3
Minority interest after adjustments		—		5
Common Equity Tier 1 capital under transitional Basel III rules		56,467		
Minority interest		56,467		
Common Equity Tier 1 capital before regulatory adjustments	(a)	1,041,605		6
Common Equity Tier 1 capital: regulatory adjustments				
Intangible assets other than mortgage-servicing rights (net of related tax liability)		15,604	62,417	8+9
Goodwill (net of related tax liability)		1,885	7,540	8
Other intangibles other than mortgage-servicing rights(net of related tax liability)		13,719	54,876	9
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		831	3,324	10
Cash-flow hedge reserve		△8	△34	11
Shortfall of allowance to expected losses		—	—	12
Securitization gain on sale (as set out in paragraph 562 of Basel II framework)		—	—	13
Gains and losses due to changes in own credit risk on fair valued liabilities		—	—	14
Defined-benefit pension fund net assets		—	—	15
Investments in own shares (if not already netted off paid-in capital on reported balance sheet)		67	268	16
Reciprocal cross-holdings in common equity		—	—	17
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		3,263	13,052	18
Amount exceeding the 10% threshold		—	—	19+20+21
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)		—	—	19
Mortgage servicing rights (amount above 10% threshold)		—	—	20
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		—	—	21
Amount exceeding the 15% threshold		—	—	22
of which: significant investments in the common stock of financials		—	—	23
of which: mortgage servicing rights		—	—	24
of which: deferred tax assets arising from temporary differences		—	—	25
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		—		27
Total regulatory adjustments to Common equity Tier 1	(b)	19,757		28
Common Equity Tier 1 capital				
Common Equity Tier 1 capital (CET1) ((a) – (b))	(c)	¥1,021,848		29

Items		Millions of yen	Exclusion under transitional arrangements		Basel III template number
Additional Tier 1 capital:instruments					
Shareholder's Equity		¥ —		31a	
Stock subscription rights		—		31b	30
Liabilities		—		32	
Instruments issued by Special Purpose Companies		—			
Minority interest after adjustments		11,909			34–35
Tier 1 capital under Basel II included in Additional Tier 1 capital under transitional Basel III rules		—			33+35
Capital instruments issued by Daiwa Securities Group Inc. and its Special Purpose Companies		—			33
Capital instruments issued by consolidated subsidiaries and affiliates (excluding Special Purpose companies of Daiwa Securities Group Inc.)		—			35
Additional Tier 1 capital under transitional Basel III rules		11,928			
Foreign currency translation adjustment		11,928			
Additional Tier 1 capital before regulatory adjustments	(d)	23,837			36
Additional Tier 1 capital: regulatory adjustments					
Investments in own Additional Tier 1 instruments		—	¥ —		37
Reciprocal cross-holdings in Additional Tier 1 instruments		—	—		38
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		637	2,546		39
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		—	—		40
Regulatory adjustments of additional Tier 1 capital under transitional Basel III rules		7,540			
Goodwill (net of related tax liability)		7,540			
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		—			42
Total regulatory adjustments to Additional Tier 1 capital	(e)	8,177			43
Additional Tier 1 capital					
Additional Tier 1 capital (AT1) ((d)–(e))	(f)	15,660			44
Tier 1 capital					
Tier 1 capital (T1 = CET1 + AT1) ((c) + (f))	(g)	1,037,508			45
Tier 2 capital: instruments and allowance					
Shareholder's Equity		—			
Stock subscription rights		—			46
Liabilities		—			
Capital instruments issued by Special Purpose Companies		—			
Minority interest after adjustments		2,802			48–49
Tier 2 capital under Basel II included in Tier 2 capital under transitional Basel III rules		—	—		47+49
Capital instruments issued by Daiwa Securities Group Inc. and its Special Purpose Companies		—	—		47
Capital instruments issued by consolidated subsidiaries and affiliates (excluding Special Purpose companies of Daiwa Securities Group Inc.)		—	—		49
General allowance included and eligible allowance in Tier2 capital		—			50
General allowance		—			50a
Eligible allowance		—			50b
Tier 2 capital under transitional Basel III rules		42,791			
Unrealized holding gain or loss on securities and cash flow hedge reserve		42,791			
Tier 2 capital before regulatory adjustments	(h)	¥ 45,593			51

Items			Millions of yen Exclusion under transitional arrangements	Basel III template number
Tier 2 capital: regulatory adjustments				
Investments in own Tier 2 instruments		¥ —	¥ —	52
Reciprocal cross-holdings in Tier 2 instruments		—	—	53
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)		2,718	10,875	54
Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		—	—	55
Tier 2 capital adjustments under transitional Basel III rules		—		
Total regulatory adjustments to Tier 2 capital	(i)	2,718		57
Tier 2 capital				
Tier 2 capital (T2) ((h)–(i))	(j)	42,874		58
Total capital				
Total capital (TC = T1 + T2) ((g) + (j))	(k)	1,080,382		59
Risk weighted assets				
Amount of risk weighted assets under transitional Basel III rules		84,673		
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)		26,472		
Intangible assets (other than Goodwill)		54,876		
Deferred tax assets excluding assets arising from temporary differences (net of related tax liability)		3,324		
Total risk weighted assets	(l)	4,951,545		60
Consolidated capital adequacy ratio				
Common Equity Tier 1 (as a percentage of risk weighted assets)	((c) / (l))	20.6%		61
Tier 1 (as a percentage of risk weighted assets)	((g) / (l))	20.9%		62
Total capital (as a percentage of risk weighted assets)	((k) / (l))	21.8%		63
Amounts below the thresholds for deduction (before risk weighting)				
Non-significant investments in the capital of other financials		97,452		72
Significant investments in the common stock of financials		47,588		73
Mortgage servicing rights (net of related tax liability)		—		74
Deferred tax assets arising from temporary differences (net of related tax liability)		6,202		75
Applicable caps on the inclusion of allowance in Tier 2				
Allowance eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)		—		76
Cap on inclusion of allowance in Tier 2 under standardised approach		—		77
Allowance eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		—		78
Cap for inclusion of allowance in Tier 2 under internal ratings-based approach		—		79
Capital instruments subject to phase-out arrangements				
Current cap on AT1 instruments subject to phase out arrangements		—		82
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		—		83
Current cap on T2 instruments subject to phase out arrangements		—		84
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		—		85

Qualitative Disclosure (Consolidated)

1. Scope of Consolidation

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

Not applicable.

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

Number of consolidated subsidiaries: 49 companies

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

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

No company is subject to proportionate consolidation methods.

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

Not applicable.

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

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

2. Overview of Capital Adequacy Assessment Methods

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

<Economic Capital>

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

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

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

<Regulatory Capital>

The Group monitors regulatory capital against the alert level which is set well above the minimum regulatory capital ratio, sets alert level for internal management to valuate the capital adequacy periodically.

3. Credit Risk

A) Overview of risk management policies and procedures

<Credit Risk Management Policy >

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

<Allowance for Doubtful Account>

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

<Calculation of Credit Risk Asset>

Credit risk exposures are being calculated in the standardized approach

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

Following ECAIs are used to determine the risk weight

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

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

<The policy of Credit Risk Mitigation Techniques>

Collateral is used for the Credit Risk Mitigation Techniques (hereunder CRM Techniques). Types of collaterals are generally cash or high liquid securities. Received collateral is valued mark to market daily and monitored against exposures. In addition, balance and type of collaterals taken are also subject to the monitoring.

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

The Group uses the Comprehensive Approach for the CRM Techniques.

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

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

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

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

6. Securitization Exposures

A) Overview of risk management policies and characteristics of other risks

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

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

B) Overview of monitoring framework of the regulation set forth under the provision of Article 227 Paragraph 4(iii)–(vi) of the Consolidated Capital Adequacy Ratio Notification

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

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

Not applicable.

D) Method of calculating credit risk asset

The standardized approach is used in order to calculate credit risk amount.

E) Method of calculating market risk amount

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

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

Not applicable

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

Not applicable

H) Accounting policy applied for the securitization transaction

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

I) ECAIs used when determining the risk weight

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

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

J) Overview if the Group uses the Internal Assessment Approach

Not applicable

K) Overview if significant change in quantitative information is observed

Not applicable

7. Market Risk

A) Overview of risk management policies and procedures

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

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

B) Methods used for calculation of market risk

i. Internal models approach

General market risk for Daiwa Securities Co. Ltd., and foreign subsidiaries.

ii. Standardized approach

Specific risk

General market risk that is not included in above query "i"

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

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

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

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

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

Not applicable

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

Not applicable

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

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

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

8. Operational Risk

A) Risk management policies and procedures

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

B) Methods for the calculation of operational risk amount

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

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

In addition to trading businesses, the Group posses investment securities for investment as well as business relation purposes. Because those financial instruments have distinct risk profiles for each product, the Group conducts adequate credit as well as market risk managements including measurement of risk by the profile.

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

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

10. Interest Rate Risk under Non Trading Accounts

A) Overview of risk management policies and procedures

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

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

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

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

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

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

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

For the financial assets and liabilities in the subsidiaries engaged in the banking business, market risk amount is measured in a change of economic value used the 99th percentile of observed interest rate changes using a year holding period and 5 years of observations. It is used for quantitative analysis to manage risk of change in an interest rate. For calculating the amount of changes, the balances of the financial assets and liabilities are classified in each period. The changes of interest rate in each period are applied. For those currency positions which consists less than 5% of gross asset or liability, upward and downward rate shocks of 200 basis points (2%) is uniformly applied in a parallel move, and changes are being calculated.

