

Daiwa Securities Group

Annual Report 2014

Year ended March 31, 2014



EXPANSION
for Sustainable Growth

Profile

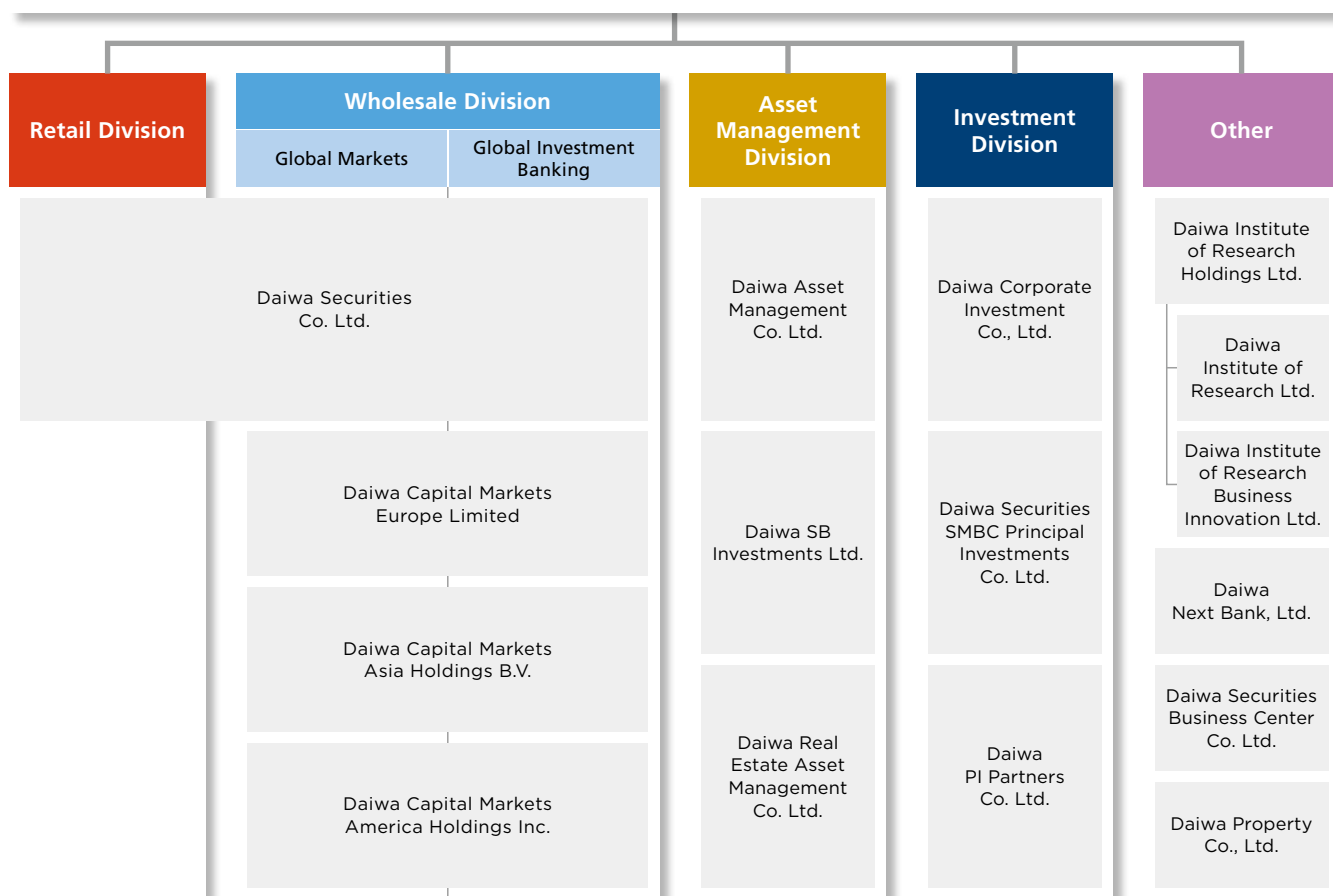
The Daiwa Securities Group is a comprehensive financial services firm with a strong domestic network of 135 branches and sales offices nationwide, as well as a global network of operating offices in 20 countries and regions. The primary businesses of the Group are Retail, Wholesale and Asset Management.

All business divisions and offices in Japan and overseas work in close cooperation, seeking ways to enhance synergy and provide a broad selection of financial products and services that meet the diverse needs of customers.

Structure of Major Companies in the Daiwa Securities Group

(As of June 30, 2014)

Daiwa Securities Group



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Forward-Looking Statements

This annual report contains forward-looking statements about the Daiwa Securities Group. You can identify these statements by the fact that they do not relate strictly to historic or current facts. These statements discuss future expectations, identify strategies, contain projections of results of operations or of financial condition, or state other “forward-looking” information. These statements are based on currently available information and represent the beliefs of the management of the Daiwa Securities Group. These statements are subject to numerous risks and uncertainties that could cause the Daiwa Securities Group’s actual results, performance, achievements or financial condition to differ materially from those described or implied in the forward-looking statements. The Daiwa Securities Group undertakes no obligation to publicly update any forward-looking statements after the date of issuance of this annual report. These potential risks and uncertainties include, but are not limited to: competition within the financial services industries in Japan and overseas, our ability to adjust our business focus and to maintain profitable strategic alliances, volatile and sudden movements in the international securities markets, and foreign exchange and global economic situations affecting the Daiwa Securities Group. “FY2013” refers to the fiscal year ended March 31, 2014, and other fiscal years are referred to in a corresponding manner.

Primary Businesses of the Daiwa Securities Group



Business Scale of the Daiwa Securities Group

135 branches and sales offices

Number of Branches and Sales Offices in Japan—Daiwa Securities

Daiwa Securities Co. Ltd. opened nine new sales offices in FY2013. Through an extensive network of 118 branches and 17 sales offices, Daiwa Securities provides a wealth of financial products and services while also serving as an agent for Daiwa Next Bank, Ltd.

20 countries and regions

Number of Overseas Bases

Working through its overseas network as a comprehensive financial services group, the Daiwa Securities Group supports Japanese companies in their efforts to procure funds and expand their businesses overseas while providing a variety of products that help to deliver international diversified investments to investors in Japan.

¥16.6 trillion

Assets under Management

While the industry as a whole and other major companies continue to stagnate at levels lower than those recorded prior to the financial crisis in 2008, the balance of mutual funds of the Group's two asset management subsidiaries hit a record high of ¥11.2 trillion. As a result, the Daiwa Securities Group continues to maintain its industry-leading market share.

3,600 thousand

Cash Management Service Accounts—Daiwa Securities

The number of cash management service accounts continues to exhibit firm growth. Daiwa's cash management service delivers a high level of convenience through the integrated management of customers' assets from deposits through withdrawals to asset management.

¥48.4 trillion

Customer Assets under Custody—Daiwa Securities

In FY2013, the balance of customer assets at Daiwa Securities greatly increased, centered on equity and mutual funds, amid the favorable market conditions mainly on the back of the weak yen and high stock prices. Successful steps are being taken to steadily expand and solidify the customer base in Japan.

¥2.3 trillion

Deposits in Daiwa Next Bank

Daiwa Next Bank continues to steadily expand its deposit balance. Since it began to handle foreign currency deposits, the bank has surpassed ¥200 billion in seven quarters. By introducing a sweep feature linked to the general securities and NISA accounts at Daiwa Securities, Daiwa Next Bank is leading to growth in new securities transactions.

Notes: 1. The number of Daiwa Securities branches and sales offices in Japan is as of June 30, 2014. Other figures are as of March 31, 2014 or results from FY2013.
2. Net assets under management are the total for Daiwa Asset Management Co. Ltd. and Daiwa SB Investments Ltd.

Daiwa Securities Group

A comprehensive financial services group that serves investors and corporations, by helping them to access capital markets, while also playing a valuable role in society by contributing to economic growth and social development.

Capital Market

1 Financial Assets Management

The Daiwa Securities Group meets the asset management needs of individual investors, institutional investors and pension funds by providing an extensive lineup of investment products – stocks, bonds, investment trusts and “fund wrap” – as well as investment-related services, timely information and investment advice.

Customers can take advantage of various functions and capabilities, including a contact center, online trading, banking and securities trading functions.

2 Consulting

The Daiwa Securities Group provides consulting advice to individual customers on issues such as wealth management, pensions, insurance and inheritance. Consulting services for corporate clients offer support for business succession, business insurance and employee benefit issues.

3 Financing

The Daiwa Securities Group offers underwriting and other advisory services to match the financing needs of corporations, national and local governments, international institutions, public corporations and other entities, for their capital investments, research and other activities. The Group helps them in financing by issuing stocks and bonds, or by securitizing other assets and selling them as structured products.

4 Advisory Services

The Daiwa Securities Group offers consulting and intermediary services to help client corporations expand their operations, particularly via mergers and acquisitions. The Group has a global network covering Japan, Europe, Asia and the Americas, which helps vibrant corporations in Japan and overseas to identify and conclude cross-border M&A agreements.

5 Investment

Through Group companies of private equity firms, the Daiwa Securities Group takes capital positions in unlisted companies – both new ventures and established businesses – using hands-on investment techniques to supply these companies with management support as well as funding.

Domestic and Overseas Network of the Daiwa Securities Group

(As of June 30, 2014)

Daiwa Securities' Domestic Branch Network

Hokkaido and Tohoku Region	10 offices
Kanto Region (excl. Tokyo)	27 offices
Tokyo Area	36 offices
Chubu and Hokuriku Region	19 offices
Kinki Region	20 offices
Chugoku and Shikoku Region	13 offices
Kyushu and Okinawa Region	10 offices

Total 135
(118 head and branch offices / 17 sales offices)

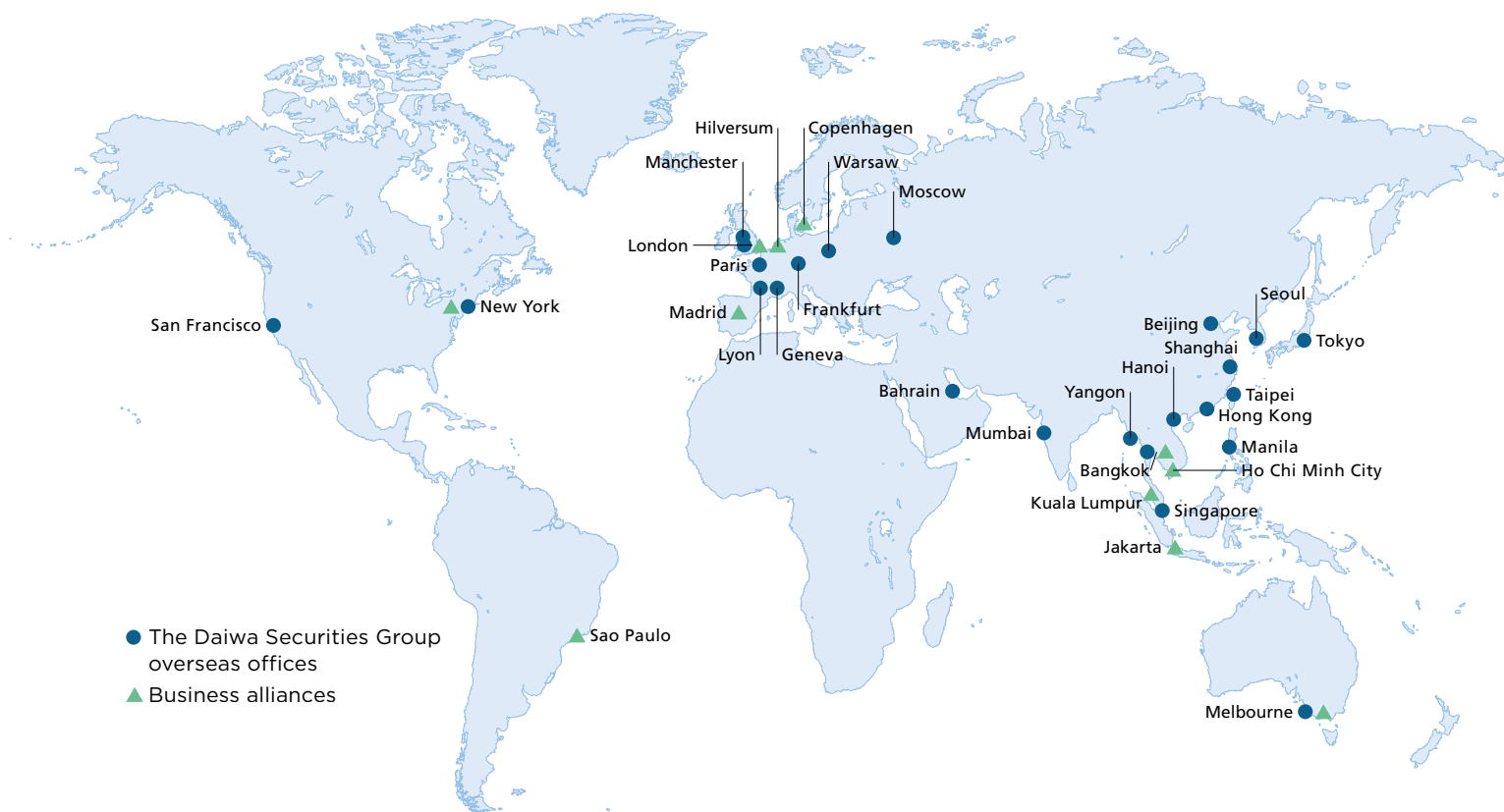
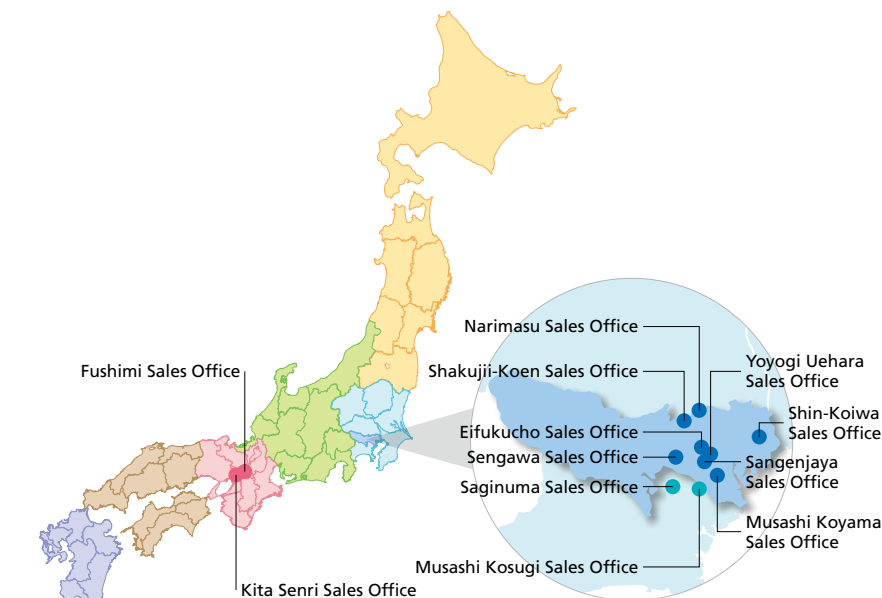
Sales Offices Opened between June 2013 and June 2014

2013

Jun.	Fushimi Sales Office	Kyoto
Jul.	Kita Senri Sales Office	Osaka
Aug.	Shakujii-Koen Sales Office	Tokyo
Sep.	Eifukucho Sales Office	Tokyo
Oct.	Saginuma Sales Office	Kanagawa
Nov.	Narimasu Sales Office	Tokyo
Nov.	Musashi Koyama Sales Office	Tokyo

2014

Feb.	Musashi Kosugi Sales Office	Kanagawa
Mar.	Yoyogi Uehara Sales Office	Tokyo
Apr.	Sangenjaya Sales Office	Tokyo
Apr.	Sengawa Sales Office	Tokyo
Jun.	Shin-Koiwa Sales Office	Tokyo



● The Daiwa Securities Group overseas offices
▲ Business alliances

Business Topics in FY2013

2013

April

- Daiwa Securities and Daiwa Next Bank launch “Premium Service” and “Family Plus”.^{*1}

May

- Total balance of deposits in Daiwa Next Bank’s foreign currency-denominated accounts surpasses ¥100 billion just ten months after the service was launched (July 2012). Growth in the total balance is on track to surpass ¥200 billion by March 2014.

June

- Daiwa Securities jointly manages the largest-ever issuance of corporate bonds for individual investors – a ¥400 billion issuance by SoftBank Corp.

November

- Daiwa Securities arranges and distributes the Banking on Women Bonds to individual and institutional investors. The bonds, issued by International Finance Corporation (IFC), are the first bond program in Japan focused on providing financial support to women entrepreneurs in emerging countries.

September

- Daiwa Securities Group Inc. forms a business alliance with Bahana Securities, a securities brokerage controlled by the Indonesian government. The alliance covers equity brokerage and investment banking operations.



December

- For China Everbright Bank’s public listing in Hong Kong, Daiwa Capital Markets Hong Kong Limited acts as joint book runner for its global offering, while Daiwa Securities serves as sole lead manager for the offering in Japan (POWL^{*2}).

- Daiwa Securities Group forms a business alliance with Malaysia’s Affin Investment Bank Bhd., in the equity brokerage businesses.



2014

March

- Daiwa Real Estate Asset Management Co. Ltd. begins managing Japan’s first health care-related REIT fund which invests in health care facilities, including housing and residential facilities for the elderly (fund was created in January).

February

- Daiwa Securities Group Inc. forms a business alliance with the Australia and New Zealand Banking Group (ANZ), in the M&A advisory business.

January

- Daiwa Securities sets up NISA specialized funds that require no purchase commission, in line with the launch of the NISA.

^{*1} “Premium Service”: Offers customers preferential interest rates on Japanese yen time deposits, based on their current appraisal value of assets under custody at Daiwa Securities.
 “Family Plus”: Allows all family members to benefit from Premium Service features.

^{*2} POWL: Public Offering Without Listing allows overseas companies to use equity markets in Japan in order to acquire capital by issuing and selling securities without having to list their shares on a Japanese stock exchange.

Efforts to Develop Stock Markets in Myanmar during FY2013

2013

April

- Daiwa Securities Group Inc. established the Daiwa Myanmar-Japan Foundation—a scholarship fund which offers individuals who are expected to play a central role in Myanmar’s financial markets a chance to gain educational experience in Japan. The first group of three students from Myanmar stayed in Japan from August to February.
- Daiwa Institute of Research Ltd. formed a joint venture with ACE Data Systems Ltd. of Myanmar, under the name DIR-ACE Technology Ltd. It was the first Japan-Myanmar joint venture to provide IT services in Myanmar. It established Myanmar’s very first data center in Yangon, which commenced operations in July.

May

- Daiwa Institute of Research Ltd. reached an agreement with the Central Bank of Myanmar under which it will develop a cloud-type computing system for the bank, and provide it with technical support in the IT field.



December

- The Daiwa Myanmar-Japan Foundation and the Myanmar Institute of Certified Public Accountants signed a memorandum of understanding, under which the foundation will help with human capacity building for accountants in Myanmar.
- Daiwa Securities and Myanmar Securities Exchange Centre Co., Ltd concluded an IPO advisory services contract with Asian Green Development Bank Ltd., in conjunction with its expected listing on the soon-to-be established Yangon Stock Exchange.



Financial Highlights

Daiwa Securities Group Inc. (Consolidated)

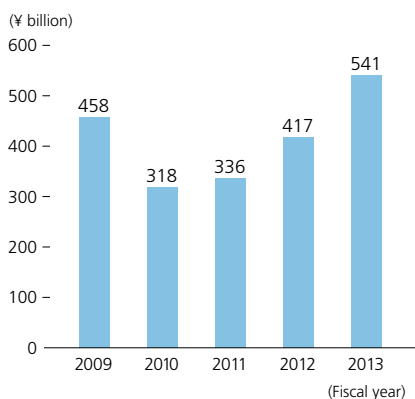
Note: Please refer to pages 60–61 for the “Twelve-Quarter Financial Summary.”

Millions of yen (Except as otherwise specified)

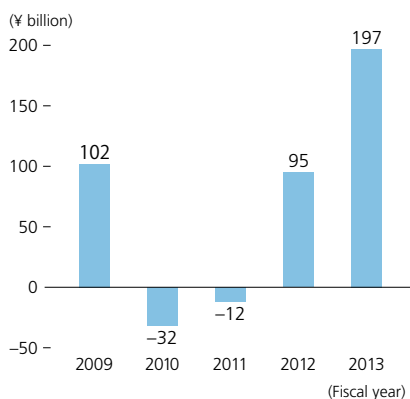
	FY2009	FY2010	FY2011	FY2012	FY2013
Operating Performance					
Operating revenues	537,914	403,042	422,375	525,412	642,830
Commissions	252,863	218,630	220,845	229,523	301,937
Brokerage commission	55,841	50,665	40,783	48,872	89,634
Underwriting commission	54,339	26,303	19,508	26,684	29,606
Distribution commission	33,451	31,580	49,139	46,608	55,968
Other commission	109,232	110,082	111,415	107,359	126,729
Net gain on trading	110,955	92,477	79,416	123,537	156,500
Profit (loss) on equity trading	24,481	(8,797)	(6,464)	38,182	47,315
Profit on bond and foreign exchange trading	86,474	101,274	85,880	85,355	109,185
Net gain (loss) on private equity and other investments	75,584	(17,259)	1,956	16,531	17,454
Interest and dividend income	54,729	71,916	79,762	93,276	107,975
Service fees and other revenues	43,783	37,278	40,396	62,545	58,964
Interest expense	47,659	58,062	59,691	70,131	60,333
Cost of service fees and other revenues	32,150	26,415	26,668	37,973	40,546
Net operating revenues	458,105	318,565	336,016	417,308	541,951
Selling, general and administrative expenses (SG&A)	362,844	363,920	359,729	333,496	357,358
Operating income (loss)	95,261	(45,355)	(23,713)	83,812	184,593
Ordinary income (loss)	102,918	(32,602)	(12,201)	95,176	197,045
Net income (loss)	43,429	(37,332)	(39,435)	72,910	169,457
Comprehensive income (loss)	—	(45,049)	(52,580)	139,327	221,257
Financial Conditions (Fiscal year-end)					
Total assets	17,155,345	16,842,412	18,924,038	19,049,099	19,480,864
Trading assets	7,654,334	6,770,479	8,876,950	8,849,128	7,110,968
Private equity investments	218,841	177,561	138,177	113,834	107,860
Investment securities	191,905	188,857	159,096	192,906	200,456
Net assets	1,017,529	921,399	951,702	1,082,567	1,253,463
Per Share Data (Yen)					
Net income (loss)*	26.41	(21.90)	(23.41)	43.00	99.63
Net assets	530.27	496.76	463.04	536.72	633.53
Cash dividends applicable to the year	13.00	6.00	6.00	15.00	34.00

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

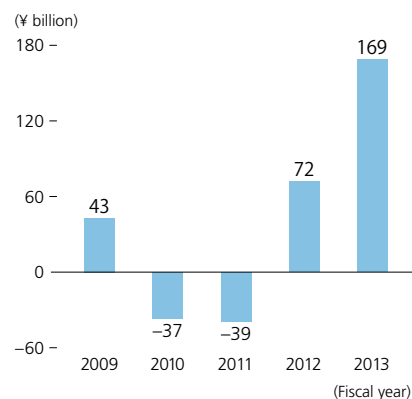
Net Operating Revenues



Ordinary Income



Net Income



Operational Data

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	Billions of yen (Except as otherwise specified)		
	FY2011	FY2012	FY2013
Daiwa Securities			
Customer assets*	41,451	45,967	48,471
Equities	19,838	23,862	26,703
Bonds	14,357	13,952	13,012
Investment trusts	6,393	7,138	7,594
Others	861	1,014	1,161
Sales of core products (Retail division)			
Mutual funds	2,049	1,842	2,428
Foreign bonds and others	999	1,104	1,469
Net inflow of retail assets (Retail division)	1,060	615	522
Individuals	807	404	255
Unlisted corporations, etc.	253	210	266
Cash Management Service (CMS) accounts* (thousands)	3,455	3,492	3,603
Online trading accounts* (thousands)	2,457	2,586	2,753
Daiwa Asset Management			
Net assets under management*	9,125	10,476	12,023
Mutual funds	6,624	7,875	8,958
Bond investment trusts	2,500	2,600	3,065

*As of the end of each fiscal year

Consolidated Capital Adequacy Ratio

The consolidated total capital adequacy ratio was 21.8% as of March 31, 2014.