11. The amount of each account in Balance sheet as in published statement and the reference number in composition of capital disclosure under the assumption of the financial statement under the regulatory scope of consolidation complying the Capital Adequacy Ratio Accord item 3

	Millions of yen		
	Balance Sheet as in published statement	Under regulatory scope of consolidation	Reference number in composition of capital disclosure
Current assets			
Cash and deposits	¥ 1,886,958	¥ 1,886,958	
Cash segregated as deposits	294,069	294,069	
Notes and accounts receivable-trade	15,337	15,337	
Short-term investment securities	2,583,315	2,583,315	18, 39, 54, 72, 73
Trading products	7,110,968	7,110,968	16, 18, 39, 54, 72, 73
Operational investment securities	143,010	143,010	18, 39, 54, 72, 73
Allowance for investment loss	(35,150)	(35,150)	
Operating loans	237,416	237,416	
Work in process	619	619	
Margin transaction assets	264,725	264,725	
Loans secured by securities	5,888,420	5,888,420	
Advances paid	15,289	15,289	
Short-term loans receivable	1,240	1,240	
Accrued income	33,096	33,096	
Deferred tax assets	10,034	10,034	10, 75
Other current assets	287,954	287,954	
Allowance for doubtful accounts	(205)	(205)	
Total current assets	18,737,101	18,737,101	
Noncurrent assets			
Tangible assets	432,365	432,365	
Intangible assets	78,021	78,021	
Goodwill	9,425	9,425	8
Others	68,596	68,596	9
Investments and other assets	233,375	233,375	
Investment securities	200,456	200,456	18, 39, 54, 72, 73
Deferred tax assets	323	323	10, 75
Others	32,596	32,596	
Total noncurrent assets	743,762	743,762	
Total assets	¥19,480,863	¥19,480,863	

	Millions of yen		
	Balance Sheet as in published statement	Under regulatory scope of consolidation	Reference number in composition of capital disclosure
Liabilities			
Current liabilities			
Notes and accounts payable-trade	¥ 5,581	¥ 5,581	
Trading products	5,296,428	5,296,428	
Trade date accrual	74,472	74,472	
Margin transaction liabilities	52,434	52,434	
Loans payable secured by securities	6,330,269	6,330,269	
Deposits from banking business	2,197,719	2,197,719	
Deposits received	181,509	181,509	
Guarantee deposits received	395,406	395,406	
Short-term loans payable	903,916	903,916	
Commercial papers	266,480	266,480	
Current portion of bonds	224,344	224,344	
Income taxes payable	15,347	15,347	
Deferred tax liabilities	17,989	17,989	
Provision for bonuses	34,922	34,922	
Other current liabilities	157,908	157,908	
Noncurrent liabilities			
Bonds payable	1,249,007	1,249,007	
Long-term loans payable	748,973	748,973	
Deferred tax liabilities	14,345	14,345	
Provision for retirement benefits	33,739	33,739	
Provision for loss on litigation	1,870	1,870	
Negative goodwill	3,424	3,424	
Other noncurrent liabilities	17,838	17,838	
Reserves under the special laws	3,471	3,471	
Total liabilities	18,227,401	18,227,401	
Net assets			
Shareholder’s equity			
Common stock	247,397	247,397	1a
Capital surplus	230,676	230,676	1a
Retained earnings	528,406	528,406	2
Treasury stock	(17,817)	(17,817)	1c
Deposit for subscriptions to treasury stock	1	1	1c
Total shareholder’s equity	988,754	988,754	
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	87,845	87,845	
Cash flow hedge reserve	(12,935)	(12,935)	11
Foreign currency translation adjustment	14,910	14,910	
Total accumulated other comprehensive income	89,820	89,820	3
Stock subscription rights	7,363	7,363	1b
Minority interests	167,525	167,525	34-35, 48-49
Total net assets	¥ 1,253,462	¥ 1,253,462	

Quantitative Disclosure (Consolidated)

1. Within subsidiary company that is classified as the significant investment in the capital of financial institution, name as well as the total amount of capital adequacy for the Group's subsidiary

Not applicable

2. Capital Adequacy

Capital requirements for credit risk

	Millions of yen
	March 2014
On-balance transactions	¥121,570
1. Cash	—
2. Japanese government and central bank	—
3. Non-Japanese sovereign and central bank	133
4. Bank for International Settlement (BIS)	—
5. Japanese local public authorities	—
6. Non-Japanese public sector entities (excluding sovereign)	37
7. Multilateral development banks (MDBs)	—
8. Japan Finance Organization for Municipalities (JFM)	940
9. Japanese government sponsored entities	2,518
10. Three major local public corporations of Japan	—
11. Financial institutions and securities firms	10,741
12. Corporates	23,682
13. SMEs and individuals (risk weight 75% applied)	—
14. Residential mortgage loans	—
15. Projects including acquisition of real estate properties	170
16. Past due exposures for three months or more	320
17. Cash items in process of collection	—
18. Exposures secured by Credit Guarantee Association in Japan	—
19. Exposures secured by Enterprise Turnaround Initiative Corporation of Japan	—
20. Equities	23,420
21. Others	41,399
22. Securitizations (as an originator)	—
23. Securitizations (not as an originator)	2,066
24. Funds	16,158

	Millions of yen
	March 2014
Off-balance transactions	¥ 54,096
1. Unconditionally or automatically cancellable commitments	—
2. Commitments with an original maturity up to one year	—
3. Short-term self-liquidating trade letters of credit arising from the movement of goods	—
4. Certain transaction-related contingent items	—
5. Note issuance facilities (NIFs) and revolving underwriting facilities (RUFs)	—
6. Commitments with an original maturity over one year	—
7. Commitments related IRB Approach	—
8. Direct credit substitutes and acceptances	211
9. Sale and repurchase agreements and asset sales with recourse	—
10. Forward asset purchases, forward forward deposits and partly-paid shares and securities	—
11. Lending or posting of securities as collateral	18,767
12. Derivative transactions	34,036
13. Long settlement transactions	19
14. Unsettled transactions	875
15. Securitization exposure qualifies as an ‘eligible liquidity facility’ or an ‘eligible servicer cash advance facility’	—
16. Others (Securitization off-balance transactions)	187
CVA risk capital charge	56,265
Exposures to Central Counterparties (CCPs)	1,710
Total capital requirements for credit risk	¥233,642

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

Capital requirements for market risk

	Millions of yen
	March 2014
Standardized approach	53,188
Interest rate risk	44,826
Equity risk	6,982
Foreign exchange risk	1,362
Commodities risk	0
Option transactions	—
Internal models approach	39,268
Total capital requirements for market risk	¥92,457

Capital requirements for operational risk

	Millions of yen
	March 2014
Basic indicator approach	¥70,023
Standardized approach	—
Advanced measurement approach	—
Total capital requirements for operational risk	¥70,023

Total capital requirements

	Millions of yen
	March 2014
Credit risk	¥233,642
Market risk	92,457
Operational risk	70,023
Total capital requirements	¥396,122

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

Exposures by geographical area, industry, and residual contractual maturity

Millions of yen

March 2014	Credit risk exposures	Loans	Repo	Derivatives	Securities	Others*	Past due exposures for three months or more
Japan	¥17,042,229	¥116,803	¥ 6,628,082	¥4,283,108	¥2,919,834	¥3,904,400	¥2,443
Overseas	8,686,185	497	8,333,868	54,255	7,258	290,305	413
Total (by area)	25,728,415	117,301	14,961,951	4,337,363	2,927,092	3,384,705	2,856
Sovereign	4,070,046	—	435,251	64,449	2,218,096	1,352,248	1
Financial institutions	8,620,996	—	4,591,067	3,349,116	57,023	623,789	268
Corporates	5,307,978	32,795	4,405,799	484,696	251,750	132,936	2,587
Individuals	335,513	84,505	—	96	—	250,911	—
CCPs	6,127,636	—	5,529,832	439,004	—	158,799	—
Others	1,266,243	—	—	—	400,222	866,021	—
Total (by industry)	25,728,415	117,301	14,961,951	4,337,363	2,927,092	3,384,705	¥2,856
≦1 year	14,137,054	96,628	13,481,924	326,526	20,047	211,928	
>1 year≦3 years	295,076	44	—	252,122	42,909	—	
>3 year≦5 years	705,028	2	—	544,249	160,723	52	
>5 year≦7 years	2,881,824	—	—	2,872,717	9,106	—	
>7 year	2,051,106	233	—	339,371	1,711,502	—	
Indeterminate	5,658,325	20,393	1,480,027	2,376	982,802	3,172,725	
Total (by maturity)	¥25,728,415	¥117,301	¥14,961,951	¥4,337,363	¥2,927,092	¥3,384,705	

* Including deposits, properties and equipment, intangible assets

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

Millions of yen

Type of allowances	Geographic area	March 2014	Changes
General allowance		¥ —	¥ —
Specific allowance	Japan	36,921	(207)
	Overseas	70	46
Allowance to specific foreign obligations		—	

Type of allowances	Industry	March 2014	Changes
General allowance		¥ —	¥ —
Specific allowance	Sovereign	—	—
	Financial institutions	—	—
	Corporates	519	(56)
	Individuals	—	(81)
	Others	36,473	(25)
Allowance to specific foreign obligations		—	—

Loan write-off by industry

Not applicable.

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

	Millions of yen		
	March 2014		
	Exposure amounts		
Risk weight		Application of external rating	Others
0%	¥3,454,957	¥ 395,514	¥3,059,442
2%	363,002	—	363,002
10%	272,267	—	272,267
20%	1,971,666	1,946,437	25,228
35%	—	—	—
50%	234,303	219,605	14,697
75%	—	—	—
100%	1,282,242	35,382	1,246,859
150%	2,684	2,344	340
250%	79,174	—	79,174
1250%	963	—	963
Others	382,825	—	382,825
Total	¥8,044,087	¥2,599,284	¥5,444,802

4. Credit Risk Mitigation (CRM) Techniques

Exposure for which CRM Techniques are applied

	Millions of yen
Type	March 2014
Cash	¥ 7,860,105
Debts	6,819,650
Equities	484,006
Mutual funds	—
Eligible Financial Collateral Total	15,163,762

5. Counterparty Risk for Derivative Transactions and Long Settlement Transactions

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

			Millions of yen
March 2014	Gross replacement cost	Gross add-on	Credit equivalent amounts
Foreign exchanges	¥ 784,462	¥ 653,027	¥1,437,489
Interest rates	1,096,873	599,505	1,696,378
Equities	393,098	342,204	735,303
Other commodities	—	—	—
Credit derivatives	39,914	429,341	469,255
Total (A)	2,314,348	2,024,079	4,338,427
Benefit through close-out netting agreements (B)			2,719,582
Credit equivalent amounts after netting (C=A–B)			1,618,845
Credit risk mitigation benefits (D)			347,861
Cash			228,859
Debts			110,180
Equities			8,821
Mutual funds			—
Credit equivalent amounts after netting and CRM benefits (C–D)			¥1,270,984

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

March 2014		Millions of yen
	Notional amounts	
Credit derivatives type	Protection bought	Protection sold
Credit default swaps	¥2,577,715	¥2,456,920

Notional amount of credit derivatives used for CRM purpose

Not applicable

6. Securitization Exposures

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

Not applicable

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

i. Underlying assets

March 2014				Millions of yen
Underlying assets	Exposure amounts		Risk weight 1250%	
		Resecuritization		Resecuritization
Loans and receivables	¥140,863	¥—	¥—	¥—
Real estates	—	—	—	—
Equities	—	—	—	—
Others	—	—	—	—
Total	¥140,863	¥—	¥—	¥—

ii. Exposures balance and capital requirements by risk weight

March 2014				Millions of yen
Risk weight	Exposure amounts		Capital requirements	
		Resecuritization		Resecuritization
≦20%	¥140,863	¥—	¥2,253	¥—
>20%≦50%	—	—	—	—
>50%≦100%	—	—	—	—
>100%≦350%	—	—	—	—
>350%<1250%	—	—	—	—
1250%	—	—	—	—
Total	¥140,863	¥—	¥2,253	¥—

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

Not applicable

C) Securitization exposures for calculating Market Risk as an originator

Not applicable

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

i. Underlying assets

March 2014 | Millions of yen

Underlying assets	Exposure amounts		Risk weight 100%	
		Resecuritization		Resecuritization
Loans and receivables	¥9,468	¥—	¥—	¥—
Real estates	—	—	—	—
Equities	—	—	—	—
Others	—	—	—	—
Total	¥9,468	¥—	¥—	¥—

ii. Exposure balance and capital requirements by risk weight

March 2014 | Millions of yen

Risk weight	Exposure amounts		Capital requirements	
		Resecuritization		Resecuritization
≦3.2%	¥9,468	¥—	¥151	¥—
＞3.2%≦8%	—	—	—	—
＞8%≦18%	—	—	—	—
＞18%≦52%	—	—	—	—
＞52%＜100%	—	—	—	—
100%	—	—	—	—
Total	¥9,468	¥—	¥151	¥—

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

Not applicable

7. Market Risk

Internal models approach Value at Risk (VaR) Results

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

March 2014	VaR	Stress VaR
		Millions of yen
Amount of March 31, 2014	¥ 3,072	¥ 7,572
Maximum	12,844	19,137
Average	4,800	11,200
Minimum	1,840	6,158

Excess number of back-testing	5 times

* Back-Testing

Comparing VaR for a one day holding period with daily profit and loss is conducted in order to verify accuracy of VaR model.

Excess number of back testing is a number of times that losses are exceeded VaR over a given holding period.

8. Equity Exposure on Non Trading Accounts

A) Booking and market values on consolidated balance sheet

Millions of yen

March 2014	Consolidated balance sheet amount	Market value
Listed equity exposure	¥156,822	¥156,822
Others	135,936	—

* Investment related equity exposure for which it is difficult to obtain market value is not included hereby.

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

Millions of yen

March 2014	Gains on sales	Losses on sales	Write-off
	¥22,077	¥1,002	¥142

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

March 2014	Millions of yen
Unrealized gains/losses	¥67,517

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

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

March 2014	Millions of yen
Unrealized gains/losses	¥27

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

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

Not applicable

9. Credit Risk Exposure Calculation Which Set Forth under Article 144 of the Consolidated Capital Adequacy Ratio Notification published by Japan FSA is applied

Not applicable

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

March 2014

Interest rate risk under non trading accounts

i. Financial asset and liability except for which possessed by the Group companies that transact banking business under assumption of change in interest rate for 10 basis point (i.e. 0.1%), we anticipate that the market value of "Bonds payable" and "Long-term loans payable" to change approximately 1.1 billion yen

ii. Financial asset and liability possessed by the Group companies that transact banking business under assumption of change in interest rate and all the other risks fixed, we anticipate that the market value to reduce by 7.8 billion yen.

Overview of Main Features of Regulatory Capital Instruments

1	Issuer	Daiwa Securities Group Inc.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	Japanese Law
	Regulatory treatment	
4	Transitional Basel III rules	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Common stock
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	
	Consolidated Capital Adequacy Ratio	959,809 million
9	Par value of instrument	—
10	Accounting classification	
	Consolidated Balance Sheet	Shareholder's equity
11	Original date of issuance	—
12	Perpetual or dated	NA
13	Original maturity date	—
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	—
16	Subsequent call dates, if applicable	—
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	—
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	—
25	If convertible, fully or partially	—
26	If convertible, conversion rate	—
27	If convertible, mandatory or optional conversion	—
28	If convertible, specify instrument type convertible into	—
29	If convertible, specify issuer of instrument it converts into	—
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	—
32	If write-down, full or partial	—
33	If write-down, permanent or temporary	—
34	If temporary write-down, description of write-up mechanism	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2006	Stock subscription right series 3
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)		
	Consolidated Capital Adequacy Ratio	290 million	1,190 million
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated Balance Sheet	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2006	September 4 , 2006
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2026	June 23, 2016
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2007	Stock subscription right series 4
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)		
	Consolidated Capital Adequacy Ratio	312 million	832 million
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated Balance Sheet	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2007	September 3 , 2007
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2027	June 22, 2017
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2008	Stock subscription right series 5
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)		
	Consolidated Capital Adequacy Ratio	287 million	695 million
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated Balance Sheet	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2008	September 8 , 2008
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2028	June 20, 2018
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2009	Stock subscription right series 6
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)		
	Consolidated Capital Adequacy Ratio	346 million	636 million
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated Balance Sheet	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2009	November 9 , 2009
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2029	June 19, 2019
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2010	Stock subscription right series 7
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)		
	Consolidated Capital Adequacy Ratio	380 million	455 million
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated Balance Sheet	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2010	September 1, 2010
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2030	June 25, 2020
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2011	Stock subscription right series 8
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)		
	Consolidated Capital Adequacy Ratio	431 million	279 million
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated Balance Sheet	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2011	September 5, 2011
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2031	June 24, 2021
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in February 2013	Stock subscription right series 9
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)		
	Consolidated Capital Adequacy Ratio	472 million	323 million
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated Balance Sheet	Stock subscription right	Stock subscription right
11	Original date of issuance	February 12, 2013	February 12, 2013
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2032	June 26, 2022
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in February 2014	Stock subscription right series 10
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)		
	Consolidated Capital Adequacy Ratio	386 million	44 million
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated Balance Sheet	Stock subscription right	Stock subscription right
11	Original date of issuance	February 10, 2014	February 10, 2014
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2033	June 25, 2023
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Office Investment Corporation
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	Japanese Law
	Regulatory treatment	
4	Transitional Basel III rules	Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital
5	Post-transitional Basel III rules	Additional Tier 1 capital, Tier 2 capital
6	Eligible at solo/group/group&solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Investment unit
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	
	Consolidated Capital Adequacy Ratio	86,155 million
9	Par value of instrument	—
10	Accounting classification	
	Consolidated Balance Sheet	Minority interest
11	Original date of issuance	—
12	Perpetual or dated	NA
13	Original maturity date	—
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	—
16	Subsequent call dates, if applicable	—
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	—
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	—
25	If convertible, fully or partially	—
26	If convertible, conversion rate	—
27	If convertible, mandatory or optional conversion	—
28	If convertible, specify instrument type convertible into	—
29	If convertible, specify issuer of instrument it converts into	—
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	—
32	If write-down, full or partial	—
33	If write-down, permanent or temporary	—
34	If temporary write-down, description of write-up mechanism	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	—

Balance Sheets

DAIWA SECURITIES Co. Ltd.
As of March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2014	2013	2014
Cash and cash deposits:			
Cash and cash equivalents (Notes 5 and 18)	**¥ 810,681**	¥ 761,498	**$ 7,947,853**
Cash segregated as deposits for regulatory purposes (Note 5)	**264,140**	214,259	**2,589,608**
	1,074,821	975,757	**10,537,461**
Receivables:			
Loans receivable from customers (Note 5)	**96,577**	81,802	**946,833**
Loans receivable from other than customers (Notes 5 and 18)	**291,852**	142,933	**2,861,294**
Receivables related to margin transactions (Notes 3 and 5)	**252,014**	176,035	**2,470,726**
Short-term guarantee deposits (Note 5)	**185,083**	182,615	**1,814,539**
Other (Note 18)	**34,265**	56,031	**335,932**
Less: Allowance for doubtful accounts	**(144)**	(163)	**(1,412)**
	859,647	639,253	**8,427,912**
Collateralized short-term financing agreements (Notes 4, 5 and 18)	**3,752,379**	2,964,649	**36,788,029**
Trading assets (Notes 5, 6, 8 and 18)	**5,125,574**	6,803,463	**50,250,726**
Trading account receivables, net (Note 5)	**—**	20,233	**—**
Other assets:			
Property and equipment, at cost	**24,551**	24,591	**240,696**
Less: Accumulated depreciation	**(20,350)**	(20,028)	**(199,510)**
	4,201	4,563	**41,186**
Intangible fixed assets	**41,809**	42,170	**409,892**
Lease deposits	**15,695**	16,898	**153,873**
Investment securities (Notes 5 and 7)	**22,479**	21,755	**220,382**
Deferred tax assets (Note 13)	**6,959**	4,739	**68,225**
Other (Note 18)	**19,456**	19,463	**190,746**
Less: Allowance for doubtful accounts	**(5,713)**	(5,713)	**(56,010)**
	104,886	103,875	**1,028,294**
	¥10,917,307	¥11,507,230	**$107,032,422**