		100 millions of yen	
		3/13	3/14
Total Qualifying Capital	(D)=(A)+(B)+(C)	9,531	10,804
Tier 1 Capital (common equity, etc.)	(A)	9,048	10,218
Tier 1 Capital (other)	(B)	—	157
Tier 2 Capital	(C)	483	429
Total Risk-Weighted Assets	(E)	47,552	49,515
Credit Risk		27,526	29,205
Market Risk* ¹		12,758	11,557
Operational Risk* ¹		7,268	8,753
Consolidated Tier 1 Capital Ratio (common equity, etc.)	(A)/(E)	19.0%	20.6%
Consolidated Tier 1 Capital Ratio	((A)+(B))/(E)	19.0%	20.9%
Consolidated Capital Adequacy Ratio* ²	(D)/(E)	20.0%	21.8%

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

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

To Our Stakeholders



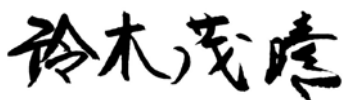
The Daiwa Securities Group recognizes its responsibility, as a corporate member of society, to contribute to the sustainable development of society as well as the economy through its activities in financial and capital markets. Under our current Medium-Term Management Plan, “Passion for the Best” 2014, our transitional process from “Growth” phase in FY2013 to “Expansion” phase in FY2014 is positioned as a milestone for us to fulfill this responsibility. Drawing on this concept, this year’s annual report is titled “Expansion for Sustainable Growth” and it will show how the Group intends to reach this milestone.

The balance of household financial assets in Japan is currently estimated at some ¥1,600 trillion, and these assets are gradually being shifted “from savings to investment.” The Daiwa Securities Group aims to facilitate this shift by cultivating and expanding its client base. By helping growth-oriented companies and public-sector organizations to tap into the vast supply of capital formerly tied up in savings deposits, the Group hopes to invigorate the Japanese economy while also establishing a customer base that can support the Group’s own long-term growth.

The Group is also developing and marketing new financial products, such as “impact investment bonds,” for which investors expect attractive returns while also making a positive social or societal contribution, such as alleviating poverty or elevating the status of women in developing countries. In this way, Japanese investors can make a meaningful contribution to the resolution of global issues. The Daiwa Securities Group will continue its efforts to develop innovative financial products and services that seek to use investment activity as a means to address social concerns.

In FY2014 – the final year of our current Medium-Term Management Plan – the Daiwa Securities Group will continue its efforts to expand client-based high-quality earnings in order not only to secure sustainable growth, but also to contribute to vibrant sustainable economic and social conditions. We believe that the Group can enhance its corporate value by promoting a society of sustainable growth. All executives and employees of the Group are united in their passion to realize a future in which everyone can take pride.

As we work toward achieving this goal, we kindly request the continued support and understanding of all stakeholders.



Shigeharu Suzuki

Chairman of the Board
Daiwa Securities Group Inc.



Takashi Hibino

President and CEO
Daiwa Securities Group Inc.

Message from the CEO



Earnings at the Daiwa Securities Group rose sharply in FY2013, and while the Group received benefits from favorable market conditions during the period, the strong performance was also a testament to the steady progress that the Group has made in implementing the current Medium-Term Management Plan. The stated goal of our strategy is “to establish a robust business structure capable of securing profit even under stressful economic conditions.”

FY2014 is the final year of the current Medium-Term Management Plan. By taking the lead in the dynamic shift of Japanese household assets “from savings to investment,” which is set as a core management strategy, the Group will move into a new phase of the Medium-Term Management Plan: “Expansion for Sustainable Growth.”

In April 2012, the Daiwa Securities Group merged its two main subsidiaries, which formerly exercised separate control over the Group's Retail securities business and its Wholesale securities business, to establish a unified "new Daiwa Securities." The Group also launched its Medium-Term Management Plan covering the period from FY2012 to FY2014 at the same time. Based on the outline of the Medium-Term Management Plan, we have been making efforts to "establish a robust business structure capable of securing profit even under stressful economic conditions." In FY2012, the Group returned to profitability in line with the "Turnaround" phase of the plan. In FY2013, we took the next step by introducing strategies aimed at "Growth."

Business conditions in FY2013 got off to a positive start, as the Bank of Japan introduced both quantitative and qualitative monetary easing policies from April 2013 which led to a weaker yen and higher stock prices. Although there have been occasional periods of instability in the Japanese equity market, there was a sharp increase in trading activity in Japanese equity markets on the back of expectations for ending the deflationary cycle by the government's economic policies (often referred to as "Abenomics") and the strong US economy.

Against this backdrop, net operating revenues at the Daiwa Securities Group rose 29.9% year on year, to ¥541.9 billion, ordinary income more than doubled, to ¥197.0 billion, and net income grew 132.4%, to ¥169.4 billion. Net income thus reached its highest level in 24 years, and ordinary income far surpassed the ¥120 billion target set for FY2014, the final year of the current Medium-Term Management Plan. While favorable market conditions contributed to earnings growth, much of the improvement was a result of factors specific to the Daiwa Securities Group. Changes made to the Group's organizational structure and business strategy with the launch of the "new Daiwa Securities" began to take effect even before the positive boost provided by Abenomics. These measures reduced expenses and placed priority on the development of client-based high-quality earnings. Earnings results for FY2013 clearly illustrate the success of Group efforts to "establish a robust business structure." Indeed, the Group's fixed cost coverage ratio reached 52%, surpassing the 50% target level, a year ahead of schedule. This ratio is the most important key performance indicator set in the current Management Plan.

In FY2014, the Group has moved into the "Expansion" phase of its current Medium-Term Management Plan. The new tax exemption scheme for investments by individuals, NISA (the Nippon Individual Savings Account) launched in January 2014, is expected to have a positive impact on the shift "from savings to investment." The Daiwa Securities Group as a whole will step forward to accomplish sustainable growth with its primary focus on both expanding its client base and increasing client-based high-quality earnings.

Takashi Hibino

President and CEO
Daiwa Securities Group Inc.

Message from the Chairman



The Daiwa Securities Group is rooted in the four corporate principles of “building trust,” “placing importance on personnel,” “contributing to society,” and “securing sound profits.” As the foundation from which we conduct business, these corporate principles express our deeply ingrained spirit and core business values that allow us to participate in financial and capital markets with pride and integrity.

Under these principles, we have spared no effort to create an organization where each member of the Group can feel a sense of high job satisfaction, by promoting a higher dimension of work-life balance and thorough compliance education, in our aim of being a highly sustainable company that does not succumb to chasing near-term profits. The greatest competitive advantages we have are the sense of unity and trust across the entire Daiwa Securities Group, as well as the high level of loyalty and professionalism among management and employees regardless of gender.

After a prolonged slump, the Japanese stock market finally started to undergo a massive transformation when the Abe administration came to power in December 2012. This transformation brings not only business opportunities for the Daiwa Securities Group to achieve sustainable growth, but also opportunities to contribute to the realization of a sustainable society through our core business activities. To lead the transition “from savings to investment,” the Daiwa Securities Group has set a goal for all of its managers and employees to be the most reliable partner in the formation of assets for customers, as it accelerates management initiatives centered on its corporate principles.

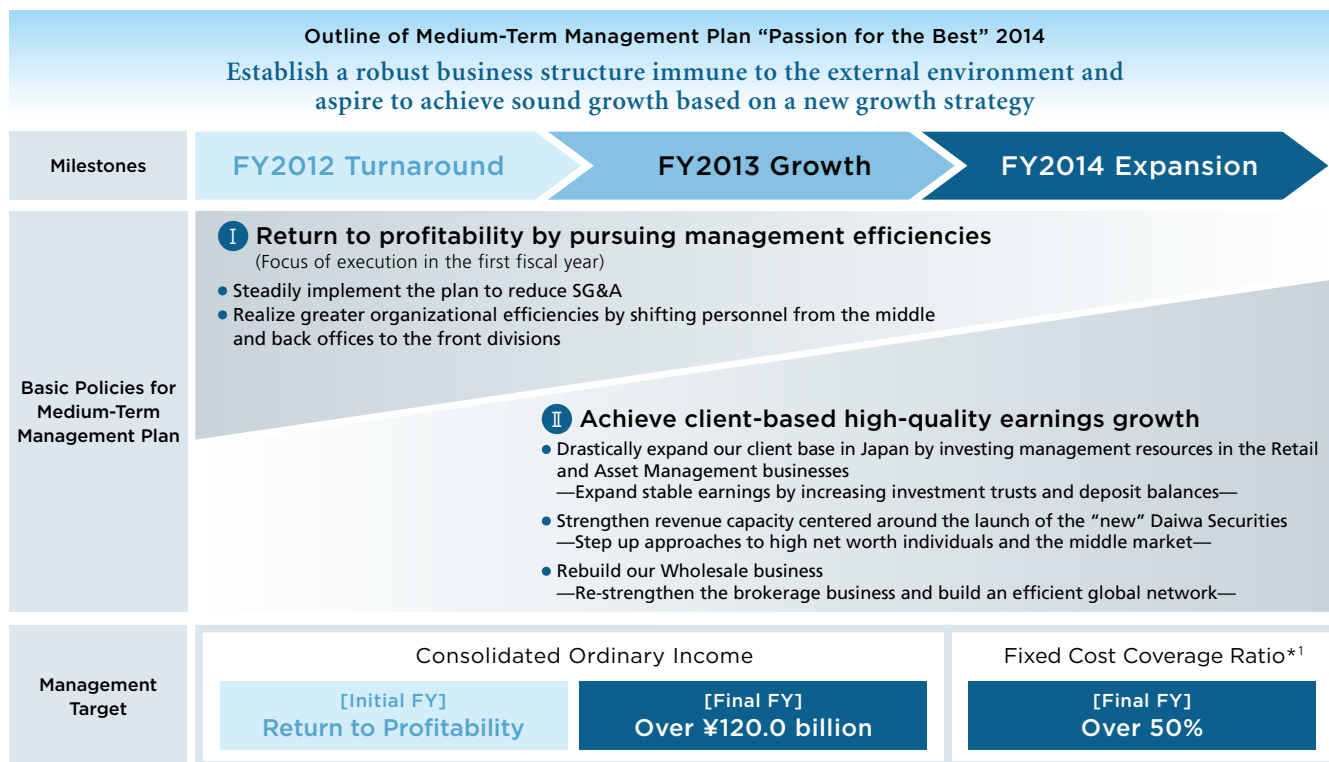
Shigeharu Suzuki

Chairman of the Board
Daiwa Securities Group Inc.

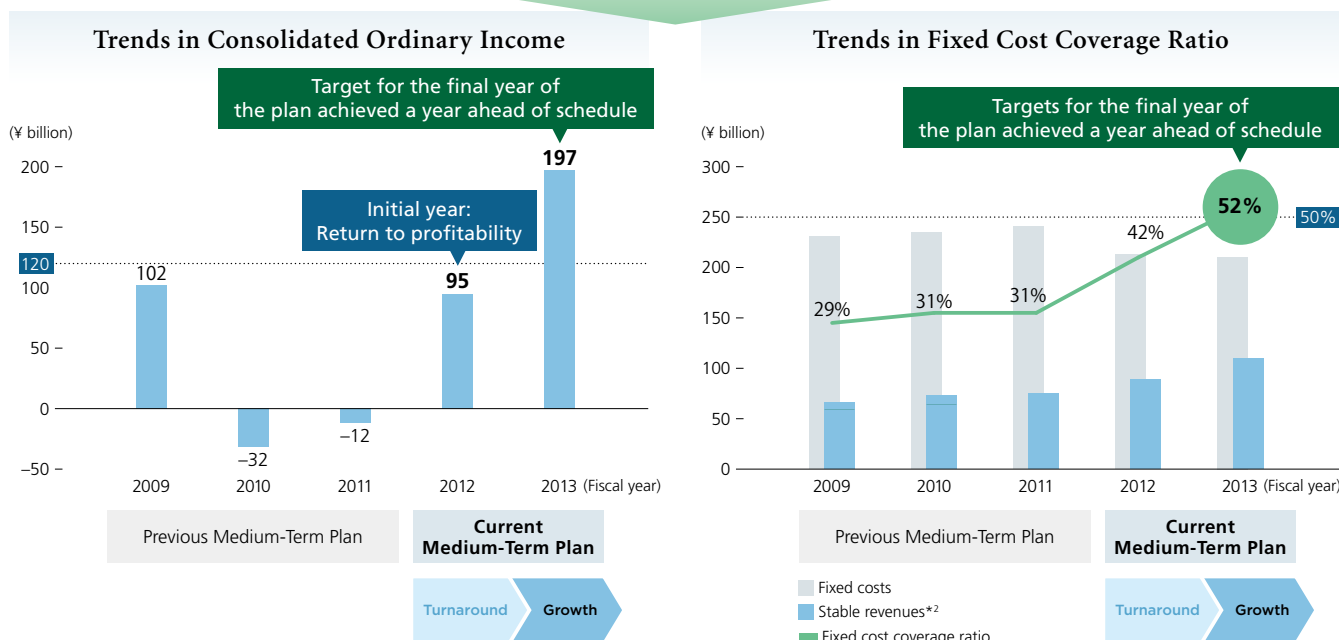
14	Plans and Progress under the Medium-Term Management Plan – “Passion for the Best” 2014
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Business Strategy

Plans and Progress under the Medium-Term Management Plan – “Passion for the Best” 2014



Achieved targets set for the final year of the plan, a year ahead of schedule



*1 Fixed cost coverage ratio = stable revenues / fixed costs

*2 Stable revenues include asset management fees, investment trust agency fees, Daiwa Next Bank profit margins, and others.

Expansion for sustainable growth

In the final year of the Medium-Term Management Plan, the Daiwa Securities Group will focus on further expanding its client base.

This “expansion” will provide the foundation for sustainable growth.

Some numerical targets for the final year of the plan were revised

Maintain consolidated ordinary income of over ¥120.0 billion
Revise up the fixed cost coverage ratio to 60% (FY2014 4Q annualized)

Revised management targets	Consolidated ordinary income	Fixed cost coverage ratio* ³
	[for FY2014] Over ¥120.0 billion	[FY2014 4Q annualized] Over 60%

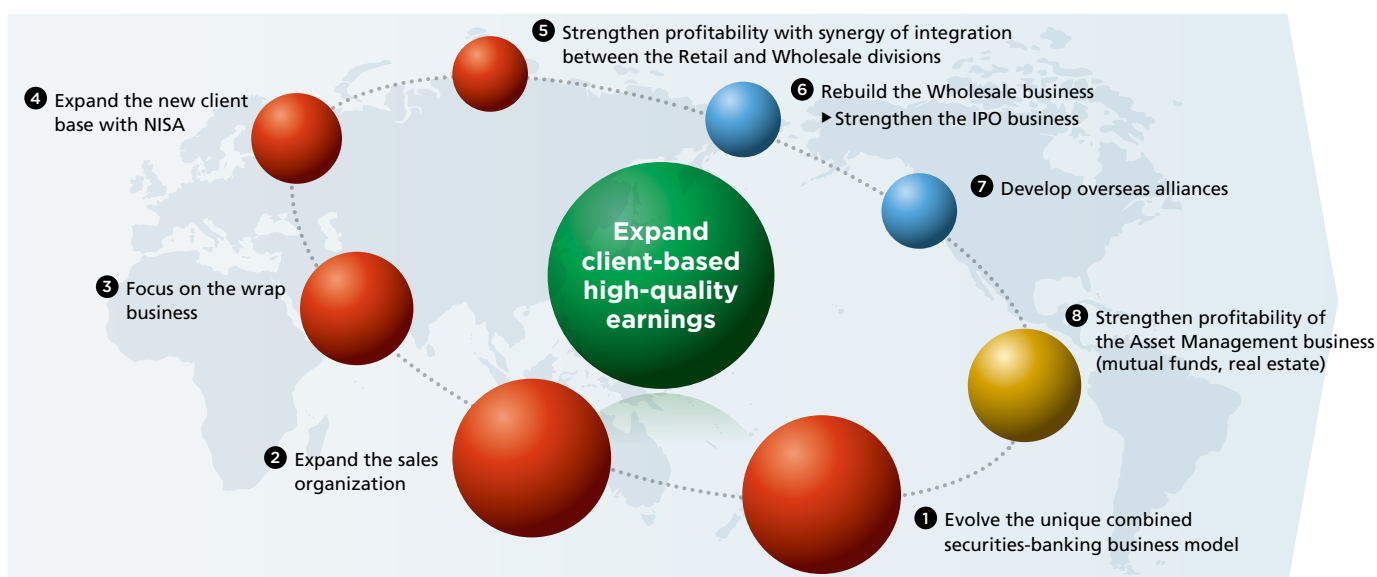
*³ More precise calculations of the fixed cost coverage ratio are based on an analysis of stable revenue sources across the entire Group.

Policy objectives for FY2014

The Daiwa Securities Group as a whole will focus on accelerating the shift “from savings to investment.” By taking the lead in helping individuals make more active use of their vast pool of financial assets, the Group expects to expand its own business scope while also contributing to growth in the domestic economy.

FY2014 Expansion

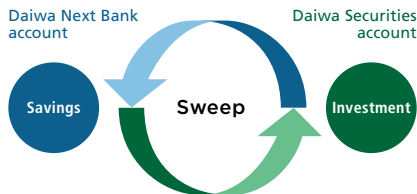
Sustainable growth



Expand client-based high-quality earnings

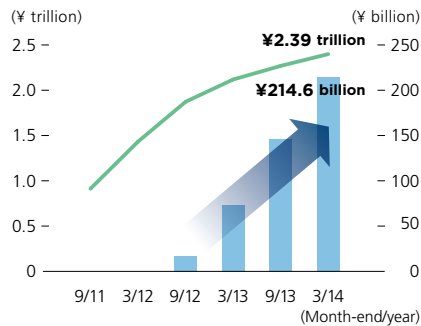
① Evolve the unique combined securities-banking business model

Comprehensive services within the Group run the gamut “from savings to investment”



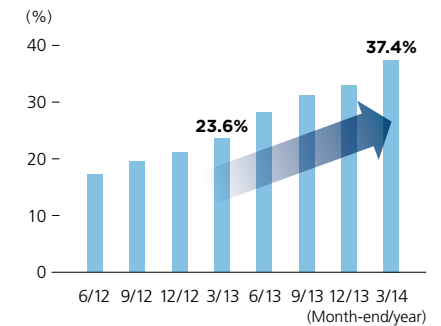
- In the Group's integrated securities and banking business model, Daiwa Next Bank serves as the gateway for assets to be shifted “from savings to investment.”
- Daiwa Securities accounts including NISA accounts transfer dividend income and proceeds from securities sales immediately into Daiwa Next Bank savings accounts or time deposit accounts, which offer attractive interest rates.

Total balance of deposits at Daiwa Next Bank



- Total balance of deposits (left)
- Balance of foreign currency-denominated deposits (right)
- Since the bank began offering foreign currency-denominated accounts in July 2012, the balance of such deposits has soared to over ¥200 billion.

Cross-selling efforts encourage investment

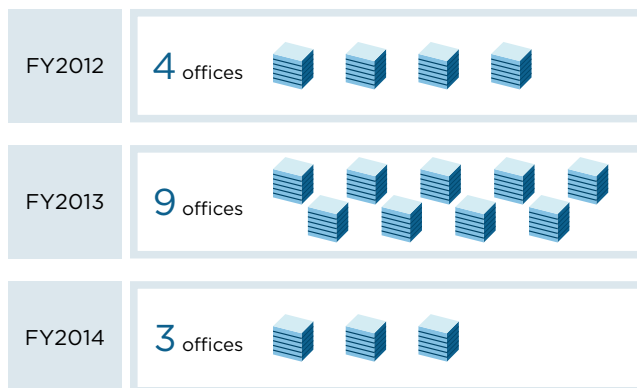


- Securities investments promoted to new customers attracted by Daiwa Next Bank's time deposit services have achieved a cumulative 37.4% cross-selling ratio*.

* Accumulated cross-selling ratio = Accumulated total number of cross-selling accounts / accumulated total number of newly-opened time deposits accounts

② Expand the sales organization

Focus on sales offices helps to restrain the total cost of opening new branches



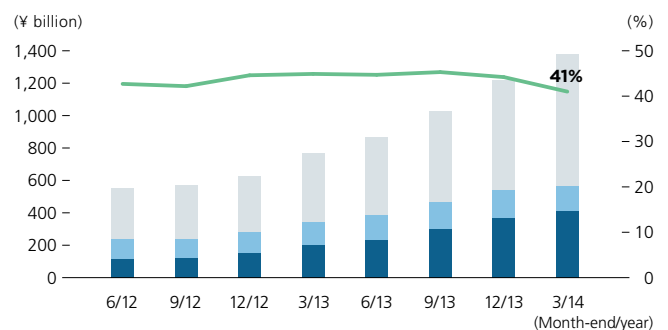
(As of June 30, 2014)

Improving the efficiency of sales activities

- Use of the contact center to handle incoming calls
- Use of advanced IT capabilities, by issuing tablet PCs and smartphones to the sales force
- More time can be devoted to face-to-face customer service.

③ Focus on the wrap business

Industry-wide balance of wrap account service and Daiwa Securities' market share



- Daiwa Fund Wrap (left)
- Daiwa SMA (left)
- Total of other companies' “wrap”-type accounts (left)
- Daiwa Securities' share of total (right)

Source: Daiwa Securities and Japan Investment Advisers Association

- The balance of assets in Daiwa Securities' “wrap” accounts (Daiwa SMA and Daiwa Fund Wrap) surpassed ¥500 billion, giving the Group the top market share in the industry (41%).

④ Expand the new client base with NISA

17

- Daiwa Securities now offers 17 no-load funds designed exclusively for NISA accounts.

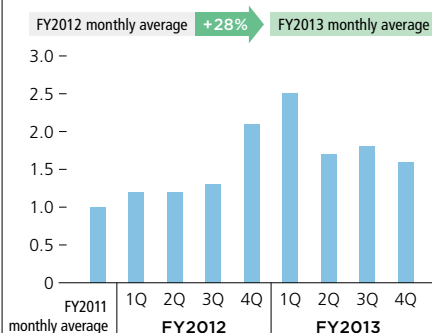
568

 thousand

- Total number of NISA accounts opened as of the end of March 2014

⑤ Strengthen profitability with synergy of integration between the Retail and Wholesale divisions

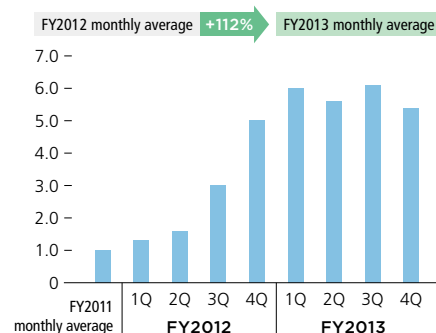
Revenues from middle market operations*



- Middle-market revenues remained high throughout the fiscal period, rising 28% on average.