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2014	2013	Thousands of U.S. dollars (Note 1) 2014
Debt:			
Short-term borrowings (Notes 5, 8 and 18)	¥ 899,500	¥ 911,000	$ 8,818,628
Commercial paper (Note 5)	266,480	301,711	2,612,549
Long-term debt (Notes 5, 11 and 18)	1,256,088	1,196,289	12,314,588
	2,422,068	2,409,000	23,745,765
Payables:			
Payables to customers and counterparties (Notes 5 and 10)	513,720	365,372	5,036,470
Payables related to margin transactions (Notes 3 and 5)	46,978	45,198	460,569
	560,698	410,570	5,497,039
Collateralized short-term financing agreements (Notes 4, 5 and 18)	3,047,915	4,063,127	29,881,520
Trading liabilities (Notes 5, 6 and 18)	4,035,065	3,967,646	39,559,461
Trading account payables, net (Note 5)	29,346	—	287,706
Accrued and other liabilities:			
Income taxes payable	9,429	819	92,441
Deferred tax liabilities (Note 13)	2,014	352	19,745
Accrued bonuses	16,847	14,472	165,167
Retirement benefits (Note 12)	24,010	22,673	235,392
Other (Note 9 and 18)	57,472	52,235	563,451
	109,772	90,551	1,076,196
Statutory reserves (Note 14)	3,359	2,447	32,931
Total liabilities	10,208,223	10,943,341	100,080,618
Contingent liabilities (Note 15)			
Net assets			
Owners' equity (Note 16) :			
Common stock, no par value;			
Authorized—810,200 shares			
Issued—810,200 shares	100,000	100,000	980,392
Capital surplus	349,920	349,920	3,430,588
Retained earnings	254,794	110,428	2,497,981
	704,714	560,348	6,908,961
Accumulated other comprehensive income:			
Net unrealized gain on investment securities, net of tax effect	4,370	3,541	42,843
Total net assets	709,084	563,889	6,951,804
	¥10,917,307	¥11,507,230	$107,032,422

See accompanying notes.

Statements of Income

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Operating revenues:			
Commissions (Note 18)	**¥206,128**	¥151,684	**$2,020,863**
Net gain on trading (Note 20)	**161,200**	124,432	**1,580,392**
Interest and dividend income (Note 18)	**32,549**	27,133	**319,108**
	399,877	303,249	**3,920,363**
Interest expense (Note 18)	**19,515**	21,003	**191,324**
Net operating revenues (Note 17)	**380,362**	282,246	**3,729,039**
Selling, general and administrative expenses (Notes 12 and 21)	**226,185**	211,799	**2,217,500**
Operating income	**154,177**	70,447	**1,511,539**
Other income (expenses):			
Provision for statutory reserves, net (Note 14)	**(913)**	110	**(8,951)**
Other, net (Note 22)	**1,213**	1,190	**11,892**
	300	1,300	**2,941**
Income before income taxes	**154,477**	71,747	**1,514,480**
Income taxes (Note 13):			
Current	**11,068**	4,735	**108,509**
Deferred	**(957)**	1,061	**(9,382)**
	10,111	5,796	**99,127**
Net income	**¥144,366**	¥ 65,951	**$1,415,353**

	Yen		U.S. dollars (Note 1)
Per share amounts:			
Net income	**¥178,185.21**	¥81,400.72	**$1,747**
Cash dividends applicable to the year (Note 16)	**—**	—	**—**

See accompanying notes.

Statements of Changes in Net Assets

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2014 and 2013

					Millions of yen
				Owners' equity	Accumulated other comprehensive income
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized gain on investment securities, net of tax effect
Balance at March 31, 2012	320,000	¥100,000	¥ 50,010	¥ 44,477	¥ —
Net income				65,951	
Increase by merger	490,200		299,910		
Net changes of items other than owners' equity					3,541
Balance at March 31, 2013	810,200	100,000	349,920	110,428	3,541
Net income				**144,366**	
Net changes of items other than owners' equity					**829**
Balance at March 31, 2014	**810,200**	**¥100,000**	**¥349,920**	**¥254,794**	**¥4,370**

				Thousands of U.S. dollars (Note 1)
			Owners' equity	Accumulated other comprehensive income
	Common stock	Capital surplus	Retained earnings	Net unrealized gain on investment securities, net of tax effect
Balance at March 31, 2013	$980,392	$3,430,588	$1,082,628	$34,716
Net income			**1,415,353**	
Net changes of items other than owners' equity				**8,127**
Balance at March 31, 2014	**$980,392**	**$3,430,588**	**$2,497,981**	**$42,843**

See accompanying notes.

Statements of Cash Flows

DAIWA SECURITIES Co. Ltd
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Cash flows from operating activities:			
Net income	**¥ 144,366**	¥ 65,951	**$ 1,415,353**
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	**18,004**	22,327	**176,510**
Amortization of goodwill	**61**	61	**598**
Allowance for doubtful accounts, net	**(19)**	113	**(186)**
Provision for retirement benefits, net	**1,323**	3,700	**12,971**
Losses (gains) related to investment securities	**(1,735)**	(913)	**(17,010)**
Losses (gains) related to fixed assets	**527**	745	**5,167**
Deferred income taxes	**(957)**	1,061	**(9,382)**
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	**(74,199)**	(62,737)	**(727,441)**
Other receivables and other payables	**(21,056)**	14,824	**(206,431)**
Trading assets and liabilities	**1,794,886**	(336,403)	**17,596,921**
Collateralized short-term financing agreements	**(1,802,942)**	1,237,445	**(17,675,903)**
Other, net	**5,201**	537	**50,990**
Total adjustments	**(80,906)**	880,760	**(793,196)**
Net cash flows provided by operating activities	**63,460**	946,711	**622,157**
Cash flows from investing activities:			
Payments for purchases of property and equipment	**(374)**	(188)	**(3,667)**
Payments for purchases of intangible fixed assets	**(17,151)**	(7,904)	**(168,147)**
Payments for purchases of investment securities	**(818)**	(1,517)	**(8,020)**
Proceeds from sales of investment securities	**2,801**	2,242	**27,461**
Proceeds from transfer of business	**—**	4,832	**—**
Payments for guarantee deposits	**(724)**	(947)	**(7,098)**
Proceeds from collection of guarantee deposits	**1,930**	3,514	**18,922**
Other, net	**738**	155	**7,235**
Net cash flows provided by (used in) investing activities	**(13,598)**	187	**(133,314)**
Cash flows from financing activities:			
Decrease in short-term borrowings and commercial paper	**(47,163)**	(692,441)	**(462,382)**
Increase in long-term debt	**413,380**	162,418	**4,052,745**
Decrease in long-term debt	**(366,896)**	(396,317)	**(3,597,020)**
Net cash flows used in financing activities	**(679)**	(926,340)	**(6,657)**
Net increase in cash and cash equivalents	**49,183**	20,558	**482,186**
Cash and cash equivalents at beginning of year	**761,498**	139,215	**7,465,667**
Increase in cash and cash equivalents resulting from merger	**—**	601,725	**—**
Cash and cash equivalents at end of year	**¥ 810,681**	¥ 761,498	**$ 7,947,853**
Supplemental information on cash flows:			
Cash provided (paid) during the year for income taxes	**¥ 987**	¥ (21,395)	**$ 9,676**

See accompanying notes.

Notes to Financial Statements

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2014 and 2013

1. Basis of presentation

The accompanying financial statements for Daiwa Securities Co. Ltd. (the "Company") have been prepared in accordance with generally accepted accounting principles in Japan ("Japanese GAAP"), with some expanded descriptions and reclassifications. Some supplementary information included in the Japanese GAAP financial statements, which is not considered necessary for fair presentation is not presented in the accompanying financial statements. Japanese GAAP is different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS").

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, 2014, which was ¥102 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

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 are stated on a trade date basis at fair value in the 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 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 balance sheets as "Investment securities" are discussed below.

Securities other than trading assets and trading liabilities—The Company examines the intent of holding investments and classifies those investments as debt securities intended to be held to maturity ("Held-to-maturity debt securities") which are carried at amortized cost, other marketable securities available for sale (marketable "Available-for-sale securities") which 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") which are carried at cost. Investment business partnerships ("Toshi jigyo kumiai") which are regarded as equivalent to securities by Article 2, Paragraph 2 of the Financial Instruments and Exchange Act are reported as "Investment securities" in the financial statements in proportion to the Company's share of the investment business partnership and designated as "Available-for-sale-securities". The cost of those investments is determined by the moving average method.

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

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. Resell transactions and repurchase 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. The Company computes depreciation by the straight-line method over estimated useful lives.

(Changes in accounting policies which are difficult to distinguish from changes in accounting estimates)

Effective April 1, 2013, the Company changed its depreciation method for Property and equipment from the declining-balance method to the straight-line method. The Company believes that the straight-line method better reflects the pattern of consumption of the estimated future benefits to be derived from those assets being depreciated and provides a better matching of costs and revenues over the assets’ estimated useful lives. The impact on income from this change is insignificant.

Intangible fixed assets—Intangible fixed assets are amortized by the straight-line method. The Company 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.

Impairment—Non-current assets, principally property and equipment and intangible fixed assets, 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 recoverable amounts of the asset or the related asset group.

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

Retirement benefits—The Company has an unfunded retirement benefit plan 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 subsequent years. The annually earned benefits and the related interest to the accumulated benefits are expensed annually.

The Company also has a defined contribution plan for which an annual contribution is charged to expense.

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

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 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 the Company’s planning, other studies, and reference to certain set requirements under Japanese GAAP.

Allowance for provision for loss on litigation—Allowance for provision for loss on litigation is stated based on the reasonably estimated amount of possible losses as of the balance sheet date in order to prepare for losses related to contingent events such as pending law suits, considering individual risks with respect to each contingent event.

Translation of foreign currencies—The Company translates assets and liabilities in foreign currencies into yen at the year-end exchange rate, and translates income and expenses in foreign currencies into yen using generally the applicable exchange rate on the day when the transaction occurred. Any gains and losses resulting from such translation are included in current income or expense.

Net income per share—Net income per share of common stock is based on the average number of common shares outstanding. Diluted net income per share is not presented as there are no dilutive shares.

3. Margin transactions

Margin transactions at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Assets:			
Customers' margin loans	**¥233,316**	¥166,071	**$2,287,412**
Cash deposits as collateral for securities borrowed	**18,698**	9,964	**183,314**
	¥252,014	¥176,035	**$2,470,726**
Liabilities:			
Payable to securities finance companies	**¥ 496**	¥ 1,582	**$ 4,863**
Proceeds of securities sold for customers' accounts	**46,482**	43,616	**455,706**
	¥ 46,978	¥ 45,198	**$ 460,569**

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, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Assets:			
Securities purchased under agreements to resell	**¥ 46,861**	¥ 57,920	**$ 459,422**
Securities borrowed	**3,705,518**	2,906,729	**36,328,607**
	¥3,752,379	¥2,964,649	**$36,788,029**
Liabilities:			
Securities sold under agreements to repurchase	**¥1,110,663**	¥1,397,015	**$10,888,853**
Securities loaned	**1,937,252**	2,666,112	**18,992,667**
	¥3,047,915	¥4,063,127	**$29,881,520**

5. Financial instruments

Qualitative information on financial instruments

(1) Policy for dealing with financial instruments

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

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

The Company 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

The Company holds financial instruments in the trading business as follows: (a) trading securities and others (stocks and warrants, bonds and investment trusts), loans secured by securities and loans payable secured by securities, margin transaction assets and liabilities, (b) derivatives, traded at exchanges, such as stock index futures, bond futures, interest rate futures and options for those, (c) derivatives (OTC derivatives), not traded at exchanges, such as interest rate and foreign exchange swaps, forward foreign exchange contracts, currency options, bond options, FRA and OTC securities derivatives, etc. Also, the Company holds investment securities other than trading business purposes.

Of the various risks, the major risks implied in these financial instruments are market risk and credit risk. Market risk means the risk of suffering losses from fluctuations in the value of holding financial instruments and transactions in accordance with changes of market prices of interest rates, currency exchange rates and stock prices, etc. Credit risk means the risk of suffering losses from defaults or credit changing of counterparties or issuers of financial instruments which the Company holds, etc.

In the trading business, the Company conducts derivative transactions solely and as a part of structured notes to meet customers' needs. These include transactions which are volatile because of the correlation with stock indices, foreign exchange rates and interest rates of reference assets or which tend to move in a complicated manner. Therefore, these carry higher risk than the reference assets. These derivative transactions are categorized as trading assets and liabilities in the balance sheets and the realized and unrealized profit/loss by fluctuation of fair values are stated as the net gain on trading.

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

The Company enters derivative transactions as broker and end-user. Derivative products are necessary to deal with a variety of customers' financial needs and as a broker the Company provides customers with financial instruments to meet their requests. For instance, the Company provides customers with forward exchange contracts to hedge the exchange rate risk of foreign currency in foreign bonds held by customers and interest rate swaps to hedge interest rate risk when customers issue corporate bonds, etc. As end-user, the Company uses interest rate swaps to hedge interest rate risk regarding its financial assets and liabilities and utilize many kinds of futures and options to hedge trading positions.

(3) Risk management system for financial instruments

The Company has resolved the "Risk Management Rule" at the meeting of the Board of Directors which states the basic policy of risk management, type of risks that should be managed and responsible executive officers and department for each major risk and conducted risk management of the Company.

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

(a) Management of market risk

The Company manages its trading business by establishing the limit for VaR which indicates the estimate of the maximum loss amount under a certain probability, position and sensibility, etc., considering the financial situation, the business plan and budget of each division. The risk management department of the Company monitors the market risk and informs the management of the Company on a daily basis. In order to cover the capacity limit of VaR calculated by the statistical hypothesis based on the data obtained for a certain period, the Company applies the stress test with a scenario assuming the impact of a abrupt change in the market and the hypothetical stress events.

(Quantitative information concerning market risk)

The Company utilizes 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, 2014 was ¥1.3 billion ($127 million) in total. In the meantime, the Company executes a back test which compares calculated VaR and the hypothetical 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 businesses which generate credit risk, the Company has established the credit limit based on ratings of counterparties in advance and has monitored notional principals and credit amounts. Especially, in connection with the wholesale business that carries a relatively high credit risks, the Company assesses the credit condition of its counterparties with the qualitative and quantitative analysis based on the rating analysis model. The Company 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, the Company has established the upper limit of holding amount and the holding period in accordance with each issuer's category and credit rating in relation to the relevant financial instruments, and monitored the status of them.

Since 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, the Company has tried to reduce credit risk by establishing credit limit for counterparties, charging necessary collaterals with daily mark to market.

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

The Company holds financial instruments other than trading business such as investment securities for business relationship. For investment securities as long-term holding for the business relationship, etc., the Company decides to acquire or sell the securities in accordance with the policy defined by the relevant company's rules. Also, the Company regularly monitors its investment portfolio.

(Quantitative information concerning market risk)

The main financial asset that is influenced by market risk is "Investment securities" for the business relationship. As of March 31, 2014, market prices of the listed equities in "Investment securities" would fluctuate by ¥0.8 billion ($7.8 million) if the index, such as TOPIX, were to change by 10%.

Also, main financial liabilities in the Company that are influenced by market risk are "Bonds and notes" which is included in "Long term debts" in the accompanying balance sheets. As of March 31, 2014, if all other risk variables suppose to be unchanged and the interest rate suppose to be changed by 10 basis points (0.1%), the fair value of "Bonds and notes" fluctuate by ¥0.4 billion ($3.9 million).

(iii) Management of liquidity risk concerning raising capital

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

The methods of raising capital of the Company include corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, Gensaki transactions and repurchase agreements, etc. The Company realizes the effective and stable raising capital by these.

In terms of financial stability, preparing for a case where the environment vastly changes, the Company endeavors in ordinary times to secure a stable reserve to prevent the business from being disturbed. Especially in recent years, the Company has increased liquidity through raising capital from the market and borrowing from financial institutions, preparing for a world wide financial crisis and credit crunch. Also, the Company tries to diversify the maturity of raising capital and sources of funding preparing for an event in which it becomes difficult to execute new raising capital and to reschedule the existing capital raising due to a financial crisis occurring.

Further, the Company establishes a liquidity management system in accordance with the liquidity coverage ratio suggested by Basel Committee on Banking Supervision. This means that the Company daily monitors whether the liquidity portfolio, which should cover financing proceeds without collateral that has the maturity date within a certain period as well as the estimated cash outflow caused by realization of one of some stress scenarios prepared in advance during the same period, is maintained or not. As a result, the Company has established a system that enables the Company to continue its business even if the Company cannot raise funds.

The Company has established the contingency plan as one of the measures of dealing with liquidity risk. This plan states the 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. This enables the Company to prepare a system securing liquidity with a swift response.

(4) Supplemental explanation on fair values of financial instruments

The fair value of financial instruments include the values based on market prices and the values theoretically calculated if no market price is available. These may be changed with different conditions because a certain condition is applied to calculate theoretical prices.

Fair values of financial instruments

The amounts stated on the balance sheets, fair values and the difference between them as of March 31, 2014 and 2013, are as follows. Financial instruments whose fair values are extremely difficult to determine are excluded from the table below (see Note 2).

Millions of yen

	2014			2013		
	Amounts on balance sheets	Fair value	Difference	Amounts on balance sheets	Fair value	Difference
Assets						
(1) Cash and cash equivalents	¥ 810,681	¥ 810,681	¥ —	¥ 761,498	¥ 761,498	¥ —
(2) Cash segregated as deposits for regulatory purposes	264,140	264,140	—	214,259	214,259	—
(3) Trading assets	5,125,574	5,125,574	—	6,803,463	6,803,463	—
(4) Receivables related to margin transactions	252,014	252,014	—	176,035	176,035	—
(5) Trading account receivables, net	—	—	—	20,233	20,233	—
(6) Collateralized short-term financing agreements	3,752,379	3,752,379	—	2,964,649	2,964,649	—
(7) Short-term guarantee deposits	185,083	185,083	—	182,615	182,615	—
(8) Loans receivable from customers	96,577	96,577		81,802	81,802	—
(9) Loans receivable from other than customers	291,852	291,852	—	142,933	142,933	—
(10) Investment securities						
Held-to-maturity securities	100	100	0	100	100	0
Other securities	6,850	6,850	—	6,629	6,629	—
Total assets	¥10,785,250	¥10,785,250	¥ 0	¥11,354,216	¥11,354,216	¥ 0
Liabilities						
(11) Trading liabilities	¥ 4,035,065	¥ 4,035,065	¥ —	¥ 3,967,646	¥3,967,646	¥ —
(12) Payables related to margin transactions	46,978	46,978	—	45,198	45,198	—
(13) Trading account payables, net	29,346	29,346	—	—	—	—
(14) Collateralized short-term financing agreements	3,047,915	3,047,915	—	4,063,127	4,063,127	—
(15) Payables to customers and counterparties	513,720	513,720	—	365,372	365,372	—
(16) Short-term borrowings	899,500	899,500	—	911,000	911,000	—
(17) Commercial paper	266,480	266,480	—	301,711	301,711	—
(18) Long-term debt	1,256,088	1,232,189	23,898	1,196,289	1,161,042	35,247
Total liabilities	¥10,095,092	¥10,071,193	¥23,898	¥10,850,343	¥10,815,096	¥35,247

	Thousands of U.S dollars		
	2014		
	Amounts on balance sheets	Fair value	Difference
Assets			
(1) Cash and cash equivalents	$ 7,947,853	$ 7,947,853	$ —
(2) Cash segregated as deposits for regulatory purposes	2,589,608	2,589,608	—
(3) Trading assets	50,250,726	50,250,726	—
(4) Receivables related to margin transactions	2,470,726	2,470,726	—
(5) Trading account receivables, net	—	—	—
(6) Collateralized short-term financing agreements	36,788,029	36,788,029	—
(7) Short-term guarantee deposits	1,814,539	1,814,539	—
(8) Loans receivable from customers	946,833	946,833	—
(9) Loans receivable from other than customers	2,861,294	2,861,294	—
(10) Investment securities			
Held-to-maturity securities	980	980	0
Other securities	67,157	67,157	—
Total assets	$105,737,745	$105,737,745	$ 0
Liabilities			
(11) Trading liabilities	$ 39,559,461	$ 39,559,461	$ —
(12) Payables related to margin transactions	460,569	460,569	—
(13) Trading account payables, net	287,706	287,706	—
(14) Collateralized short-term financing agreements	29,881,520	29,881,520	—
(15) Payables to customers and counterparties	5,036,470	5,036,470	—
(16) Short-term borrowings	8,818,628	8,818,628	—
(17) Commercial paper	2,612,549	2,612,549	—
(18) Long-term debt	12,314,588	12,080,284	234,294
Total liabilities	$ 98,971,491	$ 98,737,187	$234,294

(Note 1) Method for fair value measurement of financial instruments

(1) Cash and cash equivalents

Cash and cash equivalents are stated as their book values because they are settled in the short term and fair values are similar to book value. Negotiable deposit is stated as price calculated based on immediately previous traded price including similar products (OTC and broker screen, etc.) by utilizing interest rate spread (reflecting credit spread and supply – demand relationship) with index interest rate for each term (yield curves of major short-term interest rates).