* Indexed average, where monthly average for FY2011 is set equal to 1.0

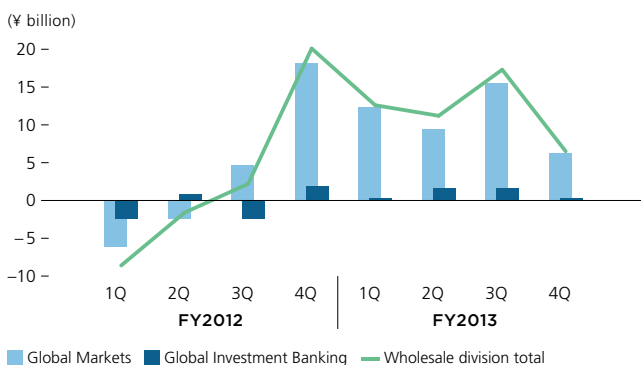
Retail division – Sales of privately placed structured bonds*



- Since the two securities subsidiaries were merged, closer cooperation between structured product development and sales operations contributed to a dramatic increase in sales of structured bonds by private placement.

⑥ Rebuild the Wholesale business

Ordinary income trends in the Wholesale division (global)



- Since 3Q FY2012, the Wholesale division has generated positive ordinary income for six consecutive quarters, while losses from overseas offices were reduced to just half of FY2012 levels.

⑦ Develop overseas alliances

ASEAN region		
Feb. 2013	Thanachart Securities Plc. (Thailand)	Equity operations
Sep. 2013	PT. Bahana Securities (Indonesia)	Equity operations
Dec. 2013	Affin Investment Bank Bhd. (Malaysia)	Equity operations
Other regions		
Feb. 2014	Australia and New Zealand Banking Group Ltd. (Australia)	Investment banking
Apr. 2014	Sanford C. Bernstein Ltd. (UK)	Equity operations

Research coverage of ASEAN equities*¹

18 stocks → Over 270 stocks*²

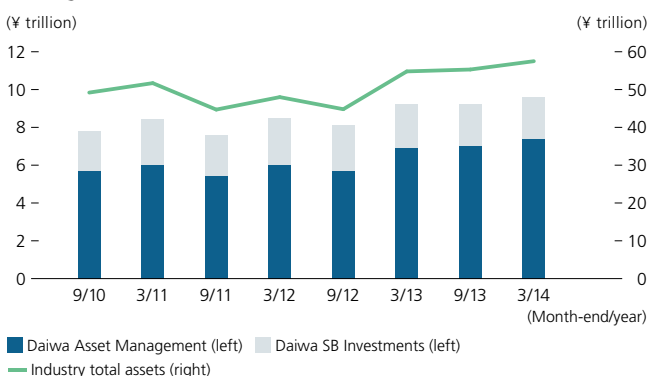
- By developing overseas alliances, Daiwa Securities can expand its overseas business network while minimizing costs.

*¹ Excluding the Philippines and Singapore

*² As of the end of March 2014

⑧ Strengthen profitability of the Asset Management business (mutual funds, real estate)

Trends in the balance of mutual fund assets under management (excl. ETFs)



- The balance of assets in publicly offered mutual funds managed by the two Group companies continues to rise, giving the Daiwa Securities Group the industry's largest market share.

Trends in the balance of assets under management, Daiwa Office Investment Corporation (J-REIT)



- Daiwa Real Estate Asset Management operates three real estate investment trusts (REITs), each of which specializes in a particular type of real estate investment: office buildings*¹, residential rental properties*² and health care facilities*³. The total balance of assets in these three REITs has surpassed ¥420 billion.

*¹ Daiwa Office Investment Corp. (J-REIT)

*² Daiwa Residential Private Investment Corp.

*³ Nippon Healthcare Investment Corp.

Interview with the CEO

Expansion

Growth
Turnaround

Takashi Hibino

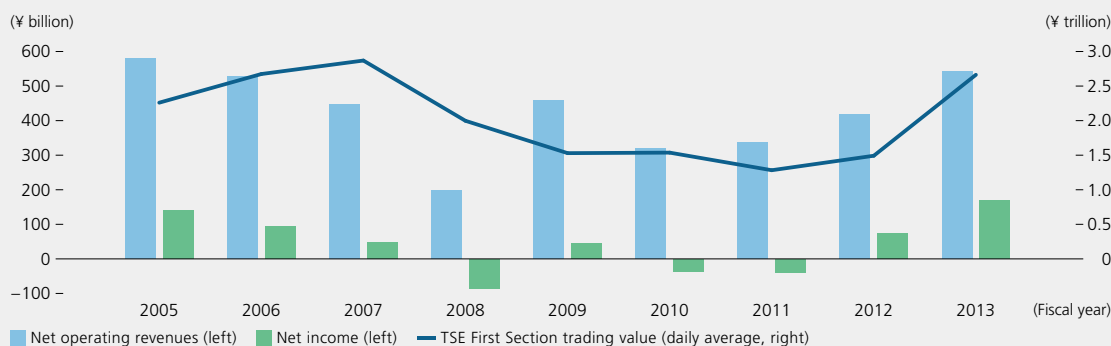
President and CEO
Daiwa Securities Group Inc.

— In FY2013, the Daiwa Securities Group embarked on the second phase of its Medium-Term Management Plan “Passion for the Best” 2014, which was entitled “Growth.” Looking at earnings results for the period, do you think the Group accomplished the goals for this phase of the plan?

Hibino: I think the earnings results for FY2013 are a fine reflection on the theme of this phase of the plan: “Growth.” It was particularly gratifying to meet two of the final year management targets of the Plan, “Consolidated ordinary income of more than ¥120 billion” and “Fixed Cost Coverage Ratio of more than 50%,” a year ahead of schedule. For FY2013, the Group accomplished consolidated ordinary income of ¥197 billion and fixed cost coverage ratio of 52%.

Consolidated net income, meanwhile, reached a record high level of ¥169.4 billion, boosting shareholders’ equity to ¥1,078.5 billion. Under the Basel III standards for capital adequacy, the Group achieved a consolidated capital adequacy ratio of 21.8% as of the end of March 2014. From this perspective, the Group maintains a comparatively strong financial base for a financial institution. Dividend payments for the period were set at ¥34 per share, reaching the previous record high, set in FY2005.

Comparison of Consolidated Earnings Trends and Market Conditions



— **Business conditions in FY2013 were extremely favorable, due to the positive impact of “Abenomics.” Did these conditions play a major role in accelerating the progress of the Medium-Term Management Plan?**

Hibino: The additional boost provided by strong market conditions was certainly one factor in allowing the Group to post record-high profits. Moreover, it is particularly worth noting that the Group succeeded in developing a diversified and stable earnings base, and increased client-based high-quality earnings further.

For example, take the headline figure for consolidated net operating revenues – ¥541.9 billion. This is the second-highest figure registered since the turn of the century, slightly below the ¥579.3 billion profit posted in FY2005. However, if you compare the breakdown of net operating revenues, as shown in the two pie graphs below, it is clear that much of the revenues in FY2005 were generated by securities trading and brokerage commissions which depended heavily on market trends. These “flow-based” revenues accounted for 60% of total net operating revenues. By contrast, in FY2013, net gains on trading and brokerage commissions made up just 46% of net operating revenues.

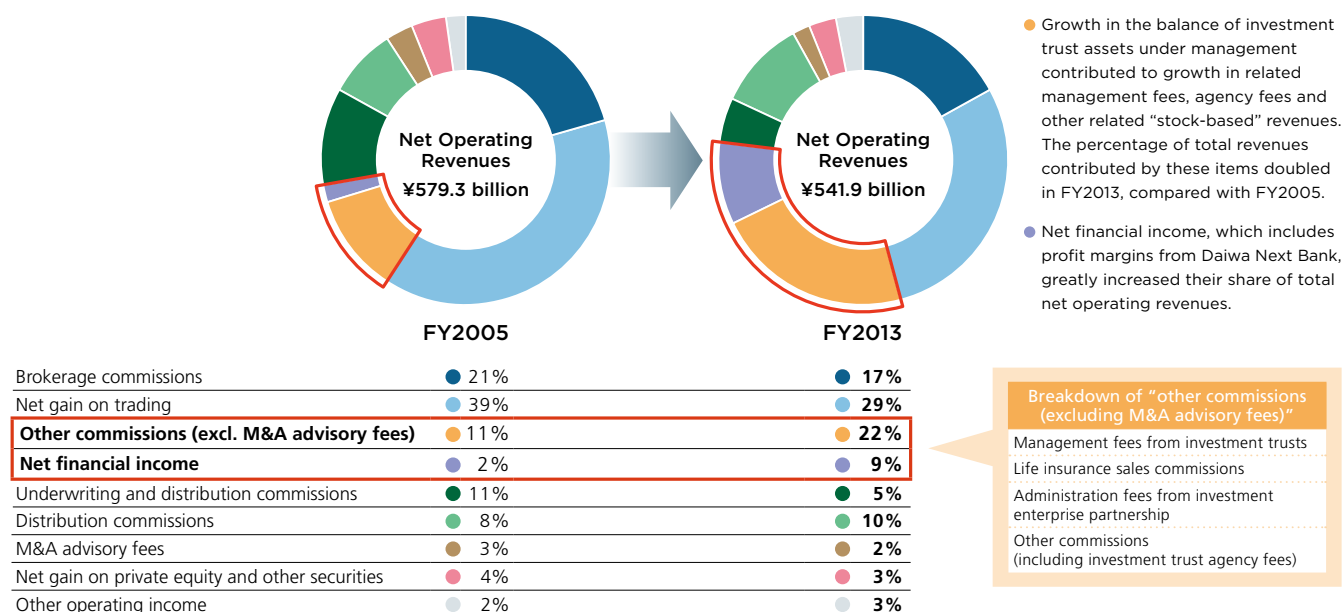
On the other hand, “other commissions” (excluding M&A advisory fees) accounted for just 11% of revenues in FY2005, but doubled its percentage to 22% in FY2013. A breakdown of this category shows that most (approximately 80% of “other commissions”) was generated by fund management fees and agency fees from investment trusts. Net financial income, which includes profit margins from Daiwa Next Bank, grew from just 2% of total net operating revenues in FY2005 to 9% in FY2013.

Since 2011, the Group has been developing new businesses that generate additional stable revenues, such as banking and REIT-related operations. As the Daiwa Securities Group cultivates more diverse and stable businesses, our earnings structure has become less affected by changes in market conditions.

COMMITMENT

Business diversification and the increase in stable revenues have allowed the Group to make further progress in developing a robust business structure which is less affected by market conditions.

Breakdown of Earnings by Business Segment



FY2014 marks the final phase of the Medium-Term Management Plan, entitled “Expansion.” Since FY2013, results have already met the final year management targets set out in the original plan. Do you plan to revise the objectives for the current fiscal year?

Hibino: As I have already noted, the positive impact of “Abenomics” and favorable business environment elevated FY2013 earnings to a large extent. We cannot assume that these benefits will persist, so we have decided not to alter the ordinary income target of ¥120 billion.

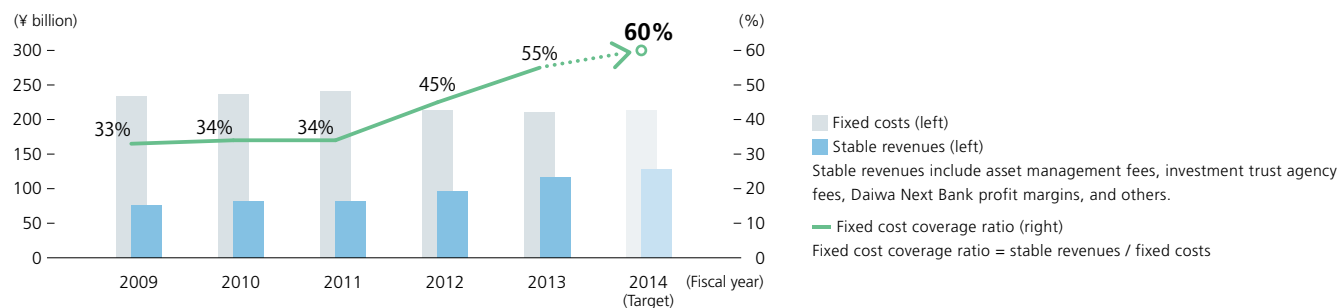
There are also some potential risk factors to address in FY2014, including shadow banking problems in China, a possible slowdown in emerging economies and geopolitical factors that could lead to economic and market uncertainty. Consequently, we expect that the global economy is likely to decelerate during the period. On the other hand, the Japanese economy seems to be stable, with gradual economic growth proceeding despite the impact of a consumption tax hike, and market conditions remaining positive due to the weak yen and firm stock prices. Under the market environment just described, ordinary income of more than ¥120 billion is a target that we should achieve on a stable and continuous basis.

We did, however, make an upward revision to the fixed cost coverage ratio target, from 50% to 60%. I should point out that this target applies to the annualized figure for the fourth quarter, and not the ordinary full year figure. We have also taken steps to monitor the fixed cost coverage ratio more closely, identifying stable revenue sources from all companies in the Group and refining the precision of our numerical targets. The revised fixed cost coverage ratio target for FY2014 reflects these precise calculations. Since the Daiwa Securities Group has entered a stage of full-scale business expansion, it may be increasingly difficult to identify fixed costs that can be cut. Nevertheless, we will maintain a tight stance on fixed costs, while utilizing our growing client base as a lever to expand stable revenues. This should allow the Group to improve the fixed cost coverage ratio even further.

ACTION

The Group made an upward revision to the fixed cost coverage ratio target, from 50% to 60%.

Trends and Targets for the Revised Fixed Cost Coverage Ratio



What is the Group’s business strategy for FY2014?

Hibino: The theme of the final year of our current Medium-Term Management Plan is “Expansion.” However, the type of expansion we envision is sustainable growth based on stable revenues from client-based businesses. In other words, the key to growth is an expansion in the overall client base. The strategic plans adopted for FY2014 mainly aim to broaden and stabilize the client base.

Evolve the unique combined securities-banking business model and expand the sales organization

The balance of total deposits and the number of bank accounts at Daiwa Next Bank are rising steadily, and the combined securities-banking business model has clearly improved as the new customers acquired through Daiwa Next Bank gradually initiated securities transactions.

Many customers are first attracted to Daiwa Next Bank by its attractive interest rates, but as you can see from the steady increase in the accumulated cross-selling ratio* – from 23.6% as of the end of March 2013 to 37.4% as of the end of March 2014 – many of these customers later engaged in securities transactions.

Daiwa Securities is also taking steps to expand its sales network in order to broaden the client base of its Retail Securities business and encourage the ongoing shift in individuals' financial assets "from savings to investment."

First of all, we are expanding the network of domestic sales offices in order to serve local customers more closely, while keeping the cost of new office operations to a minimum. Since the start of the current Medium-Term Management Plan in FY2012, Daiwa Securities has opened 16 new sales offices (as of June 30, 2014). The new offices have demonstrated encouraging results, and have begun to generate positive profit contributions in a relatively short period of time.

Meanwhile, in order to improve operating efficiency, contact centers in Tokyo and Osaka are being upgraded. State-of-the-art tablet PCs, which serve as strategic marketing tools for better sales support, have also been issued to all sales personnel.

* Accumulated cross-selling ratio = Accumulated total number of cross-selling accounts / accumulated total number of newly-opened time deposit accounts

Expand the new client base with NISA (the Nippon Individual Savings Account)

In January 2014, NISA, the new tax exemption scheme for investments by individuals, was launched. To help promote NISA, the Daiwa Securities Group launched 17 no-load NISA specialized funds. In addition, each Daiwa Securities branch office has set up a "NISA desk" to provide information on stock investments and conducts small-scale seminars to explain the features of NISA accounts to less-experienced investors and new customers.

The combined securities-banking business model provided by the Daiwa Securities Group helps individual investors earn attractive interest rates on their savings that are held in reserve awaiting investment in the accounts of Daiwa Next Bank. In this way, Daiwa Securities distinguishes its NISA services from those of competitors.

Since NISA was just introduced this year, this business has yet to make a substantial contribution to the Group's profits. However, we view this as a very important business which can help expand the client base and thus plant the seeds of medium and long-term earnings.

Rebuild the Wholesale business

In 3Q FY2012, the Daiwa Securities Group's Wholesale business generated positive ordinary income for the first time in 11 quarters. Since that time, this business has remained profitable.

Global Markets has been increasing profitability by improving its ability to provide customized products that respond to a variety of customers' investment needs while strengthening collaboration with the Retail Division.

Global Investment Banking recorded a smaller volume of equity underwriting activity, in terms of the total value underwritten compared with FY2012, but secured many lead managing positions for overseas convertible bond and samurai bond issues. Regarding the IPO business, we have been increasing the number of personnel and implementing other measures to strengthen the business.

Overseas offices generated an overall loss in FY2013, but the scale of the loss was just half that incurred in FY2012. As the Group continues efforts to improve the profitability of these operations, a break-even performance is likely in the near future.



Develop overseas alliances

The Daiwa Securities Group has been actively pursuing overseas business alliances, particularly in the equity business. Recent tie-up partners include Thanachart Securities Plc. of Thailand, PT. Bahana Securities of Indonesia and Affin Investment Bank Bhd. of Malaysia. Prior to these alliances, the Group had a research coverage of just 18 stock issues in the ASEAN region (excluding Singapore and the Philippines). That number has now increased to over 270*, providing a firmer platform on which to strengthen our overseas equity business. Leveraging these alliances, Daiwa Asset Management Co. Ltd. has launched an ASEAN Stock fund which is marketed through Daiwa Securities' sales network. These activities provide individual investors the opportunity to invest in the ASEAN region.

Business alliances are being pursued in regions outside ASEAN as well. In February 2014, the Group established an alliance with Australia and New Zealand Banking Group Ltd. (ANZ) regarding the M&A business. In April 2014, to expand our coverage of European equities, the Group formed an alliance with Sanford C. Bernstein Ltd., a UK-based equity research organization.

By opting for a network of alliances rather than direct overseas expansion, we have been able to greatly limit set-up costs in terms of both time and money, thereby expanding operations, strengthening the Group's overseas network and enhancing service capabilities. The Group aims to realize sustainable growth globally by exploring an optimal mix of directly-managed overseas operations and business partnerships in order to achieve overseas earnings growth both efficiently and effectively.

* As of the end of March 2014

NEW INITIATIVES

Business alliances in the ASEAN region have allowed the Group to increase its research coverage of stock issues in the region from just 18 issues to over 270*

Looking ahead to the Group's long-term future, what management policies do you intend to pursue beyond FY2014?

Hibino: Our cornerstone strategy is to continue seeking ways to generate stable revenues even under the most difficult market conditions. Essentially, this means that the Group will focus on businesses that generate stable, "stock-based" revenues, and which are less affected by the changes in financial market conditions.

On the other hand, "flow-based" revenues such as trading gains and brokerage commissions depend heavily on financial market conditions. From a traditional point of view, the volatility of such earnings makes it very difficult for a securities company to pursue long-term management goals. Therefore, to make the most of our own areas of strength, the Daiwa Securities Group will place priority on businesses that can support sustainable growth.

Going forward, the Group will further focus on the expansion of client-based high-quality earnings centered on stable revenues by providing appropriate advice regarding various customer needs. By continuing these efforts, we aim for a sustainable increase in the Group's corporate value, while reducing earnings volatility.

Message from the COO



At the Daiwa Securities Group, we believe that human resources are the wellspring of our competitiveness. Therefore, we spare no effort in trying to improve the skills and motivation of every employee. Our commitment to employee advancement is reflected in a number of different policies and programs.

In April 2014, the Group offered base-wage raises to every Group employee, and introduced a new evaluation system that better recognizes the skill, responsibility and achievement of each individual. The last time the Group introduced a comprehensive base-wage raise was two decades ago, in 1994. However, the wage hike was not simply a response to the strong earnings results posted in FY2013. Rather, it reflects the success of our efforts to establish a robust business structure through the continuous reduction of costs and steady increase in stable revenues.

In January 2014, new and broader-based systems of training were introduced. The new system for younger employees and mid-career staff focuses on key topics identified in the Medium-Term Management Plan such as middle-market development, inheritance issues and business succession, as well as issues that are in higher demand when the market is rising. The program seeks to provide special skills or qualifications and sales capabilities. Management personnel, meanwhile, are receiving further training in compliance issues, labor management skills, coaching and leadership training to improve their managerial skill.

The Group has also stepped up efforts to train top-level professionals to work in overseas offices and to play key roles in future operations. In April 2014, we launched a new program which consists of on-the-job training (OJT) at overseas offices and courses for obtaining a local sales representative license. At present, eight young employees have been dispatched to four overseas offices (London, Hong Kong, New York and Singapore) as part of the program. As the program proceeds, we hope to elevate not only the language and business skills of these workers, but also help them to understand and acclimate to the customs and business norms of overseas workplaces in order to cultivate truly effective global professionals.

The Daiwa Securities Group will continue to implement measures that “place importance on personnel” with a long-term perspective, and will lay the groundwork for sustainable long-term growth.

Nobuyuki Iwamoto

Deputy President and COO
Daiwa Securities Group Inc.

At a Glance



Notes: 1. The number of branches in the Retail Division is current as of June 30, 2014. Other figures are as of March 31, 2014, or from FY2013 results.
 2. Net operating revenues and ordinary income data of "Other" are the amounts of others/adjustments with respect to results by segment.

Business Scale

- Branches: **135**
- Number of cash management service accounts: 3,603 thousand
- Number of online trading accounts: 2,753 thousand
- Total assets under custody: ¥48.4 trillion

Notes: 1. The figures above are for Daiwa Securities Co. Ltd.
2. The total number of branches for the three companies, Daiwa Securities Co. Ltd., HINODE SECURITIES CO., LTD., and Retela Crea Securities Co., Ltd., was 153.

Business Description

The Retail business responds to the wealth management needs of Japanese individual investors and plays a valuable role in linking the asset building activities of individuals to the supply of funds to the financial markets. With 135 branches nationwide and an advanced online infrastructure, Daiwa Securities provides a full spectrum of financial products and services from domestic and foreign stocks, bonds, and investment trusts to pension insurance and wrap account services.

FY2013 Highlights

- Favorable conditions in the domestic stock market, coupled with efforts to increase transactions in foreign equities, contributed to an increase in revenues from equity transactions.
- The division opened nine new sales offices to improve customer service and to attract clients in untapped regions.
- The Daiwa Securities Group remains the largest “wrap account” provider in the industry.

- Overseas offices: Offices in **20** countries and regions
- Listed Japanese companies of which Daiwa Securities Group served as lead manager: 715 companies, 21% share of the total (based on data from the Toyo Keizai Japan Company Handbook)
- Total value of stock trading: ¥95.6 trillion
- Total value of underwriting and distribution: ¥700 billion (equity), ¥9.6 trillion (bond)

The Wholesale business comprises Global Markets and Global Investment Banking operations. Global Markets offers sales and trading services in marketable securities mainly for institutional investors. Global Investment Banking underwrites securities issued by corporations and financial institutions and provides advisory services for M&A.

- Brokerage commissions from domestic stock trading and trading gains increased sharply.
- Daiwa Securities was selected as a lead manager to underwrite the largest corporate bond issue in the domestic market during FY2013, a straight bond issue by SoftBank Corp.
- The Group concluded a number of alliances with overseas financial institutions in a variety of countries including in the ASEAN region.

- Assets under management: **¥16.6** trillion
- Balance of assets in mutual funds: ¥11.2 trillion
- Balance of assets for investment advisory business: ¥2.3 trillion

Note: The data provided above is the total for Daiwa Asset Management and Daiwa SB Investments.

The Asset Management business specializes in managing financial assets, offering customers fund management and investment advisory services. It manages investment trusts for individual investors, provides investment advice to institutional investors, and manages REITs. Through these services, the Group supports asset formation for its customers.

- Daiwa Asset Management was the top Japanese asset management company in terms of net inflow for FY2013 in assets under management of ¥1,082.7 billion.
- Daiwa SB Investments earned an overall number one ranking in the investment and advisory rankings published by Rating and Investment Information, Inc. (R&I), for the fifth consecutive year.
- The combined total assets of REITs managed by Daiwa Real Estate Asset Management stood at ¥440 billion as of the end of March 2014.

- Assets from investment funds: ¥314.6 billion from **76** funds
- Aggregate outstanding principal investment balance: ¥87.0 billion

Notes: Investment funds data provided above is for DCI.
Principal investment balance data provided above is the total for PIP and DPI.