(2) Cash segregated as deposits for regulatory purposes

Cash segregated as deposits for regulatory purposes, which consists 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.

(3) Trading assets and (11) Trading liabilities

Trading securities

Equities	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
Investment trust	Closing price or closing quotations at the exchange, or net asset value

Derivatives

Derivatives traded at exchange	Mainly liquidation prices at the exchange or basic price for calculation margin
Interest rate swaps, etc.	Prices calculated by price valuation models generally acknowledged at the market or the model extending those, based on expected cash flow calculated from yield curve, price and coupon rate of underlying bonds, interest rates, discount rates, volatility, correlation, etc.
OTC equity derivatives	Prices calculated by price valuation models generally acknowledged at the market or the model extending 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 are generally acknowledged at the market or the model extending those, based on all the cash flows 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.

(4) Receivables related to margin transactions and (12) Payables related to margin transactions
Receivables related to margin transactions consist of lending money to customers generated from margin transactions and collaterals to securities finance companies. These are stated as their book value as settled in the short term because the former is settled by reversing trades by customers' decisions and the latter is collaterals marked to market on lending and borrowing transactions.

Payables related to margin transactions consist of customers' borrowings money from securities finance companies and sold amount equivalent of customers generated from margin transactions. These 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' decisions.

(5) Trading account receivables, net and (13) Trading account payables, net
These are stated as their book value because they are settled in the short term and fair values are similar to book value.

(6), (14) Collateralized short-term financing agreements
These are stated as their book value because they are settled in the short term and fair values are similar to book value.

(7) Short-term guarantee deposits and (15) Payables to customers and counterparties
These are mainly deposits as guarantee relating to derivative transactions and stated as their book value as settled in the short term 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 is considered as fair value.

(8) Loans receivable from customers and (9) Loans receivables from other than customers
These are stated as their book value because they are settled in the short term and fair values are similar to book value.

(10) Investment securities

Equities	Closing price or closing quotations at the main stock exchange
Bonds	Reasonably calculated price based on the latest traded prices including those of similar bonds (OTC and broker screen, etc.) or market values information (trading price statistics, etc.) by utilizing spreads with index interest rates, or reasonably calculated price based on the values of collateralized assets

(16) Short-term borrowings and (17) Commercial paper
These are stated as their book value because they are settled in the short term and fair values are similar to book value.

(18) 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 and notes 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 the interest rate of the latest issuance or market prices of similar bonds issued by the Company, etc.

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

(Note 2) Financial instruments whose fair values are extremely difficult to determine are as below and are not included in the "Assets (10) Investment securities—Other securities" of fair value information of financial instruments.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Subsidiaries' stocks and related companies' stocks			
Unlisted equities	¥3,360	¥3,360	$32,941
Other securities			
Unlisted equities	4,436	4,449	43,490
Investments in limited partnership and other similar partnerships	5,452	5,050	53,451
Others	2,281	2,166	22,363

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

(Note 3) Scheduled redemption amount of financial receivables and securities with a maturity date after March 31, 2014

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥ 810,681	¥—	¥—	¥—
Cash segregated as deposits for regulatory purposes	264,140	—	—	—
Receivables related to margin transactions	252,014	—	—	—
Collateralized short-term financing agreements	3,752,379	—	—	—
Short-term guarantee deposits	185,083	—	—	—
Investment securities:				
Held-to-maturity securities	100	—	—	—
Other securities with a maturity date	455	—	—	—
Bonds	—	—	—	—
Other securities	455	—	—	—
Total	¥5,264,852	¥—	¥—	¥—

* Cash segregated as deposits for regulatory purposes is included in "Within 1 year" because it is comprised of trusts for holding customer assets.
* Receivables related to margin transactions are included in "Within 1 year" because they are expected to be settled in the short term.

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	$ 7,947,853	$—	$—	$—
Cash segregated as deposits for regulatory purposes	2,589,608	—	—	—
Receivables related to margin transactions	2,470,726	—	—	—
Collateralized short-term financing agreements	36,788,029	—	—	—
Short-term guarantee deposits	1,814,539	—	—	—
Investment securities:				
Held-to-maturity securities	980	—	—	—
Other securities with a maturity date	4,461	—	—	—
Bonds	—	—	—	—
Other securities	4,461	—	—	—
Total	$51,616,196	$—	$—	$—

* Cash segregated as deposits for regulatory purposes is included in "Within 1 year" because it is comprised of trusts for holding customer assets.
* Receivables related to margin transactions are included in "Within 1 year" because they are expected to be settled in the short term.

(Note 4) Scheduled redemption amount of commercial paper and long-term debt after March 31, 2014

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Commercial paper	¥266,480	¥—	¥—	¥—
Long-term debt	163,199	503,292	176,720	412,877
Total	¥429,679	¥503,292	¥176,720	¥412,877

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Commercial paper	$2,612,549	$—	$—	$—
Long-term debt	1,599,990	4,934,235	1,732,549	4,047,814
Total	$4,212,539	$4,934,235	$1,732,549	$4,047,814

6. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Trading assets:			
Trading securities:			
Equities	**¥ 461,530**	¥ 282,527	**$ 4,524,804**
Government, corporate and other bonds	**2,113,323**	3,448,610	**20,718,853**
Investment trusts	**114,931**	173,378	**1,126,775**
Commercial paper, certificates of deposits and others	**13,972**	7,856	**136,980**
Derivatives:			
Option transactions	**631,427**	608,913	**6,190,461**
Futures and forward transactions	**83,739**	76,154	**820,971**
Swap agreements	**1,674,077**	2,180,773	**16,412,520**
Other derivatives	**40,911**	34,613	**401,087**
Risk reserves	**(8,336)**	(9,361)	**(81,725)**
	¥5,125,574	¥6,803,463	**$50,250,726**
Trading liabilities:			
Trading securities:			
Equities	**¥ 73,436**	¥ 71,734	**$ 719,961**
Government, corporate and other bonds	**2,058,938**	1,415,911	**20,185,666**
Investment trusts	**—**	8	**—**
Derivatives:			
Option transactions	**533,676**	535,859	**5,232,118**
Futures and forward transactions	**101,418**	113,066	**994,294**
Swap agreements	**1,225,553**	1,799,153	**12,015,225**
Other derivatives	**42,044**	31,915	**412,197**
	¥4,035,065	¥3,967,646	**$39,559,461**

Government, corporate and other bonds include convertible bonds.

7. Securities other than trading assets

Cost and fair value of marketable securities as of March 31, 2014 and 2013 consisted of the following:

			Millions of yen
	Cost	Fair value	Difference
March 31, 2014:			
Equities	**¥1,368**	**¥6,850**	**¥5,482**
Bonds	**—**	**—**	**—**
	¥1,368	**¥6,850**	**¥5,482**
March 31, 2013:			
Equities	¥1,592	¥6,629	¥5,037
Bonds	—	—	—
	¥1,592	¥6,629	¥5,037

			Thousands of U.S. dollars
	Cost	Fair value	Difference
March 31, 2014:			
Equities	**$13,412**	$67,157	**$53,745**
Bonds	**—**	—	**—**
	$13,412	$67,157	**$53,745**

Cost/amortized cost of held-to-maturity securities and non-marketable securities as of March 31, 2014 and 2013 consisted of the following:

		Millions of yen	Thousands of U.S. dollars
	2014	2013	**2014**
Held-to-maturity securities	**¥ 100**	¥ 100	**$ 980**
Bonds	**100**	100	**980**
Other securities:	**15,529**	15,025	**152,245**
Equities	**7,796**	7,809	**76,431**
Investments in business partnerships	**5,452**	5,050	**53,451**
Other	**2,281**	2,166	**22,363**
	¥15,629	¥15,125	**$153,225**

8. Pledged assets

Secured obligations at March 31, 2014 and 2013 consisted of the following:

		Millions of yen	Thousands of U.S. dollars
	2014	2013	**2014**
Short-term borrowings	**¥370,000**	¥436,400	**$3,627,451**
	¥370,000	¥436,400	**$3,627,451**

The above obligations at March 31, 2014 and 2013 were secured by the following assets:

		Millions of yen	Thousands of U.S. dollars
	2014	2013	**2014**
Trading assets	**¥393,796**	¥448,679	**$3,860,745**
	¥393,796	¥448,679	**$3,860,745**

In addition to the above, securities borrowed amounting to ¥180,461 million ($1,769,225 thousand) and ¥232,867 million were pledged as guarantee at March 31, 2014 and 2013, respectively.

Total fair value of the securities pledged as collateral at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Securities loaned	**¥1,945,369**	¥2,667,798	**$19,072,246**
Securities sold under agreements to repurchase	**1,103,786**	1,396,684	**10,821,431**
Other	**406,050**	488,172	**3,980,882**
	¥3,455,205	¥4,552,654	**$33,874,559**

Total fair value of the securities received as collateral at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Securities borrowed	**¥3,867,770**	¥3,082,813	**$37,919,314**
Securities purchased under agreements to resell	**45,832**	58,463	**449,333**
Other	**456,442**	406,143	**4,474,922**
	¥4,370,044	¥3,547,419	**$42,843,569**

9. Lease transactions

The information concerning operating leases at March 31, 2014 and 2013 are as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Operating leases:			
Future lease payments in respect of operating leases	**¥19,067**	¥23,639	**$186,931**
Due within one year	**7,373**	7,439	**72,284**

10. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Cash received for customers' accounts	**¥116,952**	¥109,805	**$1,146,588**
Cash deposits received from customers	**388,130**	255,567	**3,805,196**
Other	**8,638**	—	**84,686**
	¥513,720	¥365,372	**$5,036,470**

11. Long-term debt

Long-term debt as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Bond payable in yen: 1.40% due CY2014	**¥ 30,000**	¥ 30,000	**$ 294,118**
Bond payable in yen: 0.94% due CY2015	**41,300**	41,300	**404,902**
Bond payable in yen: 0.49% due CY2015	**20,500**	20,500	**200,980**
Bond payable in yen: 1.26% due CY2017	**19,800**	19,800	**194,118**
Bond payable in yen: 1.72% due CY2020	**18,400**	18,400	**180,392**
Bond payable in yen: 2.16% due CY2025	**7,800**	7,800	**76,471**
Bond payable in yen: 2.41% due CY2026	**3,000**	3,000	**29,412**
Bond payable in yen: 2.24% due CY2026	**5,000**	5,000	**49,020**
Bond payable in yen: 0.51% due CY2026	**2,200**	2,200	**21,569**
Bond payable in yen: 0.59% due CY2032	**3,300**	3,300	**32,353**
Bond payable in yen: 0.25% due CY2033	**3,700**	—	**36,275**
Medium-term notes maturing through CY2042	**690,006**	710,479	**6,764,764**
Subordinated bond payable in yen maturing through CY2021	**58,025**	58,225	**568,872**
Subordinated borrowings in yen maturing through CY2016	**20,500**	31,500	**200,980**
Long-term borrowings in yen maturing through CY2038	**332,557**	244,785	**3,260,362**
	¥1,256,088	¥1,196,289	**$12,314,588**

The amount for medium-term notes as of March 31, 2014 includes US$766,695 thousand and AU$3,000 thousand of foreign currency notes.

12. Retirement benefits

Retirement benefits for employees

(1) Defined benefit plans

Retirement benefits in the balance sheets as of March 31, 2014 and 2013 are ¥23,934 million ($234,647 thousand) and ¥22,612 million, respectively. Benefit expenses stated in the statements of income for the years ended March 31, 2014 and 2013 were ¥2,280 million ($22,353 thousand) and ¥2,998 million, respectively.

Movement in retirement benefit obligations consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Balance at April 1, 2013	**¥22,612**	**$221,686**
Service cost	**2,280**	**22,353**
Benefits paid	**(1,237)**	**(12,127)**
Other	**279**	**2,735**
Balance at March 31, 2014	**¥23,934**	**$234,647**

(2) Defined contribution plan

Benefit expenses to "Defined contribution" for the years ended March 31, 2014 and 2013 were ¥1,997 million ($19,578 thousand) and ¥1,983 million, respectively.

Retirement benefits for directors

Directors' and corporate auditors' retirement benefits of ¥76 million ($745 thousand) and ¥61 million are included in "Retirement benefits" in the accompanying balance sheets as of March 31, 2014 and 2013. Benefit expenses stated for the years ended March 31, 2014 and 2013 were ¥14 million ($137 thousand) and ¥14 million, respectively.

13. Income taxes

A reconciliation of the difference between the statutory tax rate and the effective income tax rate reflected in the accompanying statements of income for the fiscal years ended March 31, 2014 and 2013 were as follows:

	2014	2013
Statutory tax rate	**38.0%**	38.0%
Valuation allowance	**(29.0)**	(31.6)
Other	**(2.4)**	1.7
Effective tax rate	**6.6%**	8.1%

Details of deferred tax assets and liabilities as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Deferred tax assets:			
Net operating losses carry-forward	**¥ 34,083**	¥ 80,270	**$ 334,147**
Retirement benefits	**8,531**	8,148	**83,637**
Compensation and bonuses	**5,733**	5,378	**56,206**
Loss on trading	**6,584**	4,449	**64,549**
Impairment losses	**1,269**	2,900	**12,441**
Depreciation	**698**	1,158	**6,843**
Statutory reserves	**1,197**	872	**11,735**
Write-down of investment securities	**874**	871	**8,569**
Other	**6,115**	5,323	**59,951**
Gross deferred tax assets	**65,084**	109,369	**638,078**
Less: Valuation allowance	**(56,050)**	(100,987)	**(549,510)**
Total deferred tax assets	**9,034**	8,382	**88,568**
Deferred tax liabilities	**4,089**	3,995	**40,088**
Net deferred tax assets	**¥ 4,945**	¥ 4,387	**$ 48,480**

The Company provided valuation allowance to reflect the estimated unrealized amount of gross deferred tax assets.

On March 31, 2014, amendments to the Japanese tax regulations were enacted into law. As a result of these amendments, the statutory income tax rate for the Company will be reduced to 35.64% from 38.01% for years beginning on or after April 1, 2014. Based on the amendments, the statutory income tax rate utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized for the year beginning on April 1, 2014 is 35.64%. For the year ended March 31, 2014, due to this change in statutory income tax rate, net deferred tax assets decreased by ¥513 million ($5,029 thousand) and deferred income tax expenses increased by ¥513 million ($5,029 thousand).

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

The outstanding balances of the guarantees obligated by the Company arising as guarantors of employees' borrowings were ¥212 million ($2,078 thousand) and ¥264 million at March 31, 2014 and 2013, respectively. The outstanding balances of the guarantees obligated by the Company arising as guarantors of derivative transactions of fellow subsidiaries were ¥1,964 million ($19,255 thousand) and ¥1,874 million at March 31, 2014 and 2013, respectively.

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 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 balance sheets.

The maximum amount that the Company can distribute as dividends is calculated based on the financial statements of the Company in accordance with the Act.

Cash dividends of ¥85,000 ($833) per share amounting to ¥68,867 million ($675,167 thousand) were approved by the shareholders' meeting on June 20, 2014.

17. Segment information

The Company'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 for resources to be allocated to the segments and assess their performance. The Company decides operating segments by business market and business category based on organization structure and aggregates to two reporting segments "Retail sales" and "Domestic wholesale".

"Retail sales" provides broad types of products and services mainly to individual and unlisted-corporate customers. "Domestic wholesale" consists of "Global markets" and "Global investment banking". "Global markets" sells and trades stock, bonds, foreign exchange and the other derivatives mainly to institutional investors and investors of business, financial and public-interest corporations both at home and abroad. "Global investment banking" provides various investment banking services such as underwriting of securities and advisory of M&A, etc,. at home and abroad.

The Company changed the designation of the segments to "Retail sales" and "Domestic wholesale", effective April 1, 2013.

(Net operating revenues by reportable segment)

Millions of yen

	Retail sales	Domestic wholesale	Reportable segment total	Others	Total
Year ended March 31, 2014:					
Net operating revenues:					
Sales to customers	**¥244,697**	**¥130,724**	**¥375,421**	**¥499**	**¥375,920**
Intersegment sales and transfers	**—**	**—**	**—**	**—**	**—**
Total	**¥244,697**	**¥130,724**	**¥375,421**	**¥499**	**¥375,920**

Millions of yen

	Retail sales	Domestic wholesale	Reportable segment total	Others	Total
Year ended March 31, 2013:					
Net operating revenues:					
Sales to customers	¥180,006	¥99,175	¥279,181	¥(5,473)	¥273,708
Intersegment sales and transfers	—	—	—	—	—
Total	¥180,006	¥99,175	¥279,181	¥(5,473)	¥273,708

	Thousands of U.S. dollars				
	Retail sales	Domestic wholesale	Reportable segment total	Others	Total
Year ended March 31, 2014:					
Net operating revenues:					
Sales to customers	**$2,398,990**	**$1,281,608**	**$3,680,598**	**$4,892**	**$3,685,490**
Intersegment sales and transfers	**—**	**—**	**—**	**—**	**—**
Total	**$2,398,990**	**$1,281,608**	**$3,680,598**	**$4,892**	**$3,685,490**

* "Others" are the business segments which are not included in the reportable segments.
* "Net operating revenues" consist of "Operating revenue," "Interest expense," and "Commissions and brokerage" (Selling, general and administrative expenses).
* The Company does not disclose the segment information on assets because the management does not allocate it to each segment for managerial decision-making.

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

	Millions of yen		Thousands of U.S. dollars
Net operating revenues	**2014**	2013	**2014**
Reportable segment total	**¥375,421**	¥279,181	**$3,680,598**
Net operating revenues from "Others"	**499**	(5,473)	**4,892**
Commission fee deducted from net operating revenues	**5,684**	8,502	**55,725**
Other adjustments	**(1,242)**	36	**(12,176)**
Net operating revenue of financial statements	**¥380,362**	¥282,246	**$3,729,039**

(Impairment losses on fixed assets by reportable segment)
Not applicable.

(Gains on negative goodwill by reportable segment)
Not applicable.