In the investment business, the division provides capital to corporations through its own funds as well as investment funds that have been incorporated and managed by the division. The division engages in a wide range of investments, such as venture investments, domestic and overseas private equity investments, loan investments, and energy investments.

- DCI continued to identify and invest in promising start-ups, and implemented exit strategies for maximizing returns from existing investments, either via IPOs or buyouts, which generated large capital gains.
- PIP undertook new investments in domestic and overseas private equities, participated in photovoltaic power generation projects, and made steady progress in loan investment activities while concurrently recouping past loan investments.

- Daiwa Next Bank, Ltd.
- Balance of deposits: **¥2.3** trillion
- Number of accounts: 901 thousand

“Other” businesses include research and consulting activities, information systems and other support functions overseen by the Daiwa Institute of Research Group, and banking operations overseen by Daiwa Next Bank.

- Foreign currency-denominated deposits launched in July 2012 were valued at ¥214.6 billion as of the end of the fiscal year and the amount continues to rise steadily.

Retail Division

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



Action Plan for FY2014

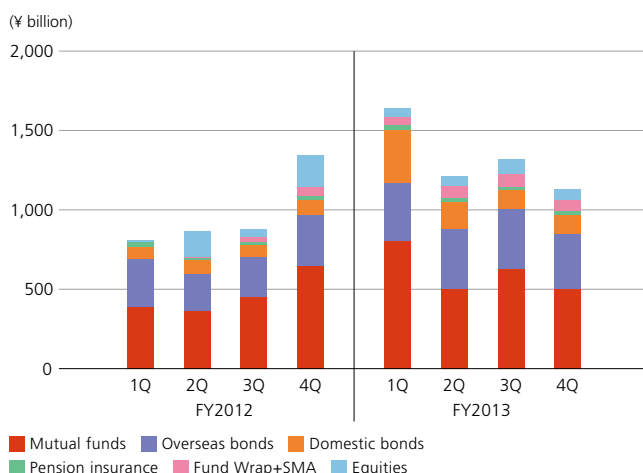
1. Evolve our unique combined securities-banking business model
2. Acquire new customer base centered on NISA
3. Expand stable revenues mainly from acquiring new money for mutual funds and fund wrap
4. Strengthen the wealth management business, via inheritance related services
5. Bolster marketing capability via more efficient and higher quality sales activities

Business Performance for FY2013

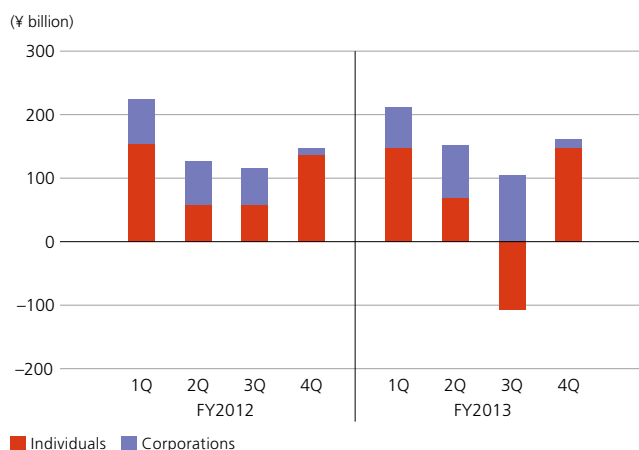
During FY2013, stock markets around the world, and particularly in leading industrialized countries, moved upward. Though there were growing concerns about the prospect of US authorities terminating their monetary easing policies, prompting strong volatility in Japanese stock prices, the weak yen and favorable corporate earnings figures preserved a general upward trend. The Nikkei 225 index closed out the fiscal year at 14,827.83.

Under these market conditions, Daiwa Securities' Retail Division focused on handling overseas equities, mutual funds and fund wrap services. The division also opened nine new sales offices to improve customer service and to attract clients from relatively untapped regions. Favorable conditions in the domestic stock market, coupled with efforts to increase transactions in foreign equities, contributed to an increase in revenues from equity transactions. In addition, strong sales of mutual funds greatly elevated the balance of assets under custody.

Sales and Distribution Amount by Product Category (Daiwa Securities)



Net Inflow of Assets (Daiwa Securities)



Yoriyuki Kusaki

Deputy President
Head of Retail
Daiwa Securities Group Inc.



The balance of customer assets in Daiwa Fund Wrap accounts increased substantially, as the ongoing development of customized combinations of mutual funds allowed the division to offer customers better options for diversifying their investments in accordance with their investment needs. The Daiwa Securities Group remains the largest “wrap account*” provider in the industry, based on the balance of contracted assets under management as of the end of March 2014.

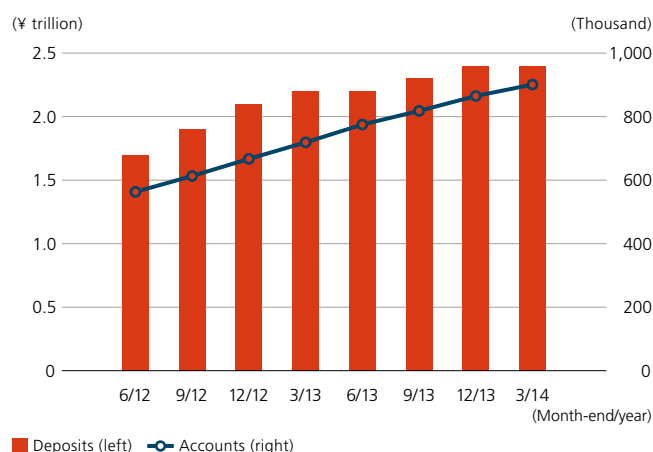
Daiwa Securities Co. Ltd., as an agent for Daiwa Next Bank, Ltd. (which held a balance of some ¥2.4 trillion in deposits as of the end of FY2013), handles Japanese yen deposits and foreign currency deposits. In April 2013, “Premium Service” was launched as a service that offers customers preferential interest rates on Japanese yen time deposits, based on their current appraisal value of assets under custody at Daiwa Securities, as well as a “Family Plus” service that extended these benefits to all

members of the family. In this way, cooperation with Daiwa Next Bank allowed Daiwa Securities’ network of branches to offer customers a broad range of convenient services, as well as attractive interest rates on deposits.

Following the launch of Japan’s individual savings account system (NISA) in January 2014, the Retail Division has further focused on expanding its customer base and helping to promote the shift in individual financial assets “from savings to investment” by setting up new no-load funds designed exclusively for use with NISA accounts, as well as offering “accumulating investment” products, which add a fixed amount to the customer’s balance of mutual funds each month.

* Customers conclude discretionary investment management contracts with Daiwa Securities, under which the account managers at Daiwa Securities make portfolio decisions, place buy and sell orders, and manage the contracted assets on behalf of the customer in return for a management fee calculated on the basis of the total account balance.

Balance of Deposits and Number of Accounts at Daiwa Next Bank



Daiwa Securities donates a portion of the management fees earned from “Daiwa Nippon Support Fund Vol. 3 – Phoenix Japan” to designated non-profit service organizations through the Japan NPO Center’s Japan Earthquake Local NPO Support Fund. These donations help to support the local activities of NPOs in the region affected by the 2011 earthquake and tsunami. In May 2013, Daiwa Securities contributed ¥49.87 million to the fund. Grants for the second year of this program were made in September, in the amount of ¥35.03 million (this total was disbursed among nine NPOs in separate grant amounts).

Wholesale Division

The Wholesale Division encompasses the Global Markets and Global Investment Banking operations. The Global Markets business sells equities, bonds, foreign exchange and derivative products to institutional investors and corporations, as well as carrying out securities trading activities, and providing financial products to the Retail Division. Global Investment Banking operations underwrite stock and bond issues, handle IPOs, and provide M&A advisory services.



Action Plan for FY2014

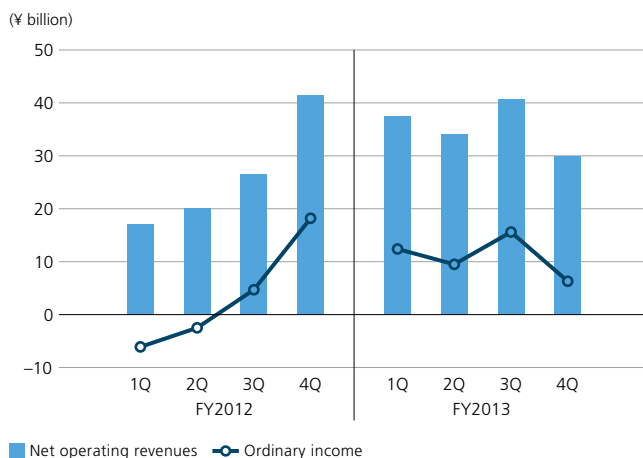
1. Improve IB pipelines by strengthening the quality and quantity of IB proposals
2. Strengthen IPO business for expanding customer base
3. Leverage global network to enhance products for overseas markets and win mandates
4. Expand business operations in response to customer needs and boost trading income

Business Performance for FY2013

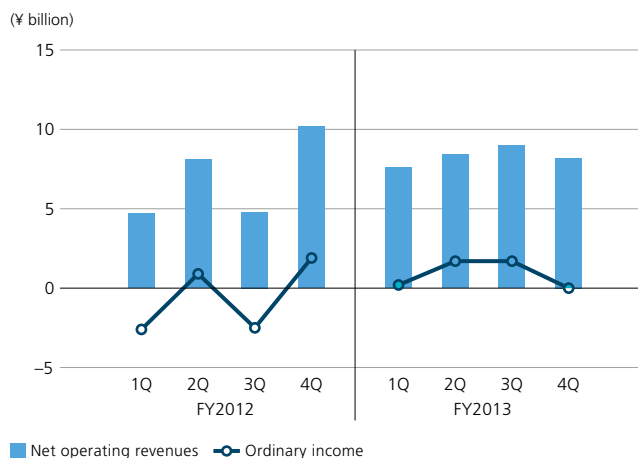
Global Markets benefitted in FY2013 from favorable conditions in the domestic stock market. Rising share prices and strong trading value contributed to a sharp increase in brokerage commissions. Proper management of trading positions in response to the favorable market trend produced large net trading gains. Collaboration between Retail and Wholesale operations continued to allow Daiwa Securities Co. Ltd. to respond effectively to the needs of customers as well as changing market conditions and develop investment products in a timely manner. This was particularly the case for bond-related products and led to stable revenues.

Global Investment Banking also benefitted from rising stock prices, as well as a rebound in corporate earnings. As demand for funding rose in this favorable environment, Daiwa Securities increased the number of underwriting transactions and earnings from investment banking operations.

Quarterly Earnings Trends Global Markets



Global Investment Banking





Akio Takahashi

Deputy President
Head of Wholesale
Daiwa Securities Group Inc.

Daiwa Securities was selected as a lead manager to underwrite the largest corporate bond issue in the domestic market during FY2013, a straight bond issue by SoftBank Corp. In overseas markets, Daiwa Securities participated as a bookrunner*¹ in the global dollar-denominated bond*² issues of the International Bank for Reconstruction and Development and the Japan Bank for International Cooperation, among others.

In addition, the Daiwa Securities Group and Myanmar Economic Bank set up a joint venture company, Myanmar Securities Exchange Centre Co., Ltd. On December 2, 2013, they concluded an advisory contract with Asia Green Development Bank Ltd. (the bank operated by one of Myanmar's largest conglomerates) under which Daiwa Securities and Myanmar Securities Exchange Centre will support the Bank's plans to list shares on the stock exchange that will soon be set up in Myanmar.

Major Lead-Managed Deals and Publicly Announced M&A Advisory Activities in FY2013 (Including Participation as a Joint Bookrunner)

Primary and secondary equity offerings (incl. CBs)		
Yamaguchi Financial Group, Inc. mixi, Inc.	Euro US\$ CB PO	US\$300 million ¥11.8 billion
IPO		
OPEN HOUSE CO., Ltd.	IPO	¥14.9 billion
China Everbright Bank Co., Ltd.	IPO	Approx. ¥310.0 billion
Bond		
SoftBank Corp.	Retail bond	¥400.0 billion
Sumitomo Mitsui Trust Bank, Ltd.	Global US\$ bond	US\$1.0 billion
International Bank for Reconstruction and Development	Global US\$ bond	US\$6.0 billion
M&A		

- Advisory services for the consolidation/merger of Tokyu Land Corp., Tokyu Livable, Inc. and Tokyu Community Corp.
- Advisor to Asahi Holdings, Inc. in joint-venture discussion with Myanmar-based Loi Hein Company
- Advisor to NEC Corp. on the transfer of ownership in NEC Mobiling Ltd.
- Advisor to Prudential Financial, Inc. on the acquisition of Uni.Asia Life Assurance Bhd., a Malaysian life insurer

The Group has concluded a number of other overseas alliances in recent years. Following up on its alliance with Thanachart Securities Plc. of Thailand, in FY2012, the Group forged new alliances in FY2013 with PT Bahana Securities of Indonesia, Affin Investment Bank Bhd. of Malaysia, and Australia and New Zealand Banking Group Ltd. We will continue to pursue alliances with overseas financial institutions that will allow Daiwa Securities to establish its presence in markets with promising growth prospects.

*1 A bookrunner manages and promotes sales activities associated with a bond issue.
*2 Bonds denominated in dollars and sold in Europe, the US and Asia



The Daiwa Securities Group is actively involved in promoting "impact investment" bonds – a style of investment that seeks to have a more direct impact on society compared to Socially Responsible Investment (SRI). In November 2013, the Group arranged and distributed the Banking on Women Bonds, issued by International Finance Corporation (IFC), a member of the World Bank Group. This was the first bond program that focused on providing financial support to women entrepreneurs in emerging countries.

Asset Management Division

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



Action Plan for FY2014

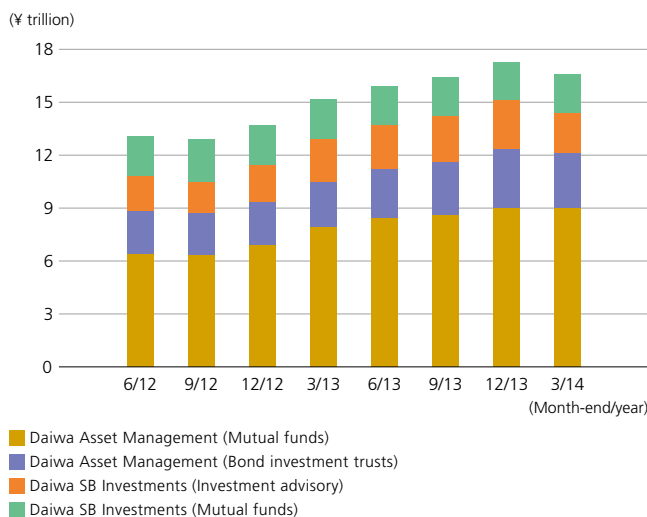
1. Strengthen the management platform and pursue performance excellence
2. Build and expand flagship funds in both the securities and bank-counter channels
3. Enhance attractive fund lineups
4. Boost product offerings and customer support services to meet changing customer needs

Business Performance for FY2013

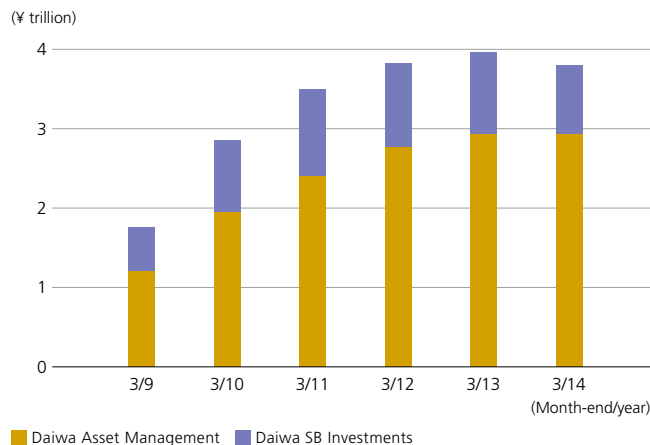
Daiwa Asset Management Co. Ltd. and Daiwa SB Investments Ltd. strived to expand assets under management through a wide range of sales channels, and constantly seek ways to improve fund management capabilities.

Daiwa Asset Management has generated strong mutual fund sales with products sold via Daiwa Securities, including "Daiwa U.S. Shares Strategy Alpha Fund (a currency selection type) – triple returns – Brazilian Real course (a monthly dividend type)", which attracted a net inflow of ¥91.1 billion in assets during FY2013. Among mutual funds sold via bank agents, the "Daiwa High Graded Canadian Bonds Fund (a monthly dividend type)" performed particularly well, attracting a net inflow in assets of ¥448.6 billion. In December 2013, the company launched the "Daiwa High Dividend Yield Swiss Shares Twin Alpha (a monthly dividend type)", with an initial asset balance of ¥60.1 billion.

Balance of Major Assets under Management at the Asset Management Division



Outstanding Balance of Mutual Funds Sold through Bank-Related Sales Channels



Makoto Shirakawa

Deputy President
Head of Asset Management
Daiwa Securities Group Inc.



The distinguished achievement of these funds made Daiwa Asset Management the top Japanese asset management company in terms of net inflow for FY2013 in assets under management of ¥1,082.7 billion. At the end of the period, the balance of total assets in publicly-offered equity mutual funds stood at a record high level of ¥8,958.4 billion.

Daiwa SB Investments, which offers asset management advisory services to pension funds and other institutional investors in Japan and overseas, constantly responds to the demand for improved investment management capabilities. The company's success earned it an overall number one ranking in the investment and advisory rankings published by Rating and Investment Information, Inc. (R&I), for the fifth consecutive year. Turning to the company's investment trust business, the "High Dividend Yield Canadian Shares Twin Alpha (a monthly dividend type)" fund has been attracting a steady inflow of assets since it was launched in April 2013. At the end of FY2013, the balance of net assets stood at ¥190.4 billion.

The Group's real estate asset management business comprises three REIT companies, overseen by Daiwa Real Estate Asset Management Co. Ltd., each of which concentrates on a different type of real estate investment. The three REITs are Daiwa Office Investment Corporation (DOI), Daiwa Residential Private Investment Corporation, and Nippon Healthcare Investment Corporation, established in January 2014, which specializes in health care facilities. The combined total assets of these three REITs stood at ¥440 billion as of the end of March 2014. DOI earned a long-term credit rating of AA- (stable) from the Japan Credit Rating Agency, Ltd. (JCR), while the Global Real Estate Sustainability Benchmark (GRESB) Survey awarded the company a "Green Star" – its highest rating – for the second year in a row.



In January 2014, in response to the progressive aging of society, Daiwa Real Estate Asset Management Co. Ltd. established the Nippon Healthcare Investment Corporation. This REIT is the first in Japan to channel private financial assets into the healthcare business in an effective way, by investing in facilities that support Japan's aging population. The fund invests in paid retirement housing, serviced residential facilities for the elderly, hospitals and comprehensive outpatient facilities. In March 2014, the REIT made its first investments in retirement housing facilities, and it hopes to be listed on the Tokyo Stock Exchange.

Investment Division

The Investment Division of the Daiwa Securities Group encompasses two companies: Daiwa Corporate Investment Co., Ltd., which creates structured investment funds that use the capital provided by third-party investors to make direct corporate investments; and Daiwa PI Partners Co. Ltd., which uses the Group's own capital to make direct investments. Both companies invest in a wide range of direct investment targets, such as venture businesses, domestic and overseas private equity stakes, corporate loan investments, and energy investments (such as photovoltaic power generation projects).



Action Plan for FY2014

1. Actively invest the Group's management resources to promote fund-raising and enhance relevant organizational functions in order to strengthen investment capability for start-ups and growing companies
2. Seize carefully selected and attractive investment opportunities based on the careful consideration of risk and capital efficiency
3. Maximize the returns from recouping existing investments

Business Performance for FY2013

During FY2013, Daiwa Corporate Investment continued to identify and invest in promising start-ups, particularly those involved in disaster recovery work and manufacturing. In addition, it implemented exit strategies for maximizing returns from existing

investments, either via IPOs or buyouts, which generated large capital gains. Efforts to market investment funds continued as well, as the company plans to set up new funds.

Daiwa PI Partners continued to invest in loans of financial institutions, while collecting existing debt assets in its portfolio. In addition, it expanded loan activities to companies that are restructuring operations. Private equity investments concluded during the period include a stake in Nakayama Steel Works, Ltd., a domestic steelmaker, and an Indonesian investment company, PT Saratoga Investama Sedaya Tbk., among others. In the energy investment business, the company participated in photovoltaic power generation projects in Kan-onji City, Kagawa Prefecture, and other locations. Daiwa Securities SMBC Principal Investments Co. Ltd. made efforts to recoup past investments including the sale of a stake in Sumitomo Mitsui Construction Co., Ltd.

As a result of these activities, the Investment Division of the Daiwa Securities Group recorded a combined increase of 14.3% in net operating revenues, year on year, to ¥19.9 billion. Ordinary income for FY2013 rose 21.3% year on year, to ¥17.1 billion.



Daiwa Corporate Investment Co., Ltd.

Daiwa Corporate Investment establishes investment funds which take investment capital from risk-taking investors and channel it to growth-oriented start-ups. The company takes a "hands-on" approach to investments, providing management support to help enhance the corporate value of their investments. The business of fund management also contributes to the sustainable development of society by identifying and cultivating new technologies and markets.

Daiwa PI Partners Co. Ltd.

Daiwa PI Partners actively engaged in developing photovoltaic power generation projects. In April 2014, a photovoltaic power generation facility that the company funded in Kan-onji City, Kagawa Prefecture, began generating and supplying electric power to the local power utility. Construction work for two additional photovoltaic power generation projects in Kushiro City, Hokkaido is in progress.

Photovoltaic power generation facility
Kan-onji City, Kagawa
Daiwa PI Partners



Other

The Daiwa Securities Group's "Other" businesses include research and consulting activities, information systems and other support functions overseen by the Daiwa Institute of Research Group, and banking operations overseen by Daiwa Next Bank.

Daiwa Institute of Research Group



Action Plan for FY2014

1. Actively publish reports centered on economics, finance, and the environment in order to enhance the Group's presence in the financial market
2. Strengthen our consulting capabilities in Japan and the rest of Asia, in order to expand the business opportunities for the Group
3. Pursue offshoring and transition group systems to the cloud to improve system efficiency

Business Performance for FY2013

During the period, Daiwa Institute of Research Ltd. (DIR), as part of its research business, issued a report entitled "DIR 30-year Project," which discussed issues such as taxes, social welfare, domestic and overseas economic trends and other elements. This report, and the timely and informative seminars, TV programs and publications issued by DIR, earned positive reviews from the public, helping to elevate the group's public image and reputation. In the consulting business, the company received numerous contracts from public agencies and governmental organizations in addition to consulting projects for large domestic corporations. Overseas, DIR focused on developing capital markets in Myanmar, and worked on large projects for the Japan International

Cooperation Agency (JICA) to provide advice and services in Myanmar.

In the IT systems business, DIR's Chinese systems development subsidiary DIR XunHe Business Innovation (Hong Kong) Ltd. helped to expand offshore operations, while in Japan the company established one of Japan's largest cloud computing networks, accelerating the shift towards cloud-type operating environments and thereby substantially improving cost efficiency. In Myanmar, the company continued efforts to develop trading systems and infrastructure for the stock exchange as well as securities company activities, in preparation for the launch of a new stock exchange in Myanmar in 2015. The company also concluded an agreement with the Central Bank of Myanmar to provide IT support, and to modernize the financial IT infrastructure in use in Myanmar.



Daiwa Institute of Research Business Innovation Ltd. was involved in an "Eco-town" project in Saitama Prefecture, providing the systems support to operate the "Home Energy Management System" (HEMS*) installed in residences. The use of HEMS allows urban planning projects to reduce their environmental impact.

* HEMS controls, displays and manages electric power and other energy sources used in the home.