18. Transactions with related parties

The information on the Company's material transactions with its related parties and individuals for the years ended March 31, 2014 and 2013, and the resulting account balances with those related parties at the balance sheet date are as follows:

Name of related company	Paid-in Capital	Description of transactions		Account balances	Millions of yen 2014
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from borrowings		Short-term borrowings	¥261,929
		Interest expense (Note 1)	¥ 1,363	Long-term debt	67,541
				Accrued and other liabilities—Other	210
Daiwa Capital Markets Europe Limited	£732 million	Continual transactions of collateralized short-term financial agreements		Collateralized short-term financing agreements (Assets)	¥ 16,925
		Interest income (Note 3)	¥ 84	Collateralized short-term financing agreements (Liabilities)	368,221
		Interest expense (Note 3)	378		
		Continual transactions of loans		Loans receivable from other than customers	¥188,115
		Interest income (Note 3)	¥ 455	Receivables—Other	114
		Continual transaction of purchase and sale of securities (Notes 2, 3)			
		Continual transactions of derivatives (Notes 2, 3)		Trading assets	¥ 54,118
				Trading liabilities	27,682
Daiwa Capital Markets America Inc.	$100 million	Continual transactions of collateralized short-term financial agreements		Collateralized short-term financing agreements (Assets)	¥ 33,966
		Interest income (Note 3)	¥ (78)	Collateralized short-term financing agreements (Liabilities)	716,485
		Interest expense (Note 3)	776		
		Continual transaction of purchase and sale of securities (Notes 2, 3)			
Daiwa Capital Markets Investment Asia Limited	$370 million	Continual transactions of derivatives (Notes 2, 3)		Trading assets	¥ 5,806
				Trading liabilities	8,271
Daiwa Capital Markets Hong Kong Limited	HK$100 Million and $677 million	Continual transaction of purchase and sale of securities (Notes 2, 3)			
Daiwa Asset Management Co. Ltd.	¥15,174 million	Agency service agreement for investment trust funds		Receivables—Other	¥ 3,216
		Commissions (Note 4)	¥25,995		
Daiwa Next Bank, Ltd	¥50,000 million	Certificate of deposit			
		Interest income (Note 5)	¥ 76		

* "Daiwa Securities Group Inc." is the parent company of the Company, holding 99.98% of shares.
* "Daiwa Capital Markets Europe Limited.", "Daiwa Capital Markets America Inc.", "Daiwa Capital Markets Investment Asia Limited", "Daiwa Capital Markets Hong Kong Limited", "Daiwa Asset Management Co. Ltd." and "Daiwa Next Bank, Ltd" are subsidiaries of "Daiwa Securities Group Inc.".

Terms and conditions of the transactions and transaction policy
(Note 1) Interest rates on borrowings are determined rationally in consideration of market interest rates.
(Note 2) The description of transaction amount is omitted because these are continual transactions.
(Note 3) Terms of transaction are determined based on the market trends.
(Note 4) It is based on the investment trust contract of each fund. The fee is determined in the same manner as other sales companies.
(Note 5) Interest rates on negotiable certificates of deposit are determined according to the deposit period rationally in consideration of market interest rates.

Name of related company	Paid-in Capital	Description of transactions		Account balances	Millions of yen 2013
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from borrowings		Short-term borrowings	¥223,619
		Interest expense (Note 1)	¥2,645	Long-term debt	62,542
				Accrued and other liabilities—Other	147
Daiwa Capital Markets Europe Limited	£732 million	Continual transactions of collateralized short-term financial agreements		Collateralized short-term financing agreements (Assets)	¥ 42,325
		Interest income (Note 3)	¥ 165	Collateralized short-term financing agreements (Liabilities)	456,437
		Interest expense (Note 3)	631		
		Continual transaction of purchase and sale of securities (Notes 2, 3)			
		Continual transactions of derivatives (Notes 2, 3)		Trading assets	¥ 61,257
				Trading liabilities	41,100
Daiwa Capital Markets America Inc.	$100 million	Continual transactions of collateralized short-term financial agreements		Collateralized short-term financing agreements (Assets)	¥ 14,716
		Interest income (Note 3)	¥ 5	Collateralized short-term financing agreements (Liabilities)	716,371
		Interest expense (Note 3)	1,397		
		Continual transaction of purchase and sale of securities (Notes 2, 3)			
Daiwa Capital Markets Investment Asia Limited	$370 million	Continual transactions of derivatives (Notes 2, 3)		Trading assets	¥142,983
				Trading liabilities	138,396
Daiwa Capital Markets Hong Kong Limited	HK$100 Million and $537 million	Continual transaction of purchase and sale of securities (Notes 2, 3)			
Daiwa Next Bank, Ltd	¥30,000 million	Certificate of deposit		Cash and cash equivalents	¥190,000
		Interest income (Note 4)	¥ 156		

* "Daiwa Securities Group Inc." is the parent company of the Company, holding 99.98% of shares.
* "Daiwa Capital Markets Europe Limited.", "Daiwa Capital Markets America Inc.", "Daiwa Capital Markets Investment Asia Limited", "Daiwa Capital Markets Hong Kong Limited" and "Daiwa Next Bank, Ltd" are subsidiaries of "Daiwa Securities Group Inc.".

Terms and conditions of the transactions and transaction policy
(Note 1) Interest rates on borrowings are determined rationally in consideration of market interest rates.
(Note 2) The description of transaction amount is omitted because these are continual transactions.
(Note 3) Terms of transaction are determined based on the market trends.
(Note 4) Interest rates on negotiable certificates of deposit are determined according to the deposit period rationally in consideration of market interest rates.

Name of related company	Paid-in Capital	Description of transactions		Account balances	Thousands of U.S. dollars 2014
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from borrowings		Short-term borrowings	$2,567,931
		Interest expense (Note 1)	$ 13,363	Long-term debt	662,167
				Accrued and other liabilities—Other	2,059
Daiwa Capital Markets Europe Limited	£732 million	Continual transactions of collateralized short-term financial agreements		Collateralized short-term financing agreements (Assets)	$ 165,931
		Interest income (Note 3)	$ 824	Collateralized short-term financing agreements (Liabilities)	3,610,010
		Interest expense (Note 3)	3,706		
		Continual transactions of loans		Loans receivable from other than customers	$1,844,265
		Interest income (Note 3)	$ 4,461	Receivables—Other	1,118
		Continual transaction of purchase and sale of securities (Notes 2, 3)			
		Continual transactions of derivatives (Notes 2, 3)		Trading assets	$ 530,569
				Trading liabilities	271,392
Daiwa Capital Markets America Inc.	$100 million	Continual transactions of collateralized short-term financial agreements		Collateralized short-term financing agreements (Assets)	$ 333,000
		Interest income (Note 3)	$ (765)	Collateralized short-term financing agreements (Liabilities)	7,024,363
		Interest expense (Note 3)	7,608		
		Continual transaction of purchase and sale of securities (Notes 2, 3)			
Daiwa Capital Markets Investment Asia Limited	$370 million	Continual transactions of derivatives (Notes 2, 3)		Trading assets	$ 56,922
				Trading liabilities	81,088
Daiwa Capital Markets Hong Kong Limited	HK$100 Million and $677 million	Continual transaction of purchase and sale of securities (Notes 2, 3)			
Daiwa Asset Management Co. Ltd.	¥15,174 million	Agency service agreement for investment trust funds		Receivables—Other	$ 31,529
		Commissions (Note 4)	$254,853		
Daiwa Next Bank, Ltd	¥50,000 million	Certificate of deposit			
		Interest income (Note 5)	$ 745		

* "Daiwa Securities Group Inc." is the parent company of the Company, holding 99.98% of shares.
* "Daiwa Capital Markets Europe Limited.", "Daiwa Capital Markets America Inc.", "Daiwa Capital Markets Investment Asia Limited", "Daiwa Capital Markets Hong Kong Limited", "Daiwa Asset Management Co. Ltd." and "Daiwa Next Bank, Ltd" are subsidiaries of "Daiwa Securities Group Inc.".

Terms and conditions of the transactions and transaction policy
(Note 1) Interest rates on borrowings are determined rationally in consideration of market interest rates.
(Note 2) The description of transaction amount is omitted because these are continual transactions.
(Note 3) Terms of transaction are determined based on the market trends.
(Note 4) It is based on the investment trust contract of each fund. The fee is determined in the same manner as other sales companies.
(Note 5) Interest rates on negotiable certificates of deposit are determined according to the deposit period rationally in consideration of market interest rates.

19. Special purpose entities subject to disclosure

The Company utilized six special purpose entities for the year ended March 31, 2014 (six for the year ended March 31, 2013) principally for the securitization of structured notes in order to support securitization of monetary assets of customers. The Company acquires and transfers bonds to those special purpose entities (incorporated in the Cayman Islands) and issues structured notes collateralized by those bonds. The Company doesn't own any shares with voting rights in any of these special purpose entities and has not dispatched any director or employee to them. Notes issued by those special purpose entities subject to disclosure as of the fiscal years ended March 31, 2014 and 2013 are ¥610,541 million ($5,985,695 thousand) and ¥522,784 million, respectively.

20. Net gain on trading

Net gain on trading for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Equities and others	**¥ 50,137**	¥ 34,600	**$ 491,542**
Bonds, forex and others	**111,063**	89,832	**1,088,850**
	¥161,200	¥124,432	**$1,580,392**

21. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Employees' compensation and benefits	**¥ 99,165**	¥ 86,228	**$ 972,205**
Commissions and brokerage	**17,255**	17,582	**169,164**
Communications	**11,121**	10,640	**109,031**
Occupancy and rental	**24,150**	24,649	**236,767**
Data processing and office supplies	**42,246**	40,035	**414,178**
Taxes other than income taxes	**2,671**	2,103	**26,186**
Depreciation	**18,004**	22,327	**176,512**
Other	**11,573**	8,235	**113,457**
	¥226,185	¥211,799	**$2,217,500**

22. Other income (expenses)

Details of "Other, net" in the accompanying statements of operations for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Gains on sales of investment securities	**¥ 1,735**	¥ 913	**$ 17,008**
Losses on sale or disposal of fixed assets	**(527)**	(745)	**(5,163)**
Provision for loss on litigation	**(1,324)**	(521)	**(12,975)**
Other	**1,329**	1,543	**13,022**
	¥ 1,213	¥1,190	**$ 11,892**

23. Subsequent events

None

KPMG

Independent Auditor's Report

To the Board of Directors of Daiwa Securities Co. Ltd.:

We have audited the accompanying financial statements of Daiwa Securities Co. Ltd., which comprise the balance sheets as at March 31, 2014 and 2013, and the statements of income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Daiwa Securities Co. Ltd. as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying financial statements with respect to the year ended March 31, 2014 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 financial statements.

KPMG AZSA LLC

June 27, 2014
Tokyo, Japan

Financial Section
Other Information