Daiwa Next Bank

Action Plan for FY2014

1. Evolve the securities-banking business model
2. Expand the FX business
3. Enhance ALM functions

Business Performance for FY2013

The mission of the Daiwa Next Bank is to create new trends and specifically to serve as the gateway for shifting assets—more than half of the financial assets held by individuals—"from savings to investment." FY2013 marked the third year since the bank was established. In April of that year the bank introduced Premium

Service as well as a program that delivers favorable deposit interest rates to purchasers of fund wrap and other types of financial products, under the Group's combined securities-banking business model. As of the end of FY2013, Daiwa Next Bank had attracted 901,000 depositor accounts, with a total balance of deposits (including CDs) of ¥2,399.1 billion.

A variety of special promotional campaigns have been conducted to promote the foreign currency-denominated deposit launched in July 2012. As of the end of the fiscal year, total deposits in these accounts were valued at ¥214.6 billion, and the amount continues to rise steadily.

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Management Systems

Special Interview

The Daiwa Securities Group Leverages the Talents of Female Employees

As an important corporate policy, the Daiwa Securities Group is seeking ways to create a work environment that is more appealing to female employees in order to better leverage the capabilities of working women. As of April 1, 2014, Daiwa Securities had 18 women serving in such advanced managerial positions as Branch Manager or Sales Office Manager, accounting for 14% of the total. The Group expects this figure to continue to grow, as demonstrated by the selection of Nobuko Matsubara as one of the Group's outside directors and this year's appointment of Keiko Tashiro as a Board member.

Nobuko Matsubara

Outside Director
Daiwa Securities Group Inc.

Joined the Ministry of Labour in 1964; Appointed as a leader of the committee preparing legislation which was introduced as the Equal Employment Opportunity Law of Japan in 1986; Became the first woman to hold the post of Vice Minister in the Japanese Government (1997); Served as Ambassador to Italy; Appointed in 2008 as an outside director of the Daiwa Securities Group.



Keiko Tashiro

Member of the Board and Executive Managing Director
Daiwa Securities Group Inc.

Joined Daiwa Securities Group in 1986 as a management career-track employee; Served as Head of Investor Relations Office and Head of Daiwa Direct Planning Department among other positions; Appointed Senior Managing Director of Daiwa Securities Co. Ltd. in 2009 and Executive Managing Director responsible for Group US operations in 2013; Appointed to the Board of Directors at the company's Ordinary General Meeting of Shareholders in June 2014.



“Equal employment opportunity” is a commonly used phrase, but in your view, how “equal” are current employment conditions in Japan?

Matsubara: Japan’s Equal Employment Opportunity Law has been in force for 28 years now. Before it was first enacted, it was far more difficult for women with four-year university degrees to find a job with favorable working conditions, good training, and opportunities for career advancement than it was for similarly-qualified men. I feel deeply grateful that the Equal Employment Opportunity Law has made it possible for women such as Ms. Tashiro to enter a company like Daiwa Securities and advance to a top executive position.

Tashiro: I started job hunting shortly before the Equal Employment Opportunity Law went into effect. At that time there was a profound disparity in the stance that companies took towards hiring women. Although many companies were prepared to hire women for general, career-track positions, I received a clear impression that Daiwa Securities truly valued its female employees, and had a long-term vision of how they could benefit the company. I think this is a reflection of the company’s core values – even before the Equal Employment Opportunity Law was enacted, Daiwa Securities saw women as an important part of their business strategy and was not limiting them to traditionally female roles. There was no need to make major changes in response to the law; Daiwa Securities simply continued the policies that have been a unique part of its business philosophy over the long term. And these policies have borne fruit over the years.

Matsubara: I agree. Although it has become common, in recent years, for companies to discuss the importance of appointing women to management positions, their commitment to equal employment opportunity cannot be measured simply with numerical targets for the percentage of women in the work force or the percentage of management positions held by female employees. The truly critical issue is whether or not companies make a genuine commitment to female employees, helping them to develop their capabilities and unleashing their full potential to contribute to the company’s success. If both men and women are given the same training, evaluations, experiences, support and exposure to management ideas, women will exercise their initiative and rise into the executive ranks as part of a natural process. I think that process is very valuable.

For example, the Daiwa Securities Group introduced a “Regional Career-Track Employee” system that allows employees to transfer through several different divisions and jobs without the need to move to a new home. For women, family responsibilities make it much more difficult to relocate, but this system allows them to acquire all the necessary experience and skills a career-track employee needs in order to rise through the management ranks. This “Regional Career-Track Employee” system is a well-designed program that facilitates the growth of management candidates. The track record of this program, including the specific example of a woman from Daiwa Securities who became a Senior Managing Director, proves that it is an effective way to unleash the potential of employees with the desire for excellence. By implementing policies such as these, the Daiwa Securities Group has steadily cultivated talented women like Ms. Tashiro over the 28 years since the Equal Employment Opportunity Law was enacted. Today they are seeing the benefits of these efforts.

What other measures are needed in the workplace to cultivate and leverage the potential of female employees?

Tashiro: The most important thing is to cultivate “yarigai” – a Japanese word that can be translated into English as “initiative,” but encompasses other meanings including pride in one’s work and the inspiration or desire to do a job. Employees of both sexes experience yarigai when their jobs include a sense of responsibility. It is very difficult to balance work and family responsibilities; so if a woman does not feel yarigai about her job, she is likely to give it up. The Daiwa Securities Group offers generous maternity and child care leave, but this alone is not sufficient. If a woman’s job responsibilities and duties are scaled back as part of a company’s maternity



and child care system, this is bound to erode her yarigai. Women who work for the Daiwa Securities Group do not join the Group because they expect to have an easy time of it. On the contrary, the stimulating, challenging jobs that the Group offers inspire women to work harder, so they can excel in their jobs as well as care for their family.

In the past, Japan’s employment legislation set particularly strict limits on overtime work for women. However, for career-track women this was a source of frustration. They wondered: “Why am I not allowed to work as hard for the company as my male colleagues do?” I was fortunate that my division was always quite busy, but I am also thankful for the effort the Daiwa Securities Group makes to ensure that all employees feel motivated. The Group’s

“

I am thankful for the effort the Daiwa Securities Group makes to ensure that all employees feel motivated.

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corporate culture makes no distinction between the sexes, encouraging every employee to give a 100% effort for the Group.

Matsubara: When I was young, my boss at the time was not used to working with a female career-track employee, and he did not assign me enough work to really keep me busy. A demanding job may be hard work, but it also gives us valuable experience. One of the things I most admire about the Daiwa Securities Group is the clear mandate management has adopted to maximize the contributions of female employees. This lets employees know that their efforts are valued. As a member of the Audit Committee, I have visited a number of branch offices of Daiwa Securities. Wherever I go, the female employees always seem to be in the thick of the action, working with a diligence that



clearly expresses the high motivation they feel towards their jobs.

A system of maternity and child care leave is essential. It provides a safety net for women who otherwise would find it difficult to continue in their jobs, and its objective is to ensure that employees are able to make a smooth transition when they return to work. It is also important for management to send the message that it values employees' contributions, and wants them to return from maternity or child care leave quickly and smoothly. In turn, female employees sense that their contributions are valued. This makes them eager to continue in their jobs, and return to work with renewed motivation. In this way, I think the Daiwa Securities Group is effectively leveraging the abilities of their female employees.

“One of the things I most admire about the Daiwa Securities Group is the clear mandate management has set to maximize the contributions of female employees. This lets employees know that their efforts are valued.”



What are your views on the Daiwa Securities Group's efforts to promote “Work-Life Balance”?

Matsubara: The tendency of Japanese employees to work long hours is a real social problem for Japan. The unspoken assumption is that an employee who works long hours will be rewarded. This view prevails among employees as much as it does among the companies they work for. This can be a real barrier to advancement for women. That is why I think it is outstanding that the Daiwa Securities Group adopted the policy of having employees, particularly in the Retail Division, leave the office by 7:00PM. Still, long hours are occasionally unavoidable, even for a well-organized and efficient worker. Therefore, it is better for female employees to prepare for such situations and find alternative ways to organize work that allow them to care for their families and also handle demanding jobs. Furthermore, Japan's aging population is creating new needs, which may require both female and male employees to care for sick or aging parents. This is an issue which affects the whole of society, and more flexible approaches to human resource management will be needed in order to accommodate such developments.

Tashiro: That's right. The idea of maintaining balance between work and private life by no means suggests that a person should not “work hard.” Even the policy of having people leave the office before 7:00PM is intended as a message to employees, encouraging them to work more efficiently. This is an important message regardless of gender.

In the US – where I work – employment laws and norms offer far more flexibility on many issues, such as the use of temporary staff, than is possible in Japan. The important point is that a company has an effective system of covering for workers who are absent for certain periods of time, whether

for maternity leave, nursing care, or some other reason. If these systems are properly implemented, far more employees will feel free to take such leave and then return to work. When employees remain at a company for the long term, it ends up boosting the structural strength and competitiveness of the company.

In closing, could you offer your insights on the role of women in top management positions?

Tashiro: I do not see any need to differentiate between men and women in the workplace. Regardless of gender, the critical skills of a good manager are to have a diversity of experience and a broad perspective, to identify the varied skills and strengths of each employee, and to assign tasks in ways that will improve the composite competitiveness of the company. Looking at young women entering the company, it is apparent that some hope to rise into positions of management, while others do not. My advice to all women, even those without management ambition, is to always look for opportunities to develop skills, to enhance their contributions to the team, and prepare for advancement to the next level. If you keep your options open, opportunities may come your way.

Matsubara: In the past, it was difficult to find good role models of women who reached management positions in Japanese private corporations. However, the Daiwa Securities Group is playing an important role by fostering the advancement of women executives. This will not only have positive repercussions for the Group's own growth strategy; it can benefit Japan as a whole, at a time when the country is looking to women to play a more central role. I want to congratulate Ms. Tashiro for her appointment to the Board of Directors this year, and I hope she can serve as a leading example to women in the years ahead.

Top Management

Directors

(Members of the Board)

Chairman of the Board

Shigeharu Suzuki

Directors

Takashi Hibino

Nobuyuki Iwamoto

Akio Takahashi

Yoriyuki Kusaki

Hiroshi Nakamura

Keiko Tashiro

Masaru Shirataki

Ryuji Yasuda

Nobuko Matsubara

Keiichi Tadaki

Hiroki Tsuda

Tadashi Onodera

Corporate Executive Officers



Takashi Hibino

President and CEO
President, Daiwa Securities Co. Ltd.

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



Nobuyuki Iwamoto

Deputy President and COO
Head of Overseas Operations
Deputy President, Daiwa Securities Co. Ltd.

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



Akio Takahashi

Deputy President
Head of Wholesale
Deputy President, Daiwa Securities Co. Ltd.

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



Yoriyuki Kusaki

Deputy President
Head of Retail
Deputy President, Daiwa Securities Co. Ltd.

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



Hiroshi Nakamura

Deputy President
Deputy Head of Wholesale
Deputy President, Daiwa Securities Co. Ltd.

1980 Joined Daiwa Securities Co. Ltd.
2001 Head of FICC Dept., Daiwa Securities SMBC Co. Ltd.
2005 Senior Managing Director, Daiwa Securities Co. Ltd.
2008 Executive Managing Director
2010 Member of the Board and Executive Managing Director
2011 Senior Executive Managing Director
2012 Senior Executive Managing Director, Daiwa Securities Group Inc. Senior Executive Managing Director, Daiwa Securities Co. Ltd.
2013 Deputy President, Daiwa Securities Group Inc. Deputy President, Daiwa Securities Co. Ltd.
2014 Member of the Board and Deputy President, Daiwa Securities Group Inc. Deputy President, Daiwa Securities Co. Ltd.



Makoto Shirakawa

Deputy President
Head of Asset Management
President, Daiwa Asset Management Co. Ltd.

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



Takashi Fukai

Deputy President
Head of Think Tank
President, Daiwa Institute of Research Holdings Ltd.
President, Daiwa Institute of Research Business Innovation Ltd.

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



Toshihiro Matsui

Senior Executive Managing Director
Corporate Planning Officer
Human Resources Officer
Senior Executive Managing Director, Daiwa Securities Co. Ltd.

1985 Joined Daiwa Securities Co. Ltd.
2008 Head of Corporate Planning Dept., Daiwa Securities Group Inc.
2009 Senior Managing Director
2011 Executive Managing Director
Senior Managing Director, Daiwa Securities Co. Ltd.
2012 Executive Managing Director, Daiwa Securities Group Inc.
Executive Managing Director, Daiwa Securities Co. Ltd.
2014 Senior Executive Managing Director, Daiwa Securities Group Inc.
Senior Executive Managing Director, Daiwa Securities Co. Ltd.



Keiko Tashiro

Executive Managing Director
Deputy Head of Overseas Operations (Head of Americas)
Chairwoman of the Board, Daiwa Capital Markets America Holdings Inc.

1986 Joined Daiwa Securities Co. Ltd.
2005 Head of Daiwa Direct Planning Dept., Daiwa Securities Co. Ltd.
2009 Senior Managing Director
2011 Senior Managing Director, Daiwa Securities Capital Markets Co. Ltd.
2012 Senior Managing Director, Daiwa Securities Co. Ltd.
2013 Executive Managing Director, Daiwa Securities Group Inc.
Chairwoman of the Board, Daiwa Capital Markets America Holdings Inc.
2014 Member of the Board and Executive Managing Director, Daiwa Securities Group Inc.
Chairwoman of the Board, Daiwa Capital Markets America Holdings Inc.



Toshihiko Onishi

Executive Managing Director
Internal Audit Officer
Executive Managing Director, Daiwa Securities Co. Ltd.

1984 Joined Daiwa Securities Co. Ltd.
2007 Managing Director and Assistant to Head of Corporate Planning, Daiwa Securities SMBC Co. Ltd.
Seconded to Daiwa Securities SMBC Principal Investments Co. Ltd. (currently, Daiwa PI Partners Co. Ltd.)
Member of the Board and Executive Managing Director, Daiwa Securities SMBC Principal Investments Co. Ltd.
2008 Senior Managing Director, Daiwa Securities SMBC Co. Ltd.
2011 Member of the Board, Daiwa Securities Group Inc.
2013 Executive Managing Director, Daiwa Securities Group Inc.
Executive Managing Director, Daiwa Securities Co. Ltd.



Mikita Komatsu

Executive Managing Director and CFO
Deputy Corporate Planning Officer
Deputy Head of Overseas Operations
Executive Managing Director, Daiwa Securities Co. Ltd.

1985 Joined Daiwa Securities Co. Ltd.
2008 Daiwa Securities SMBC Co. Ltd. (President, Daiwa Securities SMBC Europe Limited)
2010 Senior Managing Director, Daiwa Securities Capital Markets Co. Ltd.
2011 Senior Managing Director, Daiwa Securities Group Inc.
Senior Managing Director, Daiwa Securities Co. Ltd.
Senior Managing Director, Daiwa Securities Capital Markets Co. Ltd.
2012 Senior Managing Director, Daiwa Securities Group Inc.
Senior Managing Director, Daiwa Securities Co. Ltd.
2013 Executive Managing Director, Daiwa Securities Group Inc.
Executive Managing Director, Daiwa Securities Co. Ltd.



Hiroyuki Inose

Senior Managing Director and CRO
Member of the Board, Daiwa Securities Co. Ltd.

1984 Joined Daiwa Securities Co. Ltd.
2010 Head of Group Risk Management Dept., Daiwa Securities Group Inc.
2011 Senior Managing Director, Daiwa Securities Group Inc.
Senior Managing Director, Daiwa Securities Co. Ltd.
Senior Managing Director, Daiwa Securities Capital Markets Co. Ltd.
2012 Senior Managing Director, Daiwa Securities Group Inc.
Senior Managing Director, Daiwa Securities Co. Ltd.
2014 Senior Managing Director, Daiwa Securities Group Inc.
Member of the Board, Daiwa Securities Co. Ltd.



Shigeharu Suzuki

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

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

Corporate Governance Committee System

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

Note: A Company with Committees since May 2006

Committee Members

Nominating Committee

Shigeharu Suzuki
(Chairman)

Takashi Hibino

Ryuji Yasuda

Nobuko Matsubara

Keiichi Tadaki

Tadashi Onodera

Audit Committee

Keiichi Tadaki
(Chairman)

Masaru Shirataki

Nobuko Matsubara

Hiroki Tsuda

Compensation Committee

Ryuji Yasuda
(Chairman)

Shigeharu Suzuki

Takashi Hibino

Hiroki Tsuda

Tadashi Onodera

Masaru Shirataki
Member of the Board



1985 Joined Daiwa Securities Co. Ltd.
2011 Head of Group Internal Audit Dept., Daiwa Securities Group Inc.
Head of Internal Audit Dept., Daiwa Securities Co. Ltd.
Head of Internal Audit Dept., Daiwa Securities Capital Markets Co. Ltd.
2013 Member of the Board, Daiwa Securities Group Inc.

Ryuji Yasuda
Outside Director
(Member of the Board)



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

Ryuji Yasuda is currently a Professor of Hitotsubashi University's Graduate School of International Corporate Strategy. Before that, he was a partner at various prominent consulting firms. The Company has drawn on Mr. Yasuda's specialized knowledge and experience in management strategy nurtured throughout his career for management advice. His term as a director of the Board is 11 years.

Nobuko Matsubara
Outside Director
(Member of the Board)



1964 Entered Ministry of Labor
1987 Director of International Labor Division
1991 Director-General of Women's Bureau
1997 Vice Minister
1999 President of Japan Association for Employment of Persons with Disabilities
2002 Ambassador of Japan to Italy
Ambassador of Japan to Albania
Ambassador of Japan to San Marino
Ambassador of Japan to Malta
2006 Chairwoman, Japan Institute of Workers' Evolution
2008 Outside Director (Member of the Board), Daiwa Securities Group Inc.
2012 Honorary Chairwoman, Japan Institute of Workers' Evolution
Nobuko Matsubara is currently the Chairwoman of the Japan Institute of Workers' Evolution. Before that, she was the Vice Minister of Labor, and served as the Ambassador of Japan to Italy, among other posts. The Company has drawn on Ms. Matsubara's specialized knowledge and broad experience nurtured throughout her career for management advice. Her term as a director of the Board is six years.

Keiichi Tadaki
Outside Director
(Member of the Board)



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

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

Hiroki Tsuda
Outside Director
(Member of the Board)



1972 Entered Ministry of Finance
2002 Director-General of Tokyo Customs, Ministry of Finance
2003 Deputy Vice Minister for Policy Planning and Co-ordination
2004 Deputy Vice Minister of Finance
2006 Director-General of the Budget Bureau
2007 Administrative Vice Minister
2008 Professor of Waseda University, Graduate School of Faculty of Political Science and Economics
2013 Outside Director (Member of the Board), Daiwa Securities Group Inc.
Retired as Professor of Waseda University, Graduate School of Faculty of Political Science and Economics

Hiroki Tsuda has previously served as the Director-General and the Vice Finance Minister at the Ministry of Finance. Management believes his specialized knowledge and extensive career experience will be of enormous value to the Company. His term as a director of the Board is one year.

Tadashi Onodera
Outside Director
(Member of the Board)



1989 Director of DDI Corporation (currently, KDDI Corporation)
1995 Associate Senior Vice President, Director
1997 Executive Vice President, Director
2001 President of KDDI Corporation
2005 President and Chairman
2010 Chairman
2014 Outside Director (Member of the Board), Daiwa Securities Group Inc.

Tadashi Onodera is currently Chairman of KDDI Corporation. Mr. Onodera was newly appointed as an outside director at the Company's 2014 Ordinary General Meeting of Shareholders to provide management advice based on his wealth of management experience and insight nurtured throughout his career at KDDI.

Corporate Governance

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

Features of the Corporate Governance System

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

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

The Nominating Committee met three times in FY2013 to discuss the composition of the Board of Directors and its effect on corporate governance, the basic policy for nominating candidates for directorships, and the selection of these candidates. The Nominating Committee selects candidates for directorships in light of the Group’s selection standards for the appointment of directors. These standards include criteria that ensure the independence of outside directors.

The Audit Committee met 12 times in FY2013. The committee evaluated the activities of directors and corporate executive officers, audited documentation including financial statements and business reports, and prepared an audit report for the period under review.

The Compensation Committee met five times in FY2013 to discuss the compensation policy and determine the compensation of each director, and also studied a Group-wide incentive plan aimed at improving consolidated earnings results.

The Board of Directors met 10 times in FY2013, and outside directors had a 100% record of attendance.

Corporate Governance System at Daiwa Securities Group



Executive Compensation More Closely Linked to Performance

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

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

Compensation Paid to Directors and Corporate Executive Officers of Daiwa Securities Group Inc. in FY2013

	Directors		Corporate Executive Officers		Total	
	Recipients	Amount	Recipients	Amount	Recipients	Amount
Amounts based on resolution of the Compensation Committee	8 persons	¥113 million	14 persons	¥1,159 million	22 persons	¥1,273 million

Notes: 1. The above amounts include performance-based compensation paid in this fiscal year.

2. The above compensation amounts include a total of ¥95 million in stock acquisition rights granted as stock options to directors and corporate executive officers.

3. Compensation paid to the six outside directors totaled ¥85 million.

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

Internal Control System and Internal Audit

In recognition that management is responsible for maintaining an effective internal control system to ensure the sound and proper execution of business, the Group, under the main initiative of Daiwa Securities Group Inc., has established a system for managing the Group's major business risks. The Group also maintains this internal control system for ensuring "business effectiveness and efficiency," "reliable financial reporting," "compliance with laws related to business activities," and "asset preservation."

The Internal Audit Department verifies the internal control system. This department, established independently from all other departments and reporting to a dedicated corporate executive officer, ensures internal audits to act as an important function of raising Group value through the creation of sound and efficient internal controls. The department's internal auditing plans and the results of internal audits are reported to and approved by the Group Internal Audit Committee, which is directly under the control of the CEO of Daiwa Securities Group Inc. Plans and results are also reported to the Audit Committee.

Daiwa Securities Group Inc. seeks to raise corporate value by effectively conducting internal audits, and implements risk-based internal audits primarily through its Internal Audit Department.

The Internal Audit Department pays special attention to certain aspects of Group internal auditing activities, including the internal control systems at Daiwa Securities Co. Ltd. and the Group's overseas business offices as a global financial instruments firm, the internal control systems at Daiwa Next Bank, Ltd. as a bank, the status of Group-related businesses, and the status of controls over Group companies at the parent company.

The Internal Audit Department collaborates with the internal auditing section of each Group company within the context of holding periodic meetings, monitoring activities, and performing audits. It also formulates policies that apply to all Group internal audits, plans risk-based audits, and monitors these activities.

The Internal Audit Department maintains communications with the Audit Committee and accounting auditor, making any necessary adjustments to ensure that audits are performed efficiently. The Audit Committee on occasion asks the Internal Audit Department to conduct an audit.

Compliance

The Daiwa Securities Group has set the four corporate principles of “building trust,” “placing importance on personnel,” “contributing to society,” and “maintaining sound profits.” We believe that compliance is necessary for implementing these principles. The goal of the Group’s compliance activities is not merely to “comply with laws and regulations,” but to earn the trust of customers, the market, society and stakeholders.

The Daiwa Securities Group’s Approach to Compliance

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

In FY2013, Group companies continued to implement training and spread knowledge about insider trading as a part of efforts to prevent insider trading.

Initiatives the Group took to eliminate any and all relations with corporate racketeers and other antisocial groups involved collecting information on their increasingly sophisticated methods by working in close contact with mainly police organizations and legal experts, and enhancing the Group’s various outward procedures for scrupulously severing contact with such undesirable groups. In addition, Group companies shared this information and took other unified steps to eliminate any and all relations with antisocial groups.

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

The Security Group Minimum Standard is a basic policy for information security Group-wide. Following this basic policy, Group companies maintain related rules for information security. These rules about information security are made available on the corporate intranet to ensure all employees and executives adhere to the rules. Using e-learning and other resources, training, education and testing about information security are implemented on a periodic basis.

Disclosure

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

Disclosure System

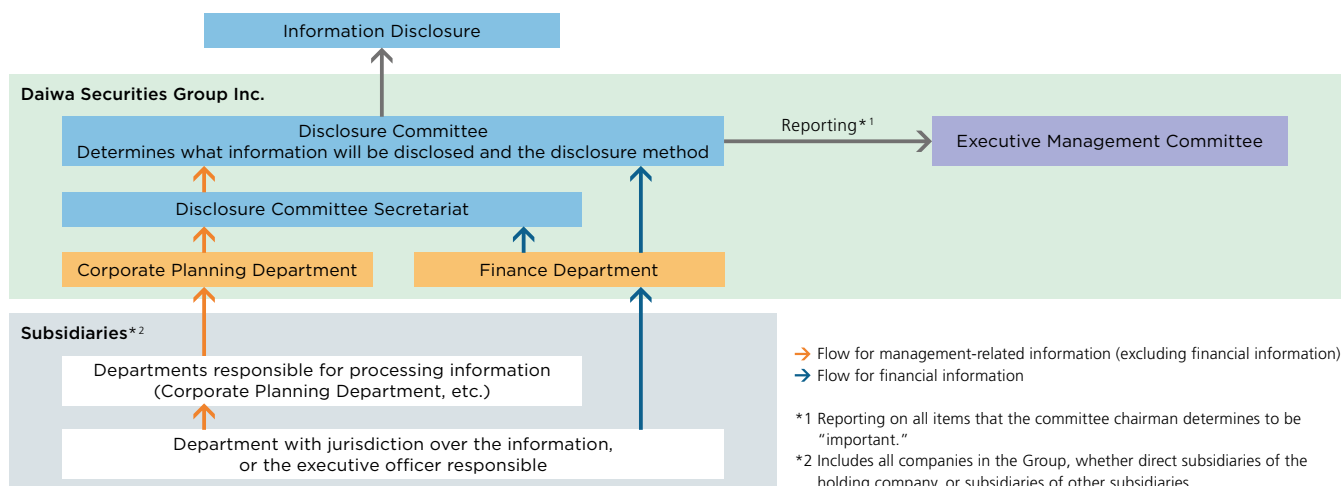
The Daiwa Securities Group has formulated the Disclosure Policy, which outlines the Group's basic approach to information disclosure and strives to provide information that is fair, prompt, and appropriate.

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

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

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

Flowchart of the Daiwa Securities Group's Disclosure Activities



Daiwa Securities Group Disclosure Policy

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

IT Strategy and Information Security

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

IT Governance System

The Group has established the Group IT Strategy Committee as a subcommittee of the Executive Management Committee. This committee deliberates and makes decisions on such issues as budgets for IT investment and the allocation of IT functions. IT investment budgets are drawn up in accordance with management strategies while weighing the importance of unifying IT strategies, and funds are prioritized for investment budgets that contribute to the achievement of Group management targets and business strategies.

The Group IT Management Committee, which serves as a prior consultation mechanism for the Group IT Strategy Committee, was established as a venue for executive officers to discuss investment themes common to all Group companies.

IT Strategy

With the aim of achieving sustainable growth, the Daiwa Securities Group has been promoting the two IT strategies (basic IT policies) of “rebuilding business infrastructure” and “strengthening IT governance” under its Medium-Term Management Plan, “Passion for the Best” 2014, which commenced in FY2012.

The Group plans and implements medium- and long-term IT strategies on a global basis based on its business strategy. The Group provides its customers with reliable services by developing rock-solid systems in a timely manner in order to support marketing staff on all fronts, from both quantitative and qualitative standpoints.

In FY2013, the Group offered services related to the Nippon Individual Savings Accounts (NISA) with a broad lineup of products launched at the same time the system started. Daiwa Securities focused on improving customer service and increasing the efficiency of marketing activities by reinforcing associated functions at marketing branches and contact centers.

In FY2014, while responding to the global trend toward tighter financial regulations, the Group is working to improve efficiency and quality in NISA offerings and overall marketing,

and concentrating resources in fields that enhance customer convenience. In this way, the Group is creating a platform from which the Group can play a leadership role in the shift “from savings to investment” in Japan.

Measures for Maintaining Information Security

The Daiwa Securities Group is proactively strengthening information security measures and pursuing measures to protect information assets, including personal customer information, from a variety of threats while keeping pace with the latest technological trends.

Cyber-attacks and other external threats have become more serious over the past few years, making it more important than ever to detect and defend against these attacks. The Group makes every effort to ensure security and data accuracy by rapidly deploying appropriate information security measures from both a technological and physical perspective.

The Group aims to improve the sophistication of its information asset management by preventing problematic behavior before it occurs and quickly detecting it when it does occur, through systematic monitoring and management of information system user IDs and access privileges.

Malfunction Countermeasures

The Daiwa Securities Group appropriately monitors information systems in terms of their operational status, capacity, and malfunctions. Data about malfunctions is shared among Group companies to be used as references in the creation of measures to prevent reoccurrences and to prevent new problems from arising.

In order to shorten recovery times, the Group creates procedures and automates processes for recovering from system malfunctions, by analyzing patterns in previous malfunctions.

Risk Management

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

Risk Management Policy

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

- ① Management’s proactive involvement in risk management.
- ② Implementing a risk management system commensurate with the nature of such risks in the Group’s management.
- ③ Understanding comprehensive risk based on integrated risk management and strengthening capital.
- ④ Clarifying the risk management process.

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

Types of Risks

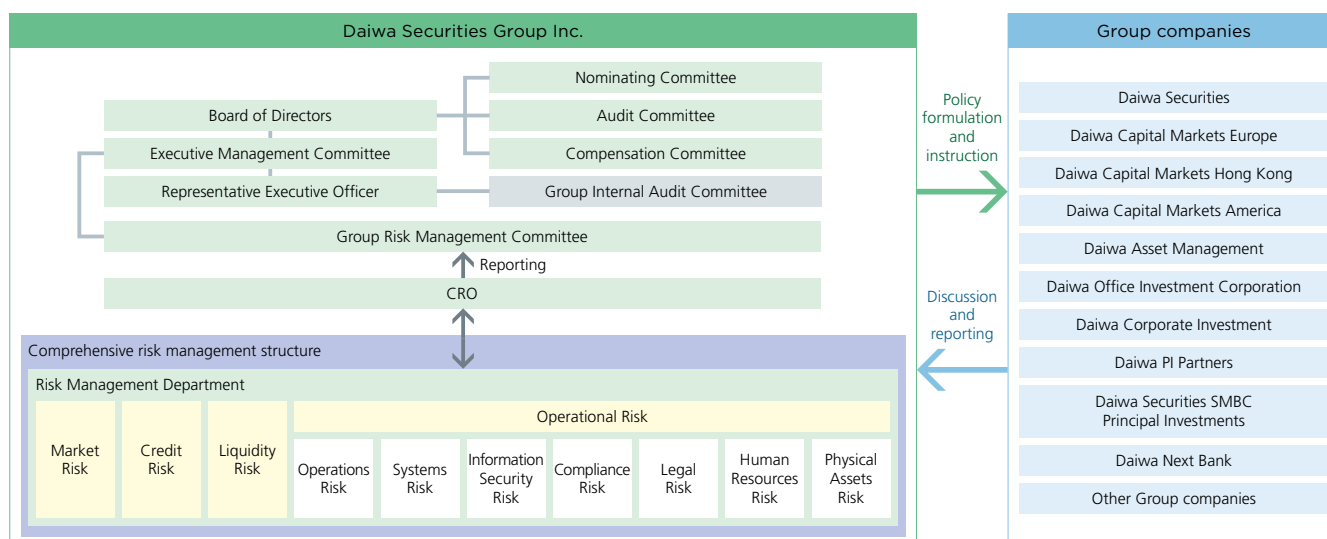
The Daiwa Securities Group faces various risks in the course of its business activities. The Group therefore believes that it is important to properly identify, evaluate, and manage these risks in order to maintain healthy financial and earnings structures. Daiwa Securities Group Inc. engages in risk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

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

Risk Management System

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

Risk Management System



resolves those issues. In addition, major Group companies regularly hold risk management committee meetings in order to strengthen their risk management.

Major Risks and Methods of Management

Market Risk Management

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

In terms of the Group's trading business, the Group sets limits on Value at Risk (VaR)*, position, and sensitivity, with consideration given to the financial status of the Group and the business plans and budgets of each division running the trading books. The Risk Management Department monitors market risk for the Group as a whole as well as for each division and reports daily on the status of market risk to management. In addition, in order to complement VaR, which is calculated based on statistical hypotheses with empirical data for a set period of time, the Group performs stress tests using historical scenarios and hypothetical scenarios.

* Value at Risk (VaR) represents the maximum possible loss of a given trading portfolio with a given probability over a given time horizon.

Credit Risk Management

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

Before the Group can take on a transaction involving credit risk in its trading business, the Group assigns a line of credit to the counterparty mainly based on its credit rating. Subsequently, the Group carefully monitors the degree to which this line of credit is observed.

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

Management of Market Risk and Credit Risk Unrelated to the Trading Business

Besides the trading business, the Group also owns operational investment securities related to the investment business; loans and marketable securities related to the banking business; and investment securities that are held for the purpose of maintaining business relationships. Although such assets are also exposed to market and credit risks, the risk management of such assets is conducted in accordance with the risk characteristics unique to each line of business.

The Daiwa Securities Group (Consolidated) Value at Risk

Range and Assumption of VaR • Scope: Trading accounts • Confidence level: 99% (one-side test) Holding period: 1 day
• Adjusted for price correlation between products

	(Billions of yen)							
	6/12	9/12	12/12	3/13	6/13	9/13	12/13	3/14
VaR (Month-end)	1.74	1.55	1.77	1.63	1.96	1.30	1.41	1.48
Quarterly								
High	2.15	2.29	2.02	2.43	2.41	2.95	2.47	2.33
Low	1.38	1.29	1.20	1.16	1.31	1.09	1.21	1.09
Average	1.71	1.77	1.54	1.61	1.84	1.57	1.65	1.52
By Risk Factor (Month-end)								
Equity	0.68	0.48	0.95	0.56	1.11	0.81	0.64	0.82
Interest	1.48	1.32	1.67	1.52	1.33	1.28	1.35	1.36
Currency	0.60	0.47	0.50	0.96	0.65	0.22	0.19	0.20
Commodities	0.01	—	—	—	—	—	0.01	—

Liquidity Risk Management

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

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

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

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

As the Group's business becomes more sophisticated, diversified, and systemized, the accompanying risks become more varied, and, as a result, the need to manage such operational risk grows each year.

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

Reputational Risk Management

Reputational risk refers to the possibility of the Group sustaining unforeseen losses and the Group's counterparties being adversely affected due to a deterioration of its reliability and reputation, caused by the spread of rumors or erroneous information. There are no uniform procedures for managing reputational risk because it can emanate from a variety of sources.

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

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

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

CSR Initiatives

The Daiwa Securities Group believes that our business activities like providing financial advice and investment banking play important functions in social and economic development and regard them as our mission.

To continue to fulfill our mission whilst expanding our business, we trust that it is essential to maintain close ties with our stakeholders.

Corporate Principles of the Daiwa Securities Group

Building trust

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

Placing importance on personnel

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

Contributing to society

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

Maintaining healthy earnings results

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

Key CSR Issues for the Daiwa Securities Group

To achieve our corporate principles and realize a sustainable society, based on the requests and opinions we have received from our stakeholders thus far, we have addressed the following key issues:

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

We believe keeping each and every one of our executives and employees motivated and proud of their work is essential for tackling these key issues.

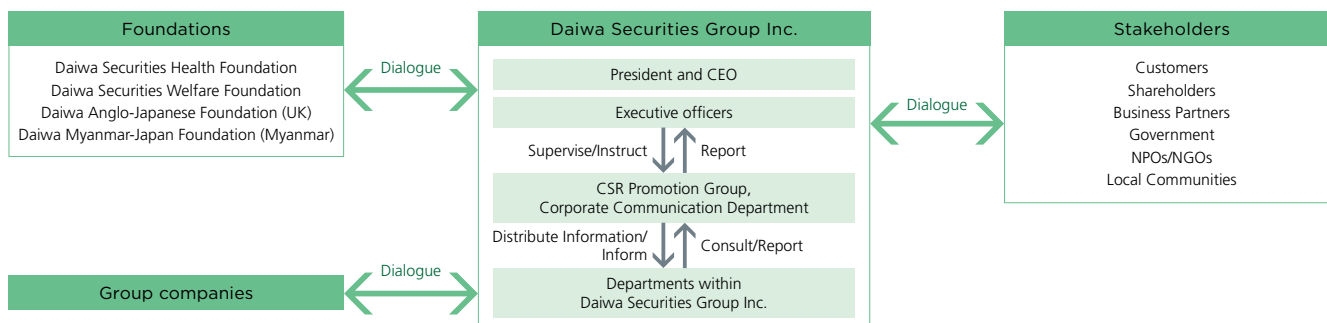
In addition to these two CSR issues, **the Group strives to create a rewarding workplace in which our executives and employees can take pride.**

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

CSR Promotion System

The CSR Group of the Corporate Communication Department at Daiwa Securities Group Inc. proactively gathers information and engages in dialog at internal and external meetings to better understand the viewpoints of stakeholders. We have put in place a cooperative structure for sharing information about CSR

activities with branch offices throughout Japan and with major bases overseas. Also, group training sessions for new employees are designed to build awareness of CSR through lectures. Outside experts are enlisted to discuss CSR issues, and details of these dialogues are published as "Thinking about CSR Together" on the CSR website of Daiwa Securities Group Inc.



CSR through the Securities Business

The securities business, the core business of the Daiwa Securities Group, plays a key role in society, by building a bridge between the needs of investors to manage assets and the needs of private and public sectors to raise funds.

On the fund-raising side through issuing equities, bonds, and other securities products, the Group provides advice and assistance to companies in their efforts to raise money for equipment investment or R&D, as well as for national governments, local governments, international institutions, and public corporations seeking to raise funds for public works projects.

On the asset management side, the Group provides appropriate investment information and advice, as well as a comprehensive and diverse lineup of financial products and services to meet the various needs of individuals, companies, institutional investors, and pension funds.

In these ways, the securities business facilitates the smooth flow of money by matching demand and supply through financial and capital markets. The Group fulfills an important role and responsibility in society by contributing to sustainable development through the channeling of funds into businesses that solve social issues and create new technologies, for example.

On investing in corporate shares, the Daiwa Securities Group promotes methods of investing that take into account a corporate social responsibility (CSR), such as its environmental and social initiatives, in addition to financial information. In recent years, the Group has concentrated on the composition and sale of financial products based on an investment strategy called "Impact Investment," where investments are directly made in organizations that use the funds to solve social problems. From its position as a financial institution, the Daiwa Securities Group is endeavoring to contribute to society by developing and marketing these products. In addition to pursuing economic gain, the Group is dedicated to resolving a host of social issues.

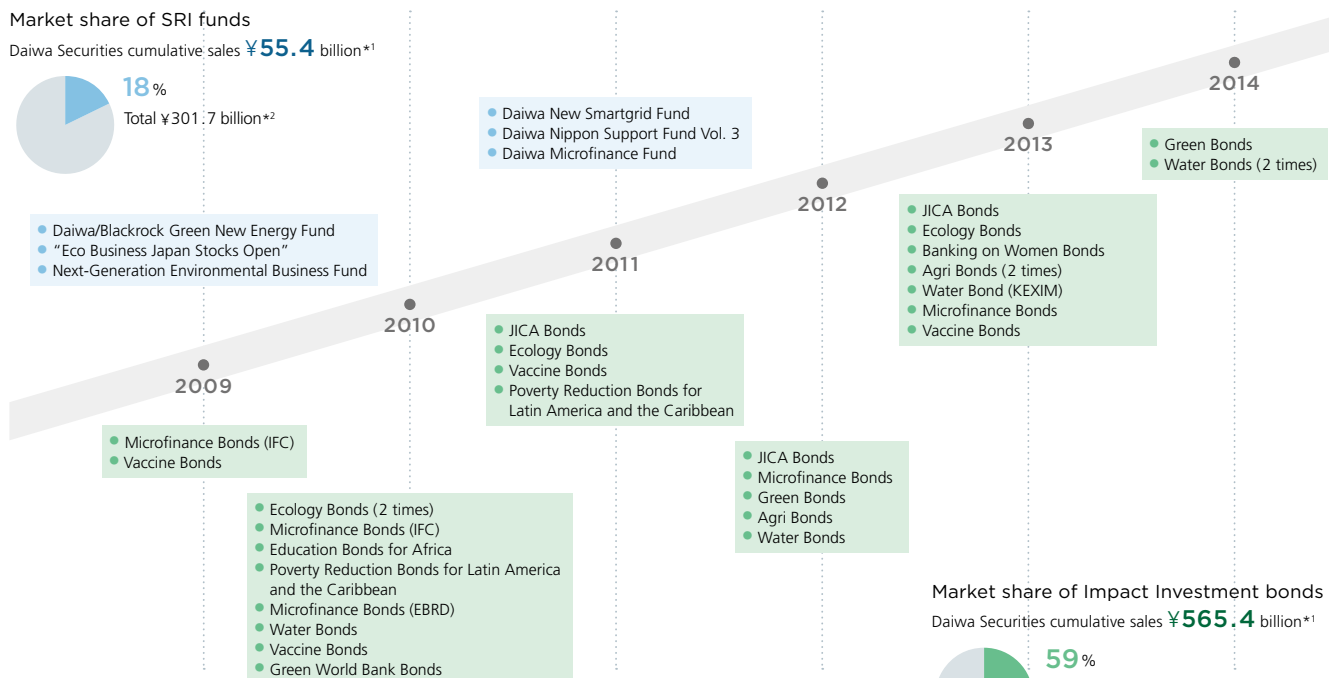
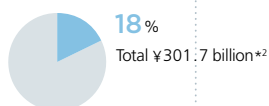
Socially Responsible Investment (SRI) Initiative

SRI is an equity investment approach that evaluates a company's environmental and social efforts in addition to its financial information. This approach has the function of encouraging these companies to address social issues and engage in ethical behavior as a shareholder.

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

Market share of SRI funds

Daiwa Securities cumulative sales ¥55.4 billion*1



*1 Source: Daiwa Securities

*2 Source: Daiwa Fund Consulting Co. Ltd.
(As of the end of March 2014)

The Daiwa Securities Group designs and distributes financial products that promote investment from a broader social perspective. Compared to typical forms of SRI, Impact Investment focuses more on investments that have a direct impact on society, addressing environmental destruction on a global scale, poverty in developing countries, and other issues that threaten the existence of the human race. It is a method that not only pursues economic benefits, but is also a way to allocate assets solely to activities targeted at resolving social issues, such as poverty and climate change.

As a financial institution, we have supported the resolution of problems in society by offering various types of Impact Investment bonds.

In FY2013, Daiwa Securities sold Impact Investment bonds worth ¥115.2 billion in issues for nine deals. Cumulative offerings in Japan totaled ¥957.8 billion as of March 31, 2014, of which Daiwa Securities has sold ¥565.4 billion in Impact Investment bonds, for a share of 59% (Source: Daiwa Securities).



Lead manager for JICA Bonds sold to individual investors for three consecutive years / Joint seminars
Japan International Cooperation Agency (JICA) Bonds for individual investors are Impact Investment bonds available from only a few issuers in Japan. They mainly provide individual investors with an opportunity to invest in international cooperation activities undertaken by JICA.

Since December 2011, JICA has issued bonds for individual investors every year, and did so again in December 2013. Daiwa Securities has been the lead manager for JICA Bonds for three years straight, ever since the initial issuance, helping promote awareness of and the sale of the bonds.

In FY2013, the company held seminars jointly with JICA at multiple branch offices in tandem with the issuance of new JICA Bonds, giving presentations about the current status of Impact Investment bonds and JICA's activities.

First-ever sale of IFC Banking on Women Bonds

In November 2013, Daiwa Securities arranged and sold to individual investors the Banking on Women Bonds, issued by the International Finance Corporation (IFC). Funds raised through the bonds are used by the IFC to provide financing for women entrepreneurs in emerging countries. These bonds were the first of their kind in Japan. In June 2013, before the Banking on Women Bonds were issued, the IFC, Daiwa Securities Co. Ltd. and Japan Sustainable Investment Forum (JSIF) jointly sponsored a seminar about supporting the empowerment of women in Africa and impact investment. At the seminar, panel discussions and lectures introduced examples of actual businesses in Africa and businesses managed by women that are relatively unknown in Japan.

Establishment of Nippon Healthcare Investment Corporation, Japan's First Investment Corporation (REIT) Specializing in Healthcare Facilities

In January 2014, in response to the progressive aging of society, Daiwa Real Estate Asset Management Co., Ltd. established "Nippon Healthcare Investment Corporation" as the first REIT in Japan specializing in healthcare facilities. The advisor is AIP-Japan GK, an investment fund manager with experience in real estate investment in healthcare and nursing care facilities. The REIT's initial size of assets under management was approximately ¥9 billion, including paid retirement housing, serviced residential facilities for the elderly, hospitals and comprehensive outpatient facilities. The REIT launched operations in March 2014 and is looking to list on the Tokyo Stock Exchange.

Daiwa Myanmar-Japan Foundation

On April 1, 2013, the Daiwa Securities Group established the Daiwa Myanmar-Japan Foundation to support human capacity building for the purpose of achieving sustainable economic growth in the country. The Foundation has been helping with the development of key personnel for cultivating capital markets in Myanmar, such as by offering scholarships to young staff working in the Myanmar government for studying abroad in Japan. On December 2, 2013, the Foundation signed a memorandum of understanding concerning cooperation in human capacity building with the Myanmar Institute of Certified Public Accountants.

Support for Cultivating a Capital Market in Myanmar

Daiwa Institute of Research Ltd. (DIR), Tokyo Stock Exchange Group, Inc. (currently, the Japan Exchange Group), and the Central Bank of Myanmar concluded a memorandum of understanding pertaining to cooperation toward establishing a securities exchange and supporting the cultivation of a capital market in Myanmar in May 2012. A major component of the memorandum is the establishment of a securities exchange in 2015. This is expected to provide companies in Myanmar with additional fund-raising opportunities while facilitating investors' wealth and support for financial strategies. In the ensuing period, DIR has put in place a variety of measures aimed at providing genuine support. In addition to providing recommendations to government officials, DIR has held seminars in Myanmar, and taken steps to accept trainees.

On April 8, 2013, DIR and ACE Data Systems Ltd. (ACE), one of a small number of leading IT companies in Myanmar, jointly established DIR-ACE Technology Ltd. to provide IT services in Myanmar. ACE offers services related to banking systems in Myanmar. DIR has been building a cooperative relationship with ACE since December 2010, primarily through the outsourcing of systems development in securities operations.

On May 31, 2013, DIR signed a Memorandum of Understanding (MOU) with the Central Bank of Myanmar regarding IT support, and DIR provided PCs and a cloud computing environment to the central bank. DIR plans to provide an additional 1,000 PCs or more, enough for almost every employee at the central bank. Moreover, an agreement has been reached for deploying a state-of-the-art modular data center in Yangon City, Myanmar.

The Daiwa Securities Group will continue to harness its collective strengths to help cultivate a capital market in Myanmar going forward.



Fund Established to Support Unlisted Companies in Disaster-Stricken Areas

Daiwa Corporate Investment Co., Ltd., along with the Organization for Small & Medium Enterprises and Regional Innovation, JAPAN, The 77 Bank, Ltd., Bank of Iwate, Ltd., Toho Bank, Ltd., Aomori Bank, Ltd., and other institutions financed the creation of the East Japan Earthquake SME Reconstruction Support Fund.

Targeting unlisted private companies, the fund aims to expeditiously provide risk finance mainly in the form of equity. By supplying finance for a variety of purposes, including restoration and reconstruction following the earthquake disaster, new business development, the shift to a new industry or line of business, business reorganization and succession, and business incubation, the goal is to actively support companies in their efforts to secure renewed growth and development. Daiwa Corporate Investment Co., Ltd. established a new branch office in Tohoku to administer the Fund, and supports growth in the companies targeted by the Fund by leveraging the Daiwa Securities Group's far-reaching network and by working closely with the Organization for Small & Medium Enterprises and Regional Innovation and regional financial institutions.

Investments have already been made for rebuilding companies affected by the natural disaster in the seafood processing and shipbuilding industries, as well as for venture companies spun off from universities in the fields of completely artificial lighting plant nurseries and the development of new next-generation materials for hard wiring. We convey to local governments and the Tohoku branches of central government agencies the opinions and requests of companies invested in by the Fund as well as investment candidate companies. We focus on accelerating growth at venture companies and the rebuilding of companies affected by the natural disaster by explaining to investment companies ways to utilize business matching schemes and expert assistance systems provided by the national government, as well as the policies of public institutions and their various forms of assistance.

Photovoltaic Power Generation Projects

Since the launch of the renewable energy feed-in tariff (FIT) system in July 2012, Daiwa PI Partners Co., Ltd. has leveraged the Group's network to identify investment projects in the energy investment business, and is currently involved in multiple photovoltaic power generation projects. In April 2014, a photovoltaic power generation facility that the company funded in Kan-onji City, Kagawa Prefecture, began generating and supplying electric power to the local power utility. Construction work for two additional photovoltaic power generation projects in Kushiro City, Hokkaido is in progress.

With Our Employees

The Daiwa Securities Group believes that maximizing the motivation of every executive and employee will improve customer satisfaction and consequently enhance shareholder value. We take a range of measures to ensure that all of our executives and employees feel a sense of job satisfaction and that their families and friends share in their pride to be part of the Group.

In addition, the Group has taken steps to clarify its “identity,” which has developed through a process of evolution grounded in its corporate principles. This identity expresses the basic philosophy and mind-set of the Group’s corporate culture since its foundation, and is clearly stated as the “Daiwa Spirit.” We hope that the “Daiwa Spirit” will enhance employees’ sense of unity and togetherness and thus the Group’s overall cohesiveness.

Hiring and Employment Measures

The Daiwa Securities Group would like all of its employees to be highly motivated and to stay with the Group from hiring to retirement. All new college graduates recruited by the Group, including those with disabilities, are brought on as full, regular employees. This helps to encourage new hires to feel a sense of trust and pride in the Group and a sense of solidarity with their colleagues. On April 1, 2014, 610 new employees joined the Group.

Our approach to retaining quality human resources is simply to provide an environment in which diverse individuals can perform to their full potential. In order to become Asia’s leading financial services firm, considerable emphasis is being placed on securing human resources who are capable of excelling on the world stage.

Handicapped person’s employment

The Daiwa Securities Group has around 170 employees with handicaps working in a wide range of roles at its headquarters, in sales branches, and in contact centers. The Group started recruiting new graduates with handicaps as regular employees (general office staff) in FY2008 and, in addition, in FY2011, broadened recruitment into the career-track employee, regional career-track employee, and customer service employment streams. We also actively increased recruitment opportunities, holding briefings about the company for new graduates, participating in career expos, and implementing job placement support programs for handicapped university students.

Once people with handicaps are hired, we provide support for career advancement, for example, creating opportunities for them to enter the career-track and regional career-track employment streams.

Support for the success of veteran employees

The Daiwa Securities Group has in place a Senior Advisor System that provides veteran employees with a wealth of experience to play an active role in the workplace. Senior advisors are dispatched to locations of their choice and engage

in community-based consulting and sales from a long-term perspective. In addition, the Daiwa Securities Group offers the “Daiwa Master Program” to actively support the success of highly motivated and skilled veteran employees. Senior advisors can work up to the age of 70 under the Daiwa Master Program. Ahead of the movement in Japan toward an aging society, the Group allows experienced personnel to continue contributing to the Group through a detail-oriented approach to customer service and by helping train younger employees.

Human Resource Development and Skill Advancement

The Daiwa Securities Group’s competitiveness derives from its human resources. The Group has a management vision to become Asia’s leading financial services group possessing and leveraging a solid business platform in Japan. To realize this vision, we focus on human resource development with the aim of creating a professional group. We offer extensive training programs to employees from the time new graduates are just getting their start as Group employees, as we believe that it is critical for them to receive a solid basic education immediately after joining the Group. Our varied training options ensure that employees not only acquire the fundamental skills, but also learn about the Group’s corporate philosophy and commitment to CSR.

We also believe that our employees must have a firm understanding of corporate ethics and compliance in order to ensure the development of sound financial and capital markets—a key issue for the Daiwa Securities Group. Accordingly, we offer regular training on information security and compliance.

Education and training system

The Daiwa Securities Group trains employees tailored to their skill levels based on a Group-wide policy. We aim to foster a sense of solidarity among Group employees across divisions while offering training opportunities at group meetings.

Daiwa Securities helps employees raise their skills to new levels, and has set up new programs that aim to improve specializations starting in the second half of FY2013. We have also expanded training programs for managerial personnel to improve organizational productivity further.

From FY2013, the Annex Education Program, taught by specialist instructors, has been expanded to newly hired, regional career-track employees, while employees entering their second year of employment will fall within the scope of the mentor system. Through these initiatives, we are working to upgrade and expand our education and training systems for young staff and to put in place an environment that is conducive to learning.

Supporting employees trying to earn credentials

The Daiwa Securities Group encourages employees to improve their English skills in light of globalization and the focus of corporate strategies on Asia. Daiwa Securities Co. Ltd. sees Financial Planner (AFP and CFP) and Securities Analyst qualifications as core requirements, while aiming in particular to have the highest number of employees in the industry accredited as Certified Financial Planners (CFPs).

In addition, the company provides generous support by, for example, subsidizing certification costs so that employees can enhance their specialized skills and become professionals.

Evaluation system

At the Daiwa Securities Group, we believe that a fair and well-accepted evaluation system is crucial in keeping all employees highly motivated in their jobs. As part of this, we implement a multifaceted evaluation system for managers. This involves subordinates and related departments assessing their manager's job performance in the course of daily operations and the results being fed back to the manager. It is intended to improve managerial skills and improve the Group's overall productivity. This comprehensive system also takes compliance-related performances into account.

In addition, our aim is to create a personnel evaluation system that motivates all employees, regardless of job experience whether they are young, mid-career, or experienced veterans, to move to the next stage and work in positions with major responsibilities.

Striving to Create a Pleasant Working Environment Encouraging work-life balance

One of the Daiwa Securities Group's targets is to promote an advanced level of work-life balance. The Group is committed to pursuing working styles that enable employees to achieve a

balance between their private and professional lives, and makes efforts to create an environment in which both men and women can work in a variety of ways.

Not only do we seek to establish systems that enable diverse work styles, but we also work to change employee awareness by ensuring employees leave work before 7 p.m., by encouraging them to take all their paid holidays, and by setting a day of welcoming family visits to the workplace.

The Daiwa Securities Group has adopted systems aimed at supporting its employees in both areas of child-rearing and nursing care that exceed statutory requirements. Since FY2012, a survey concerning the Group's efforts to support both the career and childrearing needs of its employees has been conducted to solicit input from all Group employees. This survey is designed to ascertain the degree to which employees are using the Group's systems and to collect feedback focusing particularly on employee needs. Drawing on the results of the survey, the Group is working to further improve conditions and put in place a pleasant working environment for all employees. Prior to an employee returning to work after taking childcare leave, interviews are conducted with relevant department, office, and branch heads. In this manner, energies are being channeled toward ensuring a smooth return to work. Even during childcare leave, employees are still eligible for promotions and raises based on their contributions to date.

We will continue promoting initiatives designed to attract the kind of high-caliber employees who build an enterprise that achieves great performance.

Main Initiatives for Work-Life Balance and Female Employee Support Plan

Program name	Program description
Professional Return Plan (rehiring of sales staff)	Offers opportunities for re-employment to former full-time employees who left their jobs after marriage or childbirth.
Job Location Change System	Offers a position in a new location when an employee must relocate after marriage or spouse's job transfer.
Childcare leave	Employees can take childcare leave until their child's third birthday.
Exemption from or restricted overtime work	Employees can apply for an exemption from overtime work until their child completes the third grade of elementary school. Employees can also apply for restricted overtime work until their child completes elementary school.
Daycare subsidy	The Group offers subsidies for daycare expenses until the employee's child begins elementary school.
Expanded leave system	The Group encourages employees to take paid vacation and has introduced leave for marriage preparations or "family day" leave to give employees a chance to spend quality time with their families.
Follow-up on program use	The Personnel Department keeps track of individual employees' childcare-related schedules and notifies them of programs available at the appropriate time.
Support after returning to work	Enables employees to return to work after a period of childcare leave. The return to work guidelines were revised in FY2011. Daiwa WLB Station, a work-life balance promotion website that focuses on various support systems related to childrearing and nursing care, provides information for employees on childcare leave and helps facilitate their smooth return to the workplace.

Encouraging women to succeed

The Daiwa Securities Group proactively appoints talented human resources regardless of gender. Promotions are based on fair evaluations, and we believe creating a work environment where people from diverse backgrounds can maximize their abilities will lead to improvement in corporate value.

We are trying to appeal more to women's individual interests by introducing thriving female employees as role models in internal publications and providing opportunities for cross-company communication, in order to increase the number of women in management positions.

A career consultation service has been set up on the Group's internal Initiatives for Work-Life Balance site. Female executives as well as heads of each department, office, and branch give advice on the concerns and inquiries of female employees. There are a total of six women in top management positions across the Daiwa Securities Group, including two female executives at Daiwa Securities Group Inc. The number of women in management positions has increased every year, totaling 221 women at Group companies as of March 31, 2014. The ratio of women in management positions has risen from 2.2% (at the end of FY2004) to 5.4% over the past ten years at the Group, and from 2.3% to 6.3% at Daiwa Securities Co. Ltd.

By increasing the number of role models, we are making it easier for the Group's female staff to envision their career path. In this context, there has been a sharp increase in female employees aspiring to advance their careers by switching to career-track and regional career-track positions in recent years. From FY2009 to FY2013, about 850 female employees converted to career-track positions. Over the past few years, an increasing number of employees have taken advantage of our Professional Return Plan, a system for re-hiring employees that left work to raise children or care for family members, starting them at the same level of compensation as when they left. This has helped us secure talented personnel who support operations.

We will continue to increase the number of female managers, aiming to develop female leaders who will drive the future of Japan's financial industry.

External evaluations

The Daiwa Securities Group's personnel policies and initiatives are evaluated by external parties.

- In October 2013, Daiwa Securities Co. Ltd. received the Minister's Award for Companies that Nurture Employees, Career Support Company Awards 2013, from the Ministry of Health, Labour and Welfare.
- In November 2013, Daiwa Securities Group Inc. received the Minister's Award for Companies that Strive to Increase Healthy Lifespans, from the Ministry of Health, Labour and Welfare.
- In March 2014, Daiwa Securities Co. Ltd. was selected as one of the top 100 companies for diversity in management from the Ministry of Economy, Trade and Industry.

Human Rights Education Initiatives

Based on its corporate principles, the Act on Promotion of Education and Enlightenment of Human Rights, the United Nations Global Compact and ISO 26000, the Daiwa Securities Group is strengthening efforts to educate its employees about human rights with the aim of improving a corporate culture rooted in the basic principles of human rights.

In 1984, the Group set up the Human Rights Awareness Promotion Committee with the objective of promoting human rights education and training to deepen awareness and ensure an accurate understanding of human rights issues, such as social integration issues in Japan. The committee is currently chaired by the director as Human Resources Officer at Daiwa Securities Group Inc., with the director as deputy Human Resources Officer and head of the Human Resources Department as deputy chairs, along with five department heads including the General Affairs Department, Compliance Control Department, and Corporate Communication Department. Under the guidance of the Committee, the heads of all Group departments act as members in charge of promoting its mission. In May 2011, the Committee revised and published the Basic Policy for Initiatives Addressing Human Rights and Social Integration Issues.

In FY2013, the Daiwa Securities Group provided group training for new employees and training for employees being promoted to such positions managing director, director and associate director. All Group executives and employees viewed films on human rights and then adjourned to Human Rights Awareness Workshops for group discussions within their divisions. A contest was also held among Group executives, employees and their families, for drafting a Human Rights Awareness Slogan to promote broader and deeper understanding of human rights. In a new initiative, managers watched training videos about power harassment.

Basic Policy for Initiative Addressing Human Rights and Social Integration Issues

- 1 The Daiwa Securities Group supports and complies with the protection of human rights as advocated internationally and does not infringe on human rights within the limits of its influence.
- 2 The Daiwa Securities Group educates and instructs the Group's employees with accurate information on human rights and social integration issues.
- 3 At the same time, the Group views human rights and social integration issues as our own problem, not somebody else's problem, and fosters a sensitivity that enables empathy with the pain of others.
- 4 We provide an equitable working environment free of discrimination that values people.
- 5 Each employee is a member of society unburdened by prejudice.

Specific Activity Details

- 1 Respect the rights of all stakeholders and ensure that all employees interact with local communities and customers with a deep awareness toward human rights
- 2 Adhere strictly to fair and open employee screening and evaluation as well as labor management
- 3 Further upgrade and expand human rights education and awareness activities within the Group, systematically implement training, and solicit feedback

The Human Rights Awareness Promotion Committee (May 18, 2011)

Environmental Considerations

Protecting the global environment, the basis of our livelihoods, is essential for a sustainable society. Through our business activities, the Daiwa Securities Group strives to help resolve environmental issues by investing in products that can reduce the environmental burden, and also by making investments that help to make environmental technologies and infrastructure more widely available. At the same time, we are working to establish a system that efficiently collects data on Daiwa's environmental load. We are also focusing on raising employees' environmental awareness to empower them to reduce the environmental burden in daily business operations.

Environmental Vision / Environmental Principles / Basic Environmental Policies

Environmental Vision

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

Environmental Principles

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

Basic Environmental Policies

- ① Make positive environmental contributions through our core business activities
We shall seek to develop and provide financial products and services that promote a low-carbon, recycling-oriented and symbiotic society.
- ② Implement an environmental management system
We shall implement an environmental management system and constantly seek new ways to improve environmental activities. In addition, we shall support environmental education and publicity efforts, while promoting environmental protection efforts by employees.
- ③ Take steps to save natural resources, reduce energy consumption, and promote biodiversity
We shall continue to progress in our efforts to reduce the use of natural resources and energy, and seek ways to improve materials- and energy efficiency (including efforts to improve business efficiency). We shall also take steps to reduce water use and reduce, reuse and recycle other materials to contribute to a more environmentally friendly society. Furthermore, considering the importance of biodiversity, we shall seek a symbiotic relationship with the environment and use safe, clean methods of materials procurement.
- ④ Promote environmental communication
Working in concert with business partners, the local community, NGOs and NPOs, we shall actively disseminate information about environmental issues, and communicate our concern for the environment to customers and society at large.
- ⑤ Strictly observe environmental regulations
We shall always endeavor in environmental assurance, observing environmental laws and regulations in addition to the Group's environment policies.

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

Climate Change Initiatives

In every facet of its ongoing business activities, the Daiwa Securities Group is promoting collaboration between the public and private sectors in an effort to mitigate the effects attributable to climate change, while implementing various initiatives and developing services.

Financing for projects to combat climate change in developing countries

The Daiwa Securities Group provides financing for projects to counter climate change in developing countries. Through the sale of Green Bonds and other financial products, the Group supplies risk money from Japanese investors to renewable energy and other projects in developing countries.

Participation in Saitama Eco-Town project

Daiwa Institute of Research Business Innovation Ltd. was involved in an "Eco-town" project in Saitama Prefecture, providing the systems support to operate the "Home Energy Management System" (HEMS*) installed in residences. With HEMS installed in each home, the company provides energy management and efficient administrative services while analyzing energy usage by each family. The use of HEMS allows urban planning projects to reduce their environmental impact.

*Home Energy Management System; the system for supporting energy management, including the display and control of electric power and other energy sources used in the home.

Initiatives to Reduce Environmental Impact of Business Activities

Initiatives at branch offices

When installing new equipment at its branch offices, Daiwa Securities Co. Ltd. has a requirement that the equipment must be certified under Top Runner standards. The company has also decided to replace the approximately 900 passenger vehicles at its branch offices with eco-cars and hybrid vehicles over the next few years.

Offering environmentally friendly services

Daiwa Securities Co. Ltd. provides an online service that allows customers to request a wide range of electronic reports. Reports cover such areas as each transaction or balance and other pertinent details as a substitute for written notifications (hard-copy reports). Reports received in an electronic format can, in principle, be accessed and confirmed as and when required, saved to personal computers, and printed over a period of five years after initial receipt.

With Society

As a good corporate citizen, the Daiwa Securities Group engages with regional communities in a variety of ways, including education about the economy and finance. The Group also continues to provide reconstruction support to those areas devastated by the East Japan Earthquake.

Initiatives to Promote Economic/Financial Education KidZania

The Daiwa Securities Group is a supporter of KidZania, a theme park designed to provide young children from the age of three through to junior high school students with work experience and has established securities consulting pavilions at facilities in Tokyo and Koshien (Hyogo Prefecture).

Children gain an insight into the workings of a company, the importance of finance, and the role that financial service companies play within the finance sector. At the same time, this initiative helps improve the level and scope of their financial literacy.



Finance Park

Junior Achievement Japan has established a Finance Park in Shinagawa, Tokyo and another in Kyoto with the goal of providing a space where junior high school students can develop and practice life-planning skills. Plans call for opening new Finance Park facilities in Iwaki (Fukushima Prefecture) in May 2014 and in Sendai (Miyagi Prefecture) in August 2014. As a special sponsor, the Daiwa Securities Group financially supports the opening of these facilities, and also provides personnel support.



Student Company Program

This program is offered in high schools and teaches students how to set up a company. Two employees from the Daiwa Securities Group participate in the program as outside directors of the companies that have been established on a virtual basis in the classroom by students.

Participants in the program learn about corporate management and how business is conducted in the world. In FY2013, the Group supported this program in Tokyo Metropolitan high schools.

Financial lectures for beginners

The Daiwa Securities Group holds financial lectures for beginners that cover a wide range of money-related topics. These encompass financial planning, basic financial knowledge, and basic economic knowledge. To cater to the needs of a broad audience, these lectures are presented using sign language and simultaneous captioning.

As a part of our engagement for creating a sustainable society, this series was held a total of five times from 2013 and over 2014. The total number of participants was 363.



Daiwa Securities Phoenix Japan Program

In May 2012, the Daiwa Securities Group established a reconstruction assistance program to rebuild the social foundation of regions affected by the East Japan Earthquake. The program donates a portion of management fees from the Daiwa Nippon Support Fund Vol. 3—Phoenix Japan to local designated NPOs through Japan NPO Center's Japan Earthquake Local NPO Support Fund. The Fund supports NPOs working in the affected areas to help people reconstruct their lives and communities.

In May 2013, ¥49.87 million was donated to the fund, and a total of ¥35.03 million was distributed to nine different recipients in the second round of assistance. The Group will continue to promote programs that are able to operate stably over the long term.

Daiwa Securities Group Tsunami Reconstruction Fund

The Daiwa Securities Group established the Daiwa Securities Group Tsunami Reconstruction Fund to provide recovery assistance to regions affected by the December 2004 Sumatra Earthquake and Indian Ocean Tsunami. Beginning in FY2005, this fund has provided long-term support for recovery, disbursing ¥10 million annually for a ten-year period for a total of ¥100 million. The Daiwa Securities Group Tsunami Reconstruction Fund provides grants to local NPOs in the three hardest hit countries: Indonesia, Sri Lanka and India. These efforts offer assistance across four fields: mental health care for children, utilization of microfinancing, provision of educational opportunities for children, sharing and disseminating tsunami disaster prevention knowledge and exchange and cooperation activities among those who suffered. Third parties have praised the Fund's objective of providing long-term recovery assistance measures rather than offering temporary donations, and for utilizing financial systems to provide assistance through charitable trusts, microfinance and other avenues.



Events held to report on earthquake reconstruction activities

In August 2013, the Daiwa Securities Group sponsored a forum to bring together people helping two regions struck by natural disasters—the Sumatra Earthquake and Indian Ocean Tsunami and the East Japan Earthquake—where it has been supporting reconstruction activities. Panel discussions were held with leaders from Reconstruction Agencies and support groups, and action reports were presented by managers of the Daiwa Securities Group Tsunami Reconstruction Fund and the Daiwa Securities Phoenix Japan Program.

The forum was attended by 104 people interested in corporate disaster assistance and international cooperation, who shared ideas and discussed future support plans.



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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

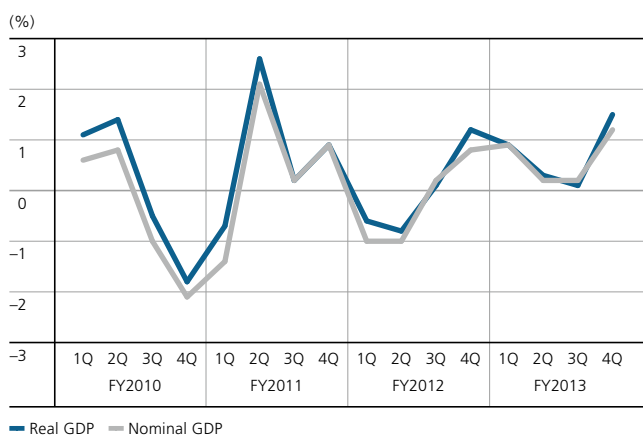
During the fiscal year, economic growth in many emerging economies began to falter, but this was offset by a gradual revival of economic expansion in leading developed countries. Firm consumer spending in the US moved the economy onto a self-sustaining growth trajectory. In Europe, recessionary conditions 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.

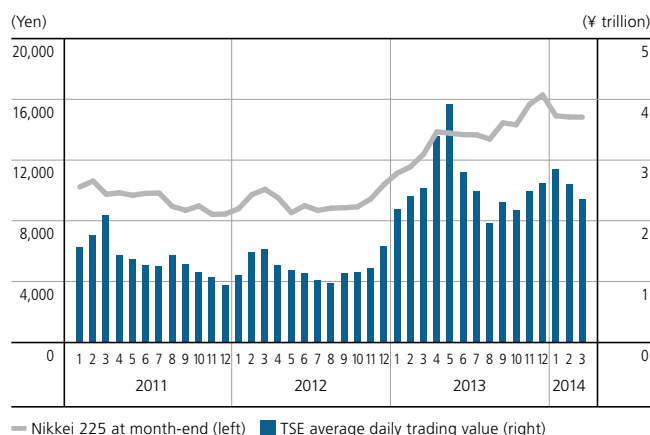
In Europe, the Euro-zone economies remained in recession during the first half of FY2013 due to the lingering impact of the fiscal and financial crisis, but by the middle of the year, there were signs of gradual improvement. In the April-June 2013 quarter, overall GDP for the Euro-zone posted its first 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 billion, 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.

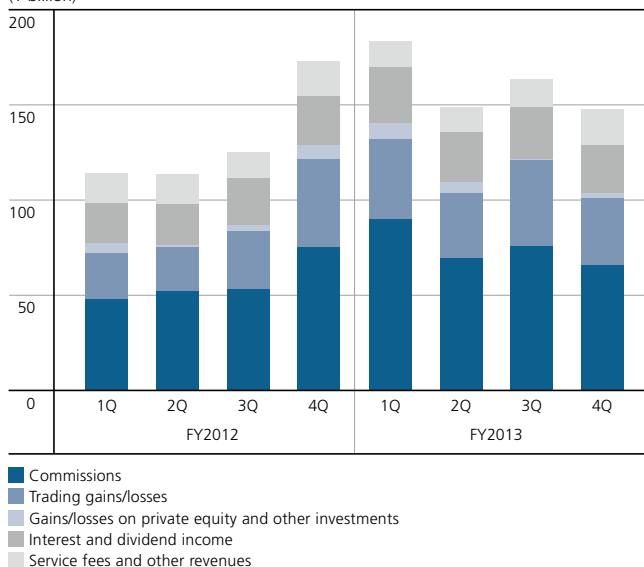
Net gains on private equity and other securities rose by 5.6% year on year, to ¥17.4 billion. This reflected the recouping of existing investments.

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

(¥ billion)



Note: Quarterly figures 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.

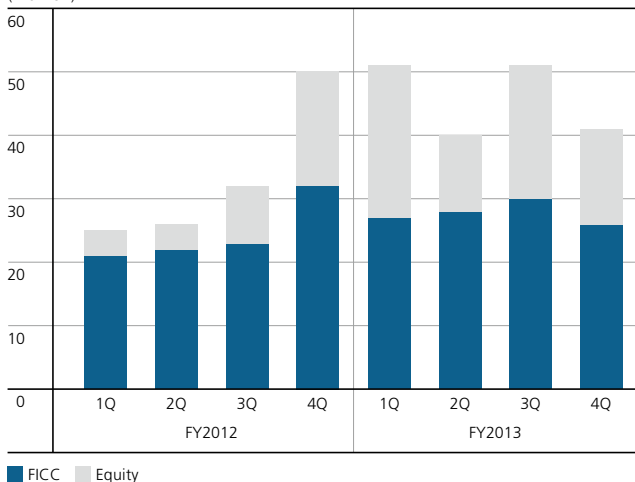
Revenues (Trading Gain/Loss) from Equity and FICC (Net Gain (Loss) on Trading + Net Financial Income, on Managerial Accounting Basis)

	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.

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

(¥ billion)



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.

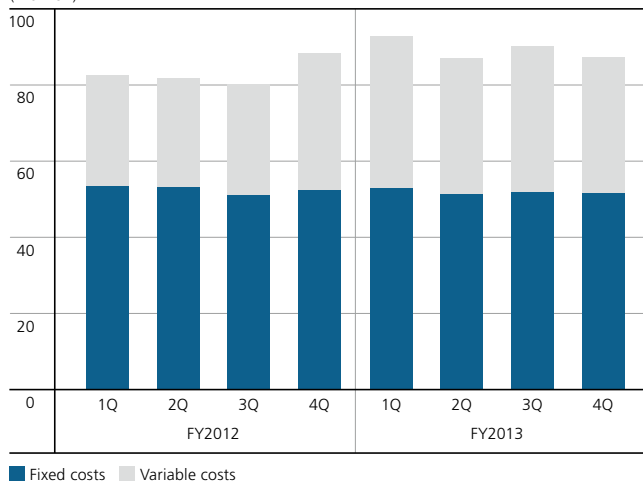
Extraordinary income included a ¥9.6 billion gain on sales of investment securities and an ¥11.1 billion loss to write off impaired assets. After adjusting for corporate income taxes and minority interests, net income grew 132.4% year on year, to ¥169.4 billion.

Breakdown of SG&A and Income

	Millions of yen		
	FY2012	FY2013	YoY
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

(¥ billion)



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.

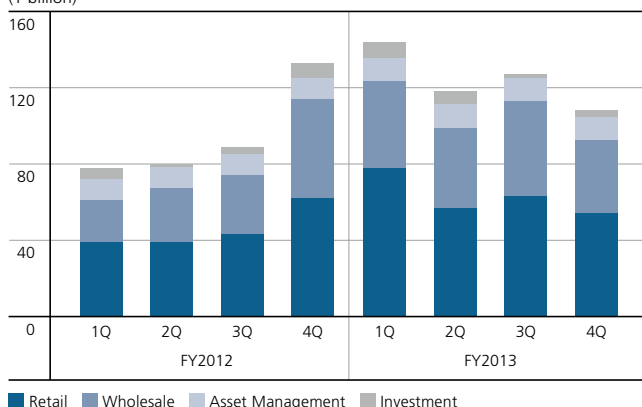
Segment Information

	Net Operating Revenues			Ordinary Income		
	Millions of yen					
	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

(¥ billion)



■ Retail ■ Wholesale ■ Asset Management ■ Investment

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.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
LIABILITIES AND NET ASSETS			
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		Thousands of U.S. dollars (Note 1)
	2014	2013	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	\$0.98
Diluted net income	98.71	0.97
Cash dividends applicable to the year	34.00	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.

Consolidated Statements of Changes in Net Assets

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

	Number of shares of common stock (thousands)	Owners' equity					Accumulated other comprehensive income					Millions of yen
		Common stock	Capital surplus	Retained earnings	Treasury stock at cost	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 carry-forwards, if any. A valuation allowance is recognized for any portion of the deferred tax assets if it is considered not realizable based on its tax planning, other studies, and reference to certain set requirements under Japanese GAAP.

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

	2014	Millions of yen 2013	Thousands of U.S. dollars 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:

	2014	Millions of yen 2013	Thousands of U.S. dollars 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

	Millions of yen					
	2014			2013		
	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.

	Thousands of U.S. dollars		
	2014		
	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”.

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
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

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
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".

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
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

Hedging instrument	Hedge accounting treatment	Main hedged item	Millions of yen	
			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

Hedging instrument	Hedge accounting treatment	Main hedged item	Millions of yen	
			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

Hedging instrument	Hedge accounting treatment	Main hedged item	Thousands of U.S. dollars	
			Contract amount	Fair value
Foreign exchange forward contract	Allocation method	Foreign bond	\$ 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

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.

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.

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)

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net operating revenues			
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	Collateralized short-term financing agreements (assets)	560,132
		Interest income	Receivables—Other	23
		Interest and dividend income	Accrued and other liabilities—Other	22
		Interest expense		452
				Millions of yen
				2013
		Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements (liabilities)	¥613,320
		Interest and dividend expense	Collateralized short-term financing agreements (assets)	28,913
		Interest income	Receivables—Other	1
		Interest and dividend income	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
Interest and dividend expense	Collateralized short-term financing agreements (assets)	5,491,490
Interest income	Receivables—Other	225
Interest and dividend income	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.



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		Basel III template number
		Exclusion under transitional arrangements	
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		Basel III template number
		Exclusion under transitional arrangements	
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				Basel III template number
	Exclusion under transitional arrangements				
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 within the range of allocated capital.

<Regulatory Capital>

The Group monitors regulatory capital against the alert level which is set well above the minimum regulatory capital ratio, sets alert level for internal management to evaluate 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 ECAs) used when determining the risk weight

Following ECAs 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 possesses 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		Reference number in composition of capital disclosure
	Balance Sheet as in published statement	Under regulatory scope of consolidation	
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 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

March 2014	Credit risk exposures						Millions of yen
							Past due exposures for three months or more
	Loans	Repo	Derivatives	Securities	Others*		
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

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

Type of allowances	Industry	Millions of yen	
		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

Risk weight	Millions of yen		
	March 2014		
	Exposure amounts	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**

Type	Millions of yen
	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.

March 2014	Millions of yen		
	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

		Millions of yen
March 2014		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

		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

		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

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.

March 2014	Millions of yen	
	VaR	Stress VaR
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
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* Back-Testing

8. Equity Exposure on Non Trading Accounts

A) Booking and market values on consolidated balance sheet

March 2014	Millions of yen	
	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

March 2014	Millions of yen		
	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)
	2014	2013	2014
ASSETS			
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.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
LIABILITIES AND NET ASSETS			
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

	Number of shares of common stock	Millions of yen			Accumulated other comprehensive income Net unrealized gain on investment securities, net of tax effect
		Common stock	Capital surplus	Owners' equity Retained earnings	
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").

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

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.

(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
	2014	2013	2014
Net operating revenues			
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)	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)	Collateralized short-term financing agreements (Liabilities)	368,221
		Interest expense (Note 3)		
		Continual transactions of loans	Loans receivable from other than customers	¥188,115
		Interest income (Note 3)	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)	Collateralized short-term financing agreements (Liabilities)	716,485
		Interest expense (Note 3)		
		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)	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)	Collateralized short-term	
		Interest expense (Note 3)	financing agreements (Liabilities)	456,437
		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)	Collateralized short-term	
		Interest expense (Note 3)	financing agreements (Liabilities)	716,371
		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.

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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		

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* "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



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

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Other Information

Daiwa Securities Group Inc. Corporate Data

Head Office

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

Website

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

Commencement of Operations

May 1, 1902

Date of Founding

December 27, 1943

Common Stock

Issued and Outstanding
1,749,378,772 shares
(as of March 31, 2014)

Number of Shareholders

110,831 (as of March 31, 2014)

Independent Public Accountant

KPMG AZSA LLC

Stock Exchange Listings

Tokyo, Nagoya

Transfer Agent and Registrar

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

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

Tel: (81) 3-5555-1300

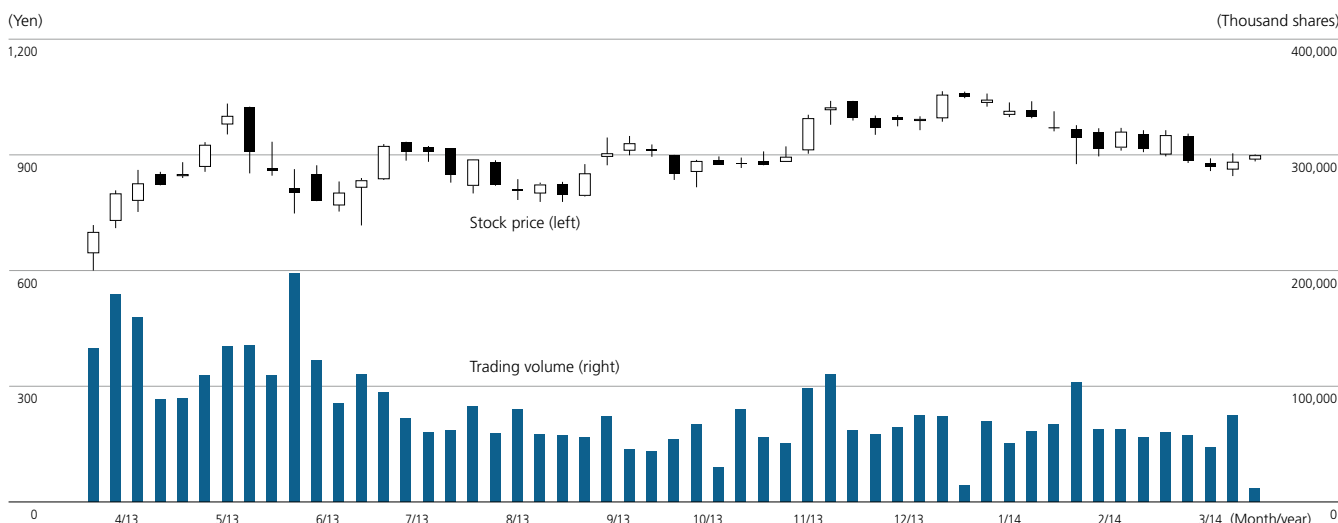
Fax: (81) 3-5555-0661

Email: ir-section@daiwa.co.jp

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

Stock Information

1. Stock Price and Trading Volume on the Tokyo Stock Exchange (April 1, 2013–March 31, 2014)



2. Major Shareholders (As of March 31, 2014)

Name	Number of shares held (Thousands)	% of total outstanding shares
STATE STREET BANK AND TRUST COMPANY 505223	139,962	8.16
Japan Trustee Services Bank, Ltd. (Trust Account)	63,605	3.71
The Master Trust Bank of Japan, Ltd. (Trust Account)	56,983	3.32
THE BANK OF NEW YORK MELLON SA/NV 10	31,872	1.85
STATE STREET BANK AND TRUST COMPANY	31,505	1.83
Sumitomo Mitsui Banking Corporation	30,328	1.76
Japan Trustee Services Bank, Ltd. Sumitomo Mitsui Trust & Banking Retirement Benefit Account	24,888	1.45
Taiyo Life Insurance Company	21,140	1.23
Nippon Life Insurance Company	20,867	1.21
STATE STREET BANK AND TRUST COMPANY 505243	20,410	1.19

Notes: 1. Treasury stock of 35,555,224 shares is excluded for calculating the percentage of the above list of major shareholders.

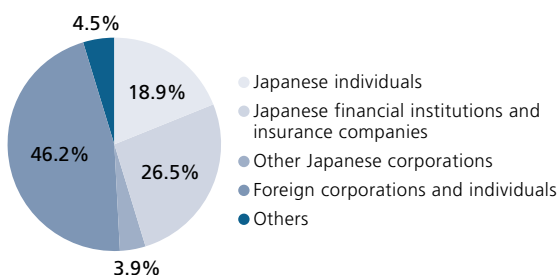
2. The Company holds its own shares as treasury stock (35,555 thousand shares) as of March 31, 2014 and those shares are excluded from the above list of major shareholders.

3. Stock Price on the Tokyo Stock Exchange

(April 1, 2013–March 31, 2014)

Open	High	Low	Close	Average daily trading volume
¥646	¥1,065	¥600	¥898	17,041 thousand shares

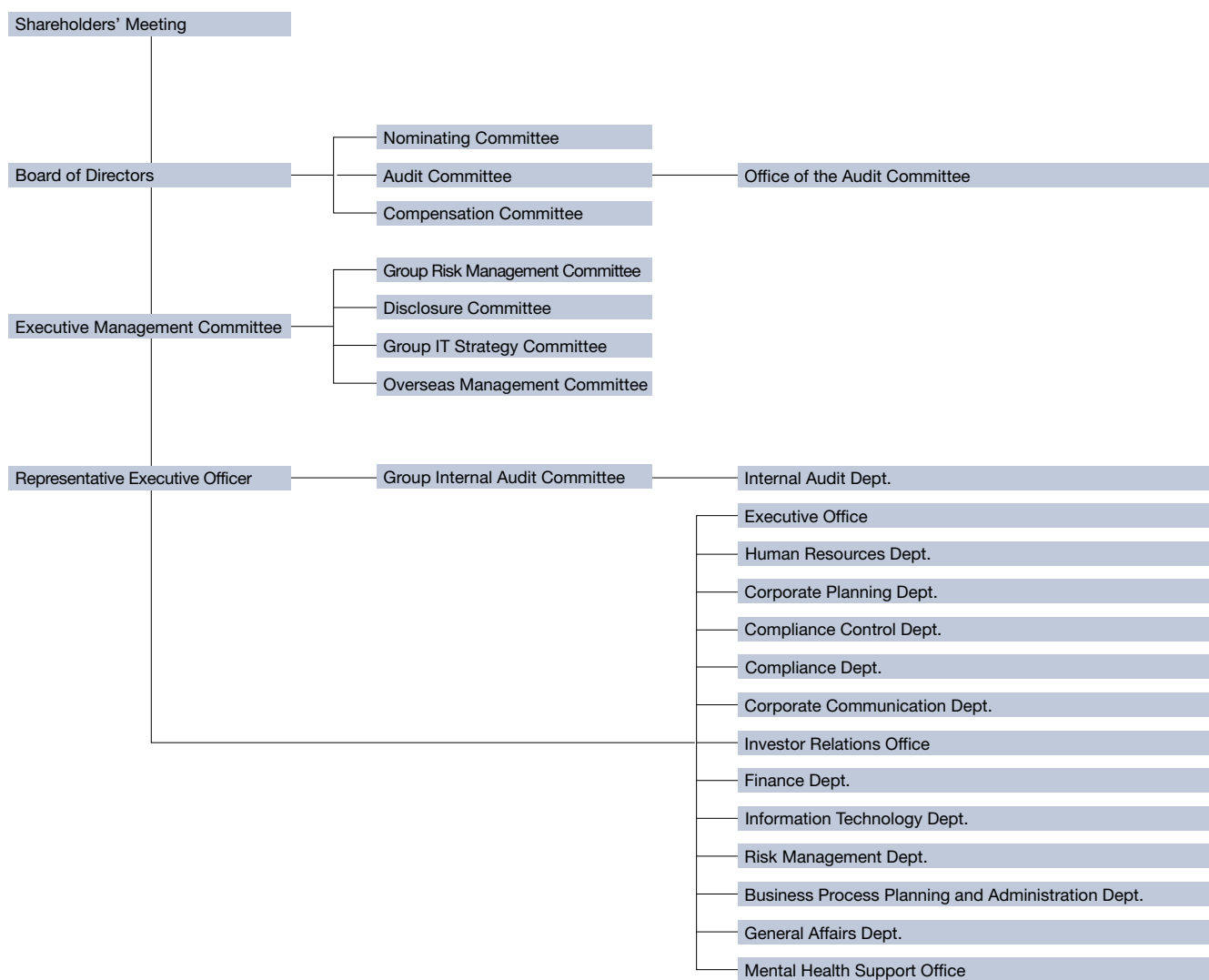
4. Breakdown of Shareholders (As of March 31, 2014)



Organization and Officers

Daiwa Securities Group Inc.

1) Organization (As of July 1, 2014)



2) Officers (As of July 1, 2014)

Directors (Members of the Board)

Chairman of the Board
Shigeharu Suzuki

Director
Takashi Hibino

Director
Nobuyuki Iwamoto

Director
Akio Takahashi

Director
Yoriyuki Kusaki

Director
Hiroshi Nakamura

Director
Keiko Tashiro

Director
Masaru Shirataki

Outside Director
Ryuji Yasuda

Outside Director
Nobuko Matsubara

Outside Director
Keiichi Tadaki

Outside Director
Hiroki Tsuda

Outside Director
Tadashi Onodera

Committee Members

Nominating Committee
Shigeharu Suzuki (Chairman)

Takashi Hibino
Ryuji Yasuda

Nobuko Matsubara
Keiichi Tadaki

Tadashi Onodera

Audit Committee
Keiichi Tadaki (Chairman)
Masaru Shirataki

Nobuko Matsubara
Hiroki Tsuda

Compensation Committee
Ryuji Yasuda (Chairman)

Shigeharu Suzuki

Takashi Hibino

Hiroki Tsuda

Tadashi Onodera

Corporate Executive Officers

President and CEO
Takashi Hibino

Deputy President and COO
Nobuyuki Iwamoto

Deputy President
Akio Takahashi

Deputy President
Yoriyuki Kusaki

Deputy President
Hiroshi Nakamura

Deputy President
Makoto Shirakawa

Deputy President
Takashi Fukai

Senior Executive Managing Director
Toshihiro Matsui

Executive Managing Director
Keiko Tashiro

Executive Managing Director
Toshihiko Onishi

Executive Managing Director and CFO
Mikita Komatsu

Senior Managing Director and CRO
Hiroyuki Inose

Senior Managing Director
Shigeharu Suzuki

Executive Officers

Senior Executive Managing Director
Koichi Matsushita

Executive Managing Director
Masahisa Nakagawa

Executive Managing Director
Tetsuo Akuzawa

Senior Managing Director
Hironori Oka

Senior Managing Director
Takayuki Sawano

Senior Managing Director
Yoshihisa Kaneko

Senior Managing Director
Atsushi Mochizuki

Senior Managing Director
Junichi Arihara

Senior Managing Director
Akihiko Ogino

1) Organization (As of July 1, 2014)



2) Officers (As of July 1, 2014)

Directors (Members of the Board)

Chairman of the Board
Shigeharu Suzuki

President
Takashi Hibino

Deputy President
Nobuyuki Iwamoto

Deputy President
Akio Takahashi

Deputy President
Yoriyuki Kusaki

Deputy President
Hiroshi Nakamura

Senior Executive Managing Director
Seiji Nakata

Senior Executive Managing Director
Shinya Nishio

Senior Executive Managing Director
Yoshimasa Nagase

Senior Executive Managing Director
Kazuo Takahashi

Senior Executive Managing Director
Yosuke Sakai

Senior Executive Managing Director
Masaaki Goto

Representative Senior Executive
Managing Director
Koichi Matsushita

Senior Executive Managing Director
Toshihiro Matsui

Executive Managing Director
Junichi Aizawa

Executive Managing Director
Koichi Maruo

Executive Managing Director
Noriaki Kusaka

Senior Managing Director
Hiroyuki Inose

Audit & Supervisory Board Members

Kentaro Ito

Shuzo Takami

Masaru Shirataki

Hiroshi Obayashi

Executive Officers

Executive Managing Directors	Senior Managing Directors
Yuichi Akai	Kenji Imamura
Kazuo Hayasaki	Yoshinori Matsumoto
Toshihiko Onishi	Sei Furuichi
Naoko Saito	Masataka Tsujimoto
Shinji Kawakami	Hiroyuki Nomura
Masahisa Nakagawa	Hiroshi Hara
Mikita Komatsu	Yasushi Iwasaki
Tadao Sakashima	Yoshihisa Kaneko
Keisuke Natsume	Atsushi Mochizuki
Masahiro Kobayashi	Naoto Shimomura
Hiromi Uemura	Masanori Tamura
	Akira Tachibana
	Akihiko Ogino

Domestic Group Companies

(As of July 1, 2014)

Daiwa Securities Co. Ltd.

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

Daiwa Asset Management Co. Ltd.

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

Daiwa Institute of Research Holdings Ltd.

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

Daiwa SB Investments Ltd.

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

Daiwa Securities Business Center Co. Ltd.

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

Daiwa Property Co., Ltd.

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

Daiwa Next Bank, Ltd.

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

Daiwa Institute of Research Ltd.

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

Daiwa Institute of Research Business Innovation Ltd.

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

Daiwa Corporate Investment Co., Ltd.

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

Daiwa Securities SMBC Principal Investments Co. Ltd.

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

Daiwa PI Partners Co. Ltd.

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

Daiwa Fund Consulting Co. Ltd.

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

Daiwa Real Estate Asset Management Co. Ltd.

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

Daiwa Pension Consulting Co., Ltd.

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

Daiwa Investor Relations Co. Ltd.

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

Daiwa Securities Media Networks Co. Ltd.

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

Daiwa Office Services Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan
Tel: (81) 3-5555-6200

HINODE SECURITIES CO., LTD.

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

Retela Crea Securities Co., Ltd.

1-6-11, Kayaba-cho, Nihonbashi Chuo-ku, Tokyo 103-0025, Japan
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Overseas Group Companies

(As of July 1, 2014)

Daiwa Securities Group Inc.

Daiwa Capital Markets America Inc.

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Tel: (1) 212-612-7000

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Daiwa Capital Markets Europe Limited

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5 King William Street, London EC4N 7AX, United Kingdom
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Frankfurt Branch
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Daiwa Securities Co. Ltd.

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Tel: (86) 10-6500-6688

Bangkok Representative Office

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Tel: (66) 2-252-5654

Daiwa Capital Markets Hong Kong Limited

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Tel: (852) 2525-0121

Daiwa Capital Markets Singapore Limited

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Singapore 068809, Republic of Singapore
Tel: (65) 6220-3666

Daiwa Capital Markets Australia Limited

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Tel: (61) 3-9916-1300

Daiwa Capital Markets India Private Limited

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Bandra East, Mumbai-400051, India
Tel: (91) 22-6622-1000

DBP-Daiwa Capital Markets Philippines, Inc.

Citibank Tower, 8741 Paseo de Roxas, Salcedo Village, Makati City,
Philippines
Tel: (632) 737-3000

Daiwa-Cathay Capital Markets Co., Ltd.

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

Daiwa Securities Capital Markets Korea Co., Ltd.

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

Daiwa (Shanghai) Corporate Strategic Advisory Co. Ltd.

Room 022, 44/F, Hang Seng Bank Tower, 1000 Lujiazui Ring Road,
Pudong, Shanghai, China 200120
Tel: (86) 21-6841-3292

Myanmar Securities Exchange Centre Co., Ltd.

1st Floor MEB (H.O) Bldg. 21-25 Sule Pagoda Road, Yangon, Myanmar
Tel: (95) 1-374894

Hanoi Representative Office

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

Daiwa Securities Group

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

Participation in International Initiatives

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



SRI Index Selection

Daiwa Securities Group Inc. has been selected for inclusion in both the Dow Jones Sustainability Asia/Pacific Index and the FTSE4Good Index.

MEMBER OF
**Dow Jones
Sustainability Indices**
In Collaboration with RobecoSAM